

SUSTAINABILITY IN CHINA

How is China performing in terms of sustainability?

When it comes to sustainability or ESG (environment, social, governance) standards, **China is lagging behind other countries**. In selected indices of Earth.Org and Yale, China is ranked 136th and 120th respectively. Furthermore, Chinese companies receive a lower sustainability rating than enterprises in developed or even other emerging economies (FTSE4good index).

However, **China has recently announced ambitious environmental sustainability targets**. The country wants to peak its CO2 emissions until 2030 and become carbon neutral by 2060. This year's 14th Five-Year Plan includes specific targets on the reduction of CO2 and energy intensity per unit of GDP. In addition, China is strongly pushing renewables energies and has e.g. banned plastics bags in major cities. On the other side, China is still heavily relying on coal as a power source, which makes up ~55% of total supply.

Who is driving China's sustainability push?

Unlike in some Western countries, **in China it is not the consumer or private companies but rather the government that is driving the transition towards a “green” economy**. Most consumers prefer convenience over sustainability and are still in “consumption catch-up mode”. Large Chinese corporations are increasingly issuing ESG reports and push selected sustainability initiatives, but not as strongly and not as much across the board like in other countries.

At the same time, the national government has a strong interest in promoting sustainability:

- **Reversal of Environmental Degradation:** China's economic boom has polluted its air, soil and waters. Associated social and health-related cost have become highly visible.
- **Domestic & International Pressure:** In order to mitigate growing concerns about the environment within its own population, as well as to position itself as a global leader in the fight against climate change, the government had to initiate decisive actions.
- **“Green” Growth Push for the Economy:** China has to find new sustainable growth engines such as renewable energies, electric vehicles, environmental protection technologies, etc.

Which implications do we see for MNCs operating in China?

For multinational companies, international regulators, customers and shareholders increasingly expect **implementation of defined corporate ESG targets across all global regions**. In addition, pro-active support of China in its own **sustainability initiatives can benefit a company's government relations**. There are great example of foreign companies who have built up dedicated initiatives in China in the areas of technology, education and community. But overall, **sustainability unfortunately still does not offer a major differentiation point** in the Chinese B2B or B2C market like in other regions (yet).

EAC insight: *How can corporate sustainability efforts be successful in China?*

1. China Board-level commitment(!)
2. Shift from focus on near-term revenue to a purpose-driven strategy
3. Integration of sustainability factors into China business strategy formulation
4. Focus of sustainability efforts on issues most relevant to the China business
5. Availability of in-house sustainability professionals and sufficient knowledge across business units and supply chains