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## **Globalization and the Environment: Evidence from China**

Petra Christmann  
The Darden School  
University of Virginia  
Box 6550  
Charlottesville, VA 22906-6550  
Phone: (804) 924-3995  
Fax: (804) 243-7678  
E-mail: [ChristmanP@Virginia.edu](mailto:ChristmanP@Virginia.edu)

Glen Taylor  
University of Hawaii at Manoa  
2404 Maile Way  
Honolulu, Hawaii 96822  
Phone: (808) 956-7607  
Fax: (808) 956-2774  
E-mail: [glen@busadm1.cba.hawaii.edu](mailto:glen@busadm1.cba.hawaii.edu)

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### **ABSTRACT**

Two perspectives in the environmental economics literature -- the pollution haven and the industrial flight perspectives -- suggest that cross-country differences in environmental regulations will induce migration of very polluting production activities from high regulation to low regulation countries. Globalization of goods markets facilitates the process of relocating polluting activities, which implies that globalization negatively affects the environment. This paper suggests an alternative view. We argue that in low regulation countries implementation of environmental management systems and environmental performance are much more determined by firm characteristics and by external pressures than by government regulation. We identify three firm characteristics that can be expected to contribute to the implementation of environmental management systems and to environmental performance -- firm size, education level of employees, and multinational ownership. We also suggest that firms in countries that emphasize the implementation and certification of environmental management systems will put pressure on their suppliers to implement such systems. Consequently, we expect that firms from low regulation countries with high exports to Japan and Europe will be more likely to implement environmental management systems and have better

environmental performance. We test these hypotheses using survey data collected from a sample of 118 Chinese firms. Results provide support for the importance of firm size, employee education, and exports to Japan as a determinant of implementation of management systems. Multinational ownership was found to positively affect environmental performance and the implementation of management systems. Because two of the factors contributing to implementation environmental management systems or to environmental performance -- exports to industrialized countries and multinational ownership -- can be expected to increase with globalization of goods markets, globalization might actually positively affect environmental performance. Thus, we can be more optimistic about the relationship between globalization and the environment than the pollution haven and the industrial flight hypotheses suggest.