The Implementation of the New Environmental Protection Law and Its Impact on Corporate Development

Bowen Liu *

School of Business, Shanghai University of International Business and Economics, 201620 Nanjing, China

* Corresponding author: 22024049@suibe.edu.com

Abstract. "Environmental Protection Law of the People's Republic of China"was first carried out in 1989, marking the preliminary establishment of China's legal system. Since January 1, 2015, China has officially implemented the revised "Environmental Protection Law of the People's Republic of China" (hereinafter referred to as the "New Environmental Protection Law"), which has been further improved on the basis of the 1989 version with a focus on the coordinated development of economic growth and ecological protection and clearly defines the legal responsibilities of different entities such as enterprises, governments, and citizens, providing a better institutional guarantee for the advancement of environmental governance. This paper combines nearly five years of literatures on the impact of the implementation of the New Environmental Protection Law on corporate development, classifying and analyzing them, and summarizes its impact on corporate ESG levels, labor employment scale, transformation and upgrading, financing constraints, and information disclosure. The paper also predicts future development trends, and puts forward feasible policy recommendations.

Keywords: New Environmental Protection Law, ESG, labor employment, transformation and upgrading, financing constraints, information disclosure.

1. Introduction

China's environmental protection law originated from the trial version in 1979 and was officially promulgated in 1989. With the reform and opening and rapid economic development, environmental issues have gradually emerged, and the call for the revision of the environmental protection law has become increasingly high. On April 24, 2014, the 8th meeting of the 12th National People's Congress Standing Committee voted to pass the revised Environmental Protection Law (i.e., the New Environmental Protection Law), which officially came into effect on January 1, 2015. The New Environmental Protection Law is known as the "strictest" environmental protection law, which further improves environmental prevention and protection, pollution monitoring, and the environmental responsibilities of various entities, and adds content on information disclosure and public supervision, emphasizing the coordinated development of economic growth and environmental protection [1]. Its implementation marks a significant progress in China's environmental protection legal system. Since enterprises are not only the "main force" of economic development but also the "major contributors" to environmental pollution, many domestic and foreign scholars have focused on the research of the impact of the implementation of the New Environmental Protection Law on corporate development, and have classified the research subjects to draw corresponding conclusions. The existing domestic literature can be roughly divided into three categories: The first category is distinguished by "heavy polluting enterprises" and "non-heavy polluting enterprises," such as Zhao Zhiqian who explored the impact of the New Environmental Protection Law on the ESG performance of heavy polluting enterprises, and Hao Fangjing et al. who based on the quasi-natural experiment of the New Environmental Protection Law, studied the relationship between environmental regulation and technological innovation of heavy polluting enterprises [2,3]. The second category is distinguished by "manufacturing enterprises" and "non-manufacturing enterprises," such as Li Xinwei et al. who studied how environmental regulation affects the ESG level of manufacturing enterprises. The third category is to classify the entire research subject as one category, such as Jiang Sanliang et al. who based on the quasi-natural experiment of the New Environmental Protection Law, explored whether it has improved the quality of corporate green innovation, and Li Xiaoqing et al. who based on the practice of the New Environmental Protection Law, analyzed the impact of environmental regulation on corporate green innovation [4-6]. There are also some foreign literatures that have studied the impact of relevant environmental governance policies on corporate development, such as Liu Baoliu et al. who based on the "carbon neutrality" goal, explored how environmental governance policies affect corporate green innovation, and Joo Hye Young et al. who analyzed the impact of government environmental protection policies on the performance of small and medium-sized enterprises in China and South Korea, but very few literatures are based on the New Environmental Protection Law as a governance policy for analysis [7,8]. The above literatures mainly use corporate ESG levels, labor employment scale, transformation and upgrading, financing constraints, and information disclosure levels as explanatory variables for analysis, and have drawn the following four conclusions: First, the New Environmental Protection Law has significantly improved corporate ESG levels. Second, the New Environmental Protection Law has significantly reduced the scale of corporate labor employment. Third, the New Environmental Protection Law has effectively promoted corporate transformation and upgrading. Fourth, the New Environmental Protection Law has alleviated the financing constraints of heavy polluting enterprises. Fifth, the New Environmental Protection Law has significantly improved the level of corporate information disclosure.

2. Arguments

2.1. The New Environmental Protection Law has Significantly Improved Corporate ESG Levels

In recent years, China has advocated the long-term development concept of sustainable development, and ESG, which focuses on environmental, social, and governance, has thus gradually become a key indicator for corporate sustainable development [4]. For heavy polluting enterprises, existing literature has taken A-share listed companies as research samples and found that the New Environmental Protection Law has significantly improved corporate ESG levels, especially for non-state-owned heavy polluting enterprises and "two-in-one" heavy polluting enterprises, with a particularly significant and sustainable effect, which has improved the market value of enterprises to a certain extent [2]. For manufacturing enterprises, existing literature has analyzed the mechanism of high-intensity environmental regulation and found that the New Environmental Protection Law can also improve their ESG levels by reducing external competition and promoting the application of digital technology, effectively alleviating the problem of high pollution and energy consumption in manufacturing enterprises [4].

2.2. The New Environmental Protection Law has Significantly Reduced the Scale of Corporate Labor Employment

With the advancement of the concept of "harmonious coexistence of man and nature," the issues of worker unemployment and enterprise shutdown have become hot topics [9]. For labor-intensive industrial enterprises, especially heavy polluting enterprises with relatively low technical content of labor, green transformation and development have become crucial [10]. Existing literature, based on A-share listed company data, has found that the New Environmental Protection Law has reduced corporate output in the short term and increased investment in technological improvement and corporate emission reduction in the long term, constraining corporate liquidity, and thus had a negative impact on corporate labor demand, which is persistent [9,10]. In addition, existing literature has also analyzed the negative impact from the perspective of heterogeneity: the negative impact on corporate labor employment decisions, production and operation personnel, high-tech industries, the eastern and western regions, and state-owned enterprises is stronger, while the inhibitory effect on technical personnel with a master's degree or below, non-high-tech industries, the central region, areas with weaker enforcement, and non-state-owned enterprises is smaller [9,10].

2.3. The New Environmental Protection Law has Effectively Promoted Corporate Transformation and Upgrading

China has set the goal of "striving to peak carbon dioxide emissions before 2030 and striving to achieve carbon neutrality before 2060." Therefore, as the micro-entities of pollution emissions, enterprises need to carry out green technological innovation, especially high-quality green innovation, which has become particularly important [5]. Existing literature, taking A-share listed companies as research samples, has found that the New Environmental Protection Law can promote technological innovation in heavy polluting enterprises through the internal technological innovation incentive effect of enterprises and the external market competition alleviation effect, and improve the quality of corporate green innovation [5, 11]. Its impact on state-owned enterprises and mature green patents is greater, and the promotion effect on enterprises with low conversion costs, high government subsidies, and manufacturing enterprises is more obvious [3, 6]. However, there are still two different concepts in academia: one is the traditional concept, which believes that based on the theory of neoclassical economics, the regulation will internalize the externalities of corporate pollution, increase the corporate pollution control costs, and thus have a "crowding out effect" on the funds for corporate technological innovation. At the same time, as the degree of market competition decreases, the regulation will also have a negative impact on the quality of corporate green innovation; the other is the uncertainty concept, which believes that the impact of the regulation on corporate technological innovation is uncertain, such as the possibility of a "U-shaped" relationship [5]. However, these two concepts are not mainstream, and there is little empirical analysis to support them, so it is believed that the New Environmental Protection Law has effectively promoted corporate transformation and upgrading.

2.4. The New Environmental Protection Law has Alleviated the Financing Constraints of Heavy Polluting Enterprises

Enterprises face different degrees of financing constraints in the financing process. Especially for heavy polluting enterprises, in today's era of ecological civilization construction as a strategic goal, financing issues have become more and more difficult. Existing literature, based on A-share listed company data, has found that the New Environmental Protection Law can reduce the information asymmetry of heavy polluting enterprises, enhance their fulfillment of social responsibility, and reduce agency costs, thus alleviating the financing constraints of heavy polluting enterprises [12, 13]. In terms of heterogeneity analysis, the impact of the New Environmental Protection Law on enterprises with weak innovation capabilities and high financing constraints, non-state-owned enterprises, small and medium-sized enterprises, the banking industry, and areas in eastern part of China or with a poor legal environment is greater [1, 13].

2.5. The New Environmental Protection Law has Significantly Improved the Level of Corporate Information Disclosure

Corporate information disclosure refers to the process by which enterprises publicly disclose information about their business activities, financial status, corporate governance, environmental and social responsibilities, and other aspects to external stakeholders in accordance with relevant laws, regulations, and standards. It not only effectively demonstrates the performance of corporate environmental management, but also serves as a primary means of establishing a green image and communicating with stakeholders, which has attracted widespread attention from all sectors of society [14]. Existing literature, based on A-share listed company data, has found that the New Environmental Protection Law significantly enhances the level of environmental information disclosure by listed Companies [14]. Heterogeneous analysis indicates that this promotional effect is particularly pronounced for key pollution monitoring units with executive legal backgrounds, local state-owned enterprises, private enterprises, and foreign-funded enterprises in regions with high and medium levels of marketization, while it is not significant for central state-owned enterprises and in regions with low levels of marketization [14, 15].

3. Future Trends

Current literature mainly distinguishes between "severely polluting enterprises" and "non-severely polluting enterprises," as well as between "manufacturing enterprises" and "non-manufacturing enterprises." However, there is a scarcity of literature that classifies and analyzes research subjects from different perspectives, such as differentiating "financial enterprises" from "non-financial enterprises." Furthermore, existing literature primarily analyzes the impact of the new Environmental Protection Law from a micro-level enterprise perspective, with little analysis from a macro perspective, such as the study of "the impact of the New Environmental Protection Law on the high-quality development of cities." These two perspectives could become future research areas for the analysis of the impact of the New Environmental Protection Law.

4. Policy Recommendations

In terms of the environment (E), it is necessary to strengthen legislation and supervision. At the initial stage of the implementation of the New Environmental Protection Law, before the central environmental protection inspections were conducted, the production output of severely polluting enterprises decreased significantly, while environmental investment did not increase markedly. After the central environmental protection inspections were carried out, environmental investment by severely polluting enterprises increased significantly and became a long-term increase in environmental investment. Additionally, enterprises lacking political connections and with lower bargaining power, located in areas with stronger local environmental law enforcement, increased their environmental investment more [16]. Therefore, to ensure consistent regulation, unified environmental protection standards and regulatory measures should be implemented nationwide to avoid local protectionism. More stringent environmental laws and regulatory measures should be adopted to ensure that enterprises reduce pollutant emissions and improve resource utilization efficiency. Appropriate incentives could also be provided to enterprises adopting clean energy and environmental protection technologies, such as tax relief, subsidies, or other financial incentives.

In terms of society (S), labor rights should be protected, labor laws should be strengthened, working conditions and safety standards should be improved, and public participation in environmental supervision should be encouraged to enhance the enforceability and social recognition of environmental protection regulations. At the same time, community participation should be reinforced, and enterprises should be encouraged to cooperate with local communities to participate in community development projects, enhancing the social image and public trust of enterprises.

In terms of corporate governance (G), existing literature often includes its indicators as control variables, such as the proportion of independent directors, the combination of chairman and CEO positions, and the concentration of equity. However, these factors also have a significant impact on the development of enterprises. In response, enterprises should promote diversity in their boards by increasing the proportion of women and minority groups, thereby enhancing the diversity of decision-making. Additionally, internal corporate controls should be strengthened to prevent commercial bribery and corruption.

Relevant policies should support enterprises in reducing their dependence on labor through technological upgrades, promoting automation and intelligence to improve production efficiency. Moreover, due to the relatively low technical content of the labor force in industrial enterprises characterized by labor intensity [10], enterprises should provide retraining and career transition support for workers in industries affected by environmental regulations to help them adapt to the new job market. Since the New Environmental Protection Law will reduce employment and lead to some workers becoming unemployed in the short term, local governments should improve the unemployment insurance and social security system, providing necessary economic assistance and re-employment services for unemployed workers.

Local governments should guide with relevant industrial policies, formulate industrial upgrading guidance catalogs, and clarify the industries and fields that are encouraged and restricted. At the same time, appropriate financial support and policy incentives should be provided to enterprises engaged in green technology research and development. In terms of market access, enterprises that have successfully transformed and upgraded should be given market access conveniences, such as priority consideration for government procurement of their products and services.

Local governments should develop green financial markets, providing financing tools such as low-interest loans and green bonds for environmental protection projects. At the same time, the corporate environmental credit evaluation system should be improved, with the evaluation results serving as an important reference for financial institutions' loans.

Considering the impact of the New Environmental Protection Law on information disclosure, the government should continue to enforce the strict legal responsibilities and penalty rules stipulated in the law to ensure that enterprises comply with legal regulations in environmental information disclosure and to provide sufficient deterrence to violators. At the same time, in accordance with the requirements of the New Environmental Protection Law, the specific content, format, and timing requirements for corporate environmental information disclosure should be further clarified to standardize and normalize them. In addition, the government can encourage enterprises to conduct third-party environmental information certification to enhance the credibility and transparency of the information. With the development of information technology today, technologies such as big data analysis can be utilized to improve regulatory efficiency, such as establishing an online platform for environmental information disclosure, facilitating reporting by enterprises and public inquiry.

5. Conclusion

In summary, the implementation of the new Environmental Protection Law has a positive effect on the ESG (Environmental, Social, and Governance) level, transformation and upgrading, and information disclosure of enterprises, while it has a negative inhibitory effect on the scale of enterprise labor employment and financing constraints. In the future, more areas related to the new Environmental Protection Law need to be explored and developed, and corresponding policies should be implemented to ensure the sustainable development of enterprises.

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