

# Islamic Economics Analysis on E-Commerce Transaction Mechanism in Indonesia

Ruslan Abdul Ghofur<sup>1\*</sup>

<sup>1</sup>*Faculty of Economy & Islamic Business, Universitas Islam Negeri Raden Intan Lampung Bandar Lampung, Indonesia*

*\*Corresponding author. Email: ruslan@radenintan.ac.id*

## ABSTRACT

E-commerce is the sale and purchase of goods or services through electronic media, commonly called online transaction. The sophistication and advancement of computer and internet have caused the emergence of a new commerce transaction mechanism. This paper aims to discuss and analysis e-commerce transaction in Indonesia in the Islamic economics perspective. Object of this research is two large online e-commerce sites namely Lazada and OLX. Findings of this research reveal that an e-commerce mechanism of the Islamic economics perspective requires fulfillment of certain key principles. They do not only relate to sharia' legitimacy, but also concern about the fact that the sale and purchase transaction must be based on mutual agreement between the two parties. The online trading sites such as Lazada and OLX, have listed a formula of "terms and conditions" with regard to how the process of buying and selling has to be done precisely and cautiously, so that both sellers and buyers are safe from any fraud and harm. This research confirms to the permissibility of such an online trading transaction as this, according to the perspective of Islamic law, as long as both parties are confirmed of no harm and damage out of their transaction.

**Keywords:** *E-commerce, online transaction, Lazada, OLX, Islamic Economics*

## 1. INTRODUCTION

The rapid development of technology in today's modern era has brought about changes in the trading mechanism. Trade is performed not only conventionally but also through the Internet. This advanced mechanism has been prevalent among public, as many stores are now offering their goods or services in both offline and online ways.

In Indonesia, trading activity through social media platforms such as Facebook, Twitter, and Instagram has been increasingly widespread. As such has triggered the emergence of virtual business systems, such as virtual stores or virtual companies. Using handphone and computer, these stores and companies run their business via the Internet. More importantly, the use of digital devices, has enabled anyone to carry on the e-commerce transaction. The Internet brings convenience, practicality, and speed. This kind of trade is no longer considered a paper-based economy but turned into a digital electronic economy that minimizes the role of tangible objects and in turn, fosters the use of intangible objects.

The growth of the digital electronic economy cannot be separated from the development of science and technology as a motor of productivity and efficiency for producers and customers in utilizing goods and services to improve business. The sophistication and advancement of computer and Internet technology have brought the implications of the emergence of a new commerce transaction, which eventually caused the emergence of new problems.

As an economics model instilled with values, principles, and ethics, Islamic Economics concerns about the rights of customers and producers fairly, because through the fulfillment of the rights and obligations of both parties, then the trading activity can be done properly [1]. E-commerce also opens the opportunities for the occurrence of fraud in buying and selling transactions. This is happening because the manufacturers are not trying to pursue productivity and efficiency, which ultimately directly impact the customers. Indonesian government has issued Law Number 11 Year 2008 entitled "Information and Electronic Transactions" which regulates the e-commerce. One of its regulation requires business actors to provide complete and correct information relating to contract terms, manufacturers, and products offered, so that a fraud transaction could be avoided.

Likewise, viewed from the study of *fiqh* (Islamic jurisprudence), Muslim scholars have detailed commerce contracts, with principles requiring any sale and purchase transactions be done face to face and pronounced clearly (*ijab kabul*). This principle is applied slightly differently when it comes to electronic transaction, as it does not require a direct meeting between the seller and buyer, multiplying the possibility of loss to both parties.

Based on this background, this paper will review and analyze the e-commerce transaction mechanism done by online sale sites of Lazada and OLX: two biggest online sale sites widely known and long established in Indonesia.

## 2. RESEARCH METHOD

This research is a qualitative study [2], using a library research method [3]. As a library research, data and information of this study are collected from various kinds of materials available at the library including books, documents, graphics, et cetera. Sources of the data for this study are twofold:

1. Primary Data Source: books and articles describing the concept of commerce in Islamic economy and the documents of e-commerce practiced by Lazada in which they share the document in their website.
2. Secondary Data Source: Any materials closely related to the primary data -e-commerce transaction- like journal articles, research reports, books, etc.

Using descriptive analysis method, data are then analyzed qualitatively by using an Islamic economy perspective, focusing on the mechanism of e-commerce transaction, practiced by two online sale sites, namely Lazada and OLX. This study also uses a comparative analysis method in order to examine the differences of the two online stores in running their business.

## 3. CONCEPTUAL FRAMEWORK

### 3.1. Sale and Purchase in Fiqh (Islamic Jurisprudence) View

Etymologically, sale and purchase are the process of exchanging goods with goods. *Kifayatul Ahyar*, a classical book on *fiqh*, gives a literal definition of sale and purchase as giving something because there is a giving (certain reward) [4]. Syeh Zakaria al-Anshari defines the sale and purchase as exchanging something with something else. Sayyid Sabiq in his book *Fiqh Sunnah*, etymologically explains that sale and purchase in a linguistic sense is an exchange. Sale and purchase according to sharia are exchanging a property with other property on the basis of mutual willingness, or replacing a property with a replacement that can be justified by Islamic laws [5]. Sale and purchase transaction is said to be valid if it fulfills several principles. They are: a) the parties who are involved; b) pronouncement of the transaction (*sighah* or *ijab-qabul*, or offer and acceptance); c) *Al-ma'qud alih*, or object of the contract; and d) the principal purpose of the contract. Conventionally, sale and purchase activities occur in a face-to-face manner between the seller and the buyer. Yet current developments of the transaction system have allowed to happen a non-physically face-to-face transaction between the seller and the buyer, as is evidenced by the so-called e-commerce transaction, which will be explained below.

### 3.2. Defining E-Commerce

E-commerce is defined as selling and purchasing goods or services, through electronic media, particularly via the Internet or commonly called online trading. In such an online business, the contract is performed through *e-mail* or other digital media. This means, trading through electronic systems is a trade in which transactions are made through a series of electronic, digital devices and procedures [6]. In other words, e-commerce is a business activity involving customers, manufacturers, service providers and intermediaries using computers networks or the Internet [7].

There are several benefits of the e-commerce. One of them is it offers a convenient experience to customers in choosing their desired goods. As customers only needs to open the store's online websites for buying their needs, they do not need to go to the store, yet still, they have more options of the goods they want to buy. This means, they save a lot of time they usually spent for going to the store, and they can compare the quality and prices of their desired goods in many different online stores.

Customers have two common behaviors when they want to buy online. The first is looking at the products or services advertised by the related company through a website. The second is to find the data or certain information related to transactions that will be made [7]. As the advancement of technology greatly affecting the development of the model of transactions, it is necessary to conduct a research to ascertain the suitability of e-commerce practice with Islamic laws. To do this, I will focus on the websites that facilitate online transaction: they are Lazada and OLX (tokobagus.com).

### 3.3. Lazada Trading Mechanism

LAZADA is an online shop established in 2012, by PT. Ecart Web portal Indonesia, a company incorporated under the laws of the Republic of Indonesia, and having its registered address at Menara Bidakara 16th Floor, Jl. General Gatot Subroto Kav. 71-73, South Jakarta 12870. The shop, in doing their business, develop a formula of terms and conditions, governing the use of, and access to its platform, as well as the usage of its service (I called here 'its Platform'). By accessing its Platform, the user agrees to be bound by the store's terms and conditions. If the user does not agree to the store's terms and conditions, the user shall not or stop accessing and/or or using the Platform. Access to passwords and passwords usage is protected in a certain area of protection on the Platform. The service is limited only for customers who have an account. The user is not permitted to obtain or attempt to gain unauthorized access to this Platform, or to any other protected information area, in any manner that is not expressly authorized by Lazada. Violation of this provision is a violation based on Indonesian law and/or applicable laws and regulations.

If the user is under 18 years, the user must obtain consent from the parents or guardians. The acceptance or consent of the parents toward the terms and conditions assume responsibility for: (i) the user's action; (ii) fees associated with the use of any service or purchase of products; and (iii) user acceptance and compliance in accordance with the terms and conditions of use. If a user does not have permission from the parents, the user must stop accessing the platform and its service. Lazada always strives to provide an accurate description of the product, but it is not responsible for the assurance that the description is accurate, updated or error-free. All listed prices are subject to tax unless otherwise stated. Lazada reserves the right to change the price list at any time without giving any reason or prior notice.

In practice, the difference between offline and online commerce is in the transaction mechanism. An offline transaction occurs when the sellers and buyers meet, making their deals on both price and type of goods to be exchanged. Transfer of ownership occurs when the seller receives money at an agreed price, and the buyer receives the desired item in accordance with the approved quality and quantity. In such transactions, losses and elements of fraud can be minimized because the buyer can see the goods to be purchased directly, and check the condition of the goods. The legal consequence is to grant the rights and obligations to both the seller and the buyer to the object of sale and purchase immediately after the agreement or commonly referred to as *ijab* (contract pronouncement) and *qabul* (acceptance), as long as there is no *khiyar* (the right to choose between continuing or canceling the agreement).

This is different from transactions conducted in online trading sites such as LAZADA, and OLX. In practice, customers will see and select the items available on website, in accordance with what is needed and the desired price. After looking at the price list, the payment and shipping procedures will be done if the customers agreed to the rules listed in the form of purchase procedures. Then the customers will make an ordering process by filling out the purchase form, and ending it by clicking the "OK" button. When the buyer clicks "OK" on the type of goods selected, it means that the buyer has agreed to be bound by sale and purchase agreements set up by the merchant. So there must be an established agreement between the seller and the buyer, in which the seller agrees to deliver the goods ordered according to the type of goods listed on the site, and the buyer agrees to pay the amount of money stated along with the shipping cost in accordance with the agreement.

In general, the payments are made before items are shipped. In Lazada sites, the customers will be asked to transfer some funds and send the proof of transfer, so that the seller is confident that the customer has made the payment and the goods are ready to be shipped. So in this type of transaction, the contract ends after the buyer has received the purchased goods and check the condition and defects of the goods.

In other online shopping sites, when the buyer has received the goods with a shipping evidence normally

provided by the expedition agency stating that the goods is complete and no defects, the buyer is required to end the transaction, and transfer the funds to the seller, and then provide assessment of purchased goods on the available features provided by the online shopping sites. After the buyer finished giving the assessment by clicking the number of "stars", the contract is concluded. However, if the goods received are not suitable for the expected condition, the buyer is entitled to file an objection or compensation in the form of refunds or returns of goods. If the goods received are not appropriate to online shopping services used in accordance with the procedures provided by the site, the right of the buyer or customer must be met by the seller.

#### 4. DISCUSSION

##### E-Commerce Mechanism According to the Perspective of Islamic Economics

E-commerce is transaction activities done by the help of the Internet. It is mostly done through social media such as *Facebook*, *Twitter*, and various other platforms. Currently, online transactions are widely used in our society: they sell and purchase their goods through online realms.

Customers who make a sale and purchase transaction through an electronic-digital or online-based system, they consider it as a business related to the Internet. Yet, characteristics of the online transaction can be described as follows: The transaction is done between two parties; There is an exchange of goods, services or information; The Internet is the main medium in the process of making the contract.

Thus, Islam has specified the principles of sale and purchase transactions. They consist of the following: a) the existence of both parties, b) *sighah* or *ijabq* and *abul* (contract); (c) *Al-ma'qud* (the goods); (d) the principal purpose of the contract. In electronic or online transactions, both parties are assumed to be clear aware that they are either sellers or buyers. *Sighah* or the contract pronouncement, in an online transaction is usually a condition that must be approved by the customer [8]. Terms and conditions must be approved and can be understood by both producers and customers as a *sighah*.

In *fiq*, *sighah* of a sale and purchase transaction is usually done in a *lafadz* (wording) that is *sharih* (explicit), not in a proverb language (*kinayah*) that still require interpretation, causing a difference in understanding. In terms of the online transaction, *sighah* of the contract is done through writing. When we buy a program through a smart-phone, there will be an option that customers have to read and agreed upon, or the terms and conditions. These terms and conditions that are approved become a *sighah* that must be understood by both producers and customers. Similarly, if we conduct transactions using online media, the seller must write the terms and conditions of the transaction, resulting in openness between the seller and the buyer.

The formulation of *ijab* and *qabul* in a sale and purchase agreement can be executed orally, written, and for those who are unable to speak or write, with gesture; and even

with actions (*fi'li*), as long as showing the willingness of both parties to confirm a covenant, commonly known as *al mu'athah*. According to Wahbah Zuhaili, the contract, actions, and consequences of the law (sanctions,) consist of three conditions that must be fulfilled for the *ijab* and *qabul* to be considered legitimate and have legal consequences. They are, the statement is clear, the existence of conformity between the *ijab* and the *qabul*; and the willingness of the parties is clearly shown in the *ijab* and *qabuli*: there must be no doubt, no pressure, and no state's enforcement [9].

In the application of e-commerce (online store), Lazada and OLX list options of various types of goods, specifications of goods, prices, and quantities of the goods. Customers can easily search for goods that are needed, just by opening the sites of both stores without having to move from the workplace: hence lesser time to consume, compared to an offline transaction. In Lazada and OLX, the payment and shipping procedures will be done if the customers agreed to the rules listed at the page of purchase procedures. Then the customers will make the ordering process by filling out the purchase form, and ending it by clicking the "OK" bottom.

By clicking the "OK" bottom, it is assumed by both parties that the buyer has agreed to be bound by sale and purchase agreement with the merchant. So an agreement between the seller and the buyer needs to be established beforehand, in which the seller agrees to deliver the ordered goods, and the buyer agrees to pay the amount stated, along with the shipping cost, in accordance with the agreement. In general, the payments are made before the goods are shipped. In both sites, Lazada and OLX, the customers will be asked to transfer some funds and send the proof of transfer to the seller, making them confident that the customer has made the payment and the goods are ready to be shipped. Such transactions in Islamic economics are in line with *salam* transactions, meaning that the purchased goods will be delivered in later days, while the payment is made at the beginning of the transaction.

With regard to the non face-to-face character of an online transaction, that are things that the customers need to be always careful when processing the transaction. When the customers are sure of the transaction, they can continue the transaction which ultimately agrees to send some funds. But the customers can cancel the transaction can be before the payment is made, by ignoring the transaction, or by clicking the "cancel" bottom. The problems that often arise are as follows:

- When the customer has made a payment, but he/she intends to cancel the transaction, it will take a longer process to cancel and get the refund, than the similar online transaction that is carried out through Facebook for example. Lazada is an online that is based on application. Consequently, all processes are run by the system, so that customers cannot communicate directly with the merchant, like in social media. When the customer transfer the payment, the

system will continue the transaction to the seller, and the seller will deliver the ordered goods. When the goods arrived, the system will send the paid money of the goods' price to the seller. Thus, it will take time for customers to receive refunds, and the refunded fund will usually go into the balance on the app and cannot be made cash. Unlike in Lazada and OLX, sellers and buyers using social media platform can communicate directly, so that a bargaining process can be made between sellers and buyers. The payment process is done by sending an agreed amount of money to the seller's account and the process of delivering the goods can be done directly or known as COD (Cash on Delivery)

- The second problem is when the price and quality of the goods are not as expected. This often happens on both shopping sites. For example, in Lazada, the price of a rainbow strap bag with an additional zipper is 130,000 IDR, but when the goods are delivered the price is cheaper than the price listed on the website by 50,000 IDR, and the bag is replaced by a regular red color without an additional zipper for 79,900 IDR. This is considered to violate the specified in the terms and conditions. In selling and purchasing an online product, the contract must be clear and the goods must be owned by the seller. Customers' weakness, in this case, is that they cannot directly check the condition of the good, whether it is consistent with the one posted on the site or whether there is a defect or not.
- Payment had been done, but the goods are not delivered. As experienced by an OLX customer (Wednesday, 16/04/2014), the customer had already sent the payment for the purchased smart-phone and he had sent the proof of payment, but the good was never delivered. It created disappointment and disadvantage for the customer. The purchased good has never arrived and no refund was made. Cases like this often occur on OLX because of the bad deeds of the sellers who just want to gain benefits by committing fraud.
- Unilateral cancellation by Lazada. As happened to Jonadi in 2016, the website canceled his transaction unilaterally after payment had been done. He was only given a canceled transaction detail and a refund process, with no further notice if the ordered product was sold out. After a complaint to Lazada, the customer was asked to wait for a refund.

Based on some of the problems above, it is safe to say that in a few cases, customers were made disappointed and ripped of their right as customers, because of fraud and system failure. To this case, sellers often blame the expedition agency as the intermediary party for making the error. If that is the case, sellers could clear themselves from “the delivery error”. The delivery process generally takes a few days to get to the customer’s address, depending on the reach-ability of customers' address.

This is not in line with the requirements specified by the Islamic economy. Such problems can trigger a dispute, and unexpected things may arise especially in two conditions. First, the fallacy of the ordered goods is seen as a fatal mistake which can lead to invalidity of the agreement so that it is null and void from the start; b) the fallacy of the nature of the agreement is seen as a minor mistake that does not harm the contract (*aqad*), because the *aqad* is deemed legitimate. But for those who feel disadvantaged by the existence of the treaty may request a cancellation.

The principle of Islamic economy firmly states that the sale and purchase transactions should be based on the principle of transparency and without any element of coercion that incriminates one party. In addition, online sales must meet the requirement of sell and purchase related to the goods and the agreements. They are, firstly, the system must be *halal* (lawful) and not *haram* (unlawful), for example, online gambling. Secondly, the goods or services offered to the buyer are lawful, not the forbidden. Third, there is no element of the fraud.

In addition to the analysis above, e-commerce of Lazada and OLX, viewed from terms and conditions, is actually close an Islamic system of transaction of either *bay 'al-murabahah* (commonly called *murabahah*) or *bay' al-salam* (usually called *salam*). *Bai 'al-murabaha* is the selling and purchasing of goods at the original price with the addition of an agreed-upon profit. In *bay 'al-murabaha*, the seller must notify the price of the purchased product and determine the additional profit. At this time, this is the most widely used e-commerce system, because this is the easiest in practice and in the implementation compared to other financing product.

First, *baiy 'al-murabahah* gives many benefits to the seller. One of them is the profit that arises from the difference between the buyer's selling price and the selling price to the customer. In addition, the system is also very simple, easing the handling of its administration by the seller. This is one of the reasons why *bay 'al-murabahah* can be used in the e-commerce.

Second, the type of online transaction that can be adopted is *bay 'al-salam*. In a simple sense, *bay 'alsalam* means the purchase of goods delivered in the future, while the payment is made at the beginning of the transaction. The purchased goods are not yet available at the time of the transaction is made, and must be manufactured first, such as agricultural products and fungible products (items which can be estimated and replaced by their weight, size, and amount). Product with a high risk of damage cannot use this kind of transaction. The buyers have the right to research and may refuse the goods to be delivered if it is different from the agreed initial specifications. *bay 'al-*

*alsalam* is beneficial for the seller because they receive an advance payment. It is also beneficial to the buyer because the price is cheaper.

Basically, there is no prohibition in online transaction in the Islamic economics perspective, as long as the agreement between the two parties has been established, so that no one party will be harmed, and as long as it does not contain elements that can damage the contract, like usury, harm, fraud, cheating, and the like. Basically, the basic principle of economic transaction, according to *ushul fiqh* (basic principles of Islamic jurisprudence), is that all isl allowed until there exists a regulation that prohibits it.

## 5. CONCLUSION

The mechanism of e-commerce occurs when the buyer ends the transaction by transferring the funds of the ordered goods; by this, the buyer is considered in agreement with all the terms set up by the shopping website. In this case, the contract occurs when the buyer receives the ordered item, and declares that the goods received is in accordance with the order. Yet, the transaction is concluded by the customer assessing the transaction service provided by Lazada and OLX.

The e-commerce system through social media or websites like Lazada is allowed in Islam as long as it fulfills the principles of selling and purchasing. Based on the form of the sites, basically, they can adopt the transaction system of both *bay 'al-murabahah* and *bay' al-salam*. *Bai 'al-murabaha* is the selling and purchasing of goods at the original price with the addition of an agreed-upon profit. *Bay 'al-salam* means the purchased goods will be delivered in the later days, while the payment is made at the beginning of the transaction.

There is no prohibition about online transaction in the Islamic economics perspective, as long as the agreement between the involved parties has been established, so that no one will be harmed, and as long as it does not contain elements that can damage it like usury, harm, fraud, cheating, and the like. This is because in Islam, every economic transaction is allowed until there exists a regulation that prohibits it.

## REFERENCES

- [1] R. A. Ghofur, *Konsep Distribusi dalam Ekonomi Islam*. Yogyakarta: Pustaka Pelajar, 2013.
- [2] J. W. Creswell, *Educational Research: Planning, Conducting, and Evaluating Quantitative and Qualitative Research*, third edition, Edisi 3. New Jersey: Person Education Inc, 2008.
- [3] L. J. Moleong, *Metode Penelitian Kualitatif*. Bandung: PT Remaja Rosdakarya, 2012.
- [4] Taqiyuddin A.B, *Kifayatul Akhyar*. Beirut Lebanon: Al-Qowam, 2001.

- [5] S. Sabiq, *Fiqh Al-Sunnah*. Bandung: Al-Ma'arif, 1988.
- [6] Undang-undang Republik Indonesia No. 7 Tahun 2014 tentang Perdagangan. .
- [7] H. F. Asnawi, *Transaksi Bisnis E-commerce Perspektif Islam*. Yogyakarta: Magistra Insania Press, 2004.
- [8] N. Zainul, F. Osman, and S. H. Mazlan, "E-Commerce from Islamic Perspectives," *Electron. Commer. Res. Appl.*, vol. 3, 2004.
- [9] W. Az-Zuhaili, "al-Fiqih al-Islami Wa Adillatuhu," Damaskus Syria: Dar al-Fikr, 1985.