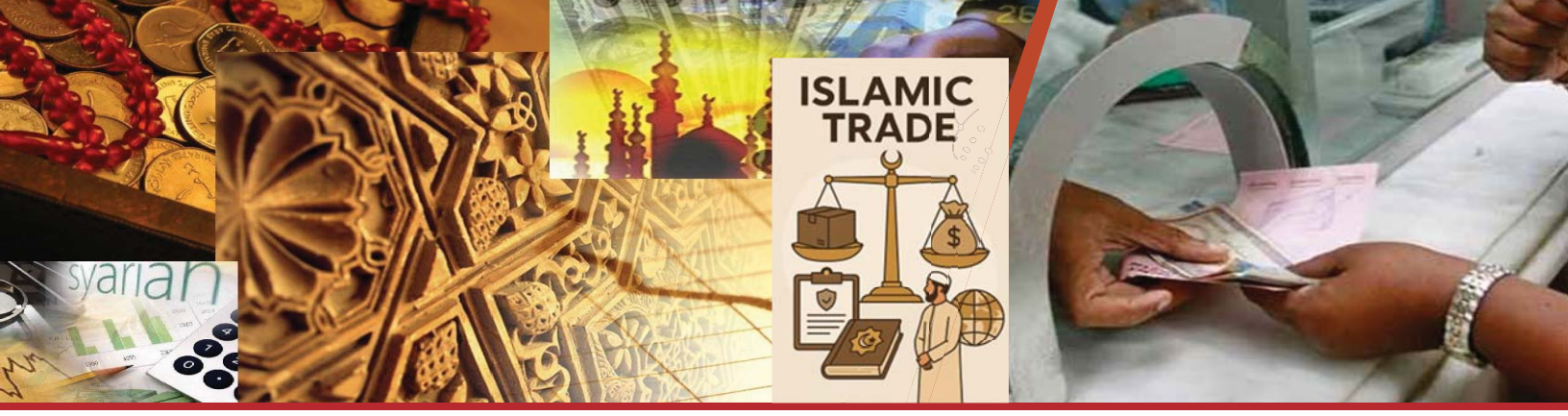


Islamic Trade: Opportunities for Pakistan



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"The honest and trustworthy merchant will be with the prophets, the truthful and the martyrs" [Tirmidhi – 1209]

As global markets evolve, Islamic trade remains a beacon of trust and integrity, offering an alternative model that seeks to align business practices with ethical and moral standards. Trade is like an oxygen for a country's economy–essential and life sustaining. At its core, the exchange of goods and services—an age-old practice that began with bartering and has evolved into the sophisticated global system we see today. It allows individuals, businesses and nations to access what they need or want in exchange for what they produce efficiently. International trade takes this concept across borders, becoming the engine of the global economy by enabling countries to specialize in their strengths while accessing resources and products they lack domestically. It's a dynamic interplay of supply and demand, facilitated by complex logistics, financial instruments and regulatory frameworks. Picture it as a global marketplace where Pakistani cotton finds its way into Italian fashion, German cars cruise on Gulf roads and Brazilian coffee perks up mornings in Tokyo. Beyond goods, it's also about ideas, innovation and interdependence—making international trade not just an economic activity, but a vital link connecting cultures, industries and nations in an ever-evolving global narrative.

Islamic trade is more than just a mode of commerce; it reflects values rooted in centuries-old principles that continue to shape the global financial landscape today. In the era of the Prophet Muhammad ﷺ, trade was a marketplace of ethics and trust.

Trade Environment in Makkah and Madinah

During the Prophet's time, Makkah was a central trade hub. The Quraysh tribe (the Prophet's tribe) were famous merchants, managing caravans that traveled between Yemen in the south and Syria in the north. These journeys brought them in contact with different civilizations and trading systems.

Trade played a pivotal role in the spread of Islam, as Muslim merchants forged vast networks linking the Middle East with Africa, Asia and Europe. These routes facilitated not only the movement of goods but also the exchange of cultural and religious ideas.

The ethical conduct encouraged by Islamic teachings—centered on honesty, fairness and lawful transactions—left a lasting impression on the communities they engaged with. Muslim traders became known for their integrity, which earned them trust and admiration, drawing many toward the faith.

Their deep involvement in local societies, coupled with efforts to promote education and learning, helped establish Islamic values and practices across regions. Through commerce, these merchants reshaped not just economies, but also the social and religious fabric of the areas they touched. (explore-islam.com)

Even in the 7th century, trade was not just a local affair—it was a regional and international enterprise. Makkah, where Prophet Muhammad ﷺ was born, was a major trading hub strategically located on the caravan routes connecting Yemen in the south with the Levant (modern-day Syria, Jordan, Palestine) and beyond in the north.

In the time of Prophet Muhammad ﷺ, trade played a central role in economic life, but it came with high costs.

Long-distance caravan journeys—such as the winter and summer trade expeditions of the Quraysh—required significant investment in camels, goods, food, security and travel time. Most individual merchants couldn't afford to finance these ventures alone, which led to the need for shared financing arrangements that could pool resources and spread the burden.

Another reason for trade financing was the divide between capital and labor. Some individuals had wealth but lacked the time or business expertise, while others had the skills and energy but no money. To overcome this, Islamic financial structures like Mudarabah emerged, where one party provided capital and the other managed the trade. Profits were shared based on agreement and losses were borne only by the capital provider unless negligence was involved, establishing fairness in risk and reward.

Islamic finance also promoted ethical principles by ensuring that trade risks—such as theft, loss, or market failure—were shared equitably, rather than unfairly passed on. This nurtured trust and integrity within the marketplace. These values reflected the core teachings of Islam, where honesty and fairness were emphasized in every transaction, strengthening the moral fabric of the commercial system.

Financing also made trade more inclusive, enabling participation from those who lacked personal wealth. It allowed young and skilled entrepreneurs to engage in commerce using someone else's capital, provided they operated with trust and transparency—just as the Prophet Muhammad ﷺ did when managing the business of Lady Khadijah (RA). In this way, trade financing became a means of both livelihood and character development.

Moreover, in the absence of formal banks or institutions, trust, written contracts and personal reputation served as the pillars of trade finance. As Islam expanded, ethical trade practices became a vehicle for spreading the faith. Muslim merchants, through their fairness and reliability, built relationships across regions, helping to introduce Islamic values peacefully and powerfully into new communities.

"Even today, up to 80% of global trade is supported by some sort of financing or credit insurance."
Roberto Azevedo (Director General-WTO).

In conventional trade finance the transactions are solely financed through credit and most traditional trade finance instruments are non-shari'ah compliant. These consist of repurchase agreements (repos), commercialization of guarantees, interest (riba), debt sales (Bay Al-Dayn) and unnecessary fees.

In Islamic finance, interest is expressly forbidden and any excessive amount in a bilateral agreement is regarded as riba while islamic trade financing is shari'ah-compliant contracts like: Murabahah (cost-plus financing), Musharakah (partnership), Wakalah (agency), Kafalah (guarantee) and Tawarruq (commodity murabahah) serve as the foundation for Islamic trade finance instruments. In accordance with Islamic principles, these products enable the financing of global trade.

"And they say: Trade is like usury, but Allah has permitted trade and forbidden usury."
Surah Baqarah – Al Quran

Let's explore how each Modern Islamic Finance Mode has its roots in the Era of Prophet Muhammad ﷺ:

1) **Murabaha – Cost + Profit with Transparency:** In Makkah and Madinah, it was common for traders to buy goods and sell them at a markup. What made it Islamic was disclosure.

   Example in the Prophet ﷺ Era: A merchant would say, "I bought this cloth for 10 dirhams and I am selling it for 12." This clear disclosure of cost and profit is what we now call Murabaha.

   Lesson: Even then, fair pricing and transparency-built trust—and such transactions were blessed.

2) **Musawamah:** Negotiated Sale Without Disclosing Cost - Sometimes, sellers would not reveal how much they paid. Instead, the buyer and seller would bargain over the final price.

   Example: A trader might say, "This camel is 100 dinars." He doesn't say whether he got it for 80 or 90. This was accepted, if there was no deception or fraud. This is Musawamah—still Shariah-compliant, if honesty is maintained.

3) **Ijarah – Leasing Without Riba:** People in that era also rented camels, land and even homes.

   Example: Someone might say, "You can use my camel to transport your goods to Ta'if for 5 dinars." This is Ijarah—a lease agreement. It was not based on lending money for interest, but rather on the rental of an asset or service. Prophet Muhammad (S.A.W.W) allowed and even practiced such rentals.

4) **Mudarabah:** The Prophet's Own Business Model - Before receiving Prophethood, Hazrat Muhammad ﷺ worked under Sayyida Khadijah (R.A) in a Mudarabah arrangement. She provided the capital and He managed the trade caravan. The profits were shared as per mutual agreement.

This is classical Mudarabah: One party gives capital and the other offers skills and management. Profit is shared and loss is only borne by the investor (unless there is negligence)

Lesson: Trust and integrity made the Prophet (S.A.W.W) a sought-after business partner.

5) **Musharakah (Joint Ventures with Shared Risk):** Musharakah was a common practice when two or more traders pooled money to invest in a caravan or a joint trade journey.

Example: Two businessmen would each invest 50 dinars, buy goods together and jointly manage their sale in another city. They would share profit and loss based on their investment. This is Musharakah, a partnership based on risk-sharing—deeply rooted in Islamic trade ethics. Islam allows trade in those commodities and goods that are halal (lawful), emphasizing moral integrity and transparency in all transactions.

Banks act as catalysts in a country's economic growth by facilitating trade. To promote development, they provide trade finance, manage foreign exchange operations, and ensure the smooth flow of payments. Pakistan's banking and finance industry is actively tapping into the potential of the trade sector. According to recent statistics, Pakistan's Gross Domestic Product (GDP) is estimated at approximately $374 billion. In 2024, total imports stood at $56.33 billion, while exports reached $32.237 billion. For 2023, imports were $50.355 billion and exports totaled $28.502 billion (Source: Statista). Currently, approximately 25% of Pakistan's trade is facilitated by Islamic banks and Islamic banking windows. With the rapid transformation underway in the financial sector, Pakistan has the potential to shift entirely toward Islamic trade finance—especially with the landmark 26th Constitutional Amendment mandating the elimination of Riba (interest) by January 1, 2028. This initiative, backed by the Federal Shari'ah Court's April 2022 ruling, paves the way for a fully Shariah-compliant financial system and accelerates the adoption of Islamic banking and finance across the country.

This remarkable amendment is aligned with our Quaid-e-Azam Muhammad Ali Jinnah's vision for Pakistan, as He, in his speech on inauguration of State Bank of Pakistan on 1st July 1948 said:

"I shall watch with keenness the work of your Research Organization in evolving banking practices compatible with Islamic ideas of social and economic life…. The adoption of Western economic theory and practice will not help us in achieving our goal of creating happy and contented people. We must work our destiny in our own way and present to the



world an economic system based on true Islamic concept of equality of manhood and social justice. We will thereby be fulfilling our mission as Muslims and giving to humanity the message of peace which alone can save and secure the welfare, happiness and prosperity of mankind." – (Source: State Bank of Pakistan website)

The International Islamic Trade Finance Corporation (ITFC) is also actively involved in assisting Pakistan's economic growth by providing financial assistance, including $3 billion in commodities finance and has a commitment to diversify its portfolio in the country. Additionally, Pakistani Islamic banks provide a variety of Shariah-compliant financial options for global trade, such as the Islamic Export Refinance Scheme (IERS). (Sources: International Islamic Trade Finance Corporation and profit by Pakistantoday.

As Pakistan looks to strengthen its position in global trade, Islamic trade finance presents a powerful opportunity to align economic growth with ethical principles. With a population increasingly inclined toward Shariah-compliant solutions and a strategic geographic location linking key trade corridors, the country is well-positioned to become a hub for Islamic trade. By investing in awareness, innovation and institutional capacity, Pakistan can unlock the full potential of Islamic trade finance—not just as an alternative, but as a competitive advantage in the global marketplace. The opportunity is not just to grow, but to grow with purpose – rooted in our faith, guided by our values and inspired by our vision for an equitable and prosperous Pakistan.

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