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The Relationship between Foreign Direct Investment, Islamic Financial Performance and Economic Growth : Analysis of Economic Freedom as Moderating Variable

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Abstract

This study aims to analyze the relationship of the FDI in developing the Islamic economy through the performance of Islamic finance and the impact on economic freedom in IFSB member states. The study was analyzed with PLS-SEM using PLS 3.0. The findings show that FDI has no significant relationship with Islamic economic growth, and financial freedom does not modulate the relationship between FDI and Islamic economic development. Sharia economic development is hampered by economic freedom, so FDI is not a factor that can advance the Sharia economy. The research results implicate that Islamic countries should utilize FDI to overcome the limitations of sources of funds in developing the Islamic economy. On the other hand, Islamic countries are working with foreign investors to expand investment in Islamic economic-based sectors through more competitive halal investment schemes. The expansion of halal investment access for investors is expected to accelerate the inflow of foreign direct investment. Through this study, the government could establish an Islamic economic framework without relying on secular economic activities and highlight the resources that Islam allows to attract foreign investors to make halal investments to grow the economy of Islamic countries to a more advanced level.

Keywords:

Foreign Direct Investment; Islamic Financial Performance; Economic Growth; Economic Freedom

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JEL: B22, B65, F65, G10

1. Introduction

Developing countries need a lot of capital for economic development. Development in most developing countries is hampered by limited funds. The previous literature found that countries with modern infrastructure, such as good roads, water pipes, stable electricity, etc has a higher tendency to attract FDI inflows because it has played an essential role in motivating investors to invest or foreign direct investment (FDI) (Gunawardhana & Damayanthi, 2020). Likewise, limited sources of funds hinder economic development in Islamic countries. So that the problem of fixed money in the Islamic economy can also be overcome by raising additional capital from abroad in the form of FDI.

Based on data compiled by Heritage Foundation, the countries that are members of the Islamic Financial Service Board (IFSB) show that the United Arab Emirates is the most attractive country for foreign investors, followed by Brunei Darussalam, Turkey and Libya, because these countries have a tendency to have poor infrastructure. so that it attracts FDI flows, even though these countries are countries with minimal resources. As for Indonesia, which is a country with abundant resources, the flow of foreign capital is only US$1.508 million. This condition is a problem that needs to be developed further. In this case, Indonesia is intensively developing the Islamic economy through the Islamic Economic Community (Masyarakat Ekonomi Syariah) movement. For halal investment from the data compiled by the IFSB, the amount of halal investment in Islamic countries varies greatly. It Nigerai appear to be the most attractive country for investors to make halal investments. This indicates that Nigeria is one of the countries that is serious and focused on developing an Islamic economy.

Islamic economic development policies are important because the concept of Islamic economic development is one of the renewals in the pattern of community economic activities based on Islamic moral principles that are significant for sustainable economic growth, so that the main goals of all countries can be achieved. In this context, the state aims to determine effective and appropriate policies to achieve these goals. This situation is very important for developing countries, as these countries aim to grow their economies to reach a more advanced level. Based on the results of a study conducted by Kalkavan et al. (2021) that Islamic moral values in economic activities, such as fair distribution of income and taxes, prohibition of interest and creating good relations with business partners are the most significant criteria. Therefore, sustainable economic development can be optimally achieved, if a country ensures that everyone adheres to moral values so as to create equal opportunities for everyone.

Prior research results have proven the relationship between FDI and economic growth (Gupta & Singh, 2016; Kaur et al., 2013; Kumari et al., 2021; Onafowora & Owoye, 2019; Owusu-Manu et al., 2019; Saini & Singhania, 2018; Saleem et al., 2020). In general, FDI variables are significant for economic growth (Gupta & Singh, 2016; Kaur et al., 2013; Kumari et al., 2021; Onafowora & Owoye, 2019; Owusu-Manu et al., 2019; Saini & Singhania, 2018). However, in the study of Saleem et al. (2020) obtained FDI results have a negative relationship to economic growth. Therefore, if the value of FDI changes, economic growth will increase or decrease. This is in accordance with the statement of Kumari et al. (2021) that FDI causes economic growth.

Many studies have discussed economic growth, but the existence of economic freedom will erode the moral principles of Islam. However, the benefits of economic freedom have been widely documented (Hillman & Potrafke, 2018), such as generating higher incomes and greater economic growth (Compton et al., 2011; Rode & Coll, 2012; Rode & Gwartney, 2012). And large economic growth will also have an impact on higher national income and workers will benefit (Young & Sheehan, 2014). In addition, it can increase tolerance (Berggren & Nilsson, 2013), greater social trust (Berggren & Jordahl, 2006), lower unemployment (Feldmann, 2007), policies against human trafficking (Heller et al., 2018), and gain feelings of life satisfaction and happiness (Gehring, 2013; Pitlik & Rode, 2016). Hall & Lawson (2014) attribute the beneficial effects of economic freedom to the protection of property rights, unencumbered domestic and foreign trade, access to credit and productive inputs, and people retaining their income for personal expenses. Chen & Zulkifli (2012) conducted a study to determine the extent of the relationship between FDI and economic growth. Using VECM, it is observed that there is a long association between economic growth and FDI together coupled with a long two-way association. Evidence also shows that at short-term intervals, there is no Granger-Causality between FDI outflows and economic growth. Growth analysts assess that growth and attractiveness of FDI tends to be faster among countries that have a soft spot for economic freedom which always leads to economic development (Sekunmade, 2021).

Economic freedom also negatively affects foreign aid, which is usually accepted by autocratic governments (Young & Sheehan, 2014), and is negatively related to ethnicity (Hillman & Potrafke, 2018). So that reforms towards economic freedom are more likely to occur in democratic countries (Pitlik, 2008), so that the principle of economic freedom is often associated with democracies that have political freedom (Potrafke, 2013), and low-income countries. This is what causes authoritarian rulers and world elites to reject economic freedom that will threaten the security of regimes and personal wealth that economic freedom allows to be used against privileges available through authoritarian government control (Hillman & Potrafke, 2018).

Islam is a religion that has comprehensive principles and rules, especially in the economic field. However, many think that Islam is a conservative religion, one of the reasons is that Islam hinders economic freedom. Like Heckman et al. (2010) have described the barriers to economic freedom under Islam and assumed that the government under Islam was authoritarian, and emphasized the wealth of the ruler and his tribe rather than the welfare of the general public. Whereas in Islam prioritizes the public benefit and explicitly regulates the protection of private property rights. Heckman et al. (2010) also stated that private property rights had been restricted and maintained a conservative view on the prohibition of interest. It is this assumption that makes Islam continue to defend its principles and strictly regulate economic freedom. So according to Heckman et al. (2010) the highest values of Islam are in conflict with economic freedom, because it considers Islam to obtain wealth and property through conquest. In an empirical study conducted by McCleary & Barro (2006) found that Islam among other religions was the one that discouraged economic growth the most and Hillman (2007) stated that Islam was associated with low economic freedom. Research conducted by Hillman & Potrafke (2018) shows that the correlation between economic freedom and Islam is not conducive to economic freedom, because it is negatively related to Islam. this shows Islam as a religion of high religiosity with low economic freedom. So there is an indication in the results that the performance of Islamic finance is contrary to economic freedom.

Economic freedom has an impact on economic growth. However, the lack of research into the possibility of economic freedom to play an important role in FDI impact on economic growth. With this background information, there is a shift in attention to show how much interaction occurs between economic freedom and FDI to achieve the desired economic growth (Hussain & Haque, 2016a; Sekunmade, 2021). Research conducted by Sayari et al., (2018) reveals that growth in the industrial and service sectors positively affects the economic freedom of thirty European countries in the long run. In this regard, the analysis recognizes that European governments and institutions that prefer higher levels of economic freedom should place more emphasis on strategies that promote industrial and service growth. In addition, the findings provide little significant evidence of a long-term relationship between foreign direct investment (FDI) and economic freedom, which may be due to the lack of adequate linkages between foreign investment and government institutions in the host country. As a result, although there have been a number of explorations of the role of FDI in the country's development process, the results suggest that the available empirical evidence is still insufficient to make definitive conclusions (Sayari et al., 2018). In a study conducted by Nwanji et al., (2020) shows a positive relationship between FDI and bank financial performance. This supports the FDI theory that FDI has a significant effect on bank financial performance. Based on these results, it can be concluded that FDI has had a positive impact on the development and financial performance of local banks in Nigeria. However, research conducted by Nasir et al. (2017) confirms that economic growth causes foreign direct investment (FDI) and financial development which is a unidirectional causality running from economic growth to FDI and financial development. No significant causality can be observed empirically between foreign direct investment and financial development.

This study attempts to investigate the causal relationship and discuss the flow of foreign investment in developing the Islamic economy through the performance of Islamic finance, as well as the impact on economic freedom that adheres to two economic systems, especially the Islamic economy. This research contributes to the Islamic economics literature. First, this study provides the factors needed to understand the factors involved in Islamic finance performance and a country's economic growth. Theoretically and empirically show that FDI is one of the critical determinants of Islamic financial performance and economic development. Second, economic freedom is an essential factor leading to FDI, Islamic financial performance, and economic growth. Most studies on Islamic financial performance focus on the effects of macro determinants such as economic growth and financial ratios. Third, this study fills the empirical gap, namely there are inconsistent results in previous research so this study provides a new methodological approach to research on Islamic financial performance and economic growth by analyzing the moderating effect to overshadow a unique perspective on the relationship between FDI, economic freedom, performance Islamic finance and economic development. As the first step in developing the Islamic economy in terms of FDI, this study presents a solution for completing the research using the partial least square (PLS) method.

This study examines the FDI's entry-flow relationship in developing the Islamic economy through Islamic financial performance and the impact on economic freedom. To the knowledge of the author, there has been no empirical research that investigates this in the context of Sharia economics represented by Islamic financial performance by looking at the relationship between FDI inflow and economic growth using the Heritage Foundation Index of Economic Freedom in the country. The results of this study will appeal to investors who make halal investment decisions in Islamic countries, as the relationship between economic freedom and economic growth still deserves attention. Our study focuses on these relationships in Islamic countries. We're trying to answer two main questions whether financial freedom is a growth stimulus factor and how each dimension of economic freedom affects economic growth in IFSB member states. This research will suggest appropriate policies that governments in Islamic countries can take to promote economic growth. Therefore, Researchers are interested in further discussing the foreign direct investment relationship and the impact financial freedom has on Islamic economic development through the performance of Islamic finance and economic growth among 16 Islamic countries that adhere to the dual system economy and are incorporated into the Islamic Financial Service Board (IFSB).

2. Method

This research was conducted with quantitative research methods using secondary data. The sampling technique used is probability sampling with the number of samples consisting of 16 countries that are members of the IFSB, namely Bangladesh, Brunei Darussalam, Indonesia, Iraq, Jordan, Kazakhstan, Kuwait, Libya, Malaysia, Nigeria, Oman, Pakistan, Saudi Arabia, Sudan, Turkey, and the United Arab States. Data were analyzed by PLS-SEM using PLS. Data were obtained from various sources, namely economic freedom obtained from the Heritage Foundation (www.heritage.org), foreign direct investment obtained from the world bank (www.worldbank.org), and the development of Islamic economics through financial performance using the formulation of Sharia Conformity and Profitability (SCnP).) designed by Kuppusamy, Saleh, and Samudhram and data obtained from the Islamic Financial Service Board (www.ifsb.org). The study was analyzed with PLS-SEM using PLS 3.0.The analytical techniques used are convergent validity, construct validity and reliability, inner model, and goodness-fit model (Hair, 2019; Hair et al., 2021).

3. Result and Discussion

Result

Outlier

Convergent Validity

The model generated from the estimated convergent validity is measured through the correlation between the component score and the results of the PLS software test. This study uses a loading factor value of 0.40 and the results are shown in Figure 2 below.

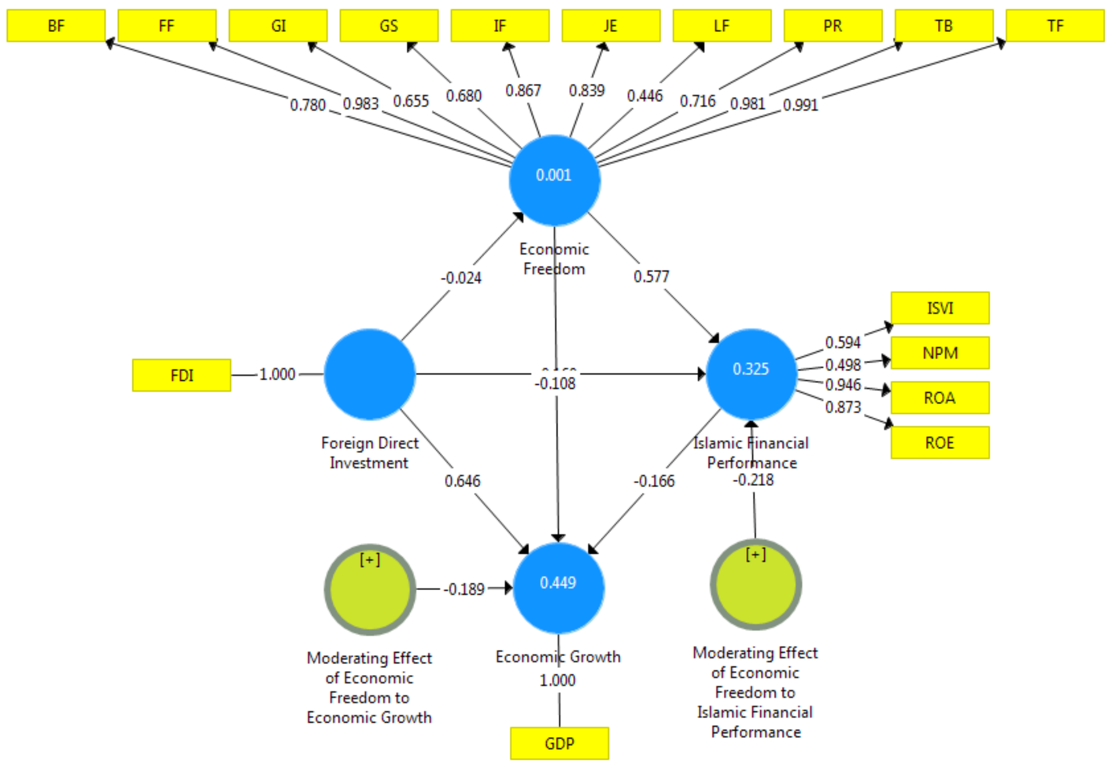

Figure 1. Outer Model
Source: Processed Data, 2022

The test results show that there are 16 indicators from 4 variables, namely the economic growth variable has 1 indicator, the foreign direct investment variable has 1 indicator, the economic freedom variable consists of 12 indicators and the Islamic financial performance variable has 4 indicators. All indicators of the 4 variables were concluded to be valid and included in the subsequent analysis. The 16 indicators are declared valid because the loading factor value is above 0.40; namely Gross Domestic Product (GDP) from the economic growth variable, Foreign Direct Investment (FDI) from the foreign direct investment variable, and Business Freedom (BF), Financial Freedom (FF), Government Integrity (GI), Government Spending (GS), Investment Freedom (IF), Judical Effectiveness (JE), Labor Freedom (LF), Property Rights (PR), Tax Burden (TB) and Trade Freedom (TF) from economic freedom variables, as well as Islamic Investment (ISVI), Net Profit Margin (NPM), Return on Assets (ROA) and Return on Equity (ROE) of Islamic financial performance variables.

Construct Validity

The construct validity test is obtained from the test results between the correlation of the latent variable and the Average Variance Extracted (AVE) value as follows.

Table 1. Construct Validity

AVE	Economic Freedom	Economic Growth	Foreign Direct	Islamic Financial	Moderating Effect 1	Moderating Effect 2

				Investment	Perfomance		
Economic Freedom	0,658	0,811					
Economic Growth	1,000	-0,254	1,000				
Foreign Direct Investment	1,000	-0,024	0,596	1,000			
Islamic Financial Performance	0,565	0,524	-0,149	0,105	0,751		
Moderating Effect 1	1,000	0,245	-0,068	0,201	-0,030	1,000	
Moderating Effect 2	1,000	0,245	-0,608	0,201	-0,030	1,000	1,000

Source: Processed Data, 2022

The construct validity test shows that the maximum correlation of the economic freedom construct with other constructs is 0.811. The maximum correlation between economic growth and other constructs is 1,000. The maximum correlation between foreign direct investment and other contracts is 1,000. The maximum correlation of the variable Islamic financial performance with other constructs is 0.751. So it is concluded that each latent variable is assumed to have discriminant validity.

Construct Reliability

The construct reliability test was used to test the reliability using Cronbach's Alpha, rho_A, Composite Reliability and AVE tests. The results of the composite reliability test are shown in the following table.

Table 2. Construct Reliability

	Cronbach's Alpha	rho_A	Composite Reliability	AVE
Economic Freedom	0,947	0,998	0,948	0,658
Economic Growth	1,000	1,000	1,000	1,000
Foreign Direct Investment	1,000	1,000	1,000	1,000
Islamic Financial Perfomance	0,727	0,784	0,830	0,565
Moderating Effect 1	1,000	1,000	1,000	1,000
Moderating Effect 2	1,000	1,000	1,000	1,000

Source: Processed Data, 2022

The results of the construct reliability test show that the value of each variable is above the value of Cronbach's Alpha, rho_A and Composite Reliability, which is 0.70; and the value is above the AVE value, which is 0.50. So it can be concluded that Islamic economic variables, foreign direct investment, economic freedom and moderating variables are consistent (reliable).

INNER MODEL

The inner model is used to measure the significance of the correlation between latent variables and the hypothesis test according to the structural path parameters. If each variable has a tcount value > 1.96 and a probability > 5%, then the variable is significant and if each variable has a tcount value < 1.96 and a probability > 5%, then the variable is not significant. The following inner model results can be shown in Figure 3.

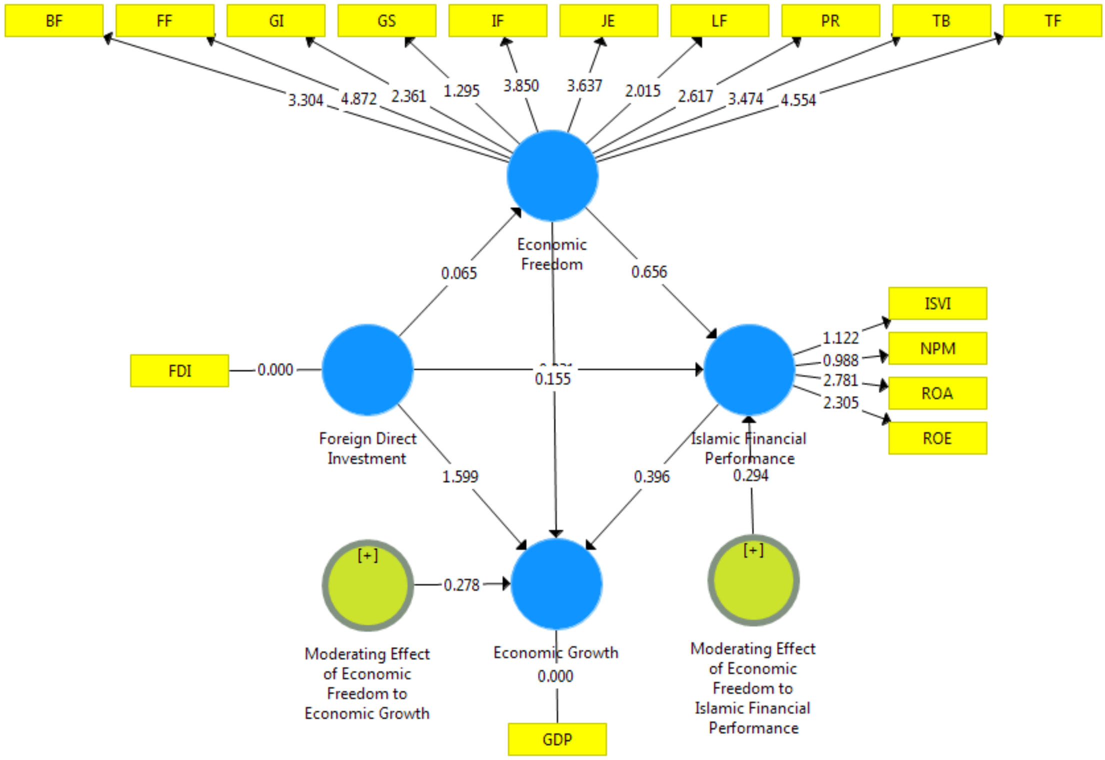

Figure 2. Inner Model

Source: Processed Data, 2022

Based on Figure 3, the results of the inner model for each variable are shown. The following is shown in detail the results of the inner model of each variable.

Table 3. Inner Model Result

	T Statistic	P Values
Economic Freedom to Economic Growth	0,155	0,877
Economic Freedom to Islamic Financial Perfomance	0,656	0,512
Foreign Direct Investment to Economic Freedom	0,065	0,948
Foreign Direct Investment to Economic Growth	1,599	0,111
Foreign Direct Investment to Islamic Financial Perfomance	0,331	0,741
Islamic Financial Perfomance to Economic Growth	0,727	0,784
Moderating Effect of Economic Freedom to Economic Growth	0,278	0,781
Moderating Effect of Economic Freedom to Islamic Financial Perfomance	0,294	0,769

Source: Processed Data, 2022

The results of the inner model show that all variables have tcount <1.96 and probability <5%, it can be concluded that the variable Economic Freedom does not affect Economic Growth in Islamic countries that are members of the IFSB, Economic Freedom does not affect Islamic Financial Performance in Islamic countries that are members of the IFSB, Foreign Direct Investment not affect Economic Freedom in Islamic countries that are members of the IFSB, Foreign Direct Investment not affect Economic Growth in Islamic countries that are members of the IFSB, Foreign Direct Investment not affect Islamic Financial Performance in Islamic countries that are members of the IFSB, Islamic Financial Performance not affect Economic Growth in Islamic countries that are members of the IFSB, Economic Freedom does not effective in moderating the influence of Foreign Direct Investment to Economic Growth in Islamic countries that are members of the IFSB , and Economic Freedom does not effective in moderating the influence of Fore ign Direct Investment to Islamic Financial Performance in Islamic countries that are members of the IFSB.

Direct and Indirect Effects

Table 4. Direct and Indirect Effects

Direct Effect		
	T Statistic	P Values
Economic Freedom to Economic Growth	0,352	0,725
Economic Freedom to Islamic Financial Perfomance	0,656	0,512
Foreign Direct Investment to Economic Freedom	0,065	0,948
Foreign Direct Investment to Economic Growth	2,242*	0,025*
Foreign Direct Investment to Islamic Financial Perfomance	0,338	0,735
Islamic Financial Perfomance to Economic Growth	0,396	0,692
Moderating Effect of Economic Freedom to Economic Growth	0,278	0,781
Moderating Effect of Economic Freedom to Islamic Financial Perfomance	0,108	0,914
Moderating Effect of Economic Freedom to Economic Growth to Islamic Financial Perfomance	0,294	0,769
Indirect Effect		
Economic Freedom to Economic Growth	0,212	0,832
Foreign Direct Investment to Economic Growth	0,059	0,953
Foreign Direct Investment to Islamic Financial Perfomance	0,039	0,969
Moderating Effect of Economic Freedom to Islamic Financial Perfomance	0,108	0,914

Source: Processed Data, 2022

Note: * indicates significant

The direct effect test results show that all variables have a tcount value < 1.96 and a probability < 5%, except for the direct effect between Foreign Direct Investment on Economic Growth because it has a tcount value > 1.96 and a probability < 5%.

The results of the indirect effect test show that all variables have a tcount value of < 1.96 and a probability of < 5%, so all indirect relationship models are not related.

Goodness-fit Model

Goodness-fit Model using R Square test results. The following shows the results of the R Square test.

Table 5. Goodness-fit Model

	R Square	Adjusted R Square
Economic Freedom	0,001	-0,071
Economic Growth	0,449	0,249
Islamic Financial Performance	0,325	0,157

Source: Processed Data, 2022

Based on the results of the Goodness-fit Model testing, the Adjusted R Square value is 0.157 or 15.7% which explains that the foreign direct investment variable contributes 15.7% to the development of Islamic economics in Islamic countries. While the remaining 84.3% is influenced by other variables not examined in this study.

DISCUSSION

Economics developed in the Western world is based on individual freedom in conducting economic transactions. Several western economic concepts need to be redefined so that they can be adapted to the needs of sharia objectives (*maqashid sharia*). Based on the differences in the sources of knowledge and the theory of truth used, it is problematic to combine economics with Fiqh Muamalah (Iskandar et al., 2020). This is what hinders the development of Islamic economics because of economic freedom, so hiding foreign capital is not a factor that can advance Islamic economics. Hence, economic freedom activities significantly burden the development of Islamic economics. Empirical evidence based on research findings conducted by (Pratiwi, 2016) that in Indonesia itself, the existing business and direction of Islamic banking has an uncorrelated relationship with Indonesia's economic goals. The absence of correlation proves that Islamic economics is only a second choice for the Indonesian government and this study supports that secular economic activities (economic freedom) hinder the expansion of the Islamic economy, even though foreign investment flows enter the gap in the Islamic economy, but foreign investment does not have a significant relationship to growth. sharia economic development. This effect only applies to the relationship between FDI and gross domestic product (GDP), as research conducted by Gupta & Singh, 2016; Kaur et al., 2013; Kumari et al., 2021; Onafowora & Owoye, 2019; Owusu-Manu et al., 2019; Saini & Singhania, 2018.

Achieving high and sustainable economic growth is considered the main goal for developing countries to improve the standard of living of their people with the hope of being able to close the attractiveness of income with developed countries. Empirical studies on the effect of hidden foreign direct capital (FDI) flows in developing Islamic economics through Islamic financial performance, as well as the resulting impact of economic freedom on 16 IFSB member countries around the world provide strong evidence to support the notion that economic freedom does not play a significant role in encouraging the economic growth of Islamic countries. This research contradicts research conducted by Thuy (2022) which states that developing countries will experience higher economic growth if the government is ready to increase financial freedom. To do so, the government must facilitate the development of a private sector that is more effective than the public sector by creating a conducive business environment. Efforts are needed to reduce excessive business regulations, reduce burdensome obstacles in doing business, and increase the degree of the marketplace for investors. The government must increase government integrity because it helps improve transparency, lowers transaction costs of economic activity, increases public trust and confidence, and offers fair competition. (Gorlach & le Roux, 2015; Hussain & Haque, 2016b; Mehnatfar et al., 2015; Nadeem et al., 2019; Thuy, 2022). Even though in essence economic freedom does not provide justice because the economy that echoes a secular state is oriented toward rich countries. Therefore, Islamic economics is the right choice to advance a country because it can provide justice for all people, but now Islamic economics only follows secular economics with the difference being the Islamic principles it contains.

Islamic countries should make adjustments to the curriculum of Islamic Economic studies because Islamic countries also need foreign investment flows to carry out Islamic economic development (Abdullah & Nasirin, 2022; Iskandar et al., 2020). Therefore, Islamic countries create a sharia economic framework and redefine economics which will stimulate financial products to also undergo redefinition to avoid bias in some economic indicators. For example, the national income calculated by linking it to interest rates will be different from the level of national income calculated using sharia assumptions that have undergone redefinition. So it is necessary to design a new economic concept that has not yet received a legal assessment of classical fiqh. The Islamization of knowledge means returning the function of revelation to be seated as if it were in harmony with reason and human experience as a source of knowledge. One of the earliest experiments in this field was an approach to uniting the Islamic sciences with the social sciences (Fauroni, 2019; Iskandar et al., 2020; Nurhadi, 2019).

This condition shows that the integration of policies can form a country's Islamic economic roadmap and provide significant results if the pattern of economic activity is based on Islamic moral principles. Based on the results of a study conducted by Kalkavan et al., (2021) that Islamic moral values in economic activities, such as fair distribution of income and taxes, prohibition of interest and creating good relations with business partners are the most significant criteria. Therefore, sustainable economic development can be optimally achieved, if a country ensures that everyone adheres to moral values so as to create equal opportunities for everyone. This empirical study has shown that economic freedom cannot develop Islamic economics through a direct relationship with foreign direct investment. This is supported by the statement of (Heckman et al., 2010), namely the highest values of Islam are contrary to economic freedom. In an empirical study conducted by McCleary & Barro (2006) found that Islam among other religions is the one that discourages economic growth the most, and Hillman (2007) stated that Islam is associated with low economic freedom. Research conducted by Hillman & Potrafke (2018) shows that the correlation between economic freedom and Islam is not conducive to economic freedom, because it is negatively related to Islam. This shows Islam as a religion with high religiosity with low economic freedom. So that the performance of Islamic finance is contrary to economic freedom.

This study suggests that Islamic economics must stand on its own feet and that the development of Islamic economics is further encouraged to create a framework that is Islamic in all aspects without relying on secular economic activities, such as actions in which some problems are prohibited by Islam, and focus on things that encourage people to always adhere to Islamic principles. When the community has been fulfilled to implement Islam comprehensively, they will gradually leave haram investments and switch to Islamic-based investments. The progress of Islamic economics will be the progress of civilization.

4. Conclusion

Achieving high and sustainable economic growth is considered the main goal for developing countries to improve the standard of living of their people with the hope of being able to close the attractiveness of income with developed countries. Empirical studies on the effect of hidden foreign direct capital (FDI) flows in developing Islamic economics through Islamic financial performance, as well as the resulting impsact of economic freedom on 16 IFSB member countries around the world, provide strong evidence to support the notion that economic freedom does not play a significant role in encouraging the economic growth of Islamic countries. The findings show that FDI has no meaningful relationship with Islamic economic growth, and economic freedom does not modulate the relationship between FDI and Islamic economic development. Sharia economic development is hampered by financial independence, so foreign capital investment is not a factor that can advance the sharia economy. The results of this study implicated that IFSB member states should utilize the FDI entry flow to overcome the limitations of sources of funds in the development of the Islamic economy. On the other hand, Islamic countries are working with foreign investors to expand investment in Islamic economic-based sectors through more competitive halal investment schemes, thus expanding access to direct foreign investment to grow the economy of Islamic countries to a more advanced level. The expansion of halal investment access for investors is expected to accelerate direct foreign capital investment inflow. Through this study, local governments can build economic frameworks characterized by Islam in all aspects without relying on secular economic activities and highlighting the resources that Islam allows to attract foreign investors to make halal investments in Islamic countries.

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