TESTING THE EKC HYPOTHESIS IN INDONESIA: EMPIRICAL EVIDENCE FROM GENERALIZED METHOD MOMENT

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Abstract

The Environmental Kuznets Curve (EKC) is an inverted-U curve relationship between economic growth and environmental damage. At the beginning of economic growth, environmental damage cannot be avoided, but when it reaches a specific income growth, environmental conditions will be better marked by a decrease in the level of environmental damage. The need for better environmental quality will increase as a country becomes more prosperous. This study contributes by analyzing the effect of per capita income on environmental damage, namely deforestation. Other variables such as population density, log production, coal resources, road length, and oil palm production are also included in the model to look at the drivers of deforestation. The analysis was carried out using panel data consisting of 28 provinces in Indonesia from 2011-2019. Estimation is done by using the Generalized Moment Method. The results of this study did not find an inverted-U curve according to the EKC hypothesis. In addition, the variables of population density, log production, and coal resources significantly affect deforestation in Indonesia.

Keywords: Deforestation, Enviromental Kuznets Curve, Generalized Method Moment

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