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The integration of Green finance with Emission Trading Schemes in EU and China: Implications for Vietnam

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This research paper looks into how green finance and emissions trading systems interact in the EU and China while drawing implications for Vietnam as it is developing its carbon market and sustainable finance framework. This study does a comparative analysis of policy structures, financing mechanisms, and market dynamics in both regions focusing on their successes and challenges, as well as lessons learned applicable to Vietnam.

The EU model of integrating ETS with green finance is characterized by strict regulations on carbon pricing, the reinvestment of ETS revenues in sustainable projects, and extensive disclosure requirements of financial institutions. Key instruments such as the EU taxonomy regulation, the Sustainable Finance Disclosure Regulation, and the Market Stability Reserve guarantee transparency, stability, and efficiency of carbon trading and green investments, where the cap-and-trade system enhances carbon pricing, leading to significant investments in low-carbon technologies and renewable energy.

By contrast, China adopts a policy-driven ETS model whereby state-supported financial incentives are complemented by regional pilot programs to slowly integrate markets for carbon with finance mechanisms for green projects. If the growth of green bonds, loans, and carbon-linked financial instruments is an indicator, there is a long way to go, since the intensity-based ETS in China lacks a hard cap on emissions and therefore has weak signals for carbon pricing. Moreover, fragmented ESG disclosure requirements and low market diversity among regions are problems that linger in the situation. However, this paper points out, for Vietnam, opportunities and gaps in the development of its green finance and ETS. Green credit is growing but still targets easy-to-abate sectors-the case of solar energy, for example-while sectors with higher levels of emissions like steel and cement are not attracting as much finance. The research points to the need for improved financial incentives, diversified green financial instruments, and a clear regulatory framework to reduce ineffective emissions by Vietnam'. Concludes with recommendations for Vietnam.

- Adopt a cap-and-trade ETS model with a stronger carbon price signal.
- Expand green finance instruments beyond loans to include green bonds, carbon-backed securities, and risk-sharing mechanisms.
- Establish a unified ESG framework to enhance market transparency and investor confidence.
- Introduce transition finance mechanisms to support high-emission industries in decarbonization efforts.
- Strengthen international cooperation by aligning Vietnam's ETS with global carbon markets under Article 6 of the Paris Agreement.

By implementing these strategies, Vietnam can effectively integrate green finance with ETS, fostering a low-carbon economy and positioning itself as a leader in Southeast Asia's climate action efforts.

The work include the following parts:

1. The benefits of integration between Green Finance Policies and the ETS
2. Case studies:

a. EU:

b. China:

3. The current state of Green finance in Vietnam and policy recommendation