

Beyond Conventional Risk: The Alternative Political Economy of GCC Foreign Direct Investment Resilience in Malaysia, 2018–2023

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ABSTRACT:

This article examines the factors sustaining Gulf Cooperation Council (GCC) foreign direct investment (FDI) inflows into Malaysia during a period of concurrent and multidimensional instability between 2018 and 2023. Conventional political risk theory predicts that instability — encompassing political discontinuity, economic contraction, pandemic disruption, and governance turbulence — should prompt investor withdrawal. Yet GCC-linked capital maintained and substantially expanded its engagement with Malaysia over this period, growing from an estimated USD 1.82 billion in 2018 to USD 6.15 billion in 2023, a trajectory that directly contradicts mainstream FDI theory. Drawing on an interpretivist-constructivist philosophical paradigm and 45 in-depth semi-structured interviews with Malaysian government officials, GCC diplomatic representatives, GCC investment executives, and academic experts, this study develops and empirically validates an original theoretical framework designated the Alternative Political Economy of Investment Confidence (APEIC). The APEIC framework proposes that GCC investor confidence is sustained not through the conventional institutional guarantees privileged in standard FDI theory, but through three interrelated alternative mechanisms: bilateral diplomatic relations, Malaysia's Islamic economic infrastructure, and shared Islamic identity. Findings reveal that GCC sovereign wealth funds operate under a dual mandate combining financial returns with national strategic objectives, and a long-term investment horizon of 15 to 25 years that renders short-term political instability comparatively negligible. The study extends Dunning's OLI Paradigm by proposing Islamic economic infrastructure as a novel category of location-specific advantage for GCC investors, and introduces

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‘total instability’ as a multi-dimensional analytical construct for the FDI literature.

Keywords: Foreign Direct Investment; Gulf Cooperation Council; Islamic economic infrastructure; political risk; Malaysia; sovereign wealth funds; OLI Paradigm

1. Introduction

The relationship between political risk and foreign direct investment (FDI) constitutes one of the most extensively theorised and empirically tested propositions in international political economy. The foundational work of Dunning (1988, 2001), Busse and Hefeker (2007), Jensen (2003), and Alesina and Perotti (1996) collectively establishes that institutional stability, governance quality, macroeconomic predictability, and rule-of-law assurance are foundational prerequisites for investor confidence. Under conditions of sustained political discontinuity, institutional erosion, or economic turbulence, conventional theory anticipates capital outflows, investment deferrals, and reduced FDI inflows. Yet the empirical record of GCC investment behaviour in Malaysia between 2018 and 2023 presents a significant and theoretically puzzling departure from these expectations.

During this period, Malaysia experienced what this study terms ‘total instability’ — a simultaneously occurring, multi-dimensional combination of political volatility (three Prime Ministers, two extra-electoral government transitions, and one hung parliament in 2022), severe economic contraction (5.6 per cent GDP decline in 2020 and a 54.8 per cent aggregate FDI decline in the same year), pandemic-induced disruption through successive Movement Control Orders (MCOs), and governance uncertainty arising from the prolonged fallout of the 1Malaysia Development Berhad (1MDB) scandal. By conventional theoretical expectation, this compound environment should have generated an unambiguous and sustained reduction in foreign investor confidence. Instead, investors from the six Gulf Cooperation Council (GCC) member states — Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Bahrain, and Oman — not only maintained but substantially increased their investment

engagement with Malaysia throughout this period.

Estimated GCC FDI inflows grew from USD 1.82 billion in 2018 to USD 6.15 billion in 2023, representing an increase of over 300 per cent across the study period (MIDA, 2022, 2023; Global SWF, 2024; UNCTAD, 2023). Major investment commitments — including the USD 27–28 billion Saudi Aramco–PETRONAS Pengerang Integrated Complex (PIC), the Qatar Investment Authority’s (QIA) estimated USD 12–15 billion portfolio in Malaysian assets, and the landmark 2023 Malaysia–UAE Comprehensive Economic Partnership Agreement (CEPA) — were maintained, deepened, or concluded precisely during the period of greatest instability. This empirical anomaly constitutes the central analytical puzzle that motivates the present study.

To address this puzzle, the study raises four interrelated research questions: (RQ1) What factors explain GCC FDI inflows into Malaysia between 2018 and 2023? (RQ2) How did bilateral diplomatic relations between Malaysia and GCC states influence these inflows? (RQ3) How did Malaysia’s Islamic economic infrastructure function as an investment determinant for GCC investors? And (RQ4) Why did shared Islamic identity and sociocultural affinity operate as factors of investment confidence? In addressing these questions, the study develops and empirically validates the Alternative Political Economy of Investment Confidence (APEIC) — an original theoretical framework that explains GCC investment resilience through three nested alternative mechanisms operating independently of the conventional institutional guarantees privileged by mainstream FDI theory. The article proceeds as follows. Section 2 reviews the relevant theoretical and empirical literature, identifying the research gaps that the study addresses. Section 3 presents the APEIC

theoretical framework. Section 4 describes the methodology. Section 5 presents the findings organised by research question. Section 6 discusses the findings in relation to the existing literature. Section 7 concludes with theoretical contributions, policy implications, limitations, and directions for future research.

2. Literature Review and Research Gaps

The study draws on four interconnected streams of literature, each of which illuminates a dimension of the Malaysia–GCC investment relationship while also revealing specific gaps that this study is positioned to address. The first and most foundational stream concerns conventional FDI determinant theory. Dunning's (1988, 2001) eclectic OLI Paradigm — encompassing Ownership, Location, and Internalisation advantages — remains the dominant framework for analysing the determinants of FDI. Within the OLI framework, location-specific advantages are particularly relevant to the present study, as they identify the characteristics of host economies that attract foreign capital. Conventional location advantages include market size and growth potential, factor cost differentials, infrastructure quality, and — crucially — institutional stability and governance quality (Dunning, 2001; Dunning and Lundan, 2008). This institutional dimension has received sustained elaboration through North's (1990) institutional economics framework, which establishes that credible constraints on government behaviour — encompassing protection of property rights, contract enforcement, and rule-of-law guarantees — are foundational to investment confidence. Globerman and Shapiro (2003) further demonstrate empirically that governance infrastructure, operationalised through World Governance Indicators, is among the strongest predictors of bilateral FDI flows. Empirical studies of FDI determinants in Malaysia — including Ang (2008), Lean and Tan (2011), and Goh and Wong (2014) — have similarly emphasised macroeconomic stability, trade openness, and institutional quality as principal determinants, without attending to investor-category differentiation or the specific dynamics of GCC-sourced capital. This omission

constitutes the first major gap the present study addresses.

The second relevant stream concerns political risk theory and its limitations when applied to sovereign institutional investors. The political risk literature establishes a robust negative relationship between political instability and FDI inflows (Busse and Hefeker, 2007; Jensen, 2003; Alesina and Perotti, 1996). Political instability is understood to threaten property rights, generate policy uncertainty, increase transaction costs, and reduce the expected returns on long-horizon investment commitments. As Alesina and Perotti (1996, p. 1204) summarise, 'political instability creates uncertainty about property rights and contract enforcement, which in turn reduces the expected returns on investment and increases investment risk.' However, this literature has developed predominantly in relation to conventionally-motivated private sector investors whose risk assessment frameworks closely track standardised governance indicators — notably the World Governance Indicators (WGI), the Transparency International Corruption Perceptions Index, and commercial country risk ratings. It has not adequately theorised investor-category heterogeneity — specifically the conditions under which sovereign wealth funds (SWFs) with state-mandated dual objectives may demonstrate systematic resilience to short-term political instability that contradicts conventional predictions. The GCC context exposes this theoretical lacuna with particular clarity: GCC SWFs operate under mandates that integrate financial return maximisation with national strategic objectives, and with investment horizons of 15 to 25 years that structurally discount short-term political volatility (Hvidt, 2013). Jakobsen and de Soysa (2006) have noted that state-owned investors tolerate political risk differently from private firms, but this insight has not been systematically theorised in the context of GCC investment behaviour. This gap constitutes the second major theoretical problem the present study addresses.

The third stream examines the role of bilateral diplomatic relations in facilitating investment flows. Keohane and Nye's (2001) framework of

complex interdependence provides a theoretical foundation for understanding how state-to-state relationships — encompassing legal frameworks, bilateral investment treaties (BITs), and diplomatic channels — shape the investment environment beyond what market fundamentals alone would predict. BITs, in particular, have been shown to provide investors with credible institutional guarantees that survive changes in government, reducing political uncertainty and facilitating long-term capital commitments (Elkins, Guzman and Simmons, 2006). The Malaysia–GCC bilateral investment framework — comprising BITs with all six GCC member states signed between 1987 and 2001, multiple memoranda of understanding, and the 2023 Malaysia–UAE CEPA — represents precisely this kind of state-to-state institutional continuity. Yet this dimension has received no systematic empirical attention in the Malaysia-focused FDI literature, constituting the third major gap this study addresses.

The fourth and most novel theoretical pillar is drawn from the literature on Islamic political economy and the sociology of investment. Tripp (2006) and Kuran (2004) offer foundational frameworks for understanding how Islamic normative principles — including the prohibition of *riba* (interest), the imperatives of *zakat* and *waqf*, and the concept of *amanah* (trustworthiness) — shape economic behaviour and institutional design in Muslim-majority contexts. Warde (2010) and Henry and Wilson (2004) further document how Islamic financial institutions operate according to distinctly different logics of trust and legitimacy compared to their conventional counterparts, logics that are particularly salient for GCC investors operating under Shariah-compliance mandates. Complementing this strand, Guiso, Sapienza, and Zingales (2006), in an influential empirical study drawing on data from over 66,000 individuals across 66 countries, demonstrate that cultural proximity — operationalised through religious affinity and shared civic values — significantly reduces bilateral transaction costs and enhances investor confidence. Their finding that shared religion is among the strongest predictors of

bilateral trust provides robust empirical support for the theoretical premise that shared Islamic identity between Malaysia and GCC states generates economically significant trust effects. Taken together, these four streams reveal a fourth and most original gap: the intersection of Islamic economic infrastructure, shared Islamic identity, and FDI behaviour has not been subject to systematic empirical analysis in any host economy context. The present study addresses all four gaps simultaneously through the development and empirical validation of the APEIC framework.

3. Theoretical Framework: The APEIC Model

The Alternative Political Economy of Investment Confidence (APEIC) is an original theoretical framework developed inductively from the empirical findings of this study and validated through iterative engagement with the theoretical literature reviewed above. The APEIC framework proposes that GCC investment confidence in a Muslim-majority host economy experiencing institutional turbulence is sustained not through the conventional institutional guarantees privileged in standard FDI theory, but through three interrelated alternative mechanisms that collectively constitute a ‘nested confidence architecture.’ These three mechanisms — bilateral diplomatic relations, Islamic economic infrastructure, and shared Islamic identity — operate at distinct analytical layers and through different causal logics, yet mutually reinforce one another to produce aggregate investment resilience that no single mechanism could sustain alone.

The outermost layer of the APEIC architecture consists of bilateral diplomatic relations, which provides the formal institutional scaffolding for the investment relationship. BITs, CEPA agreements, and sustained diplomatic-level engagement function as state-to-state guarantees that transcend the tenure of specific governments, providing investors with credible assurance that their contractual rights will be respected regardless of which political coalition holds executive office. This layer operates

through legal-institutional mechanisms and functions as the primary structural insulator against political risk — the institutional shell within which the other two mechanisms operate. Building inward from this outer shell, the intermediate layer consists of Malaysia's Islamic economic infrastructure — encompassing the sukuk market (30.4 per cent of global outstanding sukuk), the Shariah-compliant banking system regulated under the Islamic Financial Services Act 2013 (IFSA 2013), the JAKIM halal certification system recognised in over 85 countries, and the Malaysia International Islamic Financial Centre (MIFC). This intermediate layer functions as an alternative institutional quality signal for GCC investors: when conventional governance indicators deteriorate, the maturity, depth, and regulatory robustness of Malaysia's Islamic economic architecture provides a positive quality signal that partially substitutes for them. This layer operates through economic-structural mechanisms, translating civilisational alignment into concrete and Shariah-compliant investment vehicles.

At the innermost core of the APEIC architecture lies shared Islamic identity, which operates through civilisational trust — a baseline disposition of confidence rooted in shared religious values, ethical norms of business conduct (particularly *amanah*, or trustworthiness), and institutional identity alignment between GCC and Malaysian counterparts. This innermost layer operates through sociocultural mechanisms, reducing initial transaction costs and facilitating network-based information sharing through Islamic community channels including OIC forums, Islamic university alumni networks, and diaspora communities. Without this foundational layer of trust, the Islamic economic infrastructure would lose much of its signal value, and diplomatic engagement would be harder to initiate and sustain. Critically, however, this study also identifies the limits of the shared Islamic identity mechanism: it proved insufficient to neutralise investor concerns arising from the 1MDB scandal when GCC-linked entities were directly implicated in alleged financial irregularities,

demonstrating that civilisational trust operates as a trust-initiating rather than a trust-guaranteeing mechanism.

In extending the existing theoretical literature, the APEIC framework makes two principal contributions. First, it extends Dunning's OLI Paradigm by proposing Islamic economic infrastructure as a new category of location-specific advantage relevant specifically to GCC investors in Muslim-majority host economies — a category that Dunning's existing typology of natural resources, created assets, market size, and efficiency advantages cannot accommodate. Second, it contributes the construct of 'total instability' as an analytical improvement over the unidimensional political instability variables conventionally deployed in the FDI literature. Crucially, the three APEIC mechanisms do not operate independently: they form a synergistic and nested architecture in which the innermost layer of civilisational trust enables the intermediate layer of Islamic infrastructure investment, which in turn is protected and institutionalised by the outermost layer of bilateral diplomatic frameworks. It is this synergistic interaction — designated in the study as the 'Halal-Sukuk-Diplomacy Nexus' — that produces investment resilience exceeding what any single mechanism could generate independently.

4. Methodology

This study is grounded in an interpretivist-constructivist philosophical paradigm (Creswell, 2014; Lincoln and Guba, 1985). Ontologically, the study adopts a social constructivist position, recognising that investor confidence and investment decision-making are not objective phenomena determined solely by measurable economic variables, but are socially and culturally constructed processes shaped by meaning, interpretation, and relational context. Epistemologically, the study occupies an interpretivist stance, seeking to understand investment behaviour from the subjective perspective of actors embedded in the Malaysia-GCC investment relationship. This philosophical position directly informs the research design: a

qualitative case study approach is employed (Yin, 2018), with Malaysia–GCC FDI relations during 2018–2023 constituting the bounded case. The qualitative design is justified by the nature of the research questions, which are primarily concerned with causal mechanisms and interpretive logics underlying GCC investment decisions — questions that cannot be adequately addressed through quantitative regression analysis of aggregate FDI data alone. As Creswell (2014, p. 4) notes, qualitative designs are most appropriate when the central research questions seek to understand how and why phenomena occur, rather than measuring the magnitude of relationships between variables.

The primary data source consists of 45 in-depth semi-structured interviews conducted with four categories of informants: Malaysian government officials (n=15, coded MYG), GCC diplomatic representatives (n=10, coded DIP), GCC investment executives (n=12, coded INV), and academic and research experts (n=8, coded ACD). Informants were drawn from institutions including the Malaysian Investment Development Authority (MIDA), the Ministry of Investment, Trade and Industry (MITI), the Ministry of Foreign Affairs Malaysia (KLN), Bank Negara Malaysia (BNM), JAKIM, six GCC embassies in Kuala Lumpur, and GCC sovereign wealth funds including the Public Investment Fund (PIF), Qatar Investment Authority (QIA), Mubadala UAE, Kuwait Investment Authority (KIA), and Kuwait Finance House (KFH). Interview duration ranged from 60 to 100 minutes. Purposive and snowball sampling strategies were employed to access informants with direct professional experience of Malaysia–GCC investment relations, with data saturation achieved at the 38th interview and confirmed by the 45th. Secondary data sources include official investment statistics from MIDA, the Department of Statistics Malaysia (DOSM), Bank Negara Malaysia (BNM), and UNCTAD; bilateral investment treaty documentation; official CEPA texts; and institutional reports

from Global SWF, Deloitte, and EY. Qualitative data were analysed using NVivo 14 software following an inductive-deductive thematic analysis approach (Braun and Clarke, 2006), generating four primary themes, 18 sub-themes, and 1,847 coded interview excerpts across 45 transcripts and 73 secondary documents.

Methodological rigour was established through four-level triangulation — across informant categories, data sources, analytical methods, and theoretical frameworks — supplemented by member-checking with selected informants and systematic negative case analysis involving 23 divergent cases. Analytical decisions were documented reflexively in accordance with Lincoln and Guba's (1985) trustworthiness criteria of credibility, transferability, dependability, and confirmability. Full ethical clearance was obtained from UUM's Research Ethics Committee. All informant identities are protected throughout this article through a pseudonym coding system; no personally identifiable information is reported.

5. Findings

The findings are organised around the four research questions, beginning with the overarching factors explaining GCC FDI resilience (RQ1), followed by the three specific mechanisms examined in RQ2, RQ3, and RQ4, and concluding with an integrated analysis of their synergistic interaction.

With respect to RQ1, findings reveal that GCC FDI inflows into Malaysia during 2018–2023 were driven by a combination of four structurally interrelated factors: strategic complementarity between GCC national vision mandates and Malaysia's sectoral strengths; the long-term investment horizon of GCC SWFs; the dual mandate logic governing GCC SWF decision-making; and the collective operation of the three APEIC mechanisms examined under RQ2, RQ3, and RQ4. Table 1 presents the estimated GCC FDI inflow data that constitutes the empirical foundation of the anomaly under investigation.

Table 1: Estimated GCC FDI Inflows into Malaysia by Source Country, 2018–2023 (USD Million)

GCC Source Country	2018	2019	2020	2021	2022	2023	Total 2018–23
Saudi Arabia	680	560	470	1,020	2,340	2,510	7,580
United Arab Emirates	520	460	380	820	1,540	1,660	5,380
Qatar	310	250	200	580	970	1,130	3,440
Kuwait	190	150	140	320	480	500	1,780
Bahrain	65	55	40	95	160	190	605
Oman	55	50	35	85	150	160	535
GCC Total	1,820	1,525	1,265	2,920	5,640	6,150	19,320

Note: Figures are best-estimate approximations due to GCC SWF investment routing through intermediate holding jurisdictions. Source: Triangulated from MIDA (2022, 2023); DOSM eStatistik (2024); UNCTAD (2023); Global SWF (2024); Deloitte (2025).

As Table 1 demonstrates, GCC FDI experienced a temporary reduction in 2019–2020 coinciding with pandemic disruption, before recovering dramatically: GCC FDI increased by 130.8 per cent in 2021 alone, precisely when Malaysia’s aggregate FDI was still recovering from its 54.8 per cent contraction. The aggregate figure of USD 19.32 billion across six years is structurally inconsistent with the withdrawal behaviour predicted by conventional political risk theory under conditions of total instability. The most consistent finding across all 45 informants was the existence of strategic complementarity between GCC national vision frameworks — specifically Saudi Vision 2030, Qatar National Vision 2030, and UAE Centennial 2071 — and Malaysia’s established sectoral strengths in Islamic finance, the halal industry, petrochemicals, and logistics infrastructure. Forty of 45 informants explicitly identified Malaysia’s dual status as a Shariah-compliant financial hub and a globally recognised halal ecosystem as the defining factor in GCC investment decisions. One GCC investment executive characterised Malaysia as offering ‘the complete package — a mature and internationally recognised Islamic

banking system, a deep and liquid sukuk market, halal certification accepted in 85 countries, and a robust diplomatic history with our country’ (INV-09). Equally significant is the structural role of GCC SWF investment horizons: 38 of 45 informants confirmed that GCC SWFs operate within 15 to 25-year investment cycles that structurally insulate capital allocation decisions from short-term political disruptions, combined with a dual mandate combining financial returns with national strategic objectives confirmed by 40 of 45 informants. Together, these structural characteristics of the GCC investor category fundamentally reorder the risk calculus of GCC institutional investors relative to conventional private sector FDI actors — and set the stage for understanding the specific mechanisms examined under RQ2, RQ3, and RQ4.

Turning to RQ2, findings reveal that bilateral diplomatic relations functioned as the primary institutional buffer sustaining GCC investment confidence across government transitions. This mechanism operated through five distinct sub-mechanisms: the continuity function of BITs (confirmed by 44 of 45 informants), top-down signalling from GCC heads of state (33/45), the

institutionalised deepening signalled by the 2023 Malaysia–UAE CEPA (37/45), the continuity facilitation role of MIDA and GCC embassy channels (31/45), and the technical continuity provided by Joint Commission Meetings (28/45). The BIT mechanism is particularly analytically significant: Malaysia’s BITs with all six GCC member states — signed between 1987 and 2001 and continuously in force throughout the study period — provide state-to-state legal guarantees that explicitly survive changes in government. Informant DIP-04, a senior economic officer at a GCC embassy, articulated this logic as follows:

“The BIT between our two countries has been in force since 1988 — that is a state-to-state commitment, not a government-to-government arrangement that changes with every election.”

(DIP-04, GCC Embassy, Senior Economic Officer)

This distinction between state-to-state durability and government-to-government temporality was consistently articulated across GCC diplomatic informants as the primary cognitive framework through which they assessed Malaysian political transitions. The 2023 Malaysia–UAE CEPA further deepened this logic: the fact that CEPA negotiations continued uninterrupted across three successive Malaysian governments —

Pakatan Harapan, Perikatan Nasional, and the Unity Government — was itself interpreted by GCC investors as a positive signal of the bilateral relationship’s resilience independently of domestic political configurations. Taken together, these findings establish that the bilateral diplomatic layer of the APEIC framework operates as the outermost institutional insulator, converting state-level commitments into investor-level confidence.

With regard to RQ3, findings establish that Malaysia’s Islamic economic infrastructure functioned as an alternative institutional quality signal for GCC investors, partially substituting for the deteriorated conventional governance indicators during the study period. This finding is among the most theoretically significant in the study. All 45 informants confirmed that Malaysia’s sukuk market was directly relevant to GCC investment decision-making; 41/45 identified Islamic banking as a transaction cost-reducing mechanism; 38/45 identified JAKIM halal certification as a strategic investment opportunity signal; and 36/45 cited the MIFC as a platform facilitating institutional coordination between GCC and Malaysian Islamic financial entities. Table 2 summarises these key components and their confirmed relevance among informants.

Table 2: Malaysia’s Islamic Economic Infrastructure — Key Indicators of GCC Investor Relevance, 2018–2023

Component	Key Metric	GCC Investor Relevance (Informant Confirmation)
Sukuk Market	30.4% of global outstanding sukuk	Shariah-compliant capital deployment channel (45/45)
Islamic Banking (IFSA 2013)	25+ BNM-licensed Islamic banks	Transaction cost reduction; regulatory familiarity (41/45)
JAKIM Halal Certification	Recognised in 85+ countries	Strategic investment signal in halal sector (38/45)
MIFC	Global Islamic finance coordination hub	Institutional identity alignment; network facilitation (36/45)
Takaful	14%+ of Malaysian insurance market	Shariah-compliant risk management infrastructure (29/45)

Source: BNM (2021, 2023); JAKIM (2023); MIFC (2023); MIDA (2022); compiled by authors from primary interview data.

The underlying analytical logic is that when conventional institutional quality signals — WGI governance indicators, transparency rankings, political stability indices — deteriorated significantly for Malaysia during 2018–2023, GCC investors with Shariah-compliance mandates could not substitute alternative conventional signals. Instead, Malaysia's Islamic economic infrastructure provided a parallel set of quality signals that remained stable and robust throughout the instability period. Informant INV-03, a Vice President at a major GCC sovereign wealth fund, articulated this alternative risk assessment framework:

"Our risk assessment framework is fundamentally different from what conventional risk indices measure. We do not primarily use WGI or the Transparency International Corruption Index as leading indicators for Malaysia. What we look at are different dimensions — the maturity of the Islamic economic infrastructure: is the sukuk market still operating, is the Islamic finance regulatory framework intact? The answer is yes."

*(INV-03, GCC Sovereign Wealth Fund,
Vice President)*

This testimony illustrates how the intermediate layer of the APEIC architecture translates Islamic civilisational alignment into concrete investment rationale, operating in tandem with the diplomatic layer examined under RQ2. Proceeding to RQ4, findings demonstrate that shared Islamic identity operated as a trust-initiating mechanism through three distinct sub-mechanisms: civilisational trust rooted in shared Islamic values — particularly amanah (trustworthiness) as a normative baseline in business relationships (42/45 informants); institutional identity alignment between GCC and Malaysian Shariah governance frameworks (39/45); and Islamic community network facilitation through OIC channels, Islamic university alumni networks, and diaspora ties (34/45). Informant MYG-01, a Senior Director at MIDA with over eight years of direct experience in GCC investment facilitation,

captured the operational significance of this innermost layer:

"When we meet with GCC delegations, there is a level of comfort that exists, a commonality of values. This helps the negotiation process run more smoothly and more quickly."

*(MYG-01, MIDA, Senior Director, GCC
Investment)*

Critically, however, the study also identifies the clear limits of this mechanism. Twenty-two of 45 informants noted that shared Islamic identity proved insufficient to neutralise investor concerns when GCC-linked entities were directly implicated in alleged financial irregularities arising from the 1MDB scandal. This boundary condition confirms that civilisational trust functions as a trust-initiating rather than an unconditional trust-guaranteeing mechanism — it reduces initial barriers and facilitates relationships, but cannot substitute for institutional probity when that is directly and publicly called into question.

Considered together, the findings from all four research questions reveal a synergistic interaction designated in this study as the 'Halal-Sukuk-Diplomacy Nexus.' The three APEIC mechanisms operate in a specific directional logic: civilisational trust (innermost layer) opens initial channels of communication and reduces due diligence costs; Islamic economic infrastructure (intermediate layer) then provides concrete Shariah-compliant investment vehicles that translate trust into actual capital flows; and bilateral diplomatic frameworks (outermost layer) institutionalise those flows into legally protected commitments that survive changes in government. The removal of any single layer weakens the entire architecture — a finding with direct policy implications for how Malaysia should develop all three mechanisms simultaneously, rather than treating them as independent investment promotion instruments.

6. Discussion

The findings of this study challenge the universality of conventional political risk theory as applied to sovereign institutional investors

from Muslim-majority source economies. As Table 3 illustrates, the APEIC framework and conventional political risk theory rest on fundamentally different assumptions across six dimensions: investor type, primary risk signal,

investment horizon, response to instability, the analytical role of cultural and religious factors, and the function of bilateral diplomatic frameworks.

Table 3: Conventional Political Risk Theory vs. the APEIC Framework — Comparative Overview

Dimension	Conventional Political Risk Theory	APEIC Framework (This Study)
Investor type assumed	Private sector, profit-maximising firm	State-mandated SWF with dual mandate
Primary risk signal	WGI, corruption indices, political stability ratings	Islamic infrastructure integrity; BIT enforceability; civilisational trust
Investment horizon	Short-to-medium term	Long-term (15–25 years)
Response to instability	Withdrawal or deferral of capital	Resilience through alternative confidence mechanisms
Cultural/religious factors	Generally excluded from analytical framework	Central explanatory variables
Role of bilateral framework	Peripheral — background condition	Primary institutional buffer across transitions

Source: Authors' synthesis derived from APEIC framework empirical validation findings.

The fundamental divergence lies in the investor-type assumption embedded in conventional theory. Political risk models were developed primarily in relation to private-sector, profit-maximising firms whose risk calculus tracks standardised governance indicators. GCC SWFs, by contrast, operate under a fundamentally different logic: their dual mandate combines financial return with national strategic objectives; their long investment horizons structurally discount short-term political volatility; and their risk assessment frameworks are calibrated to signals — Islamic infrastructure integrity, BIT enforceability, civilisational alignment — that conventional political risk theory neither theorises nor measures. This finding advances what the study designates an ‘investor heterogeneity thesis’ — the proposition that investment behaviour in the face of political risk is not uniform but varies systematically according

to the structural characteristics of the investor category. This thesis refines rather than refutes conventional political risk theory: the theory remains valid for the investor type it was designed to model, but requires substantive extension to account for sovereign institutional investors operating under the logic of the APEIC framework.

A second and equally significant theoretical contribution concerns the OLI Paradigm. This study proposes Islamic economic infrastructure as a new category of location-specific advantage within Dunning's (1988, 2001) typology. The existing categories — natural resources, created assets such as technological infrastructure and human capital, market-seeking advantages, and efficiency advantages — cannot accommodate the specific attraction that Malaysia's Islamic economic architecture holds for GCC investors whose institutional mandates require Shariah-

compliant investment channels. The proposed extension represents a genuinely novel category: the presence of a comprehensive, internationally recognised, and regulatory-mature Islamic economic ecosystem that provides Shariah-compliant investment channels unavailable or less developed in alternative destinations; reduces transaction costs through regulatory familiarity and alignment with international Islamic financial standards (AAOIFI, IFSB); and functions as an alternative quality signal of institutional trustworthiness when conventional governance indicators deteriorate. This extension has implications beyond the Malaysia–GCC dyad: it suggests that any Muslim-majority economy with a comparably developed Islamic economic infrastructure could attract GCC capital on a basis that is partially independent of its conventional governance profile, thereby opening new strategic options for investment promotion across the Islamic world. A third theoretical contribution concerns the construct of ‘total instability.’ Existing empirical studies operationalise political instability through single-dimensional measures — government turnover rates, violence and political instability indices, or constitutional crises (Busse and Hefeker, 2007). The Malaysian case demonstrates that these unidimensional operationalisations fail to capture the compound nature of contemporaneous instability, where political, economic, pandemic, and governance dimensions interact and mutually amplify one another. A country simultaneously experiencing all four dimensions presents a qualitatively different investment environment from one experiencing only political instability, yet conventional measures treat these as equivalent on a single index. The total instability construct, by contrast, offers a multi-dimensional operationalisation that more accurately represents the severity and compound nature of the host-country environment. Its analytical value lies not only in better capturing instability severity, but also in enabling more precise investigation of which investor categories demonstrate resilience across different instability dimensions — a question the present study begins to address empirically and which warrants

further systematic inquiry in comparative FDI research.

7. Conclusion

This study has examined the theoretically anomalous resilience of GCC FDI inflows into Malaysia during a period of simultaneous and multi-dimensional instability between 2018 and 2023. Through 45 in-depth interviews and extensive secondary data analysis, the study has developed and empirically validated the APEIC framework — a novel theoretical account of GCC investment confidence that explains investor behaviour through three nested alternative mechanisms: bilateral diplomatic relations, Malaysia’s Islamic economic infrastructure, and shared Islamic identity. These mechanisms operate not independently but as a synergistic nested architecture, in which civilisational trust enables Islamic infrastructure investment, which is in turn protected and institutionalised by bilateral diplomatic frameworks. It is the interaction of all three layers — the Halal–Sukuk–Diplomacy Nexus — that produces investment resilience of the scale and consistency observed in Malaysia between 2018 and 2023. The study’s principal theoretical contributions are threefold. First, it demonstrates empirically that conventional political risk theory fails to predict or explain GCC SWF investment behaviour under conditions of total instability, establishing the investor heterogeneity thesis as a necessary refinement of existing theory. Second, it extends Dunning’s OLI Paradigm by proposing Islamic economic infrastructure as a novel category of location-specific advantage applicable to GCC investors in Muslim-majority host economies — a contribution with implications for how FDI determinant theory treats non-Western institutional contexts. Third, it introduces ‘total instability’ as a multi-dimensional analytical construct that improves upon unidimensional political instability measures in the FDI literature. These three contributions are interconnected: the investor heterogeneity thesis explains who demonstrates resilience; the extended OLI framework explains what structural features enable that resilience; and the total instability construct provides the

analytical vocabulary needed to accurately characterise the conditions under which resilience is most theoretically significant.

For policy, the findings carry clear implications for Malaysia and analogous Muslim-majority host economies. The depth, regulatory maturity, and international recognition of Malaysia's Islamic economic infrastructure — particularly the sukuk market, JAKIM halal certification, and the IFSA 2013 framework — constitute durable structural advantages in attracting GCC capital that remain functional even when conventional governance indicators deteriorate. Sustaining and deepening these structural advantages should be a priority for investment promotion strategy, particularly given the growing diversification mandates of GCC SWFs under their respective national vision frameworks. At the same time, bilateral investment treaties, CEPA agreements, and sustained high-level diplomatic engagement should be maintained as formal institutional continuity mechanisms that protect investment relationships across electoral cycles. The study also cautions that civilisational trust alone is insufficient to sustain investment flows when institutional probity is directly compromised — as the 1MDB case illustrates — underscoring the importance of governance integrity as a necessary complement to the APEIC mechanisms.

The study has several limitations that motivate directions for future research. The findings are specific to the Malaysia–GCC bilateral context

and may not generalise directly to other Muslim-majority host economies or to other GCC investment destination contexts. The study also relies on purposive sampling, which may reflect access biases inherent in elite interviewing. Future research should pursue systematic comparative analysis — examining whether APEIC mechanisms operate similarly in other Muslim-majority ASEAN economies such as Indonesia or Brunei, or whether Malaysia's configuration of Islamic economic infrastructure constitutes a genuinely singular case. Quantitative modelling of the relative weight of each APEIC mechanism on bilateral FDI flows, where appropriately disaggregated data can be obtained, would usefully complement the qualitative architecture developed here. Finally, the applicability of the total instability construct to other compound crisis contexts beyond Malaysia merits systematic investigation, as it offers a potentially generalisable analytical tool for comparative political economy research.

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