Chapter 13
Connecting Stability, Finance, and Climate Resilience for a Sustainable Tomorrow Towards Green Progress in ASEAN-5

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ABSTRACT

The Southeast Asian countries have witnessed substantial economic growth in recent years. However, this progress has not been matched with adequate measures to protect their environmental resources. The shadow economy is identified as a significant factor influencing environmental quality. Taking the shadow economy into consideration, both political stability and financial development emerge as crucial factors impacting environmental pollution. This chapter aims to examine the influence of financial development in strengthening the relationship between political stability and environmental pollution from 1996 to 2021 in ASEAN-5 nation. The ARDL approach is employed to estimate long-run elasticity, affirming the existence of an inverted U-shaped Environmental Kuznets Curve (EKC) hypothesis in ASEAN-5 countries. Additionally, ASEAN governments are encouraged to invest in energy infrastructure development to enhance renewable production capacities with zero emissions.

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1. INTRODUCTION

In the past two decades, there has been a notable surge in research focused on environmental issues. Environmental degradation is one of the biggest issues facing most of the world's nations. Several academics have recently claimed that acute conflicts are caused by widespread environmental stresses created by humans. Nevertheless, implementing strict environmental laws also depends on a politically stable environment (Asif et al., 2020). According to Dhrifi (2019) research, political stability plays a significant influence in mitigating environmental degradation. According to Alavi and Mohammadi (2023), nations with more political freedom typically have better environmental quality since citizens are free to express their opinions. On the other hand, the contribution of financial development strengthens the connection between environmental sustainability and political stability. A stable political environment coupled with a well-developed financial sector enhances the capacity of industries and sectors to invest in eco-friendly projects. This not only stimulates economic growth but also effectively mitigates the risks associated with environmental degradation. To the best of our knowledge, there is little evidence that financial development has a moderating effect on political stability, which in turn influences pollution levels in the environment. Therefore, it would be intriguing and novel research to look at how financial development supports the relationship between political stability and environmental degradation.

Numerous studies have been carried out to investigate the relationship between economic activity and environmental pollution (Liu et al., 2020; Majeed and Tauqir 2020). The Environmental Kuznets Curve (EKC), which represents the inverse U-shaped relationship between economic activity and environmental pollution, has been the main concept used to investigate this relationship. Few research has been identified to use aggregate data to demonstrate the significance of shadow economic activity, even though several studies in the pertinent literature have stressed the connection between formal economic growth and environmental deterioration (Butt et al., 2023). Concurrently, the subterranean economy will intensify widespread pollution. Government attention to pollution reduction tends to increase as environmental problems get worse, driving up the expense of environmental protection.

The unofficial, hidden, or "black" economy that is not disclosed in official financial records is known as the "shadow economy" (Schneider & Enste, 2000). Both developed and developing nations engage in shadow economic activity, hence the official GDP is insufficient to capture all forms of economic activity. The shadow economy is currently one of the most prevalent problems, even in nations that are normally quite law-abiding (Goel & Nelson, 2016). The purpose of this study is to add to the body of knowledge about how ASEAN's informal economy affects the region's environmental quality. The rationale behind the selection of ASEAN is its status as a developing region with a high degree of informality in its economy due to its reliance on polluting industries for

economic growth (Wibowo & Indrayanti, 2020). Environmental degradation is one of the major issues Southeast Asia faces in the twenty-first century. Southeast Asian governments are dedicated to making the ASEAN area "clean and green." Although the goal is admirable, it will not be easy to accomplish. Southeast Asia's regional ecosystem is varied. The issues are not typical. The persistent rates of environmental degradation can have detrimental effects. The persistent and escalating rates of environmental degradation, as well as unpredictable advancements, exert profound effects on economic growth, individual living standards, social sustainability, and the structure of regional security (Wendling et al., 2020; Medina et al., 2019).