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# QUANTITATIVE ECONOMICS JOURNAL

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## Pengantar Editorial

Volume kedelapan terbitan pertama ini berisi 2 artikel para dosen dari berbagai perguruan tinggi di Indonesia. Artikel pertama menganalisis 'Share Value' sebagai factor sosial dalam pengelolaan pengiriman uang. Artikel kedua membahas tentang Zakat dan Pembangunan Ekonomi: Studi di tiga negara muslim di Asia Tenggara.

Semoga artikel ini dapat memberikan kontribusi pada peningkatan kualitas keilmuan.

Salam Kemajuan,

Editor in Chief,

**Indra Maipita**

# **“SHARED VALUES” AS A SOCIAL FACTOR IN MANAGEMENT OF REMITTANCE IN THE MIGRANT FAMILY**

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## ***Abstract***

*In economics, remittance is family income. Thus, the discussion of the use of remittance is identical with the analysis of the income management as well. In many studies that have been conducted on management of remittance as a family income, generally, the analysis is focused on economic aspect affecting the management of that income, or the benefits of remittance in improving the economic wealth or welfare for the family. This paper lies at the intersection of the considerable scholarly literatures, on economic factors that underlie the decision-making, and the reality of the working of the “shared values” variable, affecting the considerations of agent. Focusing on the analysis of the management of remittance on migrant families in 3 villages in the district Bululawang, Malang-Indonesia, this paper tries to analyze the “shared values” characteristic influences the behavior of agent in managing their income. Those “shared values” are: (a) the physical value of the house as a marker of social status, (b) the meaning of gender relation for the agent..*

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*Keywords: shared values, remittances, family income.*

## **INTRODUCTION**

**T**he significant number of international migrant from Indonesia, leads the consequence of the big remittances that sent to their families too. As a note, based on various data during the period of 1985-2005, there had been an increase in the number of international migrants from each island in Indonesia. Moreover, from the data of the World Bank, the amount of remittances had reached; 6,794 million U.S. dollars in 2008. In 2009 6,793 million; 6,916 million in 2010; 6,924 in 2011, and in 2012, 7,180 million U.S. dollars. The previous number are enormous, especially when it is associated with the discussion on welfare of community.

According to International Fund for Agricultural Development (IFAD, 2008), these remittances are 'financial counterpart' which is 'the result' of migration from the financial side as well as a real contribution to the

development of migrant origin. In line with this, Haas (2007) also delivered that migration and remittances as well as the potential to improve the welfare (well-being), stimulate the economic growth and directly and indirectly reduce poverty.

In Indonesia, remittance is also considered to be the source of welfare, from its support to the economic sustainability of family or household economy. In the framework of aggregate economic analysis. Remittance is included in the discussion of the *Marginal Propensity to Consume* (MPC). In the meantime, this income is identical with the discussion of the economic behaviour of households, mainly the concept of wealth (welfare) and utility (satisfaction) in the individual study.

However, in the case of Indonesian labour migrant (the so-called TKI), an overview of changes in consumption due to income, is being little bit different. In many ways, people consider the TKI as "poor" due to inadequate income. Thus, due to psychological conditions (i.e. poverty) in this group, when there is a significant rise in income earned from overseas compared to working in local job field, there will be a large increase in consumption. The significant rise of income creates the "leap" of consumption

Another interesting point in the concept of income for this migrant workers is, the reality that the management of that income is not only influenced by their individual decision, but also certainly influenced by their husband/wife, parents, children, and relatives. Thus, if in the theory of income in economics, the decision-making usage of income (consumption) is based on individual considerations recipient of such income, then this theory is not applicable on TKI's condition. This condition can be viewed as a differentiator between remittance with other types of income. Although remittance is equally as income, but because it is more complex and involves a lot of hands (with the family wishes or even cultural differences), "remittance" will certainly reveal many interesting and important reality to be studied further. In a short, the management of remittance is not only related to those individual who generate it alone.

The neoclassical economics explain the issue of management of income in the study of wealth and utility. This analysis is little bit different from the phenomenon of remittances usages. It is commonly understood that

classical/neoclassical economics is a science-centered (nexus) on rationality, individualism, and equilibrium. "Economic rationality" can be understood as an act of personal interests in order to achieve maximum satisfaction (Zavirovski, 2003). On this basis, then the economic problems, the central assumption, is used to analyze about the rationality. Furthermore, this assumption is necessary to build a theory that has predictive power over human behavior to meet their needs. Rationality later became the basis of all models in modern economic theory developed to date. Within the individual, "rationality" is embodied in the availability of knowledge or estimates (considerations) the result of something done. Furthermore, self-interest, become the point here. Economics literature explains in the concept of rationality, economic actors to act rationally if he did something that suits his self-interest.

The important thing to be emphasized in the view of this conventional economics is that the concentration of the increase in utility "only" directed at the values of materialism (without touching the spiritual and ethical values) in community life. In the fact, in the further traces sometimes there are individual economic actions that are not backed by the economic aspects/considerations only but also affected by noneconomic or social motivations. Similarly, in terms of remittance issue in its utilization, there are times when remittance is not merely an act against the backdrop of economic motives. In reality, in the usage of remittances, there are other things outside of the economic factors that affects someone in the management of his remittance. According to Chow (2007), internal migration in China creates unique opportunity to learn how value Traditional Filial Piety has required their offspring to make their income, partially or overall, used to support their families in place origin. Thus, it can be said that in the management of revenues (remittances), the decisions on it are not only backed by purely economic motives (eg, desire to eat to achieve maximum utility and further define wealth), but also influenced by other things outside individual economic considerations mean. Haas (2007) also revealed migration and remittances that are part of the decision making that is important and not only the individual concerned, but also about family and other things.

As a consequence of the desire to analyze other dimensions in the problem of management of remittances, besides using its own basic neoclassical



economic thinking, this research also enrich the discussion by analyzing through the view of other disciplines, in this case is socio-economic. As Guillen (2011) noted, it is commonly understood that neoclassical economic theory portrays economic actors in a quite atomistic fashion as if they were in social vacuum, carefully weighting costs and benefits, and with an eye to promote their self-interest. But, if we look at economic problems at a more holistic view, that human beings are not viewed only as *homo economicus* but also *homo sociologicus*, then we understand that there are other reason than economics motives alone that influence agent's act.

This research reveals that there is a social motives (outside of the economic motive) i.e value, especially "shared value", that underlie their decision to use the income they earn from working abroad, and wanted to uncover, what shared value are that influence their decision to use their income. Many studies have been done on the use of these remittances, mostly mapping it in two aspects; consumptive or productive usage. *Adams and Cuecuecha* (2007) who conducted a study to analyze the impact of international remittances on poverty and household consumption and investment in Indonesia said that the poverty rate factor which will determine the consumptive use of remittance. This means that the poor international migrant workers, will likely increasingly consumptive in their remittance's management. While *Malone* (2007) through his studies in Mexico had evaluated the ability of migrant remittance for spur the development of *human capital* through investments in children. *Malone's* study revealed that sex workers who migrate and gender of the recipient will determine the pattern of allocation of remittances. This study shows that migrant remittances sent by Dad will be managed productively for investment, primarily for *human capital* investment in children. *Rosen* (2007) through his study of remittances and risk-tolerance, uncovering the reality that perceptions of receiving remittances will affect the management of remittances for productive rather than consumptive.

From many studies that have been around, yet many key issues such as analyzing what social variable that affects the management of remittance, before analyzing its impact on the welfare of migrant or migrant's family. In addition, most of analysis these studies is conducted with the positivistic view. Otherwise not many studies that analyze the utilization of remittance

by interpretive view, mainly in what aspects that shape the behavior of individual in the utilization of remittance.

The objective of this study is explore and explain in depth the issues of shared value in the management of remittance with interpretive viewpoint..

## **RESEARCH METHODS**

On the consideration of the complexity of the research question to be answered on non positivistic paradigm, so this study used the qualitative research methods for the analysis. The individual behavior in making the decisions for their income are not only viewed in the causes of economic motives that consentrate on (i) gain, (ii) profit, or (iii) something that has a material value, but also from the standpoint of other causations beyond the economic issues. These causations are the noneconomic motives, where are often seen as the factors that operate outside of the economics law.

This study was conducted in Malang. In particular, this study taken the informants of international migrant workers (TKI) conducted in 3 villages in the district Bululawang, Malang regency.

The unit of analysis in this study is the allocation of family income (remittance) associated with the interactions between the individuals in the revenue management process by the TKI and their family, and also the perception of the actors in the process of interaction, especially regarding the shared values that underlie the decision-making.

The informants of this study are: (1) the TKI and their families, that were able to express the perceptions, attitudes and actions when "dealing" with the "environment" in determining decision-making in relation to the management of their remittance, (2) other parties from which the data can be obtained (also serves as a test of the validity of the data), which is directly or indirectly involved in the determination of the decision-making process on the management of remittance, and (3) supporting informant (who also serves as a test of the validity of the data). The research data collection is done by emphasizing the process rather than the outcome.

The data were collected using several methods: (1) unstructured interviews to explore the complexity of issues in depth (2) field observations were carried out by put the investigators on the position of the investigated

person. For the test of the validity, this study uses triangulation (using multiple sources of information in order to verify and strengthen the data) either in the different data collection methods (interviews and observations) and the use of informants supporters.

## RESULTS AND DISCUSSION

The results obtained by this study suggest that the aspects of shared value have underlie the behavior of individuals in the management of their remittance. Those “shared values” are: (a) the physical value of the house as a marker of social status, (b) the meaning of gender relation for the agent.

The shared value aspects that related to the management of remittances that have been cultivated by the community in the area of research is their perspectives on the success of working abroad. This perspective have been internalized in their aspects of life and their circumstances and become the agreed value among them. In this case, the value of the success of individual e.g the physical value of home that "luxury", complete with interior in it, are highlighted on their.

The results and field observation of this study, shown that in the form of house building that contained by family of TKI, it can be easily identified which house is the most striking in the appeal of the nearest neighbors. The aspect of shared value that can be identified here are: houses which is large, with the stong color of paint or the wall of the houses are tiled. Furthermore, these houses are also equipped with the latest trend of furnishings and furniture, plus household electronic devices, or anything else that can be something as markers and affirmation of the success story of working abroad.

According to Daskon and Binns (2009) the individuals and the community does have its own values, and so are the meanings, habits, knowledge systems, that define the identity and the differences in diversity and play a key role in the sustainability of livelihoods.

The Aspect of *shared value* of the success stories highlighted in the physical form of the house building as a social identity can be observed in the shape of houses which are tend to be uniform among them, with the physical characteristics that are easily recognizable. For themigrant workers and

their families, the physical value of the house viewed as the success story of working abroad, as well as a marker of social identity/status in their society.

The next aspect of shared value obtained in this study is the reality of the meaning of gender relations among the migrant workers and their families. The results of field studies and observations got the information about the fact that many migrants who go abroad are female workers. From another point of view, there is also considered that the phenomenon of the high mobility of migrant workers as an indication of the aggressiveness of the mobility of women compared to the men.

Specifically, the case is referred to as evidence of the erosion of the hegemony of patriarchal oriented power system or in other conditions; it is still in a patriarchal hegemony, but with a lot of leeway (see Daulay, 2001: 8-9).

## CONCLUSION AND SUGGESTIONS

Many of people considerations refer to the loosening of the power system as a result of global capitalism. This consideration is based on the reason that the permissive husband that gave the permission to his wife to work abroad shows that migrant families are more egalitarian. The supporter of theories of feminism who often did the elaboration of the patriarchal-matriarchal concepts, domination and hegemony by gender background, etc, are often identified the capitalism as the main variable as a causation in the analysis of gender relations rather than to see it in terms of another.

Meanwhile on the aspects of woman migrant that departure to abroad, this study has a little bit exaggerated. Based on the findings in the field it can be known that the reason they got permission by their husband (for married woman) or family (for unmarried woman) are the economic limitations and the closing opportunities for men. Of all the informants who met said that there was no reason for permissiveness that is backed by reason of the egalitarianity or the awareness of gender relation.

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# ZAKAT AND ECONOMIC DEVELOPMENT: STUDY IN THREE MUSLIM COUNTRIES IN SOUTHEAST ASIA

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## *Abstract*

*This study has main objective to analyze the effect of zakat on per capita income as one indicator of economic development. The data is analyzed by Cobb-Douglas production function and panel data analysis model. Study findings show that zakat significantly and positively affect on per capita income. This study also found that compared to Foreign Direct Investment (FDI), most popular instrument of government to increase economic development, zakat has a greater coefficient. In addition, Muslims as a majority population on average unable to contribute significantly to economic development. However, they could contribute to zakat as seen from increase in amount of zakat collection.*

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*Keywords: Zakat, per capita income, panel data, FDI*

## INTRODUCTION

Central Intelligence Agency (CIA) in Southeast Asia explains three countries that have a Muslims majority population. Indonesia has 87.2% population Moslem and the largest Muslim Southeast Asia, followed with Brunei Darussalam with a Muslim population of 78.8% and Malaysia with 61.3%. In addition, total GDP Indonesia is largest compared to Malaysia and Brunei Darussalam. Indonesia's GDP in 2015 reached 861.9 billion dollars, while Malaysia and Brunei Darussalam were 296.2 billion dollars and 15.5 billion dollars respectively (World Bank, 2015).

Studies at 60s as Kindleberger (1958), Higgins (1959) and Krause (1961) emphasized many aspects of economic growth as a part of economic development of a country. Furthermore, Mankiw (2012) discussed Solow Growth Model by explaining the Cobb-Douglas production function as a function to explain economic growth with two variables very concerned, namely capital and labor. The capital and labor increase in same proportion

will increase output in that proportion. Unfortunately, output analysis describes only the economic development, the factors outside the economy excluded from analysis.

Ellen H. Palanca (1986) made a study the effect of religion on economic development. It was explained that core analysis in theory of economic development is human resources, natural resources, technology, and capital accumulation. The analysis does not include non-economic factors, as religion which he quoted from explanation Michael Todaro.

Furthermore, Omar, Hussin and Ali G.H (2015) conducted a study of relationship between Islam and economic development proxied by per capita income in Malaysia. They found that Islam as a religion adopted by majority of population had a significant impact on economic development in country. Furthermore, Askari, Iqbal, and Mirakhor (2015) also explained that Islam is a rule-based system. The state should provide incentives to comply rules in an Islamic perspective based on the Qur'an and Sunnah.

One incentives is *zakat* payment. Islamic teachings explains several verses in Qur'an the obligation of a Muslim to pay *zakat*, such as Al-Anbiya verse 73, Al-Hajj verse 41 and 78, An-Nur's verses 37 and 56 and many more. Theoretically, relationship between *zakat* and per capita income can be found in explanation of Mariyanti and Mahfudz (2016). They explained that *zakat* can become the largest source of funding to increase economic empowerment and also as an instrument in order to evenly distribute income to reduce poverty. Therefore, increasing *zakat* will also relate with increased income from poor people.

Several researchers of previous studies discussed *zakat*. Chodhury (1986) showed that higher *zakat* will affect to per capita income through higher investment. In addition, Mahat and Warokka (2013) showed that *zakat* is an instrument that will increase economic growth. Managerially, Toor and Nasar (2004) evaluated *zakat* as a social safety net program from Pakistan government. They found several things that must be addressed in *zakat* management to improve social welfare.

This study has the main objective is to analyze the effect of *zakat* on economic development. Solow theory framework is used to explain economic growth without non-economic factors in the analysis.

There are relationship between economic development, economic growth, and income per capita. Todaro and Smith (2011) explained that development process is a series of stages in continuous economic growth of all countries. Perkins (2001) explained that economic growth related to per capita income and also an increase in a country's national products. Krause (1961) also defined economic development as an achievement achieved by poor countries to increase their income per capita and their standard of life. Therefore, an indication of economic development can be seen from its economic growth and per capita income.

This study basically uses the Solow neoclassical growth model to explain economic growth of a country. Gross Domestic Product (GDP) data was used by economists to measure economic growth (Mankiw, 2012). Todaro and Smith (2011) explained that Solow neoclassical growth model uses the function of aggregate production where GDP is affected by capital and labor. These relationships can be explained by Cobb-Douglas production function to explain that capital and labor increase in same proportion will increase output with that proportion.

Todaro and Smith (2011) explained in neoclassical free-markets that foreign investment can increase capital accumulation. Solow in Growth Theory explained the labor input as a supply from population, so that population is also labor. At this level, phenomenon of three countries with majority Muslim population become the reason to analyze the of economic growth which will increase per capita income and also economic development.

In addition, Palanca (1986) argued that non-economic factors outside the economic development analysis actually always provide appropriate institutional motivations and procedures in community, one them is religion. Mirakhor and Askari (2010) further explained that economic development process put humans as the end result of process. Mirakhor and Askari (2010) also explained four components needed in development, namely equity, sustainability, productivity and empowerment. Mirakhor and Askari (2010) in Islam context described three Meta phrameworks of development whose ultimate goal is humans, namely self-development (*rushd*), physical development on earth (*istimar*) and overall development of humans consists of physical and self-development.

Omar, Hussin and Ali G.H (2015) conducted a study the relationship between Islam and economic development. It was proxied by per capita income in Malaysia. They found that Islam as a religion adopted by majority of population had a significant impact on economic development. Akari, Iqbal, and Mirakhor (2015) explained that Islam is a rule-based system. The state should provide incentives to increase the rules compliance in perspective of Islam that follows the Qur'an and *Sunnah*. One of incentives is paying *zakat*. Several verses in Qur'an clearly explain obligation of a Muslim to pay *zakat*.

## RESEARCH METHODS

We use the Cobb-Douglas production function with further modification below to illustrate the Solow neoclassical growth model.

$$F(K,L) = AK^{\alpha}L^{1-\alpha} \dots\dots\dots(1)$$

Mankiw (2012) explained that A is a parameter, the value is greater than zero, K is capital accumulation and L is labor force. This study uses FDI as a proxy for capital accumulation as presented by Todaro and Smith (2011). The uniqueness of Solow growth model to differentiate it from other growth theories is the model proposed by Solow can be modified by incorporating technology as an exogenous variable (Mankiw, 2012).

Mankiw (2012) said that technology was efficiency of labor. It was describe the knowledge owned by community about the production process. The technology increase also increases the efficiency of its workforce. Furthermore, in Solow growth model, concept population growth explains that labor input is a given supply from population, the population can include labor (Aghion and Howitt, 1999). Based on this concept, this study tries to develop it by specifying the existing Muslim populations only. This is because the Southeast Asian countries observed in this study have the largest Muslim population and aim to see the contribution of Muslims as a population to economic development proxied by income per capita. Furthermore, Palanca (1986) and Wan Omar et al (2015) showed that Islamic affect on economic development. We include a new variable, namely Islam, which is proxied by *zakat* as one obligations that must be fulfilled for every Muslim.

This study uses balanced panel data to combine cross-section with time-series (Matyas and Sevestre, 1996). We use data from 3 countries with

largest Muslim population in Southeast Asia (Indonesia, Malaysia, and Brunei Darussalam) with an 11-year time series for each country, starting from 2004-2014. The total observations are 33. Bolstad (2007) explained that minimum observation was 25 ( $n \geq 25$ ).

The advantage of panel data was to reduce multicollinearity problems and eliminate or reduce bias (Matyas and Sevestre, 1996). The collected data will be analyzed by evIEWS program. The data in this study have larger number of time series than the parameters. Based on Ekananda (2014) and Gujarati and Porter (2009), we use Fixed Effect Model (FEM) and to determine the heterogeneity in each character country, this study uses fixed effect least squares dummy variability (LSDV) (Gujarati and Porter, 2009). This study uses 3 countries with observed as dummy variables, then the dummy variables specified were two to avoid dummy-variable traps (Gujarati and Porter, 2009). Furthermore, because this study uses the Cobb-Douglas production function that not linear, according to Gujarati and Porter (2009), we must transform the model into a logarithmic equation, so that model in this study can be written as follows,

$$\ln Y_{it} = \ln a_0 + a_1 D_{1i} + a_2 D_{2i} + a_3 \ln CAP_{it} + a_4 \ln MPOP_{it} + a_5 \ln R_{it} + e_t \dots (2)$$

Where,

Notation	Operational Definition	Proxies
<b>Y</b>	Economic growth as an indicator of economic development	GDP per capita
<b>CAP</b>	Capital Accumulation	FDI
<b>MPOP</b>	Muslim population as labor supply	Muslim population
<b>R</b>	Islam	Total zakat accumulation
<b>E</b>	Error term (non-observable random term)	-
<b>A<sub>0...5</sub></b>	Constant	-
<b>I</b>	Individual data ( <i>i th subject</i> )	-
<b>T</b>	Time-series data (time period for each individual)	-

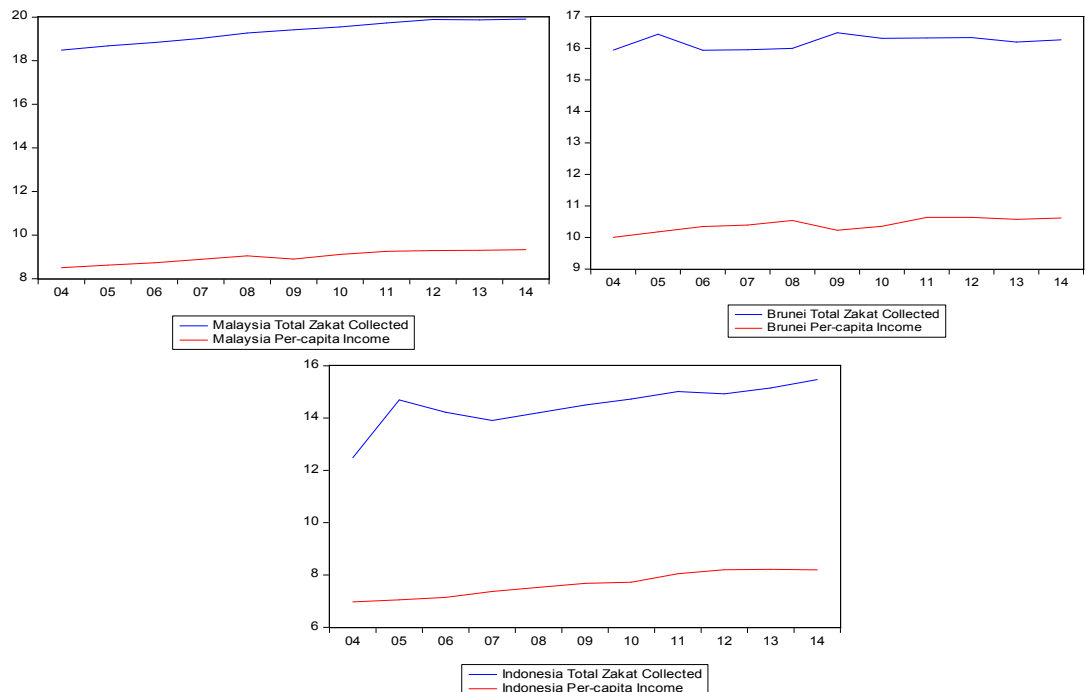
Source: researcher, 2016

The dummy variable is a notation to describe Dummy 1 ( $D_{1i}$ ) = 1 for Brunei Darussalam, and 0 for others, Dummy 2 ( $D_{2i}$ ) = 1 for Indonesia, and 0 for others, and 0 for Malaysia.



## RESULTS AND DISCUSSION

This study data comes from World Bank, CIA, National *Amil Zakat* Agency (BAZNAS), MUIB (Brunei Islamic Religious *Majlis*), Malaysia *Zakat* Collection Center, and others. The graph 1 illustrates the state of *zakat* and per capita income in three countries with largest Muslim population in Southeast Asia.



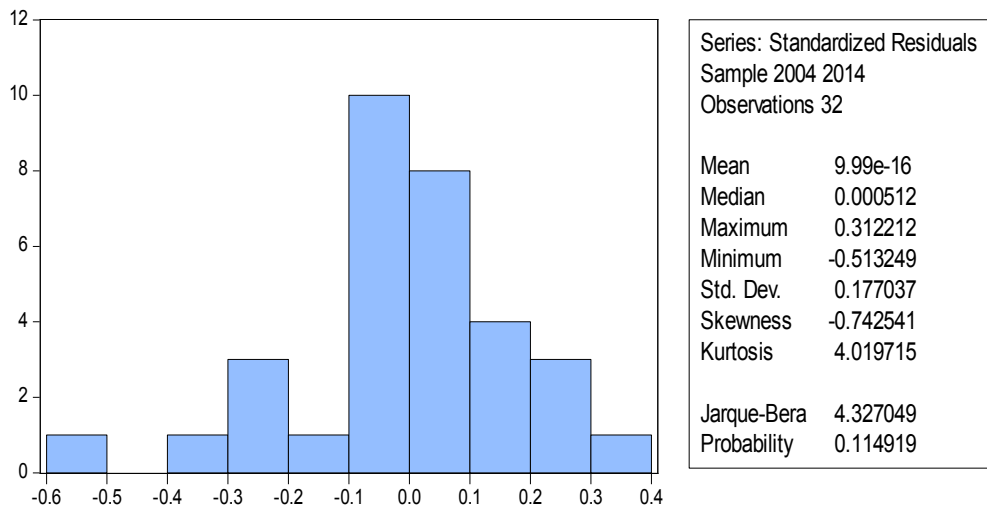
Source: Secondary data, 2017 (processed)

**Figure 1.** *Zakat* And Per Capita Income In Three Countries

Graph 1 shows trends similarities in all two three country for the increase in both capita income and in *zakat* collection. Per capita income in Indonesia continues to increase at a less volatile rate compared to Brunei Darussalam. Year 2009 showed a decrease in per capita income. While per capita income in Malaysia shows the same trend with Indonesia.

Total amount of *zakat* collected for Indonesia and Brunei show a volatile trend. IT very different from Malaysia to shows a steady increase from 2004 to 2014. Indonesia had a peak increase in its tax collection 2006 before finally a sharp decline until 2008, after that year, tax collection in Indonesia showed stable upward trend. The collection of *zakat* in Brunei fluctuated

and tends to be flat. Brunei has an increase in largest collection of peak double taxes in around 2005 and 2009.



**Figure 2.** *Jarque-Bera Normality test*

Normal distribution of data is shown by Jarque-Bera test. The results show a probability value of 0.11. It can be concluded that error terms are normally distributed. These results is shown in Appendix 1. Appendix 2 shows R-square of 0.978. It means that on average, all observed variables are able to affect per capita income by 98%, while other 2% is explained by other variables outside the model. The dummy variable results are shown in table 1 and table 2.

**Table 1** Percentage coefficients for each country

Country	Coefficient	Value (%)
<b>Malaysia</b>	-6.856	-6.9
<b>Brunei Darussalam</b>	4.328	-2.5
<b>Indonesia</b>	0.782	-6.1

*Source: Secondary data, 2017 (processed)*

Table 1 shows Malaysia, Brunei Darussalam and Indonesia have a negative slope. It means if there is no increase in FDI, Muslim population, and *zakat*, or if the variables tend constant, per capita income of each country will decrease. Malaysia decreases 6.9%, Brunei Darussalam decreases 2.5% and Indonesia decreases 6.1%.

**Table 2** Percentage coefficients for each country

Variables	Coefficient	Probability
Capital Accumulation (FDI)	0.100	0.01
Muslim Population (MPOP)	0.241	0.32
Islam (R)	0.499	0.00

Source: Secondary data, 2017 (processed)

Table 2 shows the results of t-test as a result of hypothesis test. Muslim population variable (Mpop) is not significant at various significance levels of 5% and while in FDI and *Zakat* variables, by looking at probability, can reject the hypothesis zero.

**Table 3.** Table of regression with fixed effect model Least Squares Dummy Variable (LSDV)

Dependent Variable: Y

Method: Panel Least Squares

Date: 12/15/16 Time: 14:55

Sample: 2004 2014

Periods included: 11

Cross-sections included: 3

Total panel (unbalanced) observations: 32

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DUMMY_1***	4.328212	1.120728	3.861966	0.0007
DUMMY_2*	0.782489	0.458267	1.707496	0.0996
CAP**	0.100441	0.038859	2.584740	0.0157
MPOP	0.241045	0.242132	0.995508	0.3287
R***	0.499720	0.091942	5.435168	0.0000
C	-6.856396	4.343219	-1.578644	0.1265
R-squared	0.976448	Mean dependent var	9.083374	
Adjusted R-squared	0.971919	S.D. dependent var	1.153589	
S.E. of regression	0.193311	Akaike info criterion	-0.281668	
Sum squared resid	0.971602	Schwarz criterion	-0.006843	
Log likelihood	10.50669	Hannan-Quinn criter.	-0.190571	
F-statistic	215.5898	Durbin-Watson stat	1.221818	
Prob(F-statistic)	0.000000			

The negative slope shown by each country (Malaysia, Indonesia, Brunei) explain their dependence on research variables in model to increase their economic development. Table 1 shows without additional investment in form of FDI, there is no growth of Muslim population, and no additional *zakat* is collected, then the per capita income of each country on average will decrease as 1. FDI and *zakat* have a positive and significant relationship to affect per capita income, but not for Muslim population variable.

*Zakat* and FDI have far different coefficients. FDI is significant at level of 10%, while *zakat* is significant at level of 1% at coefficient of 0.1 for FDI and 0.5 for *zakat*. The coefficient value can be interpreted that average increase in *zakat* by 1% will increase per capita income by 0.5%, and an increase in average on FDI of 1% will increase the average income per capita by 0.1%. The amount of *zakat* contribution to per capita income as an indicator of economic development when compared to FDI can produce a recommendation to government to pay more attention to *zakat* as an instrument to increase per capita income as an indicator of economic development rather than focusing to attract foreign investors to invest in form of FDI.

These results consistent with Mahat and Warokka (2013) to show that *zakat* can become a major source of economic growth and can become domestic direct investment rather than Foreign Direct Investment. It is currently a highly regarded instrument for development in developing countries. In addition, this study consistent with Ahmed (2008) that *zakat* is an instrument to reduce poverty levels, one of which is an increase in per capita income to shows indicators of economic development.

This study found that Muslim population was not significant to affect per capita income. It can be interpreted that on average the Muslim population has a very small contribution to economic development. Solow neoclassical growth model explains that population is the labor itself because the labor supply is the population. This means that labor will affect the economic development, but insignificant results on Muslim population variables indicate that possibility of Muslims in three countries being observed does not work as labor. Therefore, increasing trend of *zakat* in 3 countries and explains that Muslims do not contribute to being a workforce which will increase economic development. Future research should answer questions

from where the sources income of Muslim populations so that they are able to pay *zakat* as an obligation in Islamic teachings.

There is another possibility to explain the small contribution of Muslim communities to economic development, namely the existence of unemployment and poverty. We suggest a new view in looking at economic development as suggested by Oladapo and Rahman (2016) to explain the main determinants of human development as the ultimate goal of economic development based on *maqasidal Shari'ah*, namely, social justice, human rights human, education, health, and income. In addition, Oladapo and Rahman (2016) also explain latent factors that must also be considered in development are gender, marital status and religious beliefs..

## CONCLUSION AND SUGGESTIONS

Per capita income should be concerned as an indicator of economic development. This study results indicate that *zakat* has a positive and significant effect on economic development. Furthermore, *zakat* has a greater impact on development than FDI. Therefore, *zakat* can be used as a reference in economic development rather than FDI where many developing countries used it as the main instrument to improve economic development. This study also found that Muslims as the majority population on average were unable to contribute significantly to economic development, but on other hand, *zakat* showed an increasing trend so further research was needed on source of income to pay *zakat*. Another possibility that arises from small contribution of majority of Muslim population to economic development is that there is still unemployment and poverty.

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