esic DigitalEconomy
& Innovation
JOURNAL

SUSTAINABILITY & INNOVATION

Sustainable Banking in the Global South

ESG Innovations in China

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Received: 25-03-2021

Accepted: 25-06-2021

Published: 29-10-2021

DOI: 10.55234/edeij-1-1-006

Article citation: Mendez, A. Forcadell, F. J., and Ubeda, F. (2021): Sustainable Banking in the Global South: ESG Innovations in China *EDEIJ* v1 n1, e006.

ABSTRACT

This descriptive study uses data from 4 countries in the global South to measure the sustainability of domestic commercial banks over the period 2007-2019, focussing on the People's Republic of China (PRC). We estimated the level of sustainability of the Chinese banking sector over the period 2007 to 2019, comparing it to Brazil, India, and Mexico. We found that unlike these counterparts Chinese State-owned Banks (SoBs) have responded with alacrity to the pressures exerted by state-led innovations like the *Green Credit Policy* which were intended to encourage the adoption of Environmental, Social, and Governance (ESG) norms. We also found such public policies had derived from a process of Beijing's learning from the organizational innovations of international financial institutions like the World Bank. Our study is novel in suggesting that public policy can bring about innovation toward sustainability, and if it has widened the adoption of ESG criteria in China, it may be applicable elsewhere in the global South. These green developments have already made a mark on China's domestic banking industry so as to render it an example worth emulating (IISD, 2015). China has a long way to go, but it is a leader in the global South in the sustainability of its monetary and financial systems.

KEYWORDS

ESG Innovations, Global South China, Public Policy & Green Credit Policy, Sustainable Banking, World Bank

JEL CODES

J18, E50, E52

1. INTRODUCTION

Sustainability is an issue that has taken on urgency in face of a manifold, evolving ecological crisis and the political polarization over it, complicated by the concurrent demand by the poor of the global South for economic development *now*. In this context China appears to be attempting to use its banking sector to strike a balance between economic growth and sustainability. Experts concur that banking supports economic development (Levine, 2004), and that sustainable banks positively affect the well-being of local communities in many ways (Forcadell & Aracil, 2017; Mendez & Houghton, 2020), being likelier than conventional banks to lend responsibly, declining to finance projects that harm the environment or neighbouring communities, even when abstaining incurs opportunity costs. Sustainable banks also enhance social welfare by providing broader access to finance, which is known to reduce inequality. at this juncture, this is crucial because more accessible finance and less inequality are items on the United Nations' (UN) Agenda 2030, *a.k.a* the Sustainable Development Goals (SDGs) (UN, 2015).

Sustainable banking is a trend long in development, starting with informal practices like taking account of social, ecological and ethical externalities in the commercial decision-making process, progressing to internalization of innovations like the Environmental, Social and Governance (ESG) criteria for lending conditionality (Weber & Feltmate, 2016). Since banks comprise the greater part of the financial systems of developing markets in the global South (Beck, Demirgüç-Kunt, & Levine, 2010), the adoption of ESGs is important there, which not only furthers Agenda 2030 but also helps to keep up the minimal level of development needed to survive today's world economy. The ESGs are amongst the most important innovations that banks can undertake in the developing world. This article studies the sustainability of banks in the global South through a Chinese

OBJECTIVE

To examine the impact of public policies on the adoption of the sustainable Environmental, Social and Governance (ESG) criteria by the banking industry in China, Brazil, India, and Mexico.

METHODOLOGY

A database of measurements of the level of sustainability of firms for the period 2007-2019 in China, Brazil, India, and Mexico.

RESULTS

(1) A positive trend in the sustainability of Chinese banks since 2007, when the Green Credit Policy was introduced; (2) the impact is higher on State-owned Banks than on non-State-owned Banks.

LIMITATIONS

The lack of data for the analysis in case studies, and the heterogeneity of the four countries under investigation.

PRACTICAL IMPLICATIONS

Public policy can influence the level of sustainability of actors in the banking industry in the global South and Sustainable banks enhance social welfare.

looking-glass. We trace the evolution of ESG criteria in the People's Republic of China (PRC) which, starting in 1981, incrementally adapted their banking practices to sustainability via membership of inter-governmental organizations (IGOs) like the World Bank (WB) and the United Nations (UN).

A conventional misconception is that sustainable practices – ESG criteria; corporate social responsibility (CSR); *etc.* – originated with the private sector, because that is their arena of applicability (Mendez & Houghton, 2020). Evidence shows that the foundations of sustainable *banking* were laid by multilateral development banks (MDBs) owned by governments, the WB in particular. China internalized the WB's sustainability *ethos* through a mentor-pupil relationship that the two began in 1980. Among the lessons learned was the WB's lending conditionalities. Beijing then followed its own path, yet took sustainable principles to heart, holding them in reserve for a future time. Beijing had announced that it would steer its development policy toward sustainability as early as 2006 (Weber, 2017).

We used data from 4 countries in the global South to measure the sustainability of domestic commercial banks over the period 2007-2019, including China, which showed that State-owned Banks (SoBs) of the PRC responded with alacrity to pressures from the Chinese state to expand adoption of ESGs. We argue that this derives from a learning process of trying out the innovations of international institutions like the WB. Our study is novel in inferring that public policy can encourage private sustainable innovation and widen the resort to ESG criteria in the global South. The spirit of innovation this represents has made a mark on the Chinese domestic banking industry, showing it forth as an exemplar to emulate (IISD, 2015). China has a long way to go, but it is a leader in the global South in the sustainability of its monetary and financial systems.

The remainder of this paper proceeds as follows: the next section considers the role of IGOs like the WB in encouraging the adoption of ESG norms in commercial domestic banking practices. This section includes a discussion of the WB's influence on China and a section on how China began to absorb international banking practices into their own reality. Then we consider Beijing's economic statecraft abroad consisting of introducing ESG practices in their domestic banking sector. This is followed by some figures on the ESG adoption in China. Finally, we offer concluding remarks.

2. ESG INNOVATIONS – FROM PUBLIC BANKING TO PRIVATE BANKING

IGOs pioneered sustainable criteria in lending decisions. The European Bank for Reconstruction and Development (EBRD) was the first, in 1990, to bring environmental and social norms into its terms of reference (Langer, 2013). This trickled down to the lending conditionality of other IGOs like the WB and its private-sector arm, the International Finance Corporation (IFC), in the late 1990s (Vives, 2004). By 2003, the lending parameters of the IFC could influence the Equator Principles (EPs), a voluntary framework of specific guidance for commercial banks trying to mitigate the risks to sustainability of heedless development (ClientEarth, 2018), with a view to denying funds to borrowers not in compliance with basic environmental safeguards.

In 2004 the EPs filtered down to the private sector *via* a UN report titled *Who Cares Wins*, which used the term “ESG” for the first time, broaching the idea that sustainability might actually be profitable. It said enterprises “that perform better with regard to these issues can increase shareholder value by, for example, properly managing risks, anticipating regulatory action or accessing new markets, while at the same time contributing to the

sustainable development of the societies in which they operate. Moreover, these issues can have a strong impact on reputation and brands, an increasingly important part of company value” (The Global Compact, 2004, p. i). Over twenty global firms undertook to adopt ESG criteria in their operations (Hill, 2020). Later, in 2006, the UN General Secretary published *Principles for Responsible Investment (PRI)*, in which he denounced lending practices that did not take account of “environmental, social, and corporate governance considerations” (UN, 2006). PRI is a voluntary framework specifying actions investors can take to adapt their investment decisions to the ESGs. PRI is periodically updated. See **Figure 1** for examples of ESGs as defined by PRI (UNPRI, 2021).

The PRI framework requires ESG criteria to be integrated into corporate finance and accountancy, so that investments may be routinely evaluated for their sustainability. Sixty-three investment companies signed on at the outset, including as-

set owners, asset managers, and service providers with \$6.5 trillion in assets under management (AUM) which were to be accounted for upon ESG as well as (short-term) profitability criteria. As of 2020, over 2500 entities holding over \$90 trillion AUM are participants. The ESGs’ “profile” appears to be heightening as major institutional investors are taking up the cause and demanding that their investments are handled according to these criteria (Atkins, 2020). **Figure 2** highlights the incremental expansion of signatories to the PRI and also the increasing value of their AUM.

The global trend toward adoption of ESG norms by the financial sector is in the process of translating them into worldwide practices (Bouma, Jeucken, & Klinkers, 2001). The evidence is clear that banking is becoming more sustainable in the global North (Scholtens, 2009). Banks in the global South, however, noticeably lag. The degree of ESG adoption by developing-market banks differs widely (Yin & Zhang, 2012) and it is well-known

Figure 1. Examples of ESG issues

Source: UNPRI, 2021

Figure 2. PRI Signatories & Assets under management

Source: UNPRI, 2021

that the South has not integrated ESGs into the day-to-day bank operations enough (Dayal & Emani, 2015). There are some interesting exceptions, nevertheless, that may serve as paradigms of ESG adoption. One of the most instructive in the global South is the PRC.

2.1. Sustainable Norms: The World Bank & China

One main influence on China's openness to ESG criteria in finance is the WB and the legacy of its early relationship with China. The story began in 1980, when the US granted China most-favoured nation (MFN) status in trade. This encouraged China's Ambassador to Washington, Chai Zemin, to formally conveyed to WB China's wish to become a member, and to invite WB President Robert McNamara to visit China (Jacobson & Oksenberg, 1990). McNamara met with China's supreme leader Deng Xiaoping on 15 April 1980 (Sharma, 2017), in which Deng famously stated, "We

are very poor. We have lost touch with the world. We need the World Bank to catch up" (cited in: Y. Zhang, 1998, p. 227). The WB needed the world's largest developing country to enhance its own *bona fides* as an institution. China was given membership almost instantly, on 15 May 1980, which in one fell swoop "doubled the Banks' developing country population" (Sharma, 2017, p. 158).

By 1990 the Beijing office of the WB was the world's second-largest after Washington (Howell, 2014). China's scale of borrowing by 1993 had surpassed India's and it became a "major success story" (Kent, 2007, p. 112) in the Bank's history. By 1993 the WB could announce that China's was the world's fastest-growing economy, expanding by 12% *per annum* (Sullivan, 2007). It remained the WB's largest borrower through 1997. Its spectacular economic progress meant that by 1999 it had graduated out of eligibility for soft money from the International Development Association (IDA) (Huenemann, 2014), a member of the WB Group

set up in 1960 to give interest-free loans (or credits) to member states with low annual per capita incomes (Razavi, 2007).

Engagement continued and expanded beyond the WB into the 1990s. China became a member of two other, specialized international financial institutions in 1996: The Bank of China joined the Institute of International Finance, a non-profit comprising some of the world's top financial institutions, including commercial and investment banks, export credit agencies, and multilateral organizations; as a member, the Bank of China was privy to insider information on global financial and regulatory issues (Lardy, 1999, p. 209). Since 2000 the PRC has joined other MDBs beyond Asia and Africa (Alden & Alves, 2017); in 2009 it became a non-borrowing member of the Inter-American Development Bank, probably Latin America's most important development bank (Fornes & Mendez, 2018).

Because of its economic success, the PRC became a donor country for the first time in 2007 (viz., an IDA contributor). This epochal development as well as the financial crisis of 2008 massively raised the stakes for Beijing, precipitating a sea-change in its stance on the global financial regime, particularly in its need to be more sustainable. By 2010, WB President Robert B. Zoellick could note that China was exemplary in making itself more sustainable: "China's efforts alone have ensured that the world's Millennium Development Goal on poverty reduction will be met. We and the world have much to learn from this" (Zoellick quoted in: World Bank, 2010).

The PRC's deep participation in the WB since 1980 outfitted it with the knowhow to craft development banks of its own between 2012 and 2014; there ensued the Asian Infrastructure Investment Bank (AIIB) based in Beijing and the New Development Bank (NDB), *a.k.a* "BRICS Bank", based in Shanghai. These two financial institutions conform to the governance template of the WB and its international norms of sustainability. Its re-

semblance to a Bretton Woods institution has reassured the private investors who must be essential partners in institutions like these (Jing, Mendez & Zheng, 2020), while also furnishing a platform, outside US or European control, from which it will be possible to venture new policies and practices, many of them bound to be sustainable.

2.2. Sustainable Banking in the People's Republic

In just four decades the PRC has made itself emblematic in the annals of WB membership, which reflects the legacy of Deng's learning by doing or "crossing the river by feeling the stones" (quoted in: Huang, 2005). The WB is not a private enterprise, yet its norm entrepreneurship exerted tremendous influence on sustainability innovations in private finance no less than public (Mendez & Houghton, 2020). Norm entrepreneurs generally pioneer new norms regardless of sector or spillovers. We propose three factors that persuaded the PRC to adopt sustainable practices in international finance which are being quietly, incrementally mandated in its commercial banking sector. All of these factors were internalized during China's interaction with the WB.

[1] *Entrepreneurial Agency*. The PRC showed far-sighted leadership since the very beginning of the rise of sustainability as a contemporary movement, showing a "clear understanding of the obligations and privileges of membership" (Jacobson & Oksenberg, 1990, p. 58) of IGOs with existing sustainability policies. It was essential for the PRC not to wait for the WB to come to it; it proactively sought to accede, schooling itself as far back as the 1960s in the Bank's history, operations, and updated policies (Gewirtz, 2017), sending missions to similarly situated countries to learn more about the Bank far in advance of applying for admission in 1980. Neither did

the Chinese lay about waiting for Washington to teach it. The vast power asymmetry did not prevent the PRC making the most of the resources it had, achieving “success through entrepreneurial agency” (Mendez, 2017, p. 132). China was a leader in innovativeness, creating a special division of the Ministry of Finance to manage relations with the WB; and it pioneered domestic banking institutions (viz., the China Investment Bank) bespoke-made to allocate and disburse WB project funds denominated in both dollars and, indirectly, yuan (Lardy, 1999). Beijing often did not know which way to turn, it is true, but it was always willing to listen.

[2] *Discipline, pragmatism and flexibility.* Chinese agency, beginning in the epoch of Deng’s reforms, is characterized by pragmatism and adaptability to the global “rules” of international finance and trade. Beijing had to find within itself the strategic proactivity to do so; especially as these rules are not spelled out in any constitution. After acceptance as a WB member China showed the self-discipline needed for sustainable business when it refrained from going on a spending spree with the loans it qualified for until after a painful adjustment period that wrung excess demand and inflationary pressures out of its economy. China earned a reputation for starting and finishing its WB-funded projects on time or ahead of schedule, in contrast to so many developing countries whose inefficiency caused prolonged delays. These achievements laid a groundwork of competence and strategic self-possession capable of making short-term sacrifices that secure long-term sustainability. Deng in telling McNamara that the PRC was poor and badly needed help was capitalizing on the “Chinese people’s readiness for change” (Bottelier, 2007, p. 58) at a critical historical juncture. When the WB provided a first candid assessment of the PRC in 1981, Beijing owned its harsh truths, moving swiftly to implement its recommendations exactly as prescribed.

[3] *Learning by doing – engaging with other multilateral development banks.* Their diligent cultivation of the WB empowered PRC leaders to exploit it as a window onto the world (Kapur, Lewis & Webb, 1997), facilitating study of other MDBs and their lending conditionalities. In February 1986 Beijing expressed interest in joining the Asian Development Bank, Asia’s largest MDB at the time. So thoroughly did it prepare that it was accepted by March 1986 (Wihtol, 2018). Proactive engagement was not confined to Asia. In 1985 China engaged with Africa by acceding to the AfDB and the African Development Fund (ADF) (AfDB, 2020). Then China became a member of the Institute of International Finance (IIF), a big promoter of ESG criteria. In 2001 China acceded to the World Trade Organization (WTO) after one of the most difficult accessions on record. Many countries opposed it out of fear that China would not obey international norms of either fair trade or sustainability (Mendez, 2021) who capitulated only after Beijing publicly committed itself to ESG and other international norms.

3. CHINA’S ECONOMIC STATECRAFT: BEIJING’S GREEN CREDIT POLICY

Right after admission to the WTO, China turned to its domestic scene to put in practice the sustainable norms it had pledged allegiance to. This was no easy task; incredibly, it was undertaken just as China was becoming one of the biggest environmental polluters in history (Chen, Barros, & Gil-Alana, 2016; Xu, 2020). By 2007 pollution had reached such heights that cancer became the leading cause of death (Joseph & Jim, 2007). Beijing did implement policies to curb the problem. It started by focusing on the financial sector, obligating banks to take ESG into account in their lending decisions. From the informal practice of considering social and ethical issues in lending decisions, it progressed to the internalization of formal innovations like ESG

criteria informing lending conditionality. Chin (2012) refers to this as “socialization”, a process where policy makers assimilate international norms from institutions like the WB into their lending procedures. Beijing broke out of its subaltern position in the form of “economic statecraft” that empowered Beijing to create its own standards and norms (Chin, 2015).

Beijing launched its *Green Credit Policy* in 2007 amid its own process of internalizing or being socialized into such norms. It was an ambitious initiative to instil sustainability in China’s financial sector (Aizawa & Chaofoei, 2010), holding the banking industry to account by mandating use of ESG criteria to evaluate financial decisions (World Bank, 2018). This meant that banks were to restrict or deny loans to polluters and offer interest rates adjusted to the ecological performance of the borrowers’ industry. By contrast, pollution abatement, investment in green infrastructure, renewable energy, the circular economy, and ecologically friendly agriculture were to be rewarded with reduced interest rates (Weber, 2017, p. 359).

The *Green Policy* required that to access funding bank clients had to obtain environmental certification from local and national authorities. Banks were given authority to cut off or recall loans if borrowers were found non-compliant with ESG criteria (Jin & Mengqi, 2011, p. 1980). While some scholars argue that the *Green Policy* has had limited influence (B. Zhang, Yang, & Bi, 2011), many others believe it has significantly reduced the availability of funding for Chinese polluters (Liu, Wang, & Cai, 2019), and has widened the impact of ESGs on China’s domestic banking industry. Some scholars believe the policy serves as a benchmark around the world, nudging the South toward sustainability (Weber, 2016).

Having established that the *Green Credit Policy* was enacted after a process of internalization of norms learned from international institutions from 1981 to 2006, we surmise the follow-

ing. We assume that SoBs are responsive to public policies that pressurize banks to adopt ESG norms. We further assume that the case of China is exceptional; other countries respond better to market incentives than to public pressure. In this context, some questions emerge:

- (1) What is the effect of domestic public policies like the *Green Credit Policy* on the level of sustainability of domestic commercial banks in China between 2007 and 2009?
- (2) What factors facilitated the adoption of ESG norms by domestic commercial banks in China?
- (3) How does China compare with other countries in the global South – like Brazil, India, and Mexico – in ESG norm adoption in the domestic commercial banking sector?

3.1. Appraising China’s level of ESG adoption – premises and measures

We use empirical evidence drawn from a database measuring the level of sustainability for the period 2007-2019 to compare China to three other large markets in the developing world, Brazil, India, and Mexico, to understand what is behind its ESG ascendancy. We pay special attention to Chinese banks’ adherence to ESGs in the wake of the *Green Credit Policy* from 2007 to 2019.

We calculate the level of sustainable banking as:

$$Sust = \sum_{j=1}^{n_i} \frac{A_{jit}}{A} ESG_{jt}$$

where A_{jit} is the total assets of bank i located in country j in year t , n_i is the number of commercial banks located in country i , $A = \sum_{j=1}^{n_i} A_{jit}$ is the total assets of banks located in country i in year t , ESJ_{jt} is the level of ESG adherence of bank j located in country i in year t .

We calculate the total assets of banks (A_{jit}) using the bank's consolidated accounts from the Orbis bank database. The scores on Environmental, Social, and Governance (ESG) dimensions by Thomson Reuters (Cheng, Ioannou & Serafeim, 2014; Dahlsrud, 2008; Forcadell, Aracil & Ubeda, 2020; Mervelskemper & Streit, 2017; Ortas, Álvarez & Garayar, 2015; Sassen, Hinze & Hardeck, 2016; Velte, 2016) provide objective performance data on banks' sustainability from more than 280 key performance indicators (Dahlsrud, 2008).

3.2. Findings

The first set of findings, illustrated in **Figure 3**, shows a positive trend in the sustainability of Chinese banks since 2007, when the *Green Credit Policy* was introduced. It also shows that the impact has been higher on State-owned Banks (SoBs) than on

non-SoBs. While SoBs show less sustainability efforts pre-2007, the story changed smartly in the subsequent 12 years under the influence of the *Green Credit Policy*.

Table 1 shows that all 21 Chinese commercial banks have increased in sustainability over time. It further shows how SoBs were the first to implement ESGs into their banking practices, led by two of the most important SoBs in China. the Agricultural Bank of China (ABC) and the Industrial & Commercial Bank of China (ICBC). Table 1 also exhibits improving ESG levels but at an uneven pace, which suggests two enhancing factors for higher levels of sustainability: first, public ownership; and secondly, international operations.

All the best performers are publicly owned, which suggests that top-down pressure from Beijing works in favour of green

Figure 3. *Trajectory of Sustainable Banking in China since the introduction of the Green Credit Policy*

Table 1

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AGRICULTURAL BANK OF CHINA LIMITED	GOV	33.3	52.4	54.0	66.3	63.9	68.7	58.1	64.2	70.3	72.8	66.6	66.6	66.6
INDUSTRIAL & COMMERCIAL BANK OF CHINA (ICBC)	GOV	33.3	52.4	54.0	66.3	63.9	68.7	58.1	64.2	70.3	72.8	66.6	66.6	66.6
CHINA CITIC BANK CORPORATION LIMITED	DOM			35.2	54.3	44.5	47.3	45.0	45.5	55.0	52.0	59.5	66.0	65.7
CHINA MINSHENG BANKING CORPORATION	DOM			21.9	19.9	30.5	42.5	39.8	44.1	37.9	48.5	47.0	44.0	61.7
CHINA CONSTRUCTION BANK CO., LTD	GOV	20.4	31.8	53.7	56.6	61.7	63.1	51.0	56.0	55.9	54.5	56.0	61.3	61.7
BANK OF COMMUNICATIONS CO. LTD	DOM	34.4	29.4	33.4	43.3	41.4	46.4	48.7	41.9	47.7	47.5	59.5	59.1	59.2
CHINA MERCHANTS BANK CO LTD	DOM			31.3	40.4	45.0	55.9	49.5	49.0	52.9	51.0	60.8	60.9	53.0
BANK OF CHINA LIMITED	GOV		38.8	44.4	54.6	41.1	43.5	45.3	36.1	36.6	44.8	55.1	52.0	51.8
CHONGQING RURAL COMMERCIAL BANK	DOM					27.9	19.9	24.1	23.9	26.0	31.9	34.6	51.9	46.5
PING AN BANK CO LTD	DOM										26.5	31.3	30.8	42.4
CHINA EVERBRIGHT BANK CO LTD	GOV								7.1	11.0	17.8	27.3	38.7	41.8
INDUSTRIAL BANK CO LTD	DOM											27.5	31.0	39.1
HUA XIA BANK CO., LIMITED	DOM											39.6	37.8	37.7
BANK OF NANJING	DOM			9.2	9.1	12.3	8.4	8.3	24.0	15.3	27.8	35.8	35.9	35.3
BANK OF NINGBO	DOM			9.2	9.1	12.3	8.4	8.3	24.0	15.3	27.8	35.8	35.9	35.3
BANK OF HANGZHOU CO LTD	DOM											27.2	32.8	34.9
BANK OF GUIYANG CO LTD	DOM											29.9	36.6	32.1
BANK OF SHANGHAI	DOM											30.9	32.4	30.6
BANK OF JIANGSU CO LTD	DOM											23.9	27.1	29.8
SHANGHAI PUDONG DEVELOPMENT BANK	DOM											31.2	42.9	29.7
BANK OF BEIJING CO LTD	DOM											28.1	35.1	27.8

policies. This finding contributes to the literature on strong institutional settings as contributing to higher levels of sustainability. The literature has documented how operating in a weak institutional setting which furnishes too little support for sustainability is one of the challenges to the adoption of ESGs by banks in the global South (Forcadell & Aracil, 2017).

The best performers have foreign operations, suggesting that competition abroad incentivizes them to adopt ESGs in their operations; a finding supported by the literature (Khattak & Saiti, 2021). Overseas operations were expanded by the Belt and Road Initiative (BRI) of President Xi Jinping and projected to connect the PRC with far destinations *via* transport networks crossing Eurasia by land and the Indian and Pacific Oceans by sea (Mendez & Alden, 2021). A report by *The Economist* and Baker

McKenzie concludes that China is using the BRI to increase ESGs to unparalleled levels (ECN, 2020), which shows that the *Green Credit Policy* continues to evolve and affect international operations by innovating higher levels of sustainability.

Finally, we compare Chinese banks with banks in Brazil, India, and Mexico because these four have the four largest economies in the global South. **Figure 4** exhibits the behaviour of domestic banks, including SoBs and non-SoBs (but excluding multinational banks operating in them). The best-performing banks over the period studied were in Brazil, followed by China, Mexico and India in that order. Domestic banks in these four markets show similar trends in adopting ESGs, but the biggest difference is that the best-performing banks in Brazil, India and Mexico, unlike China, are non-SoBs. Also unlike China,

Figure 4. Sustainable Banking levels in Brazil, China, India and Mexico 2007-2019

they host more multinational banks, which in the past have shown higher levels of ESG adoption and more aggressiveness in competing for customers. This implies that Brazil, India and Mexico's domestic banks face steep competition from foreign banks, which translates into their having to "up their game" in ESG terms. This finding once again confirms that, in the case of China, banks have been responsive to public policies and regulatory controls like the *Green Credit Policy*.

4. CONCLUSIONS: SUSTAINABILITY IN THE CHINESE BANKING SECTOR

This descriptive study has revealed certain issues that add to the literature on the factors contributing to ESG adoption in the banking sector. It was found that State-owned Banks (SoBs) of the PRC respond to pressures exerted by the Chinese state intended to expand the adoption of ESGs via the *Green Credit Policy*. We argue that this emerged from a process of adopting organizational innovations learned from international institutions like the World Bank. Our study offers novel evidence supporting the idea that public policies and regulatory controls can be used to encourage innovation in sustainability and widen the use of ESG criteria in the global South.

Our findings are important because they feature the key role of state-level measures and governmental pressures to mitigate the risks to the ESGs from irresponsibility in the banking sector. The findings also challenge the existing literature in that most

studies assume that the banking sector normally responds poorly to governmental pressures to adapt to ESG or any other external norms (Darnall & Carmin, 2005); thus, the impact of public policies on lending and investment practices "has been lower than in many other industries" (Weber, 2017, p. 360; Weber, Diaz & Schwegler, 2014). Changes in sustainable bank practices have had to be effected by other actors like multinational companies (MNCs) (Forcadell & Aracil, 2019; Ghauri & Wang, 2017), usually in weak institutional settings.

The spirit of innovation in China's *Green Credit Policy* has already made a mark on the Chinese domestic banking industry. The same innovativeness has made of Chinese banking an example worth emulating (IISD, 2015). China still has a long way to go, but it is a leader in the global South in the sustainability of its financial system. The increasing buy-in of banks to the ESG criteria is poised to benefit the Chinese banking system in the near future. Scholars have shown that higher ESG levels in banking lead to better cash flow and efficiency, which in turn improves reputation and performance; a result that is consistent with the existing literature (Azmi, Hassan, Houston & Karim, 2021). China is exceptional, as the brief comparison with Brazil, India, and Mexico suggests. Market forces are the imperative factor influencing ESG innovation by domestic commercial banks in these other countries. Whether China is exceptional across the whole South, or whether it is a bellwether for those parts of the South where the state takes a leading role, is a question left for future research.

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