

# ECONOMIC GROWTH, TOURISM, AND ENERGY USE AS DRIVERS OF CO<sub>2</sub> EMISSIONS: TESTING THE ENVIRONMENTAL KUZNETS CURVE IN PAKISTAN

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## ABSTRACT

Tourism has grown rapidly with advancements in communication and transportation, contributing to economic growth but also to CO<sub>2</sub> emissions. This study examines the relationship between tourism, economic growth, energy consumption, trade openness, and CO<sub>2</sub> emissions in Pakistan from 1995 to 2020 using the Fully Modified Ordinary Least Squares (FMOLS) method and data from the World Development Indicators (WDI). Results show that tourism can reduce CO<sub>2</sub> emissions when supported by strict environmental regulations. However, economic growth, energy use, trade liberalization, and urbanization significantly contribute to environmental degradation. The study recommends promoting sustainable tourism and enforcing strong environmental policies to curb emissions.

**Key Words:** CO<sub>2</sub> emissions, tourism, GDP, energy consumption, FMOLS, Pakistan.

## INTRODUCTION

Tourism is a major economic driver, contributing approximately 3% to global GDP and creating 10% more jobs than any other sector (WTTC, 2018). It fosters innovation and infrastructure development, attracting foreign investment and enhancing local economies (Fahimi et al., 2018). The sector accounted for 1.46 billion international tourists in 2019, with tourism receipts outpacing global GDP growth between 2009 and 2019 (Rasool et al., 2021).

Tourism also plays a critical role in export diversification, reducing trade imbalances for many developing economies. For instance, in 2019, Macao (China) derived 48% of its GDP from tourism, while Jordan, Spain, and Mauritius reported contributions of 10% (Ahmad et al., 2020). Pakistan's tourism industry contributes 5.9% to GDP and generated 4 million jobs in 2019. However, the COVID-19 pandemic severely impacted the sector's growth prospects, despite global

recognition of Pakistan as a top travel destination (Rasool et al., 2021).

Tourism's growth, while economically beneficial, comes with environmental costs, primarily through increased energy consumption and CO<sub>2</sub> emissions. Studies reveal conflicting evidence regarding tourism's impact on emissions, often underestimating the role of energy consumption in sustainable development (Katircioglu et al., 2014). This study addresses the gap by focusing on Pakistan and employing robust econometric methods to analyze long-run relationships between tourism, GDP, energy use, and CO<sub>2</sub> emissions.

## Research Objectives and Questions

This study investigates the following:

### Objectives

1. To examine the impact of GDP, tourist arrivals, receipts, and energy consumption on CO<sub>2</sub> emissions.

2. To explore trade openness and urbanization as factors influencing emissions.
3. To validate the Environmental Kuznets Curve (EKC) hypothesis via tourism and GDP.

### Research Questions

1. How do GDP and tourism (arrivals and receipts) influence CO2 emissions?
2. What is the impact of conventional and renewable energy use on emissions?
3. Does trade openness and urbanization exacerbate CO2 emissions?
4. Is the EKC hypothesis supported in the context of Pakistan?

### Study Gap

This research differs from prior studies in three ways:

1. It focuses exclusively on Pakistan, moving beyond pooled data analysis to address country-specific policies (Ahmad et al., 2020; Koçak et al., 2020).
2. It employs advanced techniques, including FMOLS, to ensure robust and reliable findings (Al-Mulali et al., 2015).
3. Two distinct metrics—tourist arrivals and receipts—are used to capture tourism's dual impact on economic and environmental outcomes (Naradda et al., 2017).

### Significance of the Study

Understanding the link between tourism, energy consumption, and CO2 emissions is critical for sustainable development in Pakistan. Tourism's dependency on energy amplifies environmental degradation, particularly through activities such as construction, transportation, and hospitality (Katircioglu et al., 2014). Policymakers and practitioners must address this nexus to balance economic growth with environmental sustainability.

### Literature Review

#### Relationship Between Tourism and Economic Growth

Tourism serves as a significant driver of economic growth by generating employment opportunities, enhancing income levels, and contributing to GDP. Paramati et al. (2017a) highlight that target-market mechanisms enable high-spending tourists to travel to specific

destinations, driving economic benefits. However, the absence of capital and reliance on local resources may limit the economic advantages (Ghosh et al., 2017). Wu and Wu (2018) stress the importance of variables such as exchange rates in understanding tourism's economic impact, further supported by Adeola et al. (2020), who establish a strong link between tourism demand and currency rates.

#### Relationship Between Exchange Rate and Tourism

The exchange rate plays a critical role in attracting or repelling international tourists. A favorable exchange rate, where the destination country's currency is weaker than that of tourists, enhances affordability and demand for tourism (Samirkaş & Samirkaş, 2016). Empirical studies suggest that currency fluctuations significantly influence tourism receipts and demand, as demonstrated by Rasheed et al. (2019). This connection underscores the interplay between economic variables and tourism growth.

#### Tourism's Contribution to CO2 Emissions

Tourism is a significant contributor to CO2 emissions, primarily through energy-intensive activities like aviation, transportation, and resource utilization at tourist destinations. Gössling et al. (2015) note the reliance on fossil fuels for travel, accommodation, and activities, with the aviation industry alone being a major contributor to global CO2 emissions. Similarly, changes in land use due to tourism investments exacerbate environmental degradation, as highlighted by Fereidouni et al. (2015), Karim et al. (2017), and Nisha (2017).

#### Positive Environmental Impact of Sustainable Tourism

Sustainable tourism policies can mitigate environmental degradation by promoting greener technologies and transportation modes. Infrastructure improvements, such as better roads and railways, can reduce CO2 emissions (Lau et al., 2018). Moreover, Grossman and Krueger's (1991, 1995) perspective suggests that economic growth through tourism could lead to a shift toward less polluting service sectors, thereby enhancing environmental quality.

### Regional Differences in Tourism's Environmental Impact

Tourism's impact on CO<sub>2</sub> emissions varies across regions. For instance, Nurunnabi et al. (2018) report that while tourism reduces CO<sub>2</sub> emissions in Egypt, it increases them in Tunisia and Malaysia. Similarly, Alam (2017) finds a reduction in emissions in Western Europe but an increase in Eastern Europe due to tourism-related activities. This indicates the heterogeneity in tourism's environmental impact, influenced by regional factors and policies.

### Empirical Evidence of Tourism-Environment Dynamics

Several studies employ econometric techniques to explore the link between tourism and CO<sub>2</sub> emissions. Solarin (2014) and Kilinc et al. (2014) find that tourist arrivals significantly increase CO<sub>2</sub> emissions in Malaysia and Cyprus, respectively. In contrast, Brahmasrene (2013) and Dogan and Aslan (2017) observe a lowering effect of tourism revenue on emissions in Europe and OECD nations. These mixed findings suggest that tourism's environmental impact depends on factors like energy efficiency and policy frameworks.

### Role of Tourism Investments in Emissions Reduction

Investments in sustainable tourism infrastructure can help reduce CO<sub>2</sub> emissions. Paramati et al. (2018) emphasize that tourism-related investments in the EU significantly lower emissions, aligning with the broader goal of sustainable development.

### Nonlinear and Reciprocal Relationships

Tourism exhibits nonlinear relationships with CO<sub>2</sub> emissions. For instance, Sherfatian et al. (2017) reveal a nonlinear association, while Akadiri et al. (2018) find a reciprocal relationship between tourist arrivals and CO<sub>2</sub> emissions in small island nations. These findings highlight the complex interplay between tourism growth and environmental outcomes.

### Influence of Population and Energy Use on Emissions

Tourism, coupled with population growth and energy consumption, contributes to rising CO<sub>2</sub> emissions, particularly in developed nations (Alemán et al., 2014; Chen et al., 2017). However, investments in energy-efficient technologies can mitigate this impact.

### STIRPAT Model Application in Tourism

The STIRPAT model has been used to analyze the determinants of CO<sub>2</sub> emissions in the tourism sector, identifying population, economic growth, and energy efficiency as critical factors (Alemán et al., 2014). The findings underscore the need for targeted policies to manage tourism's environmental impact while fostering growth.

These relationships highlight the multifaceted connections between tourism, economic growth, and environmental sustainability, emphasizing the importance of context-specific strategies for balancing economic benefits with ecological preservation.

### Theoretical Underpinning

In environmental economics, several theories explore the relationship between economic development and environmental degradation. The Environmental Kuznets Curve (EKC) examines the connection between GDP growth and environmental deterioration, suggesting that pollution increases with economic growth up to a certain threshold, after which it begins to decrease (Grossman & Krueger, 1991). Research on the EKC has produced mixed findings across different countries (Ahmed & Long, 2012; Saboori et al., 2012).

The Pollution Haven Hypothesis (PHH) posits that trade and foreign direct investment (FDI) inflows lead to increased pollution in developing countries, as multinational corporations relocate pollution-heavy industries to nations with laxer environmental standards (Temurshoev, 2006). Conversely, the **Porter Hypothesis** suggests that strict environmental regulations can drive innovation, leading to improved environmental quality (Porter & Van Der Linde, 1995).

To understand the impacts of population growth, economic development, technology, and tourism on environmental quality, the Stochastic Impacts by Regression on Population

Affluence and Technology (STIRPAT) model is widely used. This framework links human activities to environmental outcomes, considering factors like population, affluence, and technological development.

### Proposed Hypothesis

H<sub>1</sub>: GDP has a significant impact on the CO<sub>2</sub> emissions.

H<sub>2</sub>: Tourist arrivals has a significant impact on the CO<sub>2</sub> emissions.

H<sub>3</sub>: Tourist receipts has a significant impact on the CO<sub>2</sub> emissions.

H<sub>4</sub>: Renewable energy use has a significant impact on CO<sub>2</sub> emissions.

H<sub>5</sub>: Conventional energy use has a significant impact on CO<sub>2</sub> emissions.

H<sub>6</sub>: Trade openness has a significant impact on CO<sub>2</sub> emissions.

H<sub>7</sub>: Urbanization has a significant impact on CO<sub>2</sub> emissions.

H<sub>8</sub>: Environmental Kuznets Curve is validated via GDP and Tourism.

### Methodology

This section outlines the research methodology employed in this study, detailing data collection, variable measurement, econometric models, and analytical techniques to assess the relationships between GDP, tourism, energy use, and CO<sub>2</sub> emissions from 1995 to 2020. This study adopts a quantitative, deductive approach with a correlational design. Data spanning 26 years (1995-2020) will be collected from the World Bank's World Development Indicators (WDI).

The study includes several key variables measured as follows (Table 1):

| Symbol          | Variable Label              | Description                                                                                      | Measurement                        | Source    |
|-----------------|-----------------------------|--------------------------------------------------------------------------------------------------|------------------------------------|-----------|
| GDP             | Economic Growth             | GDP per capita, divided by midyear population. Represents gross value added and taxes/subsidies. | Per capita GDP (constant currency) | local WDI |
| TA              | Tourist Arrivals            | Number of international inbound tourists (overnight visitors).                                   | Number of passengers carried       | WDI       |
| TR              | Tourism Receipts            | Expenditures by inbound visitors, including payments for goods and services.                     | % of total exports                 | WDI       |
| TAR             | Tourist Arrivals & Receipts | Composite value of tourist arrivals and receipts.                                                | Composite of TA and TR             | WDI       |
| CO <sub>2</sub> | Carbon Dioxide Emissions    | CO <sub>2</sub> emissions from solid fuel consumption (mainly coal).                             | Metric tons per capita             | WDI       |
| CEU             | Conventional Energy Used    | Fossil fuel consumption, including coal, oil, and natural gas.                                   | % of total energy use              | WDI       |
| REU             | Renewable Energy Used       | Share of renewable energy in total final energy consumption.                                     | % of total energy use              | WDI       |
| TOP             | Trade Openness              | Ratio of (Imports + Exports) to GDP.                                                             | (Imports + Exports) / GDP          | WDI       |
| URB             | Urbanization                | Proportion of the population living in urban areas, based on national statistics.                | Share of urban population          | WDI       |

### Econometric Model

Two econometric models are used to analyze the data:

1. Model 1 (Multivariate Regression): This model incorporates variables related to economic growth, tourism, energy use, trade openness, and urbanization to examine their effects on CO<sub>2</sub> emissions, following Manzoor et al. (2019) and Karedla et al. (2021).

$$CO_2 = \beta_0 + \beta_1 GDP + \beta_2 TA + \beta_3 TR + \beta_4 CEU + \beta_5 REU + \beta_6 TOP + \beta_7 URB + e_i \quad (1)$$

2. Model 2 (Environmental Kuznets Curve - EKC): This model tests the EKC hypothesis using the Fully Modified Ordinary Least Squares (FMOLS) technique to assess the relationship between GDP, tourism, energy consumption, and CO<sub>2</sub> emissions, following El Menyari (2021). Tourism is represented by

a composite variable, TAR, combining tourist arrivals (TA) and receipts (TR).

$$CO_2 = \beta_0 + \beta_1 GDP + \beta_2 GDP^2 + \beta_3 TAR + \beta_4 TAR^2 + \beta_5 CEU + \beta_6 REU + \beta_8 TOP + \beta_{10} URB + e_i \quad (2)$$

Where:

- GDP = Gross Domestic Product
- TA = Tourist Arrivals
- TR = Tourism Receipts
- TAR = Composite of Tourist Arrivals & Receipts
- CO<sub>2</sub> = Carbon Dioxide Emissions
- CEU = Conventional Energy Use
- REU = Renewable Energy Use
- TOP = Trade Openness
- URB = Urbanization
- $\beta_0$  = Constant
- $\beta_1$ – $\beta_8$  = Coefficients of independent variables
- $e_i$  = Error term

The research will utilize EViews statistical software to conduct a series of analyses aimed at ensuring the accuracy and reliability of the results. Descriptive statistics will first be employed to summarize the dataset, providing insights into the central tendencies (mean, median, mode) and dispersion (variance, skewness, kurtosis) of the variables. These descriptive measures will offer an initial understanding of the distribution and nature of the data. To ensure the robustness of the regression results, unit root tests will be conducted to assess the stationarity of the time series data. This step is essential, as non-stationary data can lead to unreliable estimations and spurious relationships. By identifying any trends or non-stationarity in the variables, this analysis will help to confirm that the data is suitable for further modelling. Next, the appropriate lag length for the model will be determined, a critical step in ensuring that temporal effects are properly accounted for. By selecting the correct lag length, the analysis will avoid the pitfalls of omitted variable bias and overfitting, which could distort the relationships between the variables. Correlation analysis will then be performed to examine the relationship between pairs of

variables. This step will reveal any significant positive or negative correlations, providing insight into how the variables move in relation to one another. Understanding these relationships will be crucial for interpreting the findings and ensuring that the model captures the underlying dynamics.

The study will also employ Fully Modified Ordinary Least Squares (FMOLS) to estimate cointegration relationships. This method, developed by Phillips and Hansen (1990), will be used to address endogeneity and serial correlation in the time series data. FMOLS is particularly useful for estimating long-run relationships between variables while correcting for potential biases caused by non-stationarity. Finally, diagnostic tests will be conducted to validate the robustness and consistency of the FMOLS results. These tests will include heteroskedasticity checks, serial correlation tests, the Jarque-Bera test for normality, the Ramsey RESET test for model specification, as well as the CUSUM and CUSUM of squares tests for stability. By performing these diagnostics, the study will ensure that the results are reliable and provide a solid foundation for drawing conclusions.

## Result and Discussion

### Descriptive Analysis

Table 4.1, shows the mean value of carbon emissions (CO<sub>2</sub>), composite value of tourism arrival and receipts (TAR), squared term of (TAR<sup>2</sup>), gross domestic product (GDP), squared term of GDP (GDP<sup>2</sup>), tourist arrivals (TA), tourist receipts (TR), conventional energy use (CEU), renewable energy use (REU), trade openness (TOP) and urbanization (URB). The mean values are 4.77, 4.93, 24.68, 5.65, 37.45, 5.90, 3.96, 57, 47.44, 29.38, and 34.49 respectively. While the standard deviation are 0.35, 0.62, 5.98, 2.38, 29.72, 0.26, 1.40, 10.46, 3.80, 4.36, and 1.58 respectively. Standard deviation of GDP<sup>2</sup> and CEU are quite high which means the data point of these two variables are quite scattered. Moreover residuals of GDP<sup>2</sup> and TA variables are not normally distributed as per the probability values of Jarque-Bera.

**Table 4.1:** Descriptive Analysis

|              | CO2   | TAR   | TAR <sup>2</sup> | GDP   | GDP <sup>2</sup> | TA    | TR    | CEU   | REU   | TOP   | URB   |
|--------------|-------|-------|------------------|-------|------------------|-------|-------|-------|-------|-------|-------|
| Mean         | 4.77  | 4.93  | 24.68            | 5.65  | 37.45            | 5.90  | 3.96  | 57    | 47.44 | 29.38 | 34.49 |
| Median       | 4.76  | 4.99  | 24.94            | 5.22  | 27.34            | 5.91  | 4.17  | 57.73 | 47.30 | 29.43 | 34.48 |
| Maximum      | 5.27  | 5.88  | 34.62            | 11.35 | 128.90           | 6.81  | 6.19  | 76.72 | 53.12 | 36.58 | 37.16 |
| Minimum      | 4.17  | 3.65  | 13.32            | 0.46  | 0.21             | 5.56  | 1.42  | 36.12 | 39    | 19.93 | 31.83 |
| Std. Dev.    | 0.35  | 0.62  | 5.98             | 2.38  | 29.72            | 0.26  | 1.40  | 10.46 | 3.80  | 4.36  | 1.58  |
| Skewness     | -0.15 | -0.43 | -0.20            | 0.22  | 1.64             | 1.47  | -0.17 | -0.27 | -0.51 | -0.31 | 0.00  |
| Kurtosis     | 1.68  | 2.40  | 2.24             | 3.90  | 5.49             | 6.60  | 2.01  | 2.58  | 2.53  | 2.34  | 1.85  |
| Jarque-Bera  | 1.97  | 1.21  | 0.80             | 1.10  | 18.52            | 23.42 | 1.18  | 0.50  | 1.39  | 0.89  | 1.42  |
| Probability  | 0.37  | 0.54  | 0.66             | 0.57  | 0.00             | 0.00  | 0.55  | 0.77  | 0.49  | 0.63  | 0.49  |
| Sum          | 124   | 128   | 642              | 147   | 974              | 153   | 103   | 1482  | 1233  | 764   | 897   |
| Sum Sq Dev.  | 3.13  | 9.67  | 895              | 142   | 22084            | 1.75  | 49.04 | 2737  | 361   | 477   | 62.51 |
| Observations | 26    | 26    | 26               | 26    | 26               | 26    | 26    | 26    | 26    | 26    | 26    |

### Correlation Analysis

Table 4.2 displays the correlation between the variables under study. Understanding the interplay between the independent and dependent elements was the primary goal of this investigation. In order to draw objective conclusions, it is necessary that the segments be completely independent of one another. Based on the data shown in Table 4.2, it is apparent that there is very little association between the different factors. As per the correlation results the composite value of tourism has a strong positive correlation of 0.90 with CO2. Tourism arrivals TA has a very

strong positive correlation of 0.85 with CO2, and tourism receipts TR has a very strong negative correlation of -0.95 with CO2. Both the GDP and GDP<sup>2</sup> have weak positive correlation of 0.28 and negative 0.35 respectively with CO2. In case of energy use the CEU has very weak positive correlation of 0.23 with CO2 and REU has a very strong negative correlation of -0.88 with CO2. Trade openness TOP has a very weak positive relation of 0.36 with CO2. In last the Urbanization URB has a very strong positive relation of 0.99 with CO2.

**Table 4.2:** Correlation Analysis

| Correlation | CO2    | TA     | TR     | TAR2   | GDP   | GDP2   | CEU    | REU | URB | TOP |
|-------------|--------|--------|--------|--------|-------|--------|--------|-----|-----|-----|
| Probability | CO2    | TA     | TR     | TAR2   | GDP   | GDP2   | CEU    | REU | URB | TOP |
| CO2         | 1.     |        |        |        |       |        |        |     |     |     |
| TA          | 0.802  | 1.     |        |        |       |        |        |     |     |     |
| p.value     | 0.0000 |        |        |        |       |        |        |     |     |     |
| TR          | -0.954 | -0.653 | 1.     |        |       |        |        |     |     |     |
| p.value     | 0.000  | 0.000  |        |        |       |        |        |     |     |     |
| TAR2        | -0.916 | -0.553 | 0.990  | 1.     |       |        |        |     |     |     |
| p.value     | 0.000  | 0.003  | 0.000  |        |       |        |        |     |     |     |
| GDP         | 0.286  | -0.290 | 0.280  | 0.271  | 1.    |        |        |     |     |     |
| p.value     | 0.155  | 0.150  | 0.165  | 0.179  |       |        |        |     |     |     |
| GDP2        | -0.356 | -0.319 | 0.358  | 0.348  | 0.948 | 1.     |        |     |     |     |
| p.value     | 0.074  | 0.111  | 0.072  | 0.080  | 0.000 |        |        |     |     |     |
| CEU         | 0.232  | 0.118  | -0.374 | -0.361 | 0.058 | -0.004 | 1.     |     |     |     |
| p.value     | 0.252  | 0.562  | 0.059  | 0.069  | 0.778 | 0.980  |        |     |     |     |
| REU         | -0.885 | -0.743 | 0.867  | 0.819  | 0.230 | 0.257  | -0.295 | 1.  |     |     |

|         |       |       |        |        |        |        |        |        |       |      |
|---------|-------|-------|--------|--------|--------|--------|--------|--------|-------|------|
| p.value | 0.000 | 0.000 | 0.000  | 0.000  | 0.256  | 0.203  | 0.142  | ~~~~   |       |      |
| URB     | 0.993 | 0.805 | -0.959 | -0.918 | -0.263 | -0.328 | 0.289  | -0.928 | 1.    |      |
| p.value | 0.000 | 0.000 | 0.000  | 0.000  | 0.194  | 0.101  | 0.152  | 0.000  | ~~~~  |      |
| TOP     | 0.360 | 0.261 | -0.294 | -0.32  | -0.249 | -0.303 | -0.456 | -0.169 | 0.30  | 1.   |
| p.value | 0.070 | 0.197 | 0.143  | 0.110  | 0.219  | 0.132  | 0.018  | 0.407  | 0.135 | ~~~~ |

### Unit Root Analysis

Table 4.3.1 and 4.3.2 shows the unit root analysis under ADF and PP tests respectively. Before going on to model estimation, the study uses the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) unit root test statistics to determine if the data exhibit stationarity. As shown in table 4.3 of the ADF statistics, which shows that all the variables, CO<sub>2</sub>, TAR, TAR<sub>2</sub>, GDP, GDP<sub>2</sub>, TA, TR, CEU, REU, TOP and

URB are stationary at the level of I(0). Table 4.3.2 from the PP statistics also shows that all the concerned variables are stationary at I(0). These results of unit root analysis indicates that all the model variables satisfy the condition of Fully modified ordinary least square (FMOLS) estimation technique. (\*) is 10% significant; (\*\*) is 5% significant; (\*\*\*) is 1% significant; no means not significant.

**Table 4.3.1: Augmented Dickey-Fuller (ADF) Test**

|                            |                  | CO <sub>2</sub>  | TAR   | TAR <sup>2</sup>  | GDP   | GDP <sup>2</sup>  | TA    | TR    | CEU              | REU   | TOP   | URB   |
|----------------------------|------------------|------------------|-------|-------------------|-------|-------------------|-------|-------|------------------|-------|-------|-------|
| C                          | t-Statistic      | -2.98            | -3.48 | -4.46             | -4.90 | -5.14             | -3.52 | -3.06 | -4.44            | 3.35  | -2.86 | -2.99 |
|                            | Prob.            | 0.07             | 0.06  | 0.00              | 0.00  | 0.00              | 0.05  | 0.05  | 0.00             | 0.05  | 0.09  | 0.07  |
|                            |                  | *                | *     | ***               | ***   | ***               | **    | *     | ***              | **    | *     | *     |
| C & T                      | t-Statistic      | -3.26            | -3.10 | -4.12             | -5.22 | -5.87             | -3.28 | -3.97 | -4.57            | -4.21 | -4.77 | -3.29 |
|                            | Prob.            | 0.06             | 0.07  | 0.00              | 0.00  | 0.00              | 0.09  | 0.05  | 0.00             | 0.00  | 0.00  | 0.06  |
|                            |                  | *                | *     | ***               | ***   | ***               | *     | **    | ***              | ***   | ***   | *     |
| Without C & T              | t-Statistic      | 7.66             | -0.71 | -0.94             | -1.30 | -1.80             | 1.21  | -1.58 | 0.01             | -2.60 | -0.24 | 3.84  |
|                            | Prob.            | 1.00             | 0.39  | 0.29              | 0.17  | 0.06              | 0.93  | 0.10  | 0.67             | 0.01  | 0.58  | 0.99  |
|                            |                  | n0               | n0    | n0                | n0    | *                 | n0    | n0    | n0               | **    | n0    | n0    |
| <b>At First Difference</b> |                  |                  |       |                   |       |                   |       |       |                  |       |       |       |
| C                          | dCO <sub>2</sub> | dCO <sub>2</sub> | dTAR  | dTAR <sup>2</sup> | dGDP  | dGDP <sup>2</sup> | dTA   | dTR   | D <sub>ceu</sub> | dREU  | dTOP  | dURB  |
|                            | t-Statistic      | -5.00            | -4.00 | -4.37             | -5.63 | -6.57             | -5.45 | -4.75 | -4.62            | -4.20 | -4.35 | -1.40 |
|                            | Prob.            | 0.00             | 0.00  | 0.00              | 0.00  | 0.00              | 0.00  | 0.00  | 0.00             | 0.00  | 0.00  | 0.56  |
| C & T                      | t-Statistic      | -5.24            | -3.70 | -4.14             | -5.79 | -6.56             | -2.55 | -4.49 | -4.53            | -4.31 | -4.08 | -1.08 |
|                            | Prob.            | 0.00             | 0.04  | 0.01              | 0.00  | 0.00              | 0.30  | 0.00  | 0.00             | 0.01  | 0.02  | 0.91  |
|                            |                  | ***              | **    | **                | ***   | ***               | n0    | ***   | ***              | **    | **    | n0    |
| Without C & T              | t-Statistic      | -2.04            | -3.97 | -4.32             | -6.48 | -6.38             | -2.64 | -4.31 | -4.71            | -3.51 | -4.43 | 0.04  |
|                            | Prob.            | 0.04             | 0.00  | 0.00              | 0.00  | 0.00              | 0.01  | 0.00  | 0.00             | 0.00  | 0.00  | 0.68  |
|                            |                  | **               | ***   | ***               | ***   | ***               | **    | ***   | ***              | ***   | ***   | n0    |

### Notes:

b: Lag Length based on SIC

a: (\*)Significant at the 10%; (\*\*)Significant at the 5%; (\*\*\*) Significant at the 1% and (no) Not Significant

Table 4.3.2: Phillips- Perron (PP) Test

| At Level            |             | CO2   | TAR   | TAR2              | GDP    | GDP2              | TA    | TR    | CEU   | REU   | TOP   | URB   |
|---------------------|-------------|-------|-------|-------------------|--------|-------------------|-------|-------|-------|-------|-------|-------|
| C                   | t-Statistic | -1.56 | -1.48 | -1.46             | -4.90  | -5.14             | -0.32 | -1.06 | -1.50 | 0.28  | -1.98 | 0.00  |
|                     | Prob.       | 0.48  | 0.52  | 0.53              | 0.00   | 0.00              | 0.90  | 0.71  | 0.51  | 0.97  | 0.29  | 0.95  |
|                     |             | n0    | n0    | n0                | ***    | ***               | n0    | n0    | n0    | n0    | n0    | n0    |
| C & T               | t-Statistic | -1.26 | -3.05 | -3.08             | -5.24  | -6.45             | -3.09 | -3.23 | -1.62 | -1.39 | -1.92 | -2.37 |
|                     | Prob.       | 0.87  | 0.13  | 0.13              | 0.00   | 0.00              | 0.12  | 0.10  | 0.75  | 0.83  | 0.61  | 0.38  |
|                     |             | n0    | n0    | n0                | ***    | ***               | n0    | n0    | n0    | n0    | n0    | n0    |
| Without C & T       | t-Statistic | 7.69  | -0.75 | -0.98             | -1.21  | -2.31             | 1.32  | -1.70 | 0.01  | -2.47 | -0.24 | 32.02 |
|                     | Prob.       | 1.00  | 0.37  | 0.28              | 0.19   | 0.02              | 0.94  | 0.08  | 0.67  | 0.01  | 0.58  | 0.99  |
|                     |             | n0    | n0    | n0                | n0     | **                | n0    | *     | n0    | **    | n0    | n0    |
| At First Difference |             |       |       |                   |        |                   |       |       |       |       |       |       |
|                     |             | dCO2  | dTAR  | dTAR <sup>2</sup> | dGDP   | dGDP <sup>2</sup> | dTA   | dTR   | dCEU  | dREU  | dTOP  | dURB  |
| C                   | t-Statistic | -5.01 | -3.97 | -4.35             | -22.72 | -23.24            | -2.29 | 4.73  | 4.62  | 4.20  | 4.35  | -1.81 |
|                     | Prob.       | 0.00  | 0.00  | 0.00              | 0.00   | 0.00              | 0.18  | 0.00  | 0.00  | 0.00  | 0.00  | 0.36  |
|                     |             | ***   | ***   | ***               | ***    | ***               | n0    | ***   | ***   | ***   | ***   | n0    |
| C & T               | t-Statistic | -5.44 | -3.67 | -4.11             | -21.91 | -23.77            | -2.45 | 4.47  | 4.53  | 4.31  | 4.33  | -1.10 |
|                     | Prob.       | 0.00  | 0.04  | 0.01              | 0.00   | 0.00              | 0.34  | 0.00  | 0.00  | 0.01  | 0.01  | 0.90  |
|                     |             | ***   | **    | **                | ***    | ***               | n0    | ***   | ***   | **    | **    | n0    |
| Without C & T       | t-Statistic | -1.79 | -3.97 | -4.35             | -23.71 | -24.14            | -2.58 | 4.33  | 4.71  | 3.48  | 4.43  | -0.12 |
|                     | Prob.       | 0.07  | 0.00  | 0.00              | 0.00   | 0.00              | 0.01  | 0.00  | 0.00  | 0.00  | 0.00  | 0.63  |
|                     |             | *     | ***   | ***               | ***    | ***               | **    | ***   | ***   | ***   | ***   | n0    |

**Notes:**

a: (\*)Significant at the 10%; (\*\*)Significant at the 5%; (\*\*\*)Significant at the 1% level with the FMOLS approach, but only after the appropriate lag period, as established by the integration level, has been confirmed. In Table 4.4, according to AIC, SC, and HQ, a one-year lag is ideal.

b: Lag Length based on SIC

**Lag Length Criteria**

Table 4.4

*Endogenous variables: CO2 GDP TA TR CEU REU TOP URB*

*Exogenous variables: C*

*Sample: 1995 2020*

*Included observations: 25*

| Lag | <u>LogL</u> | LR        | FPE       | AIC       | SC        | HQ        |
|-----|-------------|-----------|-----------|-----------|-----------|-----------|
| 0   | -224.1846   | NA        | 0.016117  | 18.57477  | 18.96481  | 18.68295  |
| 1   | -26.70204   | 252.7777* | 4.86e-07* | 7.896163* | 11.40653* | 8.869788* |

\* indicates lag order selected by the criterion

LR: sequential modified LR test statistic (each test at 5% level)

FPE: Final prediction error

AIC: Akaike information criterion

SC: Schwarz information criterion

HQ: Hannan-Quinn information criterion

#### Fully Modified Ordinary Least Squares Estimation (Model 1)

Fully modified OLS (FMOLS) is used once the optimal lag duration has been determined since it is more effective than OLS. To address serial correlation and endogeneity, the

FMOLS technique takes a non-parametric tack and is recommended by Kao and Chiang (2001) and by Mark and Sul (1999). Table 4.5 displays the obtained data of Model 1. All computed coefficients are statistically significant, as demonstrated by the outcomes.

**Table 4.5: FMOLS**

| Variable               | Coefficient | Std. Error | t-Statistic | Prob.    |
|------------------------|-------------|------------|-------------|----------|
| GDP                    | 0.04        | 0.01       | 2.79        | 0.012**  |
| TA                     | 1.08        | 0.30       | 3.49        | 0.002*** |
| TR                     | -0.24       | 0.17       | 13.86       | 0.000*** |
| CEU                    | 0.007       | 0.02       | 3.39        | 0.003*** |
| REU                    | -0.081      | 0.03       | 2.78        | 0.012**  |
| TOP                    | 0.029       | 0.01       | 2.80        | 0.011**  |
| URB                    | 0.220       | 0.05       | 4.40        | 0.003*** |
| C                      | -5.029      | 0.79       | -7.2        | 0.000*** |
| R-squared              | 0.9966      |            |             |          |
| Adjusted R-squared     | 0.9853      |            |             |          |
| S.E. of regression     | 0.0240      |            |             |          |
| Sum squared resid      | 0.0104      |            |             |          |
| Log likelihood         | 64.792      |            |             |          |
| F-statistic            | 771.84      |            |             |          |
| Prob(F-statistic)      | 0.0000      |            |             |          |
| Prob(Wald F-statistic) | 0.0000      |            |             |          |

Durbin-Watson stat

1.8611

**Notes:**

a: (\*)Significant at the 10%; (\*\*)Significant at the 5%; (\*\*\*)Significant at the 1% level. Not Significant

**Residual and Stability Diagnostics**

Figure 4.6.1: Jarque-Bera Residual Diagnostic. It has probability value of 65% which is insignificant or more than 5% of significance therefore it is concluded that the residuals of the model 1 are normally distributed.

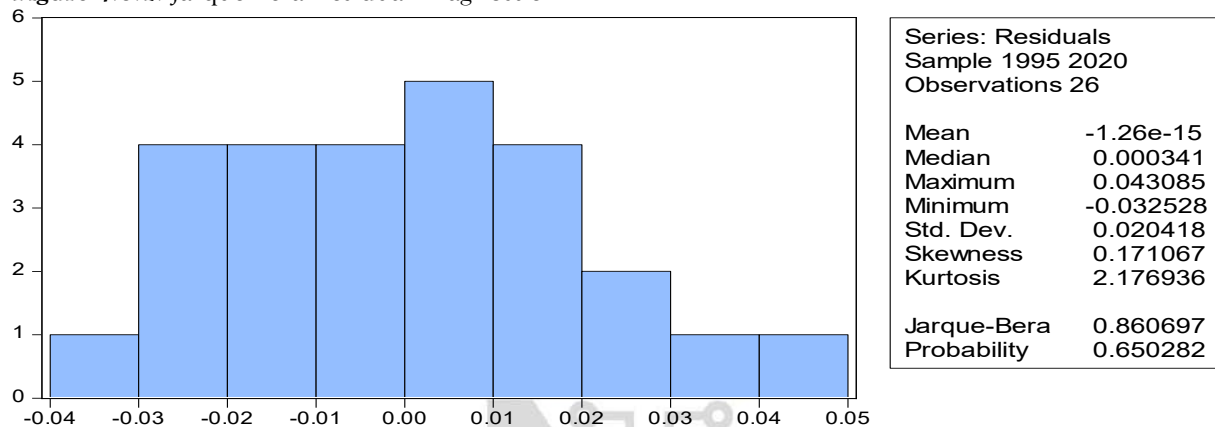
**Figure 4.6.1:** Jarque-Bera Residual Diagnostic

Table 4.6.2 and 4.6.3 shows the residual diagnostic under serial correlation and heteroskedasticity. As the probability values of both F and observed  $R^2$  are insignificant therefore there is found no serial correlation and heteroskedasticity issue. Table 4.6.4 shows the stability diagnostic under Ramsey test. The

t statistic and F statistic has insignificant p-values which proves that the linear model is not misspecified. Figures 4.6.5 and 4.6.6 are CUSUM and CUSUM of squares test. As the CUSUM of standardized deviations are under the 5% range, it means that the Beta coefficients are stable in the estimation.

**Table 4.6.2:** Breusch-Godfrey Serial Correlation LM Test

|               |       |                     |       |
|---------------|-------|---------------------|-------|
| F-statistic   | 0.948 | Prob. F(2,16)       | 0.408 |
| Obs*R-squared | 2.756 | Prob. Chi-Square(2) | 0.252 |

**Table 4.6.3:** Heteroskedasticity Test: Breusch-Pagan-Godfrey

|               |       |                     |       |
|---------------|-------|---------------------|-------|
| F-statistic   | 1.196 | Prob. F(7,18)       | 0.354 |
| Obs*R-squared | 8.254 | Prob. Chi-Square(7) | 0.310 |

**Table 4.6.4:** Ramsey RESET Test

|                  | Value    | df      | Probability |
|------------------|----------|---------|-------------|
| t-statistic      | 0.824228 | 17      | 0.4212      |
| F-statistic      | 0.679351 | (1, 17) | 0.4212      |
| Likelihood ratio | 1.018784 | 1       | 0.3128      |

**Figure 4.6.5:** CUSUM

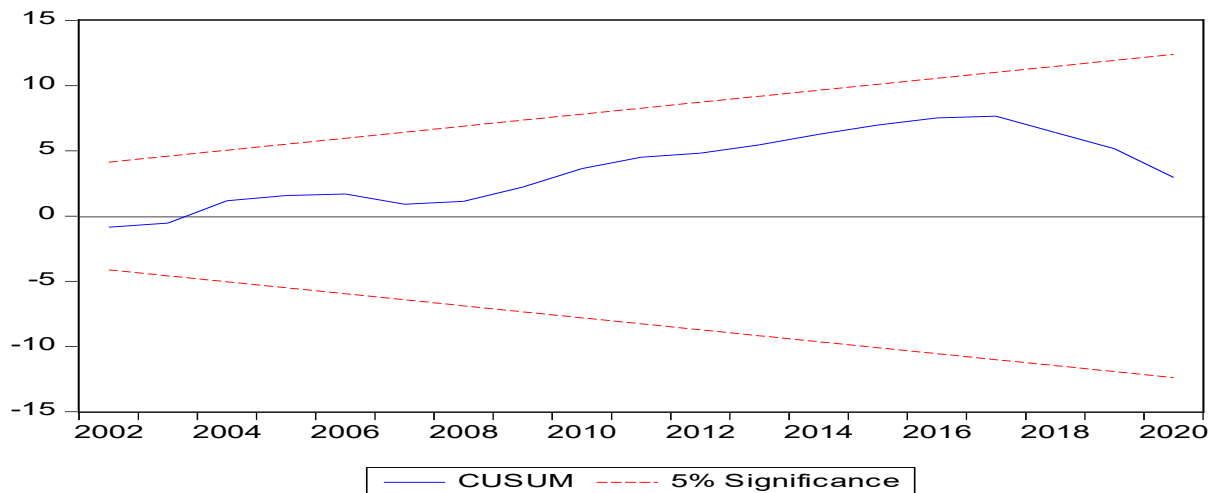
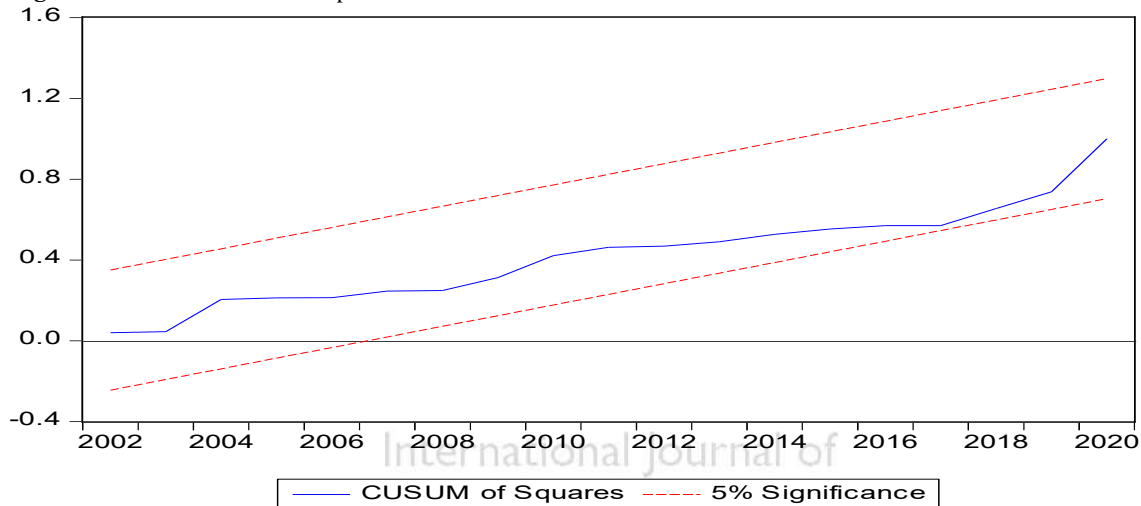


Figure 4.6.6: CUSUM of Squares



#### Fully Modified Ordinary Least Squares Estimation (Model 2)

Table 4.7 of FMOLS estimation shows the model 2 of this study. In this model the main aim of the study was to check the environmental Kuznets curve EKC for Pakistan through GDP and tourism. In this regards the tourism composite variable was developed by combining the TA and TR dimensions. According to Table 4.7, when using the FMOLS approach, the square of GDP is negatively signed, indicating a connection between GDP and environmental deterioration. To achieve U shaped curved as

per EKC analysis the study had to use quadratic equation. For a quadratic equation the study took the square term of GDP and Tourism variables. These squared terms must have a negative relationship with  $CO_2$  to validate the EKC analysis.

Therefore, evidence supporting EKC theory in the context of Pakistan is discovered. Similarly, a negative significant finding for the tourism squared value  $TAR^2$  in Pakistan supports the EKC theory. Consistent results have been discovered by Chen et al. (2016), Nasreen et al. (2017), and Destek et al (2018).

Table 4.7

*Dependent Variable: CO2**Method: Least Squares**Sample: 1995 2020**Included observations: 26**White heteroskedasticity-consistent standard errors & covariance*

| Variable               | Coefficient | Std. Error | t-Statistic | Prob.   |
|------------------------|-------------|------------|-------------|---------|
| GDP <sup>2</sup>       | -0.03       | 0.0009     | -28.31      | 0.00*** |
| TAR <sup>2</sup>       | -0.05       | 0.004      | -12.16      | 0.00*** |
| C                      | 6.10        | 0.10       | 59.88       | 0.00*** |
| R-squared              | 0.84        |            |             |         |
| Adjusted R-squared     | 0.83        |            |             |         |
| S.E. of regression     | 0.14        |            |             |         |
| Sum squared resid      | 0.49        |            |             |         |
| Log likelihood         | 14.57       |            |             |         |
| F-statistic            | 61.27       |            |             |         |
| Prob(F-statistic)      | 0.00        |            |             |         |
| Prob(Wald F-statistic) | 0.00        |            |             |         |
| Durbin-Watson stat     | 1.49        |            |             |         |

**Notes:**

a: (\*)Significant at the 10%; (\*\*)Significant at the 5%; (\*\*\*)Significant at the 1% level. All coefficients are statistically significant, as demonstrated by the outcomes.

**Discussion and Conclusion****Discussion**

There were two models employed in the research. Model 1 uses a multivariate regression technique based on the production function (Cobb, 1928). Consumption of electricity, trade liberalisation, labour, and urbanisation have all been included to the production function in the footsteps of Manzoor et al (2019).

The EKC's plan to aid Pakistan's long-term objectives is supported by the second model. We used FMOLS econometric methodologies to examine Pakistan's economy from 1995 to 2020 in light of the EKC hypothesis. This research is consistent with that of El Menyari (2021), who, between 1980 and 2014, looked at how the tourist industry, electricity consumption, and growth impacted CO2 emissions in North Africa. In the case of Pakistan, GDP and TAR were used to calculate EKC. The TAR variable is the sum of the two individual tourism indicators, "total arrivals" (TA) and "total revenues" (TR).

Table 4.5 displays the obtained data of Model

5% All coefficients are statistically significant, as demonstrated by the outcomes. Estimates from FMOLS suggest that a 1% increase in GDP would lead to a 0.4% increase in emissions. The findings suggest that higher rates of economic growth lead to greater use of carbon fuels and hence higher rates of greenhouse gases. Most investigations, including Lee and Brahmasrene (2013), Katirciolu (2014), and De Vita et al. (2015), have found the same thing.

When compared to the findings of Ben Jebli and Ben Youssef (2015), who found that a rising GDP leads to a decrease in carbon pollution, this conclusion seems counterintuitive. The findings emphasise the need of remediation technology, alternative energies, and efficient energy usage. An increase of 1% in tourist arrivals results in an increase of 0.139% in carbon outputs. If tourist receipts have a negative relation with CO2 emissions, a 1% rise in TR decreases the emissions by 0.24%. The estimation findings show that income from tourism reduces carbon dioxide (CO2) emissions.

These findings demonstrate the positive role that tourist earnings play in mitigating greenhouse gas emissions, a measure of

economic prosperity. Results are in line with Naradda Gamage et al. (2017), Paramati, Sudharshan, et al (2017). Tourism revenues, in contrast to the general economy, have a constructive contribution to the environment by lowering emissions of CO<sub>2</sub>. Reasons for this may include the fact that the tourist industry, though still an important part of the service sector, uses less energy and produces less pollution than the sectors of agriculture and manufacturing.

In addition, a 1% increase in CEU results in a 0.007% increase in pollution. Increasing the use of alternate energy sources REU cuts carbon dioxide (CO<sub>2</sub>) emissions by 0.081 percent for every 1 percent increase in consumption. This is to be expected due to the fact that renewable energy sources might decrease the need for fossil fuels, and vice versa, as their use rises. This finding agrees with that of Ben Jebli et al (2016). However, it is opposite to the outcomes by Apergis et al. (2010) on 19 nations both developed and developing and by Ben Jebli et al. (2015a) research on Tunisia.

Additionally, every increase of 1% in trade openness leads to a 0.029% increase in pollution. Since more goods from imports and exports require more fossil energy to create, utilize, and carry, this might lead to increases in CO<sub>2</sub> emission if trade liberalisation is expanded. The result is different from what was shown in OECD nations by Dogan and Aslan (2017). Finally there is found a positive significant relationship between urbansation URB and CO<sub>2</sub>. An increase of 1% URB rises the CO<sub>2</sub> to 0.22%.

In case of model 2 Table 4.7, this study found a negative relation between the GDP<sup>2</sup> and CO<sub>2</sub>, meaning a 1% rise in GDP<sup>2</sup> decreases the CO<sub>2</sub> levels by 0.03%. In the same way TAR<sup>2</sup> has a negative impact on CO<sub>2</sub>, meaning a 1% rise in TAR<sup>2</sup> will decrease the CO<sub>2</sub> by 0.05%. Thus the environmental Kuznets curve is validated in the case of Pakistan and these results are in line with Chen et al. (2016), Nasreen et al. (2017), and Destek et al (2018).

### Conclusion

This research study examined the impact of tourism and economic growth on the carbon emissions in Pakistan. For this purpose the

study has utilized the data from 1995 to 2020. To get the empirical results clean from the issues of endogeneity the study used fully modified OLS (FMOLS) technique.

The significance of this research lies in the fact that the Asian countries are now ranked as the world's second most popular tourist destination, and because it is an outward-looking region marked by rapid urbanisation and rising levels of wealth. The empirical findings show that GDP, tourism, energy consumption, trade and urbanisation, and environmental degradation are all linked in a long-term LR dynamic relationship. The empirical findings point to the growing role of tourism in contributing to carbon emissions that degrade the environment in Pakistan. A comparison of these findings with those of Sharif et al. (2017), Dogan and Aslan (2017), Chen et al. (2018), and Eyuboglu and Uzar (2020) reveals striking similarities.

In other words, tourism is a major contributor to the environmental deterioration of Pakistan. Nevertheless, the study's findings are intriguing because they provide support for the environmental Kuznets curve concept, which has been a controversial topic. The study also found that the gross domestic product, conventional energy use, trade openness, and urbanisation are all key variables that tend to have a large influence on environmental deterioration in the Asian area, especially Pakistan.

### Policy Implications

The research provides vital policy foundations for the Asian area. First, while tourism has proven to be an essential factor to market prosperity in Pakistan by creating jobs, earnings, and economic expansion, it also is likely to contribute towards environmental devastation as the tourism & hospitality industry is evolved and more pavements are concreted and tourist industry platform is built to expedite the influx of both international and domestic visitors. Similarly, as a more urbanised and globally engaged area, Pakistan should see an increase in emissions as a result of the increased size of its manufacturing sector and other commercial growth.

There is support in the data for the EKC hypothesis, which suggests that beyond a certain point, environmental damage may begin to improve as a result of the adoption of greener practises and technologies. The environmental impacts of urbanisation and tourism can be mitigated by employing eco-friendly technology. The research concludes that to boost supply and efficiency, eco-friendly tourism, and economic growth, Pakistan should prioritise modern and environmentally friendly strategies. As a means of mitigating the damaging effects of increased urbanisation and commercial globalisation on the environment and laying the groundwork for a long-term, environmentally friendly tourist industry, regional economies should shift their focus toward renewable energy sources.

Taking into account the significance of the tourist industry to employment, economic activity, and regional growth, drastic changes are required to lower area carbon emissions. This is a challenging procedure because of the political repercussions and the lethargy of the stakeholders involved. The first is that the region's elites and political dynasties have a firm grip on the tourist sector, making wholesale changes and a significant reduction in carbon emissions in the region a tall order. A major political issue is posed by the potential loss of jobs and decline in profits that would result from a shift from conventional to environmentally friendly technology in the tourist sector. Investment in green technology is costly up front and returns take a long time to materialise.

Foreign and domestic investors alike have been wary of these kinds of projects since the spread of the COVID-19 virus. Local and national governments of the region countries should incentivize the technological reform process in the tourism industry with subsidies, tax rebates, and zero import duties for investors and stakeholders who opt for environmentally friendly technologies in order to avoid political backlash from the local elite and other stakeholders and restore investor confidence.

Manufacturing firms will compete to use renewable energy sources. The region's

influential civil society organisations (CSOs) might play a role in educating the public and tourists about the benefits of green tourism and pushing for stricter laws to ensure the industry's adoption of green energy and practices.

#### Limitation of Study

However, the study has certain restrictions because it is limited to a particular nation. On top of that, it only includes the years 1995-2020 because earlier years' data was not collected. This investigation has several potential avenues for further exploration. To what extent CO<sub>2</sub> emissions from popular tourist spots have an effect on the health of the locals there will be an intriguing study to follow. Even yet, it would be fascinating to employ forecasting techniques like the neural network to foresee the long-term effects of tourism on a country's environmental quality.

#### Future Studies

In line of our research study, in future researchers can work in the relevant field by focusing on certain type tourism in Pakistan. More over in future a comparative study should be done between Pakistan and its neighbouring countries by considering the moderating role education expenditure or infrastructure development.

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