GREEN WITH CHINESE CHARACTERISTICS: THE RISE OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE FUNDS

LIN Lin

EAI Background Brief No. 1857

China's environmental, social and governance (ESG) fund market is growing quickly, led by strong government support. Central and local state-owned enterprises and guidance funds drive much of this early development. Unlike Western models, China's approach reflects its own socio-economic conditions, using a step-by-step, state-led strategy to steer capital towards green and strategic sectors. This alignment with national goals gives the market momentum but risks limiting private innovation and increasing greenwashing. Recent progress in ESG regulations and company disclosure rules shows a shift towards more market-based mechanisms. The key challenge now is to balance policy guidance with market discipline—encouraging capital to flow into sustainable investments while ensuring transparency and accountability. For lasting impact, funds must not only circulate within financial markets but also support the real economy, fostering innovation and genuinely sustainable industries.

(Click on the link to read the above in Chinese, French and Spanish)

Date of Publication: 28 November 2025

***Chinese*:**

具有中国特色的绿色：环境、社会和公司治理基金的崛起

在强有力的政府支持下，中国的环境、社会和公司治理（ESG）基金市场正快速增长。中央与地方国有企业以及各类引导基金推动了早期的大部分发展。与西方模式不同，中国的路径反映其自身的社会经济条件，采用循序渐进、以国家为主导的策略，引导资本流向绿色与战略性行业。这种与国家目标的契合为市场注入动能，但也存在限制私人创新、加剧“漂绿”风险的隐忧。近期在ESG监管与企业信息披露规则方面的进展，显示出向更具市场化机制转变的趋势。当前的关键挑战是平衡政策引导与市场约束——既鼓励资本流入可持续投资，又确保透明度与问责。要产生持久影响，基金不仅要在金融市场内部循环，更应支持实体经济，培育创新与真正可持续的产业。

***French*:**

LE VERT AUX CARACTERISTIQUES CHINOISES: L'ESSOR DES FONDS ENVIRONNEMENTAUX, SOCIAUX ET DE GOUVERNANCE

Le marché chinois des fonds ESG (environnement, social et de gouvernance) connaît une croissance rapide, porté par un fort soutien étatique. Les entreprises publiques centrales et locales, ainsi que les fonds d'orientation, alimentent une grande partie de ce développement initial. Contrairement aux modèles occidentaux, l'approche chinoise reflète ses propres conditions socioéconomiques, en recourant à une stratégie graduelle pilotée par l'État pour orienter les capitaux vers les secteurs verts et stratégiques. Cet alignement sur les objectifs nationaux donne de l'élan au marché, mais porte également en lui le risque de brider l'innovation du secteur privé et de nourrir le greenwashing. Les récents progrès en matière de réglementation ESG et de règles de divulgation des entreprises signalent un basculement vers des mécanismes plus axés sur le marché. Le principal défi consiste désormais à équilibrer l'orientation des politiques et la discipline de marché, c'est-à-dire encourager les flux de capitaux vers des investissements durables tout en garantissant la transparence et la responsabilité. Pour un impact durable, les fonds ne doivent pas seulement circuler au sein des marchés financiers, mais aussi soutenir l'économie réelle, favoriser l'innovation et les filières véritablement durables.

***Spanish*:**

VERDE CON CARACTERÍSTICAS CHINAS: EL AUGE DE LOS FONDOS DE MEDIO AMBIENTE, SOCIAL Y GOBERNANZA

El mercado de fondos de ambiental, social y gobernanza (ESG) en China está creciendo rápidamente, impulsado por un sólido apoyo gubernamental. Las empresas estatales centrales y locales, junto con los fondos de orientación, han impulsado gran parte de este desarrollo inicial. A diferencia de los modelos occidentales, el enfoque de China refleja sus propias condiciones socioeconómicas, utilizando una estrategia gradual y dirigida por el Estado para orientar el capital hacia sectores verdes y estratégicos. Esta alineación con los objetivos nacionales da impulso al mercado, pero conlleva el riesgo de limitar la innovación privada y aumentar el "lavado verde". Los avances recientes en la regulación ESG y las normas de divulgación empresarial muestran un giro hacia mecanismos más basados en el mercado. El desafío clave ahora es equilibrar la guía de políticas con la disciplina del mercado: fomentar que el capital fluya hacia inversiones sostenibles garantizando al mismo tiempo la transparencia y la rendición de cuentas. Para lograr un impacto duradero, los fondos no deben solo circular dentro de los mercados financieros, sino también apoyar la economía real, promoviendo la innovación y sectores genuinamente sostenibles.

Executive Summary

1. China's Environmental, Social and Governance (ESG) fund market is in its early and rapid stages of development, with its primary drivers coming from the government, including central and local SOEs as well as government guidance funds.

2. China's model for ESG fund development is intrinsically linked to its unique market conditions and socio-economic context.

3. At the institutional level, China has adopted a step-by-step approach, emphasising the role of government in directing capital flows into green sectors and fostering real economic activities. This strategy aims to gradually shape a uniquely Chinese pathway for the development of ESG funds.

4. The investment strategies of ESG funds in China typically align closely with national strategic objectives, providing crucial impetus for the nascent stage of China's ESG market.

5. Excessive policy bias can distort markets, stifling innovation in non-state-owned-enterprises, particularly small and medium-sized enterprises, while fostering risks such as greenwashing and regulatory arbitrage.

6. China's evolving ESG investment regulatory framework, particularly corporate disclosure rules, demonstrates a clear commitment to market-driven ESG investment.

7. As China develops its ESG ecosystem, policymakers are seeking to strike a careful balance between incentivising equity capital to flow to ESG investments, and establishing robust standards and disclosures to guard against greenwashing. Enforceable ESG frameworks are essential to uphold investor confidence and the credibility of sustainable finance.

8. It is critical that capital moves beyond financial markets and fuels the real economy, supporting innovation, entrepreneurship and the development of genuinely sustainable industries.