

CHAPTER I

INTRODUCTION

A. Research Background

The primary goal of economic development is frequently highlighted as improving societal welfare, specifically by reducing the gap between wealthy and impoverished groups. This process involves a wide many of transformative changes, including shifts in social structures, public attitudes, and traditional institutions. Economic development seeks to boost growth rates, minimise inequality, and eliminate absolute poverty. Ultimately, the aim is to improve to individuals' quality of life, thereby enhancing society's overall well-being.¹

Significant income inequality obstructs the attainment of inclusive growth. Recent empirical studies have focused on income inequality, recognising that such disparities generate challenging conditions for advancing development.² When income is unevenly distributed, the benefits of economic progress are not equally shared, which limits opportunities for many individuals, especially those in lower-income brackets. This unequal distribution can perpetuate cycles of poverty, hinder social mobility, and create barriers to accessing essential services such as education, healthcare, and housing. Inequality may rise if wealthier households primarily receive. Although research generally agrees that remittances help alleviate poverty in recipient countries, their effect on income inequality remains debated, with studies showing mixed results.³

However, as development progresses, the benefits of growth are expected to trickle down, reducing inequality over time.⁴ Despite its theoretical appeal, empirical support for the Kuznets Hypothesis is limited. In developing nations,

¹Muftiyatul Azizah, "Analysis of the Effect of the Gini Ratio, Percentage of poor population GRDP, HDI, nd Average per Capita Ependitures on Development Inclusivity Index in Java Island", *journal ekonomi pembangunan* , Vol. 21, No. 02, (2022), p. 98.

² Victoria Hauwa Ibrahim, et. al., "Income Inequality and Poverty in Nigeria: An Emperical Analysis", *IOSR Journal of Economics and Finance (IOSR- JEF)*, Vol. 11, Issue. 3 (2020), p. 7.

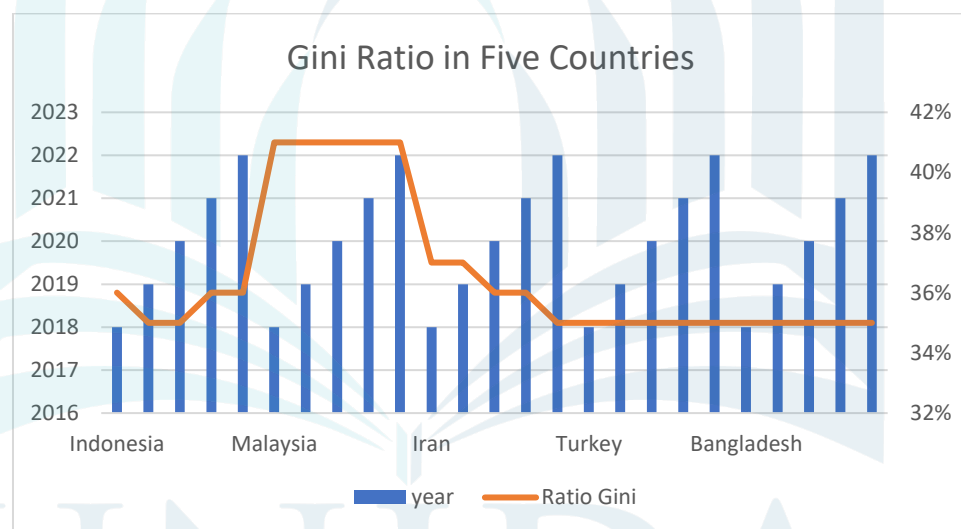
³ Seyedsoroosh zizi, "The Impact of Workes' Remittances on poverty and Inequality in Developing Countries", *empirical Economics* (2019), p. 2.

⁴ Christoph Lakner, et. al., "How Much Does Reducing Inequality Matter for Global Poverty?", *The Journal of Economic Inequality* (2022), p. 562.

for instance, no consistent correlation has been observed between growth rates and shifts in inequality. Some countries experience rapid economic growth with little change in inequality, while others see rising inequality despite strong growth. This reason has led economists to refine the hypothesis and explore other factors, such as government policies, labour markets, and social structures, that may mediate the relationship between economic growth and income distribution. this relationship's complexities suggest that achieving both growth and equitable distribution requires targeted interventions and structural changes in economic systems.

Based on the data obtained from the World Bank, the income inequality levels in several OIC member countries selected as samples are as follows:

Graph 1. 1, Gini Ratio Of Five Member Of OIC Countries



Source: Annual Report of World Bank.

Based on the data presented above, it can be concluded that the Gini ratio in each country over the five-years from 2018 to 2022 reflects a consistent state of income inequality in the sampled countries. The relatively stable trend does not imply an absence of income inequality within these nations. On the contrary, the average Gini ratio among OIC member states remains notably high, ranging between 35% and 41%, indicating a significant portion of the population experiencing income disparities in these five countries.

In developing countries, unchecked criminal activity can impede progress toward becoming a sovereign, advanced, equitable, and prosperous nation.⁵ Income inequality fosters conditions where lower income individuals may see illegal activities as more rewarding than lawful ones. The disparity between the wealthy and the poor creates feelings of frustration and hopelessness among those left behind, especially when the benefits of economic growth are not equally shared. Individuals who feel marginalised or unsuccessful compared to their more prosperous peers may resort to criminal behavior as a way to attain material wealth and status. As the income gap widens, the pressure to achieve financial success can become overwhelming, increasing individual's incentive to engage in illicit activities. Addressing income inequality and improving access to opportunities are essential steps in curbing crime and ensuring long-term, sustainable development. By reducing disparities in wealth and providing social safety nets, governments can help foster a sense of inclusivity, thereby decreasing the likelihood of criminal behavior.⁶

Income inequality is a multifaceted challenge impacting numerous nations, especially in developing regions, where income distribution between the lower and upper classes is imbalanced. This disparity hampers sustainable economic growth. The income gap is notably evident in three domains: consumption, wealth, and income. A primary factor driving this widening gap is the enduring poverty in many countries, which remains a critical issue.⁷

Islam highlights the importance of fair wealth distribution as a core aspect of maqasid al-shari'ah (Islamic legal objectives). The Gini Ratio can

⁵ Syaifullah, et.al, "Factors Influencing Economic Growth in OIC Countries: A panel data approach" *Airlangga Journal of Innovation Management*, Vol. 05, No. 02, (2024), p. 301

⁶ Lilik Sugiharti, et. al., "The Nexus between Crime Rate, Poverty, and Income Inequality : A Case Study Of Indonesia" *Economics*, Vol. 11, No. 62, (2023) P. 1.

⁷ Dewa Putu Sudibya Sukmaadi and Anak Agung Istri Ngurah Maharaeni, "Economic Growth and Inequality of Income Distribution between regions: Evidence from Bali Province, Indonesia" *journal of social economic*, Vol. 4, No. 1, p.70.

be used as a tool to demonstrate the impact of Islamic mechanisms like zakat, infaq, and waqf in mitigating economic disparities.⁸

The income gap has garnered substantial attention from economists globally and continues to be a topic of lively debate, especially concerning the causes of income inequality. Numerous factors can influence the income gap, as explored in various journals that examine the relationships between the following aspects:

In Anne Booth Journal 2021 paper "*Education and Economic Development in Southeast Asia: Myths and Realities*," Anne Booth examines the key components of the Asian Miracle, particularly the High-Performing Asian Economies (HPAE). A central theme in Booth's analysis is how the Asian Tigers have invested in workforce planning, job placement, and the development of science and technology. These nations recognised the critical role that human capital plays in long-term economic development. As such, they implemented policies that combined education and skill development with labour market needs, creating an environment where human resources were optimally utilized to drive innovation and productivity.⁹

In a journal by Syaifullah,et.al. the study investigates the relationship between unemployment and income inequality. The analysis focuses on how the unemployment rate affects the Gini ratio, a common measure of income inequality.¹⁰ In another study by Muhammad Fauzan et al. (2023), the journal explores the relationships among income inequality, economic growth, inflation, and unemployment in West Java. The research finds a negative and significant relationship between these variables, indicating that higher income

⁸ Diyah Ariyani and Dhurotun Nafisayah, "The influence of the Gini ratio, Government Expenditure, Education Level and ZIS 9 Zakat, Infaq, Alms) on poverty in 34 Province in Indonesia in 2020-2023" *DJIEB Vol. 4, No.2* (2024). p. 84.

⁹ Anne Booth, "Education and Economic Development of Southeast Asia (Myths and Realities)" *ASEAN Economic Bulitin, Vol. 16, No. 3*, (2021). Institute of Southeast Asia Studies.p. 291.

¹⁰ Syaifullah,et.al, "Factors Influencing Economic Growth in OIC Countries: A panel data approach" *Airlangga Journal of Innovation Management, Vol. 05, No. 02*, (2024), p. 301.

inequality, and economic challenges like inflation and unemployment, negatively impacts economic growth in the region.¹¹

The third factor is poverty. As poverty levels increase, addressing income inequality requires not just higher growth rates to help lift impoverished communities out of poverty, but also development policies specifically designed to reduce widespread inequality. This forms the foundation of the research, which spans from 1986 to 2019.¹² In their 2018 study, *"Poverty and Income Inequality in Nigeria,"* Lucky and Achebelema examined the socio-economic conditions in Nigeria by analysing poverty and income inequality through various measures. They used the Lorenz curve and a descriptive analytical approach, to draw data from the National Bureau of Statistics (NBS) survey. They applied various poverty measures, such as the food poverty line, the absolute poverty line, subjective poverty measures, and the one-dollar-per-day poverty line. To assess income inequality, they used the Gini coefficient.¹³

The Islamic Human Development Index (I-HDI), introduced by MB Hendrie Anto in his research titled *"Introduction of the Islamic Human Development Index (I-HDI) to Measure Development in OIC Countries,"* provides a unique framework for measuring development in member states of the Organization of Islamic Cooperation (OIC). Unlike conventional indices, the I-HDI integrates Islamic values by aligning its criteria with the five dimensions of maqāṣid al-sharī'ah, which are derived from the teachings of Islamic scholars such as Al-Ghazali and Ash-Syatibi. The I-HDI incorporates both material and non-material aspects of development, offering a more holistic view that aligns with the Islam's moral and ethical principles

¹¹ Muhammad Fauzan, et.al. "Relationship between Income Inequality, Economic Growth, Inflation, and Unemployment in West Java Province" *west science Business and Management*, Vol. 1, No. 02, (2023), p. 12.

¹² Victoria Hauwa Ibrahim, et.al, "Income Inequality and Poverty in Nigeria: An Emperical Analysis", *IOSR Journal of Economics and Finance (IOSR- JEF)*, Vol. 11, Issue. 3 Ser.1, (2020), p. 9.

¹³ Victoria Hauwa Ibrahim, et. al., "Income Inequality and Poverty in Nigeria: An Emperical Analysis", *IOSR Journal of Economics and Finance (IOSR- JEF)*, Vol. 11, Issue. 3 Ser.1, (2020), p.10.

of Islam. By utilising comprehensive data reflective of these five dimensions, the I-HDI aims to provide a more accurate and inclusive measure of human development in OIC countries, moving beyond just economic indicators to assess broader aspects of well-being and prosperity according to Islamic values.¹⁴

Although many studies have explored the relationship between income inequality (or the Gini ratio) and factors such as education, poverty, and unemployment, one example can be found in the journal by Chor Foon Tang and Salah Abosedra.(2023).¹⁵, Alfath Shifa Ghifara, et. al.,(2022).¹⁶, Morteza Biranvand, et. al., (2021)¹⁷, and Yohanes Boni et.al (2021)¹⁸, However, research from an Islamic perspective, particularly concerning the Islamic Human Development Index (I-HDI), remains relatively scarce. Similarly, studies investigating the Gini ratio in the context of Organization of Islamic Cooperation (OIC) member countries are limited. This research gap highlights an intriguing avenue for further exploration, especially considering that the OIC comprises predominantly Muslim nations across Asia, where the growth of the Islamic financial sector significantly contributes to improving societal welfare.

Therefore, this study **contributes to analyses the impact of education, unemployment, poverty, and the Islamic Human Development Index (I-HDI) on the Gini ratio in OIC member countries.** Specifically, it uses Indonesia, Malaysia, Iran, Turkey, and Bangladesh as a sample to explore

¹⁴ MB.Hendrie Anto., “Introducing an Islamic Human Development Index (I-HDI) to measure Development in OIC Countries Islamic economic studies, *IRTI journal*, Vol.19 No.2.,p.70.

¹⁵ Chor Foon Tang and Slah Abosedra, “Unemployment Behavior in the Covid-19 Pandemic: Evidence Developing Countries”, *international Journal of Business and Society*, Vol.24 No, 1, (2023), p.167.

¹⁶ Alfath Shifa Ghifara, et. al., “The Effect of Economic Growth, Government Spending, and Human Development Index toward Inequality of income Distribution in the Metropolitan Cities in Indonesia”.*Daengku Journal of Humanities and Social Scien Innovation*, Vol. 2 No. 4, (2022), p. 531.

¹⁷ Morteza Biranvand, et. al., “The effect of Unemploymeny, Inflation, and Minimum Wage on the Income Inequality in the Rural Areas of the Iranian Provinces”, *Quarterly Journal of the Macro and Strategic Policies*, Vol. 8, Special Issue, (2021), p.33.

¹⁸ Yohanes Boni, “Gini Ratio analysis in nort buton regency” *International Research Journal of Managemant, IT & Social Sciences*, Vol. 8, No. 4, (2021), p. 226-234.

how these factors influence income inequality within these nations. By focusing on these countries, the study aims to provide valuable insights into the relationship between human development, economic conditions, and income inequality in the context of OIC member states.

B. Research Questions

- a. How Education effect the Gini ratio in five member of OIC countries there are Indonesia, Malaysia, Iran, Turkey, and Bangladesh?
- b. How unemployment effect the Gini ratio in five member of OIC countries they are: Indonesia, Malaysia, Iran, Turkey, and Bangladesh?
- c. How Poverty effect to Gini ratio in five countries they are: Indonesia, Malaysia, Iran, Turkey, and Bangladesh?
- d. How I-HDI effect to Gini ratio in five countries they are: Indonesia, Malaysia, Iran, Turkey, and Bangladesh?
- e. How education, unemployment, poverty, and I-HDI effect the Gini Ratio, in five member of OIC countries they are: Indonesia, Malaysia, Iran, Turkey, and Bangladesh?

C. Research Objectives

- a. To determine the effect of education to Gini ratio in five member of OIC countries as the countries have complete data.
- b. To determine the effect of unemployment to Gini ratio in five member of OIC countries as the countries have complete data.
- c. To determine the effect of poverty to Gini ratio in five member of OIC countries as the countries have complete data.
- d. To determine the effect of I-HDI to Gini ratio in five member of OIC countries as the countries have complete data.

D. Research Scopes and Limitations

This study establishes specific limitations that define its scope to. maintain a clear focus on the primary subject, These boundaries serve to streamline the research, ensuring it remains targeted and manageable. The study aims to

achieve well-defined and attainable objectives By narrowing the focus The limitations of this research are outlined as follows:

1. The scope of this research is limited to issues that discuss the effect of the education, unemployment, poverty and the Islamic Human Development Index (I-HDI) on the population of five member of OIC countries from 2018-2022.
2. The information presented is: Issues to the effect of education, unemployment, poverty and the Islamic Human Development Index (I-HDI) on the income inequality or Gini ratio in five members of OIC countries as the population from 2018-2022.

E. Research Benefits

a. Academic Benefits

It Helps broaden horizons and at the same time gain experiential knowledge of the data and the theories that have been obtained specifically in the study of effect of the education, unemployment, poverty and I-HDI of five members of OIC countries.

b. Practical Benefits

It was the final assignment to complete studies in the Islamic Economic in program in the Faculty of Economic and Management, Darussalam University of Gontor, Mantingan and as the reference material regarding the effect of the education, unemployment, poverty and I-HDI on the Gini ratio in member of OIC countries.