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The role of Religion in the Economic development of Pakistan

The following essay revolves around the relationship between religion and economics with regards to the economic development in Pakistan. Growing religious extremism and cultural division poses a serious threat to Pakistan’s already fragile economy. Empirical research on the determinants of economic growth in Pakistan has typically neglected the influence of religion. The existence of completely different and sometimes contradictory cultural beliefs in Pakistan have wide economic implications and influence the long term economic growth of the country. Pakistan also has a mixed economy but little attention is paid to these cultural variables found in Pakistan which are not present that dominantly in other capitalist countries. Adam Smith viewed his ‘A theory of Moral Sentiments’ as an integral part to the ‘Wealth of Nations’. John Stuart Mill regarded cultural constraints as sometimes more important than even the pursuits of personal interests (Guiso et. al). Before we move forward with our essay, it is necessary to understand the historical and present context of Pakistan’s economic development.

Situated in the southern part of the Asian continent, Pakistan possesses a historical and geographical tapestry imbued with grace and fortitude. Birthed from the partition of British India, Pakistan bears the weight of its colonial legacy, where the struggles for independence and the yearning for a homeland have indelibly shaped its trajectory. The colonial history of the Indian subcontinent (including Pakistan) began with the arrival of European powers in the 16th century. It was the British East India company that gained control over various regions through trade and military conquest, gradually establishing British rule. Under British colonialism, India’s economy underwent significant changes as the British implemented exploitative economic policies focusing on the extraction of resources and the promotion of British industries. Pakistan got its independence from both the British and India in 1947 and became a republic. The uniqueness and distinctiveness of Pakistan’s economy is exactly what I am trying to focus upon through this essay. Even though there are many interesting issues we can focus on when talking about Pakistan’s economics, we will try to solely focus on religious and cultural interference in the so-called invisible hand of Pakistan. To better understand some complications that can come into the economic system of Pakistan through the religious side, let's talk about one of the main elements in
Macroeconomics: interest rate. Now whether we go with the classical idea of rate of interest balancing investment and savings or we go with Keynes’s ideas about the influence of the rate of interest on aggregate demand, the whole idea of macroeconomics itself can become really complicated if the rate of interest is itself considered Haram (forbidden for Muslims). Various banks and institutions in the country try to work around this problem by trying to change or modify their policies to make the interest rate associated with Islamic ideas, however having the constitution of the country on Islamic principles has a lot of economic implications than what people Pakistan generally know about, or care about. We can say that Adam Smith’s invisible hand in Pakistan gets invisibly controlled by religious and cultural powers. Before we delve deeper into this topic, let's take a brief trip down the memory lane to draw a rough sketch of the overall economic development of Pakistan since its inception.

Under British rule, the Indian subcontinent served as a supplier of raw materials and a market for British manufactured goods, leading to an imbalanced economy skewed toward agriculture and raw material exports. As a result, at the time of independence, Pakistan faced the challenge of diversifying its economic base and reducing its reliance on primary commodities. In the early years of independence, Pakistan pursued import substitution policies, seeking to promote domestic industries and reduce reliance on foreign goods. The government implemented tariff barriers and provided subsidies to local industries to foster self-sufficiency. However, these policies faced limitations due to inadequate infrastructure, a shortage of skilled labor, and limited technological capabilities. Despite initial efforts, the industrialization drive did not achieve the desired outcomes. Pakistan's economic landscape in the 1960s witnessed a shift in focus towards economic planning and development under the leadership of President Ayub Khan. The era of "Developmentalism" saw the implementation of the Second Five-Year Plan, which aimed to modernize agriculture, develop industries, and strengthen infrastructure. Foreign aid and investment played a crucial role in supporting these development initiatives, with significant contributions from countries like the United States and China (Khan, 2007). However, the 1970s brought significant economic challenges for Pakistan. The global oil crisis and subsequent price shocks, coupled with domestic political instability, resulted in economic disruptions. The nationalization of industries and banking sectors, implemented under the government of Prime Minister Zulfikar Ali Bhutto, created uncertainty and adversely affected private investment and entrepreneurial activities. In the late 1970s and early 1980s, Pakistan embarked on an economic reform program under the guidance of the International Monetary Fund (IMF). Structural adjustment policies were introduced, emphasizing deregulation, privatization, and fiscal discipline. These reforms aimed to address macroeconomic imbalances, promote export-oriented growth, and attract foreign investment. However, the impacts of these policies were mixed, with some sectors experiencing growth while others faced challenges. The late 1990s witnessed
another significant turning point in Pakistan's economic policies. The government, led by Prime Minister Nawaz Sharif, introduced liberalization measures to open up the economy and promote trade. Tariffs were reduced, trade barriers were eased, and efforts were made to attract foreign direct investment. These policies aimed to enhance competitiveness, stimulate economic growth, and integrate Pakistan into the global economy. However, the overall economic story of Pakistan becomes way more complicated when we look a little deeper.

Throughout the historical development of Pakistan, the religion of Islam has become a strong institution in Pakistan and with the essay, we try to explore the possible negative impacts, if any, it has had or can have on Pakistan’s economy. Okulicz-Kozaryn (2015) argued that religion requires people to follow traditions and discourages people to embrace diversity. Brenkert (2009) pointed out that rule breaking was a feature of creativity and innovation. Gino and Wiltermuth (2014) found that dishonest individuals tend to be more creative. They proposed that dishonesty both involve rule-breaking, and their findings support the ‘hinder hypothesis’ because religious people are usually more honest and are more likely to follow the rules than their secular counterparts (Saroglou, 2010). On the other hand, Assouad and Parboteeah (2018) held that the believers’ particular traits such as self-control, honest spirit of cooperation and hard-working fostered by religions can contribute to creativity. Shen et al, (2017) found a positive relationship between morality and creativity, providing evidence for the ‘facilitate hypothesis’: the religion cultivates morality, and morality is positively associated with creativity. According to Tonnies and Durkheim, industrialization weakens traditions and modern society turns away from gods. Weber studied capitalist, scientists and the bureaucrats and he concluded that organizational workers move away from the questions of meaning and purpose of human existence (Macionis, 2009).

The influence of Islam on Economic implications in Pakistan can be seen in various spheres of society. For instance, to talk specifically about the health economics sector, let's use the example of the Polio Vaccine. Polio is a paralytic disease, which is a target for eradication, but doing so has proven to be a big challenge in Pakistan. A lot of people in Pakistan have very strong stances against any kind of vaccines because of religious significance. Low literacy rates; rural, remote and hard to reach pockets of populations; religious dogmas; and misconception about the polio vaccine such as ‘it causes sterility in children’ and ‘it contains pig fat’ have been the reason for such strong stances by the Pakistanis (Basharat 2017). Moreover, mental health has also been a core focus in the past couple of years. At this point we all are aware of the significance of mental health and the importance of creating awareness on such issues, however, the general people of Pakistan see mental health from a completely negative point of view. This perspective can also be ascribed to the religion of the state. As in other cultures, it is understood that
mental health stigma among Muslims is a major barrier to receiving care and can result in multiple downstream social and functional consequences (Ciftci et al. 2013). Religious extremism might also be playing an important part in enhancing the gender disparities that exist in the country. A study conducted in Pakistan aimed to explore socio-cultural factors leading to a delay in seeking maternal healthcare in South Punjab, Pakistan, identified that delay in seeking care, and potentially resulting maternal mortality, is more likely to occur in Pakistan due to cultural factors present in the country (Omer and Sonia 2021).

The low status of women and male domination keeps women less empowered. The preference for traditional birth attendants results in maternal deaths. In addition, early marriages and lack of family planning, which are deeply entrenched in cultural values, religion and traditions, such as influence of traditional and spiritual healers, prevent young girls from obtaining maternal health care.

Another example of religion’s influence as an institution can be seen from the example of Dr Atif Mian. When the former prime minister of Pakistan, Imran Khan, appointed Princeton University economist Asif Mian as the head of EAC (economic advisory council) to help improve the crumbling economy of the country, it seemed to be a really reasonable and logical choice in that scenario as Pakistan was already lacking individuals with broader perspective and experience to deal with the complicated economic system of Pakistan. However, it turned out that Atif Mian belonged to a sect of Islam, called Ahmadiyya, people of which are persecuted and hated the most in Pakistan and are legally considered Muslims all around the world except in Pakistan and Saudi Arabia. There was a lot of opposition by religious parties to this appointment and even though the Prime minister initially said he would not back down from his decision just because of some religious extremism, eventually he had to ask Asif Mian to step down to replace with someone else who was deemed appropriate by the religious population of the country. This is just one case of many which amplifies the idea that Islam has a lot of influence in Pakistan’s policy decisions and a lot of times this religion is also used as a tool to gain influence over the people to advocate for some policy decisions that only cater to some specific interest of someone. Because of this influence of religion, a lot of institutions and organizations that are designed to promote innovation and creativity are instead rendered useless.

We will pay more attention to the idea of how Islam has been used as a tool to gain influence and power in Pakistan later, first let’s try to find the cause for such religious dominance and interference from the deeper cultural variables that exist in the fabric of Pakistani society and identity. The idea of religion was used by Pakistani leaders during the time of independence to create a separate identity for a country. It can be thought that it was necessary because without the identity of Islam, Pakistan would have gotten independence from British rule but could never have had any reason to separate from India. On 14th
August 1947, Islam became one of the important dimensions of the “Pakistani” identity. Hence, looking at the religious influence over the development of Pakistan will be incomplete without looking at the lingering effect of colonization on Pakistani society as well. One of the significant impacts of colonialism on Pakistan's institutions is the enduring influence of British legal and administrative systems. The British Raj introduced a centralized bureaucratic structure that included a legal framework based on English common law. This system established a precedent for governance and administration in Pakistan after independence. The legal system, including the judiciary and legal codes, continues to bear the marks of British colonial rule. This influence has both positive and negative aspects. On one hand, it provided a stable legal framework and administrative structure that helped in the initial years of independence. On the other hand, it also perpetuated elements of elitism, favoring the interests of the ruling class and leading to unequal access to justice for marginalized sections of society. Furthermore, the colonial era significantly impacted Pakistan's social dynamics and cultural fabric. The British introduced education systems that emphasized Western knowledge and values, leading to a transformation in the intellectual landscape of the region. English became the language of the elite, and Western education became a symbol of social status. This resulted in a divide between those who had access to English-medium education and those who did not. The legacy of this division continues to shape educational disparities and social hierarchies in contemporary Pakistan. Moreover, the British implemented a policy of divide and rule, which exacerbated existing divisions within society along religious, ethnic, and regional lines. These divisions persist to this day and have posed challenges to national unity and social cohesion. In terms of economic development, the British administration focused on exploiting the region's resources, primarily for the benefit of the colonial power. Industries and infrastructure were developed to serve the interests of the British Empire, resulting in an imbalanced economic structure. Agriculture, particularly the production of cash crops, was prioritized over industrial development, leading to a reliance on a few export-oriented sectors. This pattern of economic dependency continued after independence, as Pakistan inherited an economy heavily skewed towards agriculture and lacked a diversified industrial base. The consequences of this dependency are still evident today, with Pakistan struggling to achieve sustained economic growth.

Talking about identity, it is also important to use the behavioral economics lens to look at some specific cultural norms that exist in Pakistan because of its religious and colonial connection, which can have numerous impacts on the economic development of Pakistan. One of the most prominent behavioral norms in Pakistan is the strong emphasis on social status and the importance of appearances. This norm is the direct result of the clash between modernization (an idea inherited because of colonial history) and pure Islamic teachings. This norm can be linked to the concept of social signaling, which is a key
principle in behavioral economics. According to this theory, individuals often engage in behaviors that signal their social status and allow them to gain approval and respect from others (Fiske, 2018). In Pakistan, this norm is evident in the importance placed on formal education, prestigious occupations, and expensive clothing and accessories. Another norm that impacts economic development in Pakistan is the strong focus on family and community relationships. This norm can be linked to the concept of social capital, which refers to the value that individuals derive from their social networks and the relationships they have with others (Putnam, 1993). In Pakistan, family and community relationships are highly valued and individuals often prioritize them over other pursuits, such as career advancement or economic success. While social capital can have many benefits for individuals, it can also have negative impacts on economic development. For example, individuals may be more likely to engage in nepotism or favoritism when making hiring decisions, which can lead to less qualified individuals being hired for important positions (Sobel, 2002). Additionally, the focus on family and community relationships can lead to a lack of trust and cooperation between individuals and groups outside of one's own social network, which can hinder economic development (Putnam, 1993).

Another behavioral norm in Pakistan that impacts economic development and is the product of Pakistan's religious identity is the tendency towards risk aversion. This norm can be linked to the concept of loss aversion, which refers to the tendency for individuals to feel the pain of losses more strongly than the pleasure of gains (Kahneman & Tversky, 1979). In Pakistan, this norm is evident in the caution that many individuals exhibit when making economic decisions, such as investments or business ventures. Another example is the strong emphasis on collectivism and group orientation, which can be linked to the concept of social identity theory. According to this theory, individuals derive a sense of self-worth from the social groups to which they belong and are motivated to act in ways that promote the interests of their group (Tajfel & Turner, 1986). While social identity can have many positive benefits, such as promoting cooperation and solidarity within a group, it can also have negative impacts on economic development. For example, individuals may be more likely to engage in favoritism towards members of their own group, even if it means sacrificing the overall economic welfare of the country (Chaudhry, 2012). Additionally, the focus on group identity can limit individuals' willingness to take risks and pursue individual economic success, which can hinder overall economic growth (Tajfel & Turner, 1986).

Another important behavioral norm that exists in Pakistan that impacts economic development is the tendency towards present bias, which can be linked to the concept of time inconsistency in behavioral economics. According to this theory, individuals tend to prefer immediate gratification over delayed rewards, even if the latter offer greater long-term benefits (Thaler & Shefrin, 1981). In Pakistan, this norm is evident in the prevalence of informal lending practices, such as borrowing from friends or family,
which often have high interest rates and limited repayment schedules. There are several negative impacts the present bias can have for Pakistan’s economy, for example, individuals may be less likely to invest in education or skills training if the benefits are not immediately apparent, which can limit their long-term economic prospects (Thaler & Shefrin, 1981). Additionally, the tendency towards present bias can make it difficult to implement policies that require short-term sacrifices for long-term benefits, such as environmental regulations or infrastructure investments. Lastly, one of the most important ideas resulting from Islam being the part of the identity of a Pakistani is the idea of honor. It is the same idea Nisbet and Cohen talked about in their *culture of honor* work in 1996. According to the concept of social norms theory, individuals are influenced by social norms that govern appropriate behavior and moral standards within a given community (Bicchieri, 2006). The negative impacts resulting from this existing belief are such as individuals may be more likely to engage in corruption or other unethical behaviors in order to protect their reputation or social status, which can undermine the rule of law and impede economic growth (Bicchieri, 2006). Additionally, the emphasis on reputation may discourage individuals from pursuing entrepreneurship or innovation if it risks damaging their reputation or social standing.

Pakistan is not alone in realizing the strong potential of religion as a tool to influence, control and motivate people. Throughout history, state vs religion has been a main debate for many of the countries. For instance, it is important to note that the Roman Catholic Church did not invent the doctrine of usury or the concept of just price with which it was closely allied. But it treated the price of money, as well as the price of goods, as an ethical issue, taking justice rather than economic efficiency as the goal of policy. This is consistent with a public interest theory of corporate behavior; however, it can be shown that Church officials manipulated the usury doctrine to further its institutional interests. The medieval doctrine of usury was confusing because legitimate forms of interest taking existed alongside a general prohibition that lenders should not gain at the expense of borrowers. This created a double standard that became increasingly arbitrary over time, thereby creating opportunities for exploitation by those who made the rules. Nelson (1947: 120–121) claimed that the Church’s selective enforcement dichotomized the medieval merchant-usurer into “two disparate figures who stood at opposite poles: the degraded manifest usurer pawnbroker, as often as not a Jew; and the city father, arbiter of elegance, patron of the arts, devout philanthropist, the merchant prince”.

However, in Pakistan’s case the use of Islam as a tool for politics can be seen throughout the brief history of the country. For instance, particularly General Zia-ul-Haq (1977-1988), exploited Islam to establish their political legitimacy. Zia-ul-Haq's regime promoted a state-driven interpretation of Islam, effectively employing religion as a means to solidify his rule. By amending the constitution to declare Pakistan an
Islamic state, enacting Islamic laws such as the Hudood Ordinance, and emphasizing the implementation of Shariah, Zia-ul-Haq aimed to project himself as a champion of Islamic values, thus gaining popular support from conservative sections of society. Another key aspect of the military dictators' strategy was the Islamization of education and media. Zia-ul-Haq implemented measures that mandated Islamic studies in school curricula, promoting a particular ideological narrative aligned with his regime. Similarly, state-controlled media was utilized to propagate an Islamic worldview, amplifying the military dictators' influence and reinforcing their agenda. Through these means, they sought to shape public opinion, strengthen their support base, and marginalize dissenting voices. Military dictators also strategically co-opted religious institutions to further their political goals. They sought alliances with influential religious leaders and utilized their platforms to promote their own narratives. By aligning themselves with religious figures, they were able to tap into existing networks of religious followers, gaining their support and loyalty. This symbiotic relationship between military rulers and religious institutions provided a significant boost to their authority and control. The utilization of Islam by military dictators in Pakistan has had enduring consequences. The politicization of religion has contributed to the sectarian divide and a growing radicalization within society. The use of Islamic rhetoric and policies by military rulers has at times reinforced extremist ideologies, perpetuating a cycle of religious intolerance and violence. Moreover, the instrumentalization of Islam for political gains has undermined democratic institutions and hindered the development of a pluralistic and inclusive society.

This topic of religion vs economics has not been thoroughly researched, however, there are some notable economists and writers who have done substantial research on this topic and who agree with the idea that religious dominance can have a lot of negative results on the economic development of the country. For instance, according to Timur Kuran, religion can impede economic growth in several ways. First, religious beliefs and practices can lead to irrational or inefficient economic behavior. For example, strict adherence to religious prohibitions on certain types of economic activity, such as interest-based lending, can limit access to credit and hinder entrepreneurship (Kuran, 1996). In Pakistan, the Islamic prohibition on interest-based lending, known as riba, has been a significant barrier to economic growth. While the prohibition on riba is intended to promote fairness and prevent exploitation, it has also limited access to credit for small businesses and individuals (Haque, 2017). This has made it difficult for many Pakistanis to start or expand businesses, which has contributed to high levels of unemployment and poverty. Another way that religion can hinder economic growth, according to Kuran, is by promoting social norms that discourage innovation and risk-taking. For example, religious beliefs that emphasize the importance of tradition and stability can discourage individuals from pursuing new ideas or challenging existing practices (Kuran, 2011). In Pakistan, the emphasis on tradition and stability can be seen in the strong
influence of conservative religious leaders and the prevalence of traditional social norms. This has contributed to a reluctance to adopt new technologies or business models, which has limited the country's ability to compete in a global economy. Moreover, when religious differences are used to justify political or economic discrimination, it can lead to social instability and violence, which can have serious economic consequences (Kuran, 2010). In Pakistan, sectarianism and conflict have been major barriers to economic growth. The country has experienced significant political and social instability, including sectarian violence and terrorism, which have hindered economic development and scared away foreign investment (Zaman, 2014). This has contributed to a lack of infrastructure development, low levels of education and health care, and high levels of poverty.

Now while it may be clear that Islam has a lot of obstacles for the economic growth of Pakistan, the discussion itself becomes really complicated when we bring in the moral side to this dilemma as well. While the use of religion might be responsible for a lot of economic problems Pakistan is facing currently, Islam are also numerous but the problems appear when we try to rationalize or quantify these positive impacts. It is important to note that this essay focuses on how Islam has been used by Pakistani policy makers, leaders and common people towards unfavorable economic outcomes, however, this essay does not criticize the main fundamental teachings of Islam. Religious institutions often provide training and support for individuals engaged in charitable work and community service, helping to develop skills and expertise that can be applied in a range of settings (Barth, 2002). Many religious traditions emphasize values such as love, compassion, and forgiveness, which can promote peaceful coexistence among individuals and groups. For example, the Golden Rule, which is found in many religious traditions, encourages individuals to treat others as they would like to be treated, fostering a spirit of mutual respect and understanding (Eberstadt, 2012). Many studies have found a positive correlation between religious participation and measures of happiness and life satisfaction (Diener & Biswas-Diener, 2002). Religious participation can provide individuals with a sense of meaning and purpose, social support, and a sense of connection to a larger community (Pargament et al., 1998). Religious practices such as prayer and meditation have also been found to have a positive impact on mental health and well-being (Levin, 2010).

However, it is really complicated to balance the moral and economic side of this idea of interconnectedness of religion, economics and politics in Pakistan. This complication can be understood by the ‘ethnic cleansing’ example in Bhutan which aimed at kicking the ethnic Nepalis out from Bhutan. This resulted in an increase in the overall happiness indicator of Bhutan, however, it can also be regarded as something morally wrong. Another complication in this discussion is the idea of tradeoffs between
short term and long-term economic policies. I believe it is the main reason for the complications associated with trying to pursue a sustainable development plan. For instance, some policies may lead to short-term economic gains but have negative long-term consequences. This can be seen in the case of extractive industries, which may bring in significant revenue in the short term but can lead to environmental degradation and lack of diversification in the long term. Similarly, policies that prioritize immediate growth over long-term sustainability can lead to economic imbalances and instability in the future. In conclusion, fostering economic growth and development in Pakistan requires a comprehensive approach that addresses the region's historical, political, religious and economic challenges. The lack of proper institutions, clashes of cultures and ethnicities, post-colonial legacy, technological changes, religious extremism, socio-economic stratification, excessive interference of the armed forces, and corruption have all contributed to the region's economic challenges. However, through implementing policies aimed at promoting institutional development, reducing inequality, and addressing the core problems resulting from Islam being used by the policymakers as a tool, the region can achieve sustainable and independent growth and development. Furthermore, addressing these issues will require a long-term commitment and a collective effort from governments, civil society, and international organizations to overcome the complex challenges faced by the region.

I would like to conclude my essay by quoting the words of one of my favorite teachers, Professor James Trevithick, who heard these words from the famous John Maynard Keynes.

“If only the problems of macroeconomics were simple”
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