ABSTRACT

The shadow economy is an economic activity that is beyond the official reach of the government so that the production process is far from government supervision. Many previous studies have suggested that the cause of the shadow economy is because the rules imposed on the official sector are too burdensome for businesses in the formal sector, especially when weak law enforcement conditions are actually a gap to move businesses to the shadow economy. The impact of the shadow economy varies, but in this study it looks at the impact from the environmental perspective from carbon emissions, in addition to this study examines the role of law enforcement as a moderation variable in five countries in the Philippines, Indonesia, Cambodia, Malaysia and Thailand in 2000-2023.

This study uses an approach to estimate the Shadow economy through Multiple Indicator Multiple Causes (MIMIC). The main model is estimated using fixed effect models with Driscoll Kraay Standard Error to overcome the problems of classical assumptions and cross-country dependencies. Based on the results of estimation, the shadow economy has a negative effect on carbon emissions. Enforcement has a positive effect on carbon emissions, law enforcement moderates the relationship between the shadow economy and law enforcement, energy consumption has a positive effect on carbon emissions and openness has a positive effect on carbon emissions

Keywords *: Shadow economy, law enforcement, carbon emissions, Multiple indicators muliple causes MIMIC, fixed effect models and Driscoll Kraay Standard Error.*