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The contribution of Islamic Banking operations to the financing of foreign trade

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Abstract---Foreign trade holds substantial importance for all nations, with a country's economic strength often assessed by its export capacity and its ability to penetrate new markets through the exchange of goods and services in the form of exports and imports, aimed at generating mutual benefits. This requires the existence of reliable financing mechanisms for foreign trade operations. Banks, serving both as financial providers and intermediaries, play a crucial role by delivering the necessary funding to exporters and importers while facilitating the flow and collection of capital. In this context, Islamic banks contribute significantly to the facilitation of foreign trade operations by protecting the rights of both exporters and importers and ensuring that transactions align with international delivery terms as well as the principles of Shariah.

Keywords---Foreign trade, Islamic banks, Islamic finance.

Introduction

Foreign trade is regarded as one of the most vital branches of economics and plays a fundamental role in the development of national economies. It constitutes a crucial sector for all societies, whether developed or developing, and stands as a cornerstone of economic advancement. It enables nations to leverage each other's comparative advantages in specific goods. No country can remain entirely self-sufficient, regardless of its political structure or the extent of economic disparities among nations.

Accordingly, foreign trade emerges as an essential component of society, reflecting the state of the economy and acting as a catalyst for economic development through improved resource allocation and sustained growth. This reality underscores the necessity of securing suitable financing mechanisms for international trade transactions.

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Bank financing, in its multiple forms, is one of the foundational elements of national economies due to its prominent role in fostering both social and economic development. Foreign trade, in particular, occupies a significant position, as it contributes a considerable portion to national income. Consequently, many countries have prioritized the enhancement and support of this sector.

One of the primary assurances required in this context is the availability of financing, often ensured through the participation of financial institutions, especially banks, using a variety of instruments and mechanisms that now constitute essential components of trade finance. Banks function as financial intermediaries by mobilizing savings, promoting a saving-oriented culture within Muslim communities, and countering the practice of wealth hoarding.

Islamic banking, in particular, has experienced significant expansion in recent years, particularly in light of the increasing receptiveness to institutional Islamic finance as an alternative to conventional financing methods in Islamic countries. It has proven to be an effective mechanism for enhancing the performance of the financial and banking sectors by utilizing a range of instruments and structures that adhere to Islamic Shariah principles.
In light of the foregoing, the principal research question can be formulated as follows:
To what extent do Islamic banks contribute to financing foreign trade operations?

Sub-questions:
- What is meant by foreign trade?
- What are the key Islamic banking operations used to finance foreign trade?
- What is the scale of contribution by Algerian Islamic banks to financing foreign trade operations?

To address this research question, both descriptive and analytical approaches were employed. The first section discusses the theoretical framework of foreign trade and introduces key concepts related to Islamic banking. The second section outlines the primary Islamic banking mechanisms used in foreign trade. The third section presents an analytical study on the current state of Islamic bank financing for foreign trade operations in Algeria during the period from 2018 to 2022.

Section One: Concepts of Foreign Trade and Islamic Banks

The foreign trade sector has witnessed substantial global expansion, which has, in turn, intensified the challenges associated with its financing. These challenges were traditionally addressed through credit facilities extended by conventional banking institutions. However, with the emergence and development of Islamic banking, economic actors now have access to alternative financing methods that comply with the principles of Islamic Shariah.

Subsection One: The Concept of Foreign Trade

Foreign trade constitutes one of the foundational pillars of economic development. It functions as a conduit through which nations can capitalize on each other's comparative economic advantages. No country can operate in complete isolation, due to the inherent disparities in natural resources and climatic conditions that hinder the fulfillment of all domestic consumption demands. In this context, international trade provides the most viable mechanism to bridge these gaps.

Branch One: Definition of Foreign Trade:

Various definitions have been proposed for the concept of foreign trade, including the following:

- It comprises all types of international commercial transactions in their three main forms: the movement of goods, people, and capital. These transactions occur between individuals residing in different political entities or between governments and economic organizations based in separate political jurisdictions.[1]

- It refers to the commercial exchange that occurs between one country and others worldwide. This exchange may include physical goods, services, capital, and labor.[2]
- Foreign trade denotes the commercial exchange of goods, services, and other factors of production between multiple countries, with the goal of generating mutual benefits for all trading parties.[3]

In essence, foreign trade refers to the import and export of tangible goods and services across national borders. It enables countries to market their production surpluses and simultaneously acquire the surplus outputs of other nations, thereby creating reciprocal benefits for the trading partners.

Branch Two: The Importance of Foreign Trade

Foreign trade has become one of the most vital activities relied upon at the international level. No country can achieve complete self-sufficiency.[4] It is widely acknowledged that there is a strong correlation between foreign trade and economic welfare. Through foreign trade, it becomes possible to satisfy needs that could not be met if a country depended solely on its own products and internal resources, due to the inherent disparities between nations in terms of their natural comparative advantages.

Foreign trade contributes to the satisfaction and equitable distribution of natural endowments among countries, even though these endowments may be concentrated in certain geographical regions over others. The importance of international trade lies in several key aspects:

- It enables the acquisition of goods at a lower cost than if they were produced domestically.
- One of its most notable benefits is the increase in national income, which is driven by specialization and the international division of labor.
- It contributes to balancing the domestic market by maintaining equilibrium between supply and demand.
- It fosters friendly relations between countries[5] and may serve as a means to lift nations out of poverty through the encouragement of exports, which generate new gains in the form of foreign currency inflows.

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[1] Jamil Mohammad Khalid, *Fundamentals of International Economics*, Al-Academyoon for Publishing and Distribution, Amman, Jordan, 1st Edition, 2014, p. 217.

[2] Belghanami Nabila, *Strategy of Financing Algerian International Trade under New Transformations*, PhD Dissertation in Economic Sciences, Hassiba Ben Bouali University – Chlef, Faculty of Economic, Commercial and Management Sciences, 2017/2018, p. 3.

[3] Belghanami Nabila and Sahnoun Jamal Eddine, *The Role of Banks in Financing International Trade and Achieving Sustainable Development*, *Al-Bashaer Economic Journal*, Issue 2, December 2015, p. 50; and Saad Abdul Karim Al-Dulaimi et al., *Foreign Trade*, Dar Al-Kutub wal Watha'iq, Baghdad, 1st Edition, 2023, p. 20; and Madiha Ben Zekri Ben Allou, *The Role of Reframing and Reforming the Foreign Trade Sector in the Development of the Algerian National Economy (From Restriction to Liberalization)*, *Journal of Legal and Social Sciences*, Vol. 4, Issue 3, September 2019, p. 385.

[4] Mohammad Ahmad Al-Sureiti and Fathi Khalil Al-Khadhrawi, *International Economics*, Dar Farous Scientific, Alexandria, 1st Edition, 2017, p. 08.

[5] "The importance of international trade also lies in strengthening international relations by creating new markets in various locations. It has opened new horizons for products instead of limiting their sale to the country of origin and has linked countries with one another, also contributing to cultural and civilizational exchange," quoted in: Halis Abdelkader, *Advanced Lectures in International Trade Theories*, for Third Cycle Students, Specialization: Finance and International Trade, Faculty of Economic, Commercial and Management Sciences, University of Djelfa, Algeria, 2022, p. 17.

- It provides an outlet for disposing of surplus production beyond what is needed in the local market.[6]

Branch Three: Theories of Foreign Trade
A range of theoretical frameworks has been developed to explain the dynamics of foreign trade. These may be summarized as follows:
A – The Classical Theory:
Among the leading proponents of this school are Adam Smith, who formulated the "Theory of Absolute Costs and Division of Labor"; David Ricardo, known for the "Theory of Comparative Advantage"; and John Stuart Mill, with his "Theory of International Values of Labor." Most economists trace the roots of classical trade theory to Adam Smith's seminal work *The Wealth of Nations*, published in 1770.
Classical theory emphasized the pivotal role of foreign trade in stimulating economic growth, advocating for trade liberalization, complete competition, international specialization, and the division of labor. It also upheld the principle of minimal state intervention in economic affairs.[7]
B – The Neoclassical Theory:
Although the classical approach offered foundational insights, it was criticized for its overreliance on labor as the sole determinant of value and for assuming complete specialization as a basis for evaluating the benefits of trade. In response, the neoclassical theory emerged, most notably through the contributions of Eli Heckscher and Bertil Ohlin, who developed the "Theory of Factor Proportions."
This theory rests on more pragmatic assumptions, highlighting the differences in resource endowments among nations and how such disparities influence international specialization. According to this view, the relative scarcity or abundance of production factors across countries determines trade patterns.[8]
However, this theory has also been subject to criticism, particularly for ignoring qualitative differences in production and overlooking the historical evolution of specialization and the division of labor.
C – The Modern Theory:
This contemporary framework emerged as a new paradigm aiming to explain foreign trade based on dynamic factors, as opposed to the static analysis presented by earlier theories. Notable contributions include Staffan Linder's "Theory of International Demand," Raymond Vernon's "Product Life Cycle Theory," and Michael Posner's "Technology Gap Model."
Modern theory emphasizes the evolving nature of foreign trade and considers domestic demand for goods as a key determinant of a country's potential for exports and imports. It identifies principal factors influencing international trade patterns, particularly the ability to acquire a comparative advantage in vital areas such as research and development, areas considered essential to the functioning and competitiveness of the trade sector. This theory provides a more pragmatic understanding of the emergence and progression of foreign trade.[9]
Subsection Two: The Nature of Islamic Banks
Islamic banks are regarded as one of the most legitimate institutional channels through which Muslims engage in economic activity. They function by collecting surplus financial resources and investing them in ventures that yield financial returns. These banks serve as a practical manifestation of Islamic legal

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[6] Saad Abdel Karim Al-Dulaimi et al., op. cit.

[7] Walid Aabi, *Environmental Protection and the Promotion of Foreign Trade within the Framework of the World Trade Organization – A Case Study of Algeria*, PhD Thesis in Economic Sciences, Faculty of Economic, Commercial and Management Sciences, Ferhat Abbas University – Setif, 2018/2019, p. 13; and Saud Younes, Ali Abdul Wahab Naja, and Osama Ahmad Al-Feel, *International Trade and Economic Blocs*, Maktabat Tariq Al-Ilm, Dar Al-Taaleem Al-Jamei, Alexandria, 2015, p. 34.

[8] Abdelmoumen Kawaswi, *The Impact of Foreign Trade Liberalization Policies on Industrial Development in Algeria during the Period 1990–2010*, Master's Thesis in Economic Sciences, University of Batna, 2011–2012, p. 15.

[9] Al-Sabti Wasila and Zaârour Naïma, *Stages of Foreign Trade Liberalization in Algeria*, *Journal of International Economy and Globalization*, Vol. 1, Issue 1, 2018, p. 123.

and ethical principles, addressing the necessities of modern economic life while representing a tangible embodiment of Islamic teachings translated into implementable and realistic financial programs.[10]

Branch One: Definition of Islamic Banks

Islamic banks have been defined in various ways that differ in wording but are aligned in essence. These definitions include the following:

- A financial and monetary institution that conducts banking and financial operations, mobilizing monetary resources and utilizing them effectively to ensure capital growth and achieve maximum possible returns, all within a framework that fulfills the objectives of economic and social development in accordance with Islamic Shariah law.[11]
- A modern financial institution that abides by the rulings and principles of Islamic Shariah in all its financial dealings. It mobilizes capital through lawful means and invests and develops it using legitimate instruments and mechanisms for the benefit of its stakeholders. Its broader aim is the reconstruction of Muslim societies, the achievement of economic and social development, and the reinforcement of Islamic cooperation founded on Shariah principles.[12]
- A financial institution that seeks to generate profits by accepting banking deposits from the public either on the basis of loans or Mudarabah (profit-sharing), and by investing all available resources through financing and investment instruments that do not contravene the rulings of Islamic Shariah.[13]
- Islamic banks contribute to the establishment of a banking system that conforms to Shariah rules in financial transactions and strives to implement Islamic principles in a practical and applied form.[14]

Branch Two: Characteristics of Islamic Banks

Islamic banks possess a range of defining characteristics that distinguish them from conventional banks. Among the most significant are:[15]

- The avoidance of dealing in usury (riba) and the prohibition of all forms of unlawful practices such as fraud, monopolization, and excessive uncertainty (gharar).
- Full compliance with Islamic Shariah in both the mobilization and utilization of funds, utilizing either partnership-based or exchange-based models.
- An emphasis on conducting feasibility studies for the projects they finance, coupled with the provision of technical consultations, an approach rooted in their operational model based on profit-and-loss sharing.

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[10] Osama Abdel Majid Al-Thani and Sarah Muhammad Ubaid, *The Role of Iraqi Islamic Banks in Financing Small Projects*, Proceedings of the Sixth Academic Conference: *Islamic Banks Between Reality and Expectations*, organized by the Islamic Supreme Authority for Jerusalem in cooperation with the Islamic Economy Platform, 20/11/2021, Dar Al-Jinan Publishing, Amman – Jordan, p. 370.

[11] Hajar Khadija Douidi and Laila Khattab, *Islamic Banks: Challenges and Solutions*, *Al-Rashid Scientific Journal*, Vol. 08, December 2021, p. 212.

[12] Mohammad Al-Amin Abah, *Participation-Based Financing Forms in Islamic Banks as Alternatives to Financing Methods in Conventional Banks*, *Journal of Economic and Financial Research*, Vol. 09, Issue 01, June 2022, p. 234.

[13] Hussein Mohammad Samhan, *Fundamentals of Islamic Banking Operations*, 1st Edition, Dar Al-Masirah for Publishing and Distribution, Amman, Jordan, 2013, p. 42.

[14] Chihab Ahmad Said Al-Azazi, *Management of Islamic Banks*, 1st Edition, Dar Al-Nafaes for Publishing and Distribution, Amman, Jordan, 2012, p. 11.

[15] Najah Abdel Alim Abdel Wahab Abu Al-Fotouh, *Principles of Islamic Banking and Financial Markets*, Alam Al-Kutub Al-Hadeeth, Jordan, 2014, p. 40, quoted in: Zaghlami Mariam, *Islamic Financial Industry and Its Role in Investment Financing*, PhD Thesis (L.M.D.) in Economic Sciences, Larbi Tebessi University – Tebessa, 2019–2020, p. 49.

- Given their responsibility for managing entrusted funds in accordance with Islamic legal objectives, these banks must carefully balance public interest with the rights and interests of all stakeholders.
- Participation in the pursuit of economic and social development, guided by legitimate Islamic principles that aim to establish social justice. This includes ensuring fair distribution of returns on invested capital, particularly in favor of rightful beneficiaries such as the poor.

Section Two: Islamic Banking Operations for Financing Foreign Trade

Financing represents the monetary dimension of economic transactions. Each country adopts an economic policy tailored to achieving specific developmental objectives, depending on its needs and available financial capacities. This underscores the importance of securing appropriate funding for foreign trade operations, given their crucial role in advancing national development strategies by financing the movement of commercial exchanges, both exports and imports of goods and services, between nations. Any reduction in foreign trade financing inevitably results in a contraction of international economic relations and a decline in economic growth, due to lower export production and decreased importation of goods intended for investment or consumption purposes.

Islamic banks provide the required financing for foreign trade in accordance with the principles of Islamic Shariah, distancing themselves from conventional banking practices, which are largely based on interest-bearing transactions. This is accomplished through the application of various payment instruments and banking facilities.

Subsection One: Payment Instruments in Islamic Banks

The principal payment instruments provided by Islamic banks include international bank transfers, checks, banking cards, and the collection of commercial papers.

Branch One: International Bank Transfers

An international bank transfer is defined as: "A person pays a sum of money to a bank, requesting that it be transferred to a designated recipient in another country. The bank then issues a document, commonly referred to in banking practice as a 'transfer,' which includes an instruction from the bank to another bank, either a branch, a client bank, or an agent, located in a different country, to pay a specified amount of money to the named recipient."[16]

In the context of foreign trade finance, this typically involves either the conversion of local currency into foreign currency or the exchange between two foreign currencies. The bank fees incurred for providing this service, including charges for operational expenses and commissions, are considered permissible under Islamic law. Additionally, the bank may realize an additional return through the differential in exchange rates between the two currencies, based on the rate applied on the day the paying bank is notified.[17]

Branch Two: Checks

A check is a written instrument, prepared in accordance with standard banking formats, whereby the drawer instructs a specific bank (the drawee) to pay, upon request, a determined sum of money to a third party (the payee), either to the order of that party or to the bearer. A prerequisite for issuing this instrument is that the drawer must maintain a current account with the drawee bank, containing sufficient funds to cover the value of the check.[18]

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[16] Anas Al-Zarka, Ibrahim Salama, and Jamal Atiyah, *Hawala (Money Transfer)*, joint study with experts of the Kuwaiti Encyclopedia of Fiqh, *Islamic Awareness Journal*, Kuwait, 1971, p. 234.

[17] Sirine Sabah and Ben Tayeb Hidayat, *Islamic Financing Methods for Foreign Trade: A Case Study of a Musawamah Contract at Al Baraka Bank – Algeria*, *Tibnah Journal for Academic Scientific Studies*, Vol. 6, Issue 01, 2023, p. 291.

[18] Mahmoud Hussein Al-Wadi, Hussein Muhammad Samhan, and Suhail Ahmad Samhan, *Money and Banking*, 1st Edition, Dar Al-Masirah for Publishing and Distribution and Printing, Amman, Jordan, 2010, p. 205.

Branch Three: Banking Cards

Banking cards are metallic or plastic instruments equipped with magnetic strips, manufactured to standardized international technical specifications that render counterfeiting difficult. The Islamic Fiqh Academy, in Resolution No. (65/01/07) dated 07/12/2011, defined a credit card as follows:[19]

"A credit card is a document issued by a provider to a natural or legal person, based on a bilateral contract, allowing the holder to purchase goods and services from parties that accept the document, without immediate payment, since the issuer undertakes to settle the transaction."

As for debit cards, which do not involve the provision of credit, Islamic banks are permitted to charge a fee for offering this service, provided that the card is not used for transactions prohibited by Islamic law. Regarding cards involving credit, particularly credit cards, Islamic banks generally refrain from issuing them unless the bank is able to recover its commissions directly from merchants at the point of sale, proportional to the deferred payment duration.[20]

Branch Four: Collection of Commercial Papers

Commercial papers have gained substantial importance in commercial transactions, particularly with the increasing complexity of modern economic activity. These instruments have largely replaced cash as means of settling transactions and debts, whether payable immediately upon presentation or within a short deferred period. The principal types of commercial papers include the bill of exchange, promissory note, and check. [21]

Islamic banks undertake the collection of the value of commercial papers in return for a predetermined commission. In such arrangements, the bank functions as an agent in exchange for a fee. This commission may be fixed or calculated as a percentage of the value of the commercial paper.[22]

Subsection Two: Banking Facilities in Islamic Banks

The main banking facilities offered by Islamic banks for the financing of foreign trade include letters of guarantee, documentary credits, and documentary collection.

Branch One: Letter of Guarantee

A letter of guarantee is defined as: "A written commitment issued by a bank, at the request of a client (referred to as the ordering party), to pay a specified or determinable sum to another party (the beneficiary), upon their request, within the timeframe stipulated in the letter."[23]

In jurisprudential terms, guarantee contracts are categorized under the contracts of agency and suretyship (kafala), as follows:[24]

- A fully covered letter of guarantee is treated as an agency contract.
- An uncovered letter of guarantee is regarded as a suretyship contract.

The majority of scholars permit both agency and suretyship, as they are recognized as lawful contracts. Consequently, there is consensus on the permissibility of Islamic banks issuing letters of guarantee. The fee charged by the bank under an agency contract is considered compensation for the services rendered and the administrative costs incurred in issuing the guarantee.

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[19] Hussein Mohammad Samhan, op. cit, p. 327.

[20] Ibid., p. 334.

[21] Mounira Bebbas, *Conventional Banking and Islamic Banking in the Face of Financial Sector Challenges and Financial Liberalization: A Comparative Study*, PhD Thesis in Economic Sciences, Setif 1 University, 2015/2016, p. 71.

[22] Hussein Mohammad Samhan, op. cit, p. 337.

[23] Abderrahmane Ajah Abouh, *Bank Guarantee Letters: Types and Provisions*, *Ijtihad Journal for Legal and Economic Studies*, Vol. 10, Issue 01, 2021, p. 74; and Hamdi Abdul Azim, *Letter of Guarantee in Islamic Banks*, International Institute of Islamic Thought, Cairo, 1996, p. 17.

[24] Hussein Mohammad Samhan, op. cit, p. 317.

However, in the case of suretyship, Islamic banks are not permitted to charge a fee for the issuance of a letter of guarantee, as suretyship is defined as a gratuitous contract intended for assistance and altruism.[25]

Branch Two: Documentary Credit

Documentary credit is a banking facility provided to importer clients, allowing them to open letters of credit in favor of foreign exporters. This arrangement enables importers to benefit from the credibility and financial standing of the issuing banks.[26]

Article 02 of Publication No. 600 of the Uniform Customs and Practice for Documentary Credits defines documentary credit as: "Any arrangement, however named or described, that is irrevocable and thus constitutes a definite undertaking by the bank to make payment."

In broader terms, it is: "A written commitment issued by a bank, at the request of its client (the importer), through which the bank undertakes to pay a specific sum to the beneficiary (the exporter) in return for the submission of documents that comply with the conditions stipulated in the credit opening, within the validity period of the credit."[27]

With regard to its legitimacy, Shariah Standard No. 14 (revised), issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), in clause 3/1/1, states: "The use of documentary credit involves agency for procedural services, primarily the examination of documents, and suretyship through the institution's guarantee to the importer, both of which are permissible. Therefore, the use of documentary credit is legitimate, provided the conditions outlined in this standard are fulfilled."[28]

Islamic banks provide documentary credit services free from the interest-based practices associated with conventional banking. When the credit is fully covered by the client, the bank acts as an agent for a fee. In instances where the credit is uncovered or only partially covered, the transaction may be structured based on *Murabaha* for the purchase orderer, or on a partnership (*Musharakah*) basis.[29]

Branch Three: Documentary Collection

Documentary collection is one of the most commonly used payment mechanisms in foreign trade. However, in terms of payment security, it is ranked below documentary credit, as the bank's role is limited to verifying the authenticity and compliance of the submitted documents without assuming any financial obligation to pay.

Documentary collection is defined as "a process whereby a bank receives an instruction from an exporter of goods or services to transfer shipping documents to an importer in another country in exchange for the value of those documents, either through immediate cash payment or via acceptance of a bill of exchange payable at a future date, for a fee charged to the client."[30]

More broadly, it is described as "a procedure through which the exporter instructs their bank, under specific terms, to collect a monetary amount or obtain acceptance of a commercial paper drawn on the buyer (importer), in exchange for the presentation of commercial documents (such as invoices, certificates of ownership, shipping documents), whether or not accompanied by financial instruments

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[25] Ibid., p. 318.

[26] Mahmoud Abdel Karim Arshid, *Comprehensive Introduction to Islamic Banking Transactions and Operations*, 1st Edition, Dar Al-Nafaes for Publishing and Distribution, Amman, 2015, p. 234.

[27] Hussein Mohammad Samhan, *Accounting for Islamic Banks in Light of the Standards Issued by AAOIFI*, 5th Edition, Dar Al-Masirah for Publishing and Distribution, Amman, 2017, p. 317.

[28] Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), *Shariah Standards*, November 2017, p. 399.

[29] Mahmoud Abdel Karim Arshid, op. cit, p. 236.

[30] Roukaya Jabbar, *Documentary Collection as a Payment Method in Foreign Trade*, *Journal of Legal Studies*, Vol. 3, Issue 2, June 2017.

(such as bills of exchange, promissory notes, or checks), or by any other recognized means of payment."[31]

Section Three: The Contribution of Al Baraka and As-Salam Banks – Algeria in Financing Algerian Foreign Trade (2018–2022)

The development of Islamic banking in Algeria remains in its formative stages, having not yet surpassed three decades in operation. Through this study, the objective was to evaluate the ability of Islamic banking mechanisms to contribute to the financing of foreign trade operations, with specific focus on a case study of Al Baraka Bank and As-Salam Bank in Algeria.

Subsection One: Introduction to As-Salam Bank – Algeria and Its Key Foreign Trade Operations

First: The Experience of As-Salam Bank – Algeria[32]

As-Salam Bank – Algeria is a subsidiary of Al Salam Bank in Bahrain. It received official authorization from the Bank of Algeria in September 2008. The institution operates as a fully-fledged bank, complying with Algerian financial regulations and adhering entirely to the principles of Islamic Shariah across all its activities.

The bank functions under a well-defined vision aligned with Algeria's national economic development strategy and provides modern banking services tailored to the needs of the market and economic actors. The bank operates under the supervision of a Shariah Board composed of prominent scholars specializing in Islamic jurisprudence and economics. Its operational network currently includes 25 branches located in various regions of the country, with expansion plans aimed at increasing service accessibility and delivering high-quality offerings to the broadest possible client base.

Second: Key Banking Operations in the Field of Foreign Trade

The bank offers a wide array of foreign trade-related banking services, the most prominent of which include:

1. **Letters of Guarantee:** These constitute one of the most critical banking guarantee instruments. They represent written commitments issued by the bank to pay a specified amount to a designated beneficiary on behalf of the client (the applicant), in the event of non-performance or breach of contractual obligations. The bank issues all categories of letters of guarantee in accordance with international best practices, national regulations, and Islamic Shariah principles.
2. **Documentary Credit:** This is one of the most widely utilized tools for financing foreign trade transactions, particularly imports and exports. It involves a written undertaking from the importer's (buyer's) bank, ensuring payment to the exporter (seller) upon the presentation of specified documents as outlined in the credit terms. The bank provides this service based on clearly defined procedures and conditions.
3. **Documentary Collection:** This payment method is employed by the bank to settle the costs of goods and services in international trade. It is noted for its efficiency, ease of implementation, competitive commission rates, and precision in transaction processing.

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[31] Kamouh Mouloud, *Payment and Financing Instruments in Foreign Trade*, course material for 2nd-year Master's students, Business Law specialization, 2020/2021, p. 11.

[32] Official website of Al Salam Bank – Algeria: https://www.alsalamalgeria.com

Subsection Two: Introduction to Al Baraka Bank – Algeria and Its Key Services in Foreign Trade

First: Overview of Al Baraka Bank – Algeria[33]

Al Baraka Bank is recognized as the first Islamic banking institution established in Algeria. It commenced operations on 20/05/1991 with an initial joint capital of 500 million DZD, which increased to 20 billion DZD by the year 2020.

The bank operates in full accordance with the principles of Islamic Shariah, offering a comprehensive range of pioneering Islamic banking products, all of which are reviewed and approved by its Shariah Supervisory and Fatwa Board. Al Baraka Bank maintains a robust geographical presence across Algeria through a network of 31 branches, aiming to deliver banking services to both individuals and corporate clients while maintaining full compliance with Islamic legal and ethical standards.

Second: Foreign Trade Services

The bank's principal services in the domain of foreign trade include:

1. **Documentary Credit:** A secure and straightforward method used to facilitate payment, acceptance, or negotiation for settling documents that verify the shipment of goods, in accordance with the terms specified by the importer in the letter of credit application.
2. **Documentary Collection:** This service is noted for its operational flexibility and swift execution. It enables the release of goods upon payment (for import collections) or the collection of invoices against payment (for export collections).
3. **Free Transfers:** This facility allows suppliers to settle invoices globally by transferring funds abroad quickly, efficiently, and at a low cost.

Subsection Three: Analytical Study of the Contribution of Al Baraka and As-Salam Banks – Algeria in Financing Algerian Foreign Trade (2018–2022)

First: Algeria's Foreign Trade from 2018 to 2022

Table 1: Algeria's Foreign Trade Statistics for the Period 2018–2022

Year	Exports	Imports	Trade Balance	Total Foreign Trade
2018	41,146	48,573	-7,424	89,719
2019	35,323	44,632	-9,309	79,955
2020	21,932	35,547	-13,615	57,479
2021	38,637	37,466	1,171	76,103
2022	65,718	38,868	26,850	104,586

Source: Based on annual reports from the Bank of Algeria (unit: million USD)

[33] Ibid

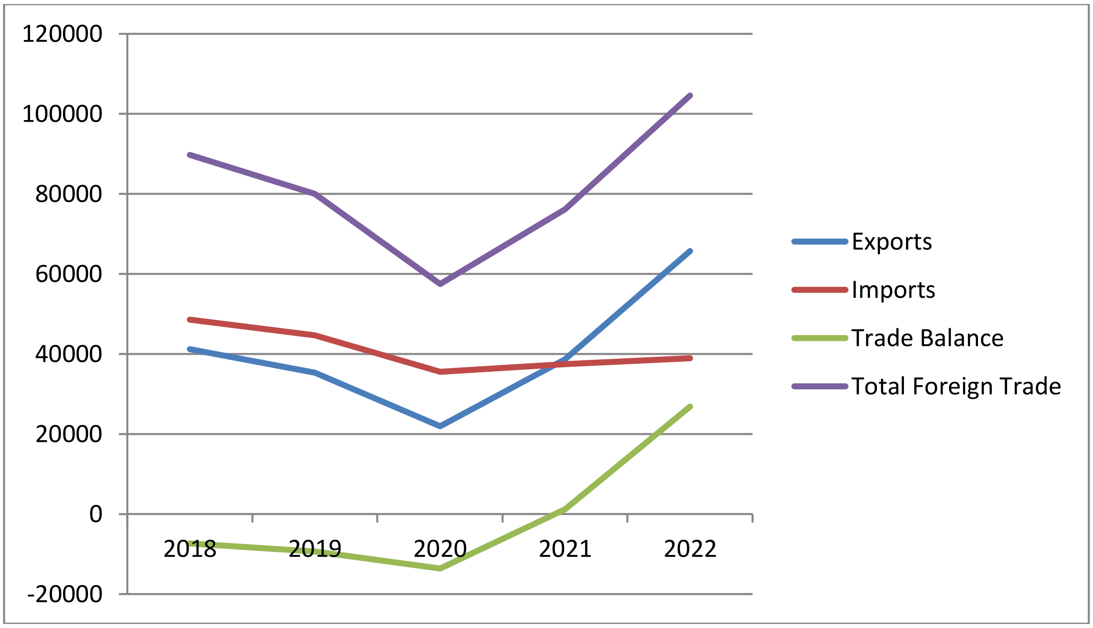


Figure 1: Evolution of Algeria's Foreign Trade Volume from 2018 to 2022 (in million USD)
Source: Prepared by the student based on the data in Table 1 above

- Through analysis of the data in Table 1, it is observed that the volume of Algeria's foreign trade declined compared to 2018, particularly in 2020, due to the repercussions of the COVID-19 pandemic, which severely impacted both the national and global economy as a result of the total suspension of international trade.
- Foreign trade subsequently recovered and began to rise again, especially in 2022, driven by a significant increase in export volumes resulting from the surge in global hydrocarbon prices.
- The trade balance had remained in deficit and only turned positive in 2021, influenced by increased exports. By the end of 2022, the trade surplus had reached 26.85 billion USD, largely attributable to the sharp rise in export revenues, primarily driven by the elevated international prices of hydrocarbons.

Second: Financing of Foreign Trade Operations by Al Baraka and As-Salam Banks – Algeria (2018–2022)

Table 2: Foreign Trade Financing by Al Baraka and As-Salam Banks for the Period 2018–2022

Year	Financing Commitments	Guarantee Commitments	Total Foreign Trade Financing Commitments
2018	80,681,292	12,786,458	93,467,750
2019	81,471,694	14,085,327	95,557,021
2020	84,552,767	14,824,607	99,377,374
2021	109,532,777	17,023,234	126,556,011
2022	110,894,751	21,685,633	132,580,384

Source: Based on the annual reports of Al Baraka and As-Salam Banks – Algeria (unit: thousand DZD)

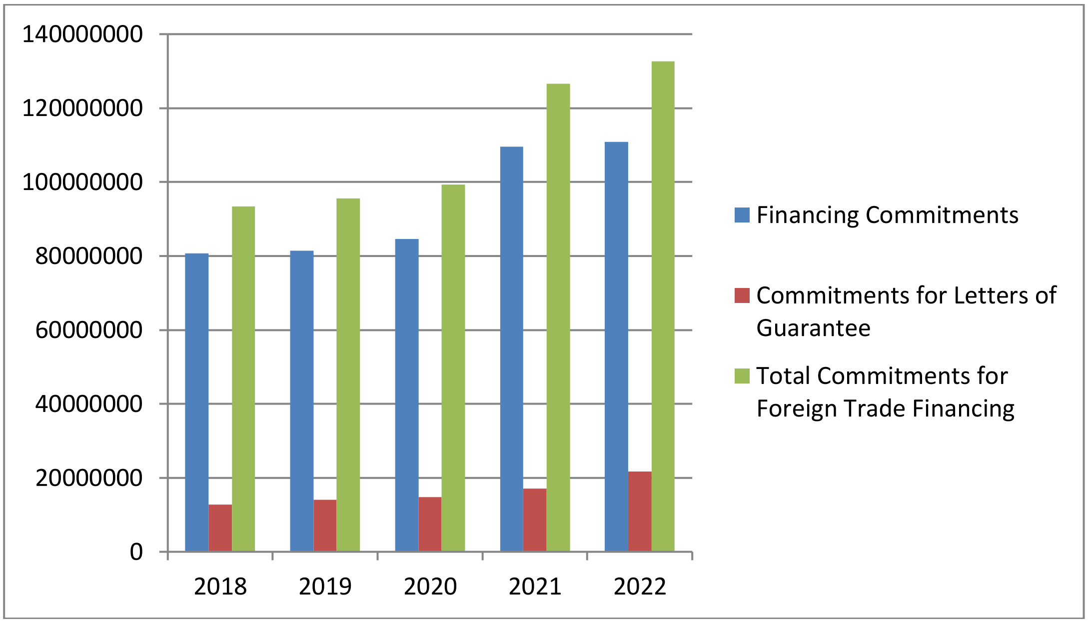


Figure 2: Evolution of the Contribution of Al Baraka and As-Salam Banks in Financing Algerian Foreign Trade (2018–2022)

Source: Prepared by the student based on the data in Table 2 above

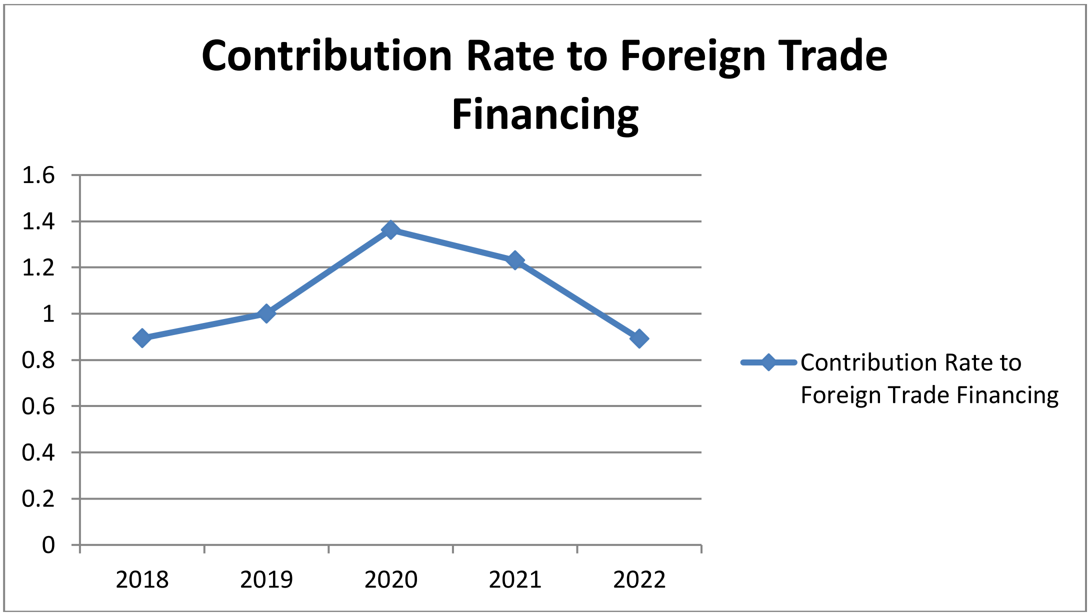
- Based on the annual reports of Al Baraka and As-Salam Banks – Algeria, it can be stated that the activity of both banks in the field of foreign trade has achieved positive results. Their contribution to the financing of foreign trade operations has steadily increased year after year.
- In 2022, their total contribution had risen by 41.84% compared to 2018, reaching a value of 132.58 billion DZD. This growth occurred despite the exceptional and difficult conditions that marked the study period due to the outbreak of the COVID-19 pandemic, which negatively affected both the local and global economy.

Third: The Actual Contribution of Al Baraka and As-Salam Banks to Algerian Foreign Trade

Table 3: Contribution Rate of Al Baraka and As-Salam Banks in Financing Algerian Foreign Trade (2018–2022)

Unit: Million USD

Year	Contribution of Al Baraka and As-Salam Banks	Total Foreign Trade Operations	Contribution Rate
2018	801.500	89,719	0.893
2019	800.578	79,955	1.001
2020	783.560	57,479	1.363
2021	936.716	76,103	1.230
2022	933.644	104,586	0.892



Prepared by the student based on Table 3 above

- Based on our analysis of the data in Table 3, we observe that the contribution of Al Baraka and As-Salam Banks – Algeria, although still relatively modest, continues to grow year after year. This limited contribution is primarily due to the dominance of the public banking sector over the majority of banking activity in Algeria.
- However, except for the years 2021 and 2022, the contribution rate showed consistent growth. The decline in these two years occurred despite a significant increase in the banks' financing of foreign trade operations. This decrease is mainly attributed to the substantial rise in the volume of foreign trade, which grew by approximately 32.40% and 81.95%, respectively, compared to 2020.

Conclusion

This study concludes that the operational model of Islamic banking is fundamentally distinct from that of conventional banking, particularly in its foundational principles and ethical framework. The financing activities carried out by Islamic banks in the domain of foreign trade contribute substantively to the expansion of international commercial exchanges by offering Shariah-compliant financial support to various sectors of the economy. These activities play a pivotal role in facilitating trade operations and in achieving broader national development objectives.

Findings:

Based on the analysis conducted, the following key findings were identified:

- Islamic banks demonstrably contribute to the facilitation and support of foreign trade operations through the provision of tailored financing solutions that align with Shariah principles.
- The payment instruments employed by Islamic banks in international trade are both effective and appropriate, provided they are implemented in strict accordance with Islamic legal standards.

- A fundamental point of divergence between Islamic and conventional banks lies in the prohibition of interest (riba); Islamic banks neither charge nor pay interest in the course of their foreign trade financing activities.
- Both Al Baraka and As-Salam Banks – Algeria actively promote Algerian foreign trade through a variety of financing mechanisms that adhere to the ethical and legal requirements of Islamic jurisprudence.

Recommendations:

In light of the findings derived from this study, the following recommendations are advanced:

- Enhanced focus should be directed toward the modernization of payment systems and financial instruments in order to ensure greater efficiency, speed, cost-effectiveness, and risk minimization in cross-border trade transactions.
- Islamic banking institutions in Algeria should reinforce and expand their support for foreign trade, given its demonstrable impact on economic development and integration into global markets.
- There is a pressing need to diversify Algeria's export base and reduce the economy's excessive dependence on hydrocarbon revenues, thereby fostering greater economic resilience.
- Educational and outreach initiatives should be undertaken to raise awareness among exporters and importers regarding the operational methods, benefits, and ethical dimensions of Islamic trade finance, in order to increase utilization and confidence in these banking services.

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