

# Implications for China's Path under the European Union Environmental, Social and Governance Regulatory Framework

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**Abstract.** Environmental, social, and governance (ESG) is a hot topic in all countries. Against the backdrop of global ESG issues becoming focal points of attention, organizations worldwide are vigorously advancing sustainable development goals starting with climate governance. As global investors demand more transparent and accurate information under the vision of sustainable development, this places greater challenges on ESG regulatory frameworks. This paper examines the EU's Corporate Sustainability Reporting Directive (CSRD) and Document 2024R3005 as key case studies, conducting an in-depth analysis of the historical evolution and legal framework of European Union (EU) ESG regulations. It focuses on the refinement of three indicators and the level of information disclosure, aiming to provide insights and recommendations for China's ESG regulatory system based on past developments and future directions. Through comparative analysis, it highlights three key measures for China's future development: regulatory coordination in response to past evolution, standardization versus fragmentation of information, and alignment with an empowering international environment. This paper provides ideas and enlightenment for the development of ESG in China.

**Keywords:** ESG, sustainable development, ESG disclosure, ESG regulation.

## 1. Introduction

The Paris Agreement, as a bottom-up governance framework, serves as a significant legal framework for achieving the goal of controlling the global average temperature change and the net-zero carbon dioxide action. It is also a milestone for humanity towards ESG [1]. ESG involves a wide range of aspects in society, climate, and governance, stressing on the co-related responsibility generated between the company and society. It also refers to the common prosperity of stakeholders and global sustainable development within the social aspect [2]. Currently, nations have begun to adopt corresponding policies for achieving the purpose of the Paris Agreement's Nationally Determined Contributions (NDCs), which built the legal foundation for the implementation of ESG policies. In the process of promoting the ESG concept, the EU highlights the dual indicators of governance and environment, with the principle of legislative priority approach as its characteristic, establishing technical and resource technologies from The European Green Deal, and quantifying specific emission reduction years and data in European Climate Law to respond to the environmental obligations of NDCs [1, 3]. The Corporate Sustainability Reporting Directive and Document 32024R3005 introduce and enhance the mandatory disclosure transparency and the criteria, emerging the critical point of unity and legislation. The United States emphasizes on social and governance dimensions, revealing with a more prominent trend of market influence and flexibility. This includes the Climate Change Guidance for quantitative disclosure of the environment from a financial perspective and the climate and ESG enforcement group formed by the inflow of huge funds into ESG fund markets. In the context of the rapidly increasing ESG market size and the information demands of investors worldwide, China is currently under the pressure of international alignment and local adaptation [4]. However, it has not established a complete verification mechanism and unified information disclosure standards [5, 6]. Based on this, this paper will adopt the historical analysis method and case analysis method, by deconstructing the historical context and conceptual traits of ESG regulation in the EU's evolution, to explore the dynamic historical development trend and the

underlying operating rules, and attempt to predict the future direction of China's ESG regulation, proving inspiration and thinking for China to draw on international experience.

## 2. Literature Review

The origin of the ESG concept can be traced back to the rise of Corporate Social Responsibility (CSR), especially the transformation of enterprises identity with representative characteristics of the U.S. free market. This marked the beginning of CSR's focus on multiple stakeholders. And for the first time, enterprises became aware of the transformation of their social citizenship status under the system of dual ownership separation. This was specifically shown in the expansion of the perspectives of stakeholders which led to the proposal of social responsibility and sustainable development [2]. In the shown text after the introduction of the CSR, the issue of global carbon dioxide emissions causing climate change and natural disasters became a key topic. Therefore, in 2004, the United Nations Global Compact Organization officially proposed the ESG concept in "Who Cares Wins". This emphasizes the financial relevance of environmental, social, and corporate governance factors to the long-term value and market resilience. And was positioned as a key driver of shareholder value and enterprise management quality, advocating the systematic integration of the ESG concept into financial processes [5, 7].

Academic consensus broadly identifies that the principles for responsible investment mark the starting point of the first stage of ESG, which initiated by the United Nations, and the "Sustainable Development Reporting Guidelines" released by the Global Reporting Initiative in 2006. By integrating the social impact into the information needs of investors to enhance awareness and commitment from a more sustainable way, the first stage serves as a preliminary exploration period. Its core feature lies in the establishment of the framework and the popularization of awareness [8].

The second stage is the period of gradual expansion, stress on the regional implementation of the institutional framework. The "Non-Financial Reporting Directive" issued by the European Parliament in 2014 is widely regarded as effective. Its key measurement lies in the fact that ESG indicators were first incorporated into the legal system of the European Union and establishing a semi-mandatory period to enhance corporate ESG information disclosure. The main practice in China occurred in Hong Kong, where a voluntary disclosure framework is recommended through guidelines [5]. Overall regulation is fragmented, mainly carried out by individual departments for specific industries. Second stage a greater emphasis on the promotion of expansion by various governments and regulatory agencies, gradually progressing from the investment level to the overall ESG practices. The concept shifted from scattered guidelines to systematic policies and moving towards mandatory disclosure.

The third stage, as the ESG investment ecosystem expanded rapidly, issues such as greenwashing and information opacity began to emerge. The global regulatory focus shifted to strengthening the coordination of standards and governance dimensions. After 2020, the global perspective focused more on the governance dimension to enhance supervision and regulation. The U.S. Securities and Exchange Commission established a special task force to identify violations and the 2022 "Climate-related Information Disclosure Draft" required listed companies to take mandatory disclosure of greenhouse gas emissions. The EU shifted from the economic element classification policy to more diversified and broader standard directives [7]. During the same period, China jointly issued the "Corporate Sustainable Disclosure Guidelines - Basic Guidelines (Trial)" and "Guidance Suggestions for Further Strengthening Financial Support for Green and Low-carbon Development". This mainly use normative documents with multi-sector collaboration as breakthrough points from single-sector environmental protection to multi-institutional ESG supervision [6]. By the end of 2024, a new EU regulation made a significant breakthrough in the ESG regulatory environment. The regulation aims to provide a unified standard and stricter transparency for ESG ratings and increase the access mechanism for non-EU entities from a global collaborative perspective [4].

Along the overall development path of ESG, major economies around the world have formed differentiated regulatory paths due to differences in market logic and policy directions. The EU

mainly presents a systematic top design regulation, with its core feature being the scope of coverage and mandatory nature. It mainly restructures the ESG concept introduction through rules first and promotes market standardization. The United States is mainly dominated by the ideology of the free market, emphasizing market self-discipline and flexibility. The regulation focuses on information transparency and anti-fraud rather than enforcing uniform standards. This has higher flexibility but is prone to leading to fragmented disclosures. China's development path is mainly driven by policy and currently lacks mandatory law and penalty mechanisms. This is information asymmetry among multiple stakeholders, and the regulatory system is still in a semi-mandatory stage, with a gradual transition carried out in terms of the coverage of industry and mandatory degree.

### **3. Evolution of the EU ESG Regulatory Framework**

The EU has always been at the forefront of the global ESG development process. The “Non-Financial Reporting Directive” released in October 2014 is widely regarded in the academic community as effective. It was the first to incorporate the three ESG dimension into the legal framework and strengthened the scope of information disclosure, requiring the inclusion of non-financial statements for interpretation [5, 9]. In the next stage, the revised “Shareholder Rights Directive” by the EU, improved the application of ESG in corporate issues from a financial perspective and initiated the standardization work for the ESG investment field. It focused on sustainable economic and environmental aspects, laying a gradual foundation and setting goals for the subsequent adaptability of overall indicators [9].

In 2022, the European Council replaced the “Non-Financial Reporting Directive” with the “Corporate Sustainability Reporting Directive”, classifying different types of enterprises based on factors such as the number of employees, assets, and turnover [5]. The risks of “Non-Financial Reporting Directives” in terms of information comparability and applicability were improved in the CSRD. The CSRD regulates disclosure of information related to sustainable development matters within the EU, particularly in terms of classification standardization and the auditing mechanism. By adopting requirements for reporting labels and auditor enforcement systems to strengthen the accountability system and established the concept of dual importance, namely the financial importance and impact importance of the enterprise [9, 10]. Through standardizing the way enterprises report ESG, the CSRD promotes strategic development with ESG issues.

The EU's 2024 Document 32024R3005 focuses on rating supervision, with the aim of officially launching a global ESG cooperation mechanism, becoming the focus of attention in this field in recent years. This document built an access mechanism based on CSRD. Especially in terms of auditing, it considered the potential impartiality and independence of rating agencies, and the transparency of rating information such as data sources and specific score for the three indicators would need to be disclosed. The most crucial point is that the EU's new regulations established an international cooperation mechanism through three access execution standards, allowing third-party rating agencies to conduct cross-border business under compliance [4].

### **4. Evolution of China's ESG Regulatory Framework**

China's entry into the ESG field was relatively late. In the initial stage, it was mainly in the Hong Kong region of China. The Hong Kong Stock Exchange revised the “Environmental, Social and Governance Reporting Guidelines” and released related strategies [5]. During this period, Hong Kong first issued ESG reporting guidelines in 2012, encouraging the adoption of a higher standard ESG reporting, but there was no mandatory information disclosure within the mainland China. In 2014, the revised ‘Company Ordinance’ required the board of directors to include the company's environmental information and compliance discussions in their reports. Therefore, in 2015, the Hong Kong Stock Exchange released ESG reporting guidelines, and in 2019, the social perspective was included. In 2021, the main recommendations of Task Force on Climate-related Financial Disclosures

(TCFD) were incorporated, and the TCFD recommendation standards were mandatory to be implemented by 2025 [11].

From 2002 to 2007, ESG information disclosure was in the emerging stage, mainly having an advocacy nature, encouraging listed companies to cover relevant information and issue reports. Within the mainland China, in 2003, the State Environmental Protection Administration issued the “Report on Enterprise Environmental Information Disclosure” to stipulate information disclosure for heavily polluting enterprises. In 2006, ESG exploration began, and in 2008, semi-mandatory disclosure requirements were imposed on listed companies. During this period, CSR became a mandatory regulation, but the content and quality of the reports was not fully standardized [11]. From 2016 onwards, the Shanghai Stock Exchange issued similar rules after the Shenzhen Stock Exchange, and the Shenzhen Stock Exchange began to publish unified report contents and formats. The information disclosure began to strengthen, but they mainly focused on environmental indicators [12]. In 2018, targeted guidance schemes were proposed for different industries, and in 2021, the content and format of the reports were improved [11]. In April 2024, China’s Shanghai Stock Exchange, Beijing Stock Exchange, and Shenzhen Stock Exchange jointly released the “Guidelines for Sustainable Development Reporting by Listed Companies,” establishing explicit ESG disclosure requirements for listed entities [5].

## **5. Implications of the EU ESG Regulatory Framework for China's Development**

### **5.1. Coordinated Institutional Regulatory Responses**

There are multiple-dimensional coordination deficiencies and fragmented disclosure models in the supervision and information disclosure of ESG institutions in China. For key polluting enterprises, mandatory disclosure is implemented, while for other enterprises, the “disclose or explain” approach is adopted. Significant disparities exist across disclosure dimensions, and varying industry priorities for the three ESG dimensions lead to incomplete reporting scopes. This results in inconsistent report quality, lack of comparability, and inadequate supporting service systems.

Although the dual carbon goals and environmental indicators have been promoted, the main regulations in the ESG field focus on environmental supervision, such as the disclosure and reporting recommendations issued by securities exchanges in various regions, no unified supervision and high-level legislation have been formed. At the same time, it is limited by the shallow awareness of ESG responsibilities and low spontaneity of small and medium-sized enterprises (SMEs).

In terms of supporting facilities and governance, the lack of strict supervision mechanisms and the absence of standardization in third-party verification make the distinction between CSR and ESG reports blurred, increasing the coordination costs and regulatory difficulties for different regulatory Institutions. To a certain extent, this has exacerbated the compliance costs [11-15]. The core contradiction lies in the lack of economic motivation for enterprises to comply, and the unfair and inconsistent compliance requirements for different types and scales of enterprises [16].

Based on the EU’s CSRD, by integrating previously scattered ESG legal provisions and standards, a unified and comprehensive regulatory framework is established to address the fragmentation of standards. In terms of report standardization, the EU’s user-oriented approach can be referred to for achieving full information coverage, clearly defining the boundaries of the reports, and establishing supporting facilities for a third-party verification and supervision system. When such supporting systems and comprehensive enforcement mechanisms are refined, they may strengthen the economic incentives for policy-driven corporate compliance. Taking the EU’s new regulations as an example, establishing tiered regulatory frameworks and graduated exemption mechanisms can balance fairness in compliance across stakeholders while reducing compliance burdens for SMEs.

## 5.2. Building Empowering Environmental Regulations to Align with International Standards

The slow progress in ESG development, stemming from issues of ESG synergy and insufficient information disclosure, has created significant gaps in aligning China's empowering environmental regulations with international standards. The channels for the public and stakeholders to obtain environmental information are not smooth, and there is a lack of special mechanisms to guarantee the public's right to know, resulting in insufficient transparency of ESG information. At the same time, the compatibility of ESG disclosure standards with the international system is low, making it difficult to meet the needs of cross-border investment and regulatory collaboration, thereby hindering the process of international alignment.

The EU's Document 32024R3005 provides an innovative path for empowerment and alignment. The CSRD enhances information transparency through unified regulatory norms, laying the foundation for empowerment. The global applicability standards of the new regulation directly promote the alignment of EU ESG information with international standards. According to the applicability for different enterprise scales, exemptions and transitional clauses, and three access mechanisms, the EU has built information accuracy and comparability based on the framework of ESG evolution, providing opportunities for international cooperation and serving as a reference and practical benchmark for China's future integration with international regulations.

## 6. Conclusion

This study examines the differences in the EU's ESG regulatory system and its implications for China. Employing historical analysis, case studies, and comparative research methodologies, it reveals that the EU has established a unified regulatory framework through multi-tiered legislative structures. This system relies on the European Green Deal, the Non-Financial Reporting Directive, and regulations on ESG rating activities to enforce multidimensional mandatory disclosures, ensuring comprehensive regulatory coverage and standardization. China's ESG regulatory path currently operates in a semi-mandatory transitional phase, facing challenges including absent legislation and incentive mechanisms, fragmented regulatory authority, inadequate industry coverage, and the lack of unified disclosure standards and comprehensive verification systems. Addressing these challenges, China must draw from EU experience by accelerating dedicated ESG legislation to clarify incentive frameworks and enhance regulatory effectiveness. Concurrently, it should consolidate regulatory authority to foster multi-agency coordination while progressively expanding sector coverage tailored to domestic market conditions. This approach will establish an ESG regulatory framework compatible with international standards yet locally adapted, thereby advancing sustainable development objectives.

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