

Faith, Finance, and Political Change: Islamic Banking as a Catalyst for Economic Development Across the Global South

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ABSTRACT

This paper analyzes Islamic banking's contributions to socio-economic reform and economic growth within varied political landscapes of the Global South. Recognizing Islamic banking as often intertwined with the rise of Islamist movements, this study moves beyond essentialist interpretations that depict Islamism purely as a reactionary or anti-modern force, instead adopting a contextualist approach—framing Islamist movements as complex responses to systemic socio-economic challenges such as poverty, political disenfranchisement, and state corruption. Focusing on the Global South, including but not limited to Muslim-majority regions in Southeast Asia, sub-Saharan Africa, Central Asia, and Southeastern Europe, the research explores how Islamic banking acts as both an agent and a product of economic development and political transformation. By combining historical analysis, contemporary empirical data, and forward-looking policy forecasts, it examines Islamic finance's capacity to enhance financial inclusion, challenge entrenched oligarchies, and mitigate extremism within diverse political contexts—from semi-authoritarian regimes to monarchies shaped by colonial legacies. The study investigates the expansion of credit access, the negotiation of regulatory frameworks with elite power structures, and the role of faith-based finance in building social trust amid political instability. Utilizing econometric tools alongside qualitative case studies across countries such as Malaysia, Kenya, Bosnia, and the current situation in Gaza, the paper assesses the impact of Islamic banking on small business growth, household wealth, and civic engagement. Preliminary insights indicate that Islamic finance's transformative potential is most pronounced where institutional autonomy and grassroots integration are strong, suggesting broader applicability for post-conflict reconstruction and inclusive development throughout the Global South.

Keywords: developmental finance; financial inclusion; political economy; post-conflict reconstruction; regional economic reform