MACROECONOMIC EFFECTS ON ECONOMIC GROWTH IN MUSLIM COUNTRIES: POLITICAL SYSTEM AS A MODERATING VARIABLE

Arohman*1, Abdul Qoyum2, Akmal Ihsan3, Farma Andiansyah4

Abstract
This study seeks to explore the role of the political system in supporting the influence of macro variables on economic growth in the world’s Islamic countries. Data obtained from the world bank during 2010—2021. The econometric model used in the research is the Generalized Method of Moments (GMM). The main finding is that the political system has a significant negative effect on growth. This negative effect is caused by the low value of the political index determined by world governance indicators. In addition, foreign direct investment and remittances are still the main variables in supporting economic growth in the Islamic countries of the world. In contrast, interest rates show negative effects on economic growth. Further results show that an ineffective political system is unable to strengthen the relationship between foreign direct investment, remittances, and interest rates on economic growth. These findings serve as an evaluation for the 2025 OIC internal implementation action program.

INTRODUCTION
The political system and economic growth have received special attention from academics and policymakers around the world. (Al Farooque et al., 2022) Institutional policies often focus on the macro sector as an alternative measure of development. This is proven by some macro literature that examines the role of the political system on economic growth, such as Bedane in America (Bedane et al., 2017) which proves that the effectiveness of the political system has an important role in economic growth. The government regulating macro variables within a country have a large relationship, such as Foreign Direct Investment (FDI). In general, foreign investors pay great attention to institutional framework or policies of the countries where they invest. (K. E. Meyer & Nguyen, 2005) Therefore, it is emphasized in the literature that developing countries must strive to build strong and high—quality institutions to attract more FDI flows. (Kurul & Yasemin Yalta, 2017) For this reason, the government with all its power is required to make policies such as legal rules, regulations, and political flows that stimulate FDI to enter the host country, so that these policies encourage growth.

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Some previous literature link the role of the political system (institution) with FDI, such as Sadiq who proved that with good government policies, they attract foreign investment into 178 selected countries, even though the country is being hit by a pandemic as well. (Al-Sadiq, 2021) In addition, Zidi and Ali also revealed that governments with effective state governance have a significant effect on attracting foreign investment in the 11 countries that are members of the Middle East and North Africa (MENA). (Zidi & Ben Ali, 2016) However, it should be noted that a country with a poor political system index has a negative effect on foreign direct investment. This is evidenced by the latest literature from Gao which proves empirically that countries with bad political systems harm investment flows in 37 ASIA countries. (Gao et al., 2022)

The above literature is consistent with Mauro’s explanation, that investment is greatly influenced by government efficiency in a country. (Mauro, 1995) Including the bureaucratic index conducted by Uruguay whose integrity scale is always being increased so that it has an impact on investment. On the other hand, if the political system index is inefficient, such as high levels of corruption, bad regulations, and ineffective government regulations, it harms investment which in turn affects growth. It is undeniable that the unfavorable political system makes foreign investors doubtful about investing their assets in the chosen country.

In the Islamic countries of the world, for example, members of the Organization of Islamic Cooperation (OIC) generally still have indices of an ineffective political system such as frequent conflicts, terrorism issues, and unstable politics, thus making investors less interested in these countries to invest in Iraq. So, it would be a shame if natural resources in the Islamic countries of the world did not attract the attention of investors as a result of a bad political system index, even though foreign investment plays an important role in economic independence. FDI not only offers investible capital but also helps host countries access advanced technologies that accelerate growth productivity in developing countries. (Ihsan, 2021)

Another macro variable that is the focus of this research is remittances from foreign workers to their countries of origin. Remittances are one of the aggregate variables that have a major influence on growth, especially in the Islamic countries which are known for their high remittance rates. With government policies that provide legality for immigrants to work in other countries and access to making money transfer transactions for families in the country of origin, these immigrants help the government increase growth. It is the reason why many scholars discuss remittances and their role in GDP. (Ur Rehman & Hysa, 2021) Since 2004, the Development Committee of the World Bank and IMF have emphasized the importance of remittances and their impact on the real economy, especially in the Islamic countries of the world. Saad revealed that developing countries, especially in the Middle East, were greatly affected by international immigration because many made a substantial contribution to growth. (Saad & Ayoub, 2019)

The government handles the immigrants properly such as providing education before going abroad, cooperating with immigrant destination countries, and providing remittance facilities to countries of origin making remittances a source of funds for economic development in developing countries. The literature supporting government relations and remittances is shown by Adekunle, who examines the mediating role of government agencies in the growth of remittances in African countries. The result of his research shows that there is a strong mediation between the government and the growth of remittances. (Adekunle et al., 2020) However, interesting results were found by Maune, he revealed that a political system with poor quality provides a lot of inflows of remittances.
from abroad. Maune argued that bad government policies in his country of origin, such as low employment opportunities, made them decide to become immigrants abroad. (Maune & Matanda, 2022)

In addition to the two determinants of growth above, interest rates also have a strong relationship with economic growth in Islamic countries. Interest rates are indicators or keys in financial markets that have an overall influence on growth. (Drobyshevsky, 2017) However, the neo—classical growth model and the neo—Keynesian model by Wickens (2008) explain that a positive relationship will be observed between interest rates and output if the economy is dominated by creditors because an increase in interest rates will increase income so that it will increase consumption and output, while the relationship will be negative if the economy is dominated by borrowers whose income will decrease as a result of an increase in interest rates. Therefore, governments need to control interest rates in their countries so that interest rates have a positive effect on growth. (Crowley, 2007)

The question that remains to be answered is whether real or nominal interest rates should be applied when analyzing the relationship between interest rates and economic growth. Sergey answers that the nominal interest rate is very important when considering the influence of cash flows on the behavior of economic agents and market performance. (Drobyshevsky, 2017) However, these indicators still produce varied research results. Raisaba et al want to see the impact of interest rates in Indonesia and the results of his research show that there is a significant negative effect on economic growth. (Arditha Wahyu Waskita Raisaba, 2021) This means that it is contrary to theory and previous studies which state that interest rates can encourage a country's economic growth. (Paksi, 2021) It provides a special indication for the government to exercise control over interest rates to stimulate growth in the country.

From the explanation above, several researchers study the macroeconomic effects on growth, but none of them have specifically discussed how the political system supports the relationship between the two. Islamic countries are the objects of study because the political system in these countries still shows a relatively low index. So, this paper will make several contributions to the political system, macro variables, and growth. First, by using panel data consisting of 57 Islamic countries during the 2010—2022 period, researchers want to prove that the political system has a strong influence on growth. Second, we want to see whether the three macro variables adopted by the governments of the world’s Islamic countries support growth. Third, the researcher wants to prove that the political system has a role in moderating the effects of these three macro variables on economic growth in the world’s Islamic countries.

Literature Review and Hypothesis Development

Political Systems and Growth

Some literature agrees that the government is a policy maker in economic growth in the country. Nawaz revealed that the political system associated with the global political system significantly increases participation in policymaking. (Nawaz et al., 2021) We see government policies that are correlated with the growth transaction cost theory from Yeager. (Yeager, 1999) Efficient institutions reflect a good political system, where transactions with low costs are the characteristics of a good system, and vice versa. Therefore, two methods be used to achieve a reduction in transaction costs, the first is a formal and informal system that provides guarantees for economic actors to carry out transactions or exchanges. Second, is the implementation of system evaluation. (Wusqo & Ihsan, 2022)
This argument is supported by several kinds of literature, such as Meraj on Pakistan. He proved that political institutions are very important in driving growth in developing countries like Pakistan. (D. Meyer & Shera, 2017) Baklouti also examines the relationship between political stability and growth in 17 countries in the Middle East and North Africa (MENA). It uses a dynamic panel with a GMM model. The results of his research show that stability is a key determinant of growth. (Baklouti & Boujelbene, 2020) These findings provide evidence to us if accompanied by a stable political system, it promotes economic growth well. Other findings were also shown by Ali and Masih who studied the relationship between government institutions and economic growth in developing countries. Their findings are consistent with previous results that effective government institutions promote growth in developing countries, and vice versa. (Uddin et al., 2020) So that some of the literature above gives us an idea that a good political system can support growth (see Harrod-Domar (Evsey D. Domar, 1947), Hamdaoui (Hamdaoui et al., 2022))

H1. The Political System Has a Positive Effect on Economic Growth

**Macroeconomics and Economic Growth**

In Harrod (Harrod, 1939) and Domar's (Evsey D. Domar, 1947) growth models, savings are the key that drives capital accumulation and growth. Rostow seems to provide evidence that savings are necessary for development. Because accumulating savings may be difficult in the short term, especially for developing countries, global economists such as the IMF and World Bank advise countries to borrow savings from abroad, including FDI. (Rostow, 1959a) This is emphasized to achieve the targeted growth rate. Making FDI will trigger domestic productivity and will increase economic growth. (Johnson, 2006)

Okwu et al studied the effect of FDI on economic growth in the 30 leading global economies during the 1998 – 2017 period. The results of his research show that FDI has a significant positive effect on economic growth. (Okwu et al., 2020) In addition, Bouchoucha also examines the relationship between foreign direct investment to Tunisia’s economic growth from 1980 – 2015. They explained that foreign direct investment had a significant positive impact on economic growth, both in the short term and the long term. (Bouchoucha & Ali, 2019) In addition, remittance is one of the international capital flows within a country. The flow of remittances, namely where workers who are outside their country of origin will carry out financial transactions regularly. The transactions carried out will then go through financial institution channels which will then be consumed by their families. Consumption be in the form of investment as well as capital to meet daily needs. In addition, the impact of remittances is also very good for the country’s foreign exchange reserves, where foreign exchange reserves have many purposes, such as guaranteeing import payments, repaying debt and interest, as well as supporting exchange rate stability (Syarifuddin, 2015). So that the impact that is generated is to reduce the possibility of a crisis, reduce borrowing costs, and limit the pressure of changes in market sentiment. The flow of remittance funds is also utilized by banking institutions to invest or finance so that the impact of these events will later be related to economic growth.

Several scholars study the relationship between remittances and economic growth, such as Kumar. The results of his research show that there is a long – term positive effect on economic growth in Kyrgyzstan and Macedonia. (Kumar et al., 2018) In addition, Eggoh et al studied the effect of international remittances on economic growth in 49 developing countries. The results of their research show that international remittances have a significant effect on economic growth in 49 developing countries. (Eggoh et al., 2019)

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Supported by Shirazi et al who examined the impact of remittances on economic growth in 7 African countries that are included in the OIC. He explained that remittances had a significant positive effect on economic growth in 7 African countries that are members of the OIC. (Shirazi et al., 2018)

In terms of the relationship between interest rates and economic growth, theories such as those advanced by Barro emphasize the impact of interest rates on economic growth in both the short and long term. (Barro, 1990) In the context of short—term economic growth, an increase in interest rates makes residents avoid bank loans or investments, this leads to lower economic activity and, implicitly, a lower rate of economic growth. Interest rates have a very high impact on society because they are inseparable from the fact that high—interest rates encourage the supply of idle funds in the market thereby increasing the cycler flow of funds and making the accessibility of funds quite easy for businesses to develop. Obanza examined the relationship between perceptions of interest rates on economic growth in Nigeria from 1970—2010. The results of their research indicate that the impact of interest rates is found to have a positive effect. (Obansa et al., 2013) Furthermore, Roux et al studied the relationship between interest rates in SADC countries whose results showed that interest rate reform had a significant positive impact on economic growth through savings and investment. (Roux et al., 2018)

H2.a: Foreign direct investment significant positive effect on economic growth
H2.b: Remittances have a significant positive effect on economic growth
H2.c: The interest rate has a significant positive effect on economic growth

Political Systems, Macroeconomics, and Economic Growth in Islamic Countries

Islam emphasizes a just and effective political system (Sheikh, 2002) so that it becomes a determining factor in encouraging macro variables to remain strong in influencing growth. (Kharisma et al., 2022) A good political system will maintain the electability of the government in responding to foreign investment coming into the country. Vice versa, if politics are unstable, investors will feel doubtful about investing. This is evidenced by Hoque et al who studied the relationship between an unstable political system and foreign direct investment showing that political system instability has a negative effect on foreign investment, thereby slowing down growth. (Hoque et al., 2018) These findings prove to us the importance of a stable political system such as the quality of regulations, rule of law, and corruption control so that investors feel safe and are interested in placing their funds in a country.

Khushnood et al revealed that foreign direct investment occupies a broad interest in any socio—economic development, meaning that FDI plays a large role in driving growth. Furthermore, they examine the relationship between the political system and foreign direct investment in Pakistan. (Khushnood et al., 2020) By using an estimation model of Autoregressive Distributed Lag (ARDL), they demonstrated a significant effect of regulatory quality and government effectiveness in supporting Pakistan’s economic growth. Meanwhile, the rule of law and high levels of corruption are considerations. (Ogbuabor et al., 2020)

Furthermore, the subject of discussion and object of research is the relationship between the political system and remittances in driving growth. Previously, we agreed that the flow of remittances has a major effect in responding to growth. (D. Meyer & Shera, 2017) So the next step is to find out how the political system moderates between the two. Kratou et al reveal that policy interventions, improving the functioning of government institutions, enforcing regulation and political stability, improving the financial system, and the socio—economic environment are very important in increasing the beneficial
effects of remittances. (Hajer Kratou & Kauthar Gazdar, 2020) Especially in developing countries, the flow of funds from remittances is the second power after foreign direct investment in supporting growth. For this reason, a good political system is needed to regulate the flow of remittances, so that the output produced is the achievement of growth.

Some research supports the effect of the political system in increasing remittances, such as Sidiq who studied the impact of the quality of the institutional political system on remittances. By using a dynamic panel model, they show results that there is a positive effect between the two. (Al–Sadiq, 2021) The political system has become an agent in encouraging remittances, but it still has to avoid having a bad institutional structure. For this reason, their research emphasizes the need for special attention to the political system in formulating policies that seek to overcome the symptomatic possibility of low remittance flows. Apart from formulating policies, they also provide advice to the government to deepen the financial system to produce better growth. This finding is supported by Privarova who agrees that there is a strong relationship between the political system and remittances in stimulating growth. (Privarova, 2020)

After knowing the importance of the role of the political system above, we see that to increase growth, good government performance is needed and must be based on Islamic countries. This includes regulating interest rates to always be stable so that investors or economic actors maintain theirs. Briceno and Perote examine the relationship between financial, social, and institutional political system factors. They revealed that to promote sustainable growth, a good political or institutional system is needed in managing its financial aspects, such as interest rates which tend to be stable. (Briceno & Perote, 2020) In addition, Ehikioya & Omankhanlen’s study in Nigeria also shows results that are consistent with previous studies, that the institutional system has a major role in controlling financial aspects such as foreign debt and interest rates. (Ehikioya & Omankhanlen, 2021) So that from this control, growth will be relatively easy to achieve.

H3.a: The political system is moderate the effect of foreign direct investment on economic growth
H3.b: The political system is moderate the effect of remittances on economic growth
H3.c: The political system is moderate the effect of interest rates on economic growth

Chart 1. Research Framework
METHOD

This study uses a quantitative approach with a dynamic panel model GMM. This model was chosen based on accuracy in measuring linear relationships in research. (Cheng et al., 2019) The GMM model not only measures the current period but also looks at the effects of past periods (lag). The type of data used in this research is secondary data obtained from the world bank in the 2010–2021 period. Growth units use gross Domestic Bruto (GDP) (%), FDI is measured from net inflow (%), remittances seen from the number of remittances by immigrants in the study period (%), and the interest rate (Ir) is measured by the interest rate on the use of money within a certain period (%), as well as the political system (SP) is measured using the political index value on world governance indicators (WGI). The SP index is considered effective if it is close to 2.5, while the ineffective index is close to −2.5. The dynamic panel model (direct effect) is shown in the formula below:

\[ \text{GDP}_{it} = \beta_0 + \lambda \text{GDP}_{it-1} + b_1 \text{FDI}_{it} + b_2 \text{Remitt}_{it} + b_3 \text{And}_{it} + b_4 \text{PS}_{it} + \epsilon_{it} \]  

(1)

Because this study contains a moderating effect, we also add Modération Regression Analysis (MRA) to see what kind of moderation is applied in research. The moderation model is shown in the following formula:

\[ \text{GDP}_{it} = \beta_0 + \lambda \text{GDP}_{it-1} + b_1 \text{FDI}_{it} + b_2 \text{Remitt}_{it} + b_3 \text{And}_{it} + b_4 \text{PS}_{it} + b_5 \text{PS}^* \text{FDI}_{it} + b_6 \text{PS}^* \text{Remitt}_{it} + b_7 \text{PS}^* \text{And}_{it} + \epsilon_{it} \]

(2)

RESULTS AND DISCUSSION

Before presenting the findings from the dynamic panel estimation, we begin by displaying the descriptive analysis results in Table 1, which provides an overview of the attributes of each variable utilized in this research. The first is growth, the highest GDP growth value was obtained at 102.5499% in Maldives in 2014, the country with the lowest growth achievement is Indonesia in 2021, which is 3.6018%, with an average value of 18.3329%. This result proves that the growing gap in the world’s Islamic countries is still too high.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Mean</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Observasi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>18.3329</td>
<td>102.5499</td>
<td>3.6018</td>
<td>360</td>
</tr>
<tr>
<td>Foreign Direct Investment</td>
<td>3.8080</td>
<td>43.9121</td>
<td>−37.1726</td>
<td>360</td>
</tr>
<tr>
<td>Remittances</td>
<td>6.5215</td>
<td>43.7680</td>
<td>0.0420</td>
<td>360</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6.9939</td>
<td>60.8767</td>
<td>24.6211</td>
<td>360</td>
</tr>
<tr>
<td>Political System</td>
<td>−0.6486</td>
<td>0.8300</td>
<td>−2.8100</td>
<td>360</td>
</tr>
</tbody>
</table>

Source: Processed data (2023)

The FDI shows a maximum value of 43.9121% (Mongolia, 2011), with the lowest investment value of −37.1726% in the same country in 2016. This drastic decline was caused by a decrease in the export value of the main commodities coal and copper, as well as governance errors (Shield, 2017). Next are remittances, table 1 above illustrates that the highest value of remittances is 43.7680% (Tajikistan, 2013), while the lowest value is 0.0420 (Oman, 2014), with a value mean of 6.5215%. Remittances cannot be separated from developing countries, because remittances are a significant driver of economic growth. For interest rates, the highest interest rate was obtained at 60.8767% (Iraq, 2015), and the lowest was 24.6211% (Suriname, 2021), with an average value of 6.9939%. The largest index value was obtained for the political system of 0.83% (Mongolia, 2018) and the lowest was −2.81% (Pakistan, 2011), with a value mean of −0.64%. In general, the index value of the political system of the world’s Islamic countries is still not included in
the effective category, because the standardization of the effectiveness of the political index determined by world governance indicators is between −2.5 and 2.5.

Effects of Foreign Direct Investment and Growth

Table 2 above shows a probability value of 0.0004 small from alpha 1% with a coefficient value of 0.0220 (see model 1). These results prove that foreign direct investment has a significant positive effect on economic growth in the Islamic countries of the world. This finding accepts the hypothesis that the researchers offer. These results also confirm the theory by Rostow that FDI stimulates growth. (Rostow, 1959b)

The flow of foreign investment into Islamic countries is still an alternative to encouraging economic growth. Ibrahim reveals that investment plays a very important role in economic development, be it an investment in assets, cash flow, capital, and other forms. (Rostow, 1959b) However, the magnitude of the effect does not entirely depend on direct investment alone in Islamic countries, but also the economic, social, political, and other institutional structures affect the performance of FDI in the host country. It is also important to note that since FDI is an integral part of trade in Islamic countries. There government promotes foreign investment and at the same time protect, complements domestic production and investment, and complements the development objectives of the host country should be encouraged. FDI flows are an important channel through which the accumulation of reserves promotes growth and prosperity. (Matsumoto, 2022) This finding is supported by Oragwu that foreign direct investment has a significant effect on economic growth. (Orogwu et al., 2021)

Effects of Remittances and Growth

Based on Table 2 below, remittances have a significant positive effect on economic growth in the Islamic countries of the world. This result is proven by the probability value of 0.0003 which is greater than alpha 1% with a coefficient value of 0.1796. This means that if the value of remittances increases by 1%, growth will increase by 0.17%. This finding accepts the proposed hypothesis and is in line with the theory of Giuliano & Ruiz—Arranz which reveals that sending money increase capital allocation thereby accelerating growth. (Giuliano & Ruiz—Arranz, 2009)

The Islamic countries consist of developing countries whose people do a lot of work outside their country of origin to get a decent life. (Ayyub, 2000) So that with this position, the remittance value will automatically increase. This positive effect gives us an indication that remittances from workers outside their country of origin help increase household income, encourage small businesses, reduce poverty, and increase foreign exchange reserves. This finding is supported by Cazachevici et al, who explained that in a quantitative survey of 538 estimates reported in the study, a percentage of remittances was found to support economic growth in Asia. (Cazachevici et al., 2020) In line with Sutradhar who revealed that remittances have a positive impact on growth in India. (Sutradhar, 2020) In addition, research conducted by Shirazi also showed the same results and is in line with the results in this study, where remittances have a significant positive impact on economic growth in 7 African countries. (Shirazi et al., 2018)

The Effect of Interest Rates and Growth

Referring to table 2 and model 1 below, the probability value indicates the magnitude of the significance standard that the researcher determined, namely 0.1937 > alpha 10%. So, these results do not accept the hypothesis that we proposed, namely, the interest rate has a significant positive effect on growth. This finding also does not support the theory
Barro (Barro, 1990) and Harvey (Harvey, 1988) which play the interest rate in increasing economic growth.

There are several possibilities for why interest rates do not affect growth, such as weak demand in Islamic countries. When the economy is in recession or facing weak demand, lowering interest rates may not lead to increased borrowing or spending by businesses and consumers. This is because low-interest rates may not be enough to stimulate demand if people are already reluctant to spend due to economic uncertainty or other factors. In addition, the effect of credit restrictions. The reason is that in the last few periods, there has been a threshold effect on domestic lending, thereby reducing growth in developing countries in the Islamic world. (Isiaka et al., 2021) Another factor is governance which is less effective in regulating interest rates. So that a political system or good governance is needed so that interest rates in the world’s Islamic countries also affect growth.

The Effect of the Political System on Growth

Model 1 in Table 2 below shows the results that the political system in the world’s Islamic countries has a negative effect on growth. This can be proven by the coefficient value which shows a negative direction of $-1.9576\%$ with a probability of alpha $1\%$. So these findings indicate that when the political system increases by $1\%$, growth will decrease by $-1.9576\%$. This finding is not in line with the hypothesis that the researchers proposed, namely that the political system has a significant positive effect on growth.

This estimated value at the same time proves to us that the index of the political system in the world’s Islamic countries is not yet fully effective, in which the average movement of the index value is still negative, namely $-0.64\%$. For example, in Middle Eastern countries where the terrorist index and government effectiveness are low, this affects their economic growth (see world governance indicators). If referring to the standards set by world governance indicators then it is still far from a good index word. The standard used is between $-2.5$ and $2.5$. This result is supported by research conducted by Wilson in China that inefficient government governance does not affect growth. (Wilson, 2016) The ability of a government system to generate inclusive growth is highly dependent on the quality of its political system. Governments in the world’s Islamic countries need to carry out evaluations in the areas of structural reform, automation, and improvement of regulations in the fiscal and monetary fields. In addition, the government also needs to improve the quality of human resources, capacity building, an anti-corruption framework, transparency, accountability, and inclusive political institutions. (Maksym Ivanya & Andrea Salerno, 2021).

<table>
<thead>
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<th>Variables</th>
<th>First Differences-GMM</th>
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<tbody>
<tr>
<td></td>
<td>Model 1</td>
</tr>
<tr>
<td>Growth (-1)</td>
<td>0.0000*** (0.5181)</td>
</tr>
<tr>
<td>Foreign Direct Investment (FDI)</td>
<td>0.0004*** (0.0220)</td>
</tr>
<tr>
<td>Remittances (Remit)</td>
<td>0.0003*** (0.1796)</td>
</tr>
<tr>
<td>Interest Rate (Ir)</td>
<td>0.1937 (−0.0261)</td>
</tr>
<tr>
<td>Political System</td>
<td>0.0000*** (−1.9576)</td>
</tr>
<tr>
<td>Political System*FDI</td>
<td>−</td>
</tr>
</tbody>
</table>
The Role of the Political System in Moderating the Effect of Foreign Direct Investment, Remittances, and Interest Rates on Growth

In this section, we will explain the role of the political system in each of the macro variables in its influence on economic growth in the world’s Islamic countries. First, model 2 in Table 2 above shows the probability value of the interaction of the political system with foreign direct investment of 0.0000 small of alpha 1% with a coefficient value of −0.1210. This negative direction indicates that the political system weakens the relationship between foreign direct investment and growth. This finding rejects the hypothesis that the researcher proposes, namely the political system can strengthen the relationship between foreign direct investment and economic growth. Likewise, with the interaction between the political system and remittances, statistical results show that the political system weakens the relationship between remittances and growth. This result can be proven by a small probability value of 0.0002 < alpha 5% with a coefficient value of −0.2450. This finding is rational because by looking at the average value of the political system index of Islamic countries in the world it still shows a negative direction, which means that the political system is not yet effective. This finding at the same time rejects the hypothesis that the researchers proposed, namely that the political system can strengthen the relationship between remittances and growth.

The political system has a big role in the macro variables that affect economic growth in Islamic countries. (Clark, 1996) The government has policies in regulating its economy, starting from the establishment of regulations, the rule of law, crime prevention, and so on. If this indicator shows a low value, it will affect economic growth, especially in Islamic countries.

The statistical results above prove to us that the political system in the Islamic countries of the world has not been fully effective and able to strengthen the relationship between foreign direct investment and remittance variables. Even the political system for the interest rate variable itself does not have a significant effect. Even though these three main variables are aggregate variables used in driving economic growth in the Islamic countries of the world. (Fazira & Cahyadin, 2018; Ihsan, 2021; Suhendra, Istikomah, & Anwar, 2022; So, with these findings, the government needs to evaluate its political system to make it more effective.

Oyegoke explains that in encouraging foreign direct investment, it is necessary to have government policies in increasing regulations, infrastructure, and stability of the dollar currency so that investors have confidence in the economy. (Oyegoke & Aras, 2021) In addition, Adegbuyede et al revealed that the flow of foreign direct investment enters a country due to policies from the government even though it will have the opposite
effect. (Adegboyé et al., 2020) This impact can show a negative value because when analyzed, if the government puts too much pressure on FDI to enter the country of origin because it will have a negative impact, but the government pays attention to other factors, such as emotional relations with the country concerned so that it can harm other cooperation. Even though the political system is not the main key to increasing growth, in fact, a good political system, will stimulate incoming foreign investment and then increase growth. (Isaac et al., 2021)

In addition, the political system also weakens the relationship between the flow of remittances and interest rates. This is consistent with the reason that the weakening of remittances is caused by several things, such as the high level of corruption in the Islamic countries of the world, which undermines the impact of remittances on the economy. (Zibee & Alili, 2021) Weak institutions, such as a lack of rule of law or regulation. (Kratou & Gazdar, 2015) If remittances are not protected by strong institutions, they cannot be used effectively to create new businesses, invest in infrastructure, or create jobs. Political instability such as frequent political conflicts, so that remittances can be disrupted or diverted to support political factions, rather than being used to support economic development. And the last is the implementation of economic policies, such as imposing high taxes or strict regulations on remittances, that can make migrants reluctant to send money back to their country of origin. Likewise, if the government does not provide incentives for investment or entrepreneurship, remittances cannot be used optimally.

Overall, a stable political system with sound economic policies, an independent central bank, low levels of corruption, and effective financial sector regulation can help sustain higher interest rates, which can encourage investment, and remittances, and promote economic growth. On the other hand, a weak or unstable political system undermines investor confidence, resulting in lower loan requests and lower interest rates. For this reason, it is hoped that the results of this study will serve as evaluation material for the governments of Islamic countries to pay more attention to their political system so that maximum economic growth can be achieved.

CONCLUSION

Based on the results of the analysis above, then it can be concluded the points of findings in the study. First, the political system has a negative effect on economic growth in the world’s Islamic countries. These findings provide us with evidence that the political system implemented in the world’s Islamic countries is still not effective in encouraging growth. Second, all macro variables (foreign direct investment and remittances) except interest rates have an effect on economic growth. Indeed, these two variables still have the power in supporting the economies of developing countries. Third, a bad political system weakens the relationship between macro variables and growth. Therefore, we recommend that governments in the Islamic countries of the world continue to evaluate political system policies, to create an effective system that supports good economic growth.

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