

Islamization of the Economy of Pakistan and its Impact on the Material Well-being of the People: A Critical Analysis in the light of the Provisions of the *Qur'ān*, Sunnah (PBUH) and World Bank's Criterion

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Abstract

This paper aims to analyze critically, the process of Islamization of the economy of Pakistan and its impact on the material well-being of the People in the light of the economic provisions of the *Qur'ān* and the Sunnah (PBUH) and World Bank's designed frame of material well-being. This research argues that the scope of the term "material well-being" is equivalent to the concept of *daruriyyat* (necessities) introduced by Maqasid al-Shari'ah in Islamic legal System. This research analyses that since 1980s the dogma of Islamization of the economy was taken as the sole solution of all the economic issues of the people arose due to interest based capitalist system. It is however, a matter of great concern that after more than 35 years of Islamization of the country's economy, more than 60% of Pakistani people have no access to the material well-being as aimed by Islamic Legal System and World Bank. It concludes that Pakistani Islamic economics and finance could not resolve any of the economic issues of the people. It could not facilitate the poor in achieving material well-being as recommended by *Maqasid al-Shari'ah* and the World Bank. In the end, some recommendations are suggested to improve the contemporary situation of the Islamic economics and finance at Pakistan.

Keywords: Modern economies; World Bank Criteria; Islamization of the economy of Pakistan; Analysis; Conclusions, Recommendations

Introduction:

Failure of modern economic systems in achieving their targets such as reducing poverty, eliminating class system and monopolies of the feudalism, and establishing a just social order led the World Bank to define the minimum level of poverty and to frame certain levels to be achieved by each economy to improve the condition of the poor people living below the poverty line.¹ In 2000 the world introduced the concept of material well-being and defined it in the meaning of the utilization of resources of a country for the fulfilment of the necessities of the life of the people such as income, wealth, land, livestock and home ownership.²

Looking into the Islamic philosophy of Maqasid al-Shari'ah, we found the same concept of material well-being where access to the material well-being or fulfilment of the necessities of the life of the people has declared as one of the

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¹ World Bank Report, 2002, Available at <https://blogs.worldbank.org/category/countries/pakistan>, (Accessed on 22-12-18).

² Peter N Hess, *Economic Growth and Sustainable Development* (London: Routledge, Taylor and Francis Group, 2016), 56; Deaton Angus, *The Great Escape: Health, Wealth and the Origins of Inequality* (Princeton: Princeton University Press, 2013), 34; Joan Robinson, *Economic Philosophy* (London: C.A. Watts, 1970), 13; Brue Stanely and Randy Grant, *The Evolution of Economic Thought*, (Mason, Ohio: Thomson south Western, 2007), 89.

primary objectives of Islamic philosophy of economics and finance.³ In this context, this research aims to analyze critically, the notion of Islamization of the economy of Pakistan and its impact on the material well-being of the people in the light of the provisions of the *Qur'ān* and Sunnah (PBUH) and World Bank Criteria.

This article is divided into three sections: First section will elaborate the Islamic concept of material well-being and development of the modern system of Islamic economics and financing. It will throw light on the concept of Islamic economics in the light of the economic provisions of the *Qur'ān* and Sunnah (PBUH). It will also explore the causes behind the development of modern notion of Islamic economics and banking system. Second section will discuss the process of Islamization of the economy of Pakistan and the establishment of Islamic banking system in Pakistan. Section three will evaluate the economic issues of Pakistani people in the light of the prevailing system of Islamic economics in Pakistan. In the end, some conclusions will be drawn and some recommendations will be recommended to reform the existing structure of Islamic economics and Islamic Banking sector in Pakistan.

Section One

Islamic Concept of Economics and Material Well-being of the People:

During the mid of the 20th century, the world witnessed the failure of mercantilism, socialism, and capitalism systems of economies.⁴ That led the economists and the social activists to think about some new World Economic Order, an economic system that must be free from all types of exploitation and evils of the contemporary practicing systems.⁵ It resulted in a movement for the development of

³ Ibn Hashsham, Muḥammad ‘Abdul Malik, *Seerah al-Nabawiyah* (Cairo: Matba’ah Hijazi, 1988), 322; Al- Ghazali, Abu Hamid, Muhammad bin Muhammad, *Al-Mustasfa* (Damishq: Dar Ibn Kathir, 1998), 122; Al-Shatibi, Abu Ishaq Ibrahim bin Musa, *Al-Muwafaqat*, (Misr: Matba’ al-Salfiyyah, 1997), 2:35; Ibn Khaldun, Abdur Rehman, *Muqaddimah fi Tarikh* (Karachi: Nafees Academy, 2013), 1:134; Ibn Qayyim, Abu ‘Abd Allah Muhammad bin Abi Bakr, *I’lam al-Mawaqqi’in ‘an Rabb al-‘Alameen*, ed. Muḥayy al-Din, 4 vols, (Miṣr: Matba’ah al-Sa’adah, 2000), 1:165; ; Allamah Shibli Numani, *Al-Farooq: A Biography of Umar (RA)* (Lahore: Mansoor Book House), 133; Afzalur Rehman, *Encyclopedia of Seerah of Prophet (pbuh)*, (London: np., 1990), 1:544.

⁴ See for detail study, Brue Stanely and Randy Grant, *The Evolution of Economic Thought*, Mason, Ohio: Thomson south Western, 2007), 89; Wayne Nafziger, *The Economics of the Developing Countries* (USA: Prentice Hall inc., 1990), 13; Susan Charles & Adrian Webb, *The Economic Approach to Social Policy* (UK: S.T. Charles & Webb 1988), 15; Suranyi-Unger Theo, *Economic Philosophy of the Twentieth Century*, (Dekalb: Northern Illinois University Press, 1979), 145; Thomas, J. Donaldson and R. Edward Freeman. eds., *Business as a Humanity* (New York: Oxford University Press, 1967), 32; Simon Kuznets, *Economic Growth of Nations—Total Output and Production Structure* (Cambridge Simon Kuznets (1971). *Economic Growth of Nations—Total Output and Production Structure*. Cambridge, Mass: Harvard University Press, 1988), 19; J. A., Hobson, *Work and Wealth: A Human Valuation*, (New York: Macmillan, 1965), 12.; Jeffery, R., Frieden, *Global Capitalism: Its Fall and Rise in Twentieth Century*, (New York: W. W. Norton & Co., 2006), 13; Ernest Mandel, *Marxist Economic Theory*. (New York: Monthly Review Press, 1970), 266; Friedman Milton, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1967), 233-245; Friedrich Angels, *Manifesto of the Communist Party* (London: J.C Burghard 1970), 79-18.

⁵ Djermaakoyo IS., *The Search for New Economic Order* (London: Islamic Council of Europe, 1989), 16; Suranyi-Unger, Theo. *Economic Philosophy of the Twentieth Century*, 145; W. Arthur Lewis, *The Theory of Economic Growth* (Home wood III: Richerd D. Irvin, 1978), 267; Tanner, R. H., *Religion and the Rise of Capitalism* (London: Harmonds worth, 1977), 234; Hayek,

an alternative economic system free from exploitative techniques of the prevailing systems.⁶ Under that particular context, the system of Islamic economics and financing was introduced with a plea that Islamic economics emphasizes in resolving public-spirited issues more than material one.⁷ To establish a sound system of economics and financing based on both the normative and positive values of Islam and to get rid of the evils of capitalism, both Muslim and non-Muslim economists and philosophers participated and played their role. They designed and introduced certain economic policies for the modern economies, banking sector and other commercial institutions under the notion of Islamic Economics.⁸ However, for opening the Islamic banking sector, the credit goes to the western bankers who introduced the concept of Islamic banking system in the 1960s as an alternative system free from the exploitative measures of capitalist banks.⁹ Keeping in view, the harmful socio-economic consequences of the capitalist banking sector, the objectives of Islamic banking sector repeatedly made clear at different platforms. That whatever mode of financing an Islamic bank will adopt must not be against the objectives of Shari'ah and benefits of the public at large.¹⁰ And that each Muslim state must be Islamic welfare states as the social justice and welfare-oriented functions of Islamic economics, financing and banking system are possible only in an Islamic welfare-state.¹¹

Talking about the Qur'anic provisions relating the economic aspect of the life, unlike, the traditional concept of the religion as normative one, Islam introduced both concepts i.e., normative and as well as positive and acknowledged the positive values of the life along with the normative values.¹² As Prof. Khurshid Ahmad (1976) pointed out "that Islam has something to contribute to the positive side of

Friedrich, *A New Studies in Philosophy, Politics, Economics and the History of Ideas*, (Chicago: University of Chicago Press, 1978), 23—34.

⁶ Khir, K., L. Gupta., & B. Shanmugam, *Islamic Banking: A Practical Perspective*, (Malaysia: Pearson Malaysia Sdn.Bhd. Selangor, 2008), 12; Ibrahim Warde, *Islamic Finance in the Global Economy*, (Edinburg: Edinburg University Press, 2006), 42-47; Ataul Huq, *Development and Distribution in Islam*, (Malasia: Pelanduk Publications, 1991), 127.

⁷ Djermakoyo, "The Search for New Economic Order", 17; Khir, *Islamic Banking: A Practical Perspective*, 34; Dr. Naseem Razi, "Transformation of Islamic Economics into a Global Economy: An Analysis in the Light of Capitalist and Socialist Systems of Economics," *International Journal of Sciences: Basic and Applied Research*, (Amman: Jordan, December, 2016), V. 30, No 3, 265-282.

⁸ Ataul Huq, *Development and Distribution in Islam*, 178; Khir, *Islamic Banking: A Practical Perspective*, 23; Dr. Naseem Razi, "Socio-Ethical Dimensions of Islamic Economy and Issue of Modern Interest and RIBA: An Analysis in the Light of the Economy of the Muslim World," *Journal of Islamic Banking and Finance*, (USA: December, 2014), DOI: 10.15640/jibf.v2n2a3, 12-28.

⁹ Ibid.

¹⁰ Khir, *Islamic Banking: A Practical Perspective*, 18; Razi, "Transformation of Islamic Economics into a Global Economy," 273.

¹¹ Izz al-Din 'Abd al-Salam, *Qawa'id al-Ahkam fi Masaleh al-Anam*, (Damishq: Dar Ibn Kathir, 1990), 25; Muhammad Sa'id Ashmawi, *Uṣul al-Shara'a*, (Beirut: Dar Iqra, 1989), 112; Ataul Huq, *Development and Distribution in Islam*, 139; Ibrahim Warde, *Islamic Finance in the Global Economy*, 47.

¹² Ramadan al-Buti, Muhammad saeed, *Ḍawabiṭ al-Maslahah fi al-Shari'ah al-Islamiyyah* (Damishq: Dar al-Fikr, 2005), 321; Ibn Khaldun, *Muqaddimah fi Tarikh*, 1:47; Ibn Qayyim, *I'lam al-Mawaqqi'in 'an Rabb al-'Alameen*, 1:65; Imam Ghazali, *Al-Mustasfa*, 423; Imam Al-Shatibi, *Al-Muwafaqat*, 2:45.

economic analysis”.¹³ Allah Almighty has created the humankind and has planted in him the love for the world and its adornment by declaring it an exam. It is stated in the *Qur’ān*: “Beautiful to mankind is the love of lusts-woman, offspring, heaped up heaps of gold and silver, horses of mark, cattle and tillage that is the enjoyment of the present life but Allah with him is the fairest abode”.¹⁴ The *Qur’ān* also states: He it is Who has created for you everything on earth”.¹⁵ Among His countless blessings, one is that Allah Almighty has declared human kind as His Vicegerent in this world to administer justice, to ensure law and order and to legislate in the light of the changed context. It is this reason that Islam did not introduce some “New Economic Order” rather Islam provided a complete set of universal economic principles recognized by all the economic theories as necessary characteristics establish a Just Socio-Economic Order in the world.¹⁶

As the economic activities of the people are dependent upon the dynamic principles of culture, religion and ethics of a particular society¹⁷, so, is the case of Islamic concept of the economy. For this, Islam adopted the policy of recognition or rejection in the light of the predominant effects of each act/everything that is why the *Qur’ānic* legal injunctions describe both desirable and undesirable effects.¹⁸ The issue that which economic system is suitable to a particular society has left to decide by the people in the light of the revealed economic principles and socio-economic and political circumstances of a society.¹⁹ Economic policies adopted by Hadrat Umar (RU) can be taken as an example.²⁰ The revealed universal economic principles thus, provide a comprehensive economic framework to evaluate the changed socio-economic and political circumstances and to adopt any of the contemporary economic system of the world. The task of the Muslims is to evaluate all existing and practicing economic mechanisms in the light of the revealed economic principles and to decide its rejection or acceptance accordingly.²¹ This is the reason that the Holy Prophet (PBUH) declared: “If something belongs to the domain of your affairs, then you know all about it. (You are the best judge thereof and have the right and the capacity to deal with it according to the Shari’ah”.²²

Talking about the Sunnah of the Prophet (PBUH), the Prophet Muhammad (PBUH) established the first Islamic state at Madinah where he (PBUH) introduced

¹³ Prof. Dr., Khurshid Ahmad, *Studies in Islamic Economics*, (UK: The Islamic Foundation, 1979), 7.

¹⁴ *Al-Qur’ān, Al-Imran*:14.

¹⁵ *Al-Qur’ān, Al-Baqarah*:29.

¹⁶ Naseem Razi, “Islamic Banking System and Mode of Leasing: A Comparative Analysis in the Light of Maqasid al-Shari’ah,” *Cultural and Religious Studies* (USA: Dec., 2014), Vol. 2. No. 6, 349-359, Doi:10.17265/2328-2177/2014.06.005.

¹⁷ Friedrich Engels, 17.

¹⁸ Izz al-Din ‘Abd al-Salam, *Qawa’id al-Ahkam fi Masaleh al-Anam*, 35; Sa’id Ashmawi, *Uṣul al-Shara’a*, 122; Ataul Huq, *Development and Distribution in Islam*, 139; Ibrahim Warde, *Islamic Finance in the Global Economy*, 49. Ramadan al-Buti, *Ḍawabiṭ al-Maslahah fi al-Shari’ah al-Islamiyyah*, 342; Ibn Khaldun, *Muqaddimah fi Tarikh*, 2:144; Ibn Qayyim, *I’lam al-Mawaqqi’in ‘an Rabb al-‘Alameen*, 1:165; Imam Ghazali, *Al-Mustasfa*, 423; Imam Al-Shatibi, *Al-Muwafaqat*, 2:45.

¹⁹ Ibid.

²⁰ Allamah Shibli Numani, *Al-Farooq: A Biography of Umar*, 145-155.

²¹ Naseem Razi, “Islamic Banking System and Mode of Leasing”, Ibn Qayyim, *I’lam al-Muwaqqi’een*, 1:133.

²² Ibn Majah, *Sunnan Ibn Majah*, (Lahore: Islamic Publications, 1988), .2:34.

the concept of a just and welfare economic system that resulted in the prosperity of the citizens.²³ As a political head of the state of Madinah, the Prophet (PBUH) promulgated the first written constitution of the world in which the economic and political protection was guaranteed equally to all the citizens of the state.²⁴ Further, keeping in view, the demands of the changed context, state development, and material well-being of the people, the Prophet (PBUH) introduced the concept of restricted wealth and shared resources by way of state policy in form of *Muwakhat al-Madinah*.²⁵ It is not out of mention here that the *Qur'ānic* provisions regarding earning and wealth give the concept of unrestricted wealth and unlimited private ownership if earned through fair means.²⁶ The Prophet (PBUH) however, restricted the scope of the *Qur'ānic* verses by way of contextual interpretation.²⁷ In this way, Sunnah (PBUH) restricted the individual's freedom of having unlimited wealth and property just for the social welfare and to ensure the fulfilment of the material well-being of the people.²⁸ In the light of the Sunnah (PBUH), the four guided Caliphs continued to practice the principle of shared resources, wealth and property, by way of state-run economic policies.²⁹

The later Muslim jurists discussed the issue of the material well-being with reference to Maqasid al-Shari'ah and declared it as the primary objective of Islamic legal system.³⁰ Due to its importance, the Muslim jurists elaborated the subject in detail and categorized it into different categories in the light of their impacts on the lives of the people such as daruriyyat (necessities), hajat (needs) and tahsinat (luxuries).³¹ The term *daruriyyat* is equivalent to the term material well-being and includes all those materials which are necessary to sustain the life of the people in the manners that if they are not available the life cannot be sustained. These necessities are five in number such as protection of din, life, progeny, intellect and wealth. Imam Ghazali declared all of them interconnected with each other like to observe din and to enjoy the adornment of the world, we need people thus, protection of life and progeny becomes necessary.³² The *daruriyyat* are followed by *hajat* (needs) which are above in degree and access to them makes the life comfortable. The last degree of the material well-being is called as luxuries/tahsiniyyat that leads to the glory of the life and accessibility to them makes the life luxurious.³³ The issue that when necessities fulfill and needs or luxuries start is left to be decided in the light of the socio-economic condition of each society.³⁴ As Imam Shatibi (1988)

²³ Abu Bakr Ahmad bin Hussain al-Bahiqi, *Al-Sunan al-Kubra*, (Beirut: Dar Sadir, 1990), 2: 331.

²⁴ Muhammad Hamidullah, *The Emergence of Islam*, (Islamabad: Shari'ah Academy, 1998), 115.

²⁵ Ibn Hashsham, *Seerah al-Nabawi*, 1:234; Naseem Razi, "Socio Ethical Dimensions of Islamic Economy and Issue of Interest and Riba, 29.

²⁶ Ibn al-'Arabi, *Ahkam Al-Qur'an*, *Al-Fatiha*:211.

²⁷ Muhammad Sa'id Ashmawi, *Uṣūl al-Shara'a* (Misr: np., 1990), 367.

²⁸ Imam al-Razi, *Al-Tafsir al-Kabir*, (Cairo: Matba'ah Hijazi, 1998), 1:544. Ibn al-'Arabi, Muhammad bin 'Abd Allah, *Ahkam al-Qur'an*, ed. Muhammad al-Bajawi. 4 vols, (Misr: Dar Ihya al-Kutub), 1:272.

²⁹ Imam Malik, *Al-Muwatta*, (Karachi: Nafees Academy, 2000), 263.

³⁰ 'Izz al-Din 'Abd al-Salam, 82, *Qawaid al-Ahkam*, 23; Ramadan al-Buti, *Dawabit al-Maslahah fi al-Shari'ah al-Islamiyyah*, 11.

³¹ Abu Yusuf, *Kitab al-Kharaj* (Beirut: Dar Ihya al-Turath al-'Arabi, 1987), 245.

³² Al-Ghazali, *Al-Mustasfa*, 255; Imam al-Shatibi, *Al-Muwafaqat*, 1:67.

³³ Ibid.

³⁴ Ibn Khaldun, *Tarikh fi al-Muqaddimah*, 188.

pointed out that when the people start to enjoy all basic necessities and needs in order to smooth their lives in easy manners, the stage of luxury gets start and what is acquired by them in order to beautify their lives, it will be part of *tahsinat*³⁵ It thus, leads that the primary function of Islamic system of economics and financing is to ensure achieving material well-being of the individuals.³⁶ It also leads that there is no difference between the modern concept of material well-being and Islamic concept of fulfillment of the necessities of the people. It also leads that the criterion to achieve material well-being of the people set by World Bank is similar to what was presented by the Khulafa-e-Rashidin and Muslim rulers in 6th-7th ADs. All this leads that the term “Islamic economics” should be understood in its broader meaning as a sound and universal economic framework, the function of which is to evaluate the validity of any contemporary system of economics in the light of its objectives and effects on the material well-being of the individuals.³⁷ Joan Robinson (1962) stated that “a sound economic system is based on a particular ideology and a set of general principles to justify them in the light of the interest and economic growth of the individuals”.³⁸ In the same manners, Hobson (1929) defined a sound system of economics in the meanings of some general ethical principles to proceed from generality to the specialty to implement scientific objectivities of that system.³⁹ It is mentioned in Kitab al-Kharaj that the fulfilment of the necessities of the individual such as to ensure religious practices, accessibility to proper food, clothing, medicine, home, education and to establish a system of fair distribution of wealth and resources is primary responsibility of an Islamic state.⁴⁰

Section Two

Islamization of the Economy of Pakistan:

Pakistan came into being in 1947 as an Islamic Republic. Currently, its population is about 203,253,152 million with a growth rate of 1.88% (estimated in 2019). It is the only Muslim nuclear weapons country and has best armed forces.⁴¹ The Constitution of Pakistan 1973 declares the feature of Pakistan as an Islamic Republic and consists of many Islamic provisions like Articles, 1 & 2, which declare Islam as the state religion.⁴² The Constitution of Pakistan 1973 also guarantees certain fundamental rights to ensure access to social, economic and political justice to all in accordance with the law. Further, the Principles of Policy (Article 29-40) provide details of responsibilities of the government to ensure rule of law and social justice.⁴³

Talking about the process of Islamization of the laws of Pakistan, it was stated during the regime of General Muhammad Zia-ul-Haq in 1977-1988. The Federal Shari’ at Court was established in May 28 1979 and incorporated in the

³⁵ Imam Shatibi, *Al-Muwafaqat*, 178; Al-Ghazali, *Al-Mustasfa*’, 267;

³⁶ Naseem Razi, “Transformation of Islamic Economics into a Global Economy”, 34

³⁷ Naseem Razi, *Transformation of Islamic Economics into a Global Economics*, 75

³⁸ Joan Robinson, *Economic Philosophy*, 13.

³⁹ Hobson, *Work and Wealth: A Human Valuation*, 12.

⁴⁰ Abu Yusuf, *Kitab al-Kharaj*, 388.

⁴¹ <http://worldpopulationreview.com/countries/pakistan-population>. Last visited on 21-02-19.

⁴² See, Notification, Gazette of Pakistan 1974, extraordinary, part, II, 165.

⁴³ The Constitution of Pakistan, 1973, Arts, 29-40

Constitution of Pakistan, 1973 under Chapter 3-A.⁴⁴ The task of the Court is to evaluate all existing laws in the light of the provisions of the *Qur'ān* and Sunnah (PBUH). Many Islamic laws were enacted and passed by the Parliament in the light of the recommendations of the Council of Islamic Ideology like Zakat and Ushr Ordinance, 1980, Qisas and Diyat Ordinance, 1984, Ihtiram-e-Ramazan Ordinance, 1984, the Enforcement of Shari'at Act 1991 etc.

To Islamize economy of the country, in 1980, Nizam-e-Zakat was introduced. In the same manners, in 1981, the Council reviewed the Interest Act 1839 and by declaring it repugnant to the clear provisions of the *Qur'ān* and Sunnah (PBUH), recommended to repeal it. The Council also recommended elimination of the capitalist interest from all the institutions including banks.⁴⁵ To comply these recommendations, the then Government of Pakistan ordered the State Bank to take certain steps for the elimination of the interest from financial transactions within three years. Accordingly, the State Bank of Pakistan issued a circular to all the financial institutions to eliminate interest and to adopt 13 substitute methods of business suggested by the Council.⁴⁶ However, the target could not be achieved and at the end of three years, a four years relaxation was taken by the government by way a Constitutional amendment. It further, delayed for seven years by another Constitutional amendment that ended on 26th of June 1990.⁴⁷ The Council of Islamic Ideology also started evaluation of about eleven Conventional Acts of Insurance in 1984 and after seven years, the working committee prepared a comprehensive report that declared the existing system of insurance as repugnant to the injunctions of Islam. It was recommended by the Council that a system of Islamic insurance should be introduced and the existing system should be replaced.⁴⁸ Later on, in 1988, the International Islamic University was established to produce experts in comparative knowledge of law and religion.

As Pakistan's financial sector was dominated by the conventional commercial banks so, efforts were made to establish a sound system of Islamic banking and finance to achieve the targeted goals of Islamic economics and finance. To create an appropriate environment for Islamic banks to operate in the desired direction, the government, the planners, policy makers and administrators showed their great commitment to ensure the perceived role of Islamic banks not merely like other ordinary financial intermediaries but as the institutions to dispense social justice and material well-being of the people. In 1991, the Federal Shari' at Court declared the procedure at commercial banks as non-Islamic. Consequently, to pursue the Islamic concept of finance, the first Islamic bank, Al-Meezan Bank was opened in 1997.⁴⁹ To set a criterion for the establishment of Islamic commercial banks in private sector, and to convert the existing commercial banks to Islamic banking in the country, "The Shari'ah Supervisory Board" was established at Al-Meezan Investment

⁴⁴ The Federal Shari'at Court was established as a substitution of the Shari'at Benches of the High Court's by virtue of the president's Order No. 1 of 1980. Article 203 C (1) states that a Court will be comprised of no more than eight Muslim judges including Chief justice, nominated by the president under Article 175-A".

⁴⁵ Council of Islamic Ideology, Annual Report (Islamabad: 1992), 123-127.

⁴⁶ State Bank of Pakistan, Order No 13, issued on 20th of June 1984, @ <http://www.sbp.org.pk/circulars/index.asp>.

⁴⁷ Council of Islamic Ideology, Report, 1992, 125.

⁴⁸ Ibid., 78

⁴⁹ www.meezan.com.pk. Last visited 22-1-19.

Bank in 2001 to regulate and approve guidelines for the emerging Islamic Banking industry. It was pronounced by the Board that each Islamic bank would perform its tasks as an agent/wakil of the client and would ensure access to the material well-being and social justice.⁵⁰ Islamic bank was assigned to perform dual task. It was asked to perform general functions of a conventional bank and at the same time, to introduce modes of Islamic financing such as *mudarbah*, *musharka* and *murabiah* as investment accounts.⁵¹ It was also assigned a welfare task to carry beneficial loan account as *qard-e-hasanah*. Thus, the intrusion of Islamic financing led that all necessary measures would be adopted to ensure material well-being of Pakistani people.⁵²

Section Three

Impact of Islamic Economy on the Material Well-being of Pakistani People:

The prime objectives behind the Islamization of the economy of Pakistan were to act upon the economic provisions of the *Qur'ān* and Sunnah (PBUH), to get rid of the interest based capitalist economy, to assist the poor segment of the society, to achieve material well-being of the people and to establish a just social order. The contemporary scenario also favored the process of Islamization as it was hope that being an Islamic Republic, Pakistan fulfills the prerequisites for the success of an Islamic economic system. In that particular context, the dogma of Islamization of the economy was taken as a sole solution of all the economic issues of the people faced by them due to interest based capitalist system. It is however, a matter of great concern that after more than 30 years of Islamization of the country's economy, Pakistani Islamic economy could not resolve any of the economic issues of the people and has failed to provide any relief to the deprived people. At present, Islamic banking and finance is busy in opening Islamic banks everywhere throughout the country and is concerned only with its increased assets and deposits while the issues of improvement of the socio-economic condition and achievement of the material well-being of the people are totally ignored. At present, more than 60% of the population is living below the poverty line while Islamic banks are engage in a competition with conventional banks in terms of market price, exploitation of the clients by way of hidden charges, earning more and more profit and contributing in price hike etc. Like conventional banks, Islamic banks are also working for the rich while poor has no way to get some social relief at Islamic banks. Contrary to its objectives, Islamic banks could not succeed to open a window to provide *qard-e-hasanah* to the service sector and needy persons. At present, Pakistani economy is suffering from many issues such as budget deficit, inflation, poor tax system, misuse

⁵⁰ Khir, *Islamic Banking: A Practical Perspective*, 22.

⁵¹ Among the ordinary functions are dealing in money, accepting deposits discounting commercial bills, acting as safe custodians of valuables, correspondents and clearing agents, trustees, executors, attorneys, collectors of dividends, selling foreign currency, and facilitating transfers to and from other countries. Among the Islamic modes of finance are, *musharkah*, *mudarbah*, diminishing *musharkah*, *murabahah*, *salam*, *istisna*, *istijrar*, *ijarah* (leasing) and *ijarah wa iqtina*'etc. Likewise, Islamic banking sector also involves in different economic activities such as opening of bank account (*bachat*), remittance, *zakat* deduction, sale and purchase of foreign currency, sale and purchase of traveller's checks, etc.

⁵² Ataul Huq, *Development and Distribution in Islam*, 110.

of *zakat*, poverty, human development and above all IMF and World Bank's conditions for aid.⁵³

Talking about the material well-being of the individuals, at present, people are suffering from many critical issues of their survival however, have no assistance either by way of state-run economic policies or through Islamic banks. The discussion regarding material well-being of the people rather seems irrelevant. The state-run Islamic economy could not contribute in reforming the overall poor economy of the country on the one hand and in providing material well-being on the other. As this research is focused to explore the impact of Islamization of the economy of Pakistan on the material well-being of the individuals so, only the individual's economic problems are being evaluated here in the light of the World Bank's designed framework of the material well-being and Maqasid al-Shari'ah:

3.1 Individual's income as a source to get material well-being:

The most important source to achieve material well-being is the income of an individual that is defined as amount of money earned in a specific time in exchange of labour, sale and purchase or services and profit.⁵⁴ The gross national income is derived as the sum of GNP and the terms of trade adjustment and the gross national income of Pakistan was last measured in 2013.⁵⁵ The individual or per capita income is derived by dividing the total GNP with the total population of the country.⁵⁶ Pakistan is among the low middle-income countries and ranks 140th economy of the world.⁵⁷ While to become a middle-income country, Pakistan needs to enhance its per capita income to US\$4,000.⁵⁸

With respect to income, Pakistani people are suffering from some critical issues such as low income, consumption of major portion of income on food items, low saving and income inequality etc. As far as the issue of low income is concerned, in 2015-16, the GNP of Pakistan was \$284 billion and per capita GNP was about US\$1,512.⁵⁹ It leads that monthly income of an individual is only Rs13365, while due to inflation and price hike, this income is unable to meet the necessities of the life of the people. A report reveals that almost 56% of the income is spent on food items and 28% on renting home.⁶⁰ Another issue is low saving as because of inflation, more than 80% of the income is spent and saving capacity is decreased. At present, the average saving rate of Pakistan is only 14%. It is reported that Pakistan

⁵³ IMF conditions basically require a country to reduce trade and budget deficit and have a smaller government role in the economy i.e. more privatization.

<https://www.imf.org/en/Countries/ResRep/PAK>

⁵⁴ Hayek, Friedrich, *A New Studies in Philosophy*, 54

⁵⁵ World Bank Report, 201, available @

<https://www.worldbank.org/en/country/pakistan>. Last visited 23-01-19.

⁵⁶ Penguin Dictionary of Economics, 78.

⁵⁷ World Bank Report, 2016, available @

<https://www.worldbank.org/en/country/pakistan>. Last visited 23-01-19.; Income Distribution in Pakistan and Agenda for Future Direction of Research, Human Conditions Report. Islamabad: Centre for Research on Poverty and Income Distribution.

<http://www.finance.gov.pk/poverty/pakistan-income-inequality-growth.pdf>.

⁵⁸ Pakistan Bureau of Statics Division, Report 2016, available @

<http://www.staticdivision.gov.pk> Last accessed on 20-01-19.

⁵⁹ World Bank Report, 2016, 113.

⁶⁰ Ibid.

has one of the lowest saving rate in the world (Economic Survey of Pakistan, 2015-16). The most critical issue is income inequality and unfair distribution of wealth and resources. Involvement of the ruling class in the entrepreneur sector has created a very abnormal situation and led many other associated economic issues like price hike. It is reported (2015) that 66% of the industrial wealth & 87% of the assets of bank & insurance is under the direct control of 22 families of the ruling class (WB, 2016). In the same manners, since 1970s, Pakistani people are suffering from the issue of income inequality. Particularly, after Islamization of the economy, income inequality got a sharp increased. It is reported, “that the poorest 20% lost share while the richest 20% gained in both the urban and rural areas between 1987-88 and 2001-02. While decline in income share of the poorest 20% was marginal because it was already meager, the erosion of income share of middle 60% was substantial resulting in considerable gain of the richest 20% indicating erosion of the middle class. The erosion of income share of middle 60% was more pronounced in urban than in rural areas”.⁶¹ All this leads that the process of Islamization of the economy was not designed in the light of the true Islamic economic provisions, objectives of Shari’ah and material well-being of the people. As Friedman (1962) pointed out that income inequality increases if income is transferred from the poor to the rich” (Capitalism and Freedom, p.233).⁶² Unemployment is also a problem of Pakistani people. The unemployment rate has been increasing each year as it was 3.13% in 1990 and got a historical height as 8.27% in 2002. The primary objective of Islamic economy was to improve living standard of the common person by providing him necessities of life. Unfortunately, Islamic finance and economy in Pakistan could not achieve success in this regard.

3.2 Distribution of Agricultural land as part of material well-being:

Agriculture contributes more than 21% of GDP and provides employment to 45% of the total labor force of the country.⁶³ About 83% of total agricultural land is in use. According to the estimates of Agricultural Census 2010, there were 8.26 million farms in the country. These farms were operating an area of 52.91 million acres. The distribution of farm area among small and large farms was highly skewed. Farms with less than 5 acres of land constituted 64 per cent (5.35 million) of the total private farms but they operated only 19 per cent (10.18 million acres) of the total farm area. Whereas, the farms that were of 25 acres and above in size, comprised only 4 per cent (0.30 million) of the total farms but they commanded 35 per cent (18.12 million acres) of the total farm area. The average size of farm in the country was 6.4 acres whereas the cultivated area per farm was 5.2 acres.⁶⁴

⁶¹ Kamel, *Income Distribution in Pakistan*, 6.

⁶² Friedman (1962) pointed out that income inequality increases if income is transferred from the poor to the rich,” See, *Capitalism and Freedom*, 233.

⁶³ Government of Pakistan Statistics Division Pakistan Bureau of Statistics Islamabad, “The Household Integrated Economic Survey”, 2011, available @ www.pbscensus.gov.pk/. Last accessed on 13-01-19.

⁶⁴ Ibid., Census 2010, 21; Ministry of Finance, *Economic Survey of Pakistan, 2014-15*, available @ http://www.finance.gov.pk/survey_1415.html.

Number of Farms and Farm Area – By Province

Administrative Units	Farm Area in Acre Out of 100%	Number of Farms %	Use of farms by Tenants %
Punjab	55%	64%	86
KP	15	19 %	86
Sind	19%	13%	86
Baluchistan	15%	0.38%	79

This table shows that about 86% of the farms are cultivated by way of tenancy while Islam condemns tenancy.⁶⁵ This also leads that land distribution in Pakistan is highly unequal. During the whole process of Islamization, the Muslim economists and muftis totally ignored the practice of the Prophet (PBUH) and four Caliphs, who restricted the scope of related verses by way of contextual interpretation.⁶⁶ Thus, the issues of the tenants could not be touched upon and left unresolved. Politically, the governments in the 1980s and early 1990s also avoided land reforms, because they drew much of their support from landowners.⁶⁷ All this led the large landowners to retain their power over small farmers and tenants, especially in the interior of Sind and tenancy continues on a large-scale. It is reported that almost one-third of Pakistan's farmers are tenant farmers, including almost one-half of the farmers in Sind. Tenant farmers typically give almost 50 percent of what they produce to landlords.⁶⁸ The World Bank Report (2015) reveals that only 5% of the farmers have ownership of 64% of the farming land. In the same manners, 65% of the farmers have less than 2 acre land in their ownership.

3.3. Home ownership as a part of material well-being:

According to Islamic provisions of economics and World Bank plan of material well-being, home ownership is a necessary part of the material well-being and a necessity of the life. However, Pakistan has been facing housing problems in both qualitative and quantitative measures. The problem is more acute in the urban areas.⁶⁹ According to 1998 Population & Housing Census of Pakistan, there were over 19.3 million housing units in the country in 1996-97. Current level of home ownership in Pakistan is approximately 75% majority of which about 67.7 % is in rural areas while only 32.3% is in urban cities. Contrary to it, every third Pakistani is living in the city.⁷⁰

It leads that about 78% people of urban areas are living on rent. With the inflation, the capacity of home purchasing is declining day by day. The criteria of home affordability set by World Bank is as if a house worth 4 times (4:1) the average annual salary is considered to be within the purchase capacity/affordable while world average house size is about 1300 sq ft (WBR, 2015). In Pakistan, a house size of 1300 sq ft (=5Marla) in Pakistan is approximately Rs. 5 million (\$50,000) whereas, average annual salary in Pakistan is Rs. 160380 (Rs.13365 monthly salary) or 1000 dollars per year. In the light of above-mentioned formula, a house if cost Rs.

⁶⁵ Abu Yusuf, *Kitab al-Kharaj*, 314.

⁶⁶ Allama Shibli Numani, *Al-Farooq*, 167.

⁶⁷ Muhammad Mahroof Khan & Others, "Land Distribution in Pakistan", 65.

⁶⁸ Ibid.

⁶⁹ Government of Pakistan, The Household Integrated Economic Survey, 2011, 98.

⁷⁰ Pakistan Bureau of Statics Division, 2002, available @ <http://www.staticdivision.gov.pk> Last (Accessed on 22-01-19).

6,41,520 is affordable in Pakistan while the existing market sales this house with a huge difference that is about Rs.45-50,00,000 in south Punjab such as Multan and Bahawalpur while in Lahore, Rawalpindi (in developed sectors), the same size single story house is available for Rs. 60,-70,00,000. In the capital, Islamabad, in the developed sector, the same size house is available for Rs.130,-150 00,000.⁷¹

In this context, the task of Islamic banks might be to evaluate the market price in the light of the global criterion to set a balance price of the average size house in the light of the average annual income of Pakistani people to ensure home ownership to the people as recommended by the Objectives of Shari'ah. Unfortunately, Islamic banking sector by adopting the policy of conventional banks, contributed in the competition of the price hike and started to sale the house by way of *ijarah* & diminishing *musharakah* on the same price and terms and conditions. At present, only rich people can do home financing with Islamic banks while middle class and poor people have no way to own even a small house by way of Islamic finance at Islamic banks.⁷² For instance, if a client of 45 years of age applies to bank for leasing of a single story old house 1300sq, worth Rs. 10 million, Islamic bank will offer him only 40% of the total cost and will ask the client to arrange for remaining 60% in any way, if he wants to purchase a home. It leads that client must have a saving or amount Rs. 6 million and in Pakistan, only a rich can save or produce such a big amount. Likewise, the rent charged by Islamic bank against its share (units) in the house is far greater than the market price.⁷³

3.4 Livestock as part of material well-being:

Almost 64 % of the population of Pakistan resides in rural areas and earns its livelihood, directly or indirectly, from agricultural activities e.g. crop cultivation, livestock rearing, labour in agriculture, agriculture input supply, transportation of agricultural output to the market etc⁷⁴.

For people of rural areas, presence of some animal at each home is a necessary part of the life and a symbol of social status. The livestock sector is considered as a leading sub-sector of the agriculture sector and contributes over 11% to the GDP during 2005-06 which is more than the aggregated contribution of entire crop sector that is 10.3 %. Livestock production is one of the major activities of the people of rural areas. It is reported that about 30-35 million people are engaged in raising livestock and earns 30-40% of their incomes.⁷⁵ According to the "Livestock Population Report, 2006, the total Cattle are 24,114,455, Buffaloes are 23,468,154, Goats are 45,738,255, and Sheep are 15,025,659.⁷⁶

⁷¹ See, www.zameen.com. Last visited on 11-01-19.

⁷² Razi, Naseem, "Islamic Banking System and Mode of Leasing", 355.

⁷³ Ibid.

⁷⁴ Agricultural Census 2010 - Pakistan , available @ www.pbs.gov.pk/content/agricultural-census-2010-pakistan-report. Last accessed 20-02-19.

⁷⁵ Live Stock Census 2006 - Pakistan Report,6, available @ www.pbs.gov.pk/.../pakistan-livestock-census2006/All%20Pakistan%20Report%20%20...

⁷⁶ Ibid.

Province wise Distribution of Live Stock

Total Animals	24.11 in million	In %
KP	3.84	16
Punjab	13.20	55
Sind	5.64m	23
Baluchistan	1.3	6

Islamic financing and banking sector can play a constructive role in reducing poverty by assisting the poor people of Baluchistan, KP and Sind by way of qard-e-hasanah or investment on soft terms for production of livestock. However, Islamic financing at Islamic banks has no scheme to help the poor people in raising livestock by way of qard-e-hasanah or by way of financial aid from the profit gaining in the name of Islamic finance. Investment in livestock on soft terms and conditions may increase production of milk, meat and poultry to meet rising domestic demand of ever-increasing population and produce exportable surplus as well.

3.5 Durable household goods as material well-being of the people:

The term durable household is defined in the meaning of valuable household purchased items such as washing machine, iron, computer, A.C and car.⁷⁷ According to “The World Bank Report, 2016, provided a data between 1965-2015 that the average value for Pakistan during that period was 77.9 % with a minimum of 68.22 % in 1991 and a maximum of 84.67 percent in 1975.⁷⁸ In Islamic concept of maqasid, the concept of durable household goods is similar to needs of the life (hajat) that facilitate the life by removing hardship of daily life which are determined in the light of the socio-economic conditions of each country.⁷⁹ In Pakistan, however, about 60% of the population is living below the poverty line that have no access to food, clean drinking water, proper sanitation, medicine, education and housing. In this context, the discussion about accessibility to the durable household goods is not so important.

This research thus, concludes the term “material well-being” is equivalent to the concept of daruriyyat (necessities) introduced by Maqasid al-Shari’ah. It is also concluded that that Islamic finance and banking sector is symbolic as this sector was launched not only as an ordinary financial mediator but also as an institution to provide opportunities to the poor segment of the society in achieving material well-being and necessities of the life and for the dispensation of social justice. Moreover, Islamic economics and finance are also politicized by the stakeholder by ignoring the issue of land reforms upon which almost 70% of the population is dependent. Islamic banks are progressing by leap and bound yet it could not introduce any policy that helps the poor in achieving material well-being that is necessities of the life. In this context, failure of Islamic banking and finance in reducing poverty, and in achieving material well-being is a big issue to address. It is not out of mention here that Capitalism and Socialism declined just because of their ignorance of the issues of the poor. Due to failure of Islamic economics in achieving its primary goals, a common person does not feel any difference between capitalist system of economics and Islamic economics. The Islamic economy and banking sector in Pakistan is working

⁷⁷ World Bank Report, 2002, 23.

⁷⁸ World Bank Report, 2016, 75.

⁷⁹ Al-Shatibi, *Al-Muwafaqat*, 1:177.

just as a competitor to the conventional banking and finance sector. It is following capitalist system in terms of price hike, negligence towards the material well-being of the people, exploitation of the clients by way of hidden charges, earning more and more profit by ignoring the socio-economic conditions of Pakistani people. Moreover, Islamic economics could not succeed to open a window *qard-e-hasanah* to the needy person that was one of the primary objectives of Islamic financing and banking system. There is no policy for a poor who has no land, no asset, no credit. The issue how such person can be skilled, trained or provided material well-being could not be addressed by Islamic finance and economics.

This research thus, suggests reforming Islamic economics and finance in the light of its primary objectives. Providing material well-being to the people is one of the primary duties of Islamic economics and finance. It is also suggested that the modern Muslim economists and scholars should evaluate the contemporary economic systems in the light of *Qur'ānic* provisions of economics, Economic policies of the Prophet (PBUH) at Madinah (Muwakhath al-Madinah) and economic policies of four Caliphs (particularly, Hadrat Umar) to decide their validity in Islam.