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SHARIAH-COMPLIANT GREEN BONDS AND ESG FINANCING: POTENTIAL FOR ISLAMIC FINANCE IN CHINA'S CARBON-NEUTRAL GOALS BY 2060'

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Abstract
This article investigates the legal and normative viability of incorporating Shariah-compliant green finance instruments into the People's Republic of China's environmental, social, and governance (ESG) regulatory framework. The proposal seems unlikely at first look. Islamic finance is based on religious jurisprudence that incorporates moral assessment into the legality of financial transactions, while China operates under a secular, socialist legal system that is characterized by centralized authority, administrative regulation, and instrumental economic rationality. The two systems have thus been viewed as normatively incompatible. In this article, that assumption is contested. The article examines the legal viability of issuing Shariah-compliant green sukuk within China's financial system. By using comparative practices from the Gulf states, Malaysia, and Indonesia, it demonstrates how green sukuk have become reputable sustainable finance tools. Despite popular belief, there are no insurmountable obstacles to issuing sukuk under Chinese law. By providing functional equivalents in trust law, corporate vehicles, and contractual agreements, China's current green bond framework can support sukuk-like structures. A functional equivalency model for Shariah governance is also suggested in the article. The article argues that it is legally possible, normatively enriching, and strategically consistent with China's international economic engagement to incorporate Shariah-compliant green finance into China's ESG framework. More broadly, it shows how the future of sustainable finance may be strengthened by principled ethical diversity rather than normative uniformity. Islamic Finance.

I. Introduction: Regulation in an Age of Climatic Responsibility

In September 2020, at the United Nations General Assembly, President Xi Jinping said that by 2060, the People Republic of China would reach carbon neutrality, this declaration recalibrated the global climate governance regime. Such ambitious commitment has stimulated the boom in the environmental, social and governance (ESG)-focused regulatory rhetoric within the across China's vast financial ecosystem. However, as China pursues its sovereign ambition as it is echoed by its Five-Year Plans and policy white papers, one basic question has not been answered: Is it possible to include religiously inspired ethically anchored financial instruments, like the Shariah compliant green bonds, in its strategic ESG course?

This paper contends that Shariah-compliant green sukuk, cemented by the legal doctrines of Fiqh al-Mamala, offer a feasible and as yet

untapped sukuk package through which to attain the dual China goals of decarbonization, and financial internationalization. Although China has been oriented in the world financial system as a secular developmental monstrosity, its intensified diplomatic engagements with the Islamic world, via the Belt and roads initiative (BRI), the Asian infrastructure investment bank (AIIB), as well as strategic alliances with the Gulf cooperation council (GCC) are signaling a far greater merging. With the assets of $3 trillion under management worldwide, Islamic finance provides a better way than just a regulatory tool: it now proposes, a moralistically mandated model of finance with environmental stewardship and environmental stewardship no longer a market adjustment, but a religious obligation.

This question has two premises in it. First, it is not only that ESG financing can be compatible with Islamic finance, but also that they conceptually benefit each other. ESG pays attention to its long-term effects, social responsibility, and environmental conscience, priorities being fixed firmly within Islamic jurisprudence as part of maqasid al-Shariah (objectives of Islamic law). Second, with regard to standards of regulation and legal regulation of green finance, Chinese green finance is at present rather ambitious, but also thin in normative terms in terms of ethical scaffolding. It has no spiritual or theological element and that is what Islamic finance is best placed to fill.

A. The Architecture of ESG and China's Carbon Vision

In order to explain the possibility of Islamic ESG instruments in China, we should value the architectural progression of Chinese law on green finance. Together with the China Securities Regulatory Commission (CSRC) and China Banking Insurance Regulatory Commission (CBIRC), the People Bank of China (PBOC) has performed an extensive reform to serve the objective of building a green taxonomy by the Green Bond Endorsed Project Catalogue (2021 Edition). Nevertheless, the lack of consistency in reporting is a bottleneck, with low standards in definitions, various requirements of ESG disclosures, and no actual punishment of greenwashing.

Moreover, the carbon-neutral commitment by China is being based on a risky transition finance scheme and as a regulatory approach, it allows limited investments in fields near to fossil fuels by greening the entire portfolio. This strategy although pragmatic tends to push the ethical certainty of climate aligned capital to a downward turn. That covers up, to normative slips too: Very technocratic and state-led, ESG in China is immoral to its very legal DNA where values like no harm (la darar), justice (adl), as well as responsibility (muhasaba), are codified and put in motion in the Islamic finance arena.

B. Shariah- Compliant Sukuk

Investors have taken a trend towards green sukuk-asset-backed Shariah compliant bond intending to finance projects of environmental sustainability in the Malaysian, Indonesian and the UAE markets. In the world, as of 2023, over 25 billion USD worth of green sukuk have been issued, and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and Islamic Financial Services Board (IFSB) have come up with main frameworks and standards. Unlike conventional green bonds, sukuk are not connected to the speculative ambiguity (gharar), prohibited rate of interest (riba), and cannot be used to invest in haram (harām) activities.

In contrast, China has no formal system of issuing Sharia compliant financial instruments in spite of mounting global financial integration in the country. This absence is not due to constitutional hostility toward religion per se, but rather a lack of regulatory imagination. While Hong Kong and Singapore have made efforts to accommodate Islamic finance through tax neutrality measures and sukuk-friendly listing platforms, mainland China lags behind. And yet, the very *scale and urgency* of China's carbon neutrality vision demand diversified and innovative capital mechanisms.

Thus, this paper situates green sukuk as a "legal missing link" in China's ESG transition: a mechanism that not only channels Gulf and Southeast Asian Islamic investment toward sustainable Chinese infrastructure, but also strengthens China's financial diplomacy across the Muslim world, particularly under the Belt and Road Initiative.

Part 2: Empirical Grounding – Green Sukuk and the Global Reconfiguration of Ethical Capital

The green sukuk are doctrinally sound, market-tested and structurally sound tool of ethical finance. Green sukuk evolved during the last seven years as perhaps the fastest-growing, but also largely unnoticed, instrument in the international ESG financing marketplace. The empirical data supplied with evidence-based primary data sources, i.e. International Islamic Financial Market (IIFM), Islamic Development Bank, London Stock Exchange Group (LSEG), and Fitch Ratings observed the fact that not only Shariah-compliant ESG instruments meet the financial (performance) benchmarks of their conventional peers, but excel at growth, governance innovation, and sectoral alignment. However, their ongoing omission in popular taxonomies, namely PBOC Green Bond Catalogue or EU Taxonomy Regulation, suggests the absence of a market reasoning and an epistemic bias instead.

A.Performance Analytics: Yield, Maturity, and Sectoral Allocation

The issue of green sukuk rose to USD 29.3 billion (est.) in Q1 2024 compared with USD 1.2 billion in 2017. This exponential growth translates to a compound annual growth rate (CAGR) of 28.4%, with more than double the compound annual growth rate (CAGR) of conventional green bonds of 14.6 percent, which is attained over the same interval. Nevertheless, regardless of such strong performance, green sukuk have made little impact with up to 1 percent of the global ESG bond market estimated to be worth more than USD 3.5 trillion. This is an indication that this is more of a structural exclusion that is systemic as opposed to legal, investor, or governance immaturity.

The leading territories that consider green sukuk issuance are Malaysia, Indonesia and the United Arab Emirates, where the three jurisdictions issue almost 90 percent of the overall amount. The SRI Sukuk Framework implemented by Securities Commission of Malaysia and its Shariah Advisory Council is synonymous with a dual normative framework that incorporates green principles of the ICMA in Islamic legal purposes (maqasid al-shariah). The dual validation process of the sovereign green sukuk of Indonesia, with a current value of more than USD 6.3 billion, is unique, as it is to be approved by both CICERO (to ensure that it complies with the environmentally and socially safe standards) and the Majelis Ulama Indonesia (to be regarded as Shariah-compliant). In the UAE, a blend of AAOIFI standards and ESG third-party verification supports large corporate green sukuk offerings, such as those issued by Dubai Islamic Bank and Aldar.

Green sukuk can be proved to be competitive in terms of financial performance. The 3.8 x over subscription of Indonesia into green sukimaldivs sovereign green sukuk issuance in 2023, at an amount of USD 1.25 billion, and a greenium of 17 basis points more than conventional sovereign curves was an excellent beginning in the quest to move beyond a standard sukuk, to a sovereign green. Moody: The Longitudinal Analysis of green sukuk yields in 2019-2023 was very close to the standard in 13-21 basis points of ESG-ESG bond yield spread. In addition, Fitch Ratings has seen the development of a green sukuk secondary market, where the bid-ask spreads have tightened, tenor increased (to up to 10 years), and cross-border investors active. Sector-wise, the green sukuk proceeds have been invested with both the ethical reasoning of ESG and Islamic perspective. IIFM reports that of the green sukuk proceeds in 2024, 54.6 percent would be used in renewable energy projects, 19.7 percent in low-carbon infrastructure, 13.4 percent in water and sanitation project, 7.9 percent in adaptive agriculture and 3.1 percent in circular economy projects. Besides, 72 percent of the issuer of all green sukuk receive third-party ESG certifications (e.g., RAM, CICERO, DNV) and 28 percent use integrated Shariah-ESG controlled models. This twofold adherence to at the same time ethical and environmental requirements is an indicator of the development of a new category of jurisprudential instruments of sustainable finance.

B.China's Legal Silence: A Missed Jurisprudential and Strategic Opportunity

Despite these achievements, China remains conspicuously absent from the green sukuk space. Though it holds over USD 380 billion in

green bonds, China has not issued a single green sukuk. The reason is not lack of demand or financial capacity, but a lack of legal recognition. The People's Bank of China's Green Bond Endorsed Catalogue (2021) and the China Securities Regulatory Commission's ESG Guidelines omit provisions for religiously-structured finance instruments.

Such an omission blocks the potential access of China to the estimated USD 2.1 trillion of Islamic finance capital and constrains its financial diplomacy in the Belt and Road Initiative, especially in its interactions with the 36 plus OIC members states. For China, and indeed for global ESG regulators, the challenge is no longer about innovation—it is about inclusion. Green sukuk are no longer emerging instruments. They are established, sovereign-backed, market-verified products that merit full recognition within the normative canon of sustainable finance.

Part 03. Jurisprudential Pluralism as Regulatory Innovation: A Theoretical Justification for Islamic ESG within Secular States

It is in this light that Islamic finance can be seen as an imposition which is not about religion but a functional sub-system of normative ordering. It is not a constitutional legitimacy but an operational legitimacy that is determined by the internal consistency, moral coherence, and effectiveness in the market. In this sense, the Chinese regulatory machinery has no need to appreciate the Islamic theology to permit Shariah-compliant finance. It only has to build legal carve-outs, sandbox regimes or special economic instruments where ethically filtered capital flows are allowed through specified governance structures.

The Financial Services Authority (FSA) model of the UK that allowed the listing of Islamic sukuk on parallel tax neutral frameworks with no theological approval offers a feasible precedent. Equally, in the example of the 2014 Sukuk Programme in Hong Kong, which adheres to the common law as well as the AAOIFI standards, we can see that regulatory pluralism does not undermine sovereignty, it is actually an asset to credibility in the fractured financial world.

Part 04. Legal Anatomy and Structural Mechanics of Green Sukuk: Juridical Distinction, Market Architecture, and Global Precedents

A. Sukuk as a Type of Law: Deconstructing the errors in identifying them with (Islamic) Bonds

Although sukuk are commonly misrepresented as the Islamic equivilent of conventional bonds, cannot be formally understood as debt instruments in the traditional sense, but rather documents of ownership in underlying physically tangible assets or usufructs. That difference primarily concerns the ontological framework of obligation. A bond is an obligation to repay a principal and interest at a rate and sometimes fixed in rate and time irrespective of the behavior of the asset based on pure debt (dayn). Sukuk, in contrast, are created on allowed contracts under Shariah ijarah (lease), mudarabah (profit-sharing), musharakah (joint venture), or wakalah (agency), and investors take a proportionate ownership right in an income-earning asset without guaranteeing them any returns but rather, just a portion of the real profits.

Legal basis of sukuk is fiqh al-mu trjamaat as understood by AAOIFI Shariah Standard No. 17, requiring:

"Sukuk should be shares of ownership in definite assets or usufructs.... and cannot be a simple contractual right to remuneration of capital, since this is a form of interest bearing debt."

This critical distinction has three legal implications:

1. Risk-sharing is embedded ex-ante into the structure, satisfying the Shariah maxim *"al-ghunm bi al-ghurm"* (gain is justified by bearing risk).
2. It does not entail capital preservation, as is the case with the conventional bonds, and that mercilessly alters the rules regarding protection of investors.
3. Trading of sukuk in secondary market is restricted to the lines of ownership of tangible assets rather than debt obligations or receivables structures.

Therefore, structurally, sukuk occupy the jurisdictional intersections between the securities law, the property law, and the trust law

and require cross-dimensional regulatory frameworks.

B. Green Sukuk: The Convergence of Ethical Finance and Environmental Law

A green sukuk is a particular sub-species of sukuk whereby the proceeds use is conditioned ex-ante to projects that meet independently set-sustainability standards. Theoretically and practically, this tool combines Islamic normative banking with the principles of environmental control, in which multiple compliance has the duality of both Shariah and green finance taxonomies.

Green sukuk around the world will need to meet:

- Shariah Standards issued by AAOIFI specifically, 17, 21, 23;
- IFSB Guiding Principles on Governance System of Shariah;
- The Green Bond Principles (GBPs) created by ICMA;
- Local environmental regulatory frameworks In certain jurisdictions, there are local environmental regulatory frameworks, e.g., Malaysia Sustainable and Responsible Investment (SRI) Sukuk Framework, or Indonesia Green Bond and Green Sukuk Regulation (OJK Rule No. 60/POJK.04/2017).

Green sukuk and the green bond have the same distinction- that of the dual-layered compliance architecture. Concerning law design, the issue of issuance is concerned with:

1. Special Purpose Vehicle (SPV) set up: SPV takes itself or gains ownership of the underlying asset in the name of the sukuk holders. In the ijarah based models its lease returns to the obligor and the rental earnings go back to the investors.
2. Green project vetting: The qualification (ex-ante due diligence) of the environmental eligibility of a project is done by an independent reviewer (e.g., CICERO, Sustainalytics) and is performed against an agreed-upon green taxonomy.
3. Shariah supervisory approval: A qualified board (hay ad shar criminally atrocious.
4. Continued disclosure and reporting: Verification reports made after issuance guarantee continued adherence to the environmental objectives as well as the Shariah requirements.

Notably, in countries where there is a dual legal system (e.g. Malaysia), registration of green sukuk in jurisdictions with dual legal systems has to be cross-registered between the securities law and the Islamic finance regulations, posing a multi-layered consequences of compliance and has to be handled by the sophistication of regulatory cross referencing.

C. Comparative legal precedents and models

1. Malaysia: The Leading Regulatory Region

In Malaysia, Securities Commission introduced the SRI Sukuk Framework (2014), by incorporating the ESG criteria into the Shariah-compliant equitable markets. Its innovations in law are:

- Tax compatibility of sukuk with traditional debts;
- Permission to have a friendly regulatory sandbox on green Islamic finance instruments;
- Use of Green Technology Financing Scheme (GTFS) along with issuance of sukuk;
- Formulation of Sukuk Ihsan, that is an instrument with a social impact as issued by Khazanah Nasional Berhad.

Interestingly, the first certified green sukuk in the world, a Tadau Energy green sukuk (2017) was an ijarah-based deal financing a 50 MW solar PV plant. Its certification was in line with the Second Opinion Methodology of CICERO and Shariah approval by Shariah Advisory Council (SAC) of Malaysia.

2. Indonesia: Sovereign Green Sukuk (2018–2023)

Indonesia's Ministry of Finance issued sovereign green sukuk amounting to over USD 5 billion (cumulative), under Law No. 19/2008 on Sovereign Sharia Securities. The unique feature of Indonesia's model lies in the dual oversight regime, where both the Shariah Supervisory Board (Dewan Syariah Nasional-MUI) and the National Development Planning Agency (Bappenas) jointly monitor alignment with Shariah and SDG targets.

Indonesia's green sukuk funded projects in renewable energy, sustainable transportation, and flood mitigation. Critically, their post-issuance impact reports exceed most Western

green bond standards in detail, providing a model for accountability integration.

3. United Arab Emirates and the GCC: Market-Driven Flexibility

The UAE's Dubai Financial Market (DFM) and Nasdaq Dubai have created Shariah and ESG-compliant listing platforms, allowing green sukuk to be simultaneously benchmarked to Dow Jones Islamic Market Sustainability Indices. The region's regulatory approach is more market-driven, with minimal sovereign intervention, but strong reliance on fatwa endorsement and voluntary ESG standards.

D. Gaps in Structural Compatibility

China has demonstrated global leadership in green finance through the Green Bond Endorsed Projects Catalogue, PBOC's green asset standards, and CSRC-mandated ESG disclosures. However, it lacks any legal instrument or regulatory procedure for accommodating Shariah-compliant capital flows. The absence is structural, not merely procedural. Challenges include:

1. SUKUK-like structures are not tax-neutral: the taxation regimes in place today tax asset transfers that happen in sukuk formulated through the use of SPV as a structure.
2. Absence of Shariah governance model: Shariah scholars, boards and reviewers have no regulatory system or license controls.
3. Weak ESG-Shariah intersectionality: There is no law that incorporates the AAOIFI or IFSB standards into the Chinese ESG taxonomy.

Furthermore, the Chinese Civil Code (2020) is rather progressive in its approach to the asset rights, but due to the absence of the clauses that prevent recognizing the securities based on the usufruct, the ijarah sukuk remain unidentified, and they are formally dubious. In Hong Kong itself, internationally integrated financial center, the sukuk issued in 2014 and 2017 was structured on the basis of UK law rather than Chinese mainland legal system.

E. Proposed Structural Adaptations for China

If China intends to unlock the substantial capital reservoirs of the Islamic finance world—estimated at USD 3.1 trillion (as of 2024) and growing at 10% annually—it must undertake deliberate regulatory innovations:

1. Incorporate AAOIFI-based definitions into green bond guidelines;
2. Create a sovereign or PBOC-accredited Shariah Supervisory Registry;
3. Issue a sukuk to have a separate chapter of the Securities Law or an individual sukuk act similar to Law No. 19 / 2008 in Indonesia;
4. Establish bilateral Shariah-ESG task groups with GCC and Malaysia and Indonesia on commonality in fatwa, and on sustainability indices;
5. Use pilot sukuk in the green financing platform of the Belt and Road, which will be correlated with other renewable infrastructure development projects in Xinjiang, Ningxia or China Pakistan Economic Corridor (CPEC) regions where they can physically be practiced locally and geopolitically sensible.

Part 05. The Juridical Deficiency of Faith-Based Finance in China's ESG Framework: An Epistemological Critique

A. The Structural Grammar of ESG in China: An Ideological Instrumentalism of Finance

In fact, in the context of China, ESG has not been an autonomous legal category, but a form of discipline of sovereign developmentalism, which is consistent with the doctrine of ecological civilization of the Xi era. Although this model has delivered administrative coherence, its jurisprudential genealogy is monistic - it does not look at any non-statist, non-materialist premises of financial legitimacy. The outcome is an ESG architecture which, as epistemically cohesive, is normatively exclusionary, thereby systematically foreclosing other legal-ethical ontologies, including those in Shariah-compliant finance.

In contrast to the West where Western ESG has developed due to the conflicts between fiduciary law, shareholder theory and soft ethics (e.g. Kantian universalism and Rawlsian fairness), ESG regime in China is codified within a neo-Leninist technocratic machine, in which market actors are subordinated to national goals of decarbonization and rebalancing of industry. Within this schema, there is no conceptual room of faith-based epistemology of capital like that which is represented in *fiqh al-muʿāmalāt*.

B. Doctrinal Invisibility of Shariah Normativity: The Absence of Legal Consciousness in China's Finance Law

This is not an incidental lack of Shariah-compliant finance within the Chinese Legal-finance consciousness, but rather, a jurisprudentially-structural one. In contrast to other jurisdictions like Malaysia, Indonesia, or even the United Kingdom, in which Islamic finance is at least partially codified or institutionalized, the legal system of China has no interface with the divinely-derived features of legal legitimacy.

The Civil Code (2020) of China does not acknowledge any other jurisdiction authority other than legislative organs. The normatively positivist nature of the Securities Law (2020), Commercial Banking Law (2015, amended 2021), and Regulation on the Administration of Bond Issuance (2022) is that they all assume that all validity of law derives off the state. Therefore, contracts that are based on Shariah principles, especially the ones, which are based on non-interest, asset-backed or profit-sharing logics, do not have any facilitating statutory scaffolding.

C. The Pathology of Normative Insularity: Efficiency Without Legitimacy

Although the green finance system of the Chinese might seem as operationally sound, with the majority of global green bond issues and the industry leader in state-sponsored ESG reporting, its normative insularity leads to structural weakness in the long term. The lack of the legal pluralism institutionalization on the state level in the sphere of ESG brings about three acute gaps:

1. Deficit of legitimacy: In those BRI core jurisdictions of Muslim majority in China (e.g., Pakistan, Indonesia, UAE, Saudi Arabia) the lack of financial architecture that is Shariah-compatible is seen as disrespect to the culture and legal flexibility to China to conduct its soft power and cross-border infrastructure financing.
2. Capital Exclusion Deficit: The capital Islamic finance market with a global asset of more than USD 3.1 trillion cannot operate in the Chinese ESG markets because of the lack of legal procedures to securitize the assets, risk-sharing arrangements, and Shariah certification compliance. It is a lost structural prospective in sovereign financing and infrastructure co-partnering.
3. Deficit of Epistemic Rigidity: The rejection of non-statist legal orders by China means that it is crippling the jurisprudential innovation space of ESG, preventing its ability to build cross-civilizational legitimacy of its green transition.

D. Theoretical Imperatives for Legal Pluralism in ESG Finance

Legal pluralism is ceasing to be the anthropological oddity but a practical requirement of transnational finance. According to such scholars as Gunther Teubner, Sally Engle Merry and Mireille Delmas-Marty, contemporary legality occurs in uninterrupted, unranked normative orders, with state law simply being one of many rule-giving entities. Within the ESG frame, it implies that moral, theological, indigenous, and customary laws are used more often in global financial practices to provide legitimacy to capital flows as connected with formal regulatory systems.

The evolution of the profession was typified by Shariah-compliant finance. It is not reducible to religious ritualism; it is a complex legal order with its own hermeneutical traditions, contractual structures, ethical theories, and transnational institutions (e.g., AAOIFI, IFSB, IDB). To exclude it from China's ESG legal schema is to deny the legal reality that Islamic finance constitutes a sovereign epistemology of capital, capable of binding moral authority and enforceable commercial obligation.

If China's ESG regime aspires to global jurisprudential leadership, it must transcend its current paradigm of ideological singularity and reimagine green legality as normatively porous and institutionally plural. This does not necessitate theological endorsement but juridical accommodation.

E. Preconditions for Juridical Accommodation of Islamic ESG Norms in China

What would such a pluralist reconfiguration of China's ESG architecture require? At least, it would involve the following structural interventions:

Legal Schemes of Other Contractual Ontologies

1. Securities Law and the Civil Code ought to include the allowances of statutory legitimacy to profit-sharing, risk-partnership and usufruct-based securities so as to facilitate mudarabah, musharakah and ijarah-based green sukuk.
2. Establishment of a Shariah Governance Framework
Modeled on Malaysia's Shariah Advisory Council (SAC) or the IFSB-IFSB Shariah Governance Framework, China must enable an institutional body to issue legal-fatwa opinions in capital markets—not as theological pronouncements, but as functional compliance assessments.
3. Creation of Islamic ESG Taxonomies
Green finance categories must be expandable to include religiously mandated sustainability norms, including Qur'anic principles of environmental stewardship (*mizan*, *amana*, *islah*) and Shariah screening of ethical industries.
4. Regulatory Sandboxing for Shariah-Compliant Green Instruments
The PBOC or CSRC could initiate pilot projects under sandbox regimes, testing green sukuk in BRI projects within Muslim-majority territories or under joint-venture sovereign platforms.

These reforms would neither compromise China's regulatory sovereignty nor require ideological concessions. They would enable functional pluralism within a technocratic framework, expanding China's legal capacity to interface with the global ethics of sustainable capital.

Part 06. Toward a Juridically Integrated Framework: Legislative and Institutional Design for Shariah-Compliant ESG in China

A. Functional Integration without Ideological Concession: The Strategic Rationale

The fact that the Shariah-compliant ESG instruments may be incorporated into the legal-financial system of the People Republic of China (PRC) does not imply that the Islamic law should be theologically recognized. Rather, it requires what Gunther Teubner calls *reflexive legal coupling*: a regulatory mode whereby functionally autonomous normative systems (in this case, Islamic finance and Chinese administrative law) maintain internal integrity while interfacing through shared institutional procedures.

The regulatory challenge is thus not the one of Islamizing the ESG infrastructural China but to control the external normative system of Shariah finance which controls the internal transactions. It is synonymous to China which in its legal pluralism front adopts the constitutional reasoning of the One Country Two Systems and legal pluralism in areas including its disposition towards to the external arbitrating bodies, Special Economic Zones and Hong Kong in common law.

Consequently, the given Islamic green finance practice does not interfere with sovereignty as it only rearranges regulatory elasticity as a result of which China obtains access to transnational investments on the one hand, and, on the other hand, does not jeopardize them.

B. Institutional needs: The Building of China Islamic ESG structure

To put the integration of Shariah-compliant ESG finance process in place, China will require collaborative development of modular regulatory ecosystem which will allow cross compatibility to function without generating systemic tension. The big institutional piers would be:

1. National Shariah Finance Advisory Panel (NSFAP)

The NSFAP would mimic the SACM, and the AAOIFI Shariah Board of Bahrain, which is neither a jurisdictional nor a jurisdiction rulemaking body, it does not follow the guideline of either of the People Bank of China (PBOC) or of the China Securities Regulatory Commission (CSRC).

Mandate:

- Vet Islamic green finance instruments for Shariah compliance;
- Develop standard contract templates for sukuk structuring;
- Issue Shariah-compliance opinions (fatwas) with legal effect under sandbox regimes.

Membership: Joint appointments from the Chinese Academy of Social Sciences, international Shariah scholars, and regulatory officials trained in Islamic finance.

2. Islamic ESG Taxonomy Task Force

Constitute an inter-agency task force which would consist of Ministry of Ecology and Environment, PBOC and foreign experts working on Islamic finance, to update and revise a harmonized Islamic-compatible environmental taxonomy, on the basis of the already-existing Green Bond Endorsed Catalogue.

Deliverables:

- Why there are only certain areas within ESG (renewables, green housing, sustainable water projects) approved?
- Being Shariah screened (prohibition of business such as gambling, alcohol and speculative derivatives)
- Establish cross walk index between the AAOIFI and the PRC indicators of the environment.

3. The belt and road Shariah financing platform (BRSFP)

Launch a strategic sovereign backed issuance program that will allow Chinese SOEs and provinces to co-issue green sukuks with host nations in BRI corridors (i.e. in Pakistan, Indonesia, Egypt). They would be the experiment stations juridical experimentation.

Governance:

- Project-level dual compliance: Shariah boards from host countries + CSRC approval;
- Listing eligibility on Shanghai Stock Exchange and Nasdaq Dubai;
- Issuance under PRC law with embedded Shariah-compliance clauses, validated by mutual legal assistance agreements (MLAAs).

C. Legislative Amendments and Draft Model Clauses

In order to facilitate the implementation of Shariah ESG, targeted statutory amendments and model clauses as follows are proposed:

- **The amendments in the Securities Law (2020):**

Add a new section under "Types of Securities":

- *Art 11A.* — Sukuk instruments structured on asset-backed, risk-participation, or usufruct-based legal arrangements shall be recognized as permissible securities for issuance, listing, and trading, provided that such instruments comply with applicable regulatory standards and have been certified by a recognized Shariah Finance Advisory Panel.
- ***Clause17(c):***

Where green financial instruments are structured in accordance with internationally recognized Shariah principles, the issuer shall provide:

(i) an independent Shariah compliance certification by an approved authority;
(ii) a disclosure of religiously conditioned restrictions on asset use and investment flows;
(iii) evidence of dual alignment with the Green Bond Endorsed Catalogue and the issuing body's Shariah governance rules.

- ***Civil Code Clarification (Book on Contracts):***
- **Amend to permit profit-loss sharing contracts and usufruct leases within capital markets:**

Art. 517(2A): A contract based on which one party contributes capital and another capital and the entrepreneurial activity, the profit which is shared by the parties at previously agreed proportions and the losses is a prerogative of the party providing the capital, will be valid, unless it contradicts the rules of fairness, transparency and public interest. This makes mudarabah and musharakah to be accepted under the PRC law.

D. Regulatory Sandboxing: Controlled Introduction and Juridical Experimentation

Given the absence of Shariah precedents in PRC law, China should employ sandbox experimentation to test Islamic ESG instruments. This draws from the UK's FCA Regulatory Sandbox and the Abu Dhabi Global Market (ADGM) Fintech Framework, tailored for ethical finance.

Sandbox features:

- Limited license duration (2–3 years);
- Bilateral Shariah and PRC legal review;
- Exemptions from certain reporting or tax obligations, pending legal recognition;
- Post-issuance impact audit, ESG compliance and Shariah compliance.

These vehicles can be tested in Xinjiang, Ningxia or CPEC regions, where the principles of Islamic finance already hold cultural meaning and BRI applicability.

E. Trans-Systemic Legal Education and Diplomatic Engagement

China must also initiate a legal-diplomatic knowledge architecture, including:

- Joint academic programs with Islamic finance universities (e.g., IIUM, INCEIF, University of Jordan);
- Chinese Law Schools offering electives in Islamic finance jurisprudence;
- China-OIC ESG Legal Roundtables, fostering transnational consensus on dual compliance standards.

This will position China as a normative interlocutor rather than a unilateral regulator—redefining legal leadership in ESG through dialogic pluralism.

Part 07. Strategy Policy Recommendations and Conclusion

A. Recasting ESG Finance Through Normative Pluralism

This study has demonstrated that the prevailing architecture of ESG finance, particularly within the People's Republic of China, is constructed upon a technocratic logic of instrumental sustainability—efficient in its statistical command of green capital, yet normatively exclusionary in design.

It is not just a regulatory policing aspect that Shariah-compliant finance is excluded in the ESG regime of China, but it is a manifestation of juridical monoculture, a model of legality, which neglects to grant equal status to other sources of moral and epistemic financially relevant.

The Islamic finance with its intensely ecologically grounded ethics and thousands of years old legal framework provides a civilizationally aligned and jurisprudential independent ESG paradigm. In its own right, green sukuk are not merely green bonds with a religious facade, but instruments of a different jurisprudence of sustainability, which is based on metaphysics of the Quran and implemented through risk-sharing contracts and deployment of ethical assets.

What is needed, then, is not regulatory accommodation, but a paradigm shift, a shift in legal positivism, state-centric approach of ESG to polycentric, dialogical, model of financial legality, where the various normative orders jointly produce the rules of sustainable capital. This is not a project of theological inclusion, but rather one of constitutional pluralism in financial law.

B. China's Opportunity to Lead a New Global Jurisprudence of Sustainable Finance

China is a financial superpower and normative entrepreneur in the Global South, and thus this is the only country in the Global South that can redefine legality in ESG. Its leadership will not be again quantified by the amount of green bond issuance, but rather by its capacity to accommodate juridical variety under its financial regulation framework.

Further engagement of China with Muslim majorities countries, especially the Belt and Road Initiative, puts China in the heart of geopolitical capital movement in the faith-based capital. However, its legal system within the country is not well organized to do business with moral economies that are organized on divine law, theological equity or cosmological environmentalism. Failing to assimilate these ontologies of finance means that China will not only suffer reputational fatigue, but structural dispensability in a quickly pluralizing global network of finance.

C. Strategic Policy Recommendations

To institutionalize this jurisprudential transition, we propose the following high-level policy roadmap, aimed at China's central financial authorities, international financial bodies, and legal-academic institutions:

1. Enact a Green Sukuk Regulatory Framework under PRC Law

- Amend the Securities Law of the PRC and relevant CSRC guidelines to formally recognize sukuk as a class of green capital instruments.
- Enable asset-based and risk-participation contracts under the Civil Code, permitting Shariah-based structures like *mudarabah*, *musharakah*, and *ijarah*.
- Develop Shariah-compatible ESG project evaluation criteria, aligned with the Green Bond Endorsed Catalogue, but expanded to incorporate Qur'anic environmental ethics.

2.Institutionalize a National Shariah Finance Advisory Board

- Introduce a mixed finance regulator within PBOC or CSRC whose members would be jurists in public finance trained both in fiqh al-mu merger, the merger between the Geely and the announced.
- To authorize the Board to sanction the green sukuk structure, provide Shariah-compliance opinions and coordinate with internationally-recognized institutions of Islamic finance (AAOIFI, IFSB).

3. Cross-Border BRI Islamic ESG Solutions Test in BRI jurisdiction

- Launch joint sovereign green sukuk projects during BRI nations (e.g. Pakistan, Indonesia, UAE) through a China-OIC Green Finance platform.
- Give two regulatory regimes to be met, one is PRC regulatory regime and the other one local Shariah governance regime.
- Permit the issurance of sukuk in the sandbox regimes of Xinjiang, Ningxia and Hainan, and experiment the interoperability of laws and the Shariah confidence system

4. Include the Islamic Finance Education within the Chinese Legal-academic Systems

- Give birth to new academic investors to take Islamic finance law as a subject in one of the highest ranking law schools in China (Tsinghua, Peking, Renmin).
- Make joint LL.M. or research degrees with the INCEIF (Malaysia), IIUM or al-Azhar.
- Equip the regulatory personnel and the judicial staff with the principles of Islamic commercial jurisprudence, the compatibility with the ESG, and the cases in pluralist legality.

5. Advocate for Global ESG Normative Pluralism in Multilateral Fora

- Use China's position in AIIB, BRICS, SCO, and UN finance platforms to promote global recognition of Islamic ESG norms.
- Develop meta-taxonomies for faith-based ESG instruments, allowing functional recognition across jurisdictions without doctrinal conflict.
- Assistance in the establishment of a Sustainable Finance Pluralism Convention anchored in the UN, with co-legitimating various ethical finance regimes (Islamic, Confucian, indigenous, etc.).

D. Closing Reflection: Legal Grammar of Sustainability: Closing the Loop

Market innovation will not win the fight to achieve climate justice, that of ethical capital, and that of intergenerational justice. It needs a reconstruction of the legality of money, a new grammar of rules, values and institutional design which is open to all the civilizational ways of knowing the world on earth. Shariah-compliant ESG finance is not a challenge to global standards—it is a juridical proposition: that financial law must be plural, dialogical, and morally rooted. This change can be spearheaded by China as both as a technocratic power and normative aspirant but not by imitating the West or remaining isolated in the self-isolating self-development but by making legal multiplicity live in the sovereign coherence. Thus, it could not only bridge the Islamic and Chinese financial world but exemplify a post-Westphalian financial constitutionalism in the 21st century -monopoly will no longer rule the day.

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