

## THE DRIVERS OF ENVIRONMENTAL DEGRADATION IN ASEAN+CHINA: DO FINANCIAL DEVELOPMENT AND URBANIZATION HAVE ANY MODERATING EFFECT?

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This study examines the drivers of environmental degradation in ASEAN + China. It focusses on three unresolved questions: (i) Does the inclusion of China in ASEAN panel aggravate environmental degradation, given that China is a high carbon emissions country? (ii) Does financial development moderate the impact of energy consumption on environmental degradation in ASEAN? (iii) Does urbanization moderate the impact of energy consumption on environmental degradation in ASEAN? It employs empirical strategies that account for heterogeneity, endogeneity and cross-sectional dependence. The results show that economic growth, energy consumption and non-renewable energy aggravate environmental degradation, whereas renewable energy, foreign direct investment and trade openness mitigate it. The inclusion of China in ASEAN panel weakens the EKC hypothesis. Financial development favorably moderates the effect of energy consumption on environmental degradation in ASEAN, but adversely moderates the effect in ASEAN + China. Urbanization adversely moderates the impact of energy consumption on environmental degradation in both panels. Hence, efforts to address environmental degradation should consider these different drivers.

*Keywords:* Environmental degradation; energy consumption; economic growth; financial development; urbanization; ASEAN.

JEL Classification: Q53, Q56, O44, F14

### 1. Introduction

The Belt and Road Initiative (BRI) was unveiled by China in 2013 to search for new opportunities for foreign relations. BRI involves huge investment for infrastructural development, creation of huge economic markets by consolidating on the relations between China and many countries in Central Asia, South Asia, Middle East, Europe, North America and Southeast Asia. It focusses on infrastructural investment, construction materials, education, automobile, railway and highway, real estate, iron and steel and power grid. Due to the expected investment, BRI is considered as one of the largest infrastructural investment projects comprising about 68 countries. Undoubtedly, BRI is