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Corporate Obligations in Sustainability Reporting and ESG Implementation: A Comparative Study of Indonesia and China

Valencia Mutiara Kornelius
Universitas Prasetiya Mulya
valencia.kornelius@gmail.com

Abstract

Corporate sustainability reporting has become an important mechanism for ensuring corporate accountability in implementing ESG principles amid increasing global pressure to achieve sustainable development and climate commitments. This study conducts a comparative analysis of corporate sustainability reporting obligations and ESG standards in Indonesia and China, two industrialized nations in Asia. The research employed in this study is normative legal research, with a primary focus on the comparative analysis of the corporate sustainability reporting obligations in Indonesia and China. The findings show that Indonesia and China adopt different approaches toward ESG institutionalization. Indonesia mandates sustainability reporting for public companies and financial institutions under OJK Regulation No. 51/POJK.03/2017, which largely aligns with the Global Reporting Initiative (GRI) Standards. However, Indonesia still faces challenges due to the absence of a comprehensive national ESG standard and weak enforcement mechanisms. In contrast, China has introduced the Corporate Sustainability Disclosure Standards (CSDS), supported by phased implementation and a long-term roadmap toward a unified ESG reporting system by 2030. Although both countries are transitioning toward more comprehensive ESG disclosures, they differ in regulatory approaches, implementation timelines, and standard adoption. This study highlights the evolving ESG regulatory frameworks in Indonesia and China and their efforts to enhance corporate transparency and sustainability governance.

Keywords: Sustainability Reporting; ESG; Corporate Governance.

Background

In recent years, following the 26th UN Climate Change Conference ("COP") in Glasgow and COP-27 in Egypt, all nations have faced mounting global pressure to meet their climate commitments under the Paris Agreement[1], particularly in striving to achieve Net Zero Emissions by 2060, with the exception of the United States, which had withdrawn from the Paris Agreement at the moment[2]. A key mechanism in meeting these commitments is by integrating the Environmental, Social, and Governance ("ESG") principles. As a result, several nations are enacting rules mandating corporations to publish sustainability reports to

[1] See Article 2(1) of the Paris Agreement.
[2] European Parliamentary Research Service. (2025, February). *US withdrawal from the Paris Climate Agreement and from the WHO.*

ensure their compliance with ESG.[3] In a similar way, several financial institutions, notably those in the banking sector, require ESG compliance as a prerequisite for issuing corporate financing, while credit ranking agencies have likewise incorporated ESG factors as a part of their corporate creditworthiness assessment.[4]

ESG has emerged as the most recognized standardized measure to assess a company's sustainability performance, encompassing three parameters: environmental, social, and corporate governance.[5] This framework is rooted in John Elkington's stakeholder theory, which expands upon the notion of the 'Triple Bottom Line' (People, Planet, and Profit),[6] wherein the elements of 'environmental' and 'social' correspond to 'Planet' and 'People' respectively. Hereby, this indicates a paradigm shift in corporate performance assessment, since a 'good' company performance is no longer determined solely by financial gains, but additionally by how effectively a business integrates ESG principles into its operation.[7] In this context, ESG performance is evaluated through three key aspects: (1) *First*, the environmental aspect, which evaluates a company's influence and commitment on preserving a sustainable environment, such as company's efforts to reduce carbon emission and manage hazardous waste; (2) *Second*, the social aspect, which examines how a company handles its relations with stakeholders, including employees, customers, and local communities; (3) *Third*, the governance aspect, which pertains to the internal rules, board structure, and ethical standards that guide how a company is led and held accountable.[8]

Initially, discussions surrounding ESG standards have been underway at the international level for over two decades, most notably through initiatives led by the United Nations.[9] The concept of ESG initially emerged from longstanding debates between pro-industrialist and pro-conservational sides, each with opposing perspectives for the future of the global economy and ecological sustainability.[10] These discussions laid the groundwork for the theoretical foundation of green growth economics, which was later applied in corporate practice through the adoption of ESG standards.[11] At the same time, the core ideas

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[3] World Development Corporation. 2024. "Global Shift Towards ESG Reporting: Mandatory Disclosure Laws Gain Momentum." <https://www.worlddevelopmentcorporation.com/post/global-shift-towards-esg-reporting-mandatory-disclosure-laws-gain-momentum.>

[4] Christiawan, Rio. 2023. "Menakar ESG Emiten Pertambangan." Kontan, April 14, 2023.

[5] Howard-Greenville, Jennifer. 2021. "ESG impact is hard to measure - but it's not impossible." *Harvard Business Review*; Martiny, Alice, Jonathan Taglialatela, Francesco Testa, and Fabio Iraldo. 2024. "Determinants of environmental social and governance (ESG) performance: A systematic literature review." *Journal of Cleaner Production* 456; Rustandi, Etty Murwaningsari, and Sistya Rachmawati. 2024. "The Effect of Environmental, Social and Governance (ESG) Business Strategy on Tax Aggressiveness with Corporate Social Responsibility (CSR) as a Moderation Variable." Asian Journal of Management Entrepreneurship and Social Science 04 (01).

[6] Elkington, John. 2004. "Enter the Triple Bottom Line." In The Triple Bottom Line. 1st ed. N.p.: Earthscan.

[7] Putri, Icha A., Cailah Nasywa, Fabiola L. Basjah, Nabilah Q. Aini, Luluk Mushfiroh, and Titiek Rachmawati. 2025. "Implementation of ESG Principles as a Corporate Sustainability Strategy: A Literature Study." Journal of Environmental Economics and Sustainability 2, no. 3.

[8] Corporate Governance Institute. n.d. "ESG: A comprehensive guide to the main principles." Accessed May 10, 2025. https://www.thecorporategovernanceinstitute.com/insights/guides/what-is-esg-and-why-is-it important/?srsltid=AfmBOoo-8oLNZebor45qL3xJq8VSFwJVPWmoJr5ZOQVkdfzFDdwfylyM.; Alijoyo, Antonius. 2022. "SDGs and ESG – Overcoming the Sustainability Risks." Center for Risk Management & Sustanability. https://crmsindonesia.org/publications/sdgs-and-esg-overcoming-the-sustainability-risks/.

[9] Christiawan, Rio. 2023. "ESG Standards: Debate on business norms and ethics." *The Jakarta Post*, April 18, 2023.

[10] *ibid. supra note 8*.

[11] *ibid. supra note 8*.

underpinning these debates were also incorporated in global policy frameworks such as the Sustainable Development Goals ("SDGs").[12] As a result, ESG principles are strongly aligned with the SDGs[13], which reflect a shared global vision for "*the future that we want*", a future oriented on environmental sustainability, equitable society, and responsible governance.

Furthermore, there remains an ongoing debate over whether ESG should be considered as a normative framework or merely as a part of business ethics. From a business ethics standpoint, ESG is frequently viewed as a 'voluntary' norm aimed at preventing the exploitation of society and the environment in pursuit of maximum profit, rather than as a binding corporate responsibility. Under this viewpoint, ESG compliance serves primarily to differentiate between 'ethical' and 'unethical' corporate activities.[14] For instance, a palm oil company seeking to implement ESG principles would typically pursue Roundtable on Sustainable Palm Oil ("RSPO") certification, which serves as evidence of sustainable practices. However, obtaining such certification remains optional. Therefore, within the perspective of business ethics, when a palm oil company holds RSPO certification, its value and reputation are likely to improve in the viewpoints of stakeholders, and vice versa.

Despite this, even if ESG remains within the sphere of business ethics, its implementation is strongly reliant on the voluntary commitment of corporate actors and other stakeholders. In this case, ESG compliance becomes highly transactional, determined by negotiations and expectations between corporations and their stakeholders. It may thus be claimed that if ESG adherence is grounded solely on business ethics and depends on the voluntary will of corporate actors and its stakeholders, its effectiveness will be severely constrained. On the other hand, viewing ESG as a legal norm implies that ESG standards must be incorporated into clear and enforceable regulations, with its compliance mandated by law and subject to sanctions in cases of non-compliance. However, if ESG is treated solely as a legal necessity, it could end up being a mere compliance exercise, with firms fulfilling only to the extent necessary to meet regulatory obligations, without deeper integration into their values or long-term objectives.

In light of this, the most effective approach is to strike a balance between viewing ESG through the lens of business ethics and as a normative legal framework, as ESG should not be regarded merely as a matter of regulatory compliance, but also as a source of additional value for the firms. By implementing ESG principles, a company demonstrates its commitment toward environmental sustainability, which will enhance its public reputation and increase investors' trust. This perspective encourages companies to move beyond minimum regulatory requirements and avoid mere formality implementation, by adopting more substantial sustainability practices. Therefore, ESG should be viewed as a strategic opportunity which provides economic benefits while also reflecting a company's genuine commitment to environmental sustainability.

To ensure that companies are effectively implementing the ESG principles while preventing greenwashing, it is essential to mandate the issuance of sustainability reports,

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[12] *ibid. supra note 8.*

[13] Matacera, A., Tola, F., Tarantino, M., Gianvincenzi, M., & Mosconi, E. M. (2024). A *Comparative Analysis of European Sustainability Reporting Practices: The Role of ESG Standards and SDG's in Enhancing Effectiveness.* Journal of Lifestyle and SDGs Review, 5(2)

[14] Christiawan, Rio. 2025. "Hukum Perubahan Iklim, ESG, dan Perdagangan Karbon" Rajagrafindo Persada, 54.

which serve as a disclosure obligation for disclosing ESG practices. Sustainability reporting not only promotes transparency, but also serves as a primary means of communication between companies and their stakeholders regarding ESG performance, while reflecting corporate commitment to it also allows investors and creditors to assess ESG-related risks and opportunities, thereby influencing their decision-making processes. The Global Reporting Initiative ("GRI") Standards are the most widely recognized ESG reporting framework, which provide comprehensive guidelines for assessing and disclosing a company's sustainability performance across various industries and jurisdictions. As governments adjust to these global standards, it becomes crucial to examine how different jurisdictions incorporate ESG reporting into their regulatory landscapes.

Accordingly, this study conducts a comparative analysis of corporate sustainability reporting obligations and ESG implementation frameworks in Indonesia and China, two industrialized nations in Asia whose manufacturing industries contribute significantly to their respective national economies and play influential roles in global economics.[15] Both countries have demonstrated increasing their regulatory commitments to ESG, driven by international obligations. Hereby, Indonesia has adopted an immediate approach by mandating ESG reporting for public companies and financial institutions. In contrast, China takes a more gradual and phased approach, introducing its draft of sustainability reporting standards, which aim to establish a uniform national sustainability disclosure system by 2030.[16] Through this comparative analysis, the paper investigates how each country shapes the regulation, enforcement, and effectiveness of their ESG frameworks, while also identifying common challenges and emerging best practices in promoting corporate sustainability.

The method employed in this study is normative legal research, with a primary focus on the comparative analysis of the corporate sustainability reporting obligations and ESG standards in Indonesia and China. To achieve this objective, the study relies on a literature review by utilizing legal materials relevant to both jurisdictions. The data in this study consists of legal sources, facts, and information obtained from various documents. Furthermore, legal sources are classified into primary and secondary legal sources. Primary legal sources include binding authoritative instruments such as statutory regulations and official records in both Indonesia and China, while secondary legal sources consist of scholarly literature, including books, journal articles, policy papers, and credible internet-based references that support the understanding of sustainability reporting frameworks and ESG implementation. The collected data is systematically analyzed to formulate logical and normative arguments to address the identified issues between two jurisdictions. All in all, the analysis process involves comparing the substance, structure, and implementation mechanism of ESG-regulated regulations, thereby identifying similarities, differences, and contextual nuances in the development of corporate sustainability reporting regimes.

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[15] Nurhanisah, Yuli. 2020. "Indonesia Raih Posisi Kelima di Industri Manufaktur Dunia | Indonesia Baik." Indonesiabaik.id. https://indonesiabaik.id/infografis/indonesia-raih-posisi-kelima-di-industri-manufaktur-dunia.

[16] The State Council The People's Republic of China. 2024. "China charts path to unified sustainability disclosure by 2030." Xinhua, May, 2024.

A. Corporate Sustainability Reporting Obligation in Indonesia

Corporate sustainability reporting plays a pivotal role in measuring the effectiveness of ESG implementation and enhancing investors' trust, thereby offering Indonesia a strategic opportunity to integrate sustainability values into business practices while positioning itself as a key destination for ESG-aligned investment. According to Bain & Company's 2023 report, green investment flows into Indonesia reached nearly USD 1.6 billion throughout the year, a 28 percent increase compared to the previous year. Furthermore, by 2023, Indonesia was also recognized as the leading beneficiary of green investment in Southeast Asia. This growing trend highlights the country's rising appeal to global investors focused on sustainability, while also underscores Indonesia's strategic role in advancing global sustainable development.

The implementation of mandatory ESG compliance through sustainability reporting has quickly taken the spotlight as part of Indonesia's sustainability commitment. This commitment is reinforced by Indonesia's ratification of the Paris Agreement through Law No. 16 of 2016, reflecting a national resolve to mitigate the effects of climate change. It was further strengthened by the Government of Indonesia's declaration to achieve the Sustainable Development Goals (SDGs) by 2030, which was ratified in Presidential Regulation No. 59 of 2017 on SDG implementation. As a result, the obligation to conduct sustainability reporting has become one of the primary instruments for integrating ESG principles into corporate governance and regulatory frameworks.

1. Regulatory Framework and Sustainability Reporting Standard in Indonesia

The Financial Services Authority ("OJK") Regulation No. 51/POJK.03/2017 regarding the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies ("POJK 51/2017") marked the official start of Indonesia's regulatory path toward ESG Implementation. By mandating that ESG principles be included into core business activities, this rule represented a significant step in establishing sustainability finance in Indonesia. In the first place, Article 2 of the regulation requires Financial Service Institutions, Issuers, and Public Companies ("these entities") to incorporate sustainable finance into their business activities by adopting the principles of sustainable business strategies and practices as well as social and environmental risk management.

Beyond mere obligation, POJK 51/2017 offers incentives under Article 9 to encourage proactive and effective implementation of sustainable finances. These incentives include eligibility of inclusion in the human resource competency development program, qualifying for the Sustainable Finance Award, and other forms of incentives. Furthermore, this regulation clearly mandates these entities to prepare the sustainability report, along with its annual submission to the Financial Services Authority[17] and its publication[18] by April 30 each year. In order to preserve accountability, Article 13 authorizes administrative sanction, such as written warnings, for entities who fail to comply with the obligations outlined in this rule.

This regulatory commitment was further strengthened and elevated under Article 222 of Law No. 4 of 2023 on the Development and Strengthening of the Financial

[17] Article 10 POJK 51/2017
[18] Article 12 POJK 51/2017

Sector. The law obligates the financial sector actors, issuers, and public companies to implement Sustainable Finance as an integral part of their business activities. In fulfilling this obligation, they are required to adopt ESG-aligned business practices and investment strategies, while also developing financial products, services, and transactions that support sustainability and transitional financing. The obligation to develop sustainable financial products had, in fact, already been addressed in earlier regulation, specifically under OJK Regulation No. 60/POJK.04/2017 on the issuance and requirements for Green Bonds. As part of this broader mandate, Article 222(4) of Law No. 4 of 2023 further provides that these entities are also required to produce a Sustainability Report as a means of accountability for their ESG performance, therefore establishing the role of sustainability reporting within Indonesia's financial and corporate governance frameworks. These regulatory developments are in line with Article 2 of the Paris Agreement, which calls for aligning financial flows with a pathway toward low greenhouse gas emissions and climate-resilient development. Therefore, these actions demonstrate Indonesia's strong dedication to integrating sustainability goals into its legal frameworks.

Further strengthening this regulatory framework, in August 2025, Indonesia introduced its Sustainability Disclosure Standards, namely *Standar Pengungkapan Keberlanjutan* ("SPK"), comprising *Pernyataan Standar Pengungkapan Keberlanjutan* ("PSPK") 1 and PSPK 2, through a collaborative initiative involving Bank Indonesia, the Ministry of Finance, and the Financial Services Authority. These standards were formally approved by the Indonesian Sustainability Standards Board of Institute of Indonesia Chartered Accountants and are scheduled to become effective on 1 January 2027. This initiative is a part of Indonesia's national agenda to harmonize sustainability reporting, while also reflecting a coordinated commitment to advancing transparent, credible, and globally aligned sustainability reporting practices. The standard adopts the IFRS Sustainability Disclosure Standard, IFRS S1 and IFRS S2, issued by the International Sustainability Standards Board, thereby positioning Indonesia among 33 jurisdictions that have implemented a global sustainability reporting framework.[19]

The scope of sustainability disclosures under the SPK encompasses sustainability-related risks and opportunities that are reasonably expected to affect an entity's prospects, with PSPK 1 establishing the general principles of sustainability reporting, while PSPK 2 specifically focuses on climate-related disclosures.[20] Furthermore, in 2026, the Financial Services Authority is currently in the process of formulating a Draft OJK Regulation and a Draft Board of Commissioners Regulation concerning the Implementation of Sustainable Finance for Financial Service Institutions, Issuers, and Public Companies, as an amendment to POJK 51/2017, which is planned to be enacted in the early 2027 and fully implemented by 2029. This regulatory development serves as a follow-up to the mandate of Law No. 4 of 2023 on Development and Strengthening of the Financial Sector, while also aligning with the PSPK 1 and PSPK 2, which are consistent with the international standards IFRS S1 and IFRS S2 on sustainability and climate-related disclosures.

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[19] BCA Sekuritas. 'Indonesia Meluncurkan Standar Pengungkapan Keberlajutan'. https://bcasekuritas.co.id/latest-news/news/indonesia-meluncurkan-standar-pengungkapan-keberlanjutan.

[20] Firmansyah, Amrie. 2025. "Harmonisasi PSPK 1-2 dan GRI Standards: Menuju Sistem Pelaporan Keberlanjutan Nasional yang Terintegrasi." Jurnalku 5 (3).

In general, the draft amendments to POJK 51/2017 provide more detailed requirements regarding the preparation and submission of sustainability reports. Notably, Article 24 requires certain companies to obtain independent verification of their sustainability reports by third parties in accordance with standards to be determined by the relevant authorities. In addition, Articles 11 and 14 stipulate that companies failing to submit sustainable finance action plans, providing inaccurate data or information in their reports, or failing to prepare sustainability reports within the prescribed reporting deadline may be subject not only to administrative sanctions or written warnings, but also to monetary fines. Nevertheless, it should be noted that these developments, including the proposed amendments to POJK 51/2017, remain in draft form and have not yet been formally enacted or fully implemented. Accordingly, the substance and scope of the regulatory provisions may still be subject to further revision and adjustment by the relevant authorities.

2. Challenges and Practical Implementation of ESG Reporting in Indonesia

The implementation of ESG principles in Indonesia can be observed through the increasing involvement of financial institutions in supporting sustainable projects, particularly through green financing. Numerous financial institutions have begun to allocate their funds to environmentally friendly sectors and are actively developing sustainable financial products, including the issuance of green bonds, ESG-based investment instruments such as green mutual funds, and retail financing for environmentally friendly products such as solar panel installations.[21] Furthermore, six financial institutions were among the first fifteen buyers to participate in Indonesia's inaugural carbon trading, officially launched in September 2023.[22] Such participation demonstrates their commitment to ESG principles and the expansion of their sustainable portfolios, which are in line with the obligations set forth in POJK 51/2017, as well as their proactive role in advancing Indonesia's transition to a sustainable economy. It further represents a concrete step toward achieving the NZE target by 2060 and integrating environmental considerations into its broader economic and investment agenda.

However, despite the banking industry's eagerness to engage directly in carbon trading, six years after the ratification of the Paris Agreement and five years following the issuance of POJK 51/2017, this progress has not been replicated by other sectors. This is reflected in a study undertaken by the MSME Study Group of the Faculty of Economics and Business, Universitas Gadjah Mada, together with Bank Indonesia, which found that approximately 87% of MSMEs in Indonesia have yet to implement sustainable business practices.[23] In the same vein, the Minister of National Development Planning reported that less than 5% of SMEs have adopted renewable energy utilization, sustainable procurement measures, or secured environmental certifications.[24]

From a regulatory perspective, this condition is largely attributable to the fact that ESG compliance has yet to become a mandatory requirement for corporations seeking

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[21] Kurnia, Erika. 2023. "Dukung Investasi Hijau, Perbankan Ramaikan Bursa Karbon Indonesia." Kompas, September, 2023.

[22] *ibid. supra note 18*

[23] Shofihawa. 2025. 'FEB UGM Research: 87% of MSMEs Have Not Adopted Green Business Practices'. https://feb.ugm.ac.id/en/news/16278-feb-ugm-research-87-of-msmes-have-not-adopted-green-business-practices

[24] Maswan, P., Dhifan, M., et al, 'White Paper: Unveiling the Future of Sustainable Business through Empowering Green MSMEs' *Ministry of Development Planning, National Development Planning Agency*. 2025.

access to financial facilities.[25] A key indicator of this fact is the absence of any OJK regulation that prohibits financial institutions from granting loans to companies that fail to meet ESG principles and criteria. Similarly, credit rating agencies in Indonesia have also yet to incorporate ESG considerations into their creditworthiness assessments for corporations seeking financing. As a result, the fulfillment of ESG principles remains largely a voluntary framework rather than a binding obligation within the financial system in Indonesia. Therefore, this situation reflects a broader reality that sustainable finance has not been fully realized in practice.

The first major obstacle to ESG implementation in Indonesia lies in the regulatory framework itself. One of the most recognized benchmarks for assessing ESG performance is a company's adherence to applicable laws and regulations. In contrast, frequent changes in regulations, along with inconsistencies and overlaps among existing legal provisions, significantly hinder corporations from preparing accurate and coherent ESG compliance reports.[26] In this case, according to the 2021 Ease of Doing Business Report, legal uncertainty is one of Indonesia's most persistent regulatory issues, along with widespread corruption practices in licensing and regulatory enforcement. Furthermore, it is widely acknowledged that environmental and social compliance inspections are often carried out in a non-objective manner by corrupt supervisory officials, posing a significant barrier to effective ESG implementation. Hence, as a result, a lack of regulatory stability in Indonesia creates uncertainty for businesses, making it difficult to align ESG reporting with international standards.

Furthermore, the existing regulatory framework, which requires sustainability reporting only applies to financial service institutions, issuers, and public companies. In contrast, the sustainability reporting obligation does not apply to a far wider segment of the private sector, which includes non-listed corporations and businesses that are not dependent on institutional financing. This regulatory limitation significantly undermines the broader effectiveness of the policies, as the majority of entities are not legally required to implement ESG principles. As a result, the intended impact of ESG laws may be rendered ineffective if the implementation remains limited to only a small fraction of the corporate landscape in Indonesia.

Another challenge in implementing ESG in Indonesia is the absence of clear regulations governing the ESG standards and the publication of credible ESG reports. To date, many government officials remain unfamiliar with ESG principles and criteria.[27] Furthermore, it is important to note that Indonesia has yet to establish a nationally recognized ESG standard that has been publicly distributed to regulators responsible for ensuring ESG compliance by businesses and corporations. Therefore, the absence of clear ESG standards not only limits the uniformity and consistency in corporate reporting, but also undermines effective monitoring by the regulators.

Moreover, this issue is exacerbated by the nature of ESG itself. Despite being internationally regarded as a principle-based framework, its practical implementation is applied differently across nations as it is highly dependent on each country's unique circumstances and policy context. As a result, this highlights the urgent need for Indonesia

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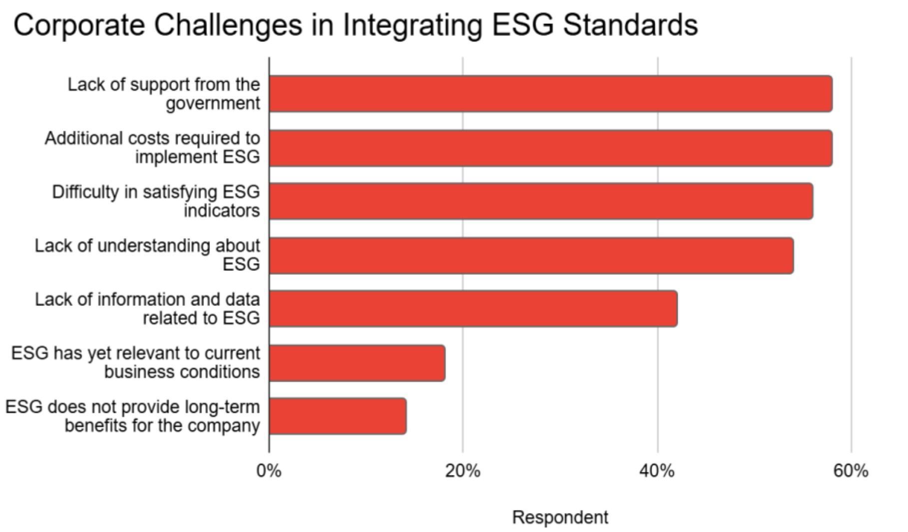
[25] Christiawan, Rio. 2022. "Menakar Kepatuhan Penerapan ESG." Kontan, June, 2022.
[26] *ibid, supra note 20*
[27] *ibid, supra note 20*

to establish a nationally standardized ESG framework that will serve as a clear reference for both corporate actors implementing ESG practices and government institutions responsible for monitoring compliance. In response to this issue, the Indonesian government through the Ministry of Finance and with support from the United Nations Development Programme and the World Bank has been developing its own national ESG standards and reporting guidelines since late 2022.[28] Furthermore, to ensure effective implementation, such a standard should incorporate a tiered certification mechanism, akin to the RSPO Certification for palm oil industries or carbon credit certification in emissions trading schemes, thereby enabling ESG implementation to be both measurable and enforceable.

As the national ESG standard has yet to be established in Indonesia, the primary ESG standards applied in Indonesia are those issued by the GRI, which have served as the basis for sustainability reporting in Indonesia over the past several years. However, if ESG compliance is based on the GRI standards, corporate actors would face significant challenges due to high costs in terms of report preparation and execution. According to GRI statistics from 2022, the cost of preparing and implementing ESG reports in countries such as India, Indonesia, and China exceeds USD 2 million. This amount does not yet reflect the additional expenses associated with monitoring and evaluation activities.



Sources: Survey by Mandiri Institute (2024)

The final challenge in ESG implementation in Indonesia relates to weak enforcement mechanisms and the absence of substantive consequences. Although POJK 51/2017 legally requires the implementation of sustainable finance, both the Financial Services Authority and the Indonesia Stock Exchange have demonstrated a reluctance to severely enforce ESG compliance standards. For instance, the regulations established see ESG reporting violations merely as administrative offenses, resulting in written warnings rather than substantive penalties. Moreover, while the OJK Regulation requires companies to adopt ESG principles, it has yet to issue detailed criteria for compliance, metrics to

[28] Kurnia, Erika. 2024. "Peluang Investasi Besar, Laporan ESG Harus Lebih Terstandar." Kompas.id. https://www.kompas.id/baca/ekonomi/2024/06/21/peluang-investasi-besar-laporan-esg-harus-lebih-terstandar.

evaluate performance, or designate a competent authority responsible for reviewing and validating sustainability reports, rendering the effective implementation of sustainability reporting obligation and its ESG implementation.

B. Corporate Sustainability Reporting Obligation in China

1. The Development of Corporate Sustainability Obligations in China

The promotion of corporate sustainability in China began with the 18th National People's Congress held in 2012, which viewed ecological protection as the most vital approach for China's sustainable development.[29] This approach was further reinforced in December 2023, when the government of China pledged to pursue the vision of a 'Beautiful China' by promoting high-quality development grounded in ecological protection and transitioning toward a green and low carbon emission.[30] Therefore, this commitment reflects the country's goal to foster the harmony between humanity and environment, while strengthening the sustainability and long term resilience of its national development.

In regards to the ESG investment in China, green loans and green bonds in China have grown at an average annual rate exceeding 20% since 2016, positioning China as a global leader in clean energy, electric vehicles, and battery innovation. By virtue of this, the People's Bank of China, together with six other ministries, introduced the Guidelines for Establishing the Green Financial System, laying the foundational framework for the country's green finance development.[31] Therefore, these efforts underscore a strategic national ambition to lead in sustainable finance over the coming decade.

By 2024, widely known as China's "Year of Disclosure", the country has made significant progress in advancing the ESG principles and sustainability reporting, marking a turning point toward more structured and mandatory ESG reporting.[32] This momentum aligns with China's broader climate goals, including its 2020 pledge to peak carbon emissions by 2030 and achieve carbon neutrality by 2060, with green finance serving as a central pillar in the transition.[33] In February 2024, the China Securities Regulatory Commission ("CSRC") issued new requirements mandating sustainability reporting for companies listed on key indices with its guidelines issued in April 2024 (*as shown in Table 1*). The guidelines will take effect on 1 May 2024, with the first sustainability reports required to be submitted by April 2026.[34]

Stock Exchange	Disclosure Scope	Guidelines
Shanghai Stock	Mandatory disclosure is required for	Guidelines No. 14 of

[29] International Department, Central Committee of CPC. 2023. "Xi stresses building Beautiful China, advancing modernization featuring harmony between humanity and nature." Xinhua, July, 2023.
[30] *ibid. supra note 24*
[31] Shen, Hongtao, Honghui Lin, Wenqi Han, and Huiying Wu. 2023. "ESG in China: A review of practice and research, and future research avenues." China Journal of Accounting Research 16, no. 4
[32] United Nations Environment Programme Finance Initiative. 2025. "China embarks on a journey of ESG disclosure: 2024 progress and focus for 2025." United Nations Environment Programme Finance Initiative. https://www.unepfi.org/industries/banking/china-embarks-on-a-journey-of-esg-disclosure/.
[33] The World Business Council for Sustainable Development. 2023. "The Reporting Exchange: An overview of sustainability and corporate reporting in China."
[34] PwC China. 2024. "Guidelines on Self-Regulation of Listed Companies - Sustainability Report (Trial) of the People's Republic of China."

Exchange ("**SSE**")	companies included in the **SSE 180 Index**, **STAR 50 Index**, or those dual listings in both mainland China and overseas markets	Shanghai Stock Exchange for Self-Regulation of Listed Companies (Trial)
Shenzhen Stock Exchange ("**SZSE**")	Mandatory disclosure is required for companies included in the **SZSE 100 Index**, **ChiNext Index**, or those dually listed in both mainland China and overseas markets	Self-Regulatory Guidelines No.17 for Companies Listed on Shenzhen Stock Exchange (Trial)
Beijing Stock Exchange ("**BSE**")	Encourage, but does not yet require, voluntary ESG disclosure from its listed companies in the **BSE Index**.	Guideline No. 11 for the Continuous Supervision of Listed Companies on Beijing Stock Exchange (Trial)

Table 1. Listed Companies in China to disclose its sustainable report

To support this ESG agenda, China is developing a comprehensive sustainability disclosure framework through a phased approach, with unified sustainability implementation expected by 2030.[35] Hereby, in May 2024, the Ministry of Finance released a draft of the Sustainability Disclosure Standards for Business Enterprises ("SDS"), which will be applicable broadly to domestic companies. The SDS draws heavily from the International Sustainability Standards Board's ("ISSB") IFRS S1 and IFRS S2 frameworks, while adopting a double materiality approach, in which the companies must assess and disclose topics based on both financial impacts and broader social or environmental consequences. The disclosures are targeted by 2027, with larger and listed companies expected to comply first, and unified adoption targeted by 2030.

While China has not yet established a comprehensive, nationwide regulatory framework for ESG disclosures, several sector-specific guidelines are already in place. For instance, The 2022 Administrative Measures on Mandatory Disclosure of Environmental Information by Enterprises, issued by the Ministry of Ecology and Environment, require certain companies, such as listed entities or bond issuers, to disclose environment-related information relevant to their business operations and financing activities. Given the ongoing evolution of ESG regulatory frameworks in China, future updates and harmonization of these various guidelines are anticipated. As current guidance is issued by different regulatory bodies across industries, Chinese companies are expected to navigate cross-departmental oversight when designing their ESG governance structures.

2. ESG Disclosure Standard in China

Following a public consultation process, the Ministry of Finance finalized the Corporate Sustainability Disclosure Standards ("CSDS") in December 2024.[36] These standards, aligned

[35] *ibid. supra note 15*

[36] Climate Cooperation China. 2025. "China takes steps towards unified national sustainability disclosure regime." January, 2025.

with IFRS S1 and S2, lay the foundation for a unified ESG reporting system to be implemented by 2030. The CSDS introduced in China incorporate a double materiality approach, aligning the country's ESG framework with leading international practices.[37] This approach requires entities to assess each disclosure topic based on two dimensions, financial materiality and impact materiality. Financial materiality pertains to the likelihood and potential magnitude of a topic's influence on the entity's financial position, performance, or strategic outlook. In contrast, impact materiality focuses on the extent, scope, and irreversibility of the entity's impact on the environment, economy, or society. Notably, companies must disclose not only which topics are considered material but also provide justification if a specified topic is deemed to lack both financial and impact materiality.

For topics identified as financially material, entities are required to disclose relevant information following a structured four-pillar framework. This framework, widely used in global ESG standards, consists of: (1) governance, (2) strategy, (3) risk and opportunity management, and (4) metrics and targets. To ensure consistency and comparability, the CSDS encourages companies to report how sustainability-related risks and opportunities affect their business models, operations, and value chains. Moreover, companies are also expected to provide forward-looking estimates regarding the potential future implications of these risks and opportunities. Through this comprehensive and standardized approach, the CSDS seeks to elevate the quality, transparency, and relevance of corporate ESG disclosures in China.

To support the operational implementation of the framework, the Ministry of Finance released the Application Guide of the Basic Standards in September 2025, providing enterprises with detailed guidance for applying the trial version of the sustainability disclosure framework. Subsequently, on 25 December 2025, China introduced the Sustainability Disclosure Standards for Enterprises No. 1 - Climate (For Trial Implementation), establishing a standardized framework for climate-related disclosures encompassing governance, strategy, risk and opportunity management. These documents provide essential implementation guidance aimed at transforming the framework into a transparent, comparable, and reliable disclosure system aligned with international standards. Although the standards are presently applied on a voluntary basis during the trial period, their implementation is expected to proceed progressively, initially targeting key industries and listed companies before ultimately evolving into mandatory disclosure obligations.

3. Opportunities and Challenges in China's ESG Landscape

The release of CSDS reflects the global momentum toward more robust sustainability disclosure frameworks. It also underscores the efforts by Chinese regulators to incorporate both international ESG standards and domestic policy considerations when shaping disclosure requirements. For example, the CSDS adopt a double materiality approach similar to that found in the European Union's Corporate Sustainability Reporting Directive.

For international stakeholders, particularly those with business or listing exposure in China, the CSDS present both challenges and strategic opportunities. Dual-listed companies, those listed in Chinese Mainland and overseas markets, must evaluate how to align their existing ESG disclosure practices with differing regulatory expectations across

[37] Clifford Chance. 2024. "China Issues Guidelines on Corporate Sustainability Reporting."

jurisdictions.[38] This may require conducting a gap analysis to ensure compliance with both Chinese and foreign exchange requirements, as these often vary in terms of structure, content scope, and disclosure detail. Therefore, companies that raise capital in both Chinese Mainland and foreign markets should consider developing a harmonized reporting strategy that reduces compliance costs and streamlines time commitments.

Despite the complexity, the CSDS, along with China's broader ESG-related regulatory push are expected to significantly improve ESG data transparency and reduce risks of greenwashing by enhancing the availability of reliable sustainability information to market participants.[39] Notably, the Ministry of Finance's formal acknowledgment of the IFRS S1 and S2 standards indicates that Chinese regulators may continue to reference these international principles as they finalize detailed sustainability disclosure standards.[40] This alignment will aid international investors and companies seeking consistent ESG data across jurisdictions, especially as many countries establish their ESG disclosure frameworks on IFRS S1 and S2 standards. Moreover, the CSDS may strengthen the enforcement capabilities of Chinese regulators, enabling them to take more effective action against inaccurate or misleading ESG disclosures, thereby reinforcing the credibility and implementation of ESG reporting standards across China.

According to recent developments in China's ESG regulatory landscape, 2025 marked a transition from ESG framework-building toward operational implementation, where sustainability compliance is increasingly treated not as a voluntary corporate initiative, but as an integral component of corporate governance and regulatory compliance.[41] The regulatory developments in 2025 illustrate China's transition from traditional narrative-oriented corporate social responsibility reporting toward a more structured, decision-useful, and compliance-driven ESG disclosure regime. In this regard, the Ministry of Finance and the China Securities Regulatory Commission have stressed that sustainability disclosures should meet standards of reliability, neutrality, accuracy, consistency, and completeness comparable to those required in financial reporting. Accordingly, ESG reporting in China is increasingly regarded not simply as a corporate communication tool, but as a verifiable and enforceable form of regulatory disclosure supported by standardized reporting requirements and internal governance systems.

4. Comparative Analysis of Corporate Sustainability Reporting Frameworks in Indonesia and China

Both Indonesia and China have undertaken substantial regulatory efforts to institutionalize corporate sustainability reporting and integrate ESG principles into their respective corporate governance systems. Nevertheless, the two jurisdictions differ considerably in terms of regulatory structure, implementation strategy, and enforcement mechanisms. Indonesia's sustainability reporting framework is anchored in OJK Regulation No. 51 of 2017, which mandates issuers, public companies, and financial institutions to integrate ESG

[38] *ibid. supra note 32*
[39] *ibid. supra note 32*
[40] *ibid. supra note 32*
[41] Shang, Yanyan. 2026. 'China ESG Compliance: Year in Review and 2026 Outlook' China Briefing from Dezan Shira and Associates. https://www.china-briefing.com/news/china-esg-compliance-year-in-review-and-2026-outlook/#greenfinanceadvancingthroughtaxonomyconsolidationandtightereligibilitydisciplineHeader

principles into their business strategies and report their sustainability performance annually. This framework demonstrates Indonesia's relatively proactive regulatory stance in embedding ESG obligations into the financial and corporate sectors. This regulation further reinforced by Law No. 4 of 2023, reflects a top-down approach requiring immediate compliance.

Despite this early adoption, Indonesia's ESG reporting regime continues to face structural and practical limitations. One of the principal weaknesses lies in the absence of a comprehensive and nationally standardized ESG disclosure framework that provides clear, effective, and measurable implementation. Although sustainability reporting practices in Indonesia have primarily relied on the GRI Standards, which are globally used for structuring sustainability reports, Indonesia only formally introduced its own Sustainability Disclosure Standards under SPK in 2025, with implementation scheduled to commence gradually from 2027 onward. Consequently, ESG reporting in Indonesia has depended on internationally developed voluntary frameworks rather than a fully integrated domestic standard. However, the high cost of adopting the GRI standard has created financial barriers for numerous companies, especially small enterprises. As a result, the enforcement in Indonesia remains weak, with ESG compliance treated more as an administrative formality rather than an integrated component of corporate governance.

Furthermore, the scope of Indonesia's ESG implementation remains concentrated primarily within the financial sector and publicly listed entities. While the regulations impose reporting obligations on financial institutions, issuers, and public companies, a substantial portion of private sector actors, particularly non-listed corporations and MSMEs, remain outside the mandatory reporting framework. This limitation significantly reduces the overall effectiveness of Indonesia's ESG policies, especially considering the dominant role of MSMEs within the national economy. Empirical findings indicating that the majority of Indonesian MSMEs have yet to adopt sustainable business practices further demonstrate the gap between regulatory ambition and practical implementation. In addition, weak enforcement mechanisms continue to undermine regulatory effectiveness, as non-compliance with sustainability reporting obligations generally results only in administrative sanctions or written warnings rather than substantive legal or financial consequences. Another important distinction can be observed in the level of regulatory certainty between the two jurisdictions. Compared to China's progressively operationalized ESG framework, Indonesia's sustainability reporting regime remains largely in a transitional and developmental stage. Several major regulatory initiatives, including the implementation of the SPK and the proposed amendments to POJK 51/2017, have not yet been formally enacted and are expected to take effect only gradually between 2027 and 2029. As a result, Indonesia's ESG regulatory landscape continues to face a degree of legal uncertainty concerning substantive compliance obligations, verification standards, and enforcement mechanisms. This transitional condition may create difficulties for corporations in preparing long-term ESG strategies and ensuring regulatory readiness, particularly given the possibility of further revisions before full implementation.

In contrast, China adopts a phased approach, aiming to establish a unified ESG reporting system by 2030. Rather than imposing immediate comprehensive obligations, China has focused on building an integrated sustainability disclosure framework through phased implementation. Unlike Indonesia, China has already developed a standardized framework for sustainability reporting known as the Corporate Sustainability Disclosure Standards (CSDS), introduced in 2024. The CSDS is based on the ISSB's IFRS S1 and IFRS S2 standards, adopting both a double materiality perspective and a globally aligned four-pillar structure. This development marks a significant turning point for China, which previously lacked a unified ESG disclosure framework. Moreover, China's adoption of the double materiality principle demonstrates a broader disclosure orientation that not only considers financial impacts on companies, but also evaluates the environmental and social impacts generated by corporate activities.

Another distinguishing characteristic of China's ESG framework is its growing emphasis on practical implementation of sustainability disclosures. Recent regulatory developments demonstrate that ESG reporting in China is gradually shifting toward a more structured and compliance-oriented disclosure regime. This approach is further supported by the issuance of the Application Guide of the Basic Standards and the Sustainability Disclosure Standards for Enterprises No. 1 – Climate (For Trial Implementation), which provide more detailed technical and operational guidance for companies in preparing sustainability disclosures. Consequently, ESG reporting is no longer treated merely as a voluntary communication tool, but is progressively being incorporated into broader corporate governance and regulatory supervision mechanisms through standardized disclosure requirements, internal control procedures, and implementation guidelines. This development reflects China's broader effort to establish a more credible, accountable, and enforceable sustainability reporting system.

Nevertheless, China's framework is not without challenges. Due to its gradual approach, the current disclosure requirements primarily apply to major listed companies and dual-listed issuers, with the first mandatory sustainability reports scheduled for submission by April 2026. At present, the obligations remain limited to selected corporations, particularly those listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. Accordingly, the implementation of China's unified ESG reporting framework remains gradual in nature, with broader nationwide application and full regulatory integration expected to be achieved progressively by 2030. In this respect, China's framework is similar to Indonesia's current ESG regime, where mandatory sustainability reporting obligations are likewise primarily imposed on financial service institutions, issuers, and public companies. However, unlike Indonesia, whose regulatory framework remains partly in a transitional stage with several key reforms still in draft form, China has established a clearer long-term regulatory roadmap by expressly targeting the nationwide implementation of a unified ESG disclosure framework by 2030.

While both Indonesia and China share the common objective of promoting sustainable business practices, their regulatory approaches reflect distinct institutional capacities and developmental stages. Indonesia's framework emphasizes earlier and more immediate compliance through mandatory sustainability reporting obligations imposed on financial service institutions, issuers, and public companies. This approach demonstrates a strong institutional commitment to formally integrating ESG principles into corporate governance and financial regulation. Nevertheless, the absence of a comprehensive national ESG standard has become a significant challenge, resulting in inconsistencies in implementation, uncertainty regarding compliance benchmarks, and limited substantive effectiveness in practice. On the other hand, China adopts a more gradual and phased implementation strategy toward ESG institutionalization. Although this approach may postpone full nationwide enforcement, it enables regulators and corporations to progressively develop the infrastructure, governance mechanisms, internal control systems, and reporting capabilities necessary for long-term ESG compliance.

Despite these differences, both countries exhibit a common shortcoming: ESG-related regulations largely remain in the realm of soft law, with limited enforcement mechanisms and minimal penalties for non-compliance. As a result, actual implementation remains low. Moreover, in the near term, ESG reporting obligations in both jurisdictions apply primarily to financial service institutions, issuers, and publicly listed companies. These regulations do not extend to a broader segment of the private sector, including non-listed firms and companies not reliant on institutional financing. This regulatory gap significantly weakens the overall effectiveness of ESG policies, as a substantial portion of corporate actors remain outside the scope of legal obligation.

At the same time, both countries are increasingly aligning their sustainability reporting frameworks with international standards, particularly IFRS S1 and IFRS S2 issued by the ISSB. This convergence reflects broader global trends toward standardized sustainability disclosures aimed at improving transparency, comparability, and investor confidence across jurisdictions. Indonesia's introduction of the SPK and China's development of the CSDS indicate that both countries recognize the growing importance of internationally harmonized ESG reporting frameworks. Accordingly, although both jurisdictions remain in transitional stages of ESG implementation, their evolving regulatory developments demonstrate a broader commitment toward integrating sustainability considerations into corporate governance, financial regulation, and long-term economic development strategies.

Conclusion

Corporate sustainability reporting has become one of the most important regulatory instruments in promoting ESG implementation, enhancing corporate transparency, and strengthening accountability toward stakeholders. In the context of growing global pressure to achieve climate-related commitments under the Paris Agreement and the SDGs, sustainability disclosures increasingly function not merely as voluntary corporate communication tools, but as strategic mechanisms for assessing corporate responsibility, investment risks, and long-term business resilience. Consequently, many jurisdictions, including Indonesia and China, have progressively incorporated ESG reporting obligations into their corporate governance and financial regulatory frameworks as part of broader sustainable development strategies.

The comparative analysis between Indonesia and China demonstrates that both jurisdictions have increasingly recognized the strategic importance of corporate sustainability reporting as a mechanism for integrating ESG principles into corporate governance and sustainable economic development. In line with global developments following the Paris Agreement and the growing adoption of IFRS-based sustainability disclosure standards, both countries have introduced regulatory frameworks aimed at improving transparency, accountability, and sustainability-related corporate disclosures. Nevertheless, despite pursuing similar objectives, Indonesia and China differ significantly in terms of the regulatory certainty and the implementation strategy.

Indonesia may be regarded as relatively progressive in introducing mandatory sustainability reporting obligations at an earlier stage through OJK Regulation No. 51/POJK.03/2017. However, the reporting obligations remains heavily concentrated within financial institutions and publicly listed companies, while a substantial portion of private sector actors, including MSMEs and non-listed corporations, remain outside the mandatory disclosure framework. In practice, ESG compliance in Indonesia also continues to be constrained by high implementation costs, particularly due to reliance on internationally developed frameworks such as the GRI Standards, which may not be economically accessible for smaller enterprises. At the same time, enforcement mechanisms remain relatively weak, as non-compliance generally results only in administrative sanctions or written warnings rather than substantive legal or financial penalties. As a result, ESG reporting in Indonesia is still merely seen as a formal administrative obligation. Furthermore, Indonesia has also initiated the development of national sustainability disclosure standards through the introduction of PSPK 1 and PSPK 2, which adopt IFRS S1 and IFRS S2 standards, and the proposed amendments to POJK 51/2017. However, despite these formal regulatory commitments, Indonesia's ESG framework remains largely transitional and underdeveloped in practical implementation. Consequently, Indonesia continues to face legal uncertainty regarding substantive compliance standards. This condition weakens the overall effectiveness of ESG obligations and creates uncertainty for corporations attempting to formulate long-term sustainability strategies.

On the other hand, China adopts a more gradual yet institutionally structured approach toward ESG implementation. Through the introduction of CSDS, together with the Application Guide of the Basic Standards and the Sustainability Disclosure Standards for Enterprises No. 1 – Climate (For Trial Implementation), China has demonstrated a clear commitment to developing a unified and operational sustainability disclosure framework aligned with international standards such as IFRS S1 and IFRS S2. These regulatory developments indicate that ESG reporting in China is increasingly positioned not merely as a voluntary corporate communication mechanism, but as a more integrated component of corporate governance and regulatory oversight supported by standardized disclosure requirements and implementation guidance. Nevertheless, similar to Indonesia, China's ESG framework still remains limited in scope, as current disclosure obligations primarily apply to major listed companies and dual-listed issuers, with broader nationwide implementation expected to be achieved progressively by 2030. Despite these limitations, China has established a clearer long-term regulatory direction and implementation roadmap compared to Indonesia's still transitional ESG framework, where several key reforms and disclosure standards have yet to be fully enacted and implemented, where several key reforms and disclosure standards have yet to be fully enacted and implemented.

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