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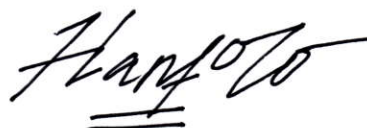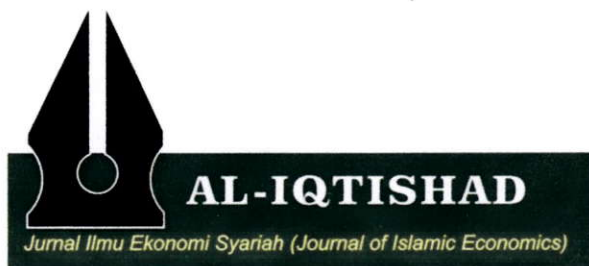|	
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Cover letter

March 17, 2019

Editorial of Al-Iqtishad Journal

Graduate School, Gadjah Mada University

Teknika Utara Road, Yogyakarta 55281, Indonesia

Dear Editor of Al-Iqtishad Journal,

I am submitting a manuscript for consideration of publication in Al-Iqtishad Journal. The manuscript is entitled "Social capital and economic growth: empirical evidence from OIC countries".

It has not been published elsewhere and that it has not been submitted simultaneously for publication elsewhere.

Thank you very much for your consideration.

Yours Sincerely,

Hantoro Ksaid Notolegowo

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Graphical Abstract

Social capital and economic growth: empirical evidence from OIC countries

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Social capital can be stimulating to the economy, because it builds and strengthens social cohesion. This social capital is classified into constructive social capital. Part of constructive social capital is religious tolerance, political participation, and marriage. Part of destructive social capital is a culture of corruption and discrimination behavior.

Title page

Social capital and economic growth: empirical evidence from OIC countries

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Abstract:

Economic pressures experienced by OIC member countries cannot be separated from the impact of the social crisis. Terrorism, political instability, low quality of human resources, culture of corruption, and discrimination are forms of social crises that occur in the OIC countries at this time. Development capital is needed that is right for the economies of the OIC countries that face the challenges of the social crisis. Among the discussions of researchers and experts, began to consider the importance of social capital in the economy of the OIC country. This research investigates the effect of constructive social capital such as religious tolerance, political participation, and marriage; and destructive social capital such as the corruption culture and discrimination behavior towards the economic growth rate of member countries of the Islamic Cooperation Organization (OIC) 2014-2017. The results of the research estimation using the technique of fixed effect (FE) from the panel data of the OIC countries show that religious tolerance measured using the freedom of religion index (FRI) shows a positive and significant effect on the economic growth rate; political participation as measured by political rights index (PRI) has a significant negative effect on the economic growth rate; marriage measured using the percentage of married woman (PMW) has a positive effect on the economic growth rate but is not significant; corruption culture measured using corruption perception index (CPI) has a negative and not significant effect on the economic growth rate; and discrimination behavior measured using discrimination and violence against minorities index (DVI) shows a negative and not significant effect on the economic growth rate. Based on these results, program initiation is needed that is able to strengthen religious relations among citizens in the OIC countries. Meanwhile, the ability of the state to minimize the risk of conflict arising from increased political participation will determine economic conditions. The ability of the country to overcome the risk of conflict

when political participation increases will affect the investment climate and the Composite Stock Price Index (CSPI) which further influences the condition of economic growth. Therefore the country needs to carry out its functions to maintain security conduciveness when political participation increases.

1. Introduction

The Islamic Cooperation Organization (OIC) was established as an effort to discuss and at the same time find a solution to a number of issues and problems that occur in Islamic countries. Initially the organization was established as a response to the burning of the Al-Aqsa Mosque by Zionists in August 1969, and aimed at mobilizing the unity of Muslim countries. But then the OIC charter was adopted on February 27, 1970 to strengthen cooperation in the political, economic, social, cultural and scientific fields and support for all Muslims to maintain dignity, independence and national rights.

At present, there are concerns in terms of the welfare of the people in OIC countries due to economic instability caused by the social crisis. The social crisis includes civil war and terrorism (Sab, 2014); political instability (Uddin & Masih, 2016); low quality of human resources (UNDP, 2016); corruption culture (Ertimi, Dowa, Albisht, & Oqab, 2016); and discrimination (SESRIC, 2016). Based on data published by the World Bank in 2017, it shows that OIC countries affected by the social crisis tend to have low growth rates, as shown in Table 1. This phenomenon indicates a close link between economic performance and social conditions.

Table 1. Economic Growth and Social Crisis in OIC Countries

No.	Country	Economic Growth in 2017 (%)	Social Crisis Background
1.	Chad	-2.953	Political and religious conflict: radical rebellion
2.	Iraq	-2.073	Political and religious conflicts: the rebellion of radical Islamic State of Iraq and Syria (ISIS)
3.	Yaman	-5.942	Political and religious conflicts: a civil war between the Houthis and pro-government militias

Source: World Bank

By looking at the phenomenon in OIC countries, many researchers and experts are now paying attention to the interaction between the social dimension and economic growth. The discussion of the relationship between the social dimension and economic growth is the latest discussion in the study of "growth factors". In its development, there are four determinants which are believed to influence economic growth, namely physical capital, natural resource capital, human capital, and most recently, social capital.

The study of "growth factors" has long been a quite interesting discussion and continues to grow today. Initially physical development capital was considered to have an important role in economic growth, as thought by Harrord-Domar and Solow. Further developments, human capital (knowledge and skills) began to get attention because of its role in determining the productivity of human resources (Meier & Stiglitz, 2001). The latest developments,

stressing the importance of social capital as a determining factor of economic growth.

The theory that explains the relationship between social capital and economic performance has been explained by (Olson, 1982; North, 1990; Fukuyama, 1995). Meanwhile, the influence of social capital on economic growth has been investigated by (Rupasingha, Goetz, & Freshwater, 2000; Boulila, Bousrih, & Trabelsi, 2008). Based on theory and research findings, social capital influences economic growth through its role in reducing transaction costs associated with economic exchange and on the other hand plays a role in creating productivity.

Forms of social capital that is supposed to influence the economic growth of the OIC countries is religious tolerance, political participation, and marriage. Religious tolerance plays a role in overcoming the negative impact of terrorism on the economy. Meanwhile, political participation plays a role in overseeing government policies that can harm the economy. The marriage plays a role in overcoming the negative impact of low quality human resources on the economy.

Meanwhile, on the other hand the OIC countries are also faced with social capital which is thought to have a negative impact on the economy, such as a corruption culture and discrimination behavior. Corruption causes the composition of government expenditure to be less productive, and thus affects economic growth. Discrimination behavior causes weak social cohesion that exists between communities, so the intensity of information exchange will decrease and transaction costs will increase which affect economic growth.

Development programs that take account of social capital such as religious tolerance, political participation, marriage, corruption culture, and discrimination behavior are needed considering the OIC makes the issue of terrorism, institutional reform and human development the agenda points in the OIC - 2025 Program Action. However, if viewed from the planned implementation of the OIC – 2025 Program Action, there are not many programs

that include elements of social capital. Therefore, this study tries to provide an overview of the role of social capital in religious tolerance, political participation, marriage, corruption culture, and discrimination behavior towards the economy.

2. Materials and methods

2.1. Variable

In this study two types of variables were used:

1. Dependent Variables (Y)

The dependent variable in this study is the growth of the Gross Domestic Product (GDP).

2. Independent Variables (X)

The independent variables in this study were religious tolerance (X1), political participation (X2), marriage (X3), corruption culture (X4), and discrimination behavior (X4).

2.2. Operational definition of variables

The operational definitions of each variable used in this study are as follows:

1. Economic Growth (Y)

Economic growth in this study was measured using the growth of Gross Domestic Product (GDP). Data on economic growth used was obtained from the World Bank in the period 2014 to 2017.

Economic growth is the annual percentage growth rate of GDP at market prices based on a constant local currency. The aggregate is based on a constant US dollar in 2010. GDP is the amount of added value which added by all producers of residents in the economy plus any tax product and minus any subsidies not included in the value of the product. Calculated without making a reduction for depreciation of counterfeit assets or for depletion and degradation of natural resources.

2. Social Capital (X)

Social Capital in this study was measured using several social indicators found in the Social Progress Index (SPI). The operational definition of the variable social capital in this study is as follows:

(a) Religious Tolerance (X1)

The variable of Religious Tolerance (X1) is measured using the Religious Freedom Index, which is an aggregate evaluation of state experts on the question, "Is there religious freedom?" measured on a scale of 0 to 4.

0: Not respected by public authorities. There is almost no religious freedom. Each type of religious practice is prohibited or at least controlled by the government insofar as religious leaders are appointed by and are subject to public authority, which controls the activities of the religious community in detail.

1: Weak respected by public authorities. Some elements of autonomous organized religious practice exist and are officially recognized. But significant religious communities are systematically suppressed, banned or deactivated, voluntary conversions are limited, and examples of discrimination or intimidation against individuals or groups because their religion is common.

2: Rather respected by public authorities. Autonomous organized religious practices exist and are officially recognized. However, small religious communities are systematically suppressed, banned or deactivated, and / or examples of discrimination or intimidation by individuals or groups because their religion sometimes occurs.

3: Most are respected by public authorities. There are small restrictions on religious freedom, especially limited to a few isolated cases. Minority religions face denial of registration, barriers from foreign missionaries entering the country, restrictions on da'wah, or obstacles to accessing or building places of worship.

4: Fully respected by public authorities. Residents enjoy the right to practice whatever religious beliefs they choose. Religious groups can organize, choose, and train personnel; request and receive contributions; publish; and engage in consultations without undue interference. If the religious community has to register, the public authority does not abuse the process of discriminating against religion and does not limit the right to worship before registration.

(b) Political Participation (X2)

The variable of Political Participation (X2) is measured using the Political Rights Index which is an evaluation of three subcategories of political rights: the process of election, pluralism and political participation, and the functioning of the government on a scale from 0 (no political rights) to 40 (full political rights). Some countries and territories score below zero on the questions used to form indicators. In the SPI model, data below zero is treated as zero.

(c) Marriage (X3)

Marriage variable (X3) is the percentage of married women between 15-19 years.

(d) Corruption Culture (X4)

The variable of Corruption Culture (X4) is measured using the Corruption Perception Index which is the level of perception of public sector corruption based on expert opinion measured on a scale from 0 (very corrupt) to 100 (very clean).

(e) Discrimination Behavior (X5)

The variable of Discrimination Behavior (X5) is measured using the Discrimination and Violence Against Minority Index which is an Indicator of Group Complaints. Discrimination, helplessness, ethnic violence, communal violence, sectarian violence, and religious violence, measured on a scale of 0 (low pressure) to 10 (very high pressure).

2.3. Data analysis technique

Data analysis techniques used to answer the research objectives that have been formulated previously are panel data analysis techniques. Panel data analysis techniques have advantages over other analytical techniques, because they consider differences in characteristics between individuals and time differences. When other data analysis techniques such as time series often use variables whose values are obtained from the results of the average value that is not fully able to represent differences in characteristics between individuals.

3. Results and discussion

3.1. The influence of constructive social capital on economic growth

The results of the study on the influence of constructive social capital variables on economic growth can be explained as follows:

First, the religious tolerance variable (FRI) shows a significance value of 0.0246 (p <0.05) which means that it has a significant effect on economic growth. The regression coefficient value of religious tolerance variables (FRI) is 5.846947, which means that when the religious freedom index increases by 1 scale, economic growth will increase by 5.846947% or vice versa. These results accept the hypothesis formulated in the study that religious tolerance has a positive effect on economic growth. This indicates that religious life that is more tolerant will increase cooperation and performance, so that productivity increases and contributes to economic growth.

Second, the political participation variable (PRI) shows a significance value of 0.0008 (p <0.05) which means that it has a significant effect on economic growth. The regression coefficient value of political participation variable (PRI) is equal to -0.585801, which means that when the index of political participation increases by 1 scale, economic growth will

decrease by 0.585801% or vice versa. These results reject the hypothesis formulated in the study that political participation has a positive effect on economic growth. This is consistent with the findings of Rupasingha, Goetz, and Freshwater (2000) which state that political participation influences the decline in economic growth.

When political participation increases, the intensity of conflicts between groups also increases. The ability of the state to deal with conflict when political participation increased will determine economic conditions. When a country is unable to handle the conflict, it is considered as a form of negative sentiment that can affect the stock market's fall. As a result, there has been a decline in investor interest to invest, and in the end the economy will be sluggish and have an impact on slowing economic growth.

Political participation can be both institutional and non-institutional. Voting in elections, conducting political meetings, and joining parties are institutional political participation. Meanwhile non-institutional political participation can be done by giving petitions, boycotts and demonstrations. Non-institutional political participation is the most intense form of participation in the government legislature, by voicing demands that the legislature can make a policy that is able to accommodate the voices of the people. The policy that was finally put in place by the government to accommodate the aspirations of the people in this non-institutional form often did not consider the long-term impacts, such as the stability of the economy. The demands of a labor wage increase are an example, where the profits obtained by workers from salary increases can actually have a detrimental effect on the economy. The increase in wages causes the cost of production of the company to increase, which results in an increase in the prices of goods in the market, which is one of the causes of inflation, so that the economy will be disrupted.

Third, the marriage variable (PMW) shows a significance value of 0.5513 (p> 0.05) which means that it has no significant effect on economic growth. The marriage variable

(PMW) regression coefficient is 0.171087 which means that when the percentage of married women increases by 1%, economic growth will increase by 0.171087% or vice versa. These results accept the hypothesis formulated in the study that marriage has a positive effect on economic growth. But the marriage variable is not a variable that significantly affects economic growth during the observation period.

3.2. The influence of destructive social capital on economic growth

The results of the study on the effect of destructive social capital variables on economic growth can be explained as follows:

First, the corruption culture variable shows a significant value of 0.7896 (p> 0.05) which means that it has no significant effect on economic growth. The regression coefficient value of the corruption culture variable (CPI) is -0.044628 which means that when the corruption perception index increases by 1 scale, economic growth will decrease by 0.044628% or vice versa. The corruption perception index has a scale range of 0-100, where the number approaches 100 means that corruption is getting cleaner and the number close to 0 means that corruption is getting higher, so the meaning of negative regression coefficient in this study is that corruption is positively related to economic growth. This result rejects the hypothesis formulated in the study that corruption is negatively related to economic growth. This is different from the findings of Ertimi et al. (2016) which states that corruption affects the decline in economic growth. But the corruption variable is not a variable that significantly influences economic growth during the observation period.

Second, the discrimination variable shows a significance value of 0.9006 (p> 0.05) which means that it has no significant effect on economic growth. The regression coefficient of discrimination (DVI) variable is -0.176944 which means that when the discrimination and violence against minorities index increase by 1 scale, economic growth will decrease by

0.176944 or vice versa. These results accept the hypothesis formulated in the study that discrimination has a negative effect on economic growth. But the discrimination variable is not a variable that significantly influences economic growth during the observation period.

4. Conclusion

Based on the results of research conducted by the author, there are a number of findings that can be used as conclusions. The conclusion is based on the results of the analysis previously carried out by the author, in analyzing the influence of social capital on the economic growth rate of OIC countries measured using 5 (five) proxies, namely: religious tolerance (FRI), political participation (PRI), marriage (PMW), corruption culture (CPI), and discrimination behavior (DVI).

From the results of the analysis obtained, this study concludes, first, the finding that an increase in religious freedom increases economic growth, it is necessary to initiate a program that is able to strengthen religious relations among citizens. Second, the finding that increased political participation can reduce economic growth, the ability of the country to minimize the risk of conflict arising from increased political participation will determine economic conditions. The ability of the country to overcome the risk of conflict when political participation increases will affect the investment climate and the Composite Stock Price Index (CSPI) which further influences the condition of economic growth. Therefore the country needs to carry out its functions to maintain security conduciveness when political participation increases.

Declaration of interest

The authors report no conflicts of interest. The authors alone are responsible for the

content and writing of this article.

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Table legends

Appendix B Descriptive Statistics Test

	GDPGR	FRI	PRI	PMW	CPI	DVI
Mean	3.567330	2.524072	14.02083	18.38896	32.32292	7.138542
Median	4.169442	2.448145	11.00000	16.00000	30.00000	7.550000
Maximum	26.67587	3.891230	37.00000	61.00000	71.00000	10.00000
Minimum	-24.00000	0.252400	0.000000	0.170000	8.000000	2.700000
Std. Dev.	4.692618	1.048848	9.045527	14.66423	12.38602	1.874987
Skewness	-1.929342	-0.246796	0.588743	0.983066	0.856887	-0.571389
Kurtosis	16.65860	1.965177	2.540782	3.354844	4.086308	2.383765
Jarque-Bera	1611.575	10.51594	12.77882	31.93273	32.93669	13.48549
Probability	0.000000	0.005206	0.001679	0.000000	0.000000	0.001179
Sum	684.9273	484.6218	2692.000	3530.680	6206.000	1370.600
Sum Sq. Dev.	4205.947	210.1158	15627.92	41072.59	29301.98	671.4748
Observations	192	192	192	192	192	192

Appendix C Best Model Selection Test

Appendix C.1 Chow Test

Redundant Fixed Effects Tests

Equation: Untitled

Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.169703	(47,139)	0.0003
Cross-section Chi-square	105.642910	47	0.0000

Appendix C.2 Hausman Test

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.271892	5	0.0140

Appendix D Best Model (Fixed Effect)

Dependent Variable: GDPGR

Method: Panel Least Squares

Date: 02/24/19   Time: 08:40

Sample: 2014 2017

Periods included: 4

Cross-sections included: 48

Total panel (balanced) observations: 192

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-3.417857	14.72386	-0.232130	0.8168
FRI	5.846947	2.572948	2.272470	0.0246
PRI	-0.585801	0.170833	-3.429094	0.0008
PMW	0.171087	0.286453	0.597262	0.5513
CPI	-0.044628	0.166959	-0.267298	0.7896
DVI	-0.176944	1.414382	-0.125103	0.9006

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.452005	Mean dependent var		3.567330
Adjusted R-squared	0.246999	S.D. dependent var		4.692618
S.E. of regression	4.072048	Akaike info criterion		5.875231
Sum squared resid	2304.839	Schwarz criterion		6.774436
Log likelihood	-511.0222	Hannan-Quinn criter.		6.239416

F-statistic	2.204843 Durbin-Watson stat 2.217774
Prob(F-statistic)	0.000137

Appendix E Classical Assumption Test

Appendix E.1 Multicollinearity Test

	FRI	PRI	PMW	CPI	DVI
FRI	1.000000	0.564421	0.438418	0.058032	-0.316389
PRI	0.564421	1.000000	0.261732	0.190834	-0.099171
PMW	0.438418	0.261732	1.000000	-0.181688	0.062472
CPI	0.058032	0.190834	-0.181688	1.000000	-0.463869
DVI	-0.316389	-0.099171	0.062472	-0.463869	1.000000

Appendix E.2 Heteroscedasticity Test

Dependent Variable: RESABS

Method: Panel Least Squares

Date: 02/24/19   Time: 09:05

Sample: 2014 2017

Periods included: 4

Cross-sections included: 48

Total panel (balanced) observations: 192

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.959335	10.53232	0.565814	0.5724
FRI	-0.113200	1.840490	-0.061505	0.9510
PRI	0.110764	0.122201	0.906409	0.3663
PMW	-0.016137	0.204907	-0.078755	0.9373
CPI	-0.095844	0.119430	-0.802515	0.4236
DVI	-0.161432	1.011741	-0.159558	0.8735

Appendix E.3 Autocorrelation Test

Cross-section fixed (dummy variables)

R-squared	0.452005	Mean dependent var	3.567330
Adjusted R-squared	0.246999	S.D. dependent var	4.692618
S.E. of regression	4.072048	Akaike info criterion	5.875231
Sum squared resid	2304.839	Schwarz criterion	6.774436
Log likelihood	-511.0222	Hannan-Quinn criter.	6.239416
F-statistic	2.204843	Durbin-Watson stat	2.217774
Prob(F-statistic)	0.000137		