

# THE NEXUS BETWEEN FINANCIAL DEVELOPMENT AND ENVIRONMENTAL DEGRADATION IN ASEAN-5

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## ABSTRACT

This study investigates the relationship between financial development and environmental degradation in ASEAN-5 countries namely Indonesia, Malaysia, Philippines, Singapore, and Thailand over the period of 2000 to 2012. The Panel Unit Root test, Panel Cointegration test, Vector Error Correction Model (VECM) Granger Causality, and Fully Modified Ordinary Least Square (FMOLS) are used in this study to examine the short-run and the long-run as well as the causality relationship among the variables. Variables employed in this study are carbon dioxide emissions, foreign direct investment, domestic credit, and market capitalization. The empirical findings show that all the variables are stationary at order  $I(1)$  and there is a cointegration relationship among the variables. The results show that there is a bidirectional causality relationship between the  $LCO_2$  and FDI. Meanwhile, there is a unidirectional causality running from  $LCO_2$  to DC, MC to FDI, and MC to DC respectively. The strong policy and institution structures are suggested to improve environmental degradation through new technologies and financial development and financial reforms play a role in protecting the environment.

**Keywords:** *Financial development, Environmental Degradation, ASEAN*

## TWIN DEFICITS AND DEBT IN ASEAN-5 COUNTRIES: PANEL DATA ANALYSIS

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## ABSTRACT

In view of the globalization, current account deficit and fiscal deficit remain the concern among the policy makers. This is due to the importance of the fiscal policy in governing the current account deficit of a country. This study aims to investigate the Twin Deficits phenomenon in ASEAN-5 countries (Indonesia, Malaysia, Philippines, Singapore and Thailand). In addition, the interaction between Twin Deficits and public debt also included in this study to examine the effects of the fiscal policy on current account deficit when considering the different levels of public debt. Panel data analysis is adopted and the sample period covers from 2000-2014 using annually data. Empirical findings indicate that evidence of Twin Deficits can be observed in the ASEAN-5 countries. In terms of the public debt levels, existence of positive association between current account deficits and fiscal deficits only can be observed when the public debt level is considered high.

**Keywords:** *Twin Deficits, Public Debt, Panel Data*