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ESG Information Disclosure in China: Institutional "Localization" in a Developing Country

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Abstract: Over the years, the concept of ESG, introduced from Western developed countries, has become increasingly implemented in China, gradually forming a mature system. However, as a developing country, China's national conditions and social realities differ significantly from those of Western developed nations, leading to maladaptation in the process of ESG information disclosure by listed companies. This maladaptation manifests as incomplete disclosure content, inconsistency in the scope of disclosure, and "greenwashing." This study, from the perspective of a developing country, summarizes the social issues and relevant policy improvements of other developing countries to propose recommendations for ESG information disclosure that are more suited to China's current national conditions. This aims to promote a high-quality, sustainable development that is internationalized yet distinctly Chinese.

Keywords: ESG information disclosure, Developing countries, Sustainable development, Institutional localization

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1. Introduction

With the advent and ongoing progression of the industrial age, environmental issues such as global warming have become increasingly prominent. As the world's leading emitter of carbon, China's responsibilities are crucial. Simultaneously, as the concept of ESG continues to evolve and improve within the country, using ESG information disclosure as a means to regulate corporate responsibility for environmental issues has become an essential strategy to achieve China's goals for green and sustainable development. Faced with the maladaptation of imported ESG disclosure concepts in China, this paper analyzes the common and unique social issues of China as a developing country, along with the ESG practices of other developing countries. It proposes a localized approach to ESG information disclosure, aimed at addressing the challenges posed by the introduction of ESG concepts.

2. ESG Information Disclosure and Social Issues

2.1. The Connotation of ESG Information Disclosure

As society continues to develop and industrialization progresses, many social issues have gradually come to light. Among them, environmental governance, green consumption, and corporate governance have received widespread attention. In 2006, the United Nations Principles for Responsible Investment (UNPRI) merged fragmented information on the environment, social responsibility, and corporate governance. That same year, Goldman Sachs released a research report titled "Goldman Sachs Environmental Policy: 2006 Year-End Report," which integrated the aspects of environment, social responsibility, and governance, formally introducing the concept of ESG investment. Since then, ESG has become a popular method of information disclosure, with many companies choosing to disclose their progress and achievements in environmental, social, and governance aspects through ESG reports, social responsibility reports, and similar formats. Within the ESG reporting frameworks proposed by various international organizations, the Global Reporting Initiative (GRI) Sustainable Development Reporting Standards are widely used [1]. Additionally, there are reporting frameworks such as the International Organization for Standardization (ISO) ISO 26000 Social Responsibility Guidance and the United Nations Principles for Responsible Investment jointly proposed by organizations like the United Nations Global Compact (UNGC).

According to common ESG reporting frameworks, companies should disclose environmental management information, environmental protection policies, goals, achievements, carbon emissions, resource and energy consumption, and other information in the environmental (E) aspect. In the social (S) aspect, companies should disclose their commitment to social responsibility, employee health and safety, equal opportunities, labor relations, and other information. In the governance (G) aspect, companies should disclose policies on anti-corruption, subsidiary control, protection of investor rights, and other information.

High-quality ESG information disclosure standards not only effectively protect investor rights but also provide direction and motivation for further optimizing corporate governance, thereby enhancing companies' competitiveness and sustainability [2]. Companies play an active role in the national economic market, providing employment opportunities and talent mobility platforms for the country. Optimized corporate governance undoubtedly helps the country address current issues of imbalanced and insufficient development and improve people's well-being.

2.2. Current Major Social Issues in China and Other Developing Countries

The concept of social issues is quite fixed. Here, we adopt the definition provided by sociologist Mr. Zheng Hangsheng: A social problem is one of the significant areas of sociological study, referring to social phenomena that disrupt social relationships, affect the common life of society members, undermine normal social activities, and hinder coordinated social development [3].

With modernization gradually spreading globally, various developing countries have also entered their own modernization processes with the third wave of modernization. In the course of modernization, these countries have revealed many social issues that exhibit strong consistency and universality, including cultural lag—the phenomenon of culture failing to keep up with the pace of economic development, causing cultural adaptation difficulties, foundational weaknesses, environmental degradation, and issues of social integration—such as institutional vacuums and crime [3]. For China, the current social issues mainly exist in two aspects: First, in the past few decades, China's economy has developed rapidly, inevitably leading to foundational weaknesses caused by the overly fast pace of economic development, along with structural contradictions and weak social expectations. Thus, there are still risks and hidden dangers on the path to sustained and favorable

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economic development. Second, in pursuit of rapid economic growth, China has extensively utilized environmental resources, resulting in high carbon emissions, large resource consumption, low utilization rates, and a lack of sustainable development capabilities. If these social issues are not addressed timely, they will impact the country's future development, act as a drag on progress, and may even trigger an economic crisis. Therefore, social issues are problems we must confront and address.

3. Localization Features of ESG Disclosure Systems in Developing Countries

3.1. Racial Issues in South Africa and ESG-related Human Rights Disclosure System

The issue of race in South Africa has a long history and is a legacy of the past. Prior to the inauguration of Nelson Mandela as the first black president, South Africa was under white minority rule, enforcing a system of racial segregation. After Mandela took office and abolished apartheid, South Africa began accelerating land reform, redistributing land to black and poor citizens. Simultaneously, the government implemented numerous policies favoring black employment. Consequently, the social landscape in South Africa shifted from discriminating against blacks to discriminating against whites. The sharp racial divide has long been deeply ingrained in South African society, and protecting the rights of the discriminated racial groups has been a longstanding concern for the government.

In this context, South Africa's ESG disclosure policies place particular emphasis on requiring companies to disclose non-financial information related to human rights. In 2009, the South African government issued the King III Report on Corporate Governance, which mandated listed companies to disclose integrated reports on values, with a requirement to provide reasons for non-disclosure. The mandatory disclosure of these reports compelled South African companies to optimize their accountability for broad capital (manufacturing, financial, human, intellectual, social, relational, and natural) [4], thus safeguarding the human rights of employees and ensuring policy equality. South Africa's policies related to corporate ESG disclosure support human rights equality in the workplace and social welfare, offering a solution to the country's racial tensions.

3.2. Widening Wealth Gap in India and Mandatory Disclosure of Standardized Corporate Social Welfare Activities

The significant wealth gap in India stems from various factors, including historical, ethnic, cultural, religious, and policy factors [5]. Under the influence of these factors, the wealthy in India have amassed increasing wealth while the poor have seen theirs diminish, resulting in a widening wealth gap. According to the latest World Population Prospects 2022 report by the United Nations, the income of the top 10% of earners in India is over twenty times that of the bottom half of the population, which accounts for less than 13% of national income. Furthermore, India's middle class is relatively impoverished, with an average wealth of only 730,000 rupees (approximately 8,900 USD), comprising less than 30% of total societal wealth [6]. This stark wealth disparity introduces numerous destabilizing factors into Indian society, reducing social productivity, diminishing social equity, skewing social resources, and inciting public discontent.

To curb the further widening of the wealth gap and enhance social welfare, the Indian government revised and reissued the Companies Act in 2013. This revision mandated companies with a net worth of over 50 billion rupees (approximately 1 billion USD), or a turnover of over 100 billion rupees (approximately 2 billion USD), or net profits exceeding 5 billion rupees (approximately 100 million USD) to establish Corporate Social Responsibility (CSR) committees. Moreover, it compelled these companies to allocate 2% of their net profits towards social welfare activities and disclose related CSR information. These policies entail redistributing profits from high-income listed companies, supporting the livelihood needs of impoverished citizens, and utilizing the ESG-related disclosure system to address India's significant wealth gap.

3.3. China's Sustainable Development, the "Dual Carbon" Environment, and Mandatory Disclosure of Sustainable Development Reports

With the growing severity of environmental issues and global warming worldwide, sustainable development has become a global focal point. As the largest emitter of carbon dioxide globally, China plays a crucial role in addressing global warming and achieving sustainable development. To effectively manage carbon emissions, China has set the "Dual Carbon" goals: peaking carbon emissions by 2030 and achieving carbon neutrality by 2060 [2]. In such a macro environment, the performance of companies in ESG (Environmental, Social, and Governance) aspects has increasingly become a focus for investors and a crucial component of corporate development. ESG disclosure serves as a vital channel for businesses to communicate their sustainable development capabilities and governance to the outside world, and the related regulatory framework has been strengthened accordingly to align with these overarching environmental goals.

China's system for ESG disclosure dates back to 2003 when the then State Environmental Protection Administration issued a notice demanding that enterprises with significant pollution disclose relevant environmental information. Subsequently, the Shenzhen and Shanghai stock exchanges issued guidelines for social responsibility reports and environmental information disclosure. With active participation and strong support from various parties, listed companies were continually encouraged and guided to disclose sustainable development reports, integrating the concept of sustainable development into all parts of the economic market. In 2008, the Shanghai and Shenzhen stock exchanges mandated that listed companies disclose their social responsibility reports. In the same year, the State-owned Assets Supervision and Administration Commission (SASAC) encouraged qualified companies to regularly publish social responsibility or sustainable development reports [2]. In 2018, the China Securities Regulatory Commission (CSRC) issued revised "Corporate Governance Guidelines for Listed Companies," requiring firms to disclose ESG information. These policies have effectively propelled the development of ESG disclosure in China. By 2023, a total of 1,023 listed companies on the Shanghai Stock Exchange disclosed their 2022 social responsibility reports, ESG reports, or sustainable development reports, reaching a disclosure rate of 47%—a record high in both number and percentage. The disclosure rate for companies in the SSE 180 Index reached 90%, and nearly 100% for companies listed both domestically and internationally.

The policies related to the disclosure of corporate ESG environmental information align with China's steadfast commitment to green, sustainable development and its vigorous pursuit of the "Dual Carbon" goals. These efforts bolster the nation's long-term development objectives and showcase China's image as a major country concerned with global issues and actively participating in their management.

4. Review and Outlook

As the world's largest developing country, China shoulders the responsibilities befitting a major nation by actively addressing both domestic and international issues. For instance, in response to environmental challenges, China has put forth the concept of green development in the new era, steadfastly pursuing the path of green and sustainable development. With a focus on the perpetual development of the Chinese nation, China aims to collaborate with the world for common and sustainable development. Moreover, in recent years, China has actively strengthened its national ecological governance system, enhancing coordination in production and living management, and intensifying efforts in ecological environment protection and restoration. These endeavors aim to

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accumulate natural, ecological, and social wealth jointly, providing robust support for economic and social sustainable development.

As integral components of society, enterprises are subject to comprehensive governance by the Chinese government, which emphasizes the implementation of ESG principles. Compared to developed countries, the development of ESG concepts in China started relatively late and has gradually evolved and matured over the past two decades. Furthermore, in the prevailing macro environment of China's steadfast commitment to green and sustainable development and its vigorous pursuit of the "Dual Carbon" goals, relevant ESG information disclosure regulations have adapted accordingly. Organizations such as the Shanghai and Shenzhen stock exchanges and the China Securities Regulatory Commission have introduced a series of policies actively responding to and supporting national calls.

However, in practice, numerous issues persist. For instance, there is uneven quality in disclosure content, lack of uniformity in form, and frequent occurrences of "greenwashing" due to regulatory oversights. This indicates that, like many other developing countries, Chinese companies are gradually realizing the necessity and long-term value of ESG information disclosure for their operations. To garner more favor from investors and consumers, they choose to disclose ESG information in the form of ESG reports or social responsibility reports. However, in the absence of fully refined regulations, "greenwashing" behaviors inevitably arise [7].

As a concept introduced from developed countries, ESG information disclosure encounters certain adaptability challenges in China. Domestic listed companies find it challenging to adapt to the requirements of ESG information disclosure in a short period [7]. In such circumstances, there is room for improvement and innovation in the existing system, aiming to establish a "localized" regulatory framework that embodies distinctive Chinese characteristics and aligns with the current social context. China's emphasized sustainable development encompasses three dimensions: the sustained governance and development of corporations, the sustained prosperity of the domestic market economy, and the comprehensive sustainable development of the nation [7]. As a developing country, China's market faces issues such as imbalance between resources and market demand and a relatively weak economic foundation due to rapid development. These market challenges are not conducive to sustainable development across the three dimensions. In the future, relevant regulatory bodies can enhance the mandatory disclosure requirements for corporate resource utilization and sustainability reporting, especially for companies with severe environmental pollution. This aims to achieve external supervision of resource consumption by companies and self-regulation, thereby reducing unnecessary resource consumption and alleviating the current imbalance between resources and demand in China. Additionally, it is imperative to include requirements for the development of the foundational economy in relevant policies to prevent the oversight of fundamental economic infrastructure construction due to excessive emphasis on the diversified development of the real economy.

5. Conclusion

The practice and implementation of ESG principles are increasingly gaining attention on the global stage, which is gradually becoming more globalized. As the largest developing country with significant international influence, China should lead by example and actively respond to and implement relevant calls. In the process of implementation, when faced with challenges of adaptation to ESG concepts originating from developed Western countries, it is essential to summarize past experiences, reform social governance pain points specific to China as a developing country, innovate relevant policies, and establish a "localized" information disclosure system with distinctive Chinese characteristics. By integrating the "Chinese" characteristics with the concept of "internationalization," China can better achieve green and sustainable development, further propel the realization of the

"Dual Carbon" goals, and demonstrate its international responsibility and problem-solving capabilities as the largest developing country.

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