THE ROLE OF POLITICAL STABILITY IN FOREIGN INVESTMENT FLOWS: EMPIRICAL EVIDENCE FROM OIC COUNTRIES

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Abstract: This study aims to identify the determinants influencing foreign investment flows in the Organization of Islamic Cooperation (OIC) countries and to directly analyze the moderating effect of political stability. The research utilizes secondary data from 50 OIC countries covering the period from 2012 to 2022. The study adopts the Generalized Method of Moments (GMM) estimation technique to analyze the data. The findings reveal that inflation has a significant positive effect on foreign investment flows. Meanwhile, interest rates, labor force participation, and the Human Development Index (HDI) have significant yet non-positive effects. The HDI variable has a negative and insignificant effect. Furthermore, the political stability variable is able to strengthen the moderating influence of the interest rate on foreign direct investment, except for the inflation, labor force, exchange rate, and human development index variables. Conclusion: By incorporating the impact of political stability, governments can reduce political risks faced by investors and enhance their countries' attractiveness as credible investment destinations.

Keywords: Political Stability, FDI, Inflation, Exchange Rate, Interest Rate.

INTRODUCTION

Foreign Direct Investment (FDI) flow policies in Organization of Islamic Cooperation (OIC) countries are a primary focus in efforts to accelerate economic growth and achieve sustainable development targets amidst global dynamics. FDI, as a key instrument in the modern economy, plays a central role in facilitating technology transfer and strengthening economic integration for each OIC member country on the international stage. Structural reforms must continue to address the key determinants in designing effective FDI policies in OIC countries. Additionally, the industrial structure needs to be enhanced so that FDI inflows generate higher added value to support each country's economic development goals. This strategic step is essential for enabling OIC member countries to transition from developing to developed economies and achieve equitable high-income levels.

Each country faces unique challenges stemming from government policies, market dynamics, and political stability, which significantly influence FDI inflows into host countries. The complexity of these challenges has hindered the identification of concrete breakthroughs (leapfrogs) to ensure that FDI policies deliver substantial benefits. These difficulties are further compounded by ongoing international dynamics impacting nations globally.

Firstly, the global economic outlook remains fragile and uncertain due to the Russia-Ukraine war, which has perpetuated economic concerns globally. Secondly, the lingering impact of the COVID-19 pandemic, which began in early 2020, has exacerbated supply-side shocks, disrupted international commodity markets, and driven inflation to unprecedented levels worldwide Nebil Dabur

Directur General (OIC Economi Outlook 2022). Meanwhile, trends in FDI flows among OIC member countries, as outlined in the OIC Economic Outlook 2023, provide comprehensive insights when analyzed in the context of their developments.
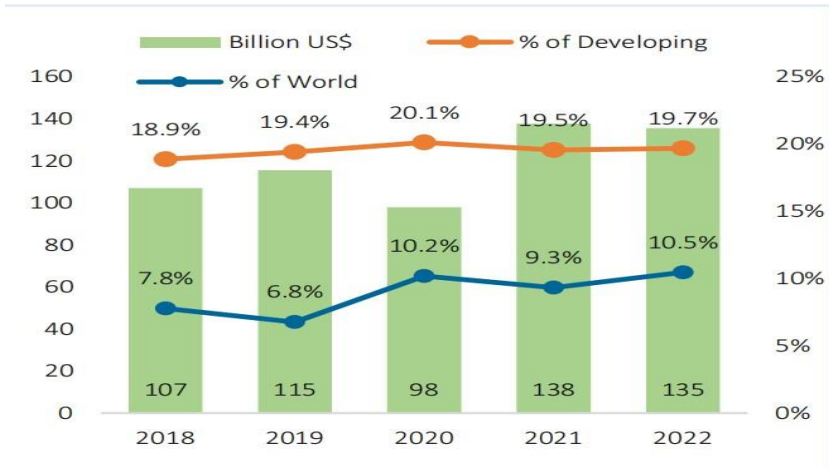
Picture 1: FDI Inflows to OIC Countries.

OIC Economic Outlook Report 2023, After a decline of 15.2% to US$98 billion in 2020, FDI flows to OIC countries increased again by 40.6%, reaching US$138 billion in 2021. However, in 2022. This smaller decline in FDI inflows to OIC countries coincided with a modest increase in the portion of fund flows to developing countries. Additionally, there was a significant rise in the share of global fund flows in 2022, which increased from 19.5% in 2021. Likewise, OIC countries' share of global FDI inflows reached a decade-high of 10.5% in 2022, compared to 9.3% in 2021. The fluctuations in FDI flows to OIC countries must be carefully considered, as the contribution of FDI to these countries cannot be underestimated. When foreign direct investment is utilized efficiently, it can significantly impact developing

countries, particularly in OIC member states countries (Farooq et al., 2020).

Amid the complexities of FDI flow trends over the last decade, these fluctuations have become a serious concern for researchers and policymakers (Sajilan et al., 2019). Root and Ahmed's work provides robust evidence as one of the earliest studies investigating the determinants of FDI in three groups of developing countries (unattractive, attractive, and very attractive). These groups are characterized by economic, social, political, and policy factors. The identified determinants have led to extensive empirical studies that reveal various facts: while almost all countries and regions in the world have attracted some level of FDI, the differences lie in its quality and quantity (Nguyen, 2021). (Cung & Nhung, 2020), highlighted several benefits for countries of origin when investing in foreign countries, including: (1) increasing the efficiency of investment capital usage, (2) extending the life cycle of products already produced and consumed domestically, (3) creating an abundant and stable supply of raw materials at lower costs, and (4) expanding economic power and influence in international markets.

Various studies have examined the factors influencing foreign investment flows. Consequently, governments worldwide have implemented accelerated policies to stimulate FDI. For instance, inflation can create economic uncertainty, as the declining value of money reduces purchasing power and company profits, ultimately deterring FDI in industrialized countries (Nguyen, 2021). Similarly, interest rates play a significant role in investment financing. High interest rates can increase borrowing costs, making investments more

expensive for foreign companies. Conversely, low interest rates can enhance FDI attractiveness by promising greater profits. However, uncertainty in interest rates may deter foreign investment, presenting trade-offs for policymakers (Ghironi & Ozhan, 2020). Therefore, setting the right interest rate is crucial for fostering a conducive investment climate.

Exchange rates also play a critical role in supporting FDI flows. A depreciating exchange rate reduces local production costs in foreign currency terms, thereby increasing a country's attractiveness for investment. However, the exchange rate system can make economies vulnerable to external shocks. For example, countries with floating exchange rate systems often experience volatility, which can influence FDI inflows (Syarifuddin, 2019).

The relevance of the workforce to FDI flows also deserves serious attention. The availability of skilled and qualified labor that meets industry needs is a key factor for companies choosing investment locations. Empirical evidence confirms that FDI contributes to employment creation, income growth, and poverty reduction in host countries. Regions with large labor populations benefit from diverse investment capital, supporting their production needs (Hou et al., 2021). In the same context, the Human Development Index (HDI) is a key indicator driving FDI inflows by emphasizing health, education, and decent living standards. Achieving long-term investment impacts requires aligning internal policies with external stabilization mechanisms. Empirical evidence shows that the laissez-faire approach can stimulate economic expansion but may simultaneously increase income inequality (Nam & Ryu, 2023).

From an institutional perspective, political stability is vital for building a country's reputation and increasing investor confidence. Political stability correlates with legal certainty and policy quality (Nairobi & Amelia, 2022). Investment requires reliable legal frameworks to guarantee that foreign companies can safeguard and manage their assets without risks of nationalization (Ganta & Anjani, 2017). Countries with stable political conditions are perceived as more attractive investment destinations, thus facilitating conducive FDI flows.

While factors influencing FDI flows have been widely studied to explain economic development, there remains limited literature exploring their specific impacts on OIC countries. Studies such as those by Lesmana and Soetjipto (2022) and Nguyen (2021) have yet to analyze OIC countries in depth. Consequently, this research aims to address this gap and provide relevant policy insights regarding the impact of FDI flows in OIC member states. Empirical Studied (Yusuf et al., 2020) applied the Cobb-Douglas production function to show that West African governments should promote policies to attract FDI by strengthening the financial sector, enhancing democratic practices, and ensuring political stability. Aden Dirir (2023), found, through a gender causality test, that human capital plays a crucial role in promoting long-term economic growth in North and South Africa. Similarly, Adegboye et al. (2020), emphasized that foreign capital inflows are essential for economic development in Sub-Saharan Africa (SSA) but highlighted the importance of institutional quality in determining FDI inflows. Their research further illustrates that

developing efficient human resources and robust institutions can significantly promote sustainable development in SSA countries.

Other studies in the SSA region suggest that FDI's direct impact on economic growth remains ambiguous. However, certain threshold levels, such as inflation, population growth, and financial market development, can amplify its benefits (Ibhagui & Oyakhilome, 2017). Keykanloo et al. (2020) found that expanding financial markets and strengthening financial institutions can significantly increase FDI inflows. (Lesmana & Soetjipto, 2022), and (Behera et al., 2020), observed a long-term relationship between institutional quality and FDI inflows in Asian countries. Andreas (Johnson, 2006), asserted that FDI has a substantial impact on economic growth, while Carbonell and Werner found mixed evidence regarding FDI's role in Spain. Nketiah et al. (2020) and Andy Titus Okwu (2020), concluded that FDI inflows promote economic growth, whereas (Nguyen, 2021), found that the labor force and inflation positively influence FDI at a 5% significance level. Additionally, Fuddin et al. (2019), demonstrated that FDI significantly impacts economic growth in OIC countries.

A notable contribution of this study is the integration political stability is one of the key elements that influence a country's development, especially in the context of attracting Foreign Direct Investment (FDI) flows. As proposed by Kaufmann et al. 1999) at the World Bank, political stability has an important role as a moderating variable in analyzing the relationship between various economic factors and FDI inflows. Previous research Nairobi & Amelia (2022), also confirms that sustained political stability is crucial for developing countries to ensure smooth and consistent foreign investment flows.

Therefore, a focus on political stability is relevant to understanding foreign investment patterns, especially in countries with dynamic economic conditions.

This study aims to measure and analyze the factors that drive foreign investment inflows in Organization of Islamic Cooperation (OIC) member countries. Specifically, this study includes political stability as a moderating variable to evaluate the extent to which macroeconomic and microeconomic factors affect foreign investment flows. Through the development of a model that includes political stability, this study is expected to identify the significant influence of these factors and provide evidence-based guidance for policymakers. The findings of this study are expected to make a meaningful contribution in supporting sustainable economic development strategies in OIC countries.

METHODS

This research is a type of quantitative research using secondary data. The dependent variable used is foreign direct investment, and the independent variables are inflation, interest rate, labor force, exchange rate, and human development index, while there is a moderating variable, namely political stability. The approach we take and that is currently popular is to use Generalized Methods of Moments (GMM) (Majumder et al., 2022).

Data and Variable

In this research, a total of seven variables were used to determine the empirical relationship between the independent variables and the dependent variable. The samples taken were 50 countries of the

Organization of Islamic Cooperation (OIC) for the period 2012–2022, data collected from the World Bank, official government websites, and others. The sample selection of 50 Organization of Islamic Cooperation (OIC) member countries in this study is done by considering several important aspects of covering countries Islamic with various geographical areas, and supporting a more in-depth analysis of the dynamics of FDI flows in the context of political stability and other economic factors.

Table.I Operational Definition of Variables

Variabel	Type of Variabel	Proxied by	Source
Foreign Direct Investment	Dependent	Bop Current US$	World Bank
Inflation	Independent	Consumer Price (%)	World Bank
Interest Rate	Independent	% p.a	World Bank
Labor Force	Independent	Labor Force Total	World Bank
Exchange Rate	Independent	Indeks Juta USD	World Bank
Human Development Index	Independent	Statistical Composite Index (%)	UNDP
Political Stability	Control	-2,5-2,5	World Governance Index

Source: Computed by Authors

Model Spesification

Regression using a panel data model has three approaches, namely the common effect model approach, the fixed effect model and

the random effect model. Next, the best model was selected using the Chow test and Hausman test (Damaliana & Setiawan, 2016).

Test Chow

The Chow test is often also called the F-Statistics test, namely the results of tests carried out to select the best model between the common effect model and the fixed effect model. The Chow test focuses on the homogeneity of coefficients between groups, ensures that variable relationships are consistent and supports the validity of the model in determining the appropriate model specification. Meanwhile, for decision-making, it refers to the probability results of cross-section F. If the probability is greater than the level of significance > 5%, then the mode chosen is the common effect model, but if the probability value is less than the level of significance <5%, So the model chosen is the fixed effect model.

Test Hausman

From the results of the significance tests of the two techniques above, the results obtained show that the most appropriate techniques are fixed effects and random effects. To choose between the fixed effect or random effect technique, it will be tested again using the Hausman test. The use of the Hausman test is to choose between a fixed-effect model and a random-effect model. The Hausman test identifies whether the random effect model can provide unbiased estimates. If there is a correlation between the fixed effects and the independent variables, the fixed effects model will be more consistent and precise. This is important to obtain reliable estimates, especially in complex panel data. This ensures that researchers can make more accurate inferences about the relationships between variables. The

Hausman test means that if the probability value is > 5%, then the model chosen is a random effect. However, if the probability value is <5%, then the model used is a fixed effect (Rahman et al., 2016).

Generalized Methods of Moments (GMM) Model

Our research uses the generalized method of moments (GMM) model. This GMM model was first introduced by a researcher, Hansen (1982), who stated that an estimation method using the GMM model could avoid undesirable assumptions. The GMM estimation method is usually known as Arrellano Bond. Since then, many researchers have become interested in this method, such as Nurul Mukhlisah Abdal (Abdal et al., 2020),(Gui-Diby, 2014). The Arellano-Bond GMM estimation method produces estimates that are unbiased, consistent and certainly efficient. The following are the estimation results of the Generalized Methods of Moments Arellano-Bond as follows(Manggala Adi Windoro, Aditya Ardhi Nugroho, 2023) :

$$\frac{\delta}{\beta} = \left[\left(N^{-1} \sum_{i=1}^{N} (\Delta y_{it} - 1 \Delta x_1)'Z_i \right) \Delta^{-1} \left(N^{-1} \sum_{i=1}^{N} (\Delta y_{it} - \Delta x_1) \right) \right]^{-1}$$

$$\left[\left(N^{-1} \sum_{i=1}^{N} (\Delta y_{it} - 1 \Delta x_1)'Z_i \right) \Delta^{-1} \left(N^{-1} \sum_{i=1}^{N} (Z_i' 1 \Delta y_i) \right) \right]^{-1}$$

The Arellano-Bond GMM estimation method produces estimates that are unbiased, consistent and certainly efficient. The following are the estimation results of the Generalized Methods of Moments Arellano-Bond as follows:

$$FDI_{it} = \beta_1 + \lambda INFit - 1 + \beta_2 IR_{it} + \beta_3 LF_{it} + \beta_4 EXC_{it} + \beta_5 HDI_{it} + \beta_6 SPL_{it} + \beta_7 INF_{it} + \varepsilon$$

$$(1)$$

Following is the model equation:

$$FDI_{it} = \alpha + \beta_1 INF_{it} + \beta_2 IR_{it} + \beta_3 LF_{it} + \beta_4 EXC_{it} + \beta_5 HDI_{it} + \beta_6 SPL_{it} + \beta_7 INF_{it} + \varepsilon$$

$$(2)$$

$$FDI_{it} = \alpha + \beta_1 INF_{it} + \beta_2 IR_{it} + \beta_3 LF_{it} + \beta_4 EXC_{it} + \beta_5 HDI_{it} + \beta_6 SPL_{it} + \beta_7 INF_{it} + \beta_8 INF * SPL_{it} + \beta_9 IR * SPL_{it} + \beta_{10} LF * SPL_{it} + \beta_{11} EXC * SPL_{it} + \beta_{12} HDI * SPL_{it} + \varepsilon$$

$$(3)$$

Note :

FDI   : *Foreign Direct Invesment*

INF   : *Inflation*

IR   : *Interest Rate*

LF   : *Labor Force*

EXC   : *Exchange Rate*

HDI   : *Human Development Index*

SPL   : *Stabilitas Polityc*

ε : *Error*

i : *Negara*

t : *Tahun*

Furthermore, the model specification test is used to determine the validity of using instrument variables exceeding the number of estimated parameters and to test the consistency of estimates obtained from the GMM process with the Arellano-Bond test and Sargan test(Damaliana & Setiawan, 2016).

Test Sargan

The Sargan test is used to determine the validity of using instrument variables whose number exceeds the number of estimated parameters (overidentifying condition). The criterion for the results of this Sargan test is that if the instrument variable does not correlate with error, then the variable can be declared valid.

$$S = \tilde{V}'Z \left(\sum_{i=1}^{N} Z'\tilde{V}i\,\tilde{V}i'Zi\right)^{n-1} Z'\tilde{V} \sim X^2_{L-(k+1)}\ldots\ldots\ldots$$

(4)

Test Arellano-Bond

The Arrelano-Bond test is used to test the consistency of estimates obtained from the GMM process. The criteria for the Arellano-Bond test model are that when the instrument variable does not have autocorrelation in the first difference in the 1st order, then it can be stated that the instrument variable is declared valid.

$$m(2) = \frac{\Delta\tilde{V}i,t - 2\,\Delta\tilde{V}*}{(\Delta\tilde{V})^{\frac{1}{2}}}\ldots\ldots\ldots\ldots$$

(5)

RESULT AND DISCUSSION

Statistik Deskiptif

Descriptive statistics of the relationship between inflation, interest rate, labor force, exchange rate, human development index, political stability, and foreign direct investment in 50 OIC countries during the 2012–2022 period are shown in the following table:

Tabel. II Statistik Deskriptif

	FDI	IF	IR	LF	ER	HDI	PS
Mean	3.340.0	6.672164	6.9521	14511276	793.9724	0.627836	-0.830236

	0		45				
Median	7.280.000	3.105000	5.380000	4241666	84.97758	0.660000	-0.555000
Maksimum	6.230.000	171.2100	98.92000	1.430.000	14849.85	0.920000	1.890000
Minimum	-1.020.000	-4.29000	-26.41000	161070.0	0.279936	0.350000	-75.00000
St. Deviasi	3.350.000	12.43182	9.090365	28570970	2370.666	0.148006	3.297005
Observations	550	550	550	550	550	550	550
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

Source: Processed Data by Eviews 12

Based on the results of the descriptive statistical tests above, the characteristics of each research variable can be assessed. First, the research data is considered to meet the normality requirement because the number of observations exceeds 30. Specifically, this study uses 50 OIC countries as research samples over an 11-year period (2012–2022), resulting in a total of 550 observations.

Table II. Providing information including, namely, the FDI variable obtained a mean value of 3.34, a median of 7.28, a maximum value of 62.23, and a standard deviation of 3.35, as well as a probability of 0.00, meaning that most of the character differences in the FDI data have a significant effect or are not the same.

Table II provides the following information FDI variable: The mean value is 3.34, the median is 7.28, the maximum value is 62.23, the standard deviation is 3.35, and the probability value is 0.00. This indicates that the differences in the characteristics of the FDI data are significant.

Inflation variable: The mean value is 6.67, the median is 3.10, the maximum value is 171, the minimum value is -4.29, the standard deviation is 12.43, and the probability value is 0.00. This result suggests that the differences in the inflation data have a significant effect.

Interest rate variable: The mean value is 6.95, the median is 5.38, the maximum value is 98.92, the minimum value is -26.41, the standard deviation is 9.09, and the probability value is 0.00. This indicates that there are significant differences in the characteristics of the interest rate data.

Labor force variable: The mean value is 14,511,276, the median is 4,241,666, the maximum value is 1.43, the minimum value is 161,070, the standard deviation is 28,570,970, and the probability value is 0.00. This suggests that the differences in the labor force data are significant.

Exchange rate variable: The mean value is 793, the median is 84.97, the maximum value is 14,849, the minimum value is 0.27, the standard deviation is 2,370, and the probability value is 0.00. This result indicates that the differences in the exchange rate data are significant.

Human Development Index (HDI) variable: The mean value is 0.62, the median is 0.66, the maximum value is 0.92, the minimum value is 0.35, the standard deviation is 0.14, and the probability value is 0.00. This shows that the differences in the HDI data have a significant effect.

Political stability variable (moderating variable): The mean value is -0.83, the median is -0.55, the maximum value is 1.89, the

minimum value is -75.00, the standard deviation is 3.29, and the probability value is 0.00. This indicates that the differences in the political stability data have a significant influence.

Testing the Measurement Model

The measurement model can be ascertained through several tests to find the best results, therefore carrying out specifications of the selected model to continue other tests, namely by estimating statistical panel data regression, and then the statistical results are obtained as shown in the following table:

Tabel. III Hasil Uji Regresi Data Panel Statis

Variable	Common	Fixed	Random
C	(-8.320.000)	(6.860.000)	(3.180.000)
	0.6336	0.0013	0.0518
Inflasi	(-40572830)	(-20375297)	(23433095)
	0.3737	0.5635	0.4837
Interest Rate	(-7.320.000)	(7.670.000)	(6.140.000)
	0.5575	0.2698	0.3731
Labor Force	(71.17680)	(-108.3799)	(59.59112)
	0.0000	0.2122	0.0073
Exchange Rate	(1025222)	(-98359.73)	(77266.73)
	0.0007	0.7427	0.7671
HDI	(4.940.000)	(-2.640.000)	(-1.010.000)
	0.0571	0.2209	0.6459
Stability Politic(SP)	(6.620.000)	(2.640.000)	(2.200.000)
	0.6397	0.0432	0.0655
Inflation*SP	(-38585991)	(6986130)	(-9355081)
	0.2176	0.7745	0.6855

Interest Rate*SP	(7.350.000)	(-7.650.000)	(-6.120.000)
	0.5561	0.2712	0.3749
Labor Force*SP	(16.77128)	(-2.834262)	(-3.943073)
	0.1662	0.8619	0.7652
Exchange Rate*SP	(1535533)	(-346618.4)	(-32360.21)
	0.0018	0.4349	0.9356
HDI*SP	(-1.150.000)	(-3.520.000)	(-2.930.000)
	0.5573	0.0359	0.0587
R-Squared	0.170240	0.809619	0.039920
Prob (F-Statistic)	0.000000	0.000000	0.023611
Number Observations	550	550	550
Number Instrumen	50	50	50
Test Chow		0.0000**	
Test Hausman			0.00000

Source: Processed Data

Referring to growth in OIC countries with FDI to support the country's success in generating income and maintaining economic stability. In panel data regression, there are three methods for determining the best model, namely the common effect model (CEM), fixed effect model (FEM), and random effect model (REM). Based on the Chow Test and Hausman Test, the best model is the fixed effect model (FEM) method in this panel data regression. Because the probability value is 0.0000, or less than 5%, Apart from that, the coefficient of determination value shows a fairly large value compared to other models, amounting to 0.809619. Therefore, the F-statistic

probability value shows the simultaneous influence of the independent variable on the dependent variable, supported by the moderating variable, and shows that the growth of the OIC country is significant for economic growth. This. This is also supported by several scholars who state that FDI has a positive influence on economic growth in OIC countries (D Khoirul Fuddin et al., 2019) (Nketiah et al., 2020) (Andy Titus Okwu, 2020).

Structural Model Testing

In testing the structural model in this research, the Generalized Methods of Moments (GMM) method is used as a continuation of dynamic panel data regression testing to see the consistency of statistical results with the GMM model as in the following table:

Table. IV GMM Dynamic Panel Data Regression Test Results

Variabel	Generalized Methods of Moments
FDI (-1)	0.0000
	(0.534365)
Inflasi	0.0073
	(49927813)
Interest Rate	0.0000
	(-6.090.010)
Labor Force	0.0000
	(-2023.196)
Exchange Rate	0.8605
	(59626.36)
HDI	0.0000
	(-3.42e+10)

Political Stability (SP)	0.0000
	(1.660.000)
Inflasi*SP	0.0004
	(-34281634)
Interest Rate*SP	0.0000
	(6.090.000)
Labor Force*SP	0.0239
	(-24.97375)
Exchange Rate*SP	0.0000
	(-1947462)
HDI*SP	0.0000
	(-2.150.000)
Number Observation	450
Number Instrumen	45
Sargan Test	0.6877

Source : Processed Data

Based on the results of the GMM regression test which involves the dependent variable (foreign direct investment), independent variables (inflation, interest rate, labor force, exchange rate, human development index), and moderating variable (political stability), the equation can be seen as in the table above. The estimation results in the table above show the independent influence and overall institutional quality on the dependent variable, and based on the estimation results it is clear that the model chosen is a model with a good level of significance in terms of the magnitude of the sargan value.

Durability Test

In the first step, we discuss panel data regression in determining the best model to determine the consistency of a model using the

Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) estimates. With diagnostic tests using the Chow Test and Hausman Test, it clearly shows that the Fixed Effect Model (FEM) is the best model. This is based on the resulting probability value being smaller than α 5%, namely 0.0000, and the resulting coefficient of determination value being greater, namely 0.809619. Therefore, dynamic panel data regression uses the Generalized Methods of Moments (GMM) model.

Hypotesis Test

Hypothesis testing in this research is divided into two categories, namely direct influence and moderation effect. However, the exchange rate does not have a direct effect on FDI inflow, which means that the exchange rate does not influence investment, but when moderated by political stability, the exchange rate has an effect on or influences the inflow of FDI.

Table.V Hypothesis Results of Direct and Moderating Effects

Hypothesis		Coefficient	Conclusion
H1	Inflasi → Foreign Direct Invesment	0.0073	Supported
H2	Interest Rate → Foreign Direct Invesment	0.0000	Supported
H3	Labor Force → Foreign Direct Invesment	0.0000	Supported
H4	Exchange Rate → Foreign Direct Invesment	0.8605	Not Supported
H5	Human Development Index → Foreign Direct Invesment	0.0000	Supported
H6	Inflasi → With Political Stability in Foreign Direct Investment	0.0004	Supported
H7	Interest Rate → With Political Stability in	0.0000	Supported

	Foreign Direct Investment		
H8	Labor Force → With Political Stability in Foreign Direct Investment	0.0239	Supported
H9	Exchange Rate → With Political Stability in Foreign Direct Investment	0.0000	Supported
H10	Human Development Index → With Political Stability in Foreign Direct Investment	0.0000	Supported

Note : Significant at P<0.05

Source : Processed Data

In deciding where the relationship between variables is partial or full, the results in the table above explain in stages the relationship between independent and dependent variables, both before and after being controlled by the moderating variable. By showing that all hypotheses are accepted except the direct relationship of the exchange rate to FDI, it proves that inflation, HDI, interest rate, labor force greatly influence FDI which is supported by the stability of a country.

Analysis and Discussion

The Effect of Inflation on Foreign Investment

The results of the analysis on inflation and foreign investment (FDI) in this study reveal a positive and significant relationship. This is supported by a coefficient value of (0.534) and a significance level of (0.007), which is below the threshold of (0.005). These findings suggest that controlled inflation serves as a positive signal for economic growth. When inflation increases alongside rising demand for goods and services, it reflects growing economic activity, thereby encouraging investment growth (Girdzijauskas et al., 2022).

While inflation may rise, as long as it remains controlled and is perceived as part of a healthy economic strategy, it can boost investor confidence. In the context of OIC countries, most of which are developing nations, inflation is often interpreted by foreign investors as an indicator of economic expansion, encouraging them to invest. To capitalize on this positive effect, governments must ensure that inflation remains controlled. Excessively high inflation can lead to economic instability, while excessively low inflation may fail to stimulate investment. Stable inflation improves a country's economic conditions by increasing income levels. Income generated from FDI-related activities can mitigate the impact of persistent inflation by stabilizing prices. This stability attracts investment and enhances living standards.

However, certain challenges may hinder FDI inflows, such as trade restrictions, poor environmental conditions, high levels of conflict, and currency depreciation. Similarly, rising production costs and high interest rates can further deter foreign investment (Elijah, 2020). To address these issues, policymakers must implement strategies to maintain economic stability, including reducing budget deficits, controlling government expenditures, and managing the money supply. Maintaining inflation within a stable range is critical to fostering a business-friendly environment that attracts investors.

The Effect of Interest Rates on Foreign Direct Investment

The analysis of the relationship between interest rates and FDI shows a negative and significant correlation, as evidenced by a coefficient value of (-6.090) and a probability value of (0.000). This result aligns with previous research Alshubiri (2022), which found that

high interest rates negatively impact FDI. Elevated interest rates discourage investment by increasing borrowing costs for businesses seeking to expand. Additionally, high interest rates raise the cost of capital, reducing the attractiveness of investment in OIC countries. This situation reflects economic uncertainty, which deters investors and raises the cost of foreign debt.

Conversely, lower interest rates can attract investment by reducing borrowing costs, though prolonged periods of low rates may lead to asset bubbles, inflation, and reduced market competitiveness. Policymakers in OIC countries should adopt prudent monetary policies to manage interest rates effectively. This includes maintaining sufficient foreign exchange reserves to stabilize exchange rates and strengthening domestic money markets to improve the transmission of monetary policies. These measures can promote economic stability, create a favorable investment climate, and attract FDI.

The Effect of Labor Force on Foreign Direct Investment

This study shows that labor has a significant negative effect on FDI, with a coefficient value of (-2023), and a probability of (0.000). This negative relationship is attributed to the low quality of labor in OIC countries, which often lack the necessary skills to meet the standards required by foreign investors. Additionally, the findings highlight that the increasing number of workers in OIC countries is accompanied by high labor costs, such as wage standards and benefits that companies are obligated to pay (Ali et al., 2022). These conditions make some OIC countries less attractive as investment destinations.

To address this issue, governments should focus on workforce training and education to align skills with company requirements.

Education plays a pivotal role in improving labor quality by equipping individuals with the knowledge and competencies needed for work (Li, 2022). By enhancing workforce quality, ensuring an efficient bureaucracy, and implementing fair labor laws, OIC countries can boost investor confidence and create a more favorable environment for FDI.

The Effect of Exchange Rate on Foreign Direct Investment

This study found a positive but insignificant relationship between the exchange rate and FDI. The results are supported by a coefficient value of (5962) and a probability value of (0.860), which is greater than the significance threshold of (0.05). This indicates that an increase in the exchange rate (local currency appreciation) slightly encourages investors, as their assets in local currency become more valuable when converted to their home currency.

Moreover, these findings align with empirical studies Boburmirzo & Boburjon (2022), that suggest exchange rate fluctuations often do not have a significant effect on FDI in the long term, as exchange rates vary across countries. To minimize the negative impact of exchange rate volatility, governments must implement policies to stabilize their currencies and reduce uncertainty for investors. Although this study found no significant relationship, exchange rate stability remains crucial to creating a conducive investment climate.

Therefore, governments in OIC countries should focus on other factors that support investment, such as improving infrastructure, strengthening regulatory frameworks, and ensuring political stability.

The Effect of Human Development Index on Foreign Direct Investment

This study reveals that the Human Development Index (HDI) has a negative and significant effect on FDI, with a coefficient value of (-3.42) and a probability value of (0.000). This indicates that higher HDI levels are often associated with stricter environmental policies, higher minimum wages, and stricter work standards, which can increase operational costs for foreign investors.

Although HDI reflects improvements in education, healthcare, and living standards, these conditions also lead to higher wage demands, making labor-intensive sectors less attractive to foreign investors (Lambey et al., 2023). To address this challenge, governments should encourage foreign investment in sectors that can leverage a skilled workforce, such as high-tech industries or service sectors that align with the characteristics of countries with high HDI.

The Effect of Inflation on Foreign Direct Investment with Political Stability as a Moderating Variable

MRA testing regarding the relationship between inflation and foreign direct investment (FDI) in this study shows significant negative results, with a coefficient value of (-3428). This result is inversely proportional to the direct effect of inflation on FDI, which shows a significant positive result with a coefficient value of (499) and a probability value of (0.007) for OIC countries from 2012 to 2022. Based on these findings, the government needs to specifically identify the factors influencing foreign investment entering the country. High inflation makes long-term planning difficult for companies because it

creates uncertainty, which hinders their strategic planning. Foreign companies, in particular, usually have long-term investment plans.

This finding aligns with the empirical study conducted by Anindita et al. (2021), which shows a significant positive influence of inflation on foreign direct investment. The study explained that when inflation rises by one percent in Indonesia, it leads to an increase in the percentage of foreign direct investment.

Effect of the Interest Rate on Foreign Direct Investment with Political Stability as a Moderating Variable

The test results show that there is a significant interaction between the political stability variable and the interest rate variable in influencing foreign direct investment (FDI) in OIC countries. This is supported by a probability value of (0.000), which is less than (0.05), confirming that the findings align with the proposed hypothesis.

This result is consistent with empirical studies that highlight the importance of political stability in attracting foreign investment. Political stability plays a crucial role by fostering investor confidence and encouraging long-term investments, as investors believe they will receive competitive support. For instance, Vasilyeva & Mariev (2021), found a significant positive relationship between interest rates and foreign investment in Indonesia. Similarly, the study by Manan and Aisyah (2023), revealed that interest rates positively influence foreign direct investment in ASEAN countries.

Effect of the Labor Force on Foreign Direct Investment with Political Stability as a Moderating Variable

MRA testing of the relationship between the labor force and foreign direct investment (FDI) in this study did not show a significant

positive relationship, as seen in empirical studies by Sun Feng, who proposed the theory of the political dual effect. In reconstructing the research model, this study used political stability as a moderating variable. After testing, the results show that the political stability variable negatively interacts with the labor force variable in influencing FDI. This is evident from the coefficient value of (-24.97). However, when compared with the coefficient value of -2023.196. For the direct influence of the labor force on FDI, it is clear that political stability moderates the labor force's effect on FDI, even though both values show negative signs.

This suggests that governments in OIC countries need to improve political stability, as well as review and readjust policies regarding labor laws, workforce training, and labor market flexibility to make the investment climate more attractive for foreign investors.

Saucedo and Zamora (2020), revealed that several important considerations for foreign investors, such as the quality of labor and wages, are key factors in investment decisions. This negative impact can be attributed to the marginal impact of wages, which causes a decline in the perceived quality of labor. As a result, FDI companies tend to prefer locations that guarantee a high-quality, skilled workforce aligned with the specific needs of certain industries or sectors.

These findings align with empirical research by Le (2023), which revealed that while political stability is important, legal uncertainty related to property rights protection or investor policies, along with inflexible labor regulations, can be significant obstacles to FDI.

Effect of the Exchange Rate on Foreign Direct Investment with Political Stability as a Moderating Variable

The next MRA test regarding the relationship between the exchange rate and foreign direct investment in this study did not show a significant positive relationship, with a coefficient value of (-1947). When compared with the direct influence of the exchange rate on FDI, which has a coefficient value of (-5962), the results are not significant, even though political stability moderates the exchange rate's impact on FDI in OIC countries.

These findings indicate that OIC countries' governments must seriously evaluate the comprehensive factors influencing the relationship between exchange rates and FDI, in order to shift the negative relationship to a positive one.

Jamil et al. (2023), found that the classification of exchange rate regimes, such as intermediary regimes, can intervene in the foreign exchange market through both direct and indirect methods. The negative results in this study suggest that exchange rate fluctuations can create economic uncertainty, especially when changes are sudden and unpredictable. In such conditions, foreign investors are reluctant to invest in countries that are unstable and difficult to predict. This is consistent with Yusuf et al. (2020), whose study revealed that political stability negatively affects foreign investment flows. Therefore, governments should carefully review and evaluate exchange rate policies, including considering exchange rate flexibility or currency intervention strategies tailored to economic conditions. Strengthening political stability—representing institutional reform and government

transparency—is essential to promoting foreign investment-friendly policies.

The Influence of the Human Development Index on Foreign Direct Investment with Political Stability as a Moderating Variable

MRA testing regarding the relationship between the Human Development Index (HDI) and foreign direct investment (FDI) in this study also showed significant negative results, with a coefficient value of (-2.15). This is consistent with the direct influence of HDI on FDI, which had a coefficient of (-3.42). However, this study shows that political stability moderates the relationship between HDI and FDI in OIC countries from 2012 to 2022.

These findings suggest that the government needs to specifically review education and training policies to improve the quality of human resources. This approach should be seen as an investment in higher education, competency training, and workforce development, which will have a substantial long-term impact on improving the labor market and increasing competitiveness in the eyes of investors.

Korle et al. (2020), revealed that developing human capital is essential to increasing foreign investment flows. In this context, FDI can bring multifaceted benefits, particularly in encouraging the development of prosperous human resources. The negative value in this study suggests that although HDI includes educational indicators, low quality may explain the negative results. As a result, the resources produced by the education system have not been able to meet international standards or investor needs. This study aligns with the research of Okara (2023), which revealed that political stability has a

significant negative effect on FDI. Therefore, this study is not consistent with the proposed hypothesis. As a result, the government must reconstruct education policies to ensure that these indicators, which are part of the HDI, align with industrial and economic needs in order to produce competent individuals.

CONCLUSION

Determinants that influence the flow of foreign investment in OIC countries during 2012–2022, using panel data and the Generalized Method Moments method. The factors tested are inflation, interest rate, labor force, exchange rate, and human development index. Next, political stability is tested to determine the interaction of other independent variables in influencing foreign investment flows. The test results show that inflation has a significant positive influence, while the interest rate, labor force, exchange rate, and human development index show significant negative results. The MRA test results show that first, the inflation, labor force, exchange rate, and human development index variables are able to significantly negatively moderate the influence of foreign direct investment; second, political stability can positively moderate the influence of interest rates on foreign investment flows in OIC countries.

Therefore, summarizing the research results, the author provides an understanding that the flow of foreign investment in OIC countries still shows fluctuating differences that affect economic development, where Middle Eastern countries are still dominated as producers of fossil energy, while countries within the African continent are still lagging behind, especially human resource development. In

this regard, it can be concluded that the factors that influence foreign investment flows, both macro- and microeconomic indicators, have an important role that must be evaluated by state policymakers in order to be able to attract sustainable investment. Furthermore, what must be seriously evaluated is political stability. Several countries that are members of the OIC are still prone to civil conflict for the sake of religious, political, and group interests. In fact ractically, the results of this study provide insights for policymakers in OIC countries to more carefully manage economic factors and maintain political stability to attract sustainable investment. Academically, this study enriches the literature by integrating political stability as a moderating variable in the relationship between economic factors and foreign investment, especially in diverse OIC countries. Going forward, OIC governments need to focus on sustainable development-oriented and futuristic types of investment, in line with the OIC Charter's commitment to justice and respect for human dignity.

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