

# THE GLOBAL ENVIRONMENTAL KUZNETS CURVE AND THE KYOTO PROTOCOL

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## Abstract:

Over the years environmental issues have been playing a remarkable role in the global debate about the Earth future. Emissions of the "greenhouse effect" gases (GHG) are increasing, in despite of joint efforts to implement international agreements. In this context, this paper is aimed at investigating the Global Environmental Kuznets Curve (EKC) hypothesis for a sample of 167 countries over the period 2000-2004, using a fixed effect model with spatial dependence. Another objective of this paper is to evaluate the role of the Kyoto Protocol as a global policy in order to reduce CO<sub>2</sub> emissions per capita. To do so, a dummy variable, representing the countries that have ratified the Protocol is introduced into the left hand of regression. Besides, other three variables are inserted into the left hand of regression: the trade intensity, energy consumption per capita and population density. The econometric results, in principle, suggest the existence of an "N" shaped EKC, finding the following "turning points": US\$ 13,325.79 and US\$ 27,487.56. Another important issue is the negative coefficient, and statistically significant, for the dummy variable for the Kyoto Protocol, showing the potential importance of international agreements for reducing the overall amount of CO<sub>2</sub> emission per capita. Therefore, economic growth itself cannot replace multilateral policies that seek to reduce CO<sub>2</sub> emissions. This result suggests that multilateral policies can help reduce GHG emissions, but more countries are needed to commit themselves with such a reduction.

Key words: Environmental Kuznets Curve, CO<sub>2</sub> emissions per capita, spatial econometrics, Kyoto Protocol.

JEL classification: Q53, C21.

## 1. Introduction

Environmental risks and uncertainties from an elevate consumption in the future are disturbing. Among the risks involved, one can point out the probability of climate modification due to the greenhouse effect caused by gases emitted in the atmosphere. The most important of these gases is the carbon dioxide (CO<sub>2</sub>), which is generated by the burning of fossil oils and the pollution stemmed from manufacturing plants. The CO<sub>2</sub> accumulation

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and other gases in the atmosphere retain the solar radiation surrounding the Earth surface, provoking the global warming phenomenon. In the next decades this may imply the sea level increases up to a certain point that it will be able to inundate several shore located cities. Furthermore, this phenomenon may cause enormous troubles to international agriculture and trade system. (WCED, 1987).

In the late eighties a critical view started emerging among the developed and developing countries worried about how the economic growth was taking place worldwide and its impact on the planet future. Hence there was a preoccupation about the excessive use of natural resources without considering the support capacity of the ecosystems along the world.

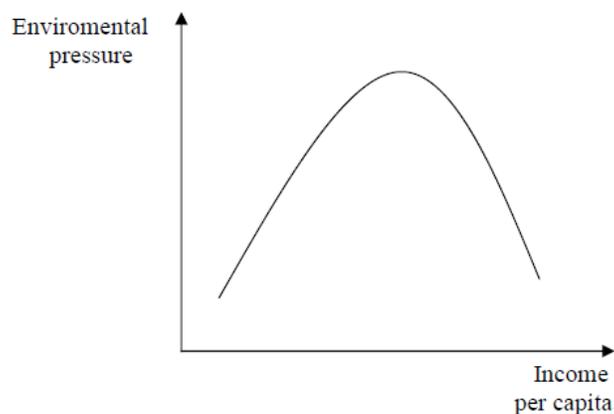
In this context, some authors have investigated a relationship called EKC in which environmental degradation measures increase as economic growth is generated up to a maximum. Afterwards, when a certain level of income per capita is reached, these measures decrease. According to Stern (2004, p. 1419), “the EKC proposes that indicator of environmental degradation first rise, and then fall with increasing income per capita”.

The concept of EKC flourished at early nineties to describe the time trajectory that a country’s pollution would follow as a result of its economic growth. When the growth occurs in an extremely poor country, pollution emissions grow because the increase in the production generates pollutants and because the country poses a low priority on the environmental degradation control. Since a country obtains enough affluence degree, its priority switches to protection of environmental quality. If this income effect is strong enough, it will cause the decline of pollution. According to Deacon and Norman (2004), this line of reasoning suggests the environmental improvement does not come without economic growth.

So countries would go through development stages, guided by market forces and governmental regulation changes. In the first stage, marked by the transition of an agricultural economy to an industrialized one, the economic growth implies a pressure on the environment, as a consequence of creation and expansion of manufacturing plants. The next stage would be characterized by the maturation of society and industrial infrastructure. At this moment, the accomplishment of basic needs allows the growth of sectors which are less intensive in terms of resources and pollution. At the same time, technological improvement begins to reduce the energy intensity. At last, in the third development stage, it would happen the de-linking between the economic growth and the pressure on environment, when the former does not imply the increase of later one (Grossman and Krueger, 1995; Shafik and Bandyopadhyay, 1992; Selden and Song, 1994).

According to Lucena (2005), after a certain income per capita level (called turning point), the environmental quality would improve in accordance with economic growth. This means that the environmental impact is an inverted U shaped function in terms of income per capita, as shown in figure 1.

Figure 1. Environmental Kuznets Curve

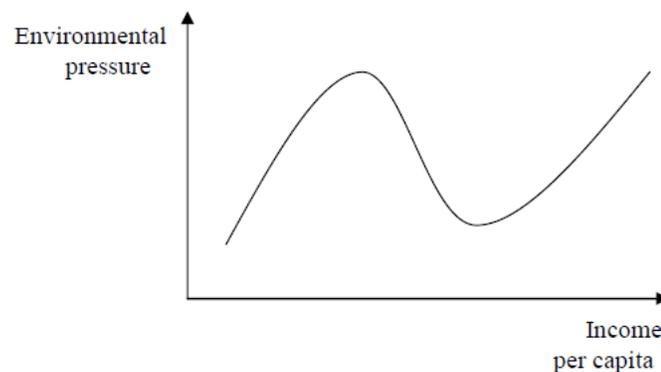


Source: Authors' elaboration.

The relationship between economic growth and environmental quality described by Grossman and Krueger (1991) can be decomposed of three effects, namely, scale effect, composition effect and technical effect. One expects that the environmental pressure increases as output growth increases (scale effect). Nevertheless, this greater pressure can be nullified by the other two effects. For instance, it is possible that economic growth occurs mainly in sectors that pollute less (composition effect). It is also possible to admit that technological progress is able to countervail the greater production level (technical effect).

However, De Bruyn *et al.* (1998) believe the EKC does not hold in the long run. So the inverted U shape would be only an initial stage of the relationship between economic growth and environmental pressure. Above a certain income level, there would be a new turning point that would become the trajectory ascendant again, leading to N shaped curve. This means that the environmental degradation would come back in high growth levels.

Figure 2. Another Version of the Environmental Kuznets Curve



Source: Authors' elaboration.

In terms of global impact pollutants, since the nineteenth century, some researchers have been searching to demonstrate the association between the carbon dioxide (CO<sub>2</sub>) in the atmosphere and temperature elevation. However the initial answer of the countries in relation

to global warming was Framework Convention on Climate Change (FCCC) originated at Rio Summit in 1992. That the voluntary approach under FCCC would not generated any effective result in terms of policy measures was suddenly evident for many people along the world. Besides, the CO<sub>2</sub> emissions from some countries have increased since that time. This motivated that the public policy defenders continued with the meetings leading to the Kyoto Protocol in 1997 (Nordhaus and Boyer, 1999).

Kyoto Protocol contains a specific compromise assumed by industrialized and in transition economies to reduce their CO<sub>2</sub> emissions below the their 1990 level along the period 2008-2012. However no compromise has been assumed by developing countries, grounded on the argument that the industrialization process and development should not be limited by any constraint for generating energy and consumption (GALEOTTI and LANZA, 1999).

From a theoretical viewpoint, the EKC hypothesis is less likely for CO<sub>2</sub> emissions because this kind of pollutant causes problems in global scale and, consequently, the social costs accruing from the global warming accumulate along the time and across the countries.

Generally, the evidences in favor of the EKC are found for environmental problems at the local, like (SO<sub>2</sub>, NO<sub>x</sub>). When investigating pollutants whose control costs are big in terms of changes in the consumption habits and whose effects are externalized in the atmosphere, like CO<sub>2</sub>, for example, this relationship does not have robust empirical evidences in favor of an inverted U shaped EKC.

A linear relationship for CO<sub>2</sub> emissions and GDP per capita has been corroborated in some studies (Shafik and Bandyopadhyay, 1992). Other studies have found an N shaped function (De Bruyn *et al.*, 1998; Holtz-Eakin and Selden, 1995; Moomaw and Unruh, 1997). Neither linear nor cubic relationship allows us to have an optimistic interpretation about the beneficial effects of economic growth on environment.

Perhaps more importantly than the findings of the studies that test empirically the EKC hypothesis it is the consequences of this relationship referring to environmental policy. However, Grossman and Krueger (1995) point out that, even for pollution indicators that demonstrate a fall after a certain level of income, the occurrence of this process is actually not guaranteed. Therefore economic growth itself does not guarantee the cure for problems related to the environment. Proper environmental policies play a fundamental role in the inversion of trajectory of pollutants that follow the EKC hypothesis.

Although the international community is favorable to the sustainable development, the public policies do not incorporate this compromise with the environment defense. The definition about concrete targets for reducing pollutant emissions at international conferences, as well as the public policies implemented by the majority of countries, is below the recommendation suggested by scientists and environmentalists as being indispensable to solve the global warming. Of course, there are intervenient factors on political and economic systems that hinder the search of social optimum at the moment of international agreement negotiations (Fray, 2001).

Although the EKC have been corroborated in several studies for air, water and soil pollutants, in the case of greenhouse effect gases, like CO<sub>2</sub> emissions, the empirical evidence is yet dubious.

The majority of papers on EKC show panel data containing countries as the cross-section unit. The literature started studying this topic after Grossman and Krueger' paper (1991) and since then several authors have published on the EKC. The table 1 reports the papers that estimated EKCs using CO<sub>2</sub> emissions as dependent variable.

According to Stern (2004), the EKC hypothesis is an intrinsically empirical phenomenon, but most studies in the literature are weak in econometrically terms. Generally, little attention has been dedicated to statistical proprieties of data used, such as spatial

dependence or stochastic trends in time series. Besides, little consideration has been dedicated to model appropriateness issues, such as the possibility of omitted variable bias. The majority of studies assumes that, if the regression coefficients are individually or jointly significant and their expected signs are obtained, hence the EKC hypothesis exists (Maddison, 2006; Rupasingha et al., 2004).

In this context, Rupasingha et al. (2004) remember that, although geographical areas (or cross-section units) form the basic unit for the most EKC analysis, almost all studies in the literature have ignored spatial effects when analyzing this environmental phenomenon.

Initial papers have included no control for spatial effects into the EKC regression. Grossman and Krueger's paper (1991) about potential environmental impacts of Nafta was the first work to identify an inverted U shape in the relationship between income level and environmental degradation measures.

After Grossman and Krueger's paper there is a copious amount of EKC studies, using several degradation indexes, type of data and geographical region (Shafik and Bandyopadhyay, 1992; Panayotou, 1993; Selden and Song, 1994; Kaufmann et al., 1998; Stern, 2000; Halkos, 2003; Perman and Stern, 2003; Fonseca and Ribeiro, 2005; Gomes and Braga, 2008; Santos et al., 2008).

More recent papers have included the control for spatial effects in the analysis of EKC, for example Maddison (2006) for a cross-country study, Poon et al. (2006) for Chinese regions, Rupasingha et al. (2004) for US regions and Stern (2000) for sixteen West European countries.

Table 1 presents only the papers in the literature that used CO<sub>2</sub> emissions as the dependent variable. It is noteworthy that no paper controlled for spatial dependence, even using geographical units. The paper for the most recent year is 2003 and for the largest sample size was with 34 countries.

Table 1. Papers on EKC using Carbon Dioxide (CO<sub>2</sub>)

Authors	Region	Period	Dependent variable	Type of data	Adicional Variables	Turning point	Conclusion
Moomaw and Unhruh (1997)	16 countries	1950-1992	CO <sub>2</sub> emissions	Panel data	_____	\$12,813	None EKC relationships are obtained.
Cole <i>et al.</i> (1997)	7 regions along the world	1960-1991	CO <sub>2</sub> emissions	Panel data	Na intercept dummy, time trend and trade intensity variable	\$25,100	The findings demonstrate that the global impact of CO <sub>2</sub> emissions has provided little incentive for countries implement unilateral actions for these emissions.
Agras and Chapman (1999)	34 countries	1971-1989	CO <sub>2</sub> emissions and energy	Panel data	Trade variables and temporally lagged dependent variable	\$62,000 for energy regression and \$13,630 for CO <sub>2</sub> regression	Inverted U shaped curve between income and energy and between income and CO <sub>2</sub> emissions.
Dijkgraaf and Vollebergh (2001)	OCDE countries	1960-1997	CO <sub>2</sub> emissions	Panel data	_____	\$15,704 and \$13,959	The fact of that many countries do not reflect EKC pattern becomes particularly improbable the existence of a global inverted U shaped curve.
Arraes <i>et al.</i> (2006)	countries (sample size is not defined)	1980, 1985, 1990, 1995, 2000	CO <sub>2</sub> emissions and other indicators of development	Panel data	Dummy for Sub-Saharan African countries	_____	An inverted U shaped curve was found.
De Bruyn <i>et al.</i> (1998)	4 countries (Netherlands,	1960-1993	CO <sub>2</sub> , NO <sub>x</sub> and SO <sub>2</sub> emissions	Panel data	Related input prices	_____	An inverted U shaped curve was not found.

	United Kingdom, USA, Germany)						
Lucena (2005)	Brazil	1970-2003	CO <sub>2</sub> emissions	Time series	Trade openness variable	_____	Evidences for an EKC in the case of CO <sub>2</sub> emissions.

Source: Authors' elaboration.

Therefore the papers described above have obtained results and conclusions quite different on the existence of EKC hypothesis. The reasons may be samples with different countries, diversified environmental degradation indicators and/or different econometric techniques.

This paper is aimed at contributing to the EKC literature providing a more sophisticated econometric model, taking into account statistical proprieties and several controls both for spatial effects and other pollution determinants in order to improve the model fitness. The spatial relationships are very important in EKCs because countries' emissions per capita are affected by events occurred in neighboring countries. The several sources of these spatial relationships are discussed in Maddison (2006).

One expects to contribute for the discussion about the “economic growth, international public policy and environment issue” and check if an inverted U shaped relationship can be observed globally, using a panel data for 167 countries over the period 2000-2004, and controlling explicitly spatial effects, namely, spatial dependence and spatial heterogeneity.

The present paper advances mainly the discussion about EKCs in four aspects. Firstly, an additional variable is inserted into the analysis to investigate whether or not countries that are signatory to the Kyoto Protocol contribute effectively to the emissions reduction. Secondly, it is noteworthy that no previous cross-national EKC study had this sample size (167 countries). Thirdly, the analysis is implemented for a recent period (2000-2004). Finally, as long as we know, this study is the first one to implement an EKC analysis for CO<sub>2</sub> emissions, controlling for spatial dependence.

The econometric results, in principle, suggest the existence of an “N” shaped EKC rather. Another important issue is the negative coefficient, and statistically significant, for the dummy variable of the countries that have ratified the Kyoto Protocol, showing the

importance of multilateral agreements on reducing the overall amount of CO<sub>2</sub> emission per capita.

Following this introduction, the paper is organized in four more parts. The second part describes the econometric methods adopted for the estimation of EKC. The third part presents the sources of the data and the procedure of data preparation. The econometric results are displayed, interpreted and discussed in fourth part. The last part concludes.

## 2. Specification Issues

The model specification is based upon previous studies about EKC that used some pollutant emission indicators as dependent variables. In this paper, nevertheless, only one pollutant emission measure is adopted, that is, carbon dioxide. This is because it is the main gas responsible to generate greenhouse effect and, thereby, the phenomenon of global warming. On the other hand, variables like GDP per capita and its square are often found in the EKC literature and are inserted into the regression.

The functional form of the model is the following:

$$E_t = \mu + \rho W_1 E_t + Y_t \beta + \delta K P_t + X_t \psi + W_1 X_t \tau + u_t \quad (1.a)$$

$$u_t = \lambda W_2 u_t + \varepsilon_t \quad (1.b)$$

where  $E_t = (E_{1t}, \dots, E_{Nt})'$  is a vector of CO<sub>2</sub> emissions per capita;  $\mu = (\mu_1, \dots, \mu_N)'$  stands for a vector representing non-observable effects;  $W_1$  and  $W_2$  are spatial weights matrices, which try to represent the spatial structure of dependence;  $W_1 E_t$  is spatially lagged dependent variable;  $Y_t$  is a matrix composed by three other vector of variables denoting income per capita, squared

income per capita and cubic income per capita, namely,  $Y_t = [y_t, y_t^2, y_t^3]$ , where  $y_t = (y_{1t}, \dots, y_{Nt})'$  and so on;  $KP_t$  is a dummy variable for countries that ratified the Kyoto Protocol each year, taking on the value one for countries that ratified Kyoto Protocol and zero otherwise.;  $X_t = (X_{1t}, \dots, X_{Nt})'$  is a matrix representing other variables, which also influence the relationship between  $E$  and  $y$ .  $W_1 X_t$  represents the spatial lag of variables  $X$ , which captures spatial spillover effects of CO<sub>2</sub> emissions per capita.  $W_2 u_t$  is the spatial lag of errors  $u_t$ ; and  $\varepsilon_t$  indicates an *i.i.d.* error term. The Greek symbols ( $\beta$ ,  $\delta$ ,  $\psi$  and  $\tau$ ) stand for vectors of parameters to be estimated. *Finally*,  $\rho$  and  $\lambda$  are coefficients to be estimated.

Johnston and Dinardo (1997) consider panel data model is useful because it is able to handle with relevant omitted variable problem. Not taking into account the non-observable effects ( $\mu$ ) increases the risk of biasing the regression's estimates. Hence it is important to consider this kind of non-observable spatial heterogeneity in order to get consistent estimates.

This also means the panel data model can accommodate the spatial heterogeneity that is represented by region-specific, non-observable and time invariant intercepts. So the panel data control for non-observable effects by means of two different models: a fixed effect model and a random effect model. The difference between these two models lies in the assumption about the correlation of explanatory variables with the error term. If, at least, an explanatory variable is correlated with the error term, the fixed effect model is more appropriate. Nevertheless if the explanatory variables are not correlated to the error term, the random effect model is more proper. In this case, the non-observable effects are components of the error term.

If we pose restrictions on equation (1), we will have some spatial econometric models that take into account of spatial autocorrelation. If  $\lambda=0$  and  $\rho\neq 0$ , the spatial lag model emerges. This kind of model can represent spillover effects in the environmental degradation.

If  $\rho=0$  and  $\lambda\neq 0$ , the spatial error model is obtained. This type of model is more appropriate when there are non-modeled factors that manifest in the residuals. The unrestricted model is a model with spatial lag and spatial error.<sup>1</sup>

If  $\rho=0$ ,  $\lambda=0$  and the vector of coefficients  $\tau\neq 0$ , the spatial cross-regressive model is obtained. If  $\rho\neq 0$ ,  $\tau\neq 0$  and  $\lambda=0$ , the spatial Durbin model accrues.

The procedure adopted here is based on the following steps:

- i) Estimate a pooled data model with no control for non-observable effects;
- ii) Implement Hausman test to define which non-observable effect model is appropriate, that is, fixed effect model or random effect model;
- iii) Estimate the non-observable effect model determined by the Hausman test;
- iv) Check the last regression's residuals for spatial dependence;
- v) If there is no spatial dependence, stops the procedure and keep the non-observable effect model; otherwise, go to next step;
- vi) Estimate the following spatial models: spatial lag model, spatial error model, spatial lag and error model, spatial cross regressive model, spatial Durbin model and spatial cross regressive model with spatial error.
- vii) Choose the best spatial model based on these two condition: a) absence of spatial dependence in the model's residuals; b) given the last condition, choose the model with the smallest value of some information criterion.

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<sup>1</sup> For more information on spatial models, see Anselin (1988) and Anselin and Bera (1998).

### 3. Data

The sample contains 167 countries over the period 2000-2004. The reason for the choice of just five years is because of the difficulty to find data for all countries over a longer period. As the data are international, the database is not immune to problems because some countries do not have advanced statistical agencies. However, the main source of the database is *United Nations Statistics Division* (UNSD), whose main function is to gather, standardize and treat data from several countries.<sup>2</sup>

The dependent variable  $E_t$  is CO<sub>2</sub> emissions per capita (in metric tons). The choice of this variable as environmental degradation indicator justifies because this pollutant is the main component for the emergence of greenhouse effect and global warming. The data comes from the United Nations Statistics Division (UNSD), which compiles information from two other sources, namely, CDIAC (Carbon Dioxide Information Analysis Center) and MDG (Millennium Development Goals). The reason to choose “emissions” and not “concentration” is because the emissions are linked to current economic activity levels, and thereby these emissions measure the potential for the economic activity to degrade the environment and/or human health (Kaufmann et al., 1998).

The variables contained in  $Y_t = [y_t, y_t^2, y_t^3]$  indicate the shape of EKC function. The main explanatory variable, GDP per capita, is measured in constant 2000 dollars and was obtained from the United Nations’ estimates. The population data are extracted from yearly projections and estimates of the Population Division of United Nations.

The introduction of this variable ( $y_t$ ) is aimed at verifying if the early stages of development provoke the increase of environmental degradation. As Stern (2004) stated, at the first stages of development the pollution indicators increase.

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<sup>2</sup> Available in: <http://unstats.un.org/unsd/dnss/kf/default.aspx>.

The inclusion of the squared GDP per capita ( $y_t^2$ ) in the right hand of regression has the objective to corroborate if there is an inverted U shaped curve between income per capita and CO<sub>2</sub> emissions per capita. The theoretical expectation is that the coefficient that accompanies this variable is negative and significant. According to Stern et al. (1996) and Panayotou (1993), at high levels of economic growth structural changes toward information intensive industries, as well as a greater social conscience and environmental regulation, lead to a gradual decline of environmental degradation.

The reason of incorporating a cubic GDP per capita ( $y_t^3$ ) in the regression is to check if the environmental degradation comes back at very high levels of economic growth. Theoretically, if an inverted U shape curve exists, the coefficient that accompanies this variable is zero. Otherwise, if this coefficient is positive and significant, this means there is an N shape function concerning income per capita and CO<sub>2</sub> emissions per capita.

The variable  $KP_t$  is a dummy that takes on the value 1 for countries that ratified the Kyoto Protocol and zero otherwise. The agreement, which started in 2005 February, demands that more industrialized countries that ratified Kyoto Protocol commit themselves to reduce their emissions in 5.2% until 2012. These 41 more industrialized countries considered by the Agreement are localized in the North hemisphere, except Australia and New Zealand. Theoretically, one expects the estimated coefficient for this variable is negative. This variable has the objective to check if the countries that are signatory of Kyoto Protocol are reducing their CO<sub>2</sub> emissions before the beginning of the agreement. In this sense, this variable measures these countries are CO<sub>2</sub> emission reduction prone.

The matrix of other explanatory variables  $X_t$  is composed of trade intensity variable ( $TI_t$ ), energy consumption per capita ( $EN_t$ ) and population density ( $PD_t$ ). Formally,  $X_t = [TI_t, EN_t, PD_t]$ .

The trade intensity variable ( $TI_i$ ) is the sum of imports and exports divided by total GDP. Therefore, the objective of this variable is to demonstrate the following relationship: the greater a country's trade openness is, the smaller environmental degradation implies. In the case of trade, as pointed out by Stern et al. (1996), the change of international patterns of environmental quality and structural changes within economies took the countries to specialize in activities that use less energy and natural resources. One expects theoretically there is a negative relationship between exports and CO<sub>2</sub> emissions because greater trade openness would increase requirements about issues related to the environment, reducing countries' emission levels. The source of this data is the International Monetary Fund (IMF).

The energy consumption per capita ( $EN_i$ ) is the ratio between energy consumption and population. The energy consumption (in thousands of equivalent oil tons) comes from the UNSD. If the energy is adopted everywhere and the majority of forms of utilization free pollutants, it is necessary to add a proxy to evaluate this (Agras and Chapman, 1999). So one expects theoretically there is a positive relationship the energy use and CO<sub>2</sub> emissions.

At last, the population density ( $PD_i$ ) is measured by the relation between population and total geographical area for each country. The countries' total geographical areas are drawn from the databases of the Food and Agriculture Organization of the United Nations (FAO). Selden and Song (1994) suggest that in low population density countries there is less pressure to adopt strict environmental patterns and regulation. Hence this variable is aimed at demonstrating that high population density leads to a greater social conscience about environmental problems and a pressure in favor of regulation.

Table 2 describes the variables in the empirical model.

Table 2 – Description of the Variables

Variable	Description	Expected Signal	Empirical Reference	Source
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$E_t$	Dioxid carbon (CO2) emissions over population by country		Agras and Chapman (1999), Cole <i>et al.</i> (1997), Dijkgraaf and Vollebergh (2001)	UNSD, CDIAC e MDG
$y_t$	GDP per capita	+	Grossman and Krueger (1991), Selden and Song (1994), Kaufmann <i>et al.</i> (1998)	World Bank (WB)
$y_t^2$	Squared GDP per capita	-	Grossman and Krueger (1991), Selden and Song (1994), Kaufmann <i>et al.</i> (1998)	World Bank (WB)
$y_t^3$	Cubic GDP per capita	*	Grossman and Krueger (1991), Moomaw e Unruh (1997), Arraes <i>et al.</i> (2006), Maddison (2006)	World Bank (WB)
$KP_t$	Kyoto Protocol dummy: value “1” for countries that ratified the agreement and “0 (zero)”, otherwise	-		IEA
$TR_t$	Sum of imports and exports over total GDP by country	-	Shafik and Bandyopadhyay (1992), Agras and Chapman (1999), Kaufmann <i>et al.</i> (1998)	Internacional Monetary Fund - IMF
$EN_t$	Ratio between energy consumption (in equivalent oil units) and population	+	Cole <i>et al.</i> (1997), Stern (2002)	UNSD
$PD_t$	Population over the geographical area (in Km2) by country	-	Selden and Song (1994), Shafik and Bandyopadhyay (1992)	FAO

Source: Authors'elaboration.

The Moran's  $I$ , Geary's  $c$  and  $G$  statistics provide an indication of the degree of spatial autocorrelation. However to implement these spatial autocorrelation indicators it is necessary to choose a spatial weights matrix  $W$ . In the literature, there are several examples of this type of matrices. The matrix  $W$  adopted in this study is  $k$  nearest neighbor matrix. To become the choice of value  $k$  less arbitrary, Baumont's procedure is adopted (2004). The chosen  $k$  was 2. The  $I$ ,  $c$  and  $G$  statistics are reported in table 3.

Table 3. Spatial autocorrelation indicators for CO<sub>2</sub> emissions

Indicator	Coefficient	Mean	Standard Deviation	z-value	P-value
Moran's <i>I</i>	0.624	-0.005	0.066	9.532	0.000
Geary's <i>c</i>	0.626	1.000	0.072	-5.192	0.000
Getis-Ord's <i>G</i>	0.0269	0.011	0.002	9.961	0.000

Source: authors' elaboration.

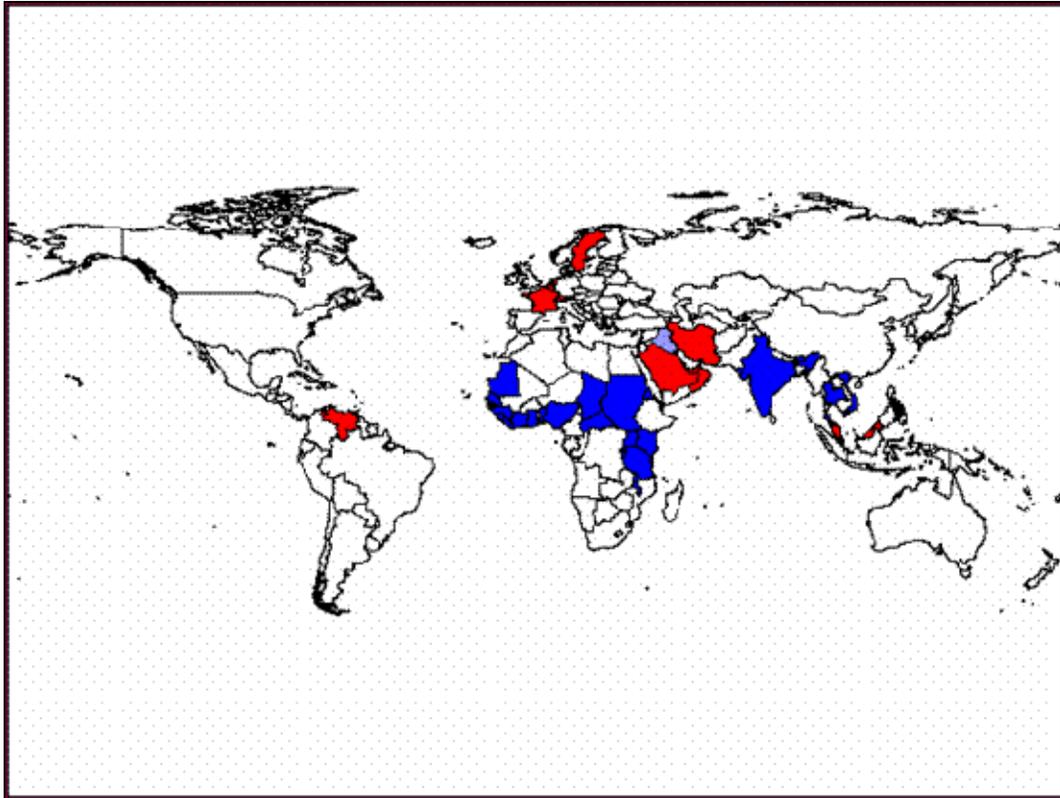
By means of three spatial autocorrelation indicators, we can reject the hypothesis of spatial random distribution of CO<sub>2</sub> emissions per capita across the world. All coefficients are highly significant and indicate positive autocorrelation, signaling the existence of concentration of CO<sub>2</sub> emissions per capita across the space. When the *I* and *c* statistics indicate positive autocorrelation (concentration) means that high emission per capita countries are surrounded by high emission per capita countries (High-High pattern) or low emission per capita countries are surrounded by low emission per capita countries as well (Low-Low pattern). However, the value of *G* is positive, meaning that this spatial concentration is based upon the following fact: there are predominantly high emission per capita countries that are surrounded by high emission per capita countries. Then the information of the *G* statistics refines the information about spatial concentration provided by the *I* and *c*, indicating the predominance of High-High pattern.

We also adopted a local version of Moran's *I* to detect High-High (HH), Low-Low (LL), High-Low (HL) and Low-High (LH) spatial clusters.<sup>3</sup> In figure 3 we can observe that there are some HH clusters in Europe, a HH cluster in Middle East, a HH cluster in South America (actually, composed of only one country, namely, Venezuela), a HH cluster in Southeastern Asia. On the other hand, the LL clusters concentrate in Africa, India and

<sup>3</sup> For technical information about local Moran's *I*, see Anselin (1995).

Southeastern Asia. It is not possible to check the EKC hypothesis based upon only these exploratory results. It is necessary to go ahead toward the spatial econometric approach to extract more useful information.

Figure 3. LISA Cluster Map for CO<sub>2</sub> Emissions Per Capita



Source: Authors' elaboration.

#### 4. Results and Discussion

The econometric results were obtained following the procedure described in part 2. First of all, CO<sub>2</sub> emissions per capita ( $E_t$ ) were regressed on GDP per capita ( $y_t$ ), its squared value ( $y_t^2$ ), its cubic value ( $y_t^3$ ), a dummy for Kyoto Protocol ( $KP_t$ ), trade intensity variable ( $TI_t$ ), energy consumption per capita ( $EN_t$ ) and population density ( $PD_t$ ) by OLS,

using a pooled data, but with no control for non-observable effects. Afterwards, the Hausman test indicated that the best non-observable effect model is the fixed effect model. Hence the fixed effect model was estimated by the within method. The results for these two regressions are displayed in table 4.

Table 4. Environmental Kuznets Curve (EKC) regressions

Coefficients	Pooled Data (OLS)	Fixed Effect (Within)
Constant	-0.454586* (0.1392)	-2.550838* (0.6268)
$y_t$	0.000200* ( $5.14 \times 10^{-5}$ )	0.001424* (0.0001)
$y_t^2$	$-9.81 \times 10^{-9}$ * ( $2.92 \times 10^{-9}$ )	$-5.28 \times 10^{-8}$ * ( $8.42 \times 10^{-9}$ )
$y_t^3$	$1.07 \times 10^{-13}$ ** ( $4.59 \times 10^{-14}$ )	$6.16 \times 10^{-13}$ * ( $1.10 \times 10^{-13}$ )
$KP_t$	-1.252707* (0.2568)	0.004751*** (0.0400)
$TI_t$	0.695304* (0.1350)	-0.140282*** (0.1094)
$EN_t$	2.670506* (0.0476)	2.307879* (0.1374)
$PD_t$	$7.71 \times 10^{-5}$ **** (0.0001)	-0.004695** (-2.3480)
$\bar{R}^2$	0.91	0.99
SC	1.4526	-1.0506
AIC	4.2452	2.1395
“Turning point” (max.)	US\$ 10,193.68	US\$ 13,484.85
“Turning point” (min.)	US\$ 30,560.75	US\$ 28,571.43
Jarque-Bera test	11793.7*	282033.4*
Hausman test	—	65.46*

Source: authors' elaboration.

\* significant at the 1% level.

\*\* significant at the 5% level.

\*\*\* Not significant.

Observation: the standard deviation is in parenthesis.

For the pooled data model, all estimated coefficient values reveal significant, except the population density. It is noteworthy that the trade variable presented a positive sign, not as theoretically expected. In turn, for fixed effect model, neither trade intensity variable nor dummy for Kyoto Protocol were significant.

One observes a substantial difference in terms of magnitude and signal of coefficients between the pooled data model and the fixed effect model. This can be explained by the control for fixed effects in the second regression. As previously checked by the Hausman test, this corroborates the hypothesis that the EKC phenomenon is influenced by the fixed effects. The relevance of including fixed effects can be also observed by the value of information criteria (AIC and SC) significantly smaller for the fixed effect model than the pooled data model.

The residuals of the fixed effect model were checked for spatial dependence in order to control for spatial dependence. The Moran test detected spatial autocorrelation for two years (2000 and 2003) in the period under study. Therefore, in order to correct the spatial dependence in the model, some spatial components were included into the right hand in the regression.

Next several spatial models were estimated. Because of the spatial simultaneity caused by spatially lagged dependent variable ( $WE_t$ ), the fixed effect model with spatial lag, spatial Durbin model were estimated by within (using IV to estimate the transformed equation instead OLS).

As it is assumed that  $X_t$  is composed of exogenous explanatory variables, so  $WX_t$  is also composed of exogenous variables (namely,  $WTI_t$ ,  $WEN_t$  and  $WPD_t$ ). To get consistent coefficients, the spatial cross regressive model can be estimated by OLS.

The spatial error model and spatial cross regressive model with spatial error were estimated by feasible generalized least squares. According to Kapoor et al. (2007), in the

presence of heteroskedasticity and non-normality, and when there is the spatial dependence assume the form of a spatial error structure, FGLS estimates are consistent and equivalent to maximum likelihood estimates.

To avoid the influence of extreme values on the estimations, two dummy variables have been introduced into the model from fixed effect regression's residuals. The two standard deviation criterion was used to create these variables. Therefore,  $D_I$  is a dummy variable that takes on the unitary value if countries have residuals below the 2 SD limit. Similarly,  $D_S$  refers to countries whose residuals were above the 2 SD limit.

The results are reported in table 5.

Table 5. Econometric Results of Spatial Models for the EKC

Coefficient	Error	Lag	Cross	Durbin	Cross + Error
Constant	-0.906497* (0.0641)	-0.798272* (0.0637)	-1.019700* (0.0942)	-0.893776* (0.0940)	-0.969118* (0.1057)
$y_t$	0.000568* ( $2.45 \times 10^{-5}$ )	0.000548* ( $2.01 \times 10^{-5}$ )	0.000596* ( $4.11 \times 10^{-5}$ )	0.000525* ( $2.86 \times 10^{-5}$ )	0.000589* ( $4.54 \times 10^{-5}$ )
$y_t^2$	$-2.30 \times 10^{-8}$ * ( $1.00 \times 10^{-9}$ )	$-2.22 \times 10^{-8}$ * ( $8.08 \times 10^{-10}$ )	$-2.24 \times 10^{-8}$ * ( $1.52 \times 10^{-9}$ )	$-2.03 \times 10^{-8}$ * ( $1.10 \times 10^{-9}$ )	$-2.21 \times 10^{-8}$ * ( $1.80 \times 10^{-9}$ )
$y_t^3$	$2.83 \times 10^{-13}$ * ( $1.23 \times 10^{-14}$ )	$2.73 \times 10^{-13}$ * ( $1.05 \times 10^{-14}$ )	$2.69 \times 10^{-13}$ * ( $1.71 \times 10^{-14}$ )	$2.47 \times 10^{-13}$ * ( $1.38 \times 10^{-14}$ )	$2.68 \times 10^{-13}$ * ( $2.10 \times 10^{-14}$ )
$KP_t$	-0.079648* (0.0194)	-0.061927* (0.0220)	-0.067232** (0.0269)	-0.063415** (0.0267)	-0.069682** (0.0725)
$TI_t$	-0.134104* (0.0180)	-0.122078* (0.0206)	-0.158156* (0.0159)	-0.136517* (0.0175)	-0.156392* (0.0159)
$EN_t$	2.643344* (0.0363)	2.664350* (0.0365)	2.640535* (0.0434)	2.679179* (0.038)	2.635650* (0.0486)
$PD_t$	-0.001469* (0.0003)	-0.001413* (0.0002)	-0.001773* (0.0004)	-0.001684* (0.0003)	-0.001789* (0.0004)
$W_1 E_t$		-0.021383* (0.0039)		-0.059551* (0.0073)	

$W_2u_t$	-0.016879** (0.0074)				-0.030942* (0,0089)
$D_I^4$	-1.454196* (0.2299)	-1.410491* (0.2475)	-1.469511* (0.1877)	-1.381131* (0.2055)	-1.464558* (0.1892)
$D_S^5$	1.494703* (0.2919)	1.541543* (0.2973)	1.471020* (0.2784)	1.514617* (0.2834)	1.472019* (0.2838)
$W_Y_t$			$-4.12 \times 10^{-5*}$ ( $1.19 \times 10^{-5}$ )	$-3.03 \times 10^{-5*}$ ( $1.00 \times 10^{-5}$ )	$-4.83 \times 10^{-5*}$ ( $1.40 \times 10^{-5}$ )
$WTI_t$			0.032189* (0.0073)	0.031921* (0.007024)	0.031413* (0.0075)
$WEN_t$			-0.009060*** (0.0192)	0.158548* (0.0191)	-0.003355*** (0.0230)
$WPD_t$			0.01094* (0.0001)	0.000916* ( $8.53 \times 10^{-5}$ )	0.001154* (0.0002)
“Turning point” (max.)	12,347.83	12,342.34	13,303.57	12,931.03	13,325.79
“Turning point” (min.)	27,090.69	27,106.23	27,757.12	27,395.41	27,487.56
Moran's $I$	Spatial dependence in 2003	Spatial dependence in 2003	Spatial dependence in 2003	_____	_____
SC	-1.66207	-1.65957	-1.64040	-1.62793	-1.63353
AIC	-1.72435	-1.72185	-1.71966	-1.71256	-1.71845

Source: authors' elaboration.

\* significant at the 1% level.

\*\* significant at the 5% level.

\*\*\* Not significant.

Observation: the standard deviation is in parenthesis.

By means of table 4, one observes that there is no remaining spatial dependence for the spatial cross-regressive and error model and spatial Durbin model. Actually, according to the information criteria, all spatial models present better fitness (table 4) than the pooled data model and fixed effect model with no correction for spatial dependence (table 3). Using AIC

<sup>4</sup>  $D_I$  é a dummy de outlier inferior.

<sup>5</sup>  $D_S$  é a dummy de outlier superior.

and SC criteria to decide which is the best model, the spatial cross-regressive and error model is more appropriate. The analysis hereafter will focus on this model's econometric results.

In this model, one observes that there three channels of explanatory variables influence the amount of CO<sub>2</sub> emissions per capita. A channel is directly by means of variables present in own countries, like GDP per capita, trade intensity, energy consumption per capita and population density. A second channel is by means of international agreements that a country may be signatory or not. At last, the third channel is related to the spatial spillovers, that is, when the CO<sub>2</sub> emissions per capita inside a country are influenced by the neighbor's emissions, neighbor's explanatory variables or neighbor's non-modeled factors.

Analyzing the coefficients for variables that represent GDP per capita, it is noteworthy that the EKC estimated had an N shape. Actually, the CO<sub>2</sub> emissions per capita increase up to reach the first "turning point" (US\$ 13,325.79) and decrease after this point as income per capita increases. When the turning point is 27,487.56, the emissions come back to increase as income per capita increases.

The first ascendant part of the EKC reveals that the 135 countries are within this income range. That is, more than 80% of countries analyzed, responsible for 50% of total of emissions per capita, would be yet far from entering the descendent part of the curve because their income is very inferior to the turning point calculated.

This result seems to corroborate the global impact of CO<sub>2</sub> emissions, revealing that there is little incentive for countries to take unilateral actions to reduce their emissions. Besides, the multilateral actions are being developed slowly. With more than 80% of the sample presenting a CKA monotonically crescent, it would be proper to determine emission reduction goals for an ample set of countries. According to Cole et al. (1997, p. 409), "although many nations look unlikely to meet their agreed target, the very existence of the

targets at least indicates that the issue of climate change is slowly entering the political agenda”.

In the sample, only 23 countries, responsible for 38% of the total emissions per capita lie in the descendent part of the curve, that is, only 14% of the sample have GDP per capita above 13,325.79 and below 27,487.56. It is noteworthy that 14 out of these 23 countries are signatory of the Kyoto Protocol, such as, Australia, Germany, United Kingdom, Canada, Italy, France, Spain, Netherlands, Belgium, Greece, Austria, Finland, New Zealand and Ireland.

The nine nations (or 5.39% of the sample) are in the second ascendent part of EKC, that is, have a GDP per capita above 27,487.56 and are responsible for 12% of emissions per capita, namely, USA, Switzerland, Sweden, Norway, Luxembourg, Island, Ireland, Denmark and Japan. The positive coefficient that accompanies the variable  $y_t^3$  suggests that CO<sub>2</sub> emissions per capita eventually come back to increase, revealing that the U shaped relationship can be only temporary. All European countries in this part of the curve, beside Japan, ratified the Kyoto Protocol.

Using only sixteen countries, Moomaw and Unruh (1997) found out an N shaped EKC for CO<sub>2</sub> emissions per capita. The turning point estimated by the authors was US\$ 12,813, value near the found one in this paper. Using a 34 country sample, the turning point found by Agras and Chapman (1999) was US\$ 13,630 for CO<sub>2</sub> emissions per capita.

The present paper suggests that the differences among turning points for emissions per capita are not so big as believed Selden and Son (1994). It is worth to point out that the 167 country sample adopted here is much larger than any sample used in the EKC literature.

A noteworthy result is the coefficient presented by Kyoto Protocol dummy variable, which revealed negative and significant, suggesting that countries that ratified the Protocol until 2004 would already be causing a reducing effect on the emissions. In this case,

although only started in 2005, February, this variable revealed that the countries that ratified the agreement are already contributing to reduce their CO<sub>2</sub> emissions per capita, even though this reduction is small (0.06 metric tons).

If environmental improvements are also provoked by public policy changes, so the growth and the development can not substitute these policies. The absence of vigilance in any region or country leads to the situation that there is always the possibility of that a greater production causes a greater consumption of scarce resources (Torras and Boyce, 1998).

The fact of most countries lie in the first ascendant part of the curve raise the discussion, once again, about the role that the development countries should play in international agreements for limiting emissions. If the economic growth leads to a reduction of CO<sub>2</sub> emissions after a certain income level, in the case of global EKC estimated here, the effect of this reduction is yet very small because simply some nations would be in income ranges that would favor this decrease.

In the case of developing countries, an important question would be that the CO<sub>2</sub> reduction targets should take into account the each country' responsibility in the total emissions at the global level. In the period under study, some developing countries have high emissions per capita, such as China, South Korea, Mexico, South Africa and Venezuela. It is necessary that these countries also commit themselves with the reduction of greenhouse gases to not occur only a displacement of pollutant industries from the more developed countries to these nations.

Besides, the fact of USA to be the most responsible for CO<sub>2</sub> emissions in the world and its refuse to ratify Kyoto Protocol can be exerting an influence toward the increase of emissions and consequently for the N shaped EKC.

Concerning the other explanatory variables, in the case of trade intensity,  $TI_t$ , its coefficient is negative and significant, as theoretically expected. This means the following:

the larger trade intensity is, the smaller the CO<sub>2</sub> emissions are. This result corroborates the results found out by Grossman and Krueger (1991) and Poon et al. (2006). An important factor is the firms' exposition to international competition, which leads to the incorporation by these firms of a more correct environmentally attitude.

The coefficient of the variable  $EN_t$  is positive and highly significant, as theoretically expected. If the energy consumption has increased along the income range of the sample, despite of regular advances in the energetic efficiency, is not surprise that the same thing takes place with CO<sub>2</sub> emissions (Cole *et al.*, 1997).

In the case of population density, Selden and Song (1994) suggest that in countries with low density there will be less pressure to adopt environmental patterns more strict and the correspondent emissions from transport activities will be larger. The negative and significant coefficient for the variable  $PD_t$  confirms this expectation, showing that a more population density causes a reduction on CO<sub>2</sub> emissions per capita. This relationship occurs mainly because the society starts demanding more quality and environmental regulation and, thereby, starts putting pressure for a cleaner environment.

As for localized spatial spillovers, the coefficient of the spatial lag of GDP per capita ( $WY_t$ ) is negative and significant. This means that an increase of neighbors' income per capita diminishes the CO<sub>2</sub> emissions per capita. In turn, the coefficient for the spatial lag of trade intensity ( $WTI_t$ ) has positive and significant value. This means that there is a direct relationship between the neighbors' trade intensity and the CO<sub>2</sub> emissions per capita. The evidences show that the spatial lag of population density has a direct relation to CO<sub>2</sub> emissions per capita. Finally, the coefficient for the spatial lag of the energy consumption per capita is not significant.

## 5. Final Considerations

This study analyzed the relationship between income per capita and CO<sub>2</sub> emissions per capita with a panel data with 187 countries over the period 2000-2004. In methodological terms, a sophisticated fixed effect model with spatial dependence was constructed to estimate the global EKC. The dependent variable was regressed on GDP per capita, squared GDP per capita, cubic GDP per capita, trade intensity, energy consumption per capita and a dummy to indicate countries that ratified Kyoto Protocol.

By extending the model including the cubic form of GDP per capita one concludes that continuous income increase does not guarantee the continuous improvement of environmental quality, provided that the relationship between EKC and CO<sub>2</sub> emissions is just temporary because an N shaped EKC was found. This means that the relationship between income and emissions is not automatic and, thereby, possibilities for designing public policies and international agreement accrue as a form of promoting the environmental improvement, as suggested by Grossman and Krueger (1994) and Stern (2004).

The turning points calculated were US\$ 13,325.79 and US\$ 27,487.56. From this econometric result, it is noteworthy to shed light on some important issues. For instance, the fact of 80% of the sample do not have income per capita above the first turning point calculated, that is, the majority of countries would lie in the ascendant part of the curve. This seems to corroborate the global impact of CO<sub>2</sub> emissions, revealing that there is little incentive to nations to take unilateral actions to reduce their emissions.

Other important issue is about the negative and highly significant coefficient for the dummy variable indicating the countries that ratified Kyoto Protocol. The compromise of these countries to reduce effectively their emissions begin in 2008. However it seems that

these countries have already begun to reduce their emissions per capita. Actually, this variable can be capable of capturing the country's proneness to reduce emissions.

This result shows that the potential relevance of international agreements in the reduction of global amount of emitted dioxide carbon. Therefore, the economic growth itself can not substitute public policies that try to reduce CO<sub>2</sub> emissions.

Although international agreements can be important in the reduction of greenhouse gases, the emissions need be targeted according to each country's responsibility in the total amount of emissions. Only sixty countries are responsible for about 75% of the total emissions over the period under study. These countries lie mainly in Europe (38 countries), North America (Canada and USA), Asia (14 countries), Africa (Libya and South Africa), in Central America (Trinidad and Tobago), South America (Venezuela) and Oceania (New Zealand and Australia). Of out these countries, only the outliers, represented by USA, Aruba, Australia, Bahrain, Brunei, Canada, Kuwait, Luxembourg, United Emirates, Trinidad and Tobago are responsible for more than 30% of the total amount of CO<sub>2</sub> emissions. Consequently, any try to impose a regulation mechanism for the global environmental management should observe these distribution effects.

One can conclude that a global EKC for CO<sub>2</sub> emissions per capita hardly reach the descendent part of the curve unless multilateral public policies are implemented. The coefficient of the variable indicating the countries that ratified Kyoto Protocol suggests multilateral policies can help to reduce CO<sub>2</sub> emissions. However, it is necessary that more countries commit themselves in this reduction, provided that the effect of this variable revealed small. Developing countries also should adopt targets according to their responsibility in the total amount of emissions.

In sum, the main conclusion of this paper is that economic growth does not guarantee the cure for the world's environmental problems. Proper multilateral environmental policies can have a fundamental role in the reduction of GEE emissions in the Earth.

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## 7. APPENDIX

### List of Countries

1-Aruba	65-Gabon	127-Norway
2-Antigua and Barbuda	66-Georgia	128-Nepal
3-Afghanistan	67-Ghana	129-Suriname
4-Algeria	68-Grenada	130-Netherlands Antilles
5-Azerbaijan	69-Germany	131-Nicaragua
6-Albania	70-Greece	132-New Zealand
7-Armenia	71-Guatemala	133-Paraguay
8-Angola	72-Guinea	134-Peru
9-American Samoa	74-Gaza Strip	135-Pakistan
10-Argentina	75-Haiti	136-Poland
11-Australia	76-Honduras	137-Panama
12-Austria	77-Croatia	138-Portugal
13-Bahrain	78-Hungary	139-Papua New Guinea
14-Barbados	79-Iceland	140-Pacific Islands (Palau)
15-Botswana	80-Indonesia	141-Guinea-Bissau
16-Bermuda	81-India	142-Qatar
17-Belgium	82-Iran	143-Romania

18-Bahamas, The	83-Israel	144-Philippines
19-Bangladesh	84-Italy	145-Russia
20-Belize	85-Bulgaria	146-Rwanda
21-Bosnia and Herzegovina	86-Iraq	147-Saudi Arabia
22-Bolivia	87-Japan	148-St. Kitts and Nevis
23-Myanmar (Burma)	88-Jamaica	149-Seychelles
24-Benin	89-Jordan	150-South Africa
25-Byelarus	90-Kenya	151-Senegal
26-Solomon Islands	91-Kyrgyzstan	152-Slovenia
27-Brazil	92-North Korea	153-Sierra Leone
28-Bhutan	93-Kiribati	154-Singapore
29-Brunei	94-South Korea	155-Spain
30-Burundi	95-Kuwait	156-Serbia
31-Canada	96-Kazakhstan	157-St. Lucia
32-Cambodia	97-Laos	158-Sudan
33-Chad	98-Lebanon	159-Sweden
34-Sri Lanka	99-Latvia	160-Syria
35-Congo	100-Lithuania	161-Ivory Coast
36-China	101-Liberia	162-Switzerland
37-Chile	102-Slovakia	163-United Arab Emirates
38-Cayman Islands	103-Luxembourg	164-Trinidad and Tobago
39-Cameroon	104-Libya	165-Thailand
40-Comoros	105-Madagascar	166-Tajikistan
41-Colombia	106-Moldova	167-Tonga
42-Costa Rica	107-Mongolia	168-Togo
43-Central African Republic	108-Montserrat	169-Sao Tome and Principe
44-Cuba	109-Malawi	170-Tunisia
45-Cape Verde	110-Macedonia	171-Turkey
46-Cook Islands	111-Mali	172-Turkmenistan
47-Cyprus	112-Morocco	173-Tanzania, United Republic of
48-Denmark	113-Mauritius	174-Uganda
49-Djibouti	114-Mauritania	175-United Kingdom
50-Dominica	115-Malta	176-Ukraine
51-Dominican Republic	116-Oman	177-United States
52-Ecuador	117-Maldives	178-Burkina Faso
53-Egypt	118-Mexico	179-Uruguay
54-Ireland	119-Malaysia	180-Uzbekistan
55-Equatorial Guinea	120-Mozambique	181-St. Vincent and the Grenadines
56-Estonia	121-Eritrea	182-Venezuela
57-El Salvador	122-New Caledonia	183-Vietnam
58-Ethiopia	123-Niger	184-Namibia
59-Czech Republic	124-Vanuatu	185-Yemen
60-Finland	125-Nigeria	186-Zambia
61-Fiji	126-Netherlands	187-Zimbabwe
62-French Polynesia		
63-France		
64-Gambia, The		