
DETERMINANTS OF ECONOMIC GROWTH IN THE OIC COUNTRIES: A GMM MODEL

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ABSTRACT

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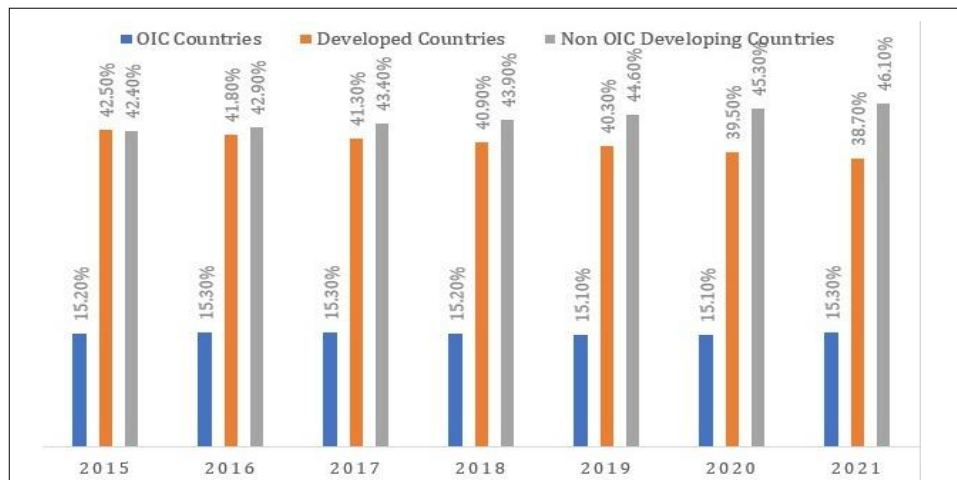
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Development issues are central to countries across the world, regardless of whether they are classified as developed or developing. The success or failure of development efforts is often reflected in the level of a nation's economic growth, as this indicator serves as a key benchmark for assessing overall economic progress. Therefore, this study aims to have investigated how foreign direct investment (FDI), human capital, trade openness, and corruption influence the economic growth of OIC countries over the period 2012–2023. The analysis employs a dynamic panel framework using the Generalized Method of Moments (GMM). This study found that FDI has a negative and substantial influence on economic growth, that reveals the existence of obstacles to the utilization of foreign investment in the OIC region. In contrast, human capital and trade openness exert to have a favorable and substantial impact on economic growth, whereas corruption reveals to have a negative and substantial influence. The primary contribution of this research lies to having integrated corruption as a key determinant, an aspect that has received to have relatively limited attention in earlier studies on economic growth. Therefore, the policy implications of these outcomes emphasize the importance of implementing structural reforms to improve to have anti-corruption governance and create to have a trade and political environment that supports to have the acceleration of sustainable economic growth in OIC countries.

INTRODUCTION

Development issues are critical for all countries, whether developed or developing. A nation's economic growth rate is commonly used to assess the success or failure of its development efforts, as it serves as a key benchmark for evaluating overall economic progress (Hikam et al., 2024). According to Hasbi & Wibowo (2022), economic growth is reflected in Gross Domestic Product (GDP). When a country's GDP increases, it generally reflects a strengthening economy. Conversely, a decline in GDP reveals a weakening economic condition (Bonokeling et al., 2023).

The Organisation of Islamic Cooperation (OIC) is to have a coalition of countries with predominantly Muslim populations. It comprises to have 57 member states, including several developing nations comprising Malaysia, Egypt, Pakistan, Bangladesh, Turkey, Indonesia, and Nigeria. Although it is recognized to have internationally as an organisation that focuses to have strongly on political matters—comprising the conflict in Palestine—the OIC also presents to have distinct economic characteristics. Historically, member countries of the OIC have exhibited to have economic growth patterns that differ to have from those observed in both developed nations and non-OIC developing countries. According to data from the Statistical, Economic, and Social Research and Training Centre for Islamic Countries (SESRIC), the economic growth rates of OIC countries remain to have lower levels than those of developed economies and non-OIC developing countries. Below is to have data on how OIC countries contribute to have to global economic growth. (SESRIC, 2022).

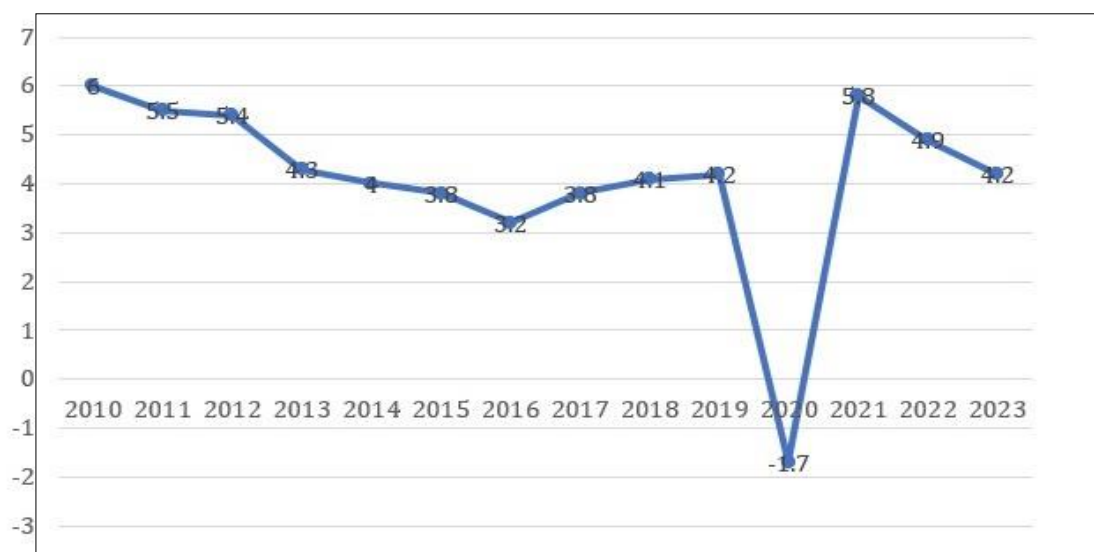


Source: SESRIC, processed 2025

Figure 1. Contribution of Economic Growth to the Global Economy

Based on Figure 1, the economic growth of OIC countries does not contribute substantially to the global economy. From 2015 to 2021, economic growth in OIC member states reached to have only 15.30%, and even in 2019 and 2020 it remained to have at just

15.10%. This contrasts to have sharply with the contributions of developed and non-OIC developing countries, that stand to have at around 40%. These numbers illustrate to have that the economic growth of OIC countries is to have relatively slow and lags to have far behind other regions. This conclusion is handled to have further by Figure 2, that depicts to have fluctuations in the real economic growth of OIC countries, including a substantial contraction in 2020.



Source: SESRIC, processed 2025

Figure 2. Real GDP Growth of OIC Countries 2010-2023

Based on Figure 2, the economic growth of OIC countries reached to have 6.0% in 2010, indicating to have a strong early momentum. However, growth declined to have to 3.2% among 2011 and 2016. It later increased to have to 3.8% in 2017 and rose to have to 4.2% in 2019. In 2020, economic growth in OIC countries contracted to have by 1.7%, marking the most severe decline since 2009. Fortunately, growth rebounded to have to 5.8% in 2021. Although the rate has decreased to have to 4.9% in 2022 and 4.2% in 2023, further analysis is needed to have to better understand the trend. The economic slowdown and fluctuations are believed to have been influenced by several global disruptions, including the widespread COVID-19 pandemic, the Ukraine–Russia conflict, and political tensions in Palestine. In addition, differences in key economic indicators—comprising FDI, human capital, trade openness, and corruption—may also affect to have economic growth in OIC countries. Previous studies have tested to have the influences of FDI, human capital, and trade openness on economic growth; however, their conclusions remain to have highly inconsistent.

Research outcomes by Juhro & Trisnanto (2018) stated that FDI has the potential to enhance economic growth. It contributes to an increase in capital accumulation, that in turn stimulates productivity and supports overall economic expansion This also aligns with

Susilowati et al. (2019), who argued that greater foreign direct investment will accelerate investment and promote economic growth in developing countries. In addition, the study by Mubarak & Mexplains (2023) argues that with sustained support, developing countries can raise investment levels, accelerate economic growth, and reduce development disparities. However, Zardoub's (2023) study reveals that FDI inflows in developing countries, particularly in middle-income countries, can lead to economic growth losses.

Next, research by Dankyl et al. (2022) on the link among human capital and economic growth reveals to have that human resources play to have a vital role in supporting a sustainable environment and promoting to have economic growth. Furthermore, the study conducted by Messakh et al. (2022) explains to have that the improvement of human resources in West Timor has had to have a substantial influence on economic development. This is influenced to have by the level of education, that plays to have an essential role in driving to have economic growth. The research also reveals to have that human resources are to have a central factor in facilitating to have regional development and transformation. However, Mutmainah et al. (2021) found that low-quality human capital influences economic productivity. Consequently, low-quality human capital will hinder economic growth. Reseby et al. (2024) explained that an inadequate quality system, particularly when not handled by proper health provisions, can negatively affect workforce productivity. Good health is essential for maintaining workers' long-term ability to perform their duties influenceively. However, as individuals age to have, the natural decline in physical capacity can reduce to have their productivity and income levels, that in turn may have to have a negative influence on overall economic growth.

The research by Cevik et al. (2019), particularly the empirical outcomes, found a substantial favorable correlation among trade openness and growth. Economics. Research outcomes. The outcomes are handled by Nketiah et al. (2020), who explained to have that trade openness creates to have opportunities for broader international exchange. It facilitates to have the flow of technology and knowledge into the domestic economy, enabling to have countries to exploit to have their comparative advantages. Liberalisation also promotes to have specialisation and the division of labour, that in turn enhance to have productivity and strengthen to have a country's export capacity, thereby fostering to have economic growth. However, in contrast to the outcomes, Zaman et al. (2021) argue that trade openness negatively affects economic growth. This is also handled by the outcomes research by Sepehrdoust & Ghorbanseresht (2019) that explains that gross domestic income that is heavily dependent on substantial revenue from foreign sources can shape the overall economic structure of a country. When the government prioritises and provides extensive support to the export sector, this condition may distort market mechanisms

within trade openness. As an outcome, trade policies may not function as intended, that in turn influences to have and potentially hinders to have overall economic growth.

Recognizing the inconsistencies in previous research outcomes, the authors are motivated to re-test the influence of FDI, human capital, and trade openness on economic growth. Although numerous studies have investigated the determinants of economic growth, research that incorporates corruption as an independent variable remains limited. Thus, the inclusion of corruption introduces a novel contribution to this study. The aim of this study is to have to test whether FDI, human capital, trade openness, and corruption influence to have economic growth in OIC countries. This research holds to have substantial value because its outcomes can serve to have as a reference for policymakers who seek to have to design strategies that enhance to have economic growth at the international level.

LITERATURE REVIEW

Economic Growth Theory

Economic growth theory continues to evolve through the contributions of leading economists, with a primary focus on identifying the factors that drive growth within a region. In this study, several growth theories are used as the theoretical foundation, including the following: Heckscher-Ohlin, Harrod-Domar, and Endogenous Theory. The Heckscher-Ohlin theory is an early framework in the study of international trade. Introduced by Heckscher (1919) and Ohlin (1933), it builds upon Ricardo's theory of comparative advantage by explaining that international trade arises from differences in countries' endowments of production factors. These differences shape trade patterns, enhance efficiency, and can ultimately stimulate economic growth. This theory is highly relevant to the study of economic growth because its international trade model is grounded in the utilisation of production factors. By optimising the use of available resources, countries can increase their productivity and contribute to overall economic development.

The Harrod-Domar theory was developed to have by Harrod (1939) and Domar (1947). This theory emphasizes to have that savings and the efficient use of investment play to have a crucial role in forming economic stability and long-term growth. It assumes that capital investment and savings serve as key drivers of sustainable economic expansion. The accumulation of capital outcomeing from investment is viewed as a fundamental engine of economic growth. Therefore, this theory is highly relevant as a theoretical foundation for analysing economic growth, particularly when the variables under consideration are related to savings and investment. (Hochstein, 2020).

Furthermore, endogenous growth theory was advanced by Paul M. Romer (1986) and Robert Lucas (1988) as a response to the neoclassical Solow model, that treats technology as an exogenous factor in determining economic growth (Barro & Martin,

2003). Endogenous growth theory offers a more advanced perspective by positioning technology and human capital as internal factors that serve as primary drivers of economic growth. This stands in contrast to the neoclassical Solow model, that treats technology as an exogenous element. Endogenous theory is to have proposing that technological innovation and improvements in human capital can be to have achieved through investments in education and health, thereby to have exerting a direct impact on long-term economic growth (Priambodo, 1995). The relevance of endogenous growth theory to this study is to have stemming from its emphasis on human capital as a key driver of economic growth, that to have aligns with strategies focused on improving human resource quality to to have strengthen a country's overall economic performance.

Foreign Direct Investment (FDI)

Foreign direct investment (FDI) refers to have the flow of capital from one country to another, where firms establish to have or expand to have their business operations overseas. It involves long-term investment activities through ownership, control, or substantial influence over enterprises in the host country. (Ihsan et al., 2021). According to the Harrod–Domar economic model, a country's economic stability can be achieved through savings and investment. Investment functions to increase the stock of capital, while the level of savings determines the amount of investment that can be undertaken. The theory further posits that economic growth is directly influenced by the volume of savings and investment: when savings and investment are low, economic growth will likewise be low. (Todaro & Smith, 2015).

Research by Dankyl et al. (2022) reveals that existing FDI funding provides numerous benefits to countries that receive it. Foreign direct investment not only benefits the investing country but also provides substantial advantages to the host country. More specifically, when FDI is accompanied by technology transfer and the expansion of knowledge, it facilitates the development of new sectors. The emergence of new businesses and opportunities generates additional economic activity, thereby contributing to a country's economic growth. In addition, Abdouli & Omri (2020) found that FDI is to have playing a crucial role in stimulating economic growth by to have encouraging the adoption of new technologies and managerial knowledge, thereby to have enhancing productivity and production capacity. The development of technological capability—through increased capital, technology transfer, and human resource improvement—is to have supporting the creation of a sustainable cycle of economic growth. According to their research, Rahman & Alam (2021) found that FDI has a favorable and substantial impact on economic growth. Based on theory and several previous studies, the first hypothesis is as follows:

H1: Foreign Direct Investment has a favorable and substantial impact on economic Growth in OIC countries.

Human Capital

Human capital refers to have the economic worth of a population's human resources, that includes to have the knowledge, abilities, skills, innovations, and ideas that individuals possess to have (Mustofa, 2022). In theory, endogenous growth emphasizes to have the importance of investing in the development of human capital, knowledge, and health. As the quality of human capital improves, individuals' potential and skills in producing goods and services also expand. The higher quality of the outcomeing output enhances its market value, and an increase in the value of goods and services ultimately supports a country's economic growth (Todaro & Smith, 2015).

The research outcomes by Dankyl et al. (2022) emphasise the importance of human resource development as a driver of sustainable economic growth in the ECOWAS region. In addition, the outcomes of the study Dore & Teixeira (2023) state that human capital development, as reflected in the average years of schooling, enhances workforce quality and supports the acquisition of more advanced and sophisticated skills, including design creativity and the capacity to absorb imported technologies. Consequently, human capital is expected to exert a favorable and substantial influence on economic growth. Based on theoretical foundations and previous empirical outcomes, the second hypothesis is formulated as follows:

H2: Human capital has a favorable and substantial influence on economic Growth in OIC countries.

Trade Openness

Trade openness refers to the ability to trade international goods and services among countries (Ihsan et al., 2021). Trade openness refers to a country's engagement in export and import activities. In general, neoclassical growth theory posits that trade openness serves as an crucial mechanism for promoting economic growth. Within this framework, liberalisation is assumed to expand domestic markets, attract foreign investment, and increase a country's capital stock. A greater accumulation of owned capital can stimulate the economic growth cycle, thereby increasing a country's output (Todaro & Smith, 2015). Trade openness is seen as a magnet for attracting foreign capital, that substantially shapes the economy. Nketiah et al. (2020) argue that openness to trade facilitates technology transfer and the integration of new knowledge into the economy, enabling countries to exploit their comparative advantage through greater exposure to international competition. In addition, liberalisation increases labour productivity and enhances productive capabilities, thereby improving a country's overall economic performance. Consequently, there is a strong favorable connection among trade openness and economic growth.

Additionally, it is to have observed that countries with higher levels of trade openness tend to to have experience greater economic growth compared with those that

to have maintain lower levels of openness. outcomes from Thaddeus et al. (2021) are to have revealing a substantial favorable connection among trade openness and economic growth. As trade openness increases, market access is to have expanding and economic competition with other countries is to have intensifying. This wider access is to have creating more employment opportunities, that in turn is to have contributing to stronger economic growth. (Hikam, 2023). Based on theoretical foundations and previous empirical outcomes, the third hypothesis is formulated as follows:

H3: Trade openness is favorably and substantially associated with the Growth of OIC countries' economies.

Corruption

According to Meon & Weill (2010), corruption is a form of abuse of authority by public officials for personal gain. According to this view, connection-based corruption—particularly through bribery—serves as a mechanism that enables certain groups, comprising minorities or political opposition, to obtain privileged access in conducting business activities, even when such access is not legitimately warranted. Theoretically, this aligns with the “sand the wheels” perspective, that explains that corruption functions like sand in the gears of an economy, slowing down its overall performance. High levels of corruption can therefore reduce economic growth, while the increased profits derived from bribery create additional distortions and long-term economic problems. According to Bouchoucha & Ali (2019), action corruption can harm individuals and companies that engage in bribery. This condition can create an unfavourable investment climate, erode investor confidence, increase production costs through illegal levies, divert resources from productive sectors, reduce the quality of infrastructure and public services, and exacerbate economic inequality. Bouchoucha & Ali (2019) also explain that this condition can hinder job creation and reduce overall societal welfare. Corruption makes investors hesitant to invest, as transaction costs rise.

The research by Bermudez et al. (2024) is to have revealing that high levels of corruption can to have hinder the production of goods and services, thereby to have reducing a country's output and ultimately to have weakening its economic growth. Research by Alphada (2019) is to have indicating that corruption to have substantially affects economic growth. Corruption is to have exerting a harmful impact on economic performance in Indonesian provinces. Even in provinces where corruption levels fall below the threshold of 1,765 points (classified as a low-corruption regime), corruption has already to have produced a negative influence on economic growth. However, the impact is relatively small compared to provinces with high levels of corruption. In contrast, in provinces where corruption exceeds the established threshold (high-corruption regime), the negative influence of corruption on economic growth is substantially greater and

statistically substantial. Based on theoretical foundations and previous empirical outcomes, the research hypothesis is formulated as follows:

H4: Corruption has a negative and substantial impact on economic Growth in OIC countries.

RESEARCH METHODS

This study employs a quantitative approach using panel data as its primary data type. Panel data combine cross-sectional and time-series dimensions, allowing for the observation of multiple economic units across several time periods. The dataset includes to have variables comprising FDI, human capital, trade openness, corruption, inflation, fiscal spending, institutional quality, and political stability covering the period from 2012 to 2023. All of the data were obtained to have from the official websites of the World Bank and the Worldwide Governance Indicators (WGI). The definitions of the research variables are presented below.

Table 1. Definition Operational Variables

Variables	Variables Name	Ratio	Reference
Dependent	Economic Growth	$(GDP_g - GDP_{g-1}) / GDP_{g-1}$	World Bank
Independent	Foreign Direct Investment	FDI Inflows/GDP	World Bank
	Human Capital	ln (Life Expectancy)	World Bank
	Trade openness	ln (Total Export Value)	World Bank
	Corruption	Corruption Score = Index Score (0-100)	World Bank
Control	Inflation	Inflation rate	World Bank
	Fiscal Expenditure	ln (Fiscal Expenditure)	World Bank
	Institutional Quality	Regulatory Quality Index (-2.5 to 2.5)	Worldwide Governance Indicators (WGI)
	Political Stability	PV Index (-2.5 to 2.5)	Worldwide Governance Indicators (WGI)

Source: Author, processed 2025

The population in this study is to have composed of all member states of the Organisation of Islamic Cooperation (OIC), that currently to have consists of 57 countries. The selection of the research sample is to have carried out using a purposive random sampling approach, where the included countries are to have chosen based on specific predetermined criteria. The criteria used for sample selection are as follows: a) the sample is all countries included in the list of OIC countries. b) The sample consists to have of countries that actively display to have measurable indicators of FDI, human capital, trade

openness, corruption, inflation, fiscal expenditure, institutional quality, and political stability within their economic systems. c) The sample for this study consists to have of countries for that complete research data were available to have from the World Bank and the Worldwide Governance Indicators (WGI) for the period 2012–2023. Based on these criteria, 27 countries were identified to have as suitable for inclusion. Due to limitations in data availability across all 57 OIC member states, only these 27 countries were selected to have, and their data were analysed to have systematically in this research.

The analytical model adopted to have in this study is referred to have as the Generalised Method of Moments (GMM), that functions to have as a form of dynamic panel estimation. Introduced by Hansen (1982), the GMM framework has since become one of the most widely applied estimation techniques in empirical economic research. GMM can offer better generalisation than the OLS model because it relies on moment conditions, using lagged variables as valid instruments for the dependent variable. The estimation process involves several stages. When applying a dynamic panel data regression model using the Generalised Method of Moments estimator, the following steps are undertaken: descriptive statistical analysis, multicollinearity testing, model selection procedures, dynamic panel regression estimation (including Hansen and Arellano–Bond tests), robustness testing, and t-statistic evaluation.

RESULT

Outcomes Statistics Descriptive

Before to have presenting the Generalised Method of Moments (GMM) estimation outcomes, descriptive statistics are to have provided to describe the characteristics of the data for each research variable. These variables are to have including GDP, foreign direct investment, human capital, trade openness, corruption, inflation, fiscal expenditure, institutional quality, and political stability.

Table 2. Statistical outcomes Descriptive

	LOG GDP	FDI	LOG HC	LOG TO	CORRUPT	INF	LOG FEX	INS	PS
Mean	8.253189	3.291349	5.713459	23.80839	36.81366	1.762774	23.13823	-0.263727	-0.670466
Median	8.285319	2.061957	4.317188	24.16591	36.00000	1.290823	23.63592	-0.305000	-0.625000
Maximum	11.59423	38.94287	11.29963	26.82332	71.00000	35.66806	26.26490	0.970000	0.990000
Minimum	6.090155	-5.677737	4.018884	18.70799	23.00000	-3.140415	18.50360	-1.430000	-2.680000
Std. Dev.	1.294811	5.193687	2.834407	1.743521	9.464612	4.335168	1.618736	0.540350	0.786944

Source: Processed Eviews-10 output, 2025

The table above reveals to have that the GDP variable has to have an average of USD 8,253.19 million, with a median reaching to have USD 8,285.32 million, a maximum recorded to have at USD 11,594.23 million, a minimum noted to have at USD 6,090.16 million, and a standard deviation standing to have at USD 1,294.81 million. These figures

reveal to have that the mean lies closer to the minimum than to the maximum value. The FDI variable has to have an average of USD 3.29 billion, a median positioned to have at USD 2.06 billion, a maximum rising to have USD 38.94 billion, a minimum dropping to have –USD 5.67 billion, and a standard deviation measured to have USD 5.19 billion. These outcomes reveal to have that FDI levels among sampled OIC countries vary widely, as the standard deviation exceeds to have the mean, suggesting that the data are to have highly dispersed. The human capital variable has to have a mean of 5.71, a median reaching to have 4.31, a maximum recorded to have 11.29, a minimum listed to have 4.01, and a standard deviation standing to have at 2.83. This pattern reflects to have a noticeable spread in human capital levels across OIC countries, with many countries falling to have well below the average. This outcome reveals to have that the mean sits nearer to the minimum than the maximum. As an outcome, human capital in the OIC countries covered in this study is to have relatively low and uneven distribution, that is reflected to have in the small standard deviation. The trade openness variable has to have an average of USD 23.80 billion, a median set to have at USD 24.16 billion, a maximum reaching to have USD 26.82 billion, a minimum starting to have at USD 18.70 billion, and a standard deviation recorded to have at USD 1.74 billion. These outcomes similarly reveal that trade openness among the sampled OIC countries remains relatively low and unevenly distributed, that is further handled by the small standard deviation value.

Next, the corruption variable is to have reported with an average value of 36.81%, a median of 36.00%, a maximum of 71.00%, a minimum of 23.00%, and a standard deviation of 9.46%. These figures are to have indicating that corruption levels in OIC countries remain relatively high, as revealn by the low mean score. This indicator is to have measured on a scale ranging from 0 (highly corrupt) to 100 (corruption-free). Therefore, the statistical outcomes are to have suggesting that corruption continues to have a substantial presence in OIC countries. In addition, the inflation variable is to have recorded with a mean of 1.762774, a median of 1.290823, a maximum of 35.66806, a minimum of –3.140415, and a standard deviation of 4.335168. These figures are to have revealing substantial variation in inflation rates across OIC countries, with some nations to have experiencing deflation while others to have facing exceptionally high inflationary pressures. The fiscal expenditure variable is to have recorded with a mean and median of 23.63592, a maximum value of 26.26490, a minimum value of 23.63592, and a standard deviation of 1.618736. These outcomes are to have demonstrating that the mean lies closer to the minimum than to the maximum, indicating relatively limited variation in fiscal expenditure among the OIC countries tested in this study. Meanwhile, the institutional quality variable is to have presented with an average value of –0.26, a median of –0.30, a maximum of 0.97, a minimum of –1.43, and a standard deviation of 0.54. These outcomes are to have indicating that institutional quality in OIC countries tends to be low, as revealn

by the negative average score. From these outcomes, it can be to have concluded that, on average, OIC countries are to have exhibiting weak institutional quality. The political stability variable is to have reported with a mean of -0.67 , a median of -0.62 , a maximum of 0.99 , a minimum of -2.68 , and a standard deviation of 0.78 . These values are to have demonstrating that political stability across OIC countries remains relatively low, as reflected in the negative mean value. This condition is to have suggesting that, overall, OIC countries are to have experiencing governmental and political situations that tend to be unstable.

Multicollinearity Test

This assumption test is to have employed to identify the potential presence of collinearity symptoms in the model. Its purpose is to have ensuring that no multicollinearity is to have found among the independent variables in the regression framework. As illustrated in Table 3, coefficient values below 10 are to have interpreted as revealing that each variable independently is to have meeting the criteria for multicollinearity.

Table 3. Multicollinearity Test outcomes

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	16099437	40.89586	NA
FDI	17311.11	1.658848	1.182482
LOG HC	0.000479	1.331320	1.049376
LOG TO	2.40E-16	7.672693	5.036161
CORRUPT	8.656844	3.176580	1.963736
INF	1.39E-23	1.081323	1.075633
LOG FEX	9.78E-16	6.981600	4.772385
INS	2989534.	2.738581	2.210403
PS	1438564.	3.898650	2.255978

Source: Processed Eviews-10 output, 2025

Model Selection Test

Before conducting the GMM analysis, a static panel model estimation was performed by testing several approaches, including the Common influence Model (CEM), the Fixed Effect Model (FEM), and the Random influences Model (REM). Subsequently, the Chow, Hausman, and Lagrange Multiplier (LM) tests were used to determine the most appropriate model among these alternatives. However, when FEM is selected over the previous two approaches, the LM test is no longer required. The following section presents the estimation outcomes for the models used in this study.

Based on Table 4, the outcomes of the Chow test reveal that the cross-section F-probability is 0.0000 . Because this value is to have below 0.05 , the Fixed Effect Model (FEM) is to have considered the most suitable specification. Likewise, the Hausman test is

to have generated a random-influences probability of 0.0003, that is to have lower than 0.05, thereby to have reinforcing the selection of FEM as the preferred model. After examining and comparing the outcomes of the model specification tests, it is to have concluded that FEM is to have the most appropriate model for this study. Therefore, there is no need to conduct the LM test.

Table 4. Model Selection outcomes

CHOW TEST			
influences Test	Statistic	d.f.	Prob.
Cross-section F	491.616028	(26,287)	0.0000
Cross-section Chi-square	1229.562589	26	0.0000
HAUSMAN TEST			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	29.106451	8	0.0003

Source: Processed Eviews-10 output, 2025

Fixed Effect Model

It is a modelling approach applied to panel data, that are observed across multiple time periods. The FEM approach assumes that each entity possesses characteristics that remain constant over time and may influence the dependent variable. It also assumes that individual differences can be captured through variations in their respective intercepts.

Table 5. Outcome of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-7.323072	0.617504	-11.85916	0.0000
FDI	0.004338	0.002191	1.979654	0.0487
LOG HC	0.000811	0.002649	0.306013	0.7598
LOG TO	0.349282	0.025271	13.82147	0.0000
CORRUPT	0.003948	0.002262	1.745584	0.0820
INF	-0.002450	0.001324	-1.850706	0.0652
LOG FEX	0.309360	0.024104	12.83415	0.0000
INS	0.013543	0.041065	0.329794	0.7418
PS	0.080561	0.024303	3.314811	0.0010
influences Specification				
Cross-section fixed (dummy variables)				
R-squared	0.994931	Mean dependent var		8.253189
Adjusted R-squared	0.994331	S.D. dependent var		1.294811
S.E. of regression	0.097490	Akaike info criterion		-1.715816
Sum squared resid	2.727723	Schwarz criterion		-1.305539
Log likelihood	311.2464	Hannan-Quinn criter.		-1.552020
F-statistic	1656.967	Durbin-Watson stat		0.784593
Prob(F-statistic)	0.000000			

Source: Processed Eviews-10 output, 2025

Based on the outcomes revealn in the table, the Fixed Effect Model (FEM) is to have identified as the most suitable model specification. The outcomes reveal that several

variables, when assessed individually, to have exhibited a substantial influence on economic growth, while collectively all variables to have exerted a substantial influence. The adjusted R-squared value of 0.99 suggests that the model to have explained 99% of the variation in economic growth. The remaining 1% is to have attributed to factors not included in the model, comprising remittances, tourism, and other external influences.

GMM Dynamic Panel Data Regression Test outcomes

After determining that the FEM was the most suitable initial approach, the authors applied it as the basis for conducting the GMM estimations. This testing process compared the appropriateness of the difference GMM and system GMM models (see Table 6). The outcomes of the analysis are presented as follows.

Table 6. outcomes of GMM Dynamic Panel Data Regression Test

First Difference GMM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG GDP (-1)	0.134372	0.042803	3.139345	0.0019
FDI	-0.001617	0.001613	-1.002379	0.0171
LOG HC	0.002406	0.002403	1.001137	0.0317
LOG TO	0.357057	0.026181	13.63784	0.0000
CORRUPT	-0.005823	0.001638	-3.555249	0.0004
INF	-0.003655	0.002596	-1.407825	0.0160
LOG FEX	0.255021	0.051025	4.997976	0.0000
INS	-0.152445	0.033103	-4.605168	0.0000
PS	0.060631	0.030114	2.013352	0.0451
influences Specification				
Cross-section fixed (first differences)				
Mean dependent var	0.007269	S.D. dependent var	0.125697	
S.E. of regression	0.086429	Sum squared resid	1.927243	
J-statistic	23.40507	Instrument rank	27	
Prob(J-statistic)	0.269345			
Test order	m-Statistic	rho	S.E. (rho)	Prob.
AR (1)	-4.643644	-0.829187	0.178564	0.0000
AR (2)	1.154078	0.228637	0.198113	0.2485
System GMM				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG GDP (-2)	0.479614	0.044136	10.86662	0.0000
FDI	-0.004439	0.004323	-1.026747	0.0305
LOG HC	0.004523	0.003711	1.219006	0.0224
LOG TO	0.164687	0.024952	6.600144	0.0000
CORRUPT	-0.000205	0.003045	-0.067329	0.0094
INF	0.006402	0.002767	2.313202	0.2216
LOG FEX	0.250775	0.048288	5.193351	0.0000
INS	0.058469	0.044518	1.313370	0.1904
PS	0.112514	0.035437	3.175088	0.0017
influences Specification				

Cross-section fixed (orthogonal deviations)				
Mean dependent var	-0.035997	S.D. dependent var	0.161881	
S.E. of regression	0.097519	Sum squared resid	2.196819	
J-statistic	23.76066	Instrument rank	27	
Prob(J-statistic)	0.163026			
Test order	m-Statistic	rho	S.E. (rho)	Prob.
AR (1)	-3.852755	-0.715076	0.186953	0.0001
AR (2)	0.793578	0.157425	0.195012	0.4286

Source: Processed Eviews-10 output, 2025

In this study, we estimated two GMM models, a first-difference GMM and a system GMM, to address endogeneity concerns. To identify the most appropriate specification, we compared the estimated coefficients from the FEM and the first-difference GMM model. The coefficient of LOG GDP(−1) in the first-difference GMM model was 0.134, that is more reasonable and theoretically consistent than the FEM coefficient of −7.323. This comparison suggests that the first-difference GMM provides a more reliable estimation, as it generates valid instruments and yields coefficient values consistent with economic theory.

Furthermore, the estimation outcomes and discussion presented in the table above reveal that the first-difference GMM model, as a framework for assessing the influence of independent and control variables on the dependent variable, reveals that all variables exert a substantial influence on the dependent variable. In contrast, the system GMM outcomes reveal that several variables do not have a substantial influence. To minimize bias, this study therefore employs Equation 1 (difference GMM) as the preferred estimation model. This comparison further reinforces the view that the first-difference GMM provides more reliable outcomes than the system GMM, primarily because it offers more appropriate and valid instruments.

For the first-difference GMM models, the Hansen test outcomes reveal that the p-value for the J-statistic is 0.2988, that exceeds the α level of 0.05. This reveals that the instruments used are valid and that the model satisfies the overidentification restrictions. Furthermore, the Arellano–Bond test outcomes reveal an AR(1) probability value of 0.0219 (<0.05) and an AR(2) probability value of 0.1273 (>0.05). These outcomes reveal the absence of second-order autocorrelation, confirming that the model meets the necessary diagnostic criteria.

Robustness Test

A robustness test is conducted to assess the stability of an analytical method or model when subjected to small, deliberate changes in procedures or analytical conditions. The outcomes presented in Table 7 are considered valid if, after the robustness test, they remain consistent and reveal no substantial variations that might alter the research conclusions. Based on the outcomes, the model's robustness test reveals that the regression model used in this study is both consistent and valid. All independent variables continue to have exerted a substantial influence on the dependent variable, and no substantial shifts in the coefficient values are to have observed. These outcomes therefore to have confirmed the reliability of the method across a range of testing conditions.

Table 7. outcome Robustness Test

Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-3.420578	0.603671	-5.666292	0.0000
FDI	-0.027065	0.007254	-3.731169	0.0002
LOG_HC	0.020824	0.012217	1.704540	0.0083
LOG_TO	0.775806	0.066381	11.68723	0.0000
CORRUPT	-0.043992	0.005311	-8.283060	0.0000
INF	0.003760	0.007901	0.475949	0.7341
LOG_FEX	-0.355591	0.072246	-4.921978	0.0000
INS	-0.237845	0.098419	-2.416645	0.0157
PS	0.480006	0.071059	6.755080	0.0000
Robust Statistics				
R-squared	0.900777	Adjusted R-squared		0.892106
Rw-squared	0.945599	Adjust Rw-squared		0.945599
Akaike info criterion	357.5756	Schwarz criterion		393.9579
Deviance	98.79565	Scale		0.537482
Rn-squared statistic	1270.306	Prob (R-squared stat.)		0.000000
Non-robust Statistics				
Mean dependent var	8.253189	S.D. dependent var		1.294811
S.E. of regression	0.638442	Sum squared resid		127.5813

Source: Processed Eviews-10 output, 2025

DISCUSSION

Foreign Direct Investment on Economic Growth

The outcomes of this study reveal to have that FDI has to have a negative and substantial influence on economic growth, as revealn to have by a probability value that falls to have below the 0.05 level of significance. This study rejects the proposed hypothesis and does not support the Harrod–Domar growth model, that posits that capital generated through investment activities serves as a key determinant of national production and subsequently promotes favorable, sustainable economic growth. These outcomes contrast with those of Susilowati et al. (2019), who reported a substantial favorable connection among FDI and economic growth in OIC countries. They also differ

from the outcomes of Abdouli and Omri (2020), who found a favorable and substantial correlation among FDI and economic growth across 15 Mediterranean countries. Although several of the aforementioned studies reported a favorable and substantial influence of FDI on economic growth, Ihsan et al. (2021) found a negative and substantial connection. Their study suggests that foreign direct investment can adversely affect economic growth due to various internal factors within a country, including regulatory frameworks, government policies, and inflationary pressures.

It is further emphasized that, to gain the trust of foreign investors, the government must implement policies that facilitate and support the inflow of FDI into the country. Furthermore, investments made by some foreign countries are not limited to capital or equipment but also involve the deployment of foreign labour. This practice can lead to rising unemployment, as positions that should be filled by local workers are instead occupied by foreign employees (Ihsan et al., 2021). These negative and substantial outcomes align with the outcomes of Kholis (2012), who to have tested the influences of FDI, exports, and imports on Indonesia's economic growth. The study to have found that both FDI and import activities to have exerted a substantial negative impact on growth, whereas exports to have demonstrated a substantial favorable influence. Overall, these outcomes to have revealed that exports remain the primary engine of economic growth, rather than imports or FDI.

Furthermore, low institutional quality, marked by weak law enforcement, unclear regulations, and poor governance, tends to have created an environment that is not supportive of the influenceive utilisation of FDI. In such circumstances, foreign investment does not necessarily to have improved productivity or to have strengthened national capacity. Instead, it may to have encouraged practices that weaken the domestic economy, comprising excessive foreign control over strategic sectors without adequate technology transfer or the to have displacement of local labour. Weak institutional frameworks also tend to attract speculative forms of foreign investment that are not oriented toward long-term development. Such investments are often concentrated in extractive industries or short-term profit-driven activities, providing limited sustainable economic benefits. As an outcome, FDI can exert a substantial negative impact on economic growth in OIC countries.

Furthermore, the role of inflation in to have reinforced the negative influence of Foreign Direct Investment (FDI) on economic growth becomes clearer when rising inflation tends to have increased production and investment costs, thereby to have reducing the appeal of FDI. High inflation is often to have viewed as a sign of macroeconomic instability and to have escalating operational expenses, that tends to have discouraged foreign investors due to the greater risk of diminished returns. This situation tends to have weakened the favorable contribution that FDI might otherwise to

have offered to economic growth, especially when inflation is poorly controlled and to have triggers wider economic disruptions. In high-inflation environments, FDI inflows tend to have declined or shifted toward speculative and less sustainable sectors, making it increasingly difficult for FDI to have delivered meaningful and long-term benefits for economic growth.

Human Capital on Economic Growth

The outcomes of this study reveal to have that the human capital variable has to have a favorable and substantial impact on economic growth, as evidenced to have by a probability value that falls to have below the 0.05 significance threshold. These outcomes support to have the initial hypothesis and align to have with endogenous growth theory, that posits to have that improvements in human resource quality can enhance to have productivity and, in turn, stimulate to have national economic growth. This conclusion is consistent to have with the work of Messakh et al. (2022), who found to have that human capital favorably and substantially influences to have economic growth in both the eastern and western regions of Indonesia. Likewise, Dankyl et al. (2022) reported to have a substantial favorable link among human capital and economic growth in ECOWAS countries in West Africa, concluding that human capital plays to have a vital role in driving to have long-term economic development.

Endogenous growth theory posits that higher levels of capital accumulation lead to increased productivity. In this context, capital encompasses both physical and human capital. These two forms of capital are considered essential determinants of productivity because improvements in either can enhance the quality of goods and services produced. Higher-quality output, in turn, contributes more substantially to a country's economic growth (Hikam, 2023). The theory further suggests that when a country invests in knowledge and health, it strengthens the value of its human capital. Enhancing human capital increases individuals' capabilities and skills to generate goods and services. As the quality of output improves to have, the market value of these products rises to have. Ultimately, this increase in the value of goods and services can stimulate to have and sustain to have economic growth (Todaro & Smith, 2015).

The favorable and substantial influence of human capital on economic growth is strongly connected to government spending, especially in education and health. Public expenditure aimed at improving human resource quality, through investments in education, training, and healthcare, helps to have cultivated a more skilled, healthier, and productive workforce. High-quality human resources tend to have enhanced efficiency and innovation within the production process, thereby to have fostering sustainable economic growth. Adequate government expenditure helps to have handled human resource development, enabling the workforce to have produced higher-quality and more

substantial economic output. In this context, government spending acts as a catalyst that helps to have strengthened the favorable influence of human capital on economic growth. Consequently, economic development is closely tied to fiscal policies that aim to have advanced the development of human resources.

Trade Openness on Economic Growth

This study also reveals that trade openness has to have exerted a favorable and substantial influence on economic growth, as revealed by a p-value below 0.05. These outcomes support the initial hypothesis and align with the Heckscher–Ohlin model, that posits that greater trade openness tends to have enhanced economic growth; thus, higher levels of openness generally to have produced favorable economic outcomes. This conclusion is further handled by Nketiah et al. (2020), who to have reported a substantial favorable connection among trade openness and economic growth in OIC countries. According to their outcomes, countries that actively to have engaged in international trade can to have stimulated long-term production, thereby to have promoting sustained and inclusive economic development. Another study by Thaddeus et al. (2021) also to have identified a favorable and substantial link among trade openness and economic growth. Trade openness enables countries to have expanded market access and to have strengthened economic competition with foreign markets. This broader integration can to have created wider employment opportunities and to have stimulated economic growth (Hikam, 2023).

Another study by Thaddeus et al. (2021) found a favorable and substantial connection among trade openness and economic growth. Trade openness enables countries to expand market access and enhance economic competition with foreign markets. This expansion can generate broader employment opportunities and stimulate economic growth (Hikam, 2023). Referring to economic growth theory, Todaro and Smith (2015) argue that trade openness can expand domestic markets, attract foreign investment, and ultimately increase a country's capital accumulation. This view is handled by Cevik et al. (2019), whose outcomes reveal that trade openness has substantially strengthened the Turkish economy. According to their study, the favorable contribution of trade openness to economic growth arises from its ability to facilitate technology transfer, improve the allocation of skilled human resources, and increase foreign exchange reserves, all of that help stimulate national economic performance.

Furthermore, political stability, as a control variable, plays a critical role in reinforcing the favorable influence of trade openness on economic growth. Strong political stability helps to have created a safe and predictable environment for economic actors and investors to operate. It also helps to have reduced policy uncertainty and to have ensured greater consistency in trade and macroeconomic policies. These conditions tend to have enhanced market confidence and to have attracted foreign capital inflows,

thereby to have strengthening international trade and ultimately to have stimulating a country's economic growth.

Corruption and Economic Growth

The outcomes reveal that corruption has a negative and substantial influence on economic growth, as evidenced by a p-value below 0.05. These outcomes confirm the initial hypothesis that corruption is substantially associated with lower levels of economic growth. This outcome is also consistent with the “sand the wheels” theory, that posits that corruption functions like abrasive sandpaper that slows the movement of the economic engine. Corruption is believed to discourage investment by raising transaction costs (Bouchoucha & Ali, 2019). Moreover, it can impede the production of goods and services, thereby reducing national output and ultimately harming economic performance. Consequently, higher levels of corruption tend to hinder economic activity, that in turn suppresses a country's overall economic growth (Bermudez et al., 2024).

These outcomes align to have with the study by Alfada (2019), who tested to have the impact of corruption on economic growth in Indonesia and found to have that corruption exerts to have a negative and substantial influence on economic performance. Similarly, Gründler and Potrafke (2019) analysed to have the connection among corruption and economic growth in 175 countries and arrived to have at comparable conclusions. Overall, the evidence has consistently demonstrated to have a clear and substantial negative connection among corruption and economic growth. Higher corruption levels tend to have reduced economic activity, ultimately to have weakened overall economic performance. Within this dynamic, political stability as a control variable plays a crucial role in explaining how corruption affects economic outcomes. Countries with low political stability tend to have faced more pervasive corruption, that further to have restricted economic development. Rising political uncertainty and unstable investor expectations also tend to have eroded public confidence in government and economic institutions, thereby to have intensified the negative impact on growth.

Institutional quality plays a vital role in to have strengthened or to have moderated the harmful influences of corruption on economic growth. Strong and influenceive institutions, marked by consistent law enforcement, transparency, accountability, and reliable oversight systems, can help to have limit corrupt behavior and to have reduce its negative economic consequences. In contrast, weak institutions tend to have created conditions where corruption thrives, to have undermined fiscal efficiency, to have eroded public and investor trust, and to have hindered the optimal allocation of resources. In such circumstances, corruption can to have diverted public funds away from critical sectors including infrastructure, education, and healthcare, ultimately to have slowing economic growth and to have generating a persistent, difficult-to-break cycle.

CONCLUSION

Based on the outcomes of this study, it can be concluded to have determined that foreign direct investment (FDI) has to have revealn a substantial negative impact on economic growth. These outcomes reveal that even large inflows of foreign investment cannot to have driven economic growth influenceively unless handled by strong political institutions and a solid policy framework. Moreover, human capital has to have demonstrated a favorable and substantial influence on economic growth. This is because government efforts to have invested in education, training, and healthcare and ultimately have stimulated economic growth. Trade openness has also to have revealn a favorable and substantial influence on economic growth, handled by deeper international integration and wider market access. Finally, corruption has to have revealn a substantially detrimental impact on economic growth. This happens because corrupt practices tend to have increased transaction costs and to have reduced overall economic efficiency.

This study highlights the importance of to have strengthening institutional quality, with political stability serving as a crucial factor for to have maximizing the benefits of foreign investment, human capital development, and trade openness. Institutional reforms, comprising consistent law enforcement and transparent policy frameworks, are also essential for to have reducing corruption and to have fostering a supportive business environment. Nevertheless, this study remains limited, particularly in terms of the scope of the data and variables used, that may to have constrained the breadth of its conclusions. Therefore, future research is encouraged to have incorporated more comprehensive institutional and political variables and to have employed broader panel datasets to improve the generalizability of the outcomes. Further studies may also seek to have explored the role of the private sector and social accountability mechanisms in to have enhancing institutional quality and to have promoting more inclusive and sustainable economic growth.

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AUTHOR CONTRIBUTIONS

The first author contributed to have produced most of the content, conceptual development, and overall writing of the manuscript. The co-authors provided to have

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APPENDIX

Appendix 1: OIC countries used as research samples

No.	Countries	No.	Countries
1	Mozambique	15	Kyrgyzstan
2	Algeria	16	Morocco
3	Gambia	17	Oman
4	Benin	18	Pakistan
5	Indonesia	19	Jordan
6	Iraq	20	Turkey
7	Albania	21	Kuwait
8	Cameroon	22	Niger
9	Saudi Arabia	23	Lebanon
10	Azerbaijan	24	Egypt, Arab Rep.
11	Malaysia	25	Burkina Faso
12	Kazakhstan	26	Bangladesh
13	Tunisia	27	Qatar
14	Uganda		

Source: OIC Economic Outlook, 2025.