Contributions of Islamization to Pakistan's Economic Growth



Muhammad Ahmed, ACMA
Senior Executive,
Attock Petroleum Ltd. and
Vice Chairman, ICMA Faisalabad
Branch Council (FBC)

The Islamization of Pakistan's economy has been a recurring theme in its political and legal discourse since independence. Rooted in the Objectives Resolution of 1949, which declared that future legislation must conform to Islamic injunctions, economic Islamization aims to establish a financial system based on justice (adl), the prohibition of riba (interest), and equitable wealth distribution (Chawla & Riaz-ul-Huda, 2015). Over the decades, Pakistan has witnessed a blend of state-driven, judicial, and institutional initiatives to realize this vision. However, it gained momentum in the late 1970s during the regime of General Zia-ul-Haq, who sought to align economic practices with Islamic principles such as equity, social justice, and ethical finance. While the process faced structural and political challenges, it also generated notable positive outcomes, particularly in promoting financial innovation, enhancing social welfare, and positioning Pakistan within the global Islamic economy.

Constructive Contributions of Islamization in Pakistan

1) Development of a Parallel Financial System

Islamization spurred the establishment of a robust Islamic banking sector, which now constitutes 18% of Pakistan's total banking assets (State Bank of Pakistan, 2023). Institutions like Meezan Bank and Bank Islami pioneered Sharia-compliant products, promoting financial inclusion and attracting both domestic and international investors.

2) Global Recognition and FDI

Pakistan's Islamic finance framework aligned the country with global hubs like Malaysia and the UAE, enabling partnerships in sectors such as infrastructure and energy. The issuance of sukuk (Islamic bonds), including a $1 billion sovereign sukuk in 2022, enhanced foreign direct investment (FDI) and diversified funding sources *(Islamic Banking Bulletin, 2023)*.



3) Innovation in Financial Products

Islamic finance introduced ethical instruments such as murabaha (cost-plus financing), Ijara (leasing), and mudaraba (profit-sharing), reducing reliance on interest-based transactions. These products catered to religiously conscious investors and supported small and medium enterprises *(Shahariman et al., 2024)*.

4) Poverty Alleviation Mechanisms

The Zakat and Ushr Ordinance (1980) institutionalized a nationwide system for collecting and distributing alms. According to a recent study, Pakistanis are estimated to contribute over Rs. 619 billion in zakat annually. In 2024, the average zakat contributor paid around Rs. 15,000, with over 50 million Pakistanis participating in this religious obligation *(Tribune.com.pk)*.

5) Empowerment Through Microfinance

Islamic microfinance institutions, such as the Akhuwat Foundation, utilized interest-free loans (qard al-hasan) to uplift marginalized communities. With a repayment rate of 99.8%, these initiatives reduced rural poverty and empowered women entrepreneurs (*Akhuwat Annual Report, 2022)*.

6) Promotion of Equity and Fair Trade

Islamization emphasized risk-sharing and prohibited exploitative practices, developing a culture of ethical entrepreneurship. For example, Islamic principles guided the development of fair-trade supply chains in agriculture, benefiting farmers in Pakistan *(Haq, 2020)*.

7) Environmental Sustainability.

Sharia-compliant finance increasingly incorporates green initiatives. Pakistan's Green Sukuk, launched in 2023, funds renewable energy projects, aligning economic growth with climate goals *(Ministry of Finance, 2023)*.



8) Resilience During Global Crises

Islamic banks, with their profit-and-loss-sharing model, demonstrated greater resilience during the 2008 financial crisis and the 2020 pandemic compared to conventional banks. Their asset-backed financing minimized exposure to speculative bubbles *(World Bank, 2021)*.

9) Decline in Informal Lending

The prohibition of riba reduced predatory lending practices, particularly in rural areas where informal moneylenders (sahukars) previously exploited farmers.

10) Positioning in the Islamic World

Pakistan's Islamic economic policies strengthened ties with Gulf nations and the Organization of Islamic Cooperation (OIC), boosting trade and diplomatic relations. The country's leadership in the Islamic Chamber of Commerce, Industry, and Agriculture (ICCIA) enhanced its global economic influence.

11) Tourism and Halal Industry Growth

Islamization indirectly promoted halal tourism and the halal food industry, with Pakistan exporting Rs. 40 billion worth of halal meat products to the UAE *(The Middle East Briefing)*.

12) Future Prospects

The government's Pakistan Vision 2047 includes plans to expand Sharia-compliant fintech and green sukuk (Islamic bonds), signaling renewed commitment to Islamic economic principles.

Conclusion

While the Islamization of Pakistan's economy faced implementation challenges, its positive impacts — especially in ethical finance, social welfare, and global economic integration — are undeniable. By promoting financial inclusion, reducing inequality, and aligning with global Islamic economic trends, Pakistan has laid a strong foundation for sustainable, values-driven growth. Future reforms, particularly those focused on transparency and innovation, could further amplify these benefits.

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About the Author: *The author is an Associate Member of ICMA and currently serves as a Senior Executive at Attock Petroleum Ltd. He is an active member of the ICMA Research and Publication (R&P) Committee and the Technical Evaluation Committee for the Best Corporate & Sustainability Report Awards of ICMA and ICAP. Additionally, he serves as the Vice Chairman of ICMA's Faisalabad Branch Council (FBC). Mr. Ahmed holds degrees in LLB, M. Com, ACMA, and M.Phil., and is currently pursuing a PhD in Banking and Finance.*