

Green taxonomies as geopolitical instruments: competing sustainability regimes and regulatory power in the multipolar green finance landscape

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Abstract. Green taxonomies, the classification frameworks that determine which economic activities count as environmentally sustainable, have become a central arena of geopolitical and economic contestation. This paper argues that taxonomies are geopolitical instruments through which the European Union and China embed divergent developmental priorities, risk governance logics, and market access conditions into global financial infrastructure, reflecting fundamentally incompatible visions of how economic governance should be organised and who holds the authority to define sustainability. Drawing on regulatory power theory and infrastructural governance scholarship, this paper compares the EU's externalization strategy in green finance, anchored in the *Taxonomy Regulation (2020)*, the *Sustainable Finance Disclosure Regulation*, and the *European Green Bond Standard*, with China's state-coordinated approach rooted in the *People's Bank of China Green Bond Endorsed Project Catalogue*. Two mechanisms of regulatory power are identified: the EU leverages market size to generate outward compliance pressure, while China engages strategically in multilateral governance venues to contest definitional authority. The Common Ground Taxonomy is examined as a diagnostic case of managed divergence rather than genuine harmonisation. The findings suggest that the future of global green governance is likely to be characterised by the coexistence of competing regulatory paradigms rather than harmonisation around a single model.

Keywords: green finance, taxonomy regulation, regulatory power, Brussels Effect

1. Introduction

On the surface, green finance appears to be a story of remarkable global consensus. Governments from Beijing to Brussels have committed to aligning financial systems with climate goals. Green bond markets have grown from a novelty instrument to a multi-trillion-dollar asset class. International bodies from the G20 to the Financial Stability Board have issued guidance frameworks urging greater sustainability disclosure and standardisation. To read the headlines, one might conclude that the world is converging, slowly but steadily, toward a shared architecture for governing sustainable investment.

The reality is rather different. Beneath the shared language of climate finance lies a growing proliferation of incompatible governance frameworks. The *European Union's Taxonomy Regulation* defines sustainability

through technically precise criteria grounded in a do-no-significant-harm principle and mandatory disclosure requirements. China's green classification system, built around the *Green Bond Endorsed Project Catalogue* and the *Green Industry Guidance Catalogue*, integrates sustainability governance with national industrial policy and emphasises state-directed capital allocation. ASEAN, India, the United Kingdom, Singapore, and a growing number of other jurisdictions have developed their own distinct frameworks. Rather than converging, global green finance governance is fragmenting into overlapping, partially incompatible regimes that create real friction for cross-border investment and competing claims on what sustainable development actually means.

This paper argues that this fragmentation is not a coordination failure waiting to be corrected. It is the structural outcome of deliberate regulatory power strategies pursued by the two largest green finance actors, the EU and China, each of which is attempting to embed its own governance logic into global financial infrastructure. Green taxonomies, this paper contends, function as geopolitical instruments. Like technical standards in telecommunications or cybersecurity certification schemes, they are governance architectures that determine inclusion and exclusion, shape market access, and create long-term dependencies. They are, in a word, infrastructural.

This argument builds on two bodies of scholarship that have not yet been fully brought into dialogue. The first is the international political economy literature on regulatory power, particularly Bradford's [1] work on the Brussels Effect, Farrell and Newman's [2] framework of weaponized interdependence, and Bütte and Mattli's [3] analysis of standards governance as political contestation. The second is the emerging critical IPE scholarship on green finance, including Gabor and Braun's [4] work on macrofinancial regimes and Babic and Sharma's [5] call for a more structurally attentive approach to climate governance. Connecting these literatures allows us to ask not merely what policies actors prefer, but how governance preferences become institutionalised as material power through financial market infrastructure.

The paper proceeds as follows. Section 2 reviews the relevant literatures. Section 3 develops the theoretical framework of taxonomies as infrastructural governance instruments. Sections 4 and 5 present the two case studies. Section 6 discusses the findings, and the conclusion reflects on what this analysis suggests for the future of global sustainability governance.

2. Literature review

2.1. Green finance governance and the political turn

The academic study of green finance has passed through at least two distinct phases. The first, broadly technocratic, framed the governance of sustainable investment as a problem of information asymmetry, risk mispricing, and market failure. If investors lacked reliable data on climate-related exposures, or if carbon externalities were unpriced, the solution lay in better disclosure standards and improved market design. This framing shaped a generation of policy frameworks, from the Task Force on Climate-related Financial Disclosures (TCFD) to the principles underpinning early green bond certification schemes. Dikau and Volz [6] demonstrated the institutional limitations of this approach, showing through a survey of 135 central bank mandates that only a small minority contain explicit sustainability objectives, meaning that market-correction mechanisms must operate largely without complementary public institutional support in most jurisdictions.

The second phase, still unfolding, has been substantially more political. A growing body of scholarship has insisted that green finance governance is not merely a technical enterprise but a deeply normative one, embedded in specific political economies and serving particular distributional interests. Gabor's [7] critique of what she calls the Wall Street Consensus showed how the dominant Western approach to development and

green investment effectively reorganises public risk in favour of private financial actors, requiring states to de-risk assets and transform local financial systems to accommodate global portfolio investors. Her subsequent work with Braun [4], developing a typology of green macrofinancial regimes, demonstrates that how states govern the creation and allocation of capital fundamentally shapes the speed and character of the green transition. Across this typology, the EU and China represent not merely different policy preferences but structurally distinct macrofinancial pathways, with the EU embodying a weak form of market-disciplined de-risking and China representing a state-directed credit allocation model closer to what Gabor and Braun call a developmental macrofinancial regime. Li et al. [8], in a systematic review of China's climate governance from 2009 to 2019, further document how China's approach has been consistently shaped by the twin logics of developmental priority and international norm contestation, rather than by simple compliance with Western-led climate frameworks.

Babic and Sharma [5] have made perhaps the most pointed call for international political economy to engage more systematically with the structural dimensions of climate finance governance. Their subsequent edited collection [9] maps how political and economic power shape the construction of green finance markets across different jurisdictions and institutional contexts. Stenström's [10] analysis of ESG infrastructures adds a further dimension, arguing that the reporting standards, rating systems, and investment practices that constitute the operational architecture of green finance are sites of ongoing political struggle, subject to active weaponization by actors pursuing divergent economic and geopolitical objectives. What this literature has not yet done, at least not systematically, is apply the theoretical vocabulary of regulatory power and standards governance to the specific problem of taxonomy competition. That is the task this paper takes up.

2.2. Regulatory power, standards governance, and the architecture of global rule-making

Three contributions from the regulatory power literature are particularly salient for this analysis. Bradford's [1] formulation of the Brussels Effect captures something genuinely distinctive about how the EU exercises global influence. Rather than negotiating international agreements or deploying diplomatic leverage, the EU extends its regulatory preferences outward through a simpler mechanism. When the EU adopts stringent regulatory standards and its internal market is large enough that firms cannot afford to lose access, those firms often comply with EU standards globally, because maintaining separate regulatory tracks is more costly than adopting the highest common standard. Bradford [1] documents this mechanism across data privacy, food safety, chemicals regulation, and competition law. The question this paper explores is whether, and under what conditions, a similar mechanism operates in green finance taxonomy governance.

Meanwhile, Farrell and Newman's [2] framework of weaponized interdependence operates at a different register. Where the Brussels Effect describes a diffuse compliance pressure generated through market size, weaponized interdependence focuses on the strategic exploitation of network asymmetries. States that hold jurisdiction over central nodes in global economic networks can leverage those positions coercively, threatening to deny network access as a form of political pressure. Gjesvik [11] has productively complicated this framework by showing that the relationship between states and private corporations in these network hubs is more dynamic and contested than the original formulation assumes. Where Farrell and Newman [2] treat state-private alignment as largely given, Gjesvik [11] shows that corporations may resist, circumvent, or reshape weaponization attempts in ways that alter the mechanism's effectiveness. This complication is directly relevant to green finance, where private asset managers and institutional investors are not simply instruments of EU regulatory power but actors with their own interests in standards outcomes.

Newman and Posner [12] provide a third and complementary lens through their analysis of international soft law in financial governance. Their core argument is that soft law, despite its voluntary character, can

disrupt political contests and transform domestic and global rules through two mechanisms: legitimacy claims, where actors appeal to international consensus to shift the terms of domestic debate, and arena expansion, where transnational governance bodies create new institutional spaces that disadvantage actors invested in the existing framework. Both mechanisms are visible in green taxonomy governance. The EU's deployment of International Platform on Sustainable Finance (IPSF) and G20 forums to legitimise its taxonomy as an international benchmark is a form of legitimacy claiming. China's contestation of EU definitions through the same forums, while simultaneously building parallel governance structures through the Belt and Road Initiative (BRI), represents a form of arena expansion in reverse, creating alternative spaces where Chinese governance logics can be institutionalised without having to win within the existing frame.

On top of this, Bütthe and Mattli's study [3] of international private standard-setting provides a further foundation. Their finding that influence in standards bodies is not a function of economic power alone but of the ability of domestic institutions to organise and channel preferences into international processes early enough to shape agenda-setting resonates directly with the dynamics of green taxonomy governance. The EU's advantage has come not from raw market power alone but from its capacity to mobilise institutional resources at the IPSF, G20, and UN levels. China's counterstrategy has been to develop exactly this kind of institutional mobilisation capacity, investing heavily in its participation in international standards bodies and multilateral sustainability forums over the past decade.

2.3. Taxonomies as governance infrastructure

The third strand of literature this paper draws on is concerned with how governance works through technical architectures. Plantin and colleagues [13] developed the concept of infrastructuralisation to describe how digital platforms acquire the characteristics of infrastructure as they become embedded in the routines of economic and social life, structuring access, compatibility, and dependency in ways that constrain future choices. Their insight, drawn from the study of Google and Facebook, is that infrastructure is never merely technical. It encodes particular governance logics, distributes power among actors differently, and shapes what kinds of futures are possible.

This paper transposes that insight to green finance taxonomy governance. Taxonomies share with technical standards a key property. Once embedded in regulatory requirements, investment mandates, and disclosure obligations, they structure market behaviour in ways that go far beyond their nominal function as classification tools. A taxonomy that treats natural gas as a transition fuel creates different incentive structures, different asset valuations, and different dependency relationships than one that excludes it entirely. A taxonomy that mandates detailed supply-chain disclosure creates different access conditions for firms in developing economies than one focused on project-level reporting. The governance authority embedded in taxonomic definitions is not merely descriptive. It is constitutive, shaping which economic pathways are financially viable, which actors can participate in green capital markets, and which institutional actors hold authority over sustainability definitions in the long run. Fontan's [14] recent analysis of the political contest surrounding the EU Taxonomy's delegated acts on gas and nuclear vividly illustrates this point: the definitional choices embedded in a regulation's technical annexes are themselves sites of intense lobbying, ideational struggle, and institutional power play, with consequences that ramify through the entire green finance governance architecture.

3. Theoretical framework and research design

3.1. Taxonomies as infrastructural power

Building on the literatures reviewed above, this paper proposes that green taxonomies function as infrastructural governance instruments along three dimensions. The first is definitional authority: the capacity to determine which economic activities count as sustainable and under what conditions. This is not a merely semantic question. Definitional authority determines which assets qualify for green bond issuance, which investment products can be marketed as sustainable, and which projects attract concessional financing from development institutions. The actor that controls definitional authority shapes the material conditions of green capital formation globally.

The second dimension is compliance architecture: the specific mechanisms through which taxonomy requirements are operationalised and enforced. Mandatory disclosure, third-party certification, regulatory alignment conditions, and market access requirements all function as different governance technologies with different distributional consequences. The EU's approach, requiring financial market participants to report taxonomy alignment as a condition of selling products within the EU, creates a different compliance pressure structure than China's approach, which integrates taxonomy definitions into state lending guidelines and industrial policy instruments, channeling compliance through the banking sector rather than through asset management disclosure.

The third dimension is institutional reach, whereby the channels through which taxonomy norms are projected beyond the domestic regulatory space. These include multilateral governance platforms, bilateral cooperation agreements, development finance instruments, and supply-chain disclosure requirements embedded in domestic legislation. Institutional reach determines how far a taxonomy's governance logic extends beyond the jurisdiction that created it, and how that extension interacts with competing frameworks.

3.2. Two models of regulatory power in green finance

Across these three dimensions, two distinct regulatory power strategies emerge in the current green finance governance landscape. The first is regulatory externalization, the strategy associated with the Brussels Effect. This approach relies on leveraging market access to generate external compliance pressure. It does not require other governments to adopt the same rules formally. It only requires that firms seeking access to the EU's capital markets face sufficiently strong incentives to align with EU definitions. The power here is diffuse and largely market-mediated, but it can generate considerable depth of compliance among private actors.

The second is state-coordinated institutional engagement. This strategy integrates standards participation with industrial policy, using multilateral governance venues to contest definitions, embed flexibility provisions, and build alternative institutional infrastructure that creates alignment incentives for partner countries. Rather than relying on market pressure, this approach works through institutional positioning and coalition-building. As Drezner [15] observes, when no single hegemon dominates the regulatory landscape, rival standards regimes tend to coexist rather than converge, a dynamic that structural competition between the EU and China now exemplifies in the green finance domain.

3.3. Research design

This paper adopts a comparative institutional case study design. The two cases, the EU's green taxonomy architecture and China's state-coordinated green finance system, are selected because they represent the world's two largest green finance markets, the two most institutionally developed governance approaches, and the two actors whose interaction most directly shapes the trajectory of global sustainability governance. The

Common Ground Taxonomy process, initiated in 2020 and updated in 2022 with a multi-jurisdiction extension published in 2024, is treated as a diagnostic case within the broader comparison. The analysis draws on regulatory documents, official policy publications, multilateral governance reports from the IPSF and G20, and secondary scholarship. The paper does not claim exhaustive empirical coverage of either governance system, but uses comparative institutional analysis to identify the structural mechanisms through which regulatory power is exercised in this domain (Table 1).

Table 1. Comparative green taxonomy governance architecture: EU versus China

Dimension	European Union	China
Primary Governance Instrument	<i>Taxonomy Regulation (EU) 2020/852; SFDR; European Green Bond Standard</i>	<i>PBOC Green Bond Endorsed Project Catalogue (2015, rev. 2021); NDRC Green Industry Guidance Catalogue (2019)</i>
Definitional Authority	Criteria set by Platform on Sustainable Finance via EU delegated acts; mandatory legislative status; six environmental objectives with technical screening criteria (DNSH principle)	Criteria set by PBOC and NDRC; integrated with Five-Year Plans and national industrial strategy; single primary objective of green development
Compliance Architecture	Market-based disclosure mandates: financial market participants must report Taxonomy alignment as condition of EU market access; supply-chain reach via CSRD	State-directed credit allocation: green standards embedded in PBOC lending guidelines and CBIRC supervisory requirements; SOE investment mandates
Primary Governance Logic	Market correction: disclosure requirements align private capital with environmental objectives through investor accountability	Developmental coordination: state-directed capital allocation toward strategic sectors as instrument of national economic transformation
Institutional Reach (External)	Brussels Effect via EU market access compliance pressure; legitimacy-claiming at IPSF and G20 SFWG; CSRD supply-chain extension	BRI Green Development Coalition; G20 SFWG co-chair (2016, 2023); IPSF <i>Common Ground Taxonomy</i> (CGT) engagement; parallel standards projection through BRI finance
Treatment of Transition Finance	Contested: gas and nuclear included in 2022 delegated act despite advisory body dissent; formal "transition" category under development	Explicitly included; broad definition of transition activities; coal phased out from PBOC catalogue (2021) but flexible industrial transition retained
Key Multilateral Engagement	IPSF (founder); G20 SFWG (active participant); TCFD alignment; IFRS S2 compatibility	IPSF Common Ground Taxonomy (2021–2024); G20 SFWG (co-chair); BRI Green Investment Principles; Asian Infrastructure Investment Bank (AIIB) green bond frameworks

Note: EU = European Union; PBOC = People's Bank of China; NDRC = National Development and Reform Commission; SFDR = Sustainable Finance Disclosure Regulation; CBIRC = China Banking and Insurance Regulatory Commission; CSRD = Corporate Sustainability Reporting Directive; DNSH = Do No Significant Harm; IPSF = International Platform on Sustainable Finance; SFWG = Sustainable Finance Working Group; SOE = State-Owned Enterprise. Sources: [4, 8, 16, 17].

4. Case study 1: the EU's taxonomy as a regulatory externalization instrument

The EU's sustainable finance regulatory architecture came together rapidly in the years following the *Paris Agreement*. Its cornerstone is the *Taxonomy Regulation*, formally adopted in June 2020, which establishes a classification system determining which economic activities make a substantial contribution to one or more of six environmental objectives, from climate change mitigation to biodiversity protection, while doing no significant harm to any of the others and meeting minimum social safeguards [16]. The Taxonomy's technical screening criteria, developed through the Platform on Sustainable Finance and adopted via delegated acts, translate these broad principles into sector-specific thresholds and performance benchmarks.

The Taxonomy does not stand alone. It is connected to the *Sustainable Finance Disclosure Regulation*, which requires financial market participants operating within the EU to disclose the degree to which their products align with Taxonomy definitions, effectively making Taxonomy alignment a mandatory reporting category for the European asset management industry. The *European Green Bond Standard*, finalised in 2023, creates a voluntary but Taxonomy-aligned certification for green bonds, establishing a quality benchmark that competing issuers are inevitably measured against. Together these three instruments constitute an integrated governance architecture. The Taxonomy defines, the Sustainable Finance Disclosure Regulation (SFDR) discloses, and the EuGBS certifies, and the three together create a dense web of regulatory requirements that any financial actor with meaningful exposure to EU markets must navigate.

The EU's regulatory externalization strategy works through the compliance pressure generated by this integrated architecture. A large Korean pension fund seeking to market green investment products to European institutional investors must comply with SFDR disclosure requirements, which in turn reference the EU Taxonomy as the standard against which sustainability claims are assessed. A Singaporean real estate company issuing a green bond in European markets finds that European investors increasingly use Taxonomy alignment as a quality signal, making alignment commercially attractive even where it is not formally required. A Chinese infrastructure conglomerate with European institutional shareholders finds its sustainability disclosures subject to growing scrutiny against Taxonomy criteria. None of these actors is formally required by EU law to adopt EU definitions. But the economic logic of EU market access is sufficiently powerful that compliance becomes rational.

The extension of the Corporate Sustainability Reporting Directive (CSRD) in 2022, and the Taxonomy's integration into supply-chain due diligence requirements, deepens this externalization dynamic considerably. Under the CSRD, large EU companies must disclose the Taxonomy alignment not only of their own operations but of their supply chains, creating a cascade of compliance pressure through global value chains that extends the EU's definitional authority into jurisdictions where it has no formal regulatory standing. This supply-chain dimension represents a qualitative extension of the Brussels Effect into green finance governance that Bradford's [1] original formulation, focused on product characteristics and market access, did not anticipate. Newman and Posner's [12] concept of legitimacy claiming is also visible here: the EU consistently frames its taxonomy as the emerging global standard, referencing its adoption as the basis for the IPSF Common Ground Taxonomy and positioning Taxonomy alignment as the benchmark for international green bond quality.

4.1. The internal contradictions of externalization

Yet the Brussels Effect in green finance is more contested and more uneven than in data protection or food safety. Part of the reason is external: large state-directed financial systems in China, India, and the Gulf states can substantially insulate themselves from EU compliance pressure, and their governments actively contest EU definitional authority in multilateral governance venues. But a more revealing part of the reason is internal. Fontan's [14] detailed analysis of the political contest surrounding the Taxonomy's complementary delegated

act on gas and nuclear energy in early 2022 illustrates how the Taxonomy's credibility as an external benchmark was directly undermined by the Commission's own political choices. When gas and nuclear were included in the delegated act, the Platform on Sustainable Finance, the EU's own advisory body, explicitly distanced itself from the decision. Several member states, led by Austria and Luxembourg, launched a legal challenge. The result was a public fracture within the EU's own governance architecture, visible to every international investor and government that had been watching the Taxonomy as a potential model. The Brussels Effect depends on the EU projecting regulatory coherence. When that coherence is visibly contested from within, the compliance pull weakens.

This internal contradiction is significant beyond the immediate gas and nuclear debate. It showcases that the EU's definitional authority in green finance is not simply a function of market size, as the Brussels Effect framework would suggest, but also of the political sustainability of the regulatory consensus underpinning that authority. Where that consensus fractures, as it did in 2022, the space for competing frameworks to establish themselves as credible alternatives widens.

5. Case study 2: China's state-coordinated green finance architecture

China's approach to green finance governance reflects the distinctive character of its political economy. Where the EU builds regulatory infrastructure through legislation, technical standard-setting, and market-based disclosure requirements, China builds it through policy-bank lending mandates, state-owned enterprise investment guidelines, and the integration of green classification into national industrial strategy. The *People's Bank of China Green Bond Endorsed Project Catalogue*, first issued in 2015 and substantially revised in 2021, serves as the definitional core of China's green bond market. The 2021 revision was substantial, as it removed clean coal from the list of eligible projects and brought China's framework into closer alignment with international standards, a move widely interpreted as a signal of China's ambitions to attract international investors and expand its presence in global green capital markets.

Alongside the People's Bank of China (PBOC) catalogue, the National Development and Reform Commission's Green Industry Guidance Catalogue structures the allocation of green credit through the banking system, connecting sustainability finance directly to national industrial planning. This integration of green finance with industrial strategy represents a fundamentally different governance logic from the EU model. Gabor and Braun [4] characterise this as a form of state-disciplined macrofinancial regime, in which the state rather than the market serves as the primary disciplining force for capital allocation. China's green finance system does not ask whether an investment will generate sufficient returns to attract private capital. It asks whether the investment is consistent with national development priorities, and then directs state-influenced capital toward it accordingly. Li et al. [8] place this approach within a longer history of China's climate governance, showing how the integration of developmental priorities with international engagement has been a consistent feature of China's approach across different political moments, from the Copenhagen negotiations through the Paris Agreement and beyond.

China's engagement with international green finance governance has been strategically sophisticated, combining the legitimacy-claiming and arena-expansion mechanisms that Newman and Posner [12] identify as the core tools of soft law politics. As co-chair of the G20 Sustainable Finance Working Group during its 2016 and 2023 presidencies, China consistently pushed for the inclusion of transition finance as a legitimate category within multilateral sustainability frameworks, arguing that developing economy financial systems need flexibility to support activities that represent genuine progress relative to baseline trajectories even when they do not satisfy developed-economy climate benchmarks. This argument has found receptive audiences

among Global South members of the G20 and has gradually shifted multilateral framing toward greater recognition of developmental heterogeneity.

The Common Ground Taxonomy process, initiated jointly by the European Commission and the PBOC under the IPSF in 2020 and updated in 2022, offers the most instructive window into the dynamics of Sino-EU taxonomy governance. The CGT identified 72 economic activities across seven sectors where EU and Chinese taxonomy definitions overlapped sufficiently to be treated as mutually compatible [17]. This was presented as a milestone of convergence. A closer reading suggests something more nuanced. The CGT is explicitly designed to map the intersection of two existing systems, not to create a third common standard. It deliberately excludes the areas of greatest definitional conflict, including transition finance categories, the treatment of natural gas, and criteria for activities that are green in one jurisdiction but not in the other. The 2024 extension of the CGT to a multi-jurisdiction framework incorporating Singapore's taxonomy added further complexity without resolving the underlying tensions [18]. What the CGT process reveals is not convergence but managed divergence. Both parties benefit from being able to claim multilateral cooperation while preserving domestic governance autonomy that is essential for their respective industrial and financial strategies. This is precisely the kind of dynamic that Büthe and Mattli [3] would recognise as characteristic of standards politics: actors engage formally in shared governance processes while strategically protecting the domestic institutional arrangements that give them their advantage.

5.1. The BRI as green finance governance infrastructure

Beyond multilateral engagement, China's most consequential instrument for projecting green finance governance norms is the Belt and Road Initiative. BRI infrastructure lending, channelled through policy banks including the China Development Bank and the Export-Import Bank of China, has created financial relationships with recipient countries across Asia, Africa, and Latin America that carry implicit expectations around the adoption of Chinese sustainability standards. The BRI Green Development Coalition and the Green Investment Principles for the Belt and Road create a governance framework for BRI-linked green investment that is distinct from and partially incompatible with the *International Capital Market Association (ICMA) Green Bond Principles* and TCFD recommendations that constitute the Western-led baseline.

The significance of this parallel institution-building becomes clearer when viewed through the lens of Gjesvik's [11] extension of the weaponized interdependence framework. Where Farrell and Newman [2] focus on the ability of states to exploit centrality in existing networks, Gjesvik [11] directs attention to the construction of new networks, in which governance logics are hardwired from the outset. China's BRI green finance governance is precisely this kind of new-network construction. Rather than competing to win definitional authority within the ICMA or TCFD frameworks, China is building a parallel network in which its own definitions are the default, and alignment with those definitions becomes a practical consequence of BRI financial dependency. Countries that rely heavily on BRI financing for infrastructure development face structural incentives to align with Chinese green standards simply because that is what their primary creditor requires. The governance authority this creates is not coercive in the short-run sense that Farrell and Newman [2] emphasise, but structural in the long-run sense that Plantin and colleagues [13] would recognise as characteristic of infrastructural power.

6. Discussion

Table 2. Multilateral green finance governance arenas: EU and Chinese engagement strategies

Governance Arena	EU Strategy	Outcome	China Strategy
IPSF Common Ground Taxonomy (2020–2024)	Frame CGT as proof of EU Taxonomy's emerging global status; legitimise EU criteria as international baseline	Managed divergence: 72 activities mapped (2022); contested areas (gas, nuclear, transition) deliberately excluded	Participate to gain international legitimacy and embed developmental flexibility; prevent EU criteria from becoming default
G20 Sustainable Finance Working Group	Promote mandatory climate disclosure, transition taxonomies aligned with EU framework; expand TCFD uptake	Transition finance gaining recognition; developing economy flexibility provisions incorporated in 2022 G20 framework	Use 2016 and 2023 co-chair presidencies to embed transition finance and differentiated responsibilities as legitimate categories
ICMA Green Bond Principles	Reference ICMA alignment as minimum standard; EuGBS positioned as premium tier above ICMA baseline	EuGBS increasingly used as quality benchmark; non-EU issuers citing EuGBS alignment as market signal	<i>China 2022 Green Bond Principles</i> reform designed to increase ICMA compatibility for offshore issuance; retain domestic flexibility for onshore market
BRI Green Development Coalition	Observe; limited formal engagement; bilateral dialogue through EU-China sustainable finance cooperation	Parallel governance ecosystem: BRI-aligned states develop green frameworks structured around Chinese definitions	Construct alternative governance infrastructure: <i>BRI Green Investment Principles</i> create Chinese-default green standards for recipient countries
AIIB Green Bond Framework	EU aligns AIIB with European climate standards as condition of membership and engagement	Partial convergence: AIIB adopts international standards but retains developmental flexibility in project selection	Use AIIB as multilateral vehicle to channel Chinese-influenced green finance governance to developing economy infrastructure
ISO / IEC Technical Committees	Engage to embed SFDR-aligned disclosure requirements; promote EU criteria as international technical standards	Early-stage: ISO TC 322 (sustainable finance) active; standard-setting contested between market-transparency and developmental-flexibility models	Increase participation in ISO technical committees on sustainable finance; seek to embed flexibility provisions and transition categories

Note: Rows shaded in light red indicate arenas in which China holds structural advantage or operates primarily through parallel institution-building rather than within existing frameworks. Rows shaded in amber indicate arenas of active contestation with no settled outcome. BRI = Belt and Road Initiative; ICMA = International Capital Market Association; AIIB = Asian Infrastructure Investment Bank; ISO = International Organization for Standardization; IEC = International Electrotechnical Commission; CGT = Common Ground Taxonomy. Sources: [11, 12, 17, 18].

The two cases examined in this paper, summarised in Table 2, suggest three broader conclusions about the political economy of green finance governance that carry implications beyond the specific EU-China comparison. The first concerns the nature of fragmentation. The EU and China are pursuing regulatory power strategies that are internally rational and externally incompatible. The EU's approach requires definitional clarity, market-wide compliance, and the gradual convergence of international standards toward its framework.

China's approach requires definitional flexibility, developmental heterogeneity, and the recognition that what counts as sustainable must be calibrated to national economic circumstances. These two governance logics cannot be fully reconciled. The CGT's achievement is to map the outer boundary of their compatibility, not to dissolve the underlying tension. As Stenström [10] argues, the infrastructures of green finance are not neutral tools awaiting deployment by whoever holds governance authority, but sites of ongoing political struggle that are continuously reshaped by the actors contesting them. Fragmentation is not a failure of multilateralism. It is what multilateralism looks like when it operates under conditions of genuine structural conflict between actors with the capacity and incentive to sustain alternative frameworks.

The second conclusion concerns the differential scope of the Brussels Effect. This paper's analysis supports the view that the Brussels Effect operates differently in green finance than in the domains where Bradford [1] originally identified it. The GDPR's compliance pull was nearly universal among private actors because digital services are structurally cross-border and EU market access is near-essential for global technology firms. Green finance governance involves a more differentiated structure. Private asset managers with large EU client bases face strong compliance pressure, and there is evidence that this pressure is generating real shifts in reporting practices among non-EU issuers. But sovereign financial systems with the scale and institutional capacity to sustain alternative frameworks, most notably China's state-directed financial sector, are substantially insulated from this pressure. The internal contradictions revealed by the 2022 gas and nuclear controversy further complicate the picture, demonstrating that the EU's capacity to project regulatory authority externally is conditioned by its ability to maintain regulatory consensus internally. When the Taxonomy's own advisory body publicly dissents from Commission decisions, the benchmark loses some of the scientific authority that makes it attractive as an international reference point. The Brussels Effect in green finance is thus real but segmented and politically contingent in ways that Bradford's [1] framework does not fully capture.

The third conclusion concerns what the weaponized interdependence framework illuminates and what it obscures. Farrell and Newman's [2] concept is helpful in directing attention to the institutional chokepoints of green finance governance through which power is exercised by controlling the terms of access. China's strategic engagement in the G20 and IPSF processes illustrates precisely the kind of institutional positioning that the framework anticipates. Gjesvik's [11] extension, by drawing attention to the construction of new networks rather than only the exploitation of existing ones, helps explain the BRI dimension of China's strategy, where governance power is accumulated not by winning within existing multilateral institutions but by creating alternative networks in which Chinese definitions are structurally default. But the weaponized interdependence framework, developed primarily through analysis of financial sanctions and technology controls, is less well suited to the temporally diffuse and materially embedded character of taxonomy governance. Taxonomies create power not through the threat of network denial but through the gradual hardening of infrastructural dependencies, as Plantin and colleagues [13] would predict. The governance authority that accrues to the actor whose definitions become embedded in market infrastructure, investment mandates, and regulatory reporting frameworks is not a short-term lever of coercion but a long-term structural advantage. This suggests that the conceptual vocabulary of regulatory power in green finance needs to integrate insights from infrastructure studies alongside the network theory that underpins weaponized interdependence.

7. Conclusion

Green taxonomies are not technical documents. They are political settlements about what sustainable development means, who bears its costs, and which institutional actors have the authority to define its boundaries. The EU and China have constructed different settlements, reflecting different developmental histories, different state-market relationships, and different positions within the global financial system. Their competition over these definitions is not merely a regulatory disagreement. It is a contest over the institutional architecture of the global green transition, with consequences that will play out across decades of capital allocation, technological development, and climate policy.

This paper has argued that understanding this contest requires moving beyond both the technocratic framing of green finance as market correction and the purely descriptive mapping of divergent national policies. The regulatory power framework developed here, centred on the three dimensions of definitional authority, compliance architecture, and institutional reach, provides a more analytically productive entry point. It allows us to see how governance preferences become institutionalised as structural advantages, and why the managed divergence of the Common Ground Taxonomy reflects not a failure of ambition but a rational equilibrium between actors with fundamentally incompatible governance logics. The 2022 gas and nuclear controversy, far from being a peripheral controversy about energy classification, reveals a deeper truth about the political sustainability of the EU's externalization strategy. And China's BRI green finance governance, far from being peripheral to the Sino-EU taxonomy competition, represents an alternative infrastructure-building strategy that could prove more consequential for the long-run architecture of global green finance than any outcome in the IPSF or G20 working groups.

As the green finance market deepens and climate urgency intensifies, the stakes of these institutional contests will only rise. The actor that shapes the definitional infrastructure of global sustainability governance today is shaping the investment landscape of the next fifty years. Understanding that contest as a question of regulatory power, not merely regulatory design, seems not only intellectually productive but practically urgent.

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