



Islamic Banking, Sukuk, and Foreign Direct Investment Outflows: Evidence from Leading Islamic Finance Economies



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Received: 11-12-2025

Revised: 12-27-2025

Accepted: 01-06-2026

Citation: Humta, H., Şahin, İ. E., & Ghafourzay, H. (2026). Islamic banking, sukuk, and foreign direct investment outflows: Evidence from leading Islamic finance economies. *J. Account. Fin. Audit. Stud.*, 12(1), 22–32. <https://doi.org/10.56578/jafas120102>.



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Abstract: Islamic finance, grounded in Shariah principles derived from the Al-Quran and Sunnah, promotes risk sharing, ethical conduct, and financial stability, thereby shaping economic outcomes in countries where Islamic financial institutions are systemically important. Among the various components of Islamic finance, Islamic banking constitutes the dominant segment and plays a central role in channeling capital across borders. Given the increasing globalization of Islamic financial markets, the relationship between Islamic financial development and foreign direct investment (FDI) outflows warrants rigorous empirical examination. This study investigates the impact of Islamic banks and key Islamic financial instruments—namely Sukuk and Takaful—on foreign direct investment outflows (FDI-Out) in leading Islamic finance economies, including Oman, the United Arab Emirates, Qatar, Nigeria, Malaysia, Indonesia, Saudi Arabia, Bahrain, and Kuwait. Balanced panel data are analyzed using the ordinary least squares estimation technique implemented in Stata 18, with Islamic banks' profitability incorporated as both an explanatory and moderating variable. The empirical findings reveal three robust results. First, a statistically significant negative association is observed between Islamic banks' profitability and FDI-Out, suggesting that higher domestic profitability may incentivize capital retention rather than outward investment. Second, Sukuk issuance is found to exert a direct negative effect on FDI-Out, whereas Takaful penetration exhibits a positive relationship, indicating heterogeneous effects across Islamic financial instruments. Third, when Islamic banks' profitability is introduced as a moderating factor, Sukuk demonstrates a positive and significant impact on FDI-Out, implying that profitable Islamic banking systems enhance the outward investment channel of Sukuk markets. These findings highlight the complementary roles of Islamic banking performance and capital market instruments in shaping cross-border investment behavior. Overall, the results suggest that a well-integrated Islamic financial system can influence the direction and scale of international capital flows, with important implications for policymakers seeking to balance domestic investment, financial stability, and outward economic expansion in Shariah-compliant financial environments.

Keywords: Islamic finance; Islamic banking; Sukuk; Foreign direct investment outflows

1. Introduction

Multiple findings from recent research demonstrate that Islamic finance is a practical approach to establishing a comprehensive financial system that fosters economic growth. Islamic financial assets grow from 15% to 20% annually in most of the world's top economies. These assets currently comprise three percent of the total assets of the world's banks. The Islamic finance principles focus on financing based on assets, risk sharing, and the banning of intermediation based on interest. These principles determine financial intermediation structure by controlling the operations of Islamic banks and the development of such instruments as sukuk and takaful. Such aspects influence the funds' accessibility, risk management, and investment incentives, and as such, they influence how enterprises make decisions on capital allocation and consequently on local and international investment flows.

The Nasser Social Bank was the first interest-free establishment in Egypt to be called a bank founded in 1971. This was the first occasion that the government of a Muslim nation openly endorsed the creation of a financial

organization that operates without charging interest. The involvement of a public authority in interest-free banking sent strong signals to wealthy Muslim business owners, even though the principal goals of the Nasser Social Banks were social, such as providing microcredits to small-scale enterprises, scholarships to students, and interest-free loans to the poor. Over the past twenty years, there has been a worldwide boom in Islamic funds inside the corporate sector. Stock market investors have shown significant interest in the Islamic financial system within the international financial sector, and Islamic finance has seen exceptional expansion. Islamic banking has become more appealing to experts, monetary authorities, and academics seeking a stable and reliable alternative to conventional banking due to the current global financial crisis. Islamic finance tools are becoming more critical in businesses' financing decisions, which raises the issue of how much of an impact they have. Eliminating gambling components (maysir), limiting uncertainty (gharar), and eliminating riba are the three pillars of Islamic financial products. Based on these criteria, Islamic financial instruments fall into the overarching category of sale-based, Profit-Loss Sharing (PLS), or hybrid. For repayment structure, sale-based instruments combine the initial payment with a pre-determined premium; these fixed-income securities are also known as loan instruments (Guizani & Ajmi, 2021). Public and private sectors worldwide have implemented several ideas and approaches to alleviate poverty and enhance the well-being of the impoverished. Islamic microfinance is becoming increasingly popular in countries with both Muslim and non-Muslim populations. Islamic finance has experienced significant growth and emerged as a prominent trend in finance. The primary reason is the increasing demand for Islamic finance among Muslims, the remarkable success of Islamic banking worldwide, and its significant impact on the global gross domestic product (Zahid Mahmood et al., 2017). Based on the significance of Islamic banking to impact the economy of countries empirically, this study is done with leading Islamic finance countries to extract policy implications to boost economic growth.

This study links Islamic finance theory to foreign direct investment outflows (FDI-Out) by explaining how Shariah-compliant financial instruments influence firms' capital allocation decisions. Islamic finance promotes asset-backed financing, risk sharing, and financial stability, which affect whether capital is invested domestically or abroad. The profitability in Islamic banks indicates the effectiveness and richness of Shariah financial intermediaries. Increased profitability shows greater local funds available to finance operations, which will minimize the need to incentivize outward FDI, and decreased profitability will promote foreign investment among firms. Sukuk offer long-term and asset-backed long-term financing that promotes actual economic activity; their creation may either enhance local investment or open international capital restructuring, thus influencing FDI outflow. Takaful minimizes the risk of investment and uncertainty and facilitates the cross-border investment activities of firms, which may result in a rise in the FDI-Out. According to this reasoning, the econometric model will model the FDI-Out using Islamic bank profitability, sukuk, and takaful, and will enable moderation of the sukuk and FDI relationship by Islamic bank profitability. This model provides a clear and straight forward link between the theory of Islamic finance and the empirical specification.

2. Literature Review

In the literature review, we first consider how complex Islam is. Furthermore, it explores the application of the Qur'anic and Hadith principles to the economies of various countries. The second part, the history of Islamic banking, and the third part, the differentiation between Islamic and conventional banks, were assessed, followed by the products and services that Islamic banking offers its clients in part four. Part five focuses on research in the literature to conceptualize Islamic banking and determine the factors that affect Islamic banking, causing the expansion of Islamic finance, mainly Islamic banking.

2.1 Islam and Living Code

Islamic financial law is primarily derived from the Al-Quran and the Sunnah. Islam teaches us not just how to behave in society but also how to run a profitable business. Islamic law calls for establishing a fair, compassionate, and well-balanced community. Islami is initially divided into three main parts: 1. Akhlaq, 2. Aqedah, and 3. Shariah. As part of shariah, muammaalat is divided into public and private laws and internal affairs as part of public laws linked to banking through the economy. As shown in Figure 1 below.

2.2 Islamic Banking History Timeline Events

The evolution of Islamic financial institutions spans the first half of the twentieth century, and the present day is all about innovation and experimentation. From the arrival of the prophet Muhammad (Peace Be Upon Him) to the end of the Umayyad and Abbasid eras, the first period encompasses the orthodox caliphate, the recognized companies, and subsequent generations. The second stage, which encompasses the present-day global financial and banking system, began in the nineteenth century. Table 1 provides a detailed chronology of the second phase, which encompasses the operations of Islamic financial institutions and Islamic banking and finance from 1962 to

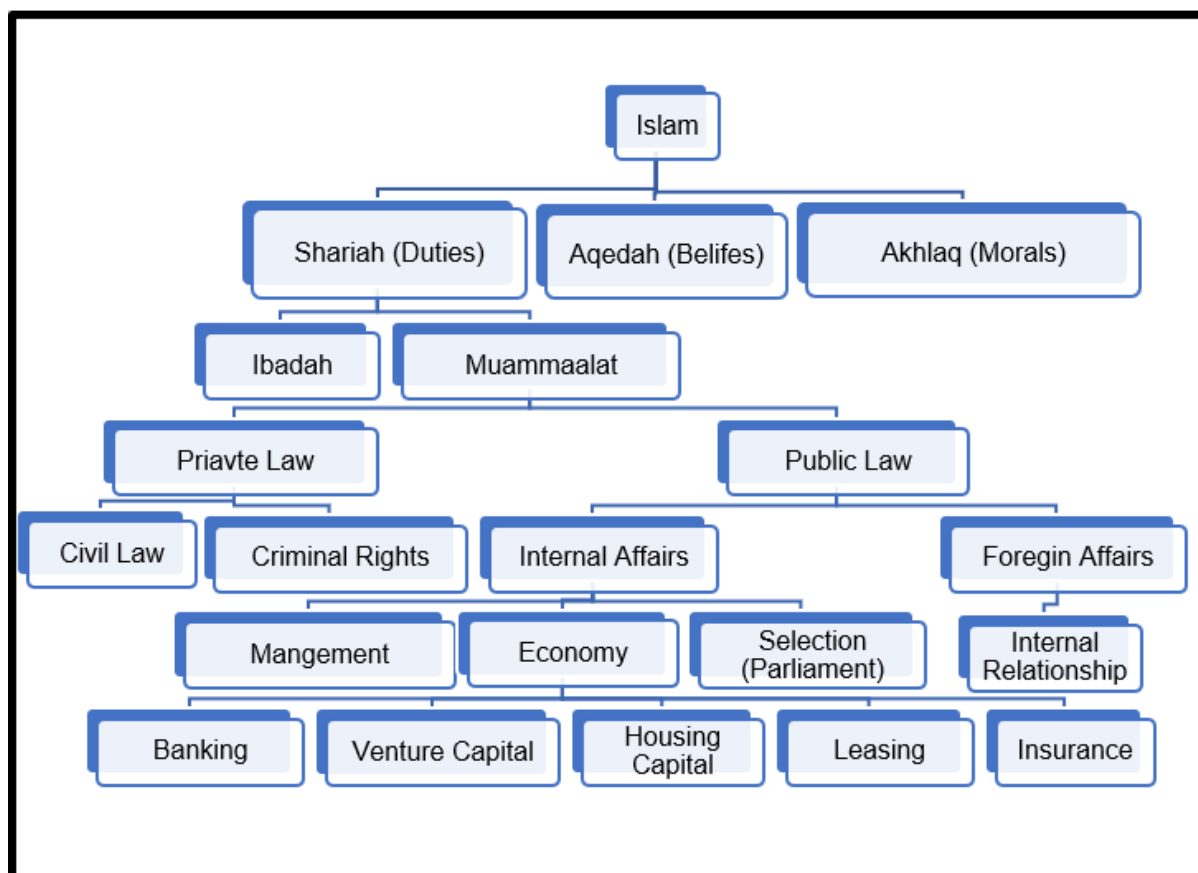


Figure 1. Categorization of lifestyle in Islam

Source: Abdullah & Chee, 2013; Humta, 2025

Table 1. Islamic banks history

Year	Era
	Prophet Era
	<ol style="list-style-type: none"> 1. A partnership that shares profits and losses (Musharakah or Shirkah). 2. The No-interest Benevolent Loan (Al Qard al Hasan). 3. The forward contract at Salaam.
570 C. E.	<ol style="list-style-type: none"> 4. Swap (exchange of money), whereby one party pays another in the same metal (gold for gold and silver for silver). 5. Ijarah (leasing). 6. Caravans from Mekkah to larger Syria and back were part of transregional trade. 7. Zakat, which is 2.5% of the required almsgiving to the destitute.
	Caliphs
632 C. E.	<ol style="list-style-type: none"> 1. Abu Bakr Siddiq created the institution of mandatory zakat. 2. Omer ibn Al Khattab founded Bait at-Mal, also known as the Federal Treasury House. 3. Uthman ibn Affan introduced the first Muslim coins. 4. Ali ibn Abi Talib strengthened the prophets' and the other caliphs' financial and economic policies.
	Umayyad and Abbasid Eras
661 C. E up to 1258 C. E.	<ol style="list-style-type: none"> 1. The emergence of Islamic dinar and dirham coins. 2. Treasury House Developments as the main Bait al-Mal. 3. Throughout the Abbasid dynasty, the dinar and daring him continued to be used for trade, and the Treasury House played a significant role. 4. The goal of founding the House of Wisdom was to advance science, engineering, finance, and new business innovation. 5. The establishment of the Ijtihad institution aims to modernize Shariah laws.

Source: Islahi, 2018

2.3 Islamic Banks Verses Conventional Banks

Islamic banking prohibited interest, *garar*, and *maysir* while traditional banks could apply for their profit. Table 2 below shows the differences between Islamic and conventional banking based on ten items, as illustrated.

Table 2. Differentiation between Islamic and conventional bank

No.	Items	Islamic Bank	Conventional Bank
1	Fundamental concept	Principles grounded in Shariah.	Grounded on entirely artificial principles.
2	Prohibited Components	Not containing any of these components: Riba Gharar Maysir	Not Applicable
3	Distributed Risk Management	Islamic finance promotes a culture of shared risk-taking among investors and business owners.	As promised, the investment would earn interest at a specific rate.
4	Products	Shariah-compliant products	Not Applicable
5	Asset-Backed Financing	Does not specify currency as a commodity for sale.	Banks and financial institutions only make transactions with money and monetary papers.
6	Moral Dimension	Operates by Islamic moral standards, refrains from financing ventures that contradict Islam, and advocates for transparency.	Be more transparent and consider the ethical implications of the projects they fund.
7	Zakat	They need to pay zakat, which is obligatory.	Avoid engaging with Zakat.
8	Fine for Non-compliance	There is no extra charge for default payments.	When payments are not made on time, additional interest is assessed.
9	Client Engagement	The bank's status is to its customers as partners, investors, and entrepreneurs.	Establishment of a creditor-debtor relationship between a bank and its clients.
10	Shariah Supervisory	Each Islamic bank establishes a necessary Shariah supervisory board to guarantee that the operation complies with Shariah law.	Not Applicable

Source: Al Rahahleh et al., 2019

2.4 Operations Type in Islamic Banking

Trading contracts, participation contracts, and support contracts are the main pillars on which Islamic banking operations depend. Agreements involving participation utilize profit and loss-sharing contracts, while contracts involving trading and supporting use non-profit and loss-exchange contracts (Al Rahahleh et al., 2019). Table 3 covers the contract types of Islamic financial institutions and banks.

Table 3. Existing Islamic banking products and services

Trading Based Contract	Participation Based Contract	Supporting Based Contract
Istisna	Musharakah	Al-Rahnu
Ijarah	Mudarabah	Al-Kafaiah
Bai- Bithaman Ajil	Profit or Loss Sharing (PLS)	Qard al-Hasan
Bai-Inah	Hiwalah
Murabaha	Tabarruu
Salam-Forward	Hibah
Wadaih	Ibraa

Source: Abasimel, 2023

2.5 Latest Conducted Studies Analysis

Abdullah (2017) compares Malaysia's and Indonesia's Islamic banking sectors and evaluates Islamic financial institutions based on five criteria: legal framework, court jurisdiction, capital growth, products offered, and Shariah governance. According to the research, neither country is far ahead of the other in the Islamic banking sector, even if they are both making great strides. In some categories, Malaysia ranks higher than Indonesia, but in others, Indonesia ranks higher than Malaysia. The study finds both benefits and drawbacks compared to other nations in the Islamic banking sector. Therefore, to achieve their goal of being a centre for the Islamic banking business, both

should improve their shortcomings while enhancing their strengths.

Lajuni et al. (2017) investigate factors influencing the intention to utilize Islamic banking products in a dynamic and growing market. Recognizing customers' intentions to use Islamic banking products is crucial, given that both Muslims and non-Muslims are adopting this practice. According to this line of thinking, based on theory and practice, customers' perceptions of a product influence their intention to purchase it. The study distributed 200 questionnaires, among which 131 were received for using structural equation modelling with partial least squares to examine the data. The results demonstrate that consumers' attitudes, levels of government support, and social influences can explain and predict whether they will utilize Islamic banking products or not. This research adds to the existing body of knowledge by shedding light on developing economies, where clients increasingly receive bank services tailored to their specific needs.

According to Malek & Rao (2022), Islamic banking profitability has recently garnered much attention in the literature on bank profitability. Quantifying the influence of internal and external (macroeconomic) factors on Islamic banking profitability, this research examines data from a selection of Asian Islamic banks (Bahrain, Iran, Türkiye, and Malaysia) from 2011 to 2020. The empirical analysis makes use of the panel data method. Islamic banks' return on average equity and return on average assets demonstrate their profitability. They conducted descriptive statistics, correlation, and regression for the study's variables. According to the data, the operating expense ratio and liquidity ratio are positively correlated. There is an inverse association between the age of a bank and the inflation growth rate. Moreover, for some Islamic banks, the data demonstrate that Bank Age negatively impacts profitability. On the other hand, a bank's profitability is positively and significantly affected by its equity ratio and bank size. In contrast to conventional banks, Islamic financial institutions do not let macroeconomic factors like GDP growth, inflation, and banking system type influence their profitability.

Madni (2017) explained that Islamic finance is gaining significant attention in the thriving banking industry due to its distinctive features and popularity. The Islamic finance industry has now surpassed \$1 trillion US dollars and is experiencing an annual growth rate of approximately 20%. Not only are Islamic financial goods expanding within Muslim civilizations, but they are also gaining popularity in non-Muslim countries. This article looks at a statistical sample of low- and middle-income nations to see how the expansion of Islamic banking has affected their economic growth. There is a favorable correlation between Islamic banking and economic growth, even if Islamic banking is relatively tiny compared to the size of the economy and the whole financial system. This correlation remains after accounting for other factors, such as the degree of financial depth. The findings are consistent when considering different factors, sample compositions, and periods. It argues that the government should make Islamic banking a top policy priority to boost economic growth.

Durmuş (2023) investigates how Islamic banking professionals understand internal communication channels. Additionally, it explores the culture of thankfulness in an Islamic bank to uncover the hidden aspects of organizational culture. It explores the gratitude culture of an Islamic bank by diving into an Islamic bank's culture of thankfulness. This research sought to add to the existing literature by examining a case study of Islamic banks, which has yet to be overlooked in the field. This study was conducted in Türkiye, and semi-structured, in-depth interviews were conducted in 2017. Thematic analyses were performed to catch the patterns, and two main themes were found in the topography of the data. These themes were no gratitude here and yes, but not enough. The first theme explored the views of most of the participants, who reported that there is no culture of thankfulness in the context of Islamic banks. However, the other minority group of participants stated that there is a culture of gratitude for Islamic banks. Still, it is not enough to achieve the goals of the organization efficiently. Finally, a culture of no thankfulness may adversely affect the psychology, motivation, and feelings of worthiness of employees.

Bayram et al. (2023) researched soundness indicators of Turkish Islamic and conventional banks. The study employs financial ratios that are consistent with the Banko meter technique and cover the years 2017–2022. Ranking systems such as Additive Ratio Assessment, Combined Compromise Solution, Complex Proportional Assessment, Multi-Attributive Border Approximation area Comparison, and Technique for Order Preference by Similarity to Ideal Solution are utilized, and the results of such ranking are integrated into the Borda Count method. The results show that all of the banks that were considered are financially stable, with private conventional banks consistently rating at the top. This research is significant because it shows that Türkiye's conventional and Islamic banking sectors are financially stable, even when tested using different methods, and that this stability persists even when faced with challenging global conditions like the COVID-19 pandemic.

Hassan et al. (2019) examined Islamic financial principles from conception to evolution. The guidelines are derived from Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), Islamic Financial Service Board (IFSB), and International Islamic Financial Market (IIFM). The function of such bodies and the process of developing the standard are discussed, along with socioeconomic factors impacting the system. At the end of the research, the problems are highlighted in the studied standards for future strengthening, and some suggestions are pointed out for upcoming research.

Saidu (2020) outlines two prerequisites for a perfect and workable Islamic finance system. He applies a diachronic approach and uses historical data, scriptural reasoning, and inductive logic for analysis. The study reveals several problems and possibilities regarding Islamic finance that must be addressed or pushed aside.

Specifically, it is argued that Islamic finance cannot be fully implemented in the absence of Islamic law; however, Shariah-compliant financial practices may still be organized without a formally established Islamic legal system if guided by ethically grounded Islamic economic agents (Islamic man). global Islamic finance can be accommodated within a workable legal framework in the modern world; and Islamic finance is not an international phenomenon, but it is workable legal microframework.

Calandra et al. (2022) used bibliometric and open coding techniques to sift through 170 Islamic banking and technology publications. The study analysis identifies the leading publications, authors, and nations that fund most of the research expenditures in this area. Thematic research also shows that technological applications to Takaful are one of the specialized topics. The potential of technology to aid decision-making in Islamic banking is one of the driving themes. This research is the best reference for understanding the concept of Islamic finance and technology for practitioners before starting jobs in this field. At the end of the article, some suggestions for future research are given.

Lone & Quadir (2017) investigated the rationale for using a PLS system in Islamic banking, explicitly focusing on the borrowers' net worth. A project's financing is a crucial component. Money, considered the lifeblood of the business, is essential for carrying out the endeavor. However, economists have offered an alternate method of project financing because of the predetermined interest rate. Additionally, the research contrasted an interest-based funding system with a PLS program. They provide new theoretical justifications for the low frequency of PLS use in Islamic banking. The study delves into game-theoretic solutions to address these moral hazard issues in PLS.

The purpose of Zafar & Jafar (2024) is to conduct a comprehensive literature assessment on Islamic banking and human capital. They used two popular academic databases, Scopus and Web of Science, to discover relevant papers for their systematic literature review. This study, in conjunction with previous research reviews, focuses on three main topics: human capital measurement techniques, human capital determinants, and the relationship between human capital and the performance of Islamic banks. Study findings indicate that ground-breaking research has focused only on human capital in Islamic banking; others have included it in the more general concept of intellectual capital. Some have used disclosure and survey approaches, but accounting-based methods continue to be the most popular for assessing human capital. While several studies have investigated the connection between human capital and financial performance, very few have investigated the factors that influence human capital, with an emphasis on corporate governance.

3. Methodology

Data from nine (Türkiye, Kuwait, Qatar, UAE, Oman, Malaysia, Indonesia, Nigeria, and Saudi Arabia) leading Islamic finance countries is collected from IFSB, The Statistical, Economic, and Social Research and Training Centre for Islamic Countries (SESRIC), and world development indicators (Data Bank) from 2015 to 2021 (around seven years) to analyzed by Stata 18 through the ordinary least square model to conclude valid and applicable results for strategies of expansion of Islamic finance, especially Islamic banking.

The outbound FDI is a measure of financial capabilities, economic power and the capacity of firms to invest in foreign countries, so it is an effective proxy of economic development. The systems of Islamic finance (useful ones in terms of generating profits through banks, sukuk, and takaful) promote capital mobilization, which promotes domestic growth as well as outward investment. Although firm-specific strategies can affect FDI at an aggregate level, it reflects the investment potential and financial health of the economy.

3.1 Variables Description

The dependent and independent variables are measured in the following way:

FDI outflow: Capital invested by domestic firms in productive assets abroad, reflecting cross-border investment and international expansion (Agarwal & Hemat, 2023). Data for FDI-Out were collected from the World Bank's World Development Indicators for the period (2015–2021).

PROF (Profitability of Islamic banks): It is measured by a ratio called return on assets, which is an indicator of how the banks can make profits out of their assets. Its data is collected on IFSB and World Development Indicators (2015–2021).

SUKUK (Islamic bonds): The amount of long-term financing in millions of USD issued every year, the measure of the volume of financing of the Shariah bond. The sources of the data are IFSB and Social Research and Training Centre for Islamic Countries.

TAKAFUL (Islamic insurance): Has a scale of millions of USD of annual contributions, the amounts of Shariah-compliant insurance activities. The information is acquired using IFSB and national financial reports. These units are precise and are compared across countries and years, and these variables are measured by these units, and they are fit to the econometric model.

PSU (Profitability * Sukuk): Multiplication form of profitability and Sukuk.

3.2 Econometric Models' Specification

This model's primary concern is to examine the impact of Islamic banks on economic development (FDI-Out) by incorporating the role of Sukuk, Takaful, and PSU within the FDI-Out function. The benchmark functional form of FDI-Out of the equation is as follows:

$$FDI - Out_t = f(PROF_t, SUKUK_t, TAKAFUL_t, PSU_t) \quad (1)$$

The empirical equation is stated thus:

$$FDI - Out_t = \beta_0 + \beta_1 PROF_t + \beta_2 SUKUK_t + \beta_3 TAKAFUL_t + \beta_4 PSU_t + \mu_i \quad (2)$$

We use FDI-Out as an indicator of economic development, while profitability, sukuk, takaful, and PSU are used to measure Islamic finance. In Eq. (2), FDI - Out is the outflows of FDI, PROF represents the profitability of Islamic banks, SUKUK is the Islamic bonds, TAKAFUL is the Islamic insurance, and PSU is the multiplication form of (PROF * SUKUK), respectively, while μ_i is a well-behaved error term assumed to have zero mean and constant covariance.

3.3 Hypotheses of Research

The model of the study has four hypotheses to accept or reject after conducting the analysis. The constructed hypotheses are as follows:

- H₁** = PROF has a significant and positive impact on FDI-Out.
- H₂** = SUKUK has a significant and positive impact on FDI-Out.
- H₃** = TAKAFUL has a significant negative impact on FDI-Out.
- H₄** = PROF moderates the positive impact of SUKUK on FDI-Out.

4. Results and Discussion

4.1 Statistical Analysis

Table 4 illustrates descriptive statistics to determine the characteristics of variables utilized in the model of the study. Summary statistics suggest that the variation of outflows of FDI (M = 5655.28; SD = 6514.422) is greater than the variation of Takaful (M = 3342.488; SD = 5038.094) and lesser than the variation of Sukuk (M = 9698.501; SD = 11348.25). The variable the varied most in the mentioned model from the means of data is PSU. In Table 4, we observed that the highest value of Islamic banks' profitability in 2021 reached 2.5 from 0.67 in 2015, with a standard deviation of 0.429. This indicates the high growth of the Islamic finance industry in recent years, especially in Islamic banking. Based on the Pearson coefficient of skewness, the data is positively skewed because the value of skewness looks positive for all variables. The kurtosis value > 0 means the data's peak (including all variables) is very high from the asymmetrical distribution curve named leptokurtic.

Table 4. Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max	p1	p99	Skew.	Kurt.
FDI-Out	63	5655.280	6514.422	-12200	23859.910	-12200	23859.910	0.900	4.344
PROF	63	1.626000	0.429000	0.6700	2.5000000	0.6700	2.5000000	0.304	2.754
SUKUK	63	9698.501	11348.25	3.4700	39603.449	3.4700	39603.449	1.146	3.227
TAKAFUL	63	3342.488	5038.094	-22.730	16861.881	-22.730	16861.881	1.551	3.883
PSU	63	14464.77	16234.538	4.4070	59870.656	4.4070	59870.656	1.064	3.090

Note: *Obs* = number of observations; *Std. Dev.* = standard deviation; *p1 (p99)* = 1st (99th) percentile; *Skew.* = skewness; *Kurt.* = kurtosis; FDI-Out = Foreign direct investment outflows; PROF = Profitability of Islamic banks; SUKUK = Islamic bonds; TAKAFUL = Islamic insurance; PSU = Profitability* Sukuk. Source: Data processed by Stata 18.

Table 5 explains the weak and negative relationship between FDI-Out and Islamic banks' profitability. Sukuk has a weak and positive relationship with outflows of FDI. A strong and positive relationship exists between Takaful and FDI-Out, but PSU has a moderating positive relationship.

By increasing the profitability of Islamic banks by 1 unit, the FDI-Out will decrease by about 2741.25 units. By increasing 1 unit, Sukuk will reduce the outflow of FDI by 0.47300 units. A change in 1 unit of Takaful or PSU will lead to changes of 0.9070 and 0.397 FDI-Out, respectively. These relationships are significant at different levels of signification, and keep in mind that for each relationship between the variables, other variables will remain constant. An F-value of 0.000 indicates the fitness or goodness of the model for the study we utilized. The

coefficient of determination (R^2) shows 69% of independent variables estimating the output variable (Y); the remaining variable that changes, about 31% of the response variable, did not take place in the model of the study (see Table 6).

Table 5. Correlation matrix

Variables	(1)	(2)	(3)	(4)	(5)
(1) FDI-Out	1.000				
(2) PROF	-0.139	1.000			
(3) SUKUK	0.370	-0.273	1.000		
(4) TAKAFUL	0.788	-0.062	0.266	1.000	
(5) PSU	0.426	-0.141	0.968	0.297	1.000

Note: FDI-Out = Foreign direct investment outflows; PROF = Profitability of Islamic banks; SUKUK = Islamic bonds; TAKAFUL = Islamic insurance; PSU = Profitability* Sukuk. Source: Data processed by Stata 18.

Table 6. Regression analysis

FDI-Out	Coef.	St. Err.	t-Value	p-Value	[95% Conf. Interval]	Sig
PROF	-2741.25	1335.447	-2.050	0.045	-5414.437 -68.063	**
SUKUK	-0.47300	0.201000	-2.350	0.022	-0.875000 -0.0700	**
TAKAFUL	0.90700	0.099000	9.160	0.000	0.709000 1.1050	***
PSU	0.39700	0.138000	2.880	0.006	0.121000 0.6730	***
Constant	5921.713	2345.603	2.520	0.014	1226.479 10616.9	**
Mean dependent var		5655.280		SD dependent var		6514.422
R^2		0.695000		Number of obs		63
F-test		33.03700		Prob > F		0.000
Akaike crit. (AIC)		1219.479		Bayesian crit. (BIC)		1230.194

Note: FDI-Out = Foreign direct investment outflows; Coef. = Regression coefficient; St. Err. = Standard error; PROF = Profitability of Islamic banks; SUKUK = Islamic bonds; TAKAFUL = Islamic insurance; PSU = Profitability* Sukuk; *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$. Source: Data processed by Stata 18.

After data analysis through Stata 18, The acceptance or rejection of the hypotheses is concluded as shown in Table 7:

Table 7. Summary of hypothesis testing results

No.	Hypotheses	p-Value	Remarks
1	H_1 = PROF has a significant and positive impact on FDI-Out.	0.045	Rejected
2	H_2 = SUKUK has a positive impact on FDI-Out.	0.022	Rejected
3	H_3 = TAKAFUL has a negative impact on FDI-Out.	0.001	Rejected
4	H_4 = PROF moderates the positive impact of SUKUK on FDI-Out.	0.060	Accepted

Note: PROF = Profitability of Islamic banks; SUKUK = Islamic bonds; TAKAFUL = Islamic insurance; FDI-Out = Foreign direct investment outflows.

Figures 2 and Figure 3 are the panel data trend plots that represent cross-country differentiation in FDI-Out, PROF, SUKUK, TAKAFUL, and their interconnections between 2015 and 2021. The Indonesian case indicates that FDI-Out are high in correspondence with moderate bank profitability and significant takaful activity, in line with the regression finding that TAKAFUL has a positive effect on FDI-Out. The UAE is characterized by high Islamic bank profitability and issuance of sukuk, which means that it has lower FDI-Out, which agrees with the character of negative coefficients of PROF and SUKUK in the regression. The interaction term (PSU) is manifested in the countries where the trends of sukuk issuance and profitability are related, and it means the conditional impact on outward investment. By projecting trends with reference to the approximated coefficients, the numbers support the causal processes suggested in the regression model instead of summarizing data.

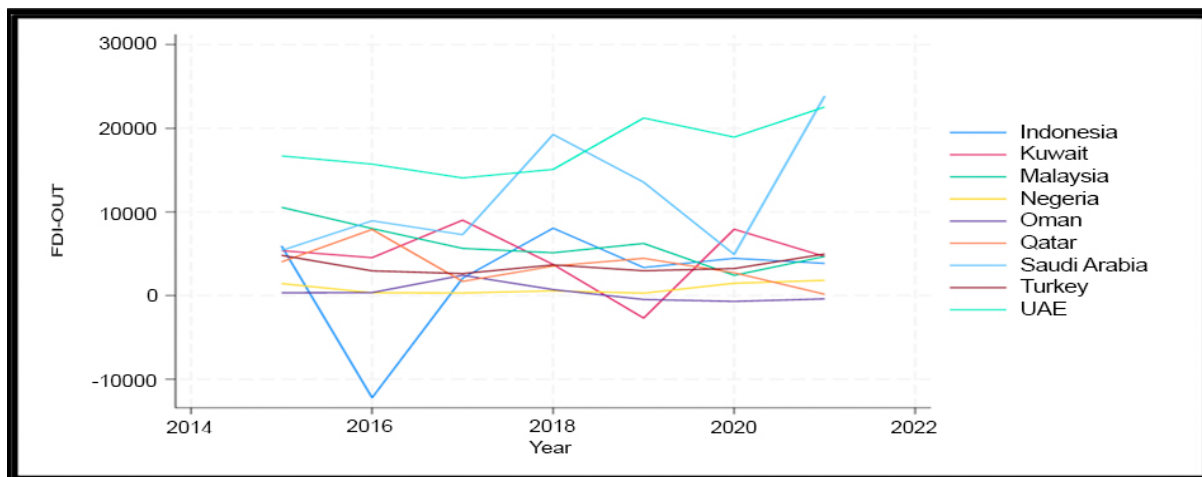


Figure 2. Panel data line plots
Source: Data processed by Stata 18.

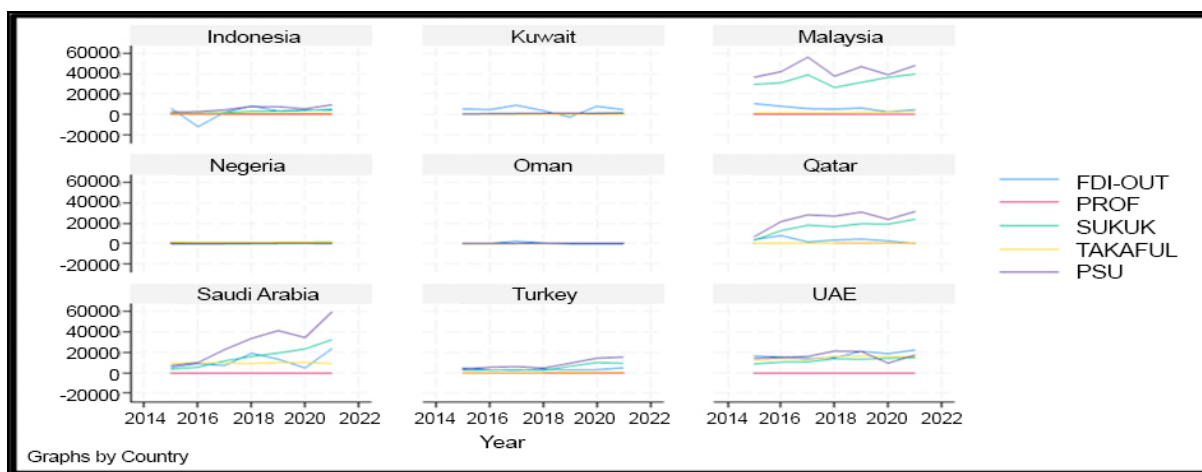


Figure 3. Panel data line plots
Note: FDI-Out = Foreign direct investment outflows; PROF = Profitability of Islamic banks; PSU = Profitability * Sukuk.
Source: Data processed by Stata 18.

5. Conclusion and Suggestion

The Islamic and capitalist economies differ in several ways, with the most significant distinction being that the Islamic economy strictly prohibits interest “Riba” and speculation “Gharar” while also enforcing shariah-compliant practices such as PLS (Salam, Murabaha, Mudarabah, etc.) and wealth redistribution (Zakat, Waqf, and Sadaqah). Banking assets comprise 69.3% of the Islamic financial service industries (IFSI) portion, followed by sukuk at 29.8% and takaful contributions at 0.9%.

On the one hand, ordinary least squares regression models show a negative and significant correlation between FDI outflow and Islamic bank profitability and Sukuk. On the other hand, the outflow of FDI is positively and significantly associated with takaful and the multiplication of profitability and Sukuk. This result is valid and applicable for Türkiye, Kuwait, Qatar, UAE, Oman, Malaysia, Indonesia, Saudi Arabia, and Nigeria to impoverish their economy through Islamic banking, Sukuk, and Takaful. Indonesia must invest domestically in Islamic banking and sukuk rather than in any foreign country to make a profit from Islamic banking and sukuk. But Takaful suggests FDI rather than domestic investment in Islamic finance because the relationship is positively correlated between FDI-Out and Takaful. Now each country could focus on sharing the coefficient of the impact of Islamic finance on economic development (FDI-Out) to implement a policy (Islamic banking and Sukuk rather than Takaful or inverse) for further effective growth.

The paper uses the ordinary least squares regression that lacks a consideration of country-specific heterogeneity and the possibility of endogeneity and reverse causality between Islamic finance and FDI-Out. Consequently, estimates can be biased when there are unobserved characteristics of a country or a two-way relationship. These concerns can be dealt with in future studies by employing fixed-effects models to capture the heterogeneity of

countries or using GMM to reduce the effects of endogeneity and reinforce causal inference. The regression model gives information about the causal mechanisms according to which Islamic finance instruments influence FDI-Out:

PROF: The lower coefficient (-2741.25, $p < 0.05$) states that an increase in profitability leads to an increase in the availability of domestic capital, thus making firms less interested in investing in foreign countries. On the other hand, reduced profitability constrains domestic investments, which promotes outbound foreign investments.

Sukuk (SUKUK): The negative value (-0.473, $p < 0.05$) indicates that when sukuk is issued more intensively, domestic investment is enhanced through the long-term, asset-backed financing, which could lower outbound FDI.

Takaful (TAKAFUL): The positive value (0.907, $p < 0.01$) indicates that risk reduction by means of Islamic insurance allows companies to invest across borders, increasing FDI-Out.

Interaction of PSU: The coefficient is positive (0.397, $p < 0.01$) to indicate that outflows of FDI are influenced by sukuk depending on the profitability of the bank. That is, the issuance of sukuk is more efficient in cross-border investment when banks are more profitable. The findings highlight the role of the Islamic finance instruments in the capital allocation: the profitability defines the amount of local funds available, sukuk offers structured financing, and takaful minimizes risk. The model shows the direct and conditional economic processes that propel FDI-Out, and not policies.

This study used FDI-Out as a dependent variable of the research model; other researchers could focus on other key factors of economic development (poverty, advancement of technology, agriculture, industry, population, types of political regimes, sustainable development, culture, religion, domestic and foreign finance, equality, etc.) to create the association with Islamic finance. We used such variables of Islamic finance as regressors of the model [Islamic Banking, Sukuk, Takaful, (Profitability*Sukuk)]; other researchers could focus on other key factors of Islamic finance [Islamic Mutual Funds, Other Islamic Financial Institutions, (usage of different proxies compared to this research for Islamic banking, Sukuk, and Takaful)], etc. to create an association with economic development. Differentiation of research method, period, region, and country is the other choice to investigate the association between Islamic finance and economic development for comparison, neither conducted individually for regions nor countries.

The research is based on the data of 2015–2021, which is somewhat narrow but at the same time a short sample period. Although it is adequate to represent the trends in Islamic finance and FDI-Out as observed in the recent past, the findings might not be suitable to reflect the overall trends in the long run. Also, the second half of the sample is aligned with the COVID-19 pandemic, which could have had a short-term impact on investment behavior and financial performance. These aspects are possible weaknesses, and the scope of future studies can be expanded to confirm the strength of the results.

Author Contributions

Conceptualization, H.H. and İ.E.Ş.; methodology, H.H.; formal analysis, H.H.; investigation, H.H.; data curation, H.H.; writing—original draft preparation, H.H.; writing—review and editing, İ.E.Ş. and H.G.; supervision, İ.E.Ş. All authors have read and agreed to the published version of the manuscript.

Data Availability

The data used to support the research findings are available from the corresponding author upon request.

Conflicts of Interest

The authors declare no conflict of interest.

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