

**CHINA'S GREEN FINANCE TO SUPPORT  
CARBON NEUTRALITY:  
DEVELOPMENTS AND CHALLENGES (I)**

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## **Executive Summary**

1. China has now made it a priority to develop a green, low-carbon and circular economy. To tackle environmental degradation, it has pledged to peak carbon emissions before 2030 and achieve carbon neutrality before 2060.
2. Green finance is defined as financial services provided for economic activities that are supportive of environmental improvement and climate change mitigation. In China's transition to sustainable development, green finance is set to play a critical role in mobilising and utilising investments to fund China's green industries.
3. To facilitate the transition to a low carbon economy, China's approach has been top down, with high level directives guiding the development of the green finance market.
4. China's green financing efforts started in 2015 when the State Council and the Chinese Communist Party Central Committee issued the "Integrated Reform Plan for Promoting Ecological Progress" to establish a systematic and complete institutional framework for promoting environmental progress. This was the first official endorsement of the establishment of China's green financial system.
5. Since 2015, China has spared no effort in developing and standardising the green finance market to facilitate its transition to high-quality and sustainable development. The 14th Five Year Plan (2021-2025) outlines the need to accelerate the green transformation of development, build a green development policy system and vigorously develop green finance.
6. Financing is gradually shifting from pure green finance to transition finance. Policies have traditionally focused on encouraging financial flows into supporting green, non-polluting and low-carbon businesses. China now sees the need to allocate financial resources to firms transiting to more sustainable businesses.

7. The lack of standardised environmental information disclosure could hamper the growth of the green capital market by compounding the difficulty of green bond issuance. This could be a setback for greening the western region, for instance, itself endowed with natural resources such as wind power and photovoltaic, which represents high quality assets for issuing green bonds.