CHAPTER I
INTRODUCTION

A. Background

Foreign Direct Investment is a key important rule of the macroeconomics indicator that can increase economic growth. According to United Nation Conference Trade and Development (UNCTAD) is based on the definition by Organization Economic Cooperation Development (OECD) and International Monetary Fund (IMF) explained that the definition of (FDI) constitute a long-term engagement of foreigners who makes invests in the fixed asset on the purpose of establishing a production capacity to make goods or produce services for sale at the profits. (UNCTAD, 2006; Sudarsono, 2008). Moreover, FDI inflows encourage the economic stability, can improve the national income, and can increase the welfare of society in the country.

In additionally, according to the World Bank (2012) mentioned that Foreign Direct Investment (FDI) plays an important role in the economic growth of developing countries. FDI can fill at least three points "developing gap" first, the investment gap; second, the foreign exchange gap; tax revenue gap. The investment gap by providing capital for investment, boost global market access for export accommodation, the exchange rate gap by providing through investment and export earnings, and the last tax revenue gap by providing through economics activities. The global FDI flows in 2019 at $1.54 billion. This would bring FDI $1 billion for the first time since 2015. FDI flows to developed economies rose by 5 percent to $ 800 billion and FDI flows to developing economics declined marginally by 2 percent to $685 trillion.

On the other hand, FDI is projected to decrease by a further 5 to 10 percent in 2021. This is the impact of Covid-19 on FDI. It makes the level of FDI flows are forecast to decrease by up to 40 percent in 2020. FDI stuck in the lockdown. However, Foreign Direct Investment (FDI) plays a vital role in the economic growth and development of the country (Choe; 2003, Li and Liu; 2005). FDI can also generate domestic investment in matching funds, facilitate the transfer of technology and managerial skills, increase local market competition, create job modern opportunities, etc.

In analyzed by Nawal and Raman (2015) in their research with the topic "Determinants of FDI and its Impact on BRICS Countries: A Panel Data Approach" argued that Foreign Direct Investment (FDI) inflows has become an important parameter of economics in both developed and developing countries. In addition, creating competitiveness of a host country can improve FDI and also can attract the level of FDI inflows, the host country needs to be competitive in the first place. A country has a good competitiveness can drive numerous factors that it can encourage FDI inflows.

TABLE 1.1

The Global Competitiveness Report

No	Countries	**The Ranked of Economics Competitiveness in time period 2018-2019**	
		Rank (out of 140) 2018	Rank (out of 141) 2019
1	Malaysia	25th	27th
2	Saudi Arabia	39th	36th
3	United Emirate Arab	27th	25th
4	Indonesia	45th	50th
5	Jordan	73rd	70th
6	Bahrain	50th	45th
7	Kuwait	54th	46th

8	Pakistan	107th	110th
9	Iran	89th	99th
10	Qatar	30th	30th

Source: (The Global Competitveness Report pusblished by World Economic Forum, 2020)

According to the global of competitiveness report published by World Economic Forum (2020), the country's competitiveness is ranked by global competitiveness index that is based on 12 pillars of competitiveness including Institution, Infrastructure, ICT Adoption, macroeconomics Stability, Health, Skills, Product Market, Financial System, Product Size, Labor Market, Financial System, Market Size, Business Dynamism, Innovation Capability and macroeconomics environment including Corruption Perception Index, Inflation, Exchange Rate, Trade Openness, Regulatory Quality, Human Capital Index, Financial Development and Interest Rate where this 12 pillars of competitiveness index could give more influence for FDI inflows.

Furthermore, Foreign Direct Investment can influence the income, price, production, employment, development, economic growth, and general welfare of the recipient countries. Additionally, the benefits of FDI can improve knowledge and technology spillovers, employment generation, and enterprise development. FDI inflows increased in all major economic groupings: developed, developing, and transition countries.

According to Romer, 1990; Mankiw et al., (1992) said that the theoretical literature identified that FDI Has contributed to economic growth. Additionally, Blonigen (2005) mentioned that FDI can enhance growth by allowing host countries access to advanced technology not available domestically. Moreover, based on UNCTAD (1999) explained that FDI leads to increased competition in the domestic market which can cause greater efficiency domestic firms, and FDI also has the potential to expand access to export markets. (Freckleton, Wright, Craighwell, 2012).

Foreign Direct Investment is the last component that can improve macroeconomics stability. Increasing the level of FDI inflows can influence financial environment and financial institutions in a country. According to the UNCTAD (2020) shows that it has different levels of FDI inflows in every country including in the top ten Moslem countries.

TABLE 1.2

Foreign Direct Investment in Top Ten Muslim Countries

No	**Countries**	**The value of FDI in the period 2015-2019**				
		2015	2016	2017	2018	2019
1	Malaysia	10082	11336	9399	7618	7650
2	Saudi Arabia	8141	7453	1419	4247	4562
3	UAE	8551	9605	10354	10385	13787
4	Indonesia	16641	3921	20579	20563	23429
5	Jordan	1600	1553	2030	955	10916
6	Bahrain	65	243	1426	1654	942
7	Kuwait	311	419	348	204	104
8	Pakistan	1673	2576	2496	1737	2218
9	Iran	2050	3372	5019	2373	1508
10	Qatar	1071	774	986	-2186	-2813

Source: (World Bank, 2020)

Based on the table can be concluded that Indonesia has become the highest FDI inflows in top ten Muslim countries in 2019. There are some indicators that influence increasing the level of FDI inflows in Indonesia, such as the average of fiscal health equals 90.7 percent and the average of trade freedom equals 79.2 percent. Additionally, Indonesia has a total market size equals 82 percent, the average of business dynamics at 70 percent, and the average of macroeconomics stability equals 90 percent. The second level is UAE. The UAE has a total of equals 70 percent, the average business dynamic at 69 percent, and the total macroeconomics stability reach 100 percent, in the year 2020. And the last is Qatar.

Qatar also has a total market size at 53 percent, the average business dynamic equals 66 percent and the total average of macroeconomics stability has risen at 99 percent in the year 2020. Based on the table, this is the important reason why FDI is very useful for developing country to be a strong foundation especially for the economic stability. So, the government has to create the role of law and regulation to increase the level of FDI inflows and attract the inventors in the country. FDI is one of the most important elements for the economic system of the country not only increasing the competitiveness in the many economic activities, but also as the superior capital flow than others such as the portfolio.

On the other hand, FDI has the important role to maintain the companies that have branches in the abroad. FDI can give another different impact on the social and political system in the country. At the same time, the amount of FDI in one country in another country is different. This condition is based on the investor that chooses to join in the international business in a country. (Asetia Puti Andini; 2018, Ashabul Anhar; 2020).

Investment is one of the last components in the macroeconomics perspective that become the balance indicator for the internal market production. On the other hand, investment has reflected the complicated business world. In the international relationship context, investment has always become the main topic to discuss by the head of state in the world. It becomes the benchmark of success for bilateral and multilateral relationships in many countries and it is more important to know that investment can be a propulsion machine for economic growth in the world.

The investment is not only about infrastructure, manufacture, and real estate but also includes The Islamic investment. Islam is a *Rahmatalil'alamin* religion have been kept all of the human life aspects, start from *Tawhid* and *Muamalah,* such as politic, social, culture, economics, and investment. It also has been kept about the role of investment. As the best religion, Islam also looks at the potential of investment for human future life, and then the investment can improve the income of society. There are two types of Islamic investment that can improve the national economic income such as Green bond and Blue bond. Both green bonds and blue bonds are very useful financial instruments that have the potential to increase economic growth and economic development. The concept of investment listed in Al-Qur'an Yusuf verse 47-

قَالَ تَزْرَ عُوْنَ سَبْعَ سِنِيْنَ دَاَبًاۚ فَمَا حَصَدْتُّمْ فَذَرُوْهُ فِيْ سُنْۢبُلِهٖٓ اِلَّا قَلِيْلًا

مِّمَّا تَأْكُلُوْنَ (47)

ثُمَّ يَأْتِيْ مِنْۢ بَعْدِ ذٰلِكَ سَبْعٌ شِدَادٌ يَّأْكُلْنَ مَا قَدَّمْتُمْ اِلَّا قَلِيْلًا مِّمَّا تُحْصِنُوْنَ (48)

Allah SWT mentioned that “Yusuf (PBUH) said: for seven consecutive years, you shall sow as usual and that (the harvest) which you reap you shall leave in ears, (all) – except a little of it which you may eat. Then will come after that, seven hard (years), which will devour what you have lead by in advance for them, (all) except a little of that which you have guarded, (stored)". (Al-Qur'an verse 47-48).

Based on the ayah, Allah SWT explained that investment is more important for human future life. The investment gives more benefits, not only in the short run but also in the long run. It can take the best life until the next generation. Al-Qur'an An-Nisa verse 9, Allah SWT mentioned that:

وَلْيَخْشَ الَّذِينَ لَوْ تَرَكُواْ مِنْ خَلْفِهِمْ ذُرِّيَّةً ضِعَافًا خَافُواْ عَلَيْهِمْ فَلْيَتَّقُوا اللّهَ

وَلْيَقُولُواْ قَوْلاً سَدِيدًا (9)

"Those fear as if they had left weak off spring behind and feared for them that they would be exposed to injustice) let them fear Allah and speak words of justice (Righteousness).

The top ten Moslem countries have the biggest potential in the Islamic investment that can improve Foreign Direct Investment. According to the global Islamic economics investment (2020-2021) the total of the Islamic economics investment reached 11, 8 billion in 2019, it has fallen from 13, 6 billion in 2018 which caused the pandemic in 2019. The potential of investment in Islamic Economics Indicators can increase the level of Foreign Direct Investment. Islamic investment has a different characteristic that can influence Foreign Direct Investment and can attract the foreign investor to invest their money. Furthermore, there are some Islamic economics indicators that can be investment in the Islamic economics indicator, such as Halal Food, Modest Fashion, Islamic Finance, Muslim Friendly Travel, Pharma & Cosmetics, and Media & Recreation. It can be the biggest potential for the investment in the top ten Muslim countries.

TABLE.1.3

The Global Islamic State of Economics Indicator

The Global Islamic Economics Indicator's Score for The Top Ten Moslem Countries							
Country	**GIEI**	**Halal Food**	**I Islamic Finance**	**Moslem Friendly Travel**	**Modest Fashion**	**Parma and Cosmetics**	**Media and Recreation**
Malaysia	209.8	209.8	389.0	98.3	43.7	80.2	59.9
Saudi Arabia	155.1	51.1	243.2	36.8	22.1	334	34.7
UAE	133.0	104.4	142.5	78.3	235.6	72.1	125.3
Indonesia	91.2	71.5	111.6	45.3	57.9	47.5	43.6
Jordan	88.1	39.6	124.6	43.3	18.5	39.1	31.6
Bahrain	86.9	42.2	121.9	31.9	16.7	33.5	42.3
Kuwait	73.3	42.2	99.2	27.1	17.5	33.3	40.8
Pakistan	70.9	54.7	91.1	23.6	30.6	32.5	12.9
Iran	64.0	60.5	74.0	28.8	33.5	55.9	26.6
Qatar	63.1	44.3	80.1	36.7	20.3	32.1	40.2

Source: (The Global Islamic Economics Indicator, 2020)

According to the table shows that top ten Moslem countries have some Islamic economic indicator's score that have different level in every country. Based on the table can be concluded that Malaysia leads the overall GIEI rankings for the eight year. Malaysia retains its top position in the GIEI rankings. Malaysia is a leader in Islamic banking knowledge and plants to send its Islamic finance graduates abroad to help build the industry globally. The second highest Islamic economics indicator is Saudi Arabia. Saudi Arabia has raised the value of Islamic finance by 16% and the value of outstanding bond increased by 20%. Saudi Arabia has the highest-ranking country in terms of zakat and charity contributions. The UAE is the third position in Islamic economic indicators, the UAE ranked first in the Modest Fashion and Media and Recreation indicators and second Muslim Friendly Travel and Parma and Cosmetics indicators.

TABLE.1.4

Investment Overview in the Islamic Economics Indicators 2019/2020

No	Investment in the Islamic Economics Indicators	The Potential of Investment in Islamic Economics Indicators ($)
1	Halal Food	6.110.020
2	Islamic Investment	4.925.120
3	Media and recreation	121.050
4	Travel and Tourism	340.103
5	Halal Parma	156.980
6	Modest and Fashion	3.480
7	Halal Cosmetic	124.700

Source: (The Global Islamic Economics Report, 2020)

Mostly, the level of Islamic economics sector at $ 11.8 billion or 0.3% of the total global Merger and Acquisitions, private equity and venture capital investment in consumer, financial services, media, luxury and pharm-estimated $ 3.4 billion. This is despite the Islamic economy contributing to more than 15% of the world's GDP in PPP. The potential of Islamic investment in the top ten Moslem countries can maintain the global economics sector. There are some Islamic economic indicators, which include: first, Halal Food, Moslem spending on food increased by 3, 1% in 2019 from $1.13% trillion to $1.17 trillion and expected to drop slightly in 2020.

The Second, Islamic finance sector saws an enhancement of regulations to drive trust and growth in the sector. Islamic finance assets were valued at $2.88 in 2020 and growth at CAGR of 5% between 2019 until 2024 Islamic finance assets reached round $3.69 trillion. Furthermore, Islamic investment and Foreign Direct Investment are very important for economic development not only for macroeconomics indicators but also for microeconomics development. (The Global State of Islamic Economic Report, 2020).

On the other hand, Transparency International (2017) mentioned that corruption is a worldwide problem. There is no country free from corruption in the world. Corruption can influence the role of government. It also affects the standard of living by causing a loss of economic resources, it reduces the incentive to work it allows people to be less productive, and it can increase the cost of doing business for investors. Corruption can be divided into two main types: political and bureaucratic. (Kasasbeh, Mdanat and Khasawneh, 2018).

In addition, according to Bayer and Ozei, 2014 said that corruption is a serious economic, social, political, and moral blight, particularly in many emerging countries. It is a problem that affects companies, particularly in international commerce, finance, and technology transfer. It is becoming an international phenomenon in scope, substance, and consequences. There are two theory of corruption. First "Grabbing-hand" is supported by economist such as Noonan (1984). The second is "Helping-Hand" supported by economists such as Luis (1985), Beck and Maker (1986), and Saha (2001). The “Grabbing-hand”, history of corruption has been documented by Noonan (1984). It is about four millennia the history of bribes and corruption in many cultures, one of them is that confusions emphasized the necessity of ethical behavior to address corruption in ancient China.

Many studies argue that corruption can give a negative impact on all of the economics activities including the global and domestic economics system. Corruption also can influence the Foreign Direct Investment system. As Allah mentioned the concept of corruption in Al-Quran surah AR-Rum verse 41:

ظَهَرَ الْفَسَادُ فِي الْبَرِّ وَالْبَحْرِ بِمَا كَسَبَتْ أَيْدِي النَّاسِ لِيُذِيقَهُم بَعْضَ
الَّذِي عَمِلُوا لَعَلَّهُمْ يَرْجِعُونَ (41)

Allah mentioned that “Corruption and disorder have appeared on land in the sea because of the doings of what the hands of people (have done) earned (of evil deeds). Thus, he causes them to taste the consequence of some of what they have done, so that they (take heed repent and reform and so) return (to the right way)”.

According to the ayah shows that corruption is not good behavior for everyone. It can cause many consequences for all of human life and also it can reduce the transparency of the role of law and regulation. Alvaro (2006) has conducted the research about the influence of corruption on Foreign Direct Investment. The influence of corruption on Foreign Direct Investment depends on the characteristics of the economics system of the host countries. Mostly, in this research, he found a negative influence between corruption and Foreign Direct Investment. On the other side, he argued that separating corruption into two types, pervasive and arbitrary, may provide further insights into the relationship between corruption and FDI.

In another analysis, by Bayar and Alakbarov (2016), they concluded that the control of corruption and the role of law had no significant impact on attracting Foreign Direct Investment in an overall panel, by using 23 market economies during the period (2002-2014). Additionally, Sequeira (2012) explained that corruption hinders growth and prosperity by distorting business activity and reducing investment. (Hakimi and Hamdi, 2017). According to Campos and Lien (1999), they said that corruption can reduce the ratio of domestic and foreign gross investment to GDP.

TABEL 1.5

Index of Curroption Perception Score in Top Ten Moeslim Countries

No	Countries	Score of the level of corruption in The Time Period 2015-2019 (0-100)				
		2015	2016	2017	2018	2019
1	Malaysia	50	49	47	47	62
2	Saudi Arabia	52	46	49	49	62
3	United Emirates Arab	70	66	71	71	83
4	Indonesia	36	37	37	38	38
5	Jordan	53	48	48	49	63
6	Bahrain	51	43	36	36	58
7	Kuwait	49	41	39	41	50

8	Pakistan	30	32	32	33	18
9	Iran	27	29	30	28	17
10	Qatar	71	61	63	62	79

Source: (Worldwide Governance Index Published by World Bank, 2020)

Based on the table can be seen that the different scores of corruption in the top ten Muslim countries. Each country has a fluctuation of weakness and upward for the level of corruption in every year. The level of corruption category shows the value of corruption for the country. According to Corruption Perception Index and Transparency International (2020) mentioned that the construct of the level of corruption uses information from 13 data sources where he country is given a score between 0-100. Zero indicates a country perceived to be had high corruption and 100 means the country is to be cleared from corruption. Based on the table show that Iran is the highest corrupt country and the UAE is a less corrupt country in the top ten Muslim countries cover the period 2015-2019. It has been described based on the ranked Corruption Perception Index (CPI) in the year 2020.

TABLE.1.6

The Table of the Ranked of Corruption in Top Ten Muslim Countries

No	**Country**	**The Ranked of Corruption**
1	Malaysia	57th
2	Saudi Arabia	52th
3	United Arab Emirate	21th
4	Indonesia	102th
5	Jordan	60th
6	Bahrain	78th
7	Kuwait	78th
8	Pakistan	124th
9	Iran	149th
10	Qatar	30th

Source: Corruption Perception Index, 2020

Since 1995, the corruption perception index has been published annually with a list of more than 150 countries rated by expert assessments and opinion surveys. According to the transparency international corruption perception index (2020) is the ranked of CPI for United Arab Emirate is the 21st spot out of 186 countries. It is up to seven places from 28th spot in 2010. The UAE has an open economy with a higher per capita income and a sizable annual trade surplus, oil and gas account for about 30 percent GDP. Furthermore, according to the doing business report 2011 published by the World Bank and International Finance Corporation in the United Arab Emirate was ranked 37th place up from 40th business in a field of 183 countries. The UAE has an open economy with a high per capita income and a sizable annual trade surplus. Oil and gas account for about 3.0 percent per capita. According to the table mentioned that the UAE is the least corrupt country and Iran is the highest corrupt country in the top ten Muslim countries.

Some indicators that influence the UAE have become the least corrupt countries including property right is predictable and fair although each emirate establishes its procedures for land ownership. Government Size also can attract the rank of corruption in the UAE, such as Tax Burden, the total average of tax burden equals 0.1 percent of total domestic income. (2021 index of Economics Freedom). Additionally, according to the table of the ranked of corruption for the top ten Muslim countries, Iran is the highest corrupt country. Some indicators that influence it such as property rights are recognized under Iran's civil code. The judicial system is not independent of the supreme leader and is used routinely to salience critics and charge political opponents with economic crimes. Government size also can attract the rank of corruption in Iran, including Tax burden, the average tax burden equals 8.4 percent of total domestic income.

TABLE. 1.7.

Economics Freedom in Top Ten Muslim Countries

Country	The Ranked of Economics Freedom	Population (Million)	Unemployment (%)	Rule of Law			Government Size			Regulatory Effficiency		
				PR	JE	GI	TB	GS	FH	BF	LF	MF
Malaysia	74.4	31.9 M	3.3	85.1	70.5	53.2	83.8	84.3	79.4	86.7	73.9	83.6
Saudi Arabia	66.0	34.3 M	5.9	68.7	76.7	53.2	99.1	62.9	31.0	83.5	63.3	82.3
UAE	14	66.0 M	2.4	80.8	81.1	66.0	100	73.0	98.5	80.0	81.6	80.6
Indonesia	66.9	270.6 M	4.7	59.4	48.9	39.1	83.7	91.8	90.7	71.3	49.3	79.0
Jordan	64.6	10.1 M	14.7	66.2	60.3	51.6	84.7	73.3	45.5	58.9	52.8	82.0
Bahrain	69.9	1.6 M	0.7	71.5	65.8	64.8	100	67.1	0.0	76.7	71.4	82.8
Kuwait	64.1	42 M	2.2	57.4	52.6	47.5	97.7	21.4	99.7	66.0	62.2	75.6
Pakistan	51.7	216.6 M	4.5	44.9	40.7	31.2	73.8	86.0	7.4	60.5	41.2	669.7
Iran	47.2	82.9 M	11.4	33.5	28.3	31.8	80.8	90.1	82.8	57.1	50.1	42.1
Qatar	72.0	2.8 M	0.11	68.3	58.0	54.0	97.9	69.2	94.5	74.0	65.9	80.7

Indicators: *Population (P), *Unemployment (UP), *Property Right(PR), *Judicial Effectiveness (JE), *Government Integrity (GI), *Tax Burden (TB), *Government Spending (GS), Fiscal Health (FH), Business Freedom (BF), Labor Freedom (LF) and Monetary Freedom (MF). Source: (2021 Index of Economic Freedom)

According to the table of the economics freedom index, can be concluded that the level of macroeconomics indicators can influence the level of investment inflows for each country and also can influence the level of corruption index. It depends on the rule and policy of the government in the host country how to attract the investor from other countries. The economics freedom index is a picture of the level of freedom in the economics environment of a country. There are four important aspect indicators that become the foundation of the economic freedom index including the rule of law, government size, regulatory efficiency and market openness to measure the 10 components of the economics freedom index that can influence to control of corruption on Foreign Direct Investment inflows in the country. (Economics Freedom Index, 2020)

Furthermore, government ownership and direct control of companies in Iran crowd out the private sector labor force, On the other hand, to encourage the Foreign Direct Investment inflows can be seen from macroeconomics indicators, one of the Gross Domestic Product (GDP), Inflation, Exchange Rate, Market Size, Population Health, Financial Development, Human Capital, Policy Maker, Government Size, Trade Openness, Institutional Quality, Infrastructure, Political Stability, and Texas. (Bayer and Ozei,2014).

1. Market size is one of the most important determinants for FDI inflows. Increasing the market size can attract investment return, profits and large market growth indicates potential for a large market and more promising prospects for products. (Chatherine Suke-Fun Ho et. al. 2013). Additionally, Quazi (2007) mentioned that a greater market size measured by percapita real GDP) can attract more FDI in East Asia. Similar results analyzed by Duanmu and Guney (2009) in their research found that FDI is positively related to market size in the host countries and FDI inflows are attracted to locations with large market sizes in India and China's countries.
2. Infrastructure is one of the important factors in attracting FDI inflows. Infrastructure helps remove specific bottlenecks that prevent higher FDI inflows. Poor infrastructure is often mentioned as an important constraint to FDI by foreign investors. The specific sub-sectors infrastructure like transportation, communication, energy, and finance. Similarly, Asiedu (2002) argued that good infrastructure increases the productivity of investment and therefore can stimulate FDI. (Julian Doanubauer, 2015).

3. Trade Openness can increase export and import activities in all of the countries. Trade Openness can distribute many goods and services not only in the domestic economy but also to neighboring markets which may not be attractive for location. Trade openness effect on open economy that has been known to attract FDI inflows. Greater trade openness has a beneficial effect on economic growth. Based on observed by Musila and Yiheyis (2015) mentioned that a positive effect of aggregate trade openness on the level of investment and economics growth in Kenya.
4. Government Size is a sum of government components. It refers to the power of the government. Government size mainly depends on the use of fiscal policy for compulsory redistributions, the delivery of public services, the size of tax revenue, and political influence. Government size is measured by central government expenditure. The government size has a positive correlation with FDI inflows and the effect of government size is much more significant in developing countries. (Yijun Yuan et. al. 2016)
5. Human Capital is one of the most important determinants of its inward FDI inflows. Additionally, Human capital is defined as a set of knowledge, education, improving professional skills, taking account of world culture aspects as physiological ad physical condition. In other Analysis by Gelejewska 2012) explained that Human capital can influence business location decisions or may determine innovation transfer as well as adaptation capabilities of technologies developed in other countries. (Dorozynska and Dorozynski, 2015).
6. Political Stability is a crucial factor considered by foreign investors (Moosa, 2002). The impact of political stability on FDI, which has led to the investigation of political

stability to understand its impact on FDI inflows in the context of Asia-Pacific countries. Furthermore, the funding of Husain, 2009 and Shahzad, et.al 2012 mentioned that political stability is very important for macroeconomics balance and to maintain conducive business environment in a country. Political risk largely depends on political stability and good governance of the government. Additionally, political stability enhances the probability of attracting more FDI inflows into developing countries. (Shahzad, et.al, 2012).

7. Financial Development is an alternative way of financing through capital markets. The relationship between financial development and Foreign Direct Investment is the inward FDI can contribute to the financial development in the host countries. Foreign Direct Investment causes an increase in funds available to the financial system. Financial development is an integral component of the growth process of an economy. FDI leads to greater FDI inflows up to a certain level of financial development. Financial development and absorb the benefits of FDI inflows in more efficient ways. Thus, each level of financial development is now associated with a higher level of FDI inflows. (Dutha and Roy, 2011).
8. Taxes Revenue is classified into two main categories that are direct and indirect taxation. Direct tax includes properties, incomes, sales tax, and import duty, etc. Furthermore, FDI has a generally positive effect on growth and income levels in the host country and there will definitely be greater aggregate demand and economic activities in a country which could help the government to generate more indirect taxes. The Foreign Direct Investment could increase general welfare in the host country and

in the tax revenue. It also reduces welfare through a transfer of profits earned by local enterprises to foreign enterprises.

9. Institutional Quality is a proxy of domestic institutional function for the host country that affects Foreign Direct Investment inflows. It offers low-risk uncertainty and high investment protection can create a better business environment and attract the level of FDI inflows. Institutional quality can promote property rights and rule of law could lead to better economic respects and make a country more attractive to foreign investors. Poor institutional quality can be an obstacle for FDI inflows as it represents a threat to the investment. (Ghazy Aziz, 2018). Analyzed by Tun et. al. (2012) argued that institutional quality should be able to attract more investment due to reductions in both the cost of doing business if the countries with a better institutional quality system.
10. Population Health, The World Health Organization's report of the commission on macroeconomics and health (CMH,2001) assets "a healthy workforce is important when attracting Foreign Direct Investment (FDI). The importance of health as consumption goods, health can also be viewed as a form of human capital that enhances economic performance both for the individuals and the level of the macroeconomics. Health can affect economic performance through a direct and indirect mechanism. Health, viewed as a form of human capital could affect foreign direct investment through several mechanisms, as the CMH mentioned that a population health may also encourage Foreign Direct Investment. The effect or influence of population health on Foreign Direct Investment is robust to adding education for human capital. (Marsella Alsan et.al, 2006).

Furthermore, this research just only focuses on some variables to know the influence or affect independent variables and Foreign Direct Investment such as; Inflation, Exchange Rate, Regulatory Quality, Trade Openness, Human Capital Index, Financial Development and Interest Rate as macroeconomics indicators to know what is the correlation two types of macroeconomic indicators on foreign direct investment. Empirically, one of the biggest influences of Foreign Direct Investment is inflation. Commonly, the definition of inflation can be known as a percentage change in the overall level of prices. Inflation can increase the price of general goods and services. Similarly, in another analysis by (Husted, 1999: 342; You and Khagram, 2005: 5; Gupta et al., 1998: 21) explained that the inflation can decrease the value of money, can reduce the real incomes of civil servants, can improve the employed in the public sector, spoils the distribution of income and supports the large capital income owners.

Domestic inflation can increase domestic consumption, reducing the cost of FDI. Similarly, increasing foreign inflation can reduce the cost of domestic investment, shifting investment from the foreign economy to the domestic economy. (Sayek, 2009). Another study, by Braun and Di Tella (2004), argued that increasing inflation can lower the investment and economic growth and it can make the level of corruption higher due to these indirect effects. Higher the level of corruption and higher the level of inflation caused by seignior age addiction to finance the public expenditure stagnant growth. (Yilmaz and Karaca, 2012).

Another macroeconomic indicator that can give more influence Foreign Direct Investment besides inflation is the Exchange rate. The exchange rate is the value of a foreign currency. An Exchange rate can be understood as a national currency that will be exchanged for another currency. Each country in the world has its own currency and is also obligated to maintain the value of a currency. At this point, the exchange rate represents the price of one currency to another currency. There are two kinds of the main assumption that can influence the value and demand for exchange rate; First, when the value of domestic interest rate (dollar) increases, the demand of domestic assets of each exchange rate will increase, so it makes the demand of dollar can increase or rising the respond of dollar assets. Second, when the value of the foreign interest rate increases, the demand of domestic asset (dollar) of each exchange rate decreases, so it makes the demand of dollar reduces or decreasing the response of dollar asset. It can be concluded that if the value of foreign interest rate increases, it makes the demand of dollar decreases for foreign countries. (Miskhin, 2013).

Furthermore, the Exchange rate is used to accommodate various transactions in the international financial market level. According to analysis by Khan et. al. (2012) argued that the exchange rate is the most important indicator in the macroeconomics like FDI and GDP in many economists, policymakers, and investors focused on the exchange rate of the country and make the investment in their money that in the focused country. They have believed the increase in exchange rate can create competitive advantages in international trade. Javeed and faroq (2009) also said that the exchange rate can impact the price of export, import, and balance of payment. Xing (2006) mentioned that the correlation exchange rate on Foreign Direct Investment is significant or it has a significant positive correlation between Exchange rate and FDI inflows, especially in the short-run period.

Furthermore, FDI could give the most influence on economics growth in the country and can improve the economic stability. On the other hand, the gross domestic product can be explained that as the market value of all the goods and services in the country that given the period of time. Ram and Zhang (2002) said that there is a significant positive between FDI and GDP in 1990. Similarly, in analysis by Dees (1998) investigated that FDI and GDP have a potential positive effect in china. It was illustrated by Barthelemy and Demarger (2000). The same result in analyzed by Dees (1998) investigated that FDI and Growth through the diffusion on ideas. FDI and Growth represent a positive effect on Chinese long-term growth. It can influence on technical change.

In addition, FDI can increase economic growth and it does not depend on the absorption of the country, such as human resources, the level of financial sectors, the development of infrastructure, and technology. (Borensztein et. al., 1998; DeMello, 1999; UNCTAD, 2001; Hermes dan Lensink, 2003). This unprecedented rise in FDI inflows has prompted researchers and policymakers to dedicate a large amount of effort to understand the empirical links between gross domestic product (GDP) growth and FDI inflows in the host countries. (Freckleton, Wright and Craigwell, 2015). One of the most important reasons for the investor to invest their money in a country is the level of GDP. A higher level of GDP can be impacted by investor's decisions and can attract FDI inflows in a country.

According to the research background in this study, the writer is very interesting to do the research to fulfill the gap in previous research. This research is a combination between Islamic investment and Foreign Direct Investment. This is the gap for this research. Additionally, other gaps in this research can be found in the chosen country, the time period, and the independent variables. Additionally, this research is not only explained by conventional perspective but also Islamic value with addicting Al-Quran as a source for this study.

The researcher also explains the Islamic investment that relates to Foreign Direct Investment which includes some Islamic investment indicators that are the most important to increase investment level in the top ten Moslem countries. This is the strong reason for the gap in this study. However, this research is still less to find with the same topic and the researcher choose the top ten Moslem countries for this study and also focus on the macroeconomics indicator as an independent variable where it is the most important for this research. Based on this, the researcher chose the topic with a title "**THE EFFECT OF CONTROL OF CORRUPTION AND MACROECONOMIC INDICATORS ON FOREIGN DIRECT INVESTMENT CASE STUDY OF TOP TEN MOSLEM COUNTRIES”**.

B. Research Question

Based on the background concluded that the research problems, which include

1. How is the effect of Control of Corruption on Foreign Direct Investment (FDI) inflow?
2. How is the effect of the Inflation on Foreign Direct Investment (FDI) inflow?
3. How is the effect of Exchange Rate on Foreign Direct Investment (FDI) inflow?
4. How is the effect of Gross Domestic Product (GDP) on Foreign Direct Investment (FDI) inflow?

C. Research Objective

1. To analyze the effect of control of corruption on Foreign Direct Investment (FDI) inflow.
2. To examine the effect of Inflation on Foreign Direct Investment (FDI) inflow.
3. To analyze the effect of Exchange Rate on Foreign Direct Investment (FDI) inflow.
4. To examine the effect of Gross Domestic Product (GDP) on Foreign Direct Investment (FDI) inflow.

D. Research Benefits

Based the background show that the benefit from this research

1. For the Government

   The research can be used by the government, how to control of corruption on Foreign Direct Investment. How the government is can create the role of law and regulation to attract the investor so that increasing the level of Foreign Direct Investment.

2. For the Academician

   The research can be used by the researcher as a source of study to fulfill the gap for another study with similar topic to control of corruption perception index on Foreign Direct Investment. Additionally, this study gives more knowledge and information for the academician.

3. For the Society or Investors

   The research can increase the knowledge about the corruption perception index on Foreign Direct Investment.