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The Effect of Sukuk Issuance on the Domestic Investment and the Foreign Direct Investment in Malaysia during 2001–2024.

Azzouza Amani, Economic and Management LABECOM, Abdelhamid Mehri University of Constantine 2 (Algeria), amani.azzouza@univ-constantine2.dz

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Abstract:

Enter This study aims at examining the effect of sukuk issuances in Malaysia on the domestic investment and the foreign direct investment during 2001-2024. Findings show a positive short-term effect for sukuk issuances in Malaysia on both domestic investment and foreign direct investment during the study period. However, a positive long-term effect was observed only on the foreign direct investment. In addition, the effect on the domestic investment was found to be greater than on the foreign direct investment.

Keywords: Sukuk Issuances, Domestic Investment, Foreign Direct Investment

Jel Classification Codes: G23, E22,F21

1. INTRODUCTION

Recently, the Islamic finance tools, mainly sukuk, have witnessed a global wide spread and turned available to all individuals, institutions, and governments around the world. In this regard, sukuk were one of the best tools for funding large projects that could not be funded by one source, and seemed the best option for the investors who want to invest their surplus thanks to their positive results in funding and investment in many economic sectors.

Thanks to the importance and prevalence of sukuk as a funding tool, many Western and Arab countries issued and adopted Mudaraba, Musharaka, Salam, and other types of sukuk to face the budget deficit, revitalize the financial markets, or fund development and infrastructure projects.

The effect of sukuk issuances went beyond the financial aspects to include several macroeconomic indicators, such as the economic growth, employment, and investment. In this regard, investment was one of the most affected indicators due to its high sensitivity to changes in the funding environment, particularly in countries that were striving to promote Sharia-compliant funding alternatives, such as Malaysia whose market had witnessed remarkable development during several years and ranked first in the world in terms of value. Since Sukuk have really entered the Malaysian stock market in 2000, and because of the availability of data from 2021 to 2024, the following problematic is raised:

Do sukuk issuances have an effect on the domestic and the foreign investment in Malaysia during 2001–2024?

From this question, sub-questions arise as follows:

1. Is there a positive short-term effect of sukuk issuances on domestic investment in Malaysia during the study period?
2. Is there a positive long-term effect of sukuk issuances on domestic investment in Malaysia during the study period?
3. Is there a positive short-term effect of sukuk issuances on foreign direct investment in Malaysia during the study period?
4. Is there a positive long-term effect of sukuk issuances on foreign direct investment in Malaysia during the study period?

Objectives of the research: The research aims to highlight the role of the sukuk in attracting the domestic and foreign direct investments in Malaysia by defining sukuk and their types, discussing the Malaysian sukuk market, and measuring the effect of sukuk issuances on both domestic and foreign direct investments in Malaysia.

The importance of research: This study covers one of the critical topics in the Islamic economy. In this regard, Islamic finance has a large presence and importance economically and socially. In addition, the proliferation and success of sukuk and their large entry into the financial markets have been witnessed, contributing to the development of the Islamic economy.

Research methodology: In order to achieve the research objectives, the descriptive approach was used to describe the phenomenon and define sukuk and their role in funding. Besides, the analytical approach was employed to analyze the results obtained, and a case study to study the case of sukuk issuances in Malaysia.

Research plan: In order to achieve the research objectives, Sukuk issuances and foreign direct investment in Malayasia, and the model and econometric methodology were tackled.

2. Literature Review:

The study of Hatem Ahmed Adela (2024): it analyzed the effect of issuing Islamic securities (including Sukuk) on DI in Malaysia during 2005-2019 using cointegration models and VECM. Findings showed a long-term balance between Sukuk issuance and the growth of DI, and that Sukuk have a significant positive effect on DI.

The study of Ahmed Amine Sadallah (2025): it tackled the factors that affect the issuance of Sukuk in 05 emerging markets, namely Malaysia, Indonesia, KSA, Turkey, and UAE during 2005-2024. The variables included FDI flows, governance, and development of the financial market. Findings showed that Sukuk issuance is positively related to the depth of the financial market, the quality of governance, and FDI flows, and is negatively related to the interest rates.

The study of Ayus Ahmad Yusuf et al. (2025): it aimed at identifying the role of Sukuk in fostering the economic development and reducing poverty in ASEAN states during 2019-2023. The study used Panel Data, Fixed Effects, and ARDL models to examine the relation between Sukuk issuances, GDP, and poverty rates. Findings showed that Sukuk positively contribute to boosting growth in the long-term and help reduce poverty rates through funding infrastructure projects and social development.

This study is different than the previous studies in the fact that it covers a longer period and that is more modern. This adds more credibility to its results and reflects the latest developments in the Malaysian Sukuk market. Besides, the study exclusively focuses on Sukuk without other Islamic funding tools. This allows for a better understanding of their effect. In addition, the study focuses on FDI and DI, instead of the macro effect on the economic growth. Finally, the study considers the short and long-terms to reveal the temporal effect on Sukuk. This enriches literature and deepens analysis.

3. Sukuk Issuances and Domestic and Foreign direct Investments in Malaysia.

Islamic sukuk issuances in Malaysia are vital for the financial market architecture, as they have progressively played a critical role in mobilizing both domestic and foreign investments. By providing Sharia-compliant financing instruments, Malaysia has positioned itself as a leading center for Islamic finance and attracted capitals from investors who prefer the Islamic financial transactions, particularly from the Gulf region and Southeast Asia. Besides, sukuk have facilitated the process of funding the strategic public and private projects and, thus, increased the domestic investment. (Muhamat *et al*, 2024, p. 212)

3.1. The Concept of Sukuk:

Despite the numerous definitions of Sukuk or Islamic securitization, they all converge on a single meaning:

Sukuk have been defined as the conversion of a group of illiquid income-generating assets into tradable Sukuk backed by these assets. The returns on these Sukuk are based on their cash flows and on their sale in the financial

markets, taking into account the regulations of exchange. (Khan & Habib, 2003, p. 06).

Sukuk are new products that have emerged on the scene. They are financial instruments of equal value that represent undivided ownership shares in a portfolio of existing or future "qualified" assets, such as usufructs, services, and commercial activities. These instruments allow investors to obtain a common share in the ownership of tangible assets, benefits, services, or a specific project. They are issued in accordance with the provisions of Shari'a, which ensures the legitimacy of the investment and its freedom from interest (riba). (Sayd, 2008, p. 04)

The "Accounting and Auditing Organization for Islamic Financial Institutions" (AAOIFI) defines investment sukuk as financial instruments of equal value that represent unified shares in real assets, services, or projects, with their private subscription being accepted and their funds being used to operate specific investment projects. (Itam *et al*, 2022, p. 36)

The achievements of Islamic financial institutions have led to a call for the creation of capital market instruments to manage the liquidity balance of their balance sheets. To achieve this goal, the Islamic Fiqh Academy of the Organization of Islamic Cooperation, at its fourth session held in Jeddah, Saudi Arabia, from February 6 to 11, 1988, legitimized the concept of sukuk. This paved the way for the creation of an alternative financing source that responds to different levels of risk and return, and covers the needs of issuers and investors who adhere to the principles of Shari'a, and who are not permitted to invest in traditional debt instruments. The primary function of sukuk is to provide an alternative to traditional bonds, as they yield returns similar to conventional bonds but in a Shari'a-compliant manner. (Ariff *et al*, 2012, p. 17) (Bouhadda & Attaoui, 2023, p. 611).

3.2. Sukuk Properties: Sukuk are characterized with: (Maatallah & Shiriaq, 2012, p. 242) (Ben Amara, 2011, p. 255)

- They are based on the principle of participation in profit and loss.
- They are documents issued in the name of their owner in categories of equal value.

- Sukuk are issued based on a legitimate contract.
- Sukuk represent a share of assets that are devoted for investment,
- Sukuk are tradable in the stock market.

3.3. Types of Sukuk:

The Accounting and Auditing Organization for Islamic Financial Institutions pointed to the existence of more than fourteen types of sukuk. However, the focus will be on the most widespread sukuk, which will be divided into two types.

3.3.1.The First Type: tradable sukuk:

They are Sukuk that represent shares in the ownership of objects or benefits; therefore, they can be traded.

3.3.2.The Second Type: non-tradable sukuk:

They are sukuk that cannot be traded because they are based on debts (Ben Gaid, 2023, p. 209)

Table 1. Types of Sukuk

Non- tradable sukuk	Tradable sukuk
Sukuk al Salam	Sukuk al Ijara
Sukuk al Murabaha	Sukuk al Musharaka
Sukuk al Istisna'a	Mutual Funds Sukuk
	Sukuk al Mudharabah

Source : (Islamic Financial Services Board, 2024, p. 65)

3.4. Sukuk Market in Malaysia

Sukuk have witnessed a great development after the global financial crisis of 2008 and gained a prominent role in supporting the economy and increasing savings. Malaysia is the pioneer of this field, as it has the largest market of Islamic finance, and because it issued several issues of Sukuk and has ranked first globally in terms of issuance value (Except in 2007 and 2008, where UAE ranked first).

3.4.1. Global Sukuk issuances in Malaysia:

Sukuk were first issued in Malaysia by the government in 1990. However, the real issuances for trading in the security market were in 2000, where Malaysia witnessed an important development by integrating the first investment fund that goes with the Islamic Sharia, allowing the individual investors to participate in the market. In addition, Shell MDS Company

issued the first commercial sukuk that respect Sharia, marking an important turning point in diversifying the Islamic funding tools in the stock market. A report by the Malaysia securities committee stated that these initiatives are part of a national strategy to foster the position of the Islamic capitals in Malaysia. (Securities Commission Malaysia, 2000)

Malaysia has been ranked almost every year as the top global issuer of sukuk, with a large share compared to the rest of the world. Based on the cumulative size of sukuk issuances from 2001 to 2023, Malaysia maintained a leading global position, with total domestic and international issuances amounting to approximately 945 billion USD. In this regard, it is followed by Saudi Arabia, with approximately 267.92 billion USD, and Indonesia, with around 191.72 billion USD. This rank reflects the significant gap between Malaysia and other major sukuk-issuing countries, highlighting Malaysia's sustained dominance in the global market of sukuk, (International Islamic Financial Market, 2024, p. 20)

3.5. Domestic and Foreign direct Investment in Malaysia

Both foreign and domestic investments play a crucial role in driving the economic growth and development. While foreign direct investment brings capital, advanced technologies, and global market access, domestic investment strengthens domestic industries, supports entrepreneurship, and ensures the circulation of wealth within the country. Together, they contribute to job creation, innovation, and long-term economic stability.

3.5.1. Domestic Investment in Malaysia:

Since 2010, about 80% of the approved projects in Malaysia have come from the domestic investment while the rest were from foreign the direct investment. According to the website "Invest Malaysia", the key areas for domestic investment are: (Invest Malaysia, 2023)

- **Manufacturing and Electronics:** Malaysia is a global center for semiconductor production, hosting multinational companies and benefiting from a strong supply chain. Through the "NIMP 2030" plan, the government aims to enhance local capacities in integrated circuit design and advanced packaging.

- **Renewable Energy:** The government is placing increasing emphasis on the renewable energy and expanding tax incentives to include projects such as green hydrogen, wind energy, solar power, and waste management to promote the environmental sustainability.
- **Tourism and Hospitality:** The tourism sector is vital for the economy, as the government aimed to attract 20 million international tourists by 2024 and achieve revenues of approximately 70 billion Malaysian Ringgit.
- **Medical Device Industry:** Malaysia is a regional center for medical device manufacturing, exporting over 90% of its production to global markets. The government is supporting this sector by encouraging innovation and expanding high-value-added products.

These sectors reflect Malaysia's commitment to enhancing the domestic investment and diversifying its national economy, contributing to inclusive and sustainable economic development.

3.5.2. Foreign Direct Investment in Malaysia:

Key Sectors of Foreign Direct Investment (FDI) in Malaysia in 2023: (Malaysian Investment Development Authority, 2023)

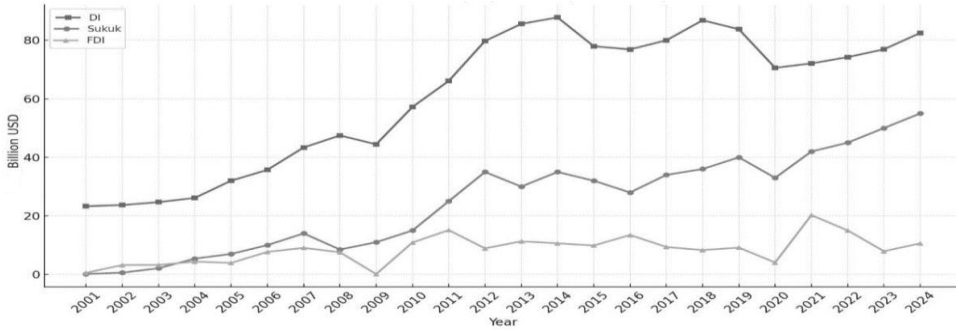
The industrial sector attracts significant investments, particularly in electronics and electrical appliances. In 2023, the total investment in this sector amounted to approximately 99.8 billion Malaysian Ringgit.

- **The services sector** including financial services, and information technology telecommunications witnesses a sustainable growth, with investments totaling 117.7 billion Ringgit in 2023.
- **The primary sector** consistently draws investments, particularly in mining and natural resources, with total investments in 2023 reaching 7.5 billion Ringgit.
- As for the other fields, they include **Information and Communications Technology**, which attracted 45.6 billion Ringgit; **real estate** with 44.4 billion Ringgit; **wholesale and retail trade** with 9.2 billion Ringgit; **utilities** with 6.3 billion Ringgit; and **financial services** with 6.0 billion Ringgit.

3.6. Development of Sukuk issuances and domestic and foreign investments in malaysia:

The following figure illustrates the evolution of Sukuk issuances, domestic investment, and foreign direct investment during 2001–2024 in malaysia (Appendix 01). In this regard, it is observed that:

Fig.1. Development of Sukuk and Domestic and Foreign Direct Investments



Source : Prepared by the author (Appendix 01)

- **Sukuk**: Sukuk have experienced gradual growth since 2001, with a noticeable speed after 2010. This trend reflects the development of the Islamic finance market in Malaysia and the increasing reliance on this instrument to fund various projects.

- **Domestic Investment (DI)**: Domestic investment has shown a long-term upward trend, with minor fluctuations, indicating a relatively stable domestic economic environment.

- **Foreign Direct Investment (FDI)**: has exhibited considerable volatility over the period, reaching its highest levels in 2011 (15.12 billion USD) and 2021 (20.25 billion USD). These peaks suggest strong responses to improvements in global economic conditions following major crises, including the Global Financial Crisis and COVID-19.

After discussing the Sukuk market and the Foreign Direct Investment in Malaysia, it is important to briefly address the economic role of Sukuk to understand their relation with FDI.

4. Model and Econometric methodology:

In order to assess the effect of sukuk on domestic and foreign direct investments in Malaysia during 2001–2004, the following steps were followed:

4.1. Model variables: The model of the study consists of two dependent variables and an independent one:

4.1.1. Sukuk (SUK): it is the independent variable in this study.

4.1.2. Domestic Investment (DI): it is the dependent variable in this study.

4.1.3. Foreign Direct Investment (FDI): it is the dependent variable in this study.

4.2. The statistical description of the study variables: The arithmetic mean, the median, the max and min values, the standard deviation, and the normality test of each variable are as follows:

Table 2. the statistical description of the study variables from 2001 to 2024.

Variables (Annual)		Mean	Median	Max	Min	Std. dev.	jurque-bera	sig
Billion US D	Suk	24.74	29	55	0.16	16.61	1.48	0.47
	DI	60.79	71.33	87.81	23.31	23.31	2.75	0.25
	FDI	8.52	8.98	20.25	0.11	4.77	0.32	0.85

Source: Author's Calculation based on EViews 12 Output.

The descriptive statistical results of the variables under study during 2001–2024 revealed that the average value of sukuk issued in Malaysia was 24.74 million USD, with a standard deviation of 16.61, indicating a noticeable degree of dispersion among the values. Similarly, the mean value of domestic investment reached 60.79, with a standard deviation of 23.31. As for the foreign direct investment, the mean value was 8.52 with a standard deviation of 4.11. Based on the difference between the maximum and minimum values and the standard deviations of both domestic and foreign investments, it is evident that there is a high level of dispersion among the observed values.

Despite the significant differences between the maximum and minimum values, particularly in the case of domestic and foreign investments, the descriptive statistical results generally indicate that the studied variables do not show any substantial statistical distortions. Therefore, the data will be retained without removing outliers, as they do not have a significant effect

on the probability distribution according to the Jarque-Bera test, which shows that all variables follow a normal distribution.

4.3. Model Specification:

The model is specified as follows: $\text{Investment} = f(\text{Sukuk}) \ldots$

Since this study includes two dependent variables, two models are proposed as follows: $DI = B_0 + B_1 Suk + e \ldots\ldots\ldots (1)$

$FDI = B_0 + B_1 Suk + e \ldots\ldots\ldots (2)$

Where:

Suk: Sukuk

DI: Domestic Investment

FDI: Foreign Direct Investment

e = Stochastic or Error term

B_0 = Intercept of relationship in the model/constant

B_1, B_2 = Coefficients of each independent or explanatory variable

4.4. Econometrics Methodology:

Before building the model and understanding how the variable of sukuk effects investment during 2001-2024, the stationarity and cointegration of the time series must first be tested:

4.4.1. Stationarity of the time series:

The concept of non-stationarity in time series first emerged in the 1970s (John & Sons, 2013). When the time series of a model is non-stationary, it can lead to spurious or meaningless regressions, where R^2 value may appear deceptively high, resulting in an inaccurate representation of the model. to determine whether a time series is stationary, the Dickey-Fuller unit root test shall be used.

The results presented in the following table indicate that the sukuk and domestic investment variables show non-stationarity at the level, but achieve stationarity after the first difference. On the other hand, the foreign direct investment is stationary at the level and at the first difference because it does not contain unit root, as shown below:

Table 3. Unit root results- Augmented Dickey-Fuller test statistics

Variables	Level		First Difference	
	Test statistics	**Result**	**Test statistics**	**Result**
Suk	-0.224156	Non-Stationary	-5.366122*	Stationary
DI	-1.366279	Non-Stationary	-3.238562**	Stationary
FDI	-3.593481**	Stationary	-4.412778*	Stationary

Note:* Significant at 1% , ** Significant at 5%, *** Significant at 10%.
Source: Author's Calculation based on EViews 12 Output.

4.4.2. First Model: This model examines the effect of sukuk issuance on domestic investment: $DI = B_0 + B_1 Suk + e \dots\dots\dots (1)$

According to the methodology of Angle & Granger, since the variables (suk, Di) are integrated of the same degree, meaning that it is stationary on the same level, whether at the level or first difference, the stationarity of the residuals e_t of the original model will be tested.

$H_0 \rightarrow \beta = 0$ → Null Hypothesis suggests the presence of a Unit Root in residuals.

To test the stationarity of the residual series, the calculated t-statistic (from the Dickey-Fuller test) was compared to the critical values at 1%, 5%, and 10% significance levels, considering the three model specifications (None, intercept, intercept and trend). The results indicated that the calculated t-statistic exceeded all the critical values across the different cases and significance levels, leading to the acceptance of the null hypothesis about the presence of a unit root. Accordingly, the residual series is non-stationary at the level, meaning that the variables are not cointegrated.

Since the time series stationarity tests revealed that the study variables are non-stationary at the level, but attain stationary at the first difference, and since the cointegration test indicated the absence of a long-term relationship between the variables, the effect of changes in Sukuk on the changes in the domestic investment will be estimated using an Ordinary Least Squares regression model by calculating the first difference of the variables. This methodology is used to examine the short-term dynamics between the variables, without assuming the presence of a long-term relationship.

After estimating the model using the Ordinary Least Squares (OLS) method, and after confirming the residuals stationarity, the Durbin-Watson test confirms that the residuals are serially uncorrelated, indicating no evidence of autocorrelation. Moreover, the normality of the residuals was tested, showing that the residuals followed a normal distribution. However, the White test for heteroskedasticity showed a p-value below the threshold of 0.05, indicating the presence of heteroskedasticity in the residuals.

Based on these results, and although the model shows no autocorrelation and the series residuals are stationarity and follow a normal distribution, the model shows heteroskedasticity; therefore, the issue was corrected using the White robust standard errors method. Thus, it no longer affects the accuracy of hypothesis testing and the statistical significance of the coefficients. The following table presents the estimated coefficients:

Table 4. Estimated Regression Results (OLS Model)

Variables		**Coefficients**	**Standard Error**	**T- Statistics**	**Probability Value**
Independent Variable	Sukuk	0.729540	0.201799	3.615185	0.001
constant	B_0	0.834001	1.487972	0.560495	0.581
Simple period		2001-2024		**R-squared**	0.274915

Note: * represents 1% level of Significance, ** represents 5% level of Significance.

Source: Author's Calculation based on EViews 12 Output

According to the estimated regression results for the relationship between sukuk issuance and domestic investment, it is concluded that there is a significant direct relationship between sukuk and domestic investment, meaning there is a positive effect of sukuk on the domestic investment. This implies that every 1 billion increase in sukuk issuance leads to a 0.8 billion increase in domestic investment. Moreover, R^2 indicates that 27% of the variation in domestic investment can be explained by changes in sukuk issuance, however, these effects are observed only in the short run. R^2 results show that many other factors that affect domestic investment are not found in the model, such as the governmental policies, interest prices, inflation, investors' rust, economic crises, etc.

4.4.3. Second model:

$$FDI = B_0 + B_1 Suk + e \dots\dots\dots (2)$$

According to the ARDL (Auto-Regressive Distributed Lag) modeling approach developed by Pesaran & Shin (1999), it is possible to estimate relationships between variables that are stationary at different orders, meaning the variables are stationary at levels I (0) and at first difference I(1). Since the variables (SUK and FDI) in this model are stationary at the different orders -one is stationary at the level and the other is stationary at the first difference-, ARDL bounds testing approach is considered appropriate for examining the effect of sukuk issuance on foreign direct investment (Pesaran et al, 2001, pp. 290-297).

Table 5. Estimated Regression Results for Model One (ARDL Model)

Variables	Coefficients	Standard Error	T- Statistics	Probability Value	R-squared
FDI(-1)	-0.189222	0.217935	-0.868250	0.3967	0.346192
FDI(-2)	-0.452732	0.217365	-2.082822	0.0518	
Suk	0.289503	0.083392	3.471589	*0.0027	
B_0	6.815240	1.916050	3.556922	*0.0023	
Simple period	2001-2024	Durbin-Watson stat		1.958940	

Note: * represents 1% level of Significance, ** represents 5% level of Significance.
FDI(-1): This represents the value of (FDI) in the previous period (one year ago).
FDI(-2): This represents the value of (FDI) (lag of 02 periods).
SUK: This is an independent variable with no lag (no time delay).
Source: Author's Calculation based on EViews 12 Output

The econometric form of equation (1) is represented as:

FDI = 6.81 -0.18*FDI(-1) - 0.45*FDI(-2) + 0.28*SUK

The estimated ARDL model shows an acceptable level of goodness of fit. This is evidenced by the coefficient of R^2, which reached 0.3461. This indicates that approximately 34.61% of the variations in foreign direct investment (FDI) can be explained by the independent variable (sukuk) included in the model. In addition, the overall significance of the model is confirmed with F-statistic, where the value reached 4.70 with an associated probability (p-value) of 0.01. Since the p-value is less than 5%, the model is

statistically significant, meaning that the independent variables collectively have a meaningful effect on foreign direct investment.

Based on the results of the equation, sukuk have a statistically significant effect on the foreign direct investment, with a coefficient of 0.28 at the 1% significance level. This indicates that an increase in the size of sukuk positively affects the foreign direct investment in the short term. Overall, these statistical indicators support the validity and reliability of the estimated model, allowing for a confident interpretation of the economic results.

The Bound Testing approach is used to investigate whether sukuk have a long-term effect on the foreign direct investment.

Table 6. ARDL Long Run Form and Bounds Test

Variables	Coefficients	Standard Error	T- Statistics	Probability Value	R-squared
Suk	0.176316	0.031613	5.577371	*0.0000	
B_0	4.150690	0.985492	4.211795	*0.0005	0.346192

Note: * represent 1% level of Significance, ** represent 5% level of Significance.
Source: Author's Calculation based on EViews 12 Output

The econometric form of equation (1) is represented as:

$$FDI = 0.017 + 4.15*SUK$$

The results indicate a statistically significant effect of sukuk issuances on the foreign direct investment in Malaysia in the long term during the study period. In this context, the sukuk coefficient (0.17**)** shows that a 01% increase in sukuk issuance redoubles the foreign direct investment flows.

4.5. Results analysis:

The study models show the effect of sukuk issuance on the domestic and foreign direct investments in Malaysia during 2001 and 2004. In this regard, after estimating the study models with OLS (first model)because the variables are stationary at the same degree, and with ARDL (second model) because they are not stationary at the same degree, the effect of sukuk issuances in Malaysia on DI and FDI flows during 2001–2024 was found as follows:

4.5.1. **The first model** measures the effect of sukuk issuance on the domestic investment flows and shows a positive effect in the long-term only, as the coefficient of determination shows that 27% of change in the domestic investment is the outcome of the change or increase of sukuk issuance. This may explained by:

- **The direct funding nature of sukuk** for the domestic projects, mainly in the productive sectors and infrastructure, what rapidly motivates the domestic investments.
- **The availability of liquidity:** when sukuk are issued, big liquidity is poured into the economy, encouraging the domestic companies to grow and invest thanks to the available loans.
- **The local investors' trust in the tools that go with Sharia:** Sukuk motivate and foster the trust of the local investors who want Islamic financial tools. Besides, the governmental policies in Malaysia support the use of sukuk as a main funding tool, making their effect on the local economy more direct and efficient in short periods.
- **Refunding:** Sukuk may be used in some periods as an alternative to refund the ongoing projects instead of funding new ones.
- **The type of funded projects:** usually, the returns of sukuk are devoted for specific projects and may be used in funding governmental ones. However, if these projects are not productive enough, their effect on the domestic investment will be short.

4.5.2. The second model: It measures the effect of sukuk issuance on the flows of the direct foreign investment in Malaysia and shows a positive effect in the short and long terms. In this context, the increase in sukuk issuance increases the direct foreign investment flows to 30% in the short-term and to 50% in the long-term. This is because:

- **The positive side:** The issuance of sukuk reflects the power and stability of the Malaysian market and sends immediate signals to the foreign investors about the quality of the investment environment.
- **The fast motivation of trust:** The sukuk that go with Sharia attract many foreign investors, mainly from the Gulf and Middle-East states because sukuk are subject to strict financial and religious standards. Since Malaysia

is an international center for sukuk, it is an attraction point for many foreign capitals that look for investments that go with Sharia.

- The provision of direct funding opportunities: the foreign companies working in Malaysia may directly take advantage of projects funded by sukuk (through supply, operation, and construction contracts) and, thus, widen their activities or reinvest their earnings.

- The increase of the relation between the private and public sectors through sukuk: The use of sukuk in partnerships between the two sectors encourages the foreign investors to start long-term projects.

- Fostering the state credit rating: The continuous success in issuing and managing sukuk fosters the sovereign rank of Malaysia and makes it more attractive for foreign capitals that look for a long-term secure environment.

5. CONCLUSION:

Sukuk were among the main Islamic funding tools. Therefore, they were attractive for investments that aim at financial diversity and commitment to the Islamic rules. Besides, they motivated the economic activity through funding the productive projects and infrastructure, and directly contributed to fostering the local investment through providing liquidity and funding opportunities for the national companies.

The findings show that Sukuk are an efficient tool to boost investment in states that aim at promoting their economies, mainly in the short term, through funding the productive projects and infrastructure, and through providing the necessary liquidity for the local companies. In addition, it is important to foster the policies of supporting Sukuk market and improve the regulatory environment to facilitate their issuance and exchange and foster the trust of local and foreign investors. Based on what was said, it is concluded that**:**

- There is a positive effect for sukuk issuance on the flows of the domestic investments in Malaysia in the short-term during the study period.
- There is no a positive effect for sukuk issuance on the flows of the domestic investments in Malaysia in the long-term during the study period.

- There is a positive effect for sukuk issuance on the flows of the foreign direct investments in Malaysia in the long and short-term during the study period.
- Sukuk provide a direct and fast funding to the local projects.
- Sukuk supply a financial liquidity that motivates expenditures and investments.
- The local and foreign investors' trust in sukuk attracts capitals that look for Islamic funding tools.
-Sukuk encourage the reinvestment of earnings and foster the local economy.
- Funding the foreign companies' projects with sukuk helps increase their activities inside the state.
- The use of sukuk in the long-term projects paves the way for the sustainable participation of the foreign investors.
- The success in managing sukuk fosters the international trust and makes the investment environment more secure in the long-term.

Although the results of this study were based on the Malaysian experience, they provide important views to other states that aim at developing their Sukuk markets. Besides, these results may help the decision makers design more efficient funding strategies by directing Sukuk issuances towards the productive projects and infrastructure, and towrads adopting motivational strategies that attract local and international investors. Besides, it is necessary to consider the economic and financial characteristics of each local market when applying such policies and recommendations to ensure their efficiency and sustainability.

6. Recommendations:

- Widening the use of Sukuk that are devoted for the productive projects and infrastructure because they have a direct effect on boosting the domestic investment.
- Encouraging issuing international Sukuk to foster the flows of FDI and the economic openness on the international markets.

- Developing the mechanisms of pricing and exchanging Sukuk to increase their attractively and efficiency in developing the financial resources.

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8. Appendices

Appendix 01: Development of Sukuk, Domestic and Foreign Direct Investments in Malysia during the period 2001-2024.

Years	Sukuk	DI	FDI	Years	Sukuk	DI	FDI
2001	0.16	23.31	0.55	**2013**	30	85.59	11.3
2002	0.6	23.68	3.19	**2014**	35	87.81	10.62
2003	2.1	24.7	3.22	**2015**	32	77.95	9.86
2004	5.4	26.14	4.38	**2016**	28	76.87	13.47
2005	7	32.01	3.92	**2017**	34	79.98	9.37
2006	10	35.72	7.69	**2018**	36	86.83	8.3
2007	14	43.36	9.07	**2019**	40	83.76	9.15
2008	8.5	47.48	7.57	**2020**	33	70.58	4.06
2009	11	44.45	0.11	**2021**	42	72.09	20.25
2010	15	57.21	10.89	**2022**	45	74.23	15.03
2011	25	66.1	15.12	**2023**	50	76.9	7.92
2012	35	79.75	8.9	**2024**	55	82,5	10,6

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