APPLICATION OF WAKALAH IN INTERNATIONAL TRADE TRANSACTIONS

Fitri Raya
FEBI UIN Sultan Maulana Hasanuddin Banten
Email: fitri.raya@uinbanten.ac.id

Dian Febriyani
Fakultas Syariah UIN Sultan Maulana Hasanuddin Banten
Email: dian.febriyani@uinbanten.ac.id

Elsa
FEBI UIN Sultan Maulana Hasanuddin Banten
Email : elsa@uinbanten.ac.id

Rasidah Novita Sari
FEBI UIN Sultan Maulana Hasanuddin Banten
Email : rasidah.novita@uinbanten.ac.id

Abstract

This article will discuss the application of wakalah in the context of letters of credit which are a common means of payment in international trade. This research uses library research (library study). The data source used is secondary data. Secondary data was collected through literature studies related to the application of wakalah contracts in international trade transactions, especially payment systems using letters of credit. This analysis provides insight into how wakalah contracts can be effective instruments and in line with international business needs while maintaining the integrity of Islamic financial values. It is hoped that this research can contribute to further understanding the application of wakalah in international trade transactions, especially in the context of letters of credit, as well as encouraging the development of more inclusive and sustainable business practices.

Keywords: *International Trade, Papers, Letters of Credit*

Abstrak

Artikel ini akan membahas penerapan wakalah dalam konteks letter of credit yang merupakan alat pembayaran yang umum dalam perdagangan internasional. Penelitian ini menggunakan penelitian kepustakaan (studi perpustakaan). Sumber data yang digunakan adalah data sekunder. Data sekunder dikumpulkan melalui studi literatur terkait penerapan akad wakalah dalam transaksi perdagangan internasional khususnya sistem pembayaran dengan menggunakan letter of credit. Analisis ini memberikan wawasan bagaimana akad wakalah dapat menjadi instrumen yang efektif dan sejalan dengan kebutuhan bisnis internasional dengan tetap menjaga integritas nilai-nilai keuangan Islam. Penelitian ini diharapkan dapat memberikan kontribusi untuk memahami lebih jauh penerapan wakalah dalam transaksi perdagangan internasional, khususnya dalam konteks letter of credit, serta mendorong pengembangan praktik bisnis yang lebih inklusif dan berkelanjutan.

Kata Kunci: *Perdagangan Internasional, Makalah, Letters Of Credit*

Introduction

Trade activities between countries are an increasingly complex and dynamic phenomenon. In carrying out international business transactions, business people are often faced with challenges such as financial risks, market uncertainty, and the complexity of international regulations. To meet this challenge, the application of Islamic finance principles, which are by Islamic teachings, has become relevant and significant. One of the instruments that can be used to achieve this goal is the wakalah contract, a mandate agreement in the Islamic financial system. *Wakalah* agreements allow parties to authorize others to perform certain actions on their behalf. In the context of international trade, the application of *wakalah* contracts can be an effective alternative and by sharia principles, especially in the use of letters of credit.

The current Islamic financial system, in addition to being favored in Muslim-majority countries, has attracted the interest of Western financiers, particularly in Europe. The modern financial industry views the Islamic finance model as both an opportunity and a challenge. The existence of trade between countries around the world is inevitable. There are several factors that contribute to international trade transactions, including resource scarcity, changing consumer preferences, technical advances, and national comparative advantage gaps. In carrying out international trade transactions, rights and obligations must be fulfilled by the parties involved in it, namely buyers (as importers) and sellers (as exporters). There are many ways to make payments in international trade, but in the payment system in international trade transactions commonly used by importers and exporters using letters of credit, this is what can be applied using a paper contract.

Letters of credit are considered to have certainty and security. The seller or exporter gets guaranteed that payment will be made if the documents received meet the requirements of the letter of credit and to the buyer or importer it is guaranteed that the bank will only make payment if the documents meet the requirements of the letter of credit. The *wakalah* agreement has the same purpose and understanding so that a profitable trade contract occurs for the parties involved in it. By understanding the potential application of *wakalah* contracts in international trade transactions, businesses, financial institutions, and other interested parties can design more inclusive and sustainable strategies. Along with that, it is hoped that this research can have an impact on the development of scientific treasures that are useful in advancing international business practices based on Islamic economic principles.

Research Methods

This type of research uses library research methods, namely According to Abdul Rahman Sholeh, library research is research that uses ways to obtain information data by placing existing facilities in the library such as books, magazines, documents, notes, or pure literature research-related to the object of research (Mahmud, 2011). The data source used in this study came from secondary data. Secondary data sources that are competent and relevant to the problem to be discussed (Anwar, 2009). Secondary data is obtained through literature studies related to the application of wakalah contracts in international trade transactions, especially payment systems that use letters of credit. The data obtained are then analyzed on the application of wakalah contracts in international trade transactions. The analytical method used in this study is descriptive. This method is used to analyze how the mechanism of international trade transactions with schemes using paper contracts.

Discussion

1. *Wakalah*

Wakalah is the transfer and transfer of authority to the party chosen by the representative party by the agreed time to perform actions or deeds by the contract permitted by the rules of Islamic law (Al-Hadi, 2017). The concept of wakalah does not mean that a representative can act as he pleases but rather implies that he acts to carry out muamalah activities that are known to the community and beneficial to the people he represents.

Some pillars and conditions must be obeyed in *wakalah* transactions including: a) *Muwakil* (Party who represents / or who gives authority), *muwakil* must be an owner who can act on something he represents. b) Representative (representative person), a representative is a person of reasonable and legal ability. c) *Muwakkal fih* (something represented), is something known to the person representing it and is not a prohibited act. d) *sighat* (pronunciation to represent), *sighat* is delivered by the representing party as evidence of his willingness to represent and the representative party accepts it.

2. International Trade

Trade in economic subjects between countries is called international trade. State residents, business entities that export, business entities that import, industrial companies, or state business entities are economic subjects. In other words, international trade can be carried out between individuals and companies, between individuals and the government of a country, and between the government of a country and the government of another country. The potential of natural resources, capital resources, human resources, and technical progress vary by country, leading to international trade (Halwani, 2005). Countries involved in international trade benefit from it, including several forms of advantages: An international market competition that promotes global efficiency, specialization in the manufacture of goods and services, low costs, both in terms of raw materials and production techniques, increased income, foreign currency reserves, capital transfers, and employment possibilities (Ibrahim & Halkam, 2021).

All countries in the world are encouraged to transact foreign trade for various reasons. Among these driving factors are (Sukirno, 2004): (1) Obtaining things that are impossible to create domestically; (2) Bringing in more cutting-edge technology from other countries; (3) Growing the market for domestically made products; (4) Reap the benefits of specialization. However, international trade can also bring challenges and obstacles that many developing countries face, including Indonesia. These challenges and constraints include the exploitation of developing countries, the demise of local industries, the low quality of commodities, and dangers to consumer safety and food security. To secure its national interests, the countries of the world are trying to create trade barriers especially barriers to imports.

In trade transactions between countries, people who conduct international trade are called exporters (buyers) and importers (sellers). An exporter will offer his goods to the importer, while the importer needs a medium or intermediary to ensure that the transaction can be carried out and no party is harmed. There are five main means of payment for international trade which when ranked by exporter risk are as follows (Siragih & Nugroho, 2014):

1. Cash in Advance

Cash in advance gives exporters more protection because payment is received before the goods are shipped or before the goods have not yet arrived. This kind of method is also allowed to avoid tying up one's funds. Payment instruments are usually used if the political conditions of the importing country are unstable or if the importer is still in doubt. Political crises or exchange rate controls in the buying country may be caused by delayed payments or hindered the transfer of funds giving rise to requests for cash in advance payments.

2. Letter of credit

Letter of credit is an international trade payment technique that aims to make exporters obtain payment money directly from importers without waiting for confirmation from the importing country. In this case, a letter of credit is a payment received when goods and documents have been sent to the orderer or importer. In essence, a letter of credit is a letter addressed to the exporter, written and signed by the bank representing it on behalf of the importer. The bank promises to pay if the exporter meets a series of requirements in the letter of credit. A letter of credit becomes a financial contract between the issuing bank and designates a profit separate from the commercial transaction.

3. Draft

Draft an unconditional written order signed and submitted by the exporter to the importer to pay on demand or at the specified time and amount. Drafts are also known as bills of exchange.

4. Consignment

Delivery of goods to the importer does not mean sold, the exporter still owns the goods until the goods are sold to third parties. This agreement is usually made by companies that already have good relations because in consignment there is a very large business risk, exporters must be careful if there are irregularities committed by importers it will be difficult to prove and difficult to collect.

5. Open an account

It is an import-export system where the delivery of goods is carried out first and then the importer is billed.

3. Letter Of Credit (L/C) Concept

The importer as the buyer will fail his prepayment rather than ask for credit payment. When credit is extended, the letter of credit will offer a greater level of security to the exporter. If the importer does not know the exporter well enough or exchange restrictions are issued that may be within the importer's country, the exporter sells through credit expecting the importer's promise to refund payment with a foreign bank or domestic bank. It is different if the importer does not expect to pay the exporter until there is a definite reason that the merchandise has been shipped in good condition.

A letter of credit is a letter addressed to the seller, written and signed by the bank representing the buyer on behalf of the buyer. In it, the bank promises to pay if the seller meets a series of specified requirements in the letter of credit. Through a letter of credit, the replacement bank has its commitment to pay the importer. A letter of credit becomes a financial contract between the issuing bank and devises profits separate from commercial transactions.

There are several advantages obtained for exporters if international trade transactions use letters of credit:

1. Eliminate credit risk if the bank that opens can be trusted. The company needs to check the credit reputation of the issuing bank.
2. Reduce the danger of delaying payments or choosing to control one's exchange rate or other political actions. Countries usually allow local banks to pay their letters of credit. Failure to pay their letter of credit will usually damage the country's image.
3. Reducing uncertainty, the exporter knows all the payment terms as they have been specified in the letter of credit.
4. Protect shipping risks. Exporters who manufacture under a contract specializing in each piece of equipment have the risk of contract cancellation before it is shipped. The opening of the letter of credit will complete the protection during the production period.

5. Facilitate financing because exporters guarantee payment readiness for their products. This will make it easy to create bank receipts – money orders are accepted by banks.

While the benefits obtained by the importer are:

1. Since payment can only be made if the conditions applied in the letter of credit are met, the importer stipulates that the merchandise has been shipped or previously requests certainty of the date in the bill of lading. The importer may also require a certificate of inspection.
2. Every required document has been inspected in detail by an experienced person. Furthermore, bank bears every mistake.
3. Since a letter of credit is as good as cash in advance, importers can usually request a better credit term/price.
4. Some exporters are only willing to sell letters of credit, intending to expand the source of supply.
5. Financing with a letter of credit may be cheaper than other alternatives. There is no freezing of funds if the letter of credit is changed with a cash-in-advance system.
6. If advance payment is required, the importer is better off depositing the money into the bank than to the exporter because it will be much faster to take it back if the exporter is not able/unwilling to make a proper delivery.

Payment of trade transactions between countries using letters of credit to be made by banks to exporters must prove documents related to the goods ordered. The documents shown must be those stated in the letter of credit. Several documents must be prepared in payment using a letter of credit:

1. Bill of landing or airway bill

This initial document is proof that the product was shipped from its country of origin. A bill of landing is useful in showing ownership of the goods shipped in addition to showing that the goods have been shipped.

2. Invoice or invoice

This document lists the products sent by the expositor along with their prices. This document serves as valid proof of the transaction.

3. Insurance

To ensure the safety and security of goods arriving at their destination, goods sent abroad must be insured. The insurance company will cover losses if the product is misplaced or destroyed during the trip.

4. Packing list

This document is usually provided for large-scale product shipments, The Packing list, as the name implies, contains a list of the contents of the container being shipped.

5. Certificate of inspection

Goods must pass through an inspection process before being shipped abroad. The sender will receive a document in the form of an examination certificate if the examination is considered successful.

4. Application of *Wakalah* in Letter of Credit

In carrying out their activities, banks do not only depend on income from lending activities but also on the services provided. Income derived from the provision of services is referred to as fee-based income. This form of service usually has periodic development. A letter of credit is classified as a non-cash loan (Pandia, 2005). In conventional banks, letters of credit are included as non-cash loans and are called fee-based income (receipts from the provision of investment or non-financing services). Likewise, in Islamic banks, letters of credit are included as services, namely Islamic bank service products. The parties related to the letter of credit transaction are (Supardi, 2021):

1. Applicant (applicant for a letter of credit) is a person who requests and directs a bank to open a letter of credit for the benefit of the recipient of the letter of credit (recipient, seller of products, or exporter) called the applicant (applicant for a letter of credit). The applicant is responsible for paying these documents as long as all the conditions set forth on the letter of credit are complied with in an order against the bank to open the letter of credit.
2. Opening/Issuing Bank. i.e. a Bank that opens a letter of credit to meet the needs of the recipient, or recipient of credit. The requirements stated in the letter of credit

are the requirements requested by the opener and must be fulfilled by the recipient (the person who received the letter of credit).

3. Advising Bank. is the bank that receives and sends the recipient's letter of credit.
4. Beneficiary (recipient of a letter of credit). It is the seller or exporter who, after fulfilling all the requirements, is authorized to withdraw the entire amount specified in the letter of credit.
5. Negotiating Bank. The documents required for a letter of credit are borne by the bank, in the process of negotiation or expropriation, the beneficiary is initially paid for the documents mentioned in the letter of credit, and the bank that opened the letter of credit is then reimbursed for the documents taken over.
6. A Confirming Bank is a bank that guarantees a letter of credit upon request or authorization from the originating bank.

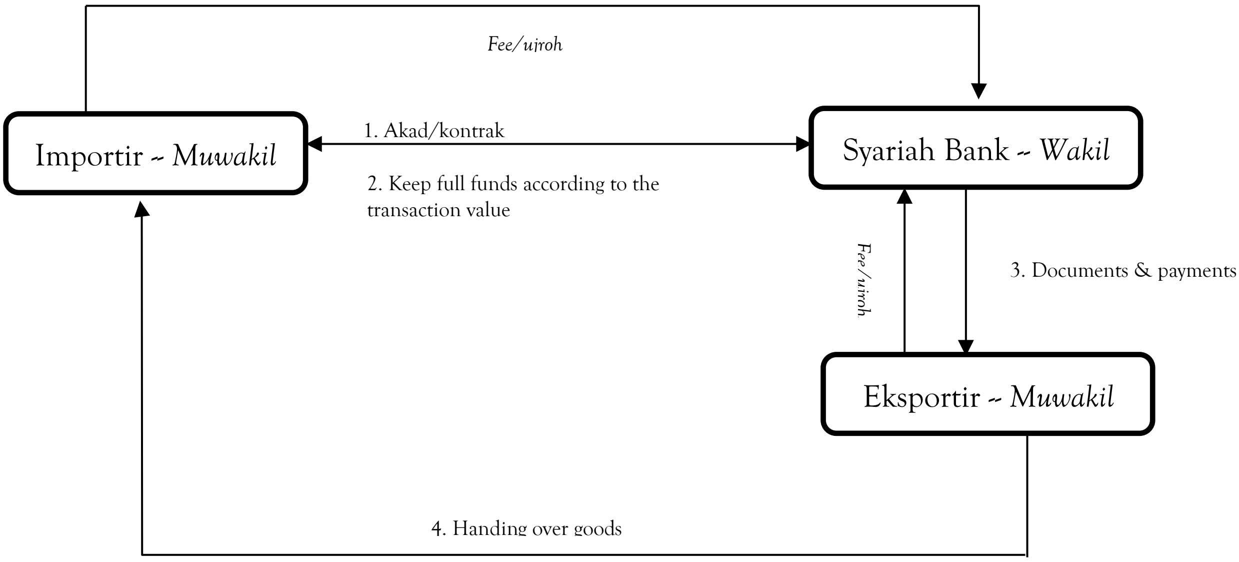
It is this lack of complete trust between importers and expositors that triggers the creation of letters of credit. In anticipation of this, the expositor requests a bank letter of credit from the importer to prepare for this. With this letter of credit, the exporter is guaranteed that the shipping documents and related documentation will be able to be used to claim payment from the issuing bank of the letter of credit after the goods have been delivered to the importer's buyer. Thus, the sale and purchase agreement between the exporter and the importer can be executed if the exporter believes that the issuing bank of the letter of credit will fulfill its promise.

In theory, a letter of credit promise is a commitment of the issuing bank to pay a certain amount of money to the exporter after showing confirmation of delivery of goods and supporting documentation. Therefore, although a letter of credit agreement contains an agreement, it is not considered a stand-alone agreement because it is born from another agreement, the sale and purchase of remote products usually involves foreigners who have never even met before as sellers and consumers, this contract or agreement is the basis for making a letter of credit. Based on the procedure for making a letter of credit, it can be concluded that the risks associated with such transactions move from buyers and sellers to banks. Therefore, to calculate the risk borne, the bank as the issuer requires the importer to provide additional collateral from the importer (applicant for the letter of credit) in addition to an amount of money equivalent to 10% of the value of the letter of credit (Santoso, 2006).

The process of forming a letter of credit in Islamic banks is not much different from the process of forming a letter of credit in conventional banks. It's just that in the process of forming a letter of credit in a Sharia bank, the transaction must be by Sharia principles and use the contract contained in the provisions of fiqh mullah. Adiwarman A. Karim explained that the letter of credit is financing provided to facilitate import or export transactions of customers (Karim, 2008).

There are two parts to the Islamic Letter of credit, the Islamic import letter of credit and the Islamic export letter of credit. A Sharia Import Letter of Credit is a statement letter to pay to the exporter (beneficiary) issued by the bank (issuing bank) at the request of the importer with the fulfillment of certain requirements by Sharia principles (Fatwa DSN No. 34/DSN-MUI/IX/2002 Tahun 2002 tentang Letter of Credit (L/C) Impor Syari'ah). The Sharia export letter of credit is a statement letter to pay to exporters issued by banks to facilitate export trade with the fulfillment of certain requirements by sharia principles (Fatwa DSN No. 35/DSN-MUI/IX/2002 Tahun 2002 tentang Letter of Credit (L/C) Ekspor Syari'ah).

In the fatwa DSN in detail explained the application of contracts that can be used in the issuance of letters of credit. One of the contracts that can be applied in the formation of a letter of credit is *wakalah*. *Wakalah* is a representation agreement or transfer of authority from the first party acting as *muwakkil* to the second party acting as a representative in circumstances that allow it to be represented. The authorizer is the *muwakkil*, and the one who receives it is the representative. In this case, the importer appoints an Islamic bank to issue a letter of credit, and the exporter will disburse the funds on the information contained in the letter of credit. In general, the application of *wakalah* in international trade transactions can be described as follows:



Picture 1. *Wakalah* Scheme

The following are the steps to apply the wakalah contract in the letter of credit:

1. Determination of *wakalah* agreement; The party giving the *wakalah* (*muwakil*) and the party receiving the *wakalah* (*wakil*) must establish a *wakalah* agreement. This agreement shall include all terms and conditions agreed upon by both parties.
2. Determination of the object of the paper; The object must be clearly defined. In the context of a letter of credit, the object of wakalah may include the purchase or financing of certain goods that are the subject of a letter of credit.
3. Activation of letter of credit; The buyer (importer) and seller (exporter) agree to use the letter of credit as a payment instrument. Importers open letters of credit in banks to support international trade transactions.
4. The role of the bank as a representative; Banks that act as representatives have an important role in carrying out the wakalah contract. The Bank is responsible for carrying out the tasks stipulated in the *wakalah* agreement.
5. Transfer of authority by the representative to the representative; The importer transfers authority to the bank as a representative to administer letters of credit and payments by the principles of *wakalah*.
6. Use of paper funds; The bank as a representative uses *wakalah* funds to pay to the seller (exporter) or the party entitled to receive payment by the letter of credit.

7. Payment and reporting; The bank as a representative must ensure that payments are made on time by the provisions of the letter of credit. After the payment is made, the bank reports to the representative about the implementation of the *wakalah*.
8. Profit and loss sharing; The distribution of profits and losses must be by the provisions agreed in the paper agreement, including the distribution of fees and fees that may be charged by the bank as a representative.
9. Adherence to sharia principles; All transactions and execution of *wakalah* must comply with the principles of Islamic finance to avoid the elements of *riba* (interest) and activities prohibited by Islamic law.

By involving competent parties in Islamic finance and Islamic law to ensure that every aspect of transactions carried out is by sharia principles. Thus, the application of wakalah contracts in letters of credit can be an alternative by Islamic financial values in international trade.

Conclusion

Wakalah can be interpreted as a representation or grant of power of attorney by one party to another party to carry out an action or transaction on behalf of the power of attorney. *Wakalah* is one of the contracts in the discussion of fiq muamalah, which in its implementation is allowed in sharia and can be applied in the context of international trade. The implementation of international trade transactions using the *wakalah* contract scheme can provide benefits to Islamic banks and can provide transaction security for importers and exporters.

The application of *wakalah* contracts in international trade transactions shows great potential to create a financial system that is more by sharia principles. In the context of letters of credit, wakalah contracts provide solutions that enable business people to carry out international transactions by minimizing risks and still adhering to Islamic values. One of the main advantages of applying *wakalah* in a letter of credit is the fair sharing of risk between the parties involved. This provides flexibility for the granting party to determine the extent to which they wish to share the risk with the grantee. In addition, flexibility in the determination of costs and rewards provides room for fairness in the distribution of financial burdens among the parties involved.

The application of *wakalah* in letters of credit is also directed to ensure compliance with sharia provisions. Taking into account the views of Islamic law, as stated in the fatwa of the National Sharia Council, transactions become more by sharia provisions, avoiding elements of riba and prohibited business practices. Nevertheless, the successful application of *wakalah* in international trade transactions, particularly in letters of credit, requires a deep understanding of Sharia principles and clear agreements between the parties involved. The development of this understanding requires active collaboration between business people, financial institutions, and supervisory authorities, as well as involving competent Islamic scholars or financial experts. Thus, the application of *wakalah* in international trade transactions not only creates more ethical business solutions, but also supports economic development that is sustainable, inclusive, and by Islamic financial principles.

REFERENCES

Al-Hadi, A. A. (2017). *Fiqh Muamalah Kontemporer* (Cet. Ke-1). Depok: Rajawali Press.

Budisantoso, T. (2006). *Banks and Other Financial Institutions*. Jakarta: Selemba Empat.

Dewan Syariah Nasional - Majelis Ulama Indonesia. (2002). Fatwa DSN No. 34/DSN-MUI/IX/2002 Tahun 2002 tentang Letter of Credit (L/C) Impor Syari'ah.

Dewan Syariah Nasional - Majelis Ulama Indonesia. (2002). Fatwa DSN No. 35/DSN-MUI/IX/2002 Tahun 2002 tentang Letter of Credit (L/C) Ekspor Syari'ah.

Halwani, H. (2005). *International Economics & Economic Globalization*. Jakarta: Ghalia Indonesia.

Ibrahim, H. R., & Halkam, H. (2021). *International Trade & Import Control* (Cet. Ke-1). Jakarta: LPU-UNAS.

Karim, A. A. (2008). *Islamic Banking; Analysis of Fiqh and Finance*. Jakarta: RajaGrafindo Persada.

Mahmud, A. (2011). *Metode Penelitian Pendidikan*. Bandung: Pustaka Setia.

Saifuddin Anwar. (2009). *Metode Penelitian*. Yogyakarta: Pustaka Pelajar.

Siragih, F. D., & Nugroho, Y. (2014). *Fundamentals of International Finance* (Cet. Ke-1). Jakarta: Rajawali Press.

Supardi, E. (2021*). Export-Import Correspondence and Sales Contract, Letter of Credit, and Mechanisms and Procedures of Export-Import*. Yogyakarta: Deepublish.

Pandia, F., et al. (2005). *Financial Institutions* (Cet. Ke-1). Jakarta: Rinika Cipta.