

Economic Fundamentals vs. Institutional Quality: Determinants of FDI Inflows in the Developing (D-6) Countries

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Abstract

This study investigates the macroeconomic and institutional determinants of Foreign Direct Investment (FDI) inflows within the Developing Six (D-6) countries, which consist of Indonesia, Malaysia, Pakistan, Turkey, Bangladesh, and Egypt. Utilizing a quantitative approach with secondary panel data spanning from 2012 to 2021, the research employs the Random Effect Model (REM) as the optimal estimation framework. The empirical findings reveal that fundamental economic variables, specifically the Exchange Rate and Gross Domestic Product (GDP), exert a positive and statistically significant influence on stimulating foreign capital inflows ($p < 0.05$). Regarding institutional quality, while political stability shows no significant impact ($p > 0.05$), the control of corruption is found to have a significant negative effect on FDI ($p < 0.05$). This suggests that in the D-6 context, higher levels of corruption control (higher scores) may paradoxically correlate with reduced FDI, or that investors prioritize market size and currency advantages over certain governance metrics. The study concludes that investor behavior in these nations is primarily driven by market-seeking motives, with economic fundamentals serving as the most dominant catalysts.

Keywords: Foreign Direct Investment, Exchange Rate, Economic Growth, Political Stability, Control of Corruption

Abstrak

Penelitian ini mengkaji pengaruh determinan makroekonomi dan institusional terhadap arus masuk *Foreign Direct Investment* (FDI) di negara-negara *Developing Six* (D-6) terdiri Indonesia, Malaysia, Pakistan, Turkey, Bangladesh, dan Egypt. Menggunakan pendekatan kuantitatif dengan data panel sekunder dari tahun 2012 hingga 2021, penelitian ini menerapkan *Random Effect Model* (REM) sebagai kerangka estimasi optimal. Temuan empiris mengungkapkan bahwa variabel fundamental ekonomi, khususnya Nilai Tukar dan Produk Domestik Bruto (PDB), memberikan pengaruh positif dan signifikan secara statistik dalam menstimulasi arus masuk modal asing ($p < 0.05$). Terkait kualitas institusi, meskipun stabilitas politik menunjukkan dampak yang tidak signifikan ($p > 0.05$), pengendalian korupsi ditemukan memiliki pengaruh negatif yang signifikan terhadap FDI ($p < 0.05$). Hal ini menunjukkan bahwa dalam konteks D-6, tingkat pengendalian korupsi yang lebih tinggi (skor yang lebih tinggi) secara paradoks mungkin berkorelasi dengan penurunan FDI, atau menunjukkan bahwa investor lebih memprioritaskan ukuran pasar dan keuntungan mata uang di atas metrik tata kelola tertentu. Penelitian ini menyimpulkan bahwa perilaku investor di negara-negara tersebut utamanya

didorong oleh motif pencarian pasar (*market-seeking*), dengan fundamental ekonomi berfungsi sebagai katalis yang paling dominan.

Kata Kunci: Investasi Asing Langsung, Nilai Tukar, Pertumbuhan Ekonomi, Stabilitas Politik, Kontrol Korupsi

INTRODUCTION

Sustainable economic growth serves as a primary metric and a fundamental prerequisite for broader economic development, with investment acting as a central catalyst in this process. According to Bhusal (2024), investment occupies a critical position within a nation's economy, as capital formation enhances overall production capacity, which subsequently drives an increase in national income. Furthermore, investment initiatives contribute to socio-economic stability by generating new employment sectors and expanding job opportunities (Todaro & Smith, 2015). Beyond domestic productivity, investment is essential for securing the necessary financial resources required to expedite national development programs (Dimitrijević, 2017). However, domestic financing alone is not sufficient. External funding sources are needed to accelerate national development. Ozyesil & Saqban (2022) reveals that external financing can positively increase long-term economic growth.

Beyond its role in capital accumulation and technology transfer, Foreign Direct Investment (FDI) serves as a strategic instrument for developing nations to bridge domestic savings gaps and strengthen fiscal reserves (Erika & Sasana, 2022; Fazaalloh, 2024). While the Asian region has successfully absorbed approximately 40% of global FDI inflows (Azémar & Giroud, 2023), this dominance is not uniformly distributed across all emerging economies. For the Developing Six (D-6) member states, attracting such capital is not merely about regional competition, but a critical necessity to fund the Halal Value Chain (HVC) and domestic production capacities. Therefore, understanding the specific determinants that drive FDI in this transcontinental bloc is vital, as their institutional and economic characteristics differ significantly from the broader Asian average.

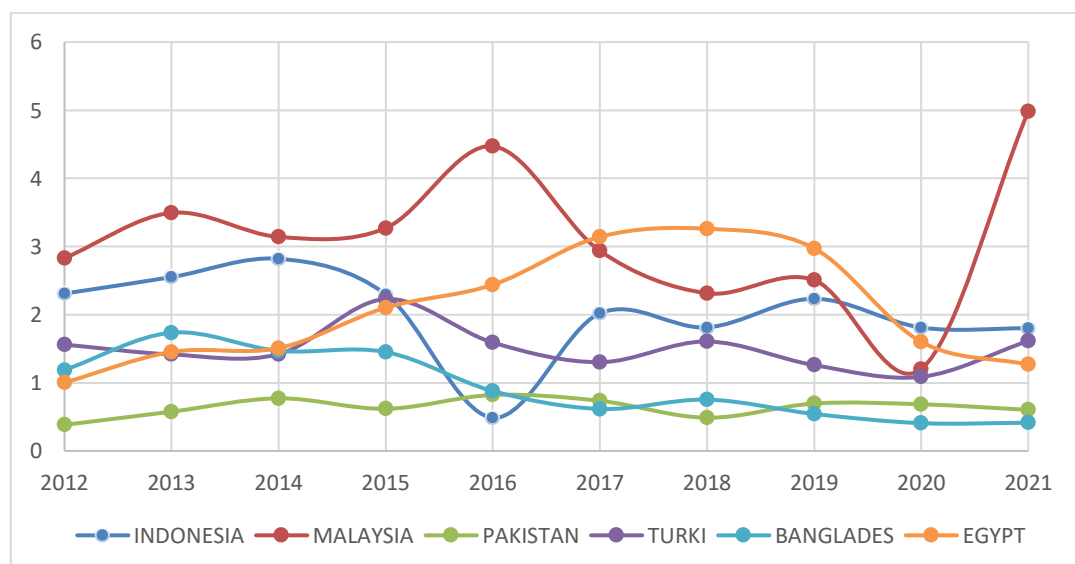


Figure 1. Inflows in Selected D-6 Member States 2012-2021 (%)

Source: World Development Indicators, 2025

The descriptive analysis of Foreign Direct Investment (FDI) inflows across the six selected developing economies from 2012 to 2021 reveals a highly heterogeneous and volatile performance landscape. As illustrated in the graphical representation, Malaysia consistently maintained a leading position with a significant upward trajectory, particularly peaking near 5% toward the end of the observation period, reflecting robust market-seeking attractions. In contrast, countries such as Indonesia and Egypt exhibited moderate yet fluctuating growth patterns, while Pakistan and Bangladesh recorded relatively lower and more stagnant annual growth rates, often remaining below the 1% threshold. This sharp performance gap underscores the varying degrees of macroeconomic resilience within the D-6 bloc, where nations with more competitive currency values and expansive market sizes successfully stimulated higher foreign capital inflows despite global economic shifts.

The diverse investment patterns observed among the D-6 nations, as depicted in Figure 1., suggest that FDI inflows are not merely a result of regional trends but are driven by specific underlying factors. While traditional economic theory emphasizes a holistic approach, the apparent resilience of investment in certain D-6 countries despite varying institutional qualities raises a pivotal question regarding the primary drivers of such capital. To empirically validate these observations, this study proposes a series of hypotheses to test the comparative influence of macroeconomic fundamentals—namely exchange rates and GDP growth—against institutional frameworks, including political stability and corruption control, in shaping the FDI landscape within this transcontinental bloc.

The first factor that can influence FDI is the exchange rate. Goldberg & Kolstad (1995) explain that if a country's currency depreciates, it will attract foreign investors to invest domestically. This perspective is bolstered by the findings of Lajevardi & Chowdhury (2024), who observed that fluctuations and volatility in exchange rates significantly impact FDI inflows. Furthermore, several scholars, including Warren et al. (2023), Moraghen et al. (2023) and Velić & Cvečić (2024), have identified a positive correlation between exchange rate values and foreign investment. Conversely, some empirical evidence suggests a contrary relationship; for instance, Sarnstrom & Ryan (2023) reported that exchange rates can have a detrimental effect on FDI. Other studies have found the relationship to be negligible, with McCloud et al. (2024) and Khatri Chettri et al. (2023) both concluding that exchange rate movements do not exert a significant impact on foreign investment decisions. This variability in findings reflects the complex dynamics of FDI across both advanced and emerging economies.

The second factor that determines FDI is a country's economic condition, which is projected by its GDP. Ghazalian (2024) found that good economic growth will stimulate foreign investment in a country. Malik & Sah (2024) also reinforces the opinion that economic growth and FDI have a very close correlation. Research Al Shammre & Alshahrani (2024) analyzing the impact of sustainable economic growth on FDI inflows in Saudi Arabia. The results show that current economic growth and that of the previous period contribute positively to FDI. However, economic growth in the previous two periods had a negative impact. These findings indicate that in the short term, economic growth can attract foreign investors because it reflects market strength, while in the long term, economic dynamics or market saturation can reduce foreign investment interest. On the contrary, Manan & Aisyah (2023) found that GDP does not affect FDI in several ASEAN countries, namely Malaysia, Vietnam, Thailand, and Indonesia. Research Yang (2019) also shows that economic growth does not always encourage an increase in FDI inflows, indicating a

neutral or insignificant relationship.

Political stability serves as a critical determinant in directing FDI inflows, as it fundamentally dictates the degree of risk exposure encountered by international investors. Various empirical studies have examined this relationship. Some suggest that increased political stability can create a supportive climate for FDI, while others find that the effect may not be statistically significant in certain situations. In general, political stability is frequently identified as a fundamental prerequisite for attracting FDI inflows. Kiptoo, (2024) shows that a stable and predictable political environment can reduce uncertainty for investors, thereby encouraging an increase in FDI. Corroborating these findings, Kushwaha & Yu (2018) observed that institutional dimensions—specifically political stability and the absence of violence—maintain a positive correlation with FDI inflows. However, empirical evidence remains divided, as certain contexts suggest that political stability exerts negligible influence on attracting international capital. For instance, in an analysis of 25 Asia-Pacific nations, (Le et al., 2023) demonstrated that once variables such as trade openness are controlled, political stability does not significantly impact FDI inflows.

The relationship between corruption and FDI is complex and has been extensively studied empirically. Generally, corruption is seen as a factor that increases transaction costs and uncertainty, thereby hindering investment inflows. However, in certain contexts, the impact of corruption on FDI may be unclear or statistically insignificant, especially when other factors also influence investment decisions. Siriopoulos et al. (2021) stating that corruption not only causes direct financial losses, but also weakens the quality and effectiveness of the overall investment environment. This perspective is reinforced by the empirical evidence from Alonso et al. (2024) & Zulkifli et al. (2024), who demonstrate that corruption exerts a detrimental impact on FDI inflows. Conversely, alternative research suggests a more nuanced relationship, indicating that the consequences of corruption for FDI are not universally negative. Anwar et al. (2023) conducted an analysis in the ASEAN-5 countries using the Corruption Perceptions Index (CPI). His research found that every one-point increase in the CPI (which reflects improvements in corruption control) correlates positively and significantly with an increase in FDI inflows.

The existing literature reveals a significant divergence in how macroeconomic and institutional factors dictate FDI inflows, creating a notable research gap regarding their relative dominance in specific economic blocs. While traditional theories suggest that institutional quality is an absolute prerequisite, empirical findings remain fragmented; for instance, some studies emphasize the deterrent effect of political risk, while others demonstrate its negligible impact when overshadowed by market-seeking motives. This inconsistency suggests that the 'one-size-fits-all' governance model may not apply to the Developing Six (D-6) nations, which operate under unique transcontinental and Sharia-compliant economic synergies. Consequently, this study fills the gap by providing a comparative analysis of macroeconomic fundamentals versus institutional quality within the D-6 context over a decadal span (2012–2021). By isolating the effects of exchange rates, GDP growth, political stability, and corruption control, this research identifies which drivers are truly decisive for investors in these emerging markets. These insights are essential for policymakers in D-6 countries to transition from generic investment promotion to evidence-based strategies that prioritize the most impactful economic levers.

Foreign Direct Investment

FDI is defined as the flow of international capital from one country that opens a branch in the destination country for business purposes. For this reason, FDI is considered the most important

instrument, as it can help a country's economic growth (Todaro & Smith, 2015). This was confirmed by Lipsey et al. (1999), who specifically stated that FDI is a more stable source of financing than portfolio investment. Unlike portfolio investment, FDI involvement has value-added activities that effectively increase employment opportunities (Borensztein et al., 1995). Thus, FDI effectively increases domestic productivity by encouraging capital inflows for economic growth.

Inflows of FDI are a positive development in the current open economy. This is because FDI can make up for the shortfall in domestic savings, increase foreign exchange reserves, and boost government revenue (Erika & Sasana, 2022). In developing countries, FDI is seen as a successful instrument of integration on an international economic scale. Global Investment Competitiveness (2017) proving that one of the important factors in FDI decision-making in the destination country is political stability, security, and the system of government. Thus, a stable political environment has a positive impact on macroeconomic stability. In line with Wint & Williams, (2002) there are two types of factors that can influence FDI inflows, namely push factors and pull factors. Therefore, the general global economic and socio-economic conditions within institutions are crucial aspects of FDI in the destination country, including trade openness, economic growth, inflation, and exchange rates (Megasari, 2021).

Exchange Rate

The exchange rate is fundamentally defined as the market value of a specific currency expressed in terms of another, exemplified by the relative price between the Indonesian Rupiah and the US Dollar (Krugman & Obstfeld, 2006). The exchange rate itself is a macroeconomic variable that has a broad impact on the international monetary system. Consequently, exchange rates function as a pivotal mechanism within open economies, as the equilibrium rate is dictated by the interplay of supply and demand for the respective currencies—a dynamic that is particularly influential for developing nations (Dogru et al., 2019). This means that if a country's currency depreciates or weakens, it causes demand for domestic goods to decline due to the high production costs of a product. In addition, a high exchange rate increase (depreciation) will make imports and exports cheaper (Manopode et al., 2019). This shows that countries with strong exchange rates consider goods in their domestic markets to be cheaper, thereby attracting foreign investors (FDI) to invest in their target countries in order to reap greater profits. Previous studies supporting this theory, Choiriyah & Auwalin, (2020), Andiansyah, (2021), and Vasilyeva & Mariev, (2021) found that foreign exchange rates have a positive effect on FDI. Thus, the hypothesis can be formulated as follows:

H₁: Exchange rates have a positive effect on FDI

Economic Growth

Economic growth is a pivotal indicator for assessing a nation's macroeconomic performance and developmental progress (Todaro & Smith, 2015). In the context of foreign investment, it is essential to distinguish between the Gross Domestic Product (GDP) level, which reflects the absolute size of the domestic market, and economic growth, which signifies the momentum of market expansion. While a high GDP level indicates existing purchasing power, sustained economic growth suggests a burgeoning market potential that attracts efficiency-seeking and market-seeking investors. This growth trajectory indicates an increase in per capita output and national income, signaling a conducive environment for capital accumulation and technological innovation (SOLOW, 1956). Consequently, nations demonstrating robust growth rates are perceived as offering higher returns on investment, thereby stimulating larger FDI inflows. This

theoretical link is empirically supported by Nwamuo (2019), Prastity & Cahyadin (2015), and Rasheed (2019), who confirm that dynamic economic expansion is a primary driver of foreign capital. Based on this conceptual distinction, the following hypothesis is proposed:

H₂: Economic growth has a positive effect on FDI

Political Stability

Political stability is a fundamental prerequisite for economic progress, as it establishes a secure environment that fosters investment, international trade, and long-term economic expansion. According to Ake (1975), this stability is primarily characterized by the institutionalization of orderly political transitions, which cultivate a predictable governance framework. Consequently, the preservation of political stability remains a decisive element in corporate decision-making and investment strategies, while simultaneously serving as the bedrock for a nation's policy architecture.

Howell, (1992) also revealed that political stability and security are valid requirements for economic development. The fact is that political instability will have a negative impact on a country's economy, especially developing countries, where the impact will affect the business environment, leading to the assumption that foreign investors will tend to lose assets or profit margins. Several studies supporting the above theory (Uddin et al., 2017; Kurecic & Kokotovic, 2017; Akçoraoğlu & Kaplan, 2017) show that political stability has a positive effect on FDI. Thus, the following hypothesis can be formulated:

H₃ : Political stability has a positive effect on FDI

Corruption

Corruption is frequently conceptualized as the exploitation of public authority for private advantage, a phenomenon that detrimentally affects the commercial landscape, macroeconomic expansion, and broader developmental goals. Furthermore, it erodes public welfare, diminishes the appeal of a nation to foreign direct investors, and fundamentally compromises the systemic integrity of a country's governance framework (Tanzi, 1998).

Bliss et al (1997) demonstrate that when public officials prioritize personal enrichment, it inevitably discourages the entry of foreign capital, particularly in nations characterized by institutional fragility. This perspective is substantiated by Ohlsson (2007) whose comparative analysis of FDI across 46 advanced and emerging economies indicates that systemic corruption exerts a significantly detrimental influence on foreign investment inflows. Consequently, based on these empirical observations, the following hypothesis is proposed:

H₄: Corruption has a significant negative impact on FDI

METHODOLOGY

This research utilizes a panel data set comprising selected member nations of the Organization of Islamic Cooperation (OIC). The secondary data were sourced from the World Bank's World Development Indicators (WDI) and the Worldwide Governance Indicators (WGI), spanning an annual timeframe from 2012 to 2021. Due to data availability constraints, the sample is restricted to six prominent nations within the Developing (D-6) group, specifically Indonesia, Malaysia, Pakistan, Turkey, Bangladesh, and Egypt; the exclusion of the remaining two member states is attributed to incomplete data sets. To examine the proposed relationships, the study employs a panel data regression model processed through the E-Views 10 statistical software. The analytical

framework is designed to evaluate FDI as a function of macroeconomic determinants, including the exchange rate (EXC) and economic growth (GDP), alongside institutional factors such as political stability (SP) and the control of corruption (CR).

Table 1.
Research Sample

No.	Code	Name
1.	FDI	Foreign Direct Investment
2.	EXC	Exchange Rate
3.	GDP	Gross Domestic Product
4.	SP	Political Stability
5.	CR	Control of Corruption

Table 2.
Variable Operational Definition

Y	Foreign Direct Investment	FDI is proxied by FDI inflows, which are the total foreign investment flows of a country and are expressed in USD.
X1	Exchange Rate	Units of Rupiah per USD represent the national currency's (Rupiah) exchange rate with the US dollar.
X2	Gross Domestic Product	Economic growth is measured by GDP per capita, which is the total value of goods and services produced by a country with a given population, expressed in USD
X3	Political Stability	The measures used to gauge political stability are political stability and absence of violence/terrorism (PV) with aggregate indicators of standard normal distribution -2.5 – 2.5
X4	Control of Corruption	With an estimated aggregate indicator size of a normal distribution of -2.5 to 2.5, corruption control assesses perceptions of the degree to which public power is used for personal benefit, encompassing local and large-scale corruption as well as the takeover of the state by elites and commercial interests.

Data Analysis

To examine the influence of the independent variables on the dependent variable, this study employs panel data regression analysis, facilitated by the EViews 10 statistical software. Following the methodological framework popularized by Gujarati & Porter (2009), the analysis uses the Random Effect Model (REM). REM was identified as the most robust estimation framework for this research. This model is utilized to isolate the effects of macroeconomic determinants, namely the Exchange Rate (EXC) and Gross Domestic Product (GDP), alongside institutional factors including Political Stability (SP) and the Control of Corruption (CR), on FDI inflows over the specified decadal period.

The panel data regression analysis model is as follows:

$$FDI_{it} = \beta_{0it} + \beta_1 EXC_{it} + \beta_2 GDP_{it} + \beta_3 SP_{it} + \beta_4 CR_{it} + \epsilon_{it}$$

FDI :Foregin Direct Investment
EXC :Exchange Rate

GDP	:Gross Domestic Product
SP	:Political Stability
CR	:Control of Corruption
$\beta_1 - \beta_4$	:Regression Coefficient
i	:Country
t	:Year
ϵ	:Error

DISCUSSION AND FINDINGS

The Random Effect Model (REM) test results are displayed in Table 3. According to the table, the exchange rate (EXC) variable test results indicate a probability value of $0.0000 < 0.05$. This indicates that FDI is greatly impacted by the EXC variable. With a coefficient value of 1271.879, FDI is positively impacted by the exchange rate. Furthermore, the gross domestic product (GDP) variable test findings indicate a probability value of $0.0000 < 0.05$. This suggests that FDI is considerably impacted by the GDP variable, and the coefficient value of 1823.271 implies that FDI is positively impacted by the GDP variable.

Table 3.
Result Regresi Random Effect Model

Variabel	Coefficient	Std.Error	t-Statistic	Prob
C	-7339486	3222356	-2.277677	0.0275
EXC	1271.879	108.6830	11.70265	0.0000***
GDP	1823.271	330.5515	5.515845	0.0000***
SP	6127.733	846947.3	0.007235	0.9943
CR	-7544770.	3456922.	-2.182511	0.0343

Note: the importance of the data at =1%, =5%, and =10% is shown by the ***, **, and * markings, respectively.
Source: Data Processed by the researcher using E-views 10.

The findings of the political stability (SP) test show a probability value of $0.9943 > 0.05$. This suggests that the political stability (SP) variable does not significantly influence FDI. The coefficient result related to the control of corruption (CR) variable is -7544770 with a probability value of $0.0343 < 0.05$. This result aligns with the theoretical expectation that corruption has a detrimental effect on FDI in developing countries (D-6).

Table 4.
F-test Results

F-Statistic	48.02978
Prob. (F-Statistic)	0.000000

Source: Data Processed by the researcher using E-views 10.

Based on the results of the Random Effect Model (REM) panel data regression, the F-statistical probability value is $0.000000 < 0.05$. It is concluded that from 2012 to 2021, FDI was significantly influenced by the independent variables Foreign Exchange Rates, Gross Domestic Product, Political Stability, and Control of Corruption, particularly in the developing countries (D-6).

Table 5.
Determination Coefficient Analysis (R²)

R-squared	0.810222
Adjusted R-squared	0.793353

Source: Data Processed by the researcher using E-views 10.

The results of the Random Effect Model (REM) panel data regression show an R² (Adjusted R-squared) value of 0.793353. That all independent variables used by the researcher explain 79.33% of the FDI variable, while the remaining 20.67% is explained by other variables not used in this study.

The Effect of Exchange Rates on FDI

Based on the findings of hypothesis testing, the exchange rate (EXC) factor has a significant positive effect on FDI in the Development Countries (D-6). According to the Optimum Currency Area theory, if a country's exchange rate strengthens compared to the target investment country, it will attract investment in that country with the expectation of higher returns. These results support the findings of the study (Choiriyah & Auwalin, 2020), and (Vasilyeva & Mariev, 2021) which shows that FDI flows from countries with strong exchange rates to countries with weak exchange rates, so that foreigners will buy goods in the domestic country because the business costs borne by companies are getting smaller. Therefore, higher export values will certainly help the host country in boosting economic growth.

Currency depreciation in the destination country is generally considered to provide a competitive advantage for foreign investors by lowering input costs and potentially increasing profit margins. For example, Chete et al., (2024) note that in the Nigerian context, currency depreciation led to an increase in FDI, supporting the idea that a lower-valued currency can reduce labor and production costs relatively. Similarly, Zaharum et al., (2024) and Hamood et al., (2021) confirm the positive relationship between local currency devaluation and FDI in Malaysia, suggesting that currency depreciation makes the investment environment more attractive to foreign capital. Contributions from these recent studies emphasize that from a cost channel perspective, exchange rate depreciation can be an effective tool for attracting FDI.

The Effect of Gross Domestic Product on FDI

Based on the findings in testing the hypothesis that Gross Domestic Product (GDP) has a positive and significant effect on FDI in the Development Countries (D-6). These results are consistent with the Keynesian economic growth model pioneered by Domar (1946) and Harrod (1939), that foreign aid can form capital aimed at overcoming the savings gap in the domestic country. This theory implies that long-term foreign aid can accelerate economic growth in developing countries. Mankiw (2016) supports this view, which highlights that an increase in Gross Domestic Product (GDP) is a measure of the success of a country's economic performance. In other words, increased economic growth in a country attracts foreign investors to invest their capital. Increased investment in a country can lead to the creation of new capital sources and jobs. These results are consistent with the Solow Residual concept, which states that the global FDI landscape drives capital accumulation and technological innovation in destination countries (Solow, 1956).

It is important to optimize economic performance for domestic countries as they determine FDI

inflows. A strong economy and abundant resources attract investors, which in turn signals positive returns for foreign investors (Altsary & Naylah, 2025). Increased FDI has an effect on the destination nation's economy by generating new sources of funding that raise the nation's overall production and greatly contribute to its long-term economic growth. Thus, in the context of developing countries, governments need to be selective in creating a conducive environment, including investment policies to stimulate FDI inflows.

These findings are consistent with previous empirical evidence provided by Megasari (2021); Nwamuo (2019); Rasheed (2019) and Prastity & Cahyadin (2015). This positive correlation underscores that the prevailing economic conditions of a nation serve as a fundamental determinant in shaping the investment decisions of foreign entities within destination markets.

The Influence of Political Stability on FDI

Political stability (PS) does not affect the inflow of FDI in the Development Countries (D-6). These findings are certainly surprising because the dynamics of a country's economic growth cannot be separated from political stability (Uddin et al., 2017). Moreover North (1990) states that a stable political environment has a positive impact on a country's development. It is important in the country's economic cycle because political stability promotes economic effectiveness through transaction and production costs. Moreover, strategic steps are needed by the government in issuing policies to achieve better development.

A threat to sustainability that is considered vital in both developing and developed countries, political instability will hamper the inflow of foreign capital. This illustrates that high political pressure in a country weakens its attractiveness to foreign investors (Hikam et al., 2024). In line with Asiedu (2002) who tested a series of institutional variables, the dimension of inefficient institutional quality hinders FDI inflows. This preference is considered to increase the cost of doing business for multinational companies, leading to uncertainty. This illustrates that poor political stability is closely related to the failure of the state to implement a system of government (Mommsen, 1989).

However, these results do not confirm the research conducted by Megasari (2021) which found that foreign investors have different preferences in assessing political risk. Political stability does not affect the flow of foreign investment, according to research (Kurul & Yalta 2017); (Bannaga et al 2015); (Jaspersen et al 2000). This explains that there are unique characteristics that attract foreign investors to enter, such as a country's wealth of natural resources. This impact implies that investors are able to mitigate risks so that there are no obstacles to investing in their destination countries. This view is in line with Morrissey (2012) that political instability in a country causes FDI signals that focus on seeking maximum profit rather than sustainable development goals.

The Effect of Corruption Control on FDI

Corruption Control (CR) negatively affects the inflow of FDI in Developing Countries (D-6). This relationship empirically rejects Morrissey (2012) view that a country's corruption control landscape is important because of its influence on increasing total private investment. As Sabir et al (2019) and Bannaga et al (2015) revealed, the quality of regulation, the rule of law, and government effectiveness are important aspects that are interrelated. Poor governance may lead foreign investors to perceive high risk with low confidence, thereby reducing FDI interest in the destination

country. Siriopoulous et al. (2021) stating that corruption causes direct financial losses and weakens the quality and effectiveness of the overall investment environment.

This view is supported Egger & Winner (2006), who found that corruption against FDI has a negative impact in 21 OECD countries and 59 non-OECD countries. In the Asia and Pacific countries, Canare (2017) found that corruption is assumed to be a chronic disease that undermines investor confidence. The impact of corruption causes management difficulties and higher additional costs, which result in low returns.

However, in certain contexts, the impact of corruption on FDI may be unclear or statistically insignificant, especially when other factors also influence investment decisions. Brada et al., (2012) proves that although corruption in the home country has a non-monotonic effect on FDI outflows, the level of corruption in the host country does not appear to have a significant effect on the volume of FDI inflows after the investment is made. This finding is important in distinguishing between initial location decisions and subsequent investment expansion. In other words, although corruption may influence the location choices of multinational companies, its role in determining the amount of investment after entering the market may not be significant. Similarly, in their research on developing countries Kasasbeh et al., (2018) found that the relationship between corruption and FDI flows is not always negative. Empirical analysis shows that for certain types of investment (especially capital-intensive ones), corruption does not have a statistically significant effect on FDI flows. The findings confirm that corruption may not influence FDI decisions in sectors where the nature of capital investment or technological requirements reduce investors' sensitivity to the level of corruption in the destination country. This indicates that in certain industries or under certain economic conditions, the effect of corruption on FDI can be mitigated.

CONCLUSION

The results of this study confirm that FDI inflows into the D-6 countries during the 2012–2021 period were significantly influenced by both macroeconomic and institutional factors, albeit with varying directions. Macroeconomic fundamentals, namely exchange rate stability and GDP growth, emerged as the primary positive drivers, reinforcing the market-seeking hypothesis. Interestingly, the institutional analysis presents a nuanced result: while political stability remains an insignificant factor, the control of corruption demonstrates a significant negative impact on FDI inflows. This indicates a departure from conventional institutional theory, suggesting that in certain D-6 emerging markets, institutional rigidity through corruption control may not yet function as a primary attractor for foreign capital compared to the more dominant lures of economic growth and competitive exchange rates.

Research Limitations and Future Directions

This research acknowledges certain limitations that should be addressed in future inquiries. First, the study is restricted to six member nations of the Developing Eight (D-8) due to data availability, which may affect the generalizability of the results across the entire OIC bloc. Second, the significant negative impact of corruption control suggests a complex interaction that requires further investigation using more disaggregated or sector-specific data to understand why improved governance metrics do not immediately translate into higher FDI in this specific region. Lastly, extending the timeframe to include the most recent post-

pandemic data could provide a more comprehensive view of how these determinants evolve during global economic recovery phases.

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