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Research of Financing Opportunities from the ESG Policy for Chinese Enterprises

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Abstract: In the 1960s and 1970s, with the rise of human rights movements in Western countries, public environmental movements, and anti-apartheid movements, the asset management industry began to produce corresponding investment concepts; that is, it began to emphasize labor rights, racial and gender equality, business ethics, environmental protection, and other issues in investment choices. In the 1990s, socially responsible investment began to shift from the moral level to the investment strategy level. In the investment decision, the ESG performance of the company was comprehensively considered, and the impact of the ESG investment strategy on investment risk and investment return was measured. This marks the formation of the ESG investment philosophy. In the 21st century, the ESG investment concept has been further developed and promoted. The UN Principles for Responsible Investment (UN-PRI) aims to make ESG an important part of its global investment strategy. This initiative has made environmental, social, and governance factors important indicators of sustainable development. This research is based on the global ESG-developing environment. This research discussed why Chinese enterprises can get a good financing opportunity by using ESG policy as an enterprise development strategy. This research finds out the situation of ESG in the world and what made Chinese enterprises get a good financing opportunity by using literature research and data analysis. the scale of Chinese ESG will gradually catch up with the world in the future. Chinese enterprises can get better opportunities to go abroad, further achieve better development, and obtain better ESG performance and social capital. This paper provides feasible suggestions for the realization of the strategic development of Chinese enterprises to keep pace with the times.

Keywords: Chinese ESG, ESG trend, Financial performance, ESG development.

1. Introduction

The historical origin of ESG can be traced back to socially responsible investment (SRI). It was not until the early 2000s that the concept of ESG was formally proposed as an investment philosophy, incorporating environmental (environmental), social (social), and governance (governance) factors into the investment decision [1]. In the current global environment of advocating for ESG development, the governments and financial departments of various countries have gradually begun to implement ESG policies according to their national conditions. Among them, the emergence of ESG ratings reflects the consensus of ESG in global development. In the early 1980s, China began to attach great importance to environmental protection and sustainable development. At this point, the

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concept and importance of ESG are not fully understood. At the beginning of the 21st century, China began to gradually establish an ESG regulatory framework and guidance system to encourage enterprises to take full account of ESG factors. Due to the late start of ESG development in China, there are few relevant statistical data on ESG in China, and there is relatively little literature and journals for reference. By analyzing the development situation and trend of global ESG in the relevant literature, the study finds that the development scale of global ESG is rapid and diversified. The reason for the rapid development of ESG assets is that ESG can improve the financial performance and long-term returns of enterprises, thus reducing investment risks. When foreign enterprises have financing needs, the global market currently provides a wealth of green financial products (green credit, green fund, etc.). According to the current statistics of ESG assets in China, China's ESG assets account for the lowest proportion of global ESG assets, with a late start. Due to the imperfect relevant statistical data of ESG in China, the analysis of the development trend and other related aspects cannot obtain enough data for prediction. With the huge scale of global ESG assets, Chinese enterprises can obtain better capital channels by adopting ESG policies in the future.

2. The origin and the development of ESG

ESG first appeared in 2004, when the United Nations Global Compact released the report "Who Cares About Who Wins", together with 20 financial institutions to make recommendations to the financial industry, hoping to better apply the environment, society, and governance to analysis, asset management, and other fields and securities brokerage business. It is also the first time that the ESG has emerged. It could also be argued that the earliest ESG proposals were initiated by the financial industry and then began to spread in other areas. The twenty financial institutions believe that listed companies that incorporate ESG factors into the management process are more likely to be successful and add more value to shareholders amid global competition [1].

3. ESG top performers tend to achieve better financial performance and long-term returns

Through the results of more than 3700 studies from more than 2200 unique primary studies, we can find a positive correlation between ESG and corporate financial performance (CFP) [2]. By considering environmental, social, and governance factors, ESG integration can more comprehensively evaluate the long-term value and sustainable development ability of enterprises, and avoid investing in enterprises with potential risks, thus reducing investment risks. ESG factors can also improve investment returns. Some studies have shown that companies with strong ESG performance tend to achieve better financial performance and long-term returns, so investors can choose more valuable companies by focusing on ESG factors to improve investment returns. ESG factors can also help investors better manage their investment risk. By adopting the ESG investment analysis method, investors can more accurately evaluate the risks and opportunities of enterprises, develop more scientific and comprehensive investment strategies, and reduce the impact of investment risks on the investment portfolio. Nine of the 10 asset managers surveyed believed that incorporating ESG into their investment strategy would improve overall returns, unrelated to the question of whether financial performance and ESG performance might conflict. In addition, most institutional investors (60%) said that ESG investments have brought about higher performance returns compared to non-ESG investments [3-4].

4. Global opportunities for Chinese ESG assets

This part will discuss the global situation of ESG asset development. The research analyzes the trend of sustainable investment in China. Sustainable investment is an investment method that considers environmental, social, and governance (ESG) factors in portfolio selection and management.

4.1. The ESG policy that drives global ESG development

The United Nations Environment Programme established the United Nations-based Organization on the Principles of Socially Responsible Investment (UN-PRI). This initiative has made environmental, social, and governance factors important indicators of sustainable development. In this context, regulators in various countries have issued ESG policies in line with their national conditions, as well as constantly improving ESG ratings to better regulate enterprises. In particular, the latest EU ESG regulations have impacted global regulation, from data protection to trade or antitrust. These regulations could have a long-term impact on global businesses. Companies that promote social value creation will better adapt to the business environment where ESG-compliant regulations become more common.

4.2. The current global distribution of ESG assets

At the beginning of 2020, according to the Global Sustainable Investment Alliance report, global sustainable investment in the five major markets reached $35.3 trillion, up 15% in the past two years (2020) and 5 5% in the past four years (2016–2020) [5]. Among them, Europe accounted for 34.04%, the United States for 48.39%, Canada for 6.86%, Oceania for 2.57%, and Japan for 8.14%. By the beginning of 2020, the proportion of sustainable investment in the five major markets in the world was: 41.6% in Europe, 33.2% in the US, 61.8% in Canada, Australasia, 37.9%, and 24.3% in Japan [5]. Taken together, the global ESG assets maintain a continued upward trend. ESG fund growth in Europe could be a key indicator of global expectations [6]. The assets of European Sustainable Funds grew by about 52% in 2020 to reach 1.1 trillion euros by the end of 2020. Customer demand is an important factor. Customers increasingly demand investments in renewable energy and sustainability goals [7-9]. This is also the result of the market drivers caused by the continuous development of ESG policies. As the number of investment institutions signed up to the Principal Investment Principles (PRI) increased, these institutions managed $121 trillion, more than half of the total assets of these institutions in management [10].

4.3. The development of the Chinese ESG policy

In 2018, the CSRC revised the Code on Governance of Listed Companies, adding a chapter on "Stakeholders, Environmental Protection, and Social Responsibility", stipulating that listed companies should disclose environmental information (E), fulfill social responsibilities for poverty alleviation (S), and provide corporate governance information (G) by the requirements of laws and regulations and relevant departments. In 2022, the State-owned Assets Supervision and Administration Commission of the State Council established the Science and Technology Innovation Bureau and the Social Responsibility Bureau to guide and promote enterprises to actively practice the ESG concept, actively adapt to and lead the formulation of international rules and standards, and better promote sustainable development. Shenzhen stock exchange launched the ESG (environment, society, and corporate governance) evaluation method, released based on the evaluation method of Shenzhen core index (Shenzhen component index, gem, Shenzhen 100), ESG benchmark index, and ESG leading index. Under three dimensions of environment, social responsibility, and corporate governance, set 15 topics, 32 areas, and more than 200 indicators, reflect the sustainable development of listed companies, further promote the ESG index, and index product development innovation. Under the policies of the Chinese government and regulatory authorities, central enterprise groups should promote the integrity, accuracy, and comprehensive implementation of the new development concept of listed companies, further improve the environmental, social responsibility, and corporate governance (ESG) working mechanisms, improve the performance of ESG, and play a leading and exemplary role in the capital market [11].

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4.4. Situation of ESG assets in China

By the beginning of 2021, China's domestic ESG assets accounted for only 0.6% of total assets, while the proportion of ESG assets was still low. By April 2023, 132 Chinese institutions had joined PRI, a growth rate of about 59% over the end of 2021. In 2022, the scale of ESG public funds in China will be 518.2 billion yuan. Compared with the total scale of public funds of 26 trillion yuan, the proportion of ESG public funds is still small. For the ESG stock index number, China grew from 95 in 2019 to 248 in 2022. For bank wealth management products, the number of products growing from the first product in 2019 to 219 in 2022 has exceeded expectations [12].

5. Conclusion

Through the analysis of the literature, we can see that ESG in China started to develop late, and compared with other major ESG assets, the scale of ESG assets in China is small. At the same time, China has a low proportion of ESG assets in total domestic assets. In this double-low situation, China's future ESG assets have greater potential for development. China's ESG assets will experience rapid growth in the future. Under the role of ESG, which can reduce corporate investment risks and enhance long-term returns, investors will be more confident in Chinese enterprises with ESG reports, so Chinese enterprises adopting ESG will get better financing opportunities [13].

As the development of ESG is still not popular in China, the statistical method and disclosure of ESG data are still in an incomplete state. Therefore, in addition to the horizontal comparison of the data in the literature, the analysis of the main investment direction and trend of ESG assets in China is still unpredictable. In the future, it may be studied how statistical methods for ESG assets in China and the future development trend of ESG in China.

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