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Tourism and Determinants of Economics Development – An ARDL Approach in Case of Pakistan

Dr. Syeda Anam Hassan
Assistant Professor of Economics
Government Girls Degree College Nawanshehr, Abbottabad
Syedaanam6695@gmail.com
Inayatul Haq
GHSS.No.1 Abbottabad
Subject Specialist in Economics
inayateconomist33@gmail.com
Aaiza Bibi
MS Economics COMSATS University Islamabad, Abbottabad Campus
aaizabibi001@gmail.com
Zartasha Ishaq
MS Economics COMSATS University Islamabad, Abbottabad Campus
zartashaishaq65@gmail.com
Hajira Tariq
MS Economics COMSATS University Islamabad, Abbottabad Campus
hajiratariq3432@gmail.com

Abstract

Tourism is an important sector of the economy because it contributes to income generation, foreign-exchange earnings, investment, employment, and the development of related industries. This study examines the relationship between tourism and selected economic and institutional factors in Pakistan using annual time-series data covering the period from 1995 to 2025. The econometric result of ARDL Bound Test approach shows that in short run 1% increase in GDP, Foreign Direct Investment, Balance of Payment, and Political Stability, increase Tourism by (0.007), (0.034), (0.028), (0.140) respectively, while Unemployment decreases the tourism by -0.025 percent. Moreover, in long run 1% increase in Foreign Direct Investment, Balance of payment and political stability increases the tourism by (0.036), (0.007), (0.213) percent respectively, while GDP and Unemployment decreases the tourism by (-0.026) and (-0.07) respectively. However, the outcomes reveal that foreign investment, political stability, and favourable balance of payments conditions are positively associated with tourism development in Pakistan, while unemployment has a negative association with tourism. The study recommends that the Government of Pakistan improve tourism facilities, strengthen political stability and security, facilitate international tourists, encourage tourism-related investment, and develop supportive economic policies. These

measures can help increase tourism activity and enhance its contribution to economic development in Pakistan.
Keywords: *Tourism, Political Stability, Unemployment, Heritage Tourism, Destination Marketing.*

1. Introduction
Pakistan is not only endowed with natural beauty and vast potential to advance its economy but also with beauty and immense history. One of the largest contributors to the GDP is tourism due to foreigners visits the country, the balance of trade improved. Furthermore, "World Travel and Tourism Council" also state that it can also uplift the state of backward regions by investing in this sector (Ahmed et al., 2024). Tourism industry make developing countries earn money, it provides the developing countries with a boost in development due to tourism income and other related areas. The preservation of peace, prosperity and security of the country hosting the tourism is one of the primary purposes of tourism development. Every country is highly depends on its economy. The economy of the majority of the countries is based on agriculture, natural resources, manufacturing industries. Compared to tourism industry recording a financial contribution of 9 percent to the global GDP estimated almost US$6 trillion and it provides 120 million direct employments and 125 million indirect employment to related sectors. It has to deal with everyday life of individuals everywhere across the globe in a manner of providing employment, amelioration of living standards, influx of both local and foreign investments, infrastructure development and promoting entrepreneurship. International tourism records with the tourism close to 2530 percent of all the global services and hires above 100 million individuals worldwide. However, especially in the 20th and 21th century tourism is a substantial prospective method to speed up economic growth in the developing world (Studnicka & Plzáková, 2017).
In recent times, tourism sector, including casinos is a major segment of the world's largest industry and most huge earning sector acts as a major source of government revenue, and job creation in most of the countries as well as in framework development in the same countries. Economist and researcher have asserted that tourism development not only sparks off the industrial growth, but also creates the entire economic prosperity. The nature of the advancement of tourism has the capacity to boost the government income as well as the household income via multiplier effects and enhancement of the balance of payment. Hence, tourism growth is thought of as a good source of revenue to economic growth (Fakfare et al., 2022; Gaubert, 2016). In context to tourism the products and tourism services are provided by people, the labor working in this field are the integral demand of the tourism (Nguyen et al., 2025).
They can use this revenue to settle the liabilities like salaries, rents, wages and other payments. Tourism increase the employment level by creating new vacancies in the sector by stimulating the creation of other chances in fields, such as construction, transport, hotels and restaurants etc. To attract the tourist's government has increased investment in developing of roads constructions, communications, networks, and sanitation or health improvement etc. With the increase in production, new business opportunities created in this process. Technology, knowledge and human capital is also introduced to the country through tourism (Sun, 2025; Azam et al., 2022).

The significant element of direct contribution of travel and tourism is visitor exports. Tourism also makes necessary level of foreign exchange earnings that adds to the healthy economic development. The country total revenue brings about by tourist related industries such as visitor exports, personal expenditure and government personal expenditure. In 2016 the visitor exports of Pakistan was 3.6% or PKR 93.8 bn. The world tourism organization statistic that indicate that in period 1990 to 2005, the average yearly growth rate of international tourist arrivals in developing countries stood at 6.51% are associated with 4.2% growth of worldwide more over the same periods. Approximate estimations have put tourism to contribute between 3.1% and 10.2% of GDP in the developing world which is approximate to tourism force to economic growth and development. Generally GDP plays a positive role in tourism when the developing countries are seeking their economic development (Samimi et al., 2011; Morrar et al., 2025).

Moving towards the Pakistani side it holds much appeal in the shape of picturesque beauty the salient feature of the northern sector is a hilly area, a green environment, flora and fauna, flowing mountains, rocks and natural beauty specifically the hospitality of the people that might drive the tourist to visit Pakistan. The range of the major mountain in Pakistan is followed by three mountains namely, koh-e Hindu Kush, Himalayas, and Karakoram and the range is also linked with Pakistan ancient civilization structure Harappa and Ghandara which is placed in the lap of the Indus River. It is a mixture of modern and old civilizations (Habib et al., 2025; Hye et al., 2013).

Pakistan is highly blessed with historical and visiting sites and this has enormous implications on the economy of the country. However, to create a remarkable increment in the economy by visiting destinations, state must assure all necessities (Ahmed et al., 2022). Thus study is concerned with the impact of visiting destinations on the economy of the country. Pakistan is among the developing nations that have numerous deludes with regard to the sphere of tourism. The heritage and historic sites of the country reveal the splendor of this ancient country. The valley of swat, Balakot, Shangla, Ayubia, Murree, Nathia gali, kalam, Malam Jaba, Naran, Kaghan, Gilgit, Chitral and other ranges of mountains are all blessed with tourist attractions in Pakistan. Northern area of Pakistan is called a land of contrasts, exceptional in its inheritance of non-coastal civilization and blessed with an amazing series of some of charming and most beautiful lakes, valleys, rivers, glacier and mountains. Northern areas comprise the most perilous mountain ranges Karakoram, Hindu Kush, Himalayas, and Pamir's which forms a unique point in the world, that attracts climbers, hikers, trekkers, mountaineers, and unheeding rock, the flow and waterfalls of glacial streams, which attracts millions of tourists. After green and natural beauty enhance the area is a marvelous chance to have the country economy. There area has unique and natural beauty and attract the tourism. Pakistan is the wealthiest nation of the globe in terms of natural, historical and civilizing endowment (Ullah et al., 2022).

1.2 Significance of study

Tourism is becoming an important industry that has an impact on growth of economy. Income and creation of employment is the benefit of tourism. It is the greatest source of welfare in many regions and countries as well. Based on how it invests to create the necessary infrastructure and on it possesses the capacity to fulfill tourists demand, tourism can be beneficial to the economy of a nation. Peace and security are also important to be taken into consideration like in the case of Pakistan which is the key contributing factor. Therefore, this study is conduct purely for investigating the impact of different key economic variable on tourism i-e the current political stability, GDP, Foreign direct investment, Balance of payment, Employment.

1.3 Study objectives.

- To examine the effects of GDP, FDI, political stability, balance of payment, and unemployment on tourism in Pakistan.
- To identify the major economic and institutional of tourism.
- To invesigate the short-run and long-run relationship among Tourism and its determinants in Pakistan using the ARDL Bounds Testing approach.

2. Literature review

Habib et al. (2025) researched On top of exploring how tourism development impacts the environment and the infrastructure within the country in context of sustainable tourism paradigm in Pakistan. Tourism brings in revenue and employment, and it is prominent tourism is a catalyst of GDP expansion since people spend more money on accommodation, transportation, food and recreational activities. Nonetheless, accelerated tourist growth in less developed countries may result in environmental degradation and exerts pressure on the existing infrastructure. However, government policies must put a significant emphasis on sustainable programs. Based on the annual time series, 1995-2023, the paper estimates the interdependencies of tourism activity, GDP and employment. It does it through the ARDL tests, error correction modeling and bounds testing. Performance of the policies can also be evaluated in terms of temporal segmentation depending on the different levels of governance. This paper shows how tourism has the two-fold effect of the first, as it enhances economic development and generates employment, but also leads to environmental degradation and inefficient infrastructure. Over time, policy interventions' efficiency changes. This research was also in line with the research of Roy and Medhekar (2026).

Pandey (2025) determined the contributions of tourism and economic growth in Nepal in the years 1975-2021, and the base year was 2010, ECM has been applied in this study. The research paper concluded that, in short run, there is dynamic relationship whereas in long run there is integrating connection among tourism revenue and GDP. This work was in agreement with Stevens work (1988).

Rehman et al. (2020) studied to find the role of tourism development to GDP on Pakistan during 1960-2006. The study seek to achieve to analyzed GDP, world income relative tourism prices, transportation cost and dummy variables by applying the bond test ARDL. The economic result shows that long run statistic significant impact of economic growth in Pakistan. Lastly, government decided to estimate an aggregate tourism demand fun in Pakistan based on a recent single co integration method i.e., ARDL approach, similar to study of Habib et al. (2025).

Samimi et al., (2011) adopted the P-VAR approach, utilized time series data from 1995-2009. The study had established empirical evidence suggests that tourism development contributes positively to GDP over the long term. It concludes that tourism led growth hypothesis is validated besides, the extent of output that correlates with standard of living and socio-economic development is also important in drawing tourist. The article has been carried out using the Brida and Risso (2010).

The article by Khan et al., (2020) analysed example of Pakistan assesses how tourism play a vital role in the growth trajectory of emerging economies from 1995-2016. Furthermore, the relationship among tourism, poverty alleviation, energy and agricultural development as well as GDP growth was also found to be causal and this was conducted through a number of different econometric techniques. Policymakers should thus be informed that tourism can facilitate development in underdeveloped economies by establishing and execution of integrated policies with the help of government interventions.

Hye et al., (2013) studied how tourism and economic development in Pakistan interacted with each other using co integration, ARDL test approach in the period 1971-2008. The results conclude that, there exists a long term cointergration between incomes generated from tourism and economic expansion. Furthermore, the analysis implies that tourism income drive GDP. The study is also consisted with Tabash (2014) and fills the gap of 1995 to 2014.

Fuchs and Kronenberg (2025) examine how GDP growth and tourism development affects Sweden in 2000-2020. The objective of the study is find investment, education, trade, debt, exchange rate by using four different methods. Ordinal least square OLS, Fixed effects FE, First difference FD, and investment variable IV. The outcome depicts that a Swedish economic growth has a strong positive determinant in tourism. Finally, conclude that availability and quality of the tourism offerings influence on tourism sector in the economy.

Mazhar et al. (2025) researched regarding the tourism receipts and GDP in Pakistan from 1960 to 2020. The focus onto the study these association, employed the NARDL test. The outcomes demonstrated that economic growth of a country is positive and significant impact of tourism performance. The study also stated that significant positive shock to international tourism revenue contributes to rise in economic expansion.

Research by Lozano-Solano et al., (2025) on the long term and short term effects of tourism at the local and aggregate level involved the use of average nearest neighbor index (ANNI), spatial analysis tools and uses respectively in analyzing georeferenced data concerning cultural and recreational institutions. In 2019, 2020, and 2023 the analysis is based on four cities in “Mexico City, Guadalajara, Xalapa and La Piedad-Penjamo” covered by seven metropolitan areas. The findings indicate that, especially in “Guadalajara, Xalapa, and La Piedad–Pénjamo”, heritage and creative tourism has shown remarkable resilience and revival in the wake of the COVID-19 global pandemic. Even though there were recent concentrations in the peripheral places that indicate that there is ongoing process of territorial reconfiguration, the clusters were located predominantly in historic places. Even though they currently make up a small portion of overall value added, creative endeavors show strong development characteristics and are crucial to urban transformation.

Kantarci and Karakaya (2016) study the effect of tourism industries on the economic prosperity of Turkey. The time series data used in 2000-2015, which show that the job opportunities and GDP on the balance of payment are positively influenced by it have been analyzed. Every year tourism income of

Turkey increased. The study showed that in the future, Turkey is going to have higher number in international tourism. The study concurred with that of Gokovali (2010) as well.

Singh and Unjum (2016) empirically studied the contribution and performance of tourism is Jammu and Kashmir economy. This article has looked the economic performance of tourism between 2004 and 2012. Moreover, explored the bidirectional association between the economic growth and tourist growth, using OLS regression equations. These conclusions by the study reveal that tourism contributes significantly to the economy of Jammu and Kashmir as it brought in an average of over 7 percent of state revenues throughout the period in which it was conducted. The sector has however not had a booming growth compared with other sectors.

Hueyseyni et al., (2022) examined the non-linear connection among the real effective exchange rate to the effective exchange rates of 29 OECD countries and the demanded international tourism to Turkey between 2002 and 2018. Furthermore, this paper aims to address that does the relative real effective exchange rate have a threshold level that alters the effect on tourism demanded. These threshold level on the demand of foreign travel as observed through empirical results. Another factor is that the relative real effective exchange rate fluctuations influencing the demand of international travel do so in a negative manner, creating uncertainty.

3. Data source and methodology

The annual time series data were gathered from 1995-2025, source from World governance indicators (WGI), WDI, IMF, World tourism organization (WTO) world labor organization (ILO).

3.1 Conceptual frame work

Tourism has five factor which can boosts economy.GD P and employment conditions may influence tourism activity through income, economic activity, and the availability of labor and tourism-related services. Furthermore, balance of Payments may be associated with tourism activity through foreign exchange earnings and international economic transactions. Tourism is an important economic activity and a significant source of foreign exchange earnings, particularly for developing countries. However, FDI is projected to positively related to tourism because investment in hotels, transportation, infrastructure, and tourism-related services can promote tourism activity. Political stability is expected to promote tourism by providing a safe and favourable environment for tourists and tourism-related investment.

3.2 Hypothesis of the study

H1: GDP, Foreign Direct Investment (FDI), Political Stability, Balance of Payments, and Unemployment have significant effects on Tourism in Pakistan.

H2: The selected economic and institutional factors significantly determine Tourism in Pakistan.

H3: There is a significant short-run and long-run relationship between Tourism and its determinants in Pakistan.

3.4 Methodology

1. Descriptive statistic

Table: 01

	TR	GDP	FDI	PS	BOP	UE
Mean	7.558	4.214	1.144	-2.123	-3.10	5.017
Maximum	1.13	7.705	3.668	-1.103	3.85	8.300
Minimum	4.92	1.014	0.382	-2.810	-1.57	0.600
Skewness	0.252	0.189	1.868	0.725	-1.116	-0.588
Kurtosis	1.533	2.412	5.490	2.422	5.241	2.465
Jarque-Bera	2.808	0.569	23.519	2.845	11.683	1.947

The mean represents the average or expected value. The mean of Tourism (TR) is (7.558), GDP (4.214), foreign direct investment FDI (1.114) political stability (PS) is negative mean (-2.123) balance of payment (BOP) is negative (-3.10) unemployment UE (5.017). Maximum mean highest value therefore maximum of Tourism (TR) is (1.13), GDP (7.705), Foreign direct investment (FDI) (3.668) political stability PS (-1.103), balance of payment (BOP) (3.85), Unemployment UE (8.300). Minimum mean the lowest value the minimum of Tourism (TR) is (4.92), GDP (1.014), Foreign direct investment FDI (O.382), PS (2.810), balance of payment (BOP) (-1.57), Unemployment (UE) (0.600). Skewness measures the degree and direction of asymmetry in the distribution of the data. Furthermore, skewness of Tourism TR (0.252) shows positively skewed, GDP (0.189) also shows positively skewed, Foreign direct investment (FDI) (1.868) also shows positively skewed, Political stability PS (0.725) also shows positively skewed, Balance of payment BOP (-1.116) shows negatively skewed, unemployment (UE) (-0.588) shows negatively skewed.

Kurtosis of Tourism TR is (1.533) this shows data has a platyKurtic or lighter tail than a normal distribution, GDP (2.412) also shows that data has a lighter tail than a normal distribution, FDI (5.490) shows data has leptokurtic, PS (2.422) this shows data has a lighter tail than a normal distribution, BOP (5.241), Unemployment (UE) (2.467) this shows data has a platyKurtic or lighter tail than a normal distribution. However, The Jarque-Bera test indicate tourism (TR) is (2.808), GDP (0.569), Foreign direct investment (FDI) (23.519), Political stability (PS) (2.845), Balance of payment (BOP) (11.683), Unemployment (UE) (1.947). All variables are normally distributed.

2. Correlation

Table: 02

Correlation	TR	GDP	FDI	PS	BOP	UE
TR	1.000000	-	-	-	-	-
GDP	0.001482	1.000000	-	-	-	-
FDI	0.318216	0.100255	1.000000	-	-	-
PS	-0.772536	-0.234956	-0.412793	1.000000	-	-
BOP	-0.511100	-0.081755	-0.631461	0.471569	1.000000	-
UE	-0.543391	0.302655	0.181683	0.296826	0.128747	1.00000

The correlation matrix in Table 02 presents the relationships among tourism (TR), gross domestic product (GDP), foreign direct investment (FDI), political stability (PS), balance of payments (BOP), and unemployment (UE). Tourism has an almost negligible positive correlation with GDP (r = 0.001), indicating no linear relationship between the two variables. Tourism has a weak to moderate positive correlation with FDI (r = 0.318). In contrast, tourism has a strong negative correlation with political stability (r = −0.773), a moderate negative correlation with the balance of payments (r = −0.511), and a moderate negative correlation with unemployment (r = −0.543).

However, GDP has an almost negligible association with tourism (r = 0.001) and with FDI (r = 0.100). GDP correlated with political stability (r = −0.235) and an almost negligible negative correlation with the balance of payments (r = −0.082) while, with unemployment (r = 0.303).

Foreign direct investment has a weak to moderate positive correlation with tourism (r = 0.318) and a weak positive correlation with GDP (r = 0.100). FDI has a moderate negative correlation with political stability (r = −0.413) and the balance of payments (r = −0.631). It also has a weak positive correlation with unemployment (r = 0.182). Furthermore, political stability has a strong negative correlation with tourism (r = −0.773), a weak negative correlation with GDP (r = −0.235), and a moderate negative correlation with FDI (r = −0.413). It has a moderate positive correlation with the balance of payments (r = 0.472) and a weak positive correlation with unemployment (r = 0.297).

The balance of payments has a moderate negative correlation with tourism (r = −0.511), an almost negligible negative correlation with GDP (r = −0.082), and a strong negative correlation with FDI (r = −0.631). It has a moderate positive correlation with political stability (r = 0.472) and a weak positive correlation with unemployment (r = 0.129). Moreover, unemployment has a moderate negative correlation with tourism (r = −0.543), a weak positive correlation with GDP (r = 0.303), and a weak positive correlation with FDI (r = 0.182). It also has a weak positive correlation with political stability (r = 0.297) and a very weak positive correlation with the balance of payments (r = 0.129).

3. Unit root ADF Test

Table: 03

Level	**Constant**		**First difference**		
Variables	**t-stats**	**Prob.**	**t-stats**	**Prob.**	**Decision**
TR	-0.996	0.739	-4.262	0.002	I(1)
GDP	-3.686	0.011	-6.102	0.000	I(0)
FDI	-2.812	0.070	-3.326	0.023	I(0)
PS	-5.106	0.0006	-3.810	0.009	I(0)
BOP	-1.899	0.327	-4.910	0.0006	I(1)
UE	-2.915	0.058	-5.579	0.0001	I(0)

The ADF unit root test reveals that mixed results, such as I(0) and I(1) processes. GDP and Political Stability are stationary at level, while Tourism, FDI, Balance of Payments, and Unemployment become stationary after first differencing, while ARDL Bounds Testing approach is appropriate.

Table: 04

ARDL Bounds Test

Test Statistic	Value	K
F-statistic	12.87691	5

4.4 BOUND TEST APPROACH

Significance	I(0) Bound	I(1) Bound
10%	2.26	3.35
5%	2.62	3.79
2.5%	2.96	4.18
1%	3.41	4.68

The table shows calculated F-statistic of 12.87691 is greater than the upper-bound critical values at all reported significance levels.

4.5 VAR LAG ORDER SELECTION CRITERIA:

Table: 05

Lag	**LogL**	**LR**	**FPE**	**AIC**	**SC**	**HQ**
0	-716.8171	NA	5.66e+16	55.60131	55.89164	55.68492
1	-627.2760	130.8678*	9.98e+14*	51.48277	53.51508*	52.06800*
2	-590.4858	36.79017	1.56e+15	51.42198*	55.19627	52.50884

The AIC selects lag 2, whereas the Schwarz Criterion (SC) and Hannan-Quinn Criterion (HQ) select lag 1. The final lag structure is selected by considering the information criteria together with the model specification and diagnostic results.

4.5.1 Long run and Short run coefficients:
Table: 06

Variables	**Long run coefficients**		**Short run coefficients**	
	Coefficient	**t-stats**	**Coefficient**	**t-stats**
GDP	-0.026***	-2.451	0.007***	2.533
FDI	0.036***	2.610	0.034**	2.808
BP	0.007***	2.533	0.028*	6.980
PS	0.213*	-9.861	0.140*	5.616
UE	-0.007***	2.533	-0.025*	1.767
Constant	8.448*	158.946	**R-squared**	0.998
ECT(-1)	-0.748	-5.573	**Adjusted R-squared**	0.991
F-statistic & Prob.	145.79	0.000	**Durbin Watson stat**	2.313

Note; * shows 1%, ** shows 5%, *** shows 10%.

The short run and long run relationship between dependent variable (Tourism) and independent variables GDP, foreign direct investment, balance of payment, political stability, and unemployment is interpreted below.

TR = -0.026GDP+0.036FDI+0.007BP+0.213PS-0.007UE
(Long run equation)
TR = 0.007GDP+0.034FDI+0.028BP+0.140PS-0.025UE
(Short run equation)

The statistics indicate inversely contributed GDP to tourism in long run and positive in short run. GD has a coefficient is -0.026 in the long term, indicating an inverse influence GDP on tourism. In short run one percent increase in GDP leads to increase the tourism by 0.007 percent that is significant at 10%. Aleemi and Qureshi (2015) also shows that there is a significant and positive impact of GDP on tourism while the Ozturk and Acaravci (2009) result shows that there is no unique long run equilibrium. Furthermore, FDI has a positive and statistically significant relationship with Tourism in both the long run and short run. Result show 1% change FDI lead to increase tourism by 0.036 percent (that is significant at 10%) and an increase in tourism by 0.034 percent. The result is consistent with the study of Ajvaz (2015).
Therefore, Balance of Payment in long run, one 1% increases due to increase tourism by 0.007% that is significant at 10% while in a short term balance of payment leads to increase tourism 0.028%. The result

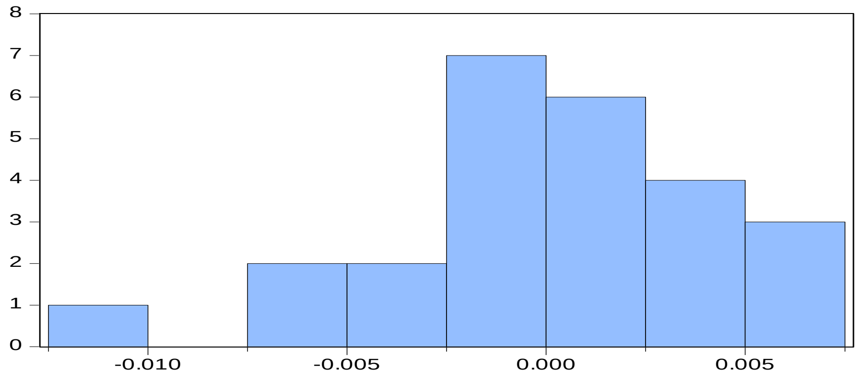
is consistent with the study of (Kantarci & Karakaya, 2016; Atan & Arslanturk, 2012). Political Stability is significant contribute in both period, indicating that greater political stability is associated with higher tourism activity. The result is consistent by the study of Šimundić et al., (2016).

In both long run and short run there is statistically negative relationship between unemployment and tourism. Unemployment is -0.007 in the long run, indicating an inverse relationship between unemployment and Tourism. In the short run is -0.025, also indicating a negative relationship. The result is consistent with the study of Schubert (2013).

The ECT(-1) coefficient is -0.748 and statistically significant, indicating convergence toward the long-run equilibrium. Approximately 74.8% of the disequilibrium from the previous period is corrected in the current period. The R^2 is 0.998 and adjusted R-squared is 0.991.

4.6 DIAGONSTIC TEST:

4.6.1Normality test



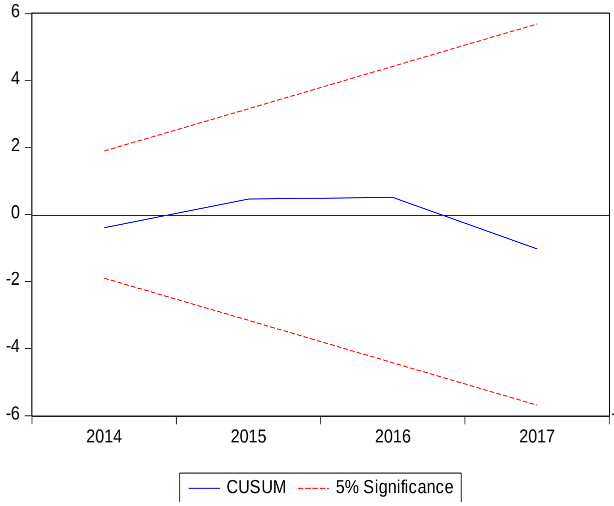
Series: Residuals	
Sample 1993 2017	
Observations 25	
Mean	-3.13e-15
Median	0.000298
Maximum	0.006149
Minimum	-0.010881
Std. Dev.	0.004147
Skewness	-0.619981
Kurtosis	3.289676
Jarque-Bera	1.688975
Probability	0.429777

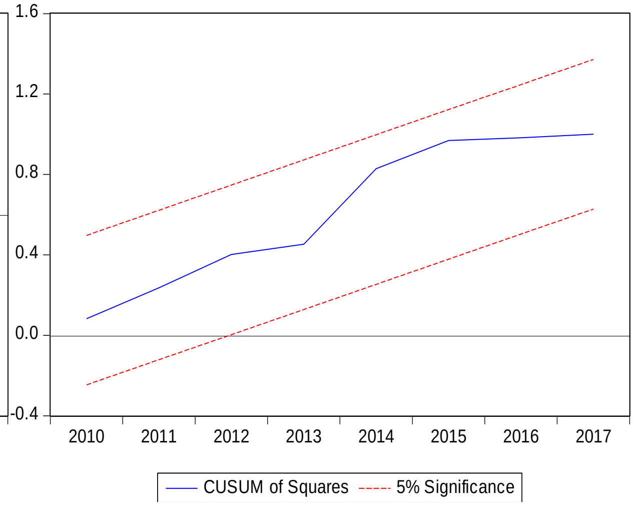
4.6.2 Serial Correlation and Heteroscedasticity

	F-statistic	Prob. F	Obs*R-squared	Prob. Chi-Square(2)
Breusch-Godfrey Serial Correlation LM Test:	0.419	0.933	11.409	0.783
Heteroscedasticity Test: Breusch-Pagan-Godfrey	3.333	0.106	13.157	0.111

Diagnostic test examines the serial correlation, normality, and heteroscedasticity in model. The probability values are insignificant in all cases. Therefore, the null hypothesis of no serial correlation and homoskedasticity cannot be rejected, indicating that there is no significant evidence of serial correlation and heteroskedasticity.

4.6.3 Cusum and Cusum Square test





The CUSUM and CUSUMSQ tests indicate that the estimated model is stable.

5. Conclusion and Recommendations

5.1 Conclusion

Tourism had a great powerful way of attracting foreign exchange and provides an improvement of economy. It holds investment, creates jobs, encourages sales like that of cottage industry etc. International tourism is one of the major contributors in the development of various sectors of world economy. For a developing country such as Pakistan, the tourism sector can therefore contribute to economic development when suitable conditions are provided.

This research investigated that connection among tourism and GDP, FDI, political stability (PS), BOP, and unemployment (UE) in Pakistan. Taken annual data from 1995 to 2025, utilizing ARDL model. The ADF unit root test shows that mixed results. Moreover, the bounds test produced an F-statistic of 12.87691, which is confirms the existence of a long term connection among tourism and its selected determinants. The estimated results show that FDI has a positively correlated with tourism in both the short run and long run. In long run FDI is 0.036, while short term is 0.034. This suggests that rise in foreign direct investment is associated with an increase in tourism activity. Investment in hotels, transportation, infrastructure, and other tourism-related businesses may help expand the tourism sector. Similarly, political stability show positive association with tourism in both period. This indicates that a more stable political environment is associated with greater tourism activity. However, in long run BOP is 0.007 and its short period of time is 0.028. The result indicates that improvements in the balance of payments are associated with higher tourism activity.

GDP shows different results in the short run and long run. In short term, it is 0.007, whereas the long term is −0.026. Thus, GDP is positively associated with tourism in the short run but negatively associated with tourism in the long run according to the estimated model. This difference suggests that the relationship between economic activity and tourism changes over the two periods. Furthermore, unemployment has a negative relationship with tourism in long-runis −0.007, while in the short-run is −0.025. The result indicates that higher unemployment is associated with lower tourism activity. The model results show that there is 74% chance of divergence of model towards equilibrium. R^2 shows that the independent variable is explained by dependent variable by 99%. The study suggested that the government should facilitate the foreign traffic of tourists and make easy foreign policies to promote tourism in the country and should also improve facilities for the tourists in the country so that the revenue from tourism industry can help up boosting economy, decrease unemployment and stabilize the balance of payment. This inflow of tourists will lead to increase the foreign investment in the country .the political condition of country should be stabilized and provide them with safe environment to attract more and more visitors

Overall, the results reveal that FDI, political stability, balance of payments, GDP, and unemployment are associated with tourism activity in Pakistan, although the direction and size of the relationship vary across variables and time periods.

5.2 Recommendations

1. The government should make it easier for domestic and foreign investors to invest in hotels, resorts, transportation, restaurants, and other tourism-related businesses. A simple and transparent investment process can encourage more FDI in the tourism sector.
2. Better roads, transportation, accommodation, communication facilities, sanitation, and tourist information services should be provided at major tourist destinations. Furthermore, visa and entry procedures for foreign tourists should be made simple, transparent, and efficient.
3. Unemployment has a negative relationship with tourism, greater attention should be given to activities that create jobs in hotels, restaurants, transportation, tour operations, handicrafts, and other related industries. However, training programmes can help local people obtain employment in these areas.
4. Pakistan has historical, cultural, natural, religious, and adventure-tourism attractions. These destinations should be promoted through international marketing campaigns and digital platforms to increase the number of foreign visitors.
5. Tourism projects should not be limited to major cities and already-developed destinations. The government should develop a consistent tourism policy covering investment, security, infrastructure, employment, international promotion, and environmental protection.

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