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Article

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International Journal of Energy Economics and Policy

Provided in Cooperation with:
International Journal of Energy Economics and Policy (IJEEP)

Reference: Sharmiladevi, Jekka Chandrasekaran (2024). Detecting the role of agriculture and industry value added, energy, capital flow, and openness to trade upon environmental Kuznets Curve for India. In: International Journal of Energy Economics and Policy 14 (6), S. 55 - 62.
https://www.econjournals.com/index.php/ijeep/article/download/16950/8243/39712.
doi:10.32479/ijeep.16950.

This Version is available at:
http://hdl.handle.net/11159/701648

International Journal of Energy Economics and Policy

ISSN: 2146-4553

available at http: www.econjournals.com

International Journal of Energy Economics and Policy, 2024, 14(6), 55-62.

Detecting the Role of Agriculture and Industry Value Added, Energy, Capital Flow, and Openness to Trade upon Environmental Kuznets Curve for India

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Received: 23 May 2024 **Accepted:** 02 September 2024 **DOI:** https://doi.org/10.32479/ijeep.16950

ABSTRACT

This study revisits the environmental Kuznets curve for India, considering unique variables like agriculture and industry value added, fossil fuel energy consumption, inward foreign direct investment, openness to trade, economic growth and carbon dioxide (CO_2) emission. The study results indicate the presence of EKC for India, indicating a positive long-term equilibrium relationship between agriculture and industry value added and fossil fuel energy consumption with CO_2 emission. Inward FDI and trade openness have a negative relation with CO_2 emission, supporting the fact that the environmental regulations for international investments and trade in India are becoming more assertive. At the same time, India needs stringent regulations on emissions from the agriculture and industry sectors.

Keywords: Environmental Kuznets Curve, Agriculture Value Added, Industry Value Added, Inward FDI, CO_2 Emission, Trade Openness, Economic Growth
JEL Classifications: F2, O13, O4, Q52, Q58

1. INTRODUCTION

Human activities shape the environment. With the increase in human activities, the shape of the environment is changing uniquely. The economic structure of a nation gets modified with environmental changes through the use of resources and the generation of pollution. In globalization-induced development, environmental concerns took a back sheet that resulted in severe challenges in resource utilization, leading to multifold increases in all kinds of pollutants. Environmental Kuznets Curve (EKC), developed by Grossman and Krueger (1993), indicates the inverse relationship between environment and development, which is similar to that of the inverted U-shaped relationship between income inequality and development postulated by the famous economist Simon Kuznets. Grossman and Krueger's preliminary empirical research on the relationship between environmental quality and per capita income indicated that pollution increases with GDP per capita at low-income levels but decreases with GDP growth at high-income levels (Grossman and Krueger, 1993).

In the initial stages of development, when the economy is more interested in the creation of new opportunities, focus and attention are given more towards the creation of additional income and employment, and environmental concerns are weak, as and when the economy grows and reaches to a level, environmental regulations become stronger with regulatory institutions, that results in cleaner technology with less pollution, that levels off and then falls at the pre-industrial levels. Kuznets's work on income inequality indicates that, as per capita increases, income inequality initially increases and then decreases gradually, after reaching a threshold level, which means, the distribution of income is more unequal in the beginning stage of growth, distribution becomes more equal when growth continues (Kuznets, 1955).

EKC takes the form of an inverted U-shaped curve. It indicates that as the country's economic growth increases, environmental pollution intensifies and reaches a peak, and subsequently, as and when the country attains economic prosperity, environmental pollution gradually decreases. Environmental pollution due to emissions of carbon dioxide, sulphur, nitrogen, and other particulate pollutants poses severe threats and challenges to weather events, leading to unprecedented climate changes and threats to all living species (Adebayo et al., 2021). Grossman and Kruger's EKC hypothesis was introduced, and it initiated a series of debates on understanding the relationship between environmental pollution and economic development.

The concept of EKC has been applied to a spectrum of issues, from species extinction and nitrogen fertilizer to a variety of environmental challenges across geographies, yet debates are continuing regarding the extent, effects and presence of EKC (McPherson and Nieswiadomy, 2005; Zhang et al., 2015; Frank et al., 2012; Carson, 2010; Kaika and Zervas, 2013; Chow and Li, 2014; Wagner, 2015). Many studies support this hypothesis (Pata, 2018; Jian et al., 2019; Destek and Sarkodie, 2019; Murshed et al., 2020; Akadırı et al., 2021; Balsalobre-Lorente et al., 2021), whereas few studies question the existence of EKC (Dinda, 2004). Arrow et al. (1996) indicate that EKC is the outcome of international trade from specialisation and comparative advantages. Studies also indicated that EKC needs intensive empirical examination (Johansson and Kriström, 2007), with new models and decompositions with multiple panels and time series data sets (Stern, 2004; Wagner, 2008).

Literatures indicate that EKC needs to be studied in sync with changing economic growth and international trade scenarios, as increasing trade and development results in higher levels of pollutants. With this idea, this paper examines the existence of EKC for India, considering carbon dioxide emission, agricultural value added, industry value added, economic growth, international business and openness to trade. At a time when India is pursuing the emergence of the "Vishwa Guru"-the teacher of the world- understanding the existing ground realities is vital for walking confidently towards the perceived path of Vishwa Guru (De Estrada, 2023). India comprises 1417.173 million people, has a 6.56 gross domestic product (GDP) growth rate, and is one of the fastest-growing economies (UNCTAD, 2024). 11.4% of India's GDP is spent on energy, which is half of the Asian average, with coal being the top energy source consumed at 46% of total consumption in 2022, (Enerdata, 2023) justifies taking India for this study.

2. EMPIRICAL EVIDENCE ON EKC

Empirical evidence of EKC covers wide areas of phenomena like the presence/absence of EKC and its shape and position, which are examined with diverse sets of variables across different geographies by adopting multiple econometric techniques. Research, upon identifying the existence of EKC, has considered economic growth and different kinds of emissions. Most studies on EKC fall in this category. Studies considering income and emissions usually take the shape of an inverted U and was found by Adebayo (2021) for Indonesia, Akbostanci et al. (2009) for Turkey, Asongu et al. (2016) for 24 African countries, Diao et al. (2009) for China; and He and Richard (2010) for Canada. A positive relationship is found between economic growth and environmental degradation (Ozturk and Acaravci, 2013; Apergis and Ozturk, 2015; Asongu et al., 2016; Pata, 2018; Adams and Nsiah, 2019; Jian et al., 2019; Ahmad et al., 2021; Namahoro et al., 2021).

Checking the causal relation between energy consumption and income in combination with other variables is primarily used for detecting EKC. The first study in this line was conducted by Kraft and Kraft (1978); this study identified unidirectional causality from energy consumption to economic growth. Studies by (Apergis and Payne, 2010; Lee and Chang, 2008; Lean and Smyth, 2010; Narayan and Smyth, 2008) found unidirectional causality between energy consumption and economic growth. Few studies also indicated reverse causality (Lise and Van Montfort, 2007; Zhang and Xu, 2012; Ang, 2008; Ozturk et al., 2010). Bi-directional causality is also reported in studies (Ozturk et al., 2010; Apergis and Payne, 2009; Jalil and Mahmud, 2009; Nasir and Ur Rehman, 2011; Hossain, 2011; Zhang and Cheng, 2009; Saboori and Sulaiman, 2013). Studies have also found different effects of EKC at regional, national and global levels. Namahoro et al.'s 2021 study of East African countries indicates a positive relationship at the regional level and an unstable relationship at the national level.

Agriculture and allied activities are significant for development but also result in pollution, which demands colossal investment for mitigation (Nelson and Maredia, 2001). EKC has also been studied using scale and time effects. Scale effect indicates an increase in economic activities with more energy utilization leading to an increase in output and income, as seen in developing/emerging economies. In wealthy countries, environmental damage is slow as they take more precautions since they have already crossed the development threshold. The scale effect makes environmental damage more significant, and developing countries are in a compelling situation to address and remedy this issue (Dasgupta et al., 2002).

The role of inward FDI in carbon dioxide emission has been examined recently. Yin et al. (2021) identified the causal relation among FDI, CO_2 emission, and economic growth for 101 countries; the results of this study indicate the presence of EKC. Yasmeen et al. (2022) indicate that FDI leads to pollution in Belt and Road Regions when FDI is examined with other variables like technological innovation, natural resources, population density on biomass energy consumption and ecological footprints.

The structure of an economy, level of economic freedom, and economic complexities also act as enabling factors for EKC. Economic complexity negatively affects the environment, leading to pollution; this phenomenon demands a restructuring of knowledge-intensive and complex developmental projects during the expansion phase of development (Taghvaee et al., 2022). Mixed results were seen when EKC was tested considering economic freedom and other income- and emission-related variables; while economic freedom reduces environmental degradation in developed countries, it is the opposite in emerging economies in the long term (Bektur, 2023). EKC is confirmed for European Union countries when industrialisation and economic structure were considered. EKC is not seen when the above two variables were not considered for the same countries, indicating the fact that the structure of an economy is an essential enabler for the presence/absence of EKC (Dogan and Inglesi-Lotz, 2020).

With the advent of new technology which are clean, many sectors are moving forward from traditional polluting energy resources like firewood, charcoal, and bio-waste to modern, cleaner energy resources like gas, electricity and solar. Few studies identify the effect of cleaner technology upon EKC across different sectors like manufacturing, housing construction, etc. (Htike et al., 2022)

EKC for India, is studied considering the agricultural and industry sector (Htike et al., 2022), coal consumption (Tiwari et al., 2013), economic structure (Villanthenkodath et al., 2021), renewable energy, FDI, stock market, energy intensity and private investment (Gopakumar et al., 2022) environmental-control technology (Uche et al., 2023), population growth, natural resource depletion, consumption of non-renewable energy, national income, remittances and industrial output, CO_2 emission (Itoo and Ali, 2023), CO_2, ecological footprint, GDP, natural resource rent, energy consumption, and urbanization (Hossain et al., 2023), CO_2 emission, economic growth, manufacturing output and export (De, 2023), energy consumption, agricultural value added, trade, world uncertainty index, geopolitical risk, emission of greenhouse gas (Rashid and Gopinathan, 2023), tourism development, GDP per capita, energy consumption, urbanization and CO_2 emissions (Sharma et al., 2023), environmental quality, energy consumption, population, and urbanization (Villanthenkodath, 2023), EKC in different states of India (Rudra and Chattopadhyay, 2018), environmental pollutants and GDP (Sajeev and Kaur, 2020), globalization and CO_2 emissions (Shahbaz et al., 2015), carbon emission, energy use, economic activity and trade openness (Kanjilal and Ghosh, 2013; Sanusi and Dickason-Koekemoe, 2024). Studies of EKC for India, considering agricultural and industrial value-added, with other macroeconomic and emission variables, are not there. This study becomes an addition to the existing literature on EKC for India. Table 1 provides a quick synopsis of the literatures on EKC in 2024.

3. METHODOLOGY

This research is an applied research with an empirical design. The objectives of this research are to identify the presence of EKC for India considering the variables carbon dioxide emission, agriculture forest and fishing value added, industry value added, fossil fuel energy consumption, inward foreign direct investment, economic growth, and trade openness. The data source is from the World Bank World Development Indicator, and the time period is from 1990 to 2022. Variables descriptions are given in Appendix 1. The Unit root test indicates that all the variables are stationary at I(1), as shown in Appendix 2.

3.1. Model and Model Specification

The variables are checked for stationarity, and an autoregressive distributed lag model is employed to estimate the short and long-term effect, measured using bound testing. Error correction can indicate model stability. Further, the ARDL model can successfully address endogeneity and autocorrelation through lag modifications within the model, which makes it appropriate to understand the dynamism among the variables in the long run (Pesaran et al., 2001; Sarkodie and Ozturk, 2020). The ARDL model used in this study is given below. Equation (1) indicates the functional relationship among the variables. The Error Correction Model (ECM) representation of ARDL is formulated about equation (2) in order to examine cointegration, if present, among the variables defined in equation (1)

$$CO_{2t} = f\,(AVA_t, IVA_t, IFDI_t, FF_t, DGDP_t, DTOP_{t,}) \tag{1}$$

$$\Delta L\ CO_{2\ (t)} = \beta 0 + \delta 1LAVA_{(t-1})} + \delta 2LIVA_{(t-1)} + \delta 3LFF_{(t-1)} + \delta 4LGDP_{(t-1)} + \delta 5LIFDI_{t-1)} + \delta 6LTOP_{(t-1)} + \varepsilon_{(t)} \tag{2}$$

All variables are in log form and first differenced.

Where,
LCO_2 = Carbon dioxide emission
LAVA = Agriculture forest and fishing value added
LIVA = Industry value added
LFF = Fossil fuel energy consumption
LGDP = Gross domestic product
LIFDI = Inward foreign direct investment
LTOP = Openness to trade
t = time from 1990 to 2022
t-1 = one period lag
β = intercept
δ1, δ2, δ3, δ4 δ5 δ6 = coefficients
ε = error term.

4. ANALYSIS AND INTERPRETATION

The dependent variable is carbon dioxide emission, and the independent variables are agriculture, forest and fishing value added, industry value added, fossil fuel energy consumption, gross domestic product, inward foreign direct investment and trade openness. Since the study variables follow the first order of integration, the ARDL model is found to be suitable for understanding the effects among the variables. This model runs with one period of lag and is significant. The bounds test was checked to understand long-run effects; it indicates the presence of cointegrating relations, as the F statistics value of 13.68, which is above the lower and upper bound, as shown in Table 2, ensures long-run equilibrium cointegrating relations among the test variables. From Table 3, it is known that the long-run relationship between carbon dioxide emission, agriculture and industry value added, fossil fuel, and GDP are significant. But, inward FDI and trade openness are not significant. From Table 3 long-run estimates, we can understand that a one per cent increase in carbon dioxide emission can result in a 72.3% increase in GDP and a 54% increase in fossil fuel emission. However, at the same time, a one

Table 1: Synopsis of recent literatures on EKC in 2024

Authors	Country and study period	Period	Variables	Techniques	EKC
Hassan et al.	United States of America	1973-2021	Nuclear energy generation, population dynamics, economic progress	Dynamic autoregressive distributed lag	Validated
Wang et al.	147 countries from 1995 to 2018	1995-2018	Trade openness, economic growth, environmental degradation	Panel data regressions	Validated
Erdogan	African countries	1992-2020	Aggregated and disaggregated natural resource rents, ecological sustainability load capacity	Linear-logarithmic models of panel data	Validated
Subramaniam	European Union	2012-2020	Economic growth, green economy, population, energy consumption, emissions	GMM	Validated
Ben Youssef and Dahmani	88 Low- and middle-income countries (LMICs) and High-income countries (HICs),	2000-2021	Gross domestic product per capita, environmental tax revenue, ICT and energy capacity index	Cross-sectional ARDL	Validated
Pata and Karlilar	24 OECD countries	1995-2018	Energy security, green innovation, economic stringency, income, fossil fuel footprint	Augmented mean group and half panel jackknife causality	U and inverted N are validated
Guo and Shahbaz et al.	1991-2023,		Systematic literature review	-	EKC validated at the sectoral level
Saud et al.	1990-2019	EU	Natural resources, economic complexity, sustainable development	Pooled mean group-autoregressive distributed lag (PMG-ARDL)	EKC in the form of N-shaped is validated
Wang and Kim	--	USA	Decoupling between CO_2 emissions and income growth	Panel fixed effects, two-stage least square	Validated
Ullah et al.	2009-19	OECD (17 selected)	Digitalization, technological, financial innovation, environmental quality		N-shaped EKC
Mitić et al.	1995-2019	Serbia	CO_2 emissions, economic growth, electricity consumption, trade openness	ARDL	inverted U-shaped EKC
Liu et al.	2005-2018	China and BRI Nations	Outward FDI, renewable energy, energy intensity		validated
Dardouri and Smida	1961–2018.	Germany, France, Japan, Canada, UK, and US	Economic growth per capita and renewable energy consumption	ARDL	N-shaped and U-shaped patterns validated

Table 2: ARDL bound test results

Model: $CO_2t = f$ *(AVAt, IVAt, IFDIt, FFt, GDPt, TOPt)*	Sig Level (%)	Lower bound	Upper bound	F-Stat
Null Hypothesis for Error Correction	10	2.33	3.25	13.68
	5	2.63	3.62	
	2.5	2.9	3.94	
	1	3.27	4.39	

No long-run relationship β1=β2=β3=β4, No short-run relationship Ø1=Ø2=Ø3=Ø4

Table 3: Long-run coefficient estimates

Independent variables	Coefficient (standard error)	t stat (prob)
LAVA	−1.84 (0.52)	−3.52 (0.00)
LAVA	−3.77 (1.68)	−2.24 (0.03)
LIFDI	−0.0.(0.07)	−0.46 (0.64)
LGDP	7.23 (1.47)	4.89 (0.00)
LTOP	0.88 (0.52)	1.67 (0.11)
LFF	5.40 (1.79)	3.01 (0.00)

R-Square – 0.97, Adjusted R-Square – 0.96, Durbin Watson Stat – 2.03, F Stat – 52.5, Prob (F-Stat) – 0.00, Normality [Jarque-Bera] – 1.08, Heteroskedasticity test Breusch-Pagan-Godfrey (P-value) – 0.68, Ramsey Reset test (F stat) – 0.04
Source: Authors' calculations from Eviews

per cent increase can result in a reduction in 18.4% agriculture forest and fishing value-added, a 37.7% reduction in industry value-added, and no impact of inward FDI. The error correction term, represented by the Cointegrating Equation, is negative, with an associated coefficient estimate of -0.7250. This implies that 72.50% of any movements into disequilibrium are corrected within one period. A t statistics value of −12.53 and a probability score of 0.00 indicate that the coefficient is highly significant.

Error correction mechanism integrates short-run and long-run equilibrium without losing the long-run information and takes care of spuriosity. The coefficient of error correction term shows the speed of adjustment from the short run to the long run for any disequilibrium and long-run causality relations. The error correction term is significant. The coefficient of ECM is −14.45, which means, the speed of adjustments for the previous year's errors and shocks will be corrected in the current year at a speed of adjustment of 144.5%. R square value is 90.39%, and the adjusted R square is 87.47%, indicating model fitness. Residual diagnostics with heteroskedasticity test of Breusch-Pagan-Godfrey, normality test with Jarque-Bera scores, and stability test using CUMSUM test were conducted. All the stability diagnostics tests shown in Table 3 are significant, indicating an absence of heteroscedasticity, non-normality, or serial correlation, which ensures stability.

5. DISCUSSION, CONCLUSION, POLICY IMPLICATIONS AND DIRECTION FOR FUTURE RESEARCH

The objective of this study is to check the presence of EKC by considering variables such as carbon dioxide emission, agriculture forest and fishing value added, industry value added, inward FDI, fossil fuel emission, and trade openness. Considering the above variables, this study is the first in India to study EKC, so this is a new addition to the existing literature on EKC for India. The results of this study indicate the presence of EKC in India. Results of the ARDL model indicate that there is a strong cointegrating relationship among the study variables. The long-run results are significant in the case of agriculture and industry value-added, fossil fuel emission and GDP, but insignificant for inward FDI and trade openness. This study is identical to the results of the studies of (Ozturk and Acaravci, 2013; Apergis and Ozturk, 2015; Asongu et al., 2016; Pata, 2018; Adams and Nsiah, 2019; Jian et al., 2019) (Ahmad et al., 2021; Namahoro et al., 2021) concerning emission and income growth. Currently, India stands number one in terms of utilisation of energy; agricultural production is very high, and industrial development is also multi-fold; all these happenings explain the reason for the positive relationship between CO_2 emission with agriculture industry value added, fossil fuel energy utilisation. Industries are the heart of India's economic development (Fan et al., 2003), and industry sectors are prominent emitters of carbon dioxide. Globalisation and financial development are also acting as avenues for more fossil fuel energy utilisation (Shahbaz et al., 2015).

The reasons for the long-run results not being significant in the case of inward FDI and trade openness can be the composition of economic activities and technology that create different impacts on the environment (Grossman and Kurgers, 1993), the structure of an economy essentially determines the presence/absence of EKC (Dogan and Inglesi-Lotz, 2020). The results of this study indicate that with more openness to trade and inward FDI, CO_2 emissions are decreasing, which supports the Pollution Heaven Hypothesis (PHH) of (Copeland and Taylor, 1994), indicating that polluting industries relocate to places with less stringent environmental regulations. This also leads us to understand that environmental regulations become the centre stage of discussion when firms decide to invest in the FDI route. It is observed across developing countries that liberalised FDI regulations can help get more inward FDI. However, over-hasty liberalisation may lead to long-run negative impacts if regulation in the host country cannot respond to increased economic pressures. Economic growth resulting from FDI is generated at the cost of the natural and social environment, and the impact is mixed, especially in environmentally sensitive sectors. Therefore, strong regulations are vital and act as precautions in sensitive investment areas. Wherever host country regulatory capacity is lacking, developed countries have a responsibility to help improve this before any negotiations to open up new sectors to their investors (Mabey and McNally, 1999).

Future studies can focus on specific firm, industry and sector level, that can show light on the extent of pollution.

Understanding the ecological and economic complexity becomes an essential factor to understand the environmental degradation (Alvarado et al., 2021). Stimulus measures to encourage using alternative energy resources can be a long-term solution. Investing in climate-resilient agriculture (Lipper et al., 2014), energy audit, environment social and governance reports (ESG) compliances concerning profit and investments. Climate-resilient agricultural, capacity building, skill formation, elimination of disincentive policies, and industry partnering handholding with developed countries facilities are a few of the future focus areas of concern (Lipper et al., 2014; Nugroho and Lakner, 2022).

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APPENDIX

Appendix 1: Variable Description

Variables	Variable Representation	Variable Description
Carbon di Oxide emission	CO_2	CO_2 emissions (metric tons per capita)
Agricultural forest and fishing value added	AVA	Agriculture, forestry, and fishing, value added (% of GDP)
Industry value added	IVA	Industry (including construction), value added (% of GDP)
Fossil fuel	FF	Fossil fuel energy consumption (% of total)
Gross domestic product	GDP	GDP per capita (constant 2015 US$)
Trade openness	TOP	Exports added to imports and divided by GDP
Inward Foreign direct investment	IFDI	Foreign direct investment, net inflows (% of GDP)

Appendix 2: Unit Root Test

Variables	At level I (0)	At first difference I (1)
LCO_2		
Constant	−2.03 (0.27)	−4.54 (0.00)
Constant and Linear	−2.26 (0.43)	−4.92 (0.00)
None	−1.39 (0.14)	−4.62 (0.00)
LAVA		
Constant	−1.64 (0.44)	−6.25 (0.00)
Constant and Linear	−0.93 (0.93)	−6.80 (0.00)
None	−2.22 (0.02)	−5.46 (0.00)
LIVA		
Constant	−2.32 (0.17)	−5.52 (0.00)
Constant and Linear	−1.05 (0.92)	−5.80 (0.00)
None	−0.42 (0.52)	−2.70 (0.00)
LGDP		
Constant	0.55 (0.98)	−5.54 (0.00)
Constant and Linear	−3.19 (0.10)	−5.44 (0.00)
None	8.52 (1.00)	−1.74 (0.03)
LFF		
Constant	−3.64 (0.01)	−4.51 (0.00)
Constant and Linear	−0.87 (0.94)	−5.87 (0.00)
None	−4.40 (1.00)	−3.38 (0.00)
LIFDI		
Constant	−2.39 (0.15)	−6.39 (0.00)
Constant and Linear	−2.02 (0.56)	−7.57 (0.00)
None	−2.53 (0.01)	−5.98 (0.00)
LTOP		
Constant	−0.66 (0.84)	−5.06 (0.00)
Constant and Linear	−1.54 (0.79)	−5.24 (0.00)
None	0.35 (0.78)	−5.09 (0.00)