



## Consumer Protection in Pakistan's Digital Economy: Assessing the Legal Framework for Safeguarding Consumers in E-commerce, Ensuring Product Safety, and Combating Online Scams

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### ABSTRACT

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The purpose of this paper is to provide an overview of Pakistan's e-commerce industry— with a focus on the online retail sector. E-commerce has changed the face of business across the globe, redefining how organizations and consumers engage commercially. Pakistan's e-commerce market is still in its infancy but shows promise in terms of growth. This study delves into an evaluation of Pakistani laws related to consumer rights within the emerging digital economy of the country, specifically through e-commerce platforms. The essay has discussed various critical topics including product safety and consumer rights, as well as internet frauds— drawing from case studies and legal perception coupled with a review of existing literature which all point towards inadequacies present in the current system exacerbated by the overwhelming penetration of e-commerce. Thus, in order to ensure consumers' safeguard in Pakistan's developing digital economy, rigorous regulatory arrangement, proper consumer education, and stakeholder engagement are extremely recommended.

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## 1. Introduction

The proliferation of internet access and the rising use of smartphones have resulted in an exponential growth of Pakistan's digital economy in recent years. The rise of e-commerce platforms offering unparalleled customer convenience and accessibility levels drastically changes few industries forever, among them trade— in the wake of the digital revolution. While it is important to benefit from this evolution, we also need to address the risks and challenges that online market users encounter. Consumer protection is necessary to guarantee the security, trust, and confidence of those who transact digitally. In the context of Pakistan's emerging digital economy, the efficiency of the legal system in defending consumer rights, ensuring product safety, and foiling online scams becomes crucial. In the context of e-commerce, we are observing a revolutionary transformation of the consumer behavior on account of the unrivaled ease and options offered by these platforms. Yet this change has also put customers at greater risks — those ranging from fraudulent practices by businesses to poor quality products and violation of personal privacy. With this in mind, we must consider what legal protection exists to shield users of digital platforms from mistreatment and injury as a result of abuse.

### 1.1. Scope of the Study

This research seeks to assess the regulatory framework of Pakistan's digital economy in terms of consumer protection, paying special attention to e-commerce platforms. It will look into the legislations and regulations that are currently existing for consumer rights, product

safety standards and measures against online scamming. In order to present holistic views, it also considers various examples from past cases as well as global industry benchmarks.

## **1.2. Objectives**

1. For the purpose of examining how consumer protection in the digital economy is enforced by law in Pakistan.
2. This research aims to identify the weaknesses and obstacles to product safety, protection of consumers' rights and fighting against online frauds.
3. To find out whether worries concerning safeguarding buyers are being influenced by the rise in electronic commerce.
4. This study aims at assessing how much enforcement mechanisms and regulatory authorities have been able to address matters relating to digital consumers' protection.

## **2. Research Methodology**

The research technique is a comprehensive approach that uses case studies, comparative analysis, legal analysis and literature review. In order to establish basic knowledge, the first thing to do is a detailed study of already existing works of writing. Laws and regulations are looked into during legal analysis while consumer protection issues are brought to light by case studies which provide real-world insights into them. Data analysis uses both qualitative as well as quantitative approaches in search for relevant findings. This many sidedness enables one come up with informed suggestions about what needs to be done concerning digital consumer protection in Pakistan.

### **2.1. Research Questions**

1. Which are the most important Pakistani e-commerce case laws and how have they affected online transaction regulations?
2. What are the rules for reporting online shopping fraud in Pakistan, and how does the legal system deal with them?
3. What is the impact of e-commerce in Pakistan?

## **3. History of E-commerce in Pakistan**

The e-marketplace, where buyers and sellers meet to exchange goods, services, money, information, or other compensation of any sort, is one kind of online trading and shopping platform. E-commerce was first introduced in Pakistan in 2001. By now, Pakistan's e-commerce sector has been up and running for about eighteen years. The first online shop, Beliscity, shut down in 2008, while some of the industry's pioneers, like Shophive (2005), Symbios (2006), and Home Shopping (2008), are still in business (Fatima, 2011). In 2012, Rocket Internet decided to enter the Pakistani market. In the first six months, they had launched three businesses: Food Panda, Daraz, and Azmalo. Within the first two months of operation, Azmalo, which had been reconfigured as a drop-shipment site, closed. Its name was then changed to Kaymu. After that, Kaymu was acquired by Daraz in 2016. In the summer of 2018, Alibaba acquired Daraz, which had started off as a fashion-focused portal but had shifted its attention to controlled marketplaces for all categories by the start of 2015. They proceeded to launch five more companies, all of which were ultimately shut down (Tian & Stewart, 2006). Starting operations in 2010, OLX is the most recent foreign arrival and is currently going strong. Uber and Careem were two more notable foreign businesses in 2015 and 2016, respectively. Bykea is the largest local operator in the ride-hailing space; regional companies like Cheetay in Lahore are also present. Notable other Pakistani companies include Rozee.pk, which started as a side project of Naseeb Networks in 2006, and Zameen.com, which is Pakistan's leading property classified player and established in 2007 at around the same time. The oldest, however, is Pak Wheels, which was founded in 2003 as a national community forum for automobile enthusiasts (Hussain & Mari, 2023).

### **3.1. People are using E-commerce in Pakistan**

Pakistan is experiencing an average annual growth rate of over 35 percent in internet customers, with a total of over 100 million users (Hussain & Mari, 2023).

### **3.2. Digital Marketing and Customer Engagement**

To attract and retain customers, e-commerce companies have started using more and more marketing techniques and client engagement methods in the digital space. Facebook, Instagram, TikTok and other social media accounts allow interaction with a Pakistani audience.

The use of chatbots, augmented reality shopping and targeted marketing is expected to become more common in the future.

### **3.3. Logistics and Delivery Infrastructure**

This forms the basis of online shopping, but requires effective delivery systems and logistics, meeting delivery deadlines and cutting down time to delivery. Pakistani market faces major developments in package delivery. Logistics companies have expanded services to access new markets and are working to reduce delivery times in the future. New delivery systems are expected to be more efficient and speedier, including delivery at your doorstep and drone delivery systems.

### **3.4. Consumer Protection Laws**

Consumer protection and rights refer to safeguarding buyers from the vendors attempts to sell their goods and services unfairly. The goal of these act is to prevent the vendor to persuade the buyers dishonestly or deceptively to buy goods or services from merchant.

1. The Electronic Transactions Ordinance (ETO) 2002:
2. The Payment Systems and Electronic Fund Transfers Act (PSEFT) 2007:
3. The Prevention of Electronic Crimes Act (PECA) 2016:
4. Consumer Protection (E-Commerce) Rules 2020:

### **3.5. E-commerce directive law**

The Internal Market framework for online services is established by EU law through the Electronic Commerce Directive (2000/31/EC). Its goals are to give consumers and companies legal certainty and to reduce barriers to cross-border internet services in the European Union's internal market.

### **3.6. E-commerce Punishments in Pakistan**

These include offenses like fraud, identity theft, cyberstalking, and cyberbullying. These offenses carry a maximum sentence of three years in jail or a fine of one million Pakistani rupees.

### **3.7. Protection of online shopping frauds in Pakistan**

One of the most important questions that individuals have is how to report online shopping fraud in Pakistan. The phenomenon of internet buying in Pakistan is flourishing, and with it are the incidences of fraud related to online shopping. It's not a regional problem. It takes place anywhere in the world. Pakistan's government enacted its IT Policy at the close of 2000. In general, things are looking up in Pakistan. Comparatively speaking to many other developing nations, it is a huge improvement. Simultaneously, major companies such as Daraz, Olx, and Arzaan have their own complaint resolution centers where consumers can file grievances. A portal for reporting overseas scams and submitting such complaints has also been established by the Pakistani government. In general, Pakistan's government and online retailers actively work to safeguard customers against these types of scams (Tabassum, 2016).

### **3.8. E-Commerce Case Laws in Pakistan**

Pakistan's e-commerce market is still relatively new, but it is growing quickly. The legal structure governing this dynamic business has been developed by a number of case laws. These are a few of Pakistan's most important e-commerce case laws:

#### **3.8.1. The Electronic Transactions Ordinance (ETO) 2002**

This historic law establishes the legal framework for online shopping in Pakistan. It permits safe online transactions by acknowledging the enforceability and legality of digital signatures and electronic records. Important topics like consumer protection and data privacy are also covered by the ETO.

#### **3.8.2. The Payment Systems and Electronic Fund Transfers Act (PSEFT) 2007**

This law ensures safe and dependable electronic fund transfers for e-commerce transactions by regulating the creation and operation of payment systems in Pakistan. It is in charge of the operations of the nation's Payment System Operators (PSOs) and Payment Service Providers (PSPs).

### **3.8.3. The Prevention of Electronic Crimes Act (PECA) 2016**

Cybercrime, such as online fraud, hacking, and data breaches, is addressed by this act. It seeks to prevent and penalize cybercrimes that have the potential to seriously harm e-commerce operations and customer confidence.

### **3.8.4. Consumer Protection (E-Commerce) Rules 2020**

These regulations particularly concern protecting customers in the context of online shopping. Regarding the descriptions of goods, costs, shipping, returns, and resolution of disputes procedures, they offer recommendations to online platforms, merchants, and customers.

## **3.9. Case Examples**

### **3.9.1. Daraz Pakistan Private Limited vs. Federation of Pakistan and others (2019)**

The Sindh High Court rendered a decision in this matter, holding internet retailers such as Daraz not accountable for the sale of fake items made by unaffiliated vendors on their platform. The court did stress that the platform must put in place strong measures to stop and discourage these kinds of activity.

### **3.9.2. M/s. Askari Bank Ltd. vs. Mr. Muhammad Ali (2019)**

This case dealt with a disagreement about unapproved online withdrawals from a client's bank account. The bank was found accountable by the Lahore High Court for neglecting to put in place sufficient security measures to safeguard client data and stop illegal access.

### **3.9.3. Ms. Shahida Akhtar vs. Amazon.com, Inc. and others (2020)**

The High Court of Islamabad rendered a decision in this matter, holding internet retailers such as Amazon exempt from liability for consumer complaints resulting from sales made by customers on its marketplace. The court did stress, however, that these platforms have to make their dispute resolution procedures easily understandable and available.

### **3.9.4. M/s. Daraz Pakistan Private Limited vs. M/s. Almas Enterprises (2022)**

The problem of false product descriptions on internet marketplaces was the subject of this case. According to a ruling by the Sindh High Court, vendors are accountable for any damages suffered by customers as a result of false or deceptive product information posted on their websites.

## **3.10. Impact of e-commerce in Pakistan**

Pakistan's e-commerce market is expected to generate US\$6.4 billion in revenue by 2023, with an annual growth rate of 6.23 percent. The market reached US\$4.2 billion by 2021, placing Pakistan 46th in the world.

## **3.11. Scope of E-commerce in Pakistan**

In Pakistan, e-commerce has enormous potential. With more than 220 million people living in the country and rising internet usage, the market has a sizable consumer base. Online shopping has become popular among people living in both urban and rural locations for a variety of goods, including groceries, gadgets, and clothing. In addition, the COVID-19 epidemic hastened the uptake of e-commerce as more people resorted to online buying for security concerns. On the other hand, you should also be aware that the failure rate of e-commerce is between eighty to ninety percent. The success or failure of e-commerce can be attributed to a variety of variables, including managing many shops, appropriate audience mapping, a strong local presence, and efficient social media marketing. This blog will assist you in comprehending the fundamental truths causing the failure of e-commerce businesses and how an e-commerce website designing company can contribute to their success.

## **3.12. Precautionary Measures in e-commerce**

Pakistan has implemented many precautionary measures regarding e-commerce. With more than 220 million people living in the country and rising internet usage, the market has a sizable consumer base. Online shopping has become popular among people living in both urban and rural locations for a variety of goods, including groceries, gadgets, and clothing.

### **1) Consumer Education and Awareness**

Put policies in place to inform customers of their obligations and rights in the digital economy. Raise knowledge of typical internet scams and how to spot and report them. Work together with pertinent parties to spread knowledge via campaigns and instructional initiatives.

### **2) Regulatory Enforcement**

Analyze the efficiency of the regulatory agencies in charge of upholding consumer protection legislation. Make sure these organizations have the authority and resources necessary to look into and punish infractions. Simplify regulatory bodies' cooperation in order to handle concerns that are related to many areas.

### **3) Adaptability to Technological Changes**

Make sure that the legal system can continue to evolve with the digital economy's technology. Review and amend regulations on a regular basis to take advantage of new opportunities and challenges (Barrech, Aslam, Manzoor, & Ahmed, 2023).

### **4) International Best Practices**

Compare Pakistan's legal system to international standards for consumer protection. Determine the areas in which consumer protection measures can be made more effective by matching with global norms (Mustafa, Hao, Qiao, Kifayat Shah, & Sun, 2022).

### **3.13. E-commerce Challenges in Pakistan**

Despite the landscape of e-commerce in Pakistan looking optimistic, there remain numerous challenges that impede it from growing to its true potential.

1. Digital Literacy: E-commerce platforms cannot expand their customer base to the maximum because a large chunk of the public has low digital literacy.
2. Payment Mechanism: The availability of digital financial payment instruments, such as debit or credit cards and digital wallets, is another deterrent to e-commerce proliferation across the board.
3. Logistic and Infrastructure: The acceptable standard for delivery time and the certainty of delivery is quite a mark to meet. This is especially true given the diversity and disparity in terms of geography and infrastructure in Pakistan.
4. Trust and Security: Trust and security of transactions continue to surface as doubts in the customers', as well as businesses' minds. (Mustafa et al., 2022). Failure of E-commerce in Pakistan:

There are several reasons why e-commerce fails, but the fact stays the same. Managing an online store requires expertise. It necessitates careful preparation before and after launch. These are some of the common causes of e-commerce failure (Tabassum, 2016).

#### **1. Lack of Planning**

E-commerce companies might not have a complete understanding of their target market, client preferences, and competitive environment without adequate planning and research. This may lead to providing goods or services for which there is no market or in which there is fierce rivalry (Al Kharusi, 2023).

#### **2. Poor UI & UX Design**

The face of any e-commerce company is its website. If customers find it difficult to explore product pages on your website, the payment procedure is too time-consuming, they will just go to another website, and you will have to deal with a high cart abandonment rate (Laksana & Lestari, 2024).

#### **3. Lack of Customer Support**

Good client service is a great indicator for any company. All you need to supply the client with is your zeal and services. Additionally, you must respond to any questions clients may have as soon as possible. Since satisfying customers is a top priority for all firms (Laksana & Lestari, 2024).

#### **4. Insufficient Marketing Strategy**

All firms need to have a strong plan for marketing and advertising. Information on the market should be gathered and then examined. You cannot comprehend the status of the market at this cutting edge without taking this action (Al Kharusi, 2023).

#### **5. Insufficient Search Engine Optimization**

Search engine advertising centers that are optimized can help you sell your e-commerce startups. You must use search engine marketing optimization techniques from the start of your business because of this. Establish your essential keywords (Akhtar, 2023).

#### **6. Lack of Cash Flow**

Coin currency is essential for growing any kind of business. It addresses the total inflow and outflow of funds within a business (Blythe, 2008). Moreover, you should have enough cash on hand to collaborate with any new e-commerce firm. You must ascertain how much money you will need to invest in your business in accordance with your enterprise plan (Wirjo, Müller, del Carmen, Sangaraju, Crystal, & Siah, 2020).

#### **7. Faulty Inventory Management**

The creation of e-commerce websites serves as the foundation for inventory management and its supervision. You may encounter a shortage of products or, worse yet, an e-commerce collapse if you can no longer effectively operate the inventory machine. Furthermore, if you launch a new e-commerce business and your inventory contains an excessive amount of goods, it will have a disastrous impact on other e-commerce businesses that fail, which will negatively affect your own business (Jain & Singh, 2024).

#### **8. Poor Image Quality**

Any customer who visits your website may view the product images in order to make a purchase. Your product photos will have a negative impact on customers if they are of low quality. Some customers don't like reading through the product description (Akhtar, 2023).

#### **9. High Shipping Cost**

One of the most important considerations for any e-commerce firm is a high freight price. It can be a little difficult at times to pay the full-size shipping charge as a new business owner. You can't meet your company's demand when the cost of transportation exceeds the cost of the goods. Additionally, it will convey the severe situation your company is in. Therefore, you shouldn't have spent additional money on this aspect of your business's performance (Jain & Singh, 2024).

#### **4. Conclusion**

Lastly, a review of Pakistan's legal framework for consumer protection in the digital economy finds both significant room for improvement and strong qualities. However, even as e-commerce has given consumers a new level of convenience and opportunity, it has also made them susceptible to certain risks and threats. This includes online \_\_\_ scams like phishing, receiving sub-standard goods or the misuse of personal information. The present legal structure often fails to meet consumer expectations in terms of safeguarding these rights or ensuring the safety of such products and services, which is, in fact, the very purpose for which these laws were drafted. Pakistan has many opportunities for online business. Notwithstanding these challenges, the industry is predicted to expand dramatically, with support from small businesses and the government being crucial. As digital literacy and infrastructure continue to progress, e-commerce has the potential to become a major player in Pakistan's retail industry, offering customers more choices and convenience across the country. By addressing these problems and implementing the recommendations of the study, Pakistan can enhance the environment for digital commerce.

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