



Economic Growth in OIC Countries: The Role of Political Stability

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Economic growth is an important indicator to assess the economic condition of a country. Various factors greatly influence economic growth, and one of the important factors is the country's political stability. This study aims to analyze the factors affecting OIC countries' economic growth. These factors are foreign direct investment, trade openness, human capital, tourism, and political stability. This study uses panel data from 28 OIC countries during the 2006-2020-time span. This study estimates the model using the Generalized Method of Moment (GMM) analysis technique. The estimation results show that all independent variables have a significant positive effect on the economic growth of OIC countries except foreign direct investment, which produces a negative effect. The interaction between political stability and other variables also produces a significant effect. The interaction effect can strengthen the influence of human capital and tourism on economic growth. The resulting interaction effect between political stability with FDI and trade openness weakens its influence on economic growth. Thus, the high political stability needed to increase economic growth in OIC countries depends on its interaction with other factors in economic growth.

INTRODUCTION

Development issues are crucial problems faced by almost every country in the world. The country's level can see the success of a country's economic growth development. One of the benchmarks that can be used to assess a country's economic growth rate is the growth of the country's Gross Domestic Product (GDP). If a country's GDP growth has increased, it reflects that its economic growth is going well. In other words, GDP is the best measure of a country's economic performance (Mankiw, 2016).

The Organization of Islamic Cooperation (OIC) is a form of cooperation between Islamic

countries, which initially aimed to be a forum for the solidarity of Islamic countries. In its development, the OIC has become a multilateral cooperation that cooperates in various fields, including economics, politics, society, culture, education, et cetera. The existence of the OIC can undoubtedly be a means of accelerating development for its member countries. However, based on the OIC Economic Outlook, economic growth in OIC countries does not contribute significantly to global economic growth. Even during the 2015-2019 period, OIC countries could not increase their share in total global output, which fell to a low of 15.1% in 2019 (SESRIC, 2020).

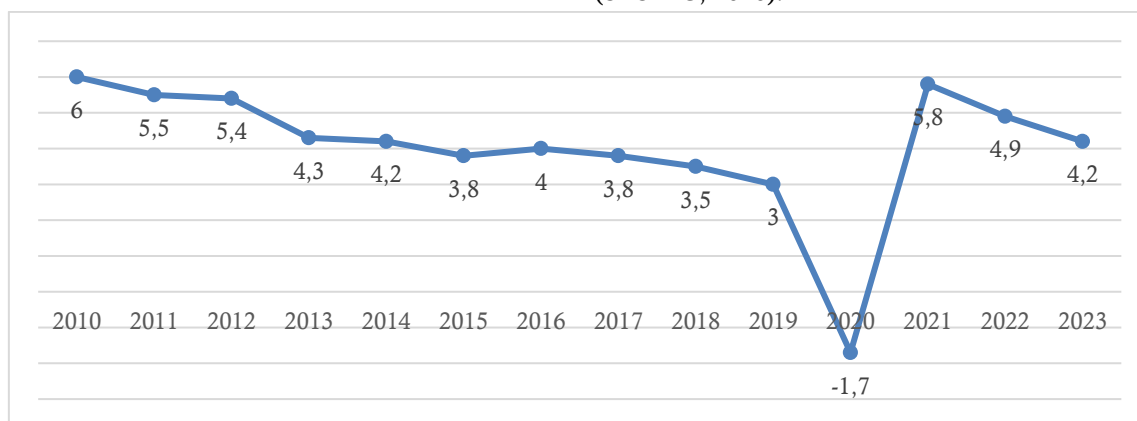


Figure 1. Real GDP Growth of OIC Countries

Source: World Bank, 2024 (Processed)

Figure 1 shows that the real GDP growth of OIC countries has experienced a very fluctuating trend. Even before the pandemic, the economic growth of OIC countries showed a downward trend from 6.0% in 2010 to 3.0% in 2019. During the pandemic in 2020, the economic growth of OIC countries contracted by -1.7%, but along with the global economic recovery, it experienced a growth of 5.8% in 2021. This improved growth is expected to slow down in the following years. It should be noted that despite the improvement in 2021, the economic growth rate in OIC countries is still relatively lower than the global average of 6.1% in the same year (SESRIC, 2022).

Various factors determine economic growth in a country. The growth model developed by Harrod (1939) and Domar (1947) assumes that new investment is needed for a

country's economy to grow, a net addition to the capital stock. One form of investment is Foreign Direct Investment (FDI). The existence of FDI can make a significant contribution to the improvement of a country's economy, and this is because the increasing level of investment in a country can be a source of new capital formation to increase total output (Zaman et al., 2021). In previous studies, it was found that FDI has a significant positive effect on economic growth, as found by Anetor (2019), Dankyi et al. (2022), Rahman and Alam (2021). However, different results are found in research conducted by Jufrida et al. (2017), Thaddeus et al. (2021), and Zardoub (2021), who found that the effect of FDI on economic growth is negative.

Another factor that can also affect a country's economic growth is human capital. The endogenous growth model assumes the

importance of investment in human capital development as a factor affecting growth. Human capital is an important input for growth in the endogenous growth model because it creates more effective and efficient output. The endogenous growth model emphasizes the importance of human capital accumulation as a factor that can increase economic growth. In this growth model, actors can play a role in increasing long-term economic growth. Human capital can affect a country's economic growth in two ways. First, the higher accumulation of human capital can also increase output growth. Secondly, human capital also plays a role in adopting new technology in the production process to increase economic productivity. Thus, human capital is an important factor that can explain the convergence of economic growth between countries (Mankiw et al., 1992)

Romer (1994) emphasizes the importance of investment in human capital development. This is because the better the quality of a country's human capital, the higher quality products can be created and the higher the bargaining value. Human capital is an important component of a country's growth and development because it is an input in the aggregate production function (Todaro and Smith, 2015). Thus, human capital can positively contribute to a country's economic growth (Arifin and Fadllan, 2021; Messakh et al., 2022). Several previous studies have empirically proven that human capital contributes positively to economic growth such as research by Wibowo (2019) on selected ASEAN countries and using life expectancy, population growth, working-age population, and infant mortality as proxies for human capital found that in general, all independent variables have a positive effect on economic growth except for population growth. Similar results were also found in research conducted by Alatas and Cakir (2016) and Wau (2021).

The next factor that can affect economic growth is trade openness. From a neoclassical point of view, trade openness has become important in increasing a country's economic growth (Rodrik, 1988). A country benefits from

trade openness because it gains wider market access, creates competitiveness, and facilitates more employment opportunities. (Ifa et al., 2020). Trade openness can also increase foreign exchange reserves due to increased exports, provide access to broader markets, and increase productivity, which has a positive impact on economic growth (Çevik et al., 2019)

Trade openness can be reflected in a country's international trade activities. International trade is an important activity in the modern economy. International trade has helped many developing countries access wider international markets and create significant competitiveness (Kong et al., 2021; Tahir and Hayat, 2020). International trade can also benefit a country by obtaining commodity stocks that, if produced locally, require limited resources, so there are limitations to producing them domestically (Krugman et al., 2018).

Another factor that can also affect economic growth is tourism. Tourism has become an important sector of the world economy due to its various economic benefits and positive impact on economic growth for developed and developing countries (Eyuboglu and Eyuboglu, 2020). Tourism has been widely recognized as a catalyst for a country's economic growth through its positive impact on foreign exchange inflows, tax revenues, job creation, and investment in tourism infrastructure such as accommodation and transportation (Tang, 2020). International tourism can influence a country's economic growth because tourism positively drives the growth of the economic scale (Brida and Pulina, 2010). Based on the report SESRIC (2022), tourism has become one of the leading economic sectors that significantly impact global GDP, which in 2022 reached 10,4% of the world's total GDP contributed by the tourism sector.

Tourism can positively impact economic growth in the long term in various ways, both directly and indirectly. The tourism sector has a direct impact on a country's economic growth through its impact on increasing a country's foreign exchange reserves. Every country always seeks to increase its foreign exchange reserves

through foreign income. Therefore, higher expenditure from the tourism sector, especially those obtained from foreign tourists, increases a country's foreign exchange reserves and ultimately positively impact economic growth. The indirect impact provided by the tourism sector for economic growth is through its impact on increasing the income of people involved in the tourism sector. The higher demand for the tourism sector certainly requires labor, opening new jobs for the community. This increases community income and reduces unemployment, thereby driving the economy and ultimately increasing a country's economic growth in the long run. An empirical study conducted by Pan and Dossou (2020) proves that increasing a country's tourism sector positively impacts Benin's economic growth. Another research conducted by Qwader and Alawneh (2022) also found that the income earned from the international tourism sector can increase the country's exchange reserves and ultimately positively impact the country's economy.

The dynamics of economic growth in OIC countries cannot be separated from the conditions of political stability that occur in the OIC. A country's political condition is a crucial determinant in supporting the pace of its economy. This is because there is an inseparable relationship between political stability and the economy. After all, the government, representing political institutions, plays an essential role in controlling the economy's pace. Thus, a stable political environment is needed to facilitate a government issuing various strategic policies to achieve a better development direction (Uddin *et al.*, 2017). According to North (1990), institutions play an essential role in the economy because they can affect economic effectiveness through their impact on transaction and production costs. The stability of the socioeconomic system is a condition of dual balance between the distribution of potential violence and political and economic power (North *et al.*, 2007).

In OIC countries, political instability is a vital threat to the sustainability of development. This is because although OIC countries have

good economic prospects, there are still many OIC countries, especially in the Middle East and African regions, which are entangled in political upheavals such as wars, foreign invasions, coups, ethnic rivalries, and sectarian violence that can hamper growth and development. The upheaval that occurs both internally and externally not only threatens the socio-political structure but can also threaten the development process in OIC countries (Uddin *et al.*, 2017)

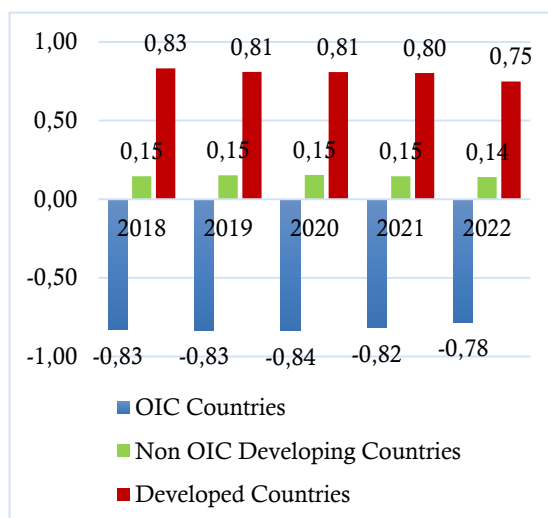


Figure 2. Comparison of Political Stability Index 2018-2022

Source: Worldwide Governance Indicators, 2024 (Processed)

Based on Figure 2, it can be seen that the average political stability index in OIC countries is very far behind that of other countries that are not members of the OIC. OIC countries' average political stability index has shown a negative trend over the past five years. The negative trend shows that the condition of the OIC countries' governments is precarious, and many OIC countries are still entangled in internal and external conflicts such as wars and terrorism.

Based on the background previously described, this study analyzes the factors that can affect economic growth in OIC countries. These factors are FDI, human capital, trade openness, and tourism. The fundamental difference between this research and previous research is the use of political stability as a moderating variable in the model so that the role of political stability in economic growth can be known.

RESEARCH METHODS

This study uses a quantitative approach to analyze the effect of foreign direct investment, human capital, trade openness, tourism, and political stability on economic growth. Secondary data is obtained through the World Bank and Worldwide Governance Indicators.

Due to limitations and data availability at the World Bank, this study took 27 OIC member countries as research samples during the 2006-2020 period. The operational definitions of the variables used in this research are provided in Table 1.

Table 1. Definition of Operational Variable

Variable	Operational Definitions	Source
Economic Growth (GDP)	Economic growth in this study uses the GDP per capita proxy, which is the total value of commodities, goods, and services that can be produced by a country divided by the total population and expressed in USD.	World Bank
Foreign Direct Investment (FDI)	Foreign direct investment is the flow of investment into a country from abroad. FDI refers to the equity flow of direct investment in the economy report. In this research, FDI is proxied by FDI inflows, namely the total flow of foreign investment into a country and expressed in USD.	World Bank
Human Capital (HC)	Human capital refers to the concept of the quality of a country's human resources based on the level of education and health. In this research, the measure used to measure human capital is from the health side, so the measure used is life expectancy expressed in years.	World Bank
Trade Openness (TO)	Trade openness is a foreign trade activity reflected through export and import activities. In this study, the measure of trade openness is total exports and imports, then divided by GDP, which is expressed in percentage units.	World Bank
Tourism (TOUR)	Tourism, based on the definition of the World Tourism and Travel Council, is the overall activity carried out by individuals who go to a destination outside their environment within a certain period for leisure, vacation, business, and so on. In this research, the size of tourism is proxied by the income a country receives from foreign tourists who come to the country expressed in USD.	World Bank
Political Stability (PS)	The measure used to measure political stability is the Political Stability and Absence of Violence/Terrorism (PV). PV measures perceptions of the likelihood of political instability/politically motivated violence, including terrorism. The estimation scores countries on an aggregate indicator in units of the standard normal distribution -2.5 – 2.5.	Worldwide Governance Indicator

Source: Data Processed, 2024

This study applies dynamic panel regression to analyze the effect of foreign direct investment, human capital, trade openness, tourism, and political stability on economic growth. Based on the literature review and also

in this study, models from several previous studies will be developed and adopted, namely Adedoyin et al. (2022), Ali et al. (2022), Kong et al. (2021); Messakh et al. (2022), Uddin et al. (2021). Therefore, the initial model used is:

$$GDP = f(FDI, HC, TO, TOUR, PS) \dots \dots \dots (1)$$

GDP is gross domestic product, FDI is foreign direct investment, HC is human capital, TO is trade openness, TOUR is tourism, and PS is political stability.

This study uses the Generalized Method of Moment (GMM) approach to estimate the model used, also known as dynamic panel estimation. The GMM model was first introduced by Hansen (1982), and it has become one of the most useful estimation procedures. It is widely used in applied economic research. GMM can provide broader generalization than the OLS model because it uses assumptions about additional moment conditions by using lags of independent and dependent variables as valid instruments. The equation used by using the GMM estimation technique is:

$$GDP_{it} = \beta_1 + \lambda GDP_{it-1} + \beta_2 FDI_{it} + \beta_3 HC_{it} + \beta_4 TO_{it} + \beta_5 TOUR_{it} + \beta_6 PS_{it} + \varepsilon_{it} \dots \dots \dots (2)$$

The GMM model can produce unbiased, consistent, and effective estimation results. This is because using the GMM model can avoid endogeneity problems that occur due to the correlation between GDP_{it} , GDP_{it-1} and ε_{it} . Thus, the GMM model can provide unbiased and consistent estimation results compared to the fixed and random effect models.

Based on the hypothesis in the study and the literature, this study uses political stability as a moderating variable to determine the resulting interaction effect between political stability and the independent variables used. Thus, equation 2 can be derived into the following equation:

$$GDP_{it} = \beta_1 + \lambda GDP_{it-1} + \beta_2 FDI_{it} + \beta_3 HC_{it} + \beta_4 TO_{it} + \beta_5 TOUR_{it} + \beta_6 PS_{it} + \beta_7 FDI * PS_{it} + \beta_8 HC * PS_{it} + \beta_9 TO * PS_{it} + \beta_{10} TOUR * PS_{it} + \varepsilon_{it} \dots \dots \dots (3)$$

Where i is the number of countries and t is the period in which the study is conducted. λGDP_{it-1} is the lag of the dependent variable

entered into the model. The data analysis stage in this study is as follows: First, perform dynamic panel data estimation with the GMM model approach. Next, testing the model specification, which consists of validity and consistency tests is necessary. The validity test is conducted to determine the validity of using instrument variables whose quantity exceeds the number of parameters specified. The validity test uses the Sargan Test, and the formula is as follows:

$$S = \hat{v}'Z \left(\sum_{i=1}^N Z_i' \hat{v}_i \hat{v}_i' Z_i \right)^{-1} Z' \hat{v} \sim \chi^2_{L-(k+1)} \dots \dots \dots (4)$$

Where \hat{v} is the error of the estimated model.

The next model specification test is the consistency test. The consistency test aims to test the consistency of the estimates obtained from the GMM model. The criterion is if the instrument variable does not have autocorrelation in the first difference system of the i -order. The consistency test is conducted using the Arellano-Bond test, and the formula is as follows:

$$m(2) = \frac{\Delta \hat{v}'_{i,t-2} \Delta \hat{v}_*}{(\Delta \hat{v})^2_2} - N(0,1) \dots \dots \dots (5)$$

Where $\Delta \hat{v}'_{i,t-2}$ is error vector at the second lag with the order of $q = \sum_{i=1}^N T_i - 4$. While $\Delta \hat{v}_*$ is cropped error vectors to fit $\Delta \hat{v}'_{i,t-2}$ of size $q \times 1$. After the model specification test is fulfilled and the resulting estimate is declared valid and consistent, interpret the results of the parameter significance generated by the estimation results using the GMM approach to answer the research hypothesis.

RESULTS AND DISCUSSION

Before describing the results of panel data regression, descriptive statistics of each research variable are presented first. These variables include gross domestic product, foreign direct investment, trade openness, human capital, tourism, and political stability. Descriptive data for each variable are displayed in Table 2 below:

Table 2. Descriptive Research Data

VAR	Mean	Median	Max	Min	Std.Dev
GDP	4.71	3.18	24.72	331.1	5.25
FDI	3.62	1.55	3.95	-1.02	5.71
TO	68.11	62.39	202.5	16.35	29.99
HC	67.75	69.57	79.73	49.73	7.98
TOUR	4.20	1.17	4.14	18.5	6.96
PS	-0.75	-0.65	0.93	-2.82	0.79

Source: Data Processed, 2024

Based on the data description in Table 2, the characteristics of each independent variable, dependent variable, and moderating variable applied in this research can be seen. In the GDP variable, it is known that the mean value is 4,71 billion USD, the median is 3,18 billion USD, the maximum is 24.72 billion USD, and the minimum is 331,10 USD with a standard deviation of 5,25 billion USD. Based on these results, it can be seen that the level of GDP per capita in the OIC countries that make up the research sample is still quite large inequality because there is a very significant difference in minimum and maximum values.

Variable FDI is known to have an average value of 3,62 billion USD, a median of 1,55 billion USD, a maximum of 39.5 billion USD, a minimum of -10,2 billion USD, and a standard deviation of 5,71 billion USD. From this, it can be seen that FDI in OIC countries used as research samples spreads far from its average value because it has a mean value smaller than the standard deviation. Furthermore, the trade openness variable has a mean value of 68,11%, a median value of 62,39%, a maximum of 202,58%, a minimum of 16,35%, and a standard deviation of 29,99%. Based on these results, it can be seen that the value of the mean is closer to the minimum value than the maximum value, so it can be concluded that trade openness in the OIC countries used as research samples is still

relatively low, and the distribution is uneven because it has a small standard deviation value.

The human capital variable has a mean value of 67,75 years, a median of 69,57 years, a maximum of 79,73 years, a minimum of 49,73 years, and a standard deviation of 7.98 years. Then, the tourism variable has a mean value of 4,20 billion USD, a median of 1.17 billion USD, a maximum of 41,4 billion USD, a minimum of 18,55 thousand USD, and a standard deviation of 6,96 thousand USD. The political stability variable has a mean value of -0,75, a median of -0,65, a maximum of 0,94, a minimum of -2,83, and a standard deviation of 0,79. Pakistan has the lowest average political stability indicator with a value of -2,44, followed by Iraq with a value of -2.35, and Nigeria at -2,00. These countries have continued to face internal and external conflicts such as war and terrorism over the past few years, causing political stability to be unstable. Based on these results, it can be seen that political stability in OIC countries is generally unstable because it has a score of -0,75. With this fact, it can be said that, on average, OIC countries have unstable government and state conditions.

Table 3 displays the estimation results of dynamic panel regression to answer the research questions, and the estimation results include the use of first difference GMM and system GMM approaches.

Table 3. Estimation Result of Dynamic Panel Data

Variable	First Difference GMM	System GMM
GDP (-1)	0.575386** (131.1564)	0.574925** (109.7674)
FDI	-3.44E-08** (-6.572210)	-2.97E-08** (-4.999814)

Variable	First Difference GMM	System GMM
HC	87.69770** (3.834935)	120.5149** (2.605913)
TO	24.28088** (12.39706)	25.89339** (22.33184)
TOUR	1.21E-07** (8.188986)	1.13E-07** (12.75350)
PS	-3732.363** (-4.552648)	-3802.171** (-4.151527)
FDI*PS	-8.21E-08** (-10.50234)	-7.66E-08** (-9.935240)
HC*PS	-8.21E-08** (5.311358)	-13.45954** (4.983653)
TO*PS	-11.47703** (-4.008384)	60.71676** (-4.013699)
TOUR*PS	7.05E-08** (5.738056)	6.55E-08** (5.884189)
Instrument	28	28
Sargan Test	0.480568	0.409575

Note: *) significant at 1%, **) significant at 5%, ***) significant at 10%

Source: Data Processed, 2024

Based on the estimation results in Table 3, it can be seen that both the first difference, GMM and system GMM, produce estimates that show all the variables used have a significant effect on the dependent variable. However, this study uses the first difference model to avoid bias because it has a greater Sargan value. This result is also supported by Widarjono and Anto (2020), who explain that the model used is a model with a greater Sargan value.

Table 4. Arellano-Bond Test

Test order	m-Statistic	Prob.
AR(1)	-4.736155	0.0000
AR(2)	0.308971	0.7573

Source: Data processed, 2024

Based on the results of the Arellano-Bond test in Table 4, the prob. value of AR (2) is 0.7573, so it is greater than the value of $\alpha = 5\%$, so it can be concluded that the resulting estimate is consistent or in other words, there is no autocorrelation in the first difference.

The results of dynamic panel regression using the first difference GMM approach in Table 3 show that all independent variables used

in the model have a significant effect. In addition, after multiplying the moderating variable of political stability with the independent variables, the results obtained the interaction between political stability and the independent variables that significantly affect economic growth. From these results, it can be concluded that political stability can strengthen or weaken the influence of the independent variables on economic growth.

From Table 3, it can be seen that the coefficient value of FDI is negative. This result shows that FDI has a negative effect on the economic growth of OIC countries. This result is not in accordance with the Harrod-Domar economic growth model, which argues that investment is an essential component in increasing a country's output so that it has a significant positive impact on economic growth. This study's results align with research conducted by Zardoub (2021), who examined the impact of FDI on economic growth in 12 developing countries, and research by Thaddeus et al. (2021) in the context of Cameroon. The research explains that the government must pay attention to the domestic business environment and build

a framework that facilitates the entry of FDI into the destination country. This is because the entry of FDI can force the closure of some small companies due to competitive pressures with multinational companies. Governments of developing countries need to highlight economic policies by considering the structure of incoming FDI to anticipate the negative impact of foreign domination on the domestic economy (Zardoub, 2021).

The estimation results show that FDI negatively affects the economic growth of OIC countries. The results of this finding certainly provide a surprising picture because, so far, FDI has been believed to be one of the catalysts for a country's economy. After all, it has many positive economic benefits. In many literatures and empirical findings, it is said that FDI can benefit the recipient country because it can create new jobs and increase a company's productivity, which in turn will also increase the economic growth of a country. One of the reasons why FDI has a negative effect on a country's economy is because it can monopolize the market due to the entry of a foreign company into the FDI destination country. Foreign companies generally have greater capital capabilities than domestic companies, causing the latter to be unable to compete and ultimately leading to their replacement by these multinational companies. This weakens the domestic economy and reduces the total output produced. Therefore, a strict product diversification policy is needed for multinational companies that want to open branches in the destination country. This ensures that the entry of multinational companies does not have a negative impact on the domestic economy.

According to Harrison and Rodríguez-Clare (2010), FDI does not positively impact economic growth unless trade barriers are reduced and other barriers, such as market-distorting policies, are removed. One of the problems in developing countries is their lack of good administrative capabilities in screening incoming FDI, which has a negative impact on the domestic economy. If the government does not effectively screen incoming FDI, foreign

investment does not contribute new technology and does not introduce domestic products to the export market, which can have a negative impact on the country's economic growth. (Agosin Machado, 2005). Thus, in the context of OIC countries, which are mostly developing countries, policies from the governments of OIC countries need to be selective in filtering the entry of FDI into their countries.

The estimation results show that human capital has a significant positive effect on economic growth. This result aligns with the endogenous growth model, which assumes that investment in human capital development can significantly affect growth. Romer (1994) suggests that the presence of human capital can be a spoiler effect on economic growth. Qualified human capital can potentially help find new technologies that can be utilized for a more effective and efficient production process. The results of this study are supported by research conducted by Dankyi *et al.* (2022) and Uddin *et al.* (2021). The results of these studies show that the better quality of human capital owned by a country positively contributes to economic growth.

Another study that supports the results of this study was conducted by Sarwar *et al.* (2020), which shows that investment in human capital by providing access to good education can positively impact the economic growth of developing countries. These results are also supported by Abdouli and Omri (2021) and Wau (2021), which show a significant relationship between economic growth and human capital. The existence of quality human capital characterized by high life expectancy can be an opportunity to develop abilities and get a better education. High life expectancy also means a country's public health is in good condition. Therefore, policies oriented towards improving the quality of public health are needed through increasing the health budget, expanding access to health services, and improving the quality of the living environment to increase expectancy. A country with a high life expectancy has more labor, which can positively impact growth.

Based on the estimation results, the effect of trade openness on economic growth is significantly positive. This result is supported by research conducted by Adeel-Farooq *et al.* (2017), Kong *et al.* (2021), and Rahman and Alam (2021). Tahir and Hayat (2020) suggest that trade liberalization can help the economy of Brunei Darussalam because it is a major factor in economic growth. Keho (2017) also pointed out that reducing barriers to trade and encouraging international trade by reducing and simplifying licensing procedures can increase economic growth. This is because the easier licensing procedures in trade activities between countries can accelerate the mobilization of a product in the market. In addition, barriers to international trade, such as difficult access to transportation between countries and other security risks, must be minimized so that trade can run effectively.

In neoclassical growth theory, it is argued that trade openness can encourage capital formation and increase the efficiency of resource allocation, thereby facilitating an increase in the quality of a country's economic growth (Rodrik, 1988). Countries active in international trade can also expand their economic scale, positively impacting the economy. Increasing exports can provide additional foreign exchange, and imports (especially capital and raw materials) can produce higher output in the short term. In the long term, trade openness can increase productivity and production efficiency (Çevik *et al.*, 2019). The increase in economic scale can be in the form of increased exports and imports. Increasing exports can provide additional foreign exchange, and increasing imports (especially capital and raw materials) can produce higher output in the short term. In the long term, trade openness can facilitate the mobility of goods and services between countries to increase productivity and production efficiency due to technology transfer, which ultimately positively impacts economic growth.

The estimation results show that the effect of tourism on economic growth is significantly positive. These results are supported by Pan and Dossou's (2020) research in Benin, which shows that tourism is an important sector supporting

sustainable economic growth due to the long-term impact generated by the tourism sector through infrastructure development. Research conducted by Aratuo *et al.* (2019) shows that the tourism industry has become a source of income, job creation, and the development and transfer of human capital, all of which positively impact the economic growth of the United States. Further research that found that tourism significantly positively affected economic growth was conducted by Adedoyin *et al.* (2022) and Yakup and Haryanto (2021).

Brida and Pulina (2010) explained that tourism can positively impact economic growth by stimulating investment in new infrastructure and human resource development. This is because physical capital and human capital are essential components supporting the tourism sector. The existence of tourism activities can open up opportunities to create new jobs and increase community income. Physical capital, consisting of various infrastructures such as airports, ports, and roads, is also an important element that can increase efficiency and productivity in the economy. Thus, the tourism sector can positively impact economic growth both directly and indirectly.

Based on Table 3, the results of the interaction between political stability and FDI (FDI*PS) show a negative coefficient. These results illustrate that political stability weakens the effect of FDI on economic growth. This research is supported by Agosin and Machado (2005), who show that the interaction between FDI and political stability has a negative effect on economic growth. However, this result cannot confirm the research conducted by Shittu *et al.* (2020), which shows a positive interaction between political stability and FDI in West African countries. This shows that institutions characterized by political stability are the most relevant in explaining the convergence of growth between countries.

The estimation results in this study show that increasing political stability weakens the effect of FDI on economic growth. The study results illustrate that more stable political conditions weaken the influence of FDI on

economic growth. This can happen because, in general, political stability is a condition in which there is no significant change in the political conditions of a country. In stable political conditions, there is generally no pressure to implement structural reforms to increase investment attractiveness. The government generally maintains a stable and well-established status quo rather than taking political risks by changing political conditions. This can lead to a decline in the interest of foreign investors to invest, ultimately negatively affecting economic growth.

Also, in conditions of high political stability, multinational corporations usually prefer to invest in projects that have been proven safe and profitable rather than investing in highly speculative projects. This may cause the impact of FDI on economic growth to decline in the long run due to the absence of investment in new projects that can stimulate economic growth. In addition, despite high domestic political stability, political instability, and global macroeconomic conditions can also affect FDI. This is because investors may refrain from investing in a country, even if it has stable political conditions or unstable global political conditions. Therefore, it can also reduce the positive impact of FDI on a country's economic growth.

Morrissey and Udomkerdmongkol (2012) explain that a government with unstable political conditions (low political stability) will only attract FDI motivated to seek personal gain and not FDI aimed at development, negatively impacting economic growth. If it is observed that the average OIC country during the study period has a low political stability indicator, this illustrates that the average OIC country has poor political stability conditions. According to Mommsen (1992), political instability is associated with countries that fail to run the government.

The interaction between political stability and human capital (HC*PS) shows a significant positive effect. These results illustrate that political stability can strengthen the influence of human capital on economic growth in OIC countries. The results of this study are also

supported by research conducted by Hall et al. (2010), and the study explained that strengthening state institutions and institutions is an important factor so that human resources in the future can generate benefits and economic progress for the country. Benhabib and Spiegel (1994) explain that certain institutions must be present for human capital to contribute to economic growth positively. Thus, political stability as one of the benchmarks of good institutions is needed so that the positive effects of human capital on the economy can be optimally facilitated.

Based on the results of this study, it shows that OIC countries need to maintain the political stability of their countries. Political stability is an important aspect of keeping the development process running optimally. Countries with high political risk tend to divert funds from the health and education sectors to non-productive sectors, leading the government to not focus on policies oriented toward improving the quality of human resources (Uddin et al., 2017). Thus, the marginal positive impact of human capital on economic growth requires high political stability and low political risk.

This result is supported by the research of Balamoune-lutz and Ndikumana (2007), which shows the interaction between trade openness and institutions to channel trade proceeds into activities that can increase economic growth. On the other hand, poor institutions can prevent a country from benefiting from international trade (Balamoune-lutz and Ndikumana, 2007). Based on Table 2, the interaction between political stability and trade openness (TO*PS) shows a negative effect. These results illustrate that if political stability is higher, it can have a negative impact on the relationship between trade openness and economic growth of OIC countries. This result is supported by the research of Balamoune-lutz and Ndikumana (2007), which shows that the interaction between trade openness and institutions negatively affects economic growth. This can happen because, generally, if a country is in a stable political condition, it tends to maintain existing trade policies without adapting to changes in global

economic conditions. This can cause a country to experience losses due to the inability to respond quickly to changes in global demand or international trade conditions, which can negatively impact the domestic economy. In addition, a government will maintain the existing status quo under stable political conditions so that it will not undertake structural reforms or adopt more progressive and flexible trade policies. This can also result in stagnant output growth to the detriment of the domestic economy. Structural reforms and adopting progressive trade policies are highly desirable.

Omoke and Opuala-Charles (2021) explain that trade openness can have a negative effect on a country's economic growth if the country's governance is weak. Countries with high political risks, such as internal and external conflicts, can also hinder international trade flows (Goswami and Panthamit, 2022). In OIC countries, the average political stability is shallow. Many OIC countries, especially in the Middle East and Africa, still face the threat of terrorism and other politically motivated violence, such as Pakistan with Islamic State (IS) and Balochistan Liberation Army (BLA), Iraq with Islamic State and Nigeria with the Boko Haram group, causing unstable political conditions. With these unstable political conditions, profits from international trade are diverted to other unproductive sectors, such as to finance wars, causing negative growth. Thus, it is necessary to stabilize political and government conditions so that the benefits of trade openness can positively impact the economy.

The estimation results in Table 3 show that the interaction between political stability and tourism (TOUR*PS) produces a significant positive effect. These results illustrate that the better condition of political stability in OIC countries can positively impact the relationship between tourism and economic growth. The results of this study are in accordance with research conducted by Tang (2018), who argues that the condition of a country's political stability can affect the interest of international tourists visiting the country, which will also impact economic growth. Countries with poor

institutional quality and high political risk can affect foreign tourist visits for security reasons. Vice versa, countries with high political stability can guarantee security for foreign tourists to influence their interests and contribute positively to economic growth.

Becken and Carmignani (2016) explained that maintaining high political stability can increase the growth of tourist arrivals. This illustrates that countries with high incomes are politically stable and tend to encourage higher economic growth rates than countries with low political stability. Thus, countries with poor governance or low political stability can negatively influence tourism, impacting economic growth (Adedoyin *et al.*, 2022).

Based on the estimation results and discussion of the findings that have been done previously, it shows that, in general, the higher the political stability conditions that occur can produce different interaction effects on the economic growth of OIC countries. The resulting interaction effect can have a positive or negative effect on the economic growth of OIC countries. The resulting interaction effect between political stability with FDI and trade openness on economic growth is negative. This happens because the high political stability in a country will also result in the country's government maintaining stable political conditions without making changes to economic policy to maintain the status quo. The absence of policy adaptation in response to global economic turmoil can cause other economic factors to experience a negative impact, which can also be detrimental to the domestic economy.

On the other hand, high political stability is needed so that the impact of human capital and tourism can positively contribute to OIC countries' economic growth. This is because more stable domestic political conditions also make it easier for the government to issue policies that can strengthen the influence of human capital and tourism on the domestic economy. Thus, political stability has an important role in the economy of OIC countries because it can affect other factors in a country's economy. However, what needs to be considered is that

conditions of not consistently high political stability can benefit other economic factors.

CONCLUSION

This study analyzes the factors that can affect economic growth in OIC countries, which consist of foreign direct investment, human capital, trade openness, tourism, and the role of political stability in economic growth in OIC countries. The results of this study show that all variables used significantly affect the economic growth of OIC countries. However, the results show that the effect of foreign direct investment on the economic growth of OIC countries is negative. This result does not follow the Harrod-Domar economic growth model, which assumes that investment is an important component of a country's output growth. The results also show that political stability is an important factor that can affect the economic growth of OIC countries because an interaction effect is generated between political stability and the independent variables used in the model.

The results of this study can produce recommendations for OIC countries to strengthen their governance conditions by maintaining political stability. Political stability plays an important role in keeping the development process running well. Countries with high political risk can hinder development and divert funds to non-productive sectors. Thus, it should be a concern for the governments of OIC countries to improve the quality of their governments by maintaining political stability..

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