

Legal Protection for MSMEs in the Digital Ecosystem: A Review of E-Commerce Platforms

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Abstract

Digital transformation has opened up significant opportunities for Micro, Small, and Medium Enterprises (MSMEs) to expand market access through e-commerce platforms. However, behind these opportunities lie complex legal challenges, such as contractual disparities, monopolistic practices, and misuse of personal data. This study aims to examine the forms of legal protection for MSMEs in the digital ecosystem, with a focus on their interactions with large digital platforms. The methods used are normative and conceptual legal analysis, with an examination of regulations such as Law No. 5 of 1999, the Information and Transactions Law (ITE Law), the Consumer Protection Law, the Personal Data Protection Law (PDP Law), and Ministry of Trade Regulation No. 31 of 2023. The results of the study indicate that although regulations are in place, their implementation has not been optimal in ensuring fairness and sustainability for SMEs. Therefore, the establishment of progressive regulations and a Digital Oversight Task Force is necessary to integrate cross-agency oversight, strengthen law enforcement, and create an inclusive and fair digital ecosystem for SMEs.

Keywords: Digital Ecosystem, Digital Transformation, E-commerce Platforms, Legal Protection, MSMEs.

1. Introduction

In today's digital age, advances in information and communication technology have had a significant impact on various aspects of life, including commerce. One notable development is the emergence of e-commerce, an electronic trading system that enables buying and selling transactions to be conducted online through digital platforms. The growth of e-commerce has opened up significant opportunities for Micro, Small, and Medium Enterprises (MSMEs) to expand their market access and reach consumers from various regions, even on a global scale (Karar et al., 2025).

Digitalisation not only impacts the economic and business sectors, but also acts as a form of protection for businesses so that they can reap profits while minimising the risk of losses (Jameaba, 2024). The government has provided support through regulations and legislation designed to support the transition to the digital era. Businesses are now leveraging advancements in information and communication technology to conduct their operations. The shift towards a digital business model requires businesses to adapt to technological developments. Large companies generally do not face significant challenges in this process as they have professional human resources. Conversely, SMEs face greater challenges and require thorough preparation to undergo digital transformation (Utomo & Pribadi, 2024).

Digital transformation has significantly changed consumer preferences and behaviour in shopping, driving a massive shift to e-commerce platforms (Gomez-Trujillo & Gonzalez-



Perez, 2022; Penmetsa & Bruque Camara, 2022; Zhang & Jin, 2023). Factors such as ease of access, diverse product choices, and competitive prices are the main attractions for consumers. However, these changes also present new challenges, particularly in terms of consumer rights protection, privacy, data security, product quality, and dispute resolution mechanisms. Transaction security is a very important aspect, which requires the implementation of reliable encryption technology and digital security protocols. On the other hand, product quality and fairness in pricing remain key elements in maintaining customer satisfaction. In this context, consumer protection laws play an important role by establishing principles that guarantee the protection of consumer rights and interests in digital transactions (Prayuti, 2024).

Legal aspects related to the protection of MSMEs in the realm of e-commerce cover various issues, such as consumer protection, personal data security, and the regulation of the rights and obligations of parties in digital transactions. For example, regulations governing consumer protection in online transactions are often considered inadequate and lacking in detail, making it difficult for MSME players to structure and execute transactions legally and fairly. Additionally, the issue of personal data protection is also highly critical, given the significant amount of sensitive information exchanged during transactions on e-commerce platforms (Arbani, 2025).

On the other hand, a number of e-commerce platforms have begun to implement policies aimed at strengthening protection for sellers, including MSME players. These efforts include improving transaction verification systems, protecting intellectual property rights, and conducting educational programmes that equip MSMEs with relevant legal knowledge. However, challenges in terms of supervision and law enforcement in the digital realm remain obstacles that must be addressed collaboratively by the government, platform providers, and MSMEs themselves (Arbani, 2025).

E-commerce has become a major force in revolutionising the global business world, especially for SMEs. Its role in marketing SME products is crucial as it can enhance the potential of small businesses and significantly expand market access. The integration of digital technology into marketing strategies enables SMEs to compete in an increasingly interconnected global market. Through e-commerce platforms, SMEs can reach a broader consumer base, offer products more efficiently, and develop marketing strategies that were previously hindered by geographical limitations. Additionally, e-commerce is seen as capable of providing new solutions to the resource constraints faced by SMEs, particularly in terms of transaction skills and the optimal use of digital technology (Puspawardani et al., 2025).

In recent years, developments in digital technology have driven major transformations in how MSMEs conduct their business. E-commerce platforms such as Tokopedia, Tiktok Shop, Shopee, and Lazada have become the primary means for MSMEs to reach wider markets, improve operational efficiency, and expand their distribution networks. However, behind these opportunities lie complex legal challenges. Many SMEs face imbalances in their contractual relationships with digital platforms, which often use adhesion contracts—contracts drafted unilaterally by the platform without room for negotiation by SMEs.

These imbalances have the potential to lead to exploitation and harm SMEs, particularly in terms of transparency, data protection, and dispute resolution. Additionally, existing regulations such as Law No. 5 of 1999 on the Prohibition of Monopoly Practices and Unhealthy Business Competition have not fully accommodated the dynamics of the digital market. This results in inadequate oversight of business practices that harm SMEs in the digital realm.

Ministry of Trade Regulation No. 31 of 2023 on Business Licensing, Advertising, Guidance, and Supervision of Business Actors in Trade through Electronic Systems shows the government's efforts to align policies with the development of the digital ecosystem, but its

implementation still faces various challenges. Hence, this study aims to examine in depth the forms of legal protection available to MSMEs in the digital ecosystem, particularly in their interactions with e-commerce platforms. This study will also highlight aspects of contractual inequality, protection against monopolistic practices, and the effectiveness of existing regulations in ensuring fairness and sustainability for MSMEs in the digital era.

2. Methods

This study uses a normative juridical method, which is an approach based on literature review and analysis of relevant laws and regulations (Soekanto & Mamudji, 2013). This method is used to examine the legal norms governing the protection of MSMEs in the digital ecosystem, particularly in the context of their interaction with e-commerce platforms. This approach also includes an analysis of legal principles, doctrines, and decisions of relevant institutions such as the Business Competition Supervisory Commission (KPPU).

In addition, this study also uses a conceptual approach, namely by examining legal concepts such as digital contracts, consumer protection, business competition, and personal data protection. This approach aims to understand how these concepts are applied in practice and the extent to which existing regulations are able to provide fair protection for MSMEs.

The data used in this study is sourced from:

- a) Primary legal materials, such as Law No. 5 of 1999, Law No. 8 of 1999, Law No. 11 of 2008 (ITE), Law No. 27 of 2022 on PDP, Law No. 20 of 2008 on MSMEs, and Minister of Trade Regulation No. 31 of 2023.
- b) Secondary legal materials, such as scientific journals, legal books, policy articles, and official news from the government and mass media.
- c) Tertiary legal materials, such as legal dictionaries and legal encyclopedias.
- d) The analysis was conducted using a descriptive-analytical approach, explaining the applicable legal provisions and assessing their effectiveness in providing legal protection for MSMEs in the digital era. This study also identified legal gaps and provided recommendations on the need to establish progressive regulations and a Digital Oversight Task Force to create a fair and sustainable digital ecosystem.

3. Results and Discussion

3.1. Legal Framework for the Protection of MSMEs in E-Commerce

The Importance of Protecting MSMEs in the Digital Business Ecosystem MSMEs play a crucial role as the main drivers of Indonesia's economy. Thus, protecting MSMEs in the online business realm is vital. Here are some of the reasons why (Syailendra & Putri, 2023):

- a) Promoting Community Welfare, as protection for MSMEs contributes to improving the standard of living of the community and helps reduce poverty through local economic empowerment.
- b) Strengthening Competitiveness in the Digital Market, as adequate protection enables MSMEs to compete fairly in electronic-based trade (PMSE), thereby enabling them to face competition from larger businesses.
- c) Improving Product and Service Quality, as support for MSMEs encourages them to improve the quality of the goods and services they offer, which in turn builds consumer confidence in local products.

- d) Encouraging Innovation and Creativity, as good protection creates space for MSMEs to continue to innovate and develop creative ideas, enabling them to grow and adapt to market dynamics.
- e) Improving Regulatory Compliance, as SME protection also helps them understand and comply with the rules applicable in digital commerce, creating a fair and sustainable business climate.

Although e-commerce offers significant opportunities for MSMEs to grow, there are a number of obstacles that need to be addressed to ensure the sector can develop sustainably. Some of the main challenges faced by MSMEs include:

- a) Regulatory and Legal Aspects: MSME players need to understand and comply with various legal provisions applicable to digital businesses. Unfortunately, many of them find this difficult due to complex and frequently changing regulations, making them reluctant to engage in e-commerce platforms. In fact, legal compliance can help avoid risks and reduce operational costs.
- b) Limitations in Technology and Digital Literacy: Lack of access to stable internet and minimal technological infrastructure are major obstacles for MSMEs to optimally utilise e-commerce. In addition, low digital literacy makes it difficult for some business owners to manage their businesses online.
- c) Legality and Access to Financing: Many MSMEs do not yet have clear business legality, making it difficult for them to access financing from financial institutions. This also impacts their ability to increase production capacity and expand services.

Legal protection for MSMEs in Indonesia's e-commerce ecosystem is regulated through various complementary regulations (Maghfiroh et al., 2023). One of the main regulations is Ministry of Trade Regulation No. 31 of 2023 concerning Business Licensing, Advertising, Guidance, and Supervision of Business Actors in Trade through Electronic Systems. This regulation aims to create a fair and healthy digital trade ecosystem and provide protection for small businesses that are vulnerable to unhealthy business practices. Article 3 states that every business operator in electronic commerce (PMSE) must have a business license in accordance with risk-based licensing provisions. Article 5 requires foreign business operators active in the Indonesian market to appoint a representative within the country to ensure accountability and stronger legal protection. Meanwhile, Articles 10 to 12 regulate transparency in advertising, including clarity of product information and pricing, which is crucial for SMEs in building consumer trust. Articles 15 to 18 outline mechanisms for monitoring and supervising PMSE businesses, as well as administrative sanctions for violations. The main objective of Minister of Trade Regulation No. 31 of 2023 is to create an inclusive, healthy, and equitable digital trading ecosystem, where MSMEs receive adequate protection so that they can develop and compete on an equal footing with large businesses, both domestic and foreign.

In addition to Ministry of Trade Regulation No. 31 of 2023, legal protection for MSMEs is also guaranteed through Law No. 8 of 1999 concerning Consumer Protection, which establishes consumer rights and business obligations. Under Article 4, consumers have the right to comfort, safety, and security when consuming goods and/or services, while Article 7 requires businesses to provide accurate and honest information. This is relevant for SMEs in maintaining their business reputation and legality.

On the other hand, Law No. 11 of 2008 on Electronic Information and Transactions provides a legal basis for digital transactions, including the recognition of electronic documents as valid evidence (Article 5) and the protection of personal data (Article 26)

Personal data protection has been further strengthened with the enactment of Law No. 27 of 2022 on Personal Data Protection, which regulates the obligations of business actors in maintaining the security of consumer data, as stipulated in Articles 20 to 22. The provisions determining the obligations regarding the transfer of personal data both domestically and internationally are outlined in Articles 55 to 56, while administrative sanctions for violations of personal data protection are specified in Article 57.

Finally, Law No. 20 of 2008 on MSMEs provides a general framework for the development and protection of MSMEs, including in the digital context. Articles 16 to 18 regulate government support in the form of training and market access. Meanwhile, Article 21 emphasises the importance of facilitating technology and information for MSMEs so that they can adapt to the digital era. Article 21 of Law No. 20 of 2008, as amended in the provisions of the Job Creation Law, has a significant relationship with business development in the digital world, including e-commerce. Article 21 emphasises that the central and regional governments are obliged to provide financing for MSMEs, whether in the form of loans, grants, guarantees, or other forms of financing. In addition, large businesses and state-owned enterprises (SOEs) are also encouraged to contribute to SME financing.

In the digital context, this financing support is crucial to help SMEs transition towards digitalisation. For example, the funds can be used to establish online stores, access digital marketing training, purchase technological devices, or enhance digital literacy. With the financing and incentives stipulated in Article 21 of Law No. 20 of 2008 as amended in the Job Creation Law, MSMEs have greater opportunities to enter and compete in the growing e-commerce ecosystem. Thus, although it does not explicitly mention digital businesses, the substance of Article 21 is highly relevant and supports the growth of MSMEs in the digital era.

3.2. Inequality in Digital Contracts between MSMEs and Platforms

The imbalance in digital contracts between micro, small, and medium enterprises (MSMEs) and large marketplace platforms in Indonesia is becoming an increasingly important issue to address. One of the most striking forms of imbalance is the practice of adhesion contracts, which are contracts drafted unilaterally by the platform without allowing MSMEs any room for negotiation. In this situation, MSMEs are forced to accept the entire contents of the contract without being able to adjust the clauses to suit their needs or interests.

Although the digital contracting process appears simple, fast, and attractive, prompting many people to engage in it, from a legal perspective, this ease of use carries potential risks that are not always predictable in the future. A legal expert in economics states that in economic transactions, there are two equally important legal interests that must be balanced. First, the law is viewed from the perspective of economic actors, both producers and consumers, who aim to maximise profits. In this context, the law functions as an external tool providing protection for transactions between both parties and safeguarding broader public interests. Second, the law is viewed from the perspective of the state or government, which uses it as an instrument to supervise the behaviour of economic actors, especially in the event of irregularities that could harm the public interest. Therefore, even though economic transactions through websites or digital contracts are efficient and attractive, it is important to ensure that all parties continue to receive adequate legal protection (Hebimisa et al., 2022).

The provisions of Article 8(1) of the United Nations Convention on the Use of Electronic Communications in International Contracts state that a communication or contract shall not be denied legal effect or enforceability solely on the grounds that it is made by electronic communication. This means that digital contracts have the same legal recognition as conventional contracts, as long as they fulfil the basic elements of an agreement. However, in the context of inequality between MSMEs and digital platforms, this provision does not

directly regulate the substance or fairness of the contract, but only confirms its legal form. In other words, even though digital contracts are legally valid, this does not necessarily guarantee that the content of the contract is fair or does not disadvantage one party, especially MSMEs, which are often in a weak bargaining position.

Inequality arises when digital platforms unilaterally draft contracts (adhesion contracts), and MSMEs have no choice but to agree to the entire content of the contract if they want to use the service. In situations like this, even though the contract is valid according to Article 8 of the UN Convention, protection for the weaker party must still be guaranteed through national legal mechanisms, as regulated in the Consumer Protection Law and the MSME Law in Indonesia. Thus, Article 8 paragraph (1) provides a legal basis for digital contracts, but it is not sufficient to overcome structural inequality in contractual relationships between MSMEs and platforms. Therefore, there needs to be additional regulations that regulate the substance and fairness of the contract content, not just its form.

The provisions of Article 8(1) of the UN Convention on the Use of Electronic Communications in International Contracts reflect this principle in Indonesian national law, particularly in Article 18(1) of Law No. 11 of 2008 on Information and Electronic Transactions, which states that electronic contracts are binding on the parties who enter into them. This means that, both internationally and nationally, digital contracts have legal recognition and can be enforced in the same way as conventional contracts as stipulated in Article 1320 of the Civil Code. However, the recognition of this form of digital contract does not automatically resolve issues of inequality in contractual relationships, particularly between SMEs and digital platforms. The legality of the contract form does not guarantee fairness in the contract content, especially when the contract is unilaterally drafted by large platforms without providing negotiation space for SMEs. In situations like this, MSMEs are often trapped in disadvantageous adhesion contracts, even though these contracts are legally valid. Therefore, even though these provisions provide a strong legal basis, protection of the substance of contracts and the bargaining position of MSMEs still requires additional regulations that are more specific and fair.

Additionally, more detailed regulations regarding electronic contracts are outlined in Government Regulation No. 71 of 2019 on the Implementation of Electronic Systems and Transactions, which stipulates mandatory elements in electronic contracts, such as the identities of the parties, the subject of the transaction, price, rights and obligations, and dispute resolution mechanisms. Thus, the provisions in Indonesian law are in line with international principles as stipulated in the UN Convention, and provide a strong legal basis for the recognition of digital contracts. However, as discussed earlier, this recognition places more emphasis on the legality of the contract form, rather than on the substantive fairness of the contract content, which is a crucial point in the context of inequality between MSMEs and digital platforms.

Legally, digital contracts are recognised as valid in Indonesia as stipulated in Article 1 point 17 of Law Number 11 of 2008 concerning Electronic Information and Transactions, which states that an electronic contract is an agreement between parties made through an electronic system. This provision confirms that contracts made digitally have legal validity, as long as they fulfil the elements of an agreement as stipulated in civil law, such as agreement, competence, specific object, and lawful cause. Thus, digital contracts have the same binding force as conventional contracts and can be used as a legal basis in the settlement of disputes between the parties involved.

Further, Article 18(1) of Law No. 8 of 1999 on Consumer Protection states that standard clauses in agreements made unilaterally and without giving consumers the opportunity to

negotiate may be declared null and void if they are detrimental to consumers. Standard clauses are provisions in contracts that are unilaterally drafted by businesses and do not allow consumers any room for negotiation. If such clauses are found to be detrimental to consumers, they can be declared null and void. In the context of digital contracts between MSMEs and large platforms, this provision is particularly relevant because many platforms use standard agreements that cannot be modified by MSMEs. This creates an imbalance in bargaining power and has the potential to disadvantage MSMEs as the weaker party. Therefore, even though digital contracts are legally valid, their content and form must still comply with the principles of fairness and protection of vulnerable parties in transactions, as mandated by the Consumer Protection Law.

The provisions in Article 1 point 17 of the ITE Law and Article 18 paragraph (1) of the Consumer Protection Law are very relevant in the context of MSMEs acting as consumers of digital platform services. Article 1(17) of the ITE Law recognises that an electronic contract is an agreement made through an electronic system and has legal validity. This means that when SMEs agree to the terms and conditions of a digital platform such as a marketplace or technology service provider, they are legally bound by the contract, even though the process is conducted online and without a physical meeting. This recognition is important because it provides a legal basis for MSMEs to claim their rights in the event of a breach or non-compliance in the execution of the contract by the platform.

Meanwhile, Article 18 paragraph (1) of the Consumer Protection Law provides protection for consumers from standard clauses that are detrimental to them. In practice, many digital platforms use adhesion contracts, which are standard contracts that cannot be negotiated by SMEs. When SMEs act as service users (e.g., logistics, payment, or promotional services), they are in the position of consumers. If the clauses in the contract are proven to be detrimental and do not allow for negotiation, then under this article, such clauses may be declared null and void.

Thus, these two provisions provide a strong legal foundation for SMEs to obtain protection in digital transactions. Yet, the challenge lies in how these provisions are effectively implemented, given that SMEs often lack access to legal assistance or sufficient understanding of their rights in digital contracts. Nevertheless, legal protection for SMEs in digital contracts remains suboptimal. Many regulations have not specifically addressed the position of SMEs as the weaker party in digital transactions. Therefore, more proactive and specific regulations are needed to ensure fairness in contractual relationships between SMEs and digital platforms. The government also needs to strengthen the role of institutions such as the Competition Supervisory Commission (KPPU) to monitor unhealthy business practices and prevent unilateral dominance by large platforms.

In addition to the provisions in Article 1 point 17 of Law Number 11 of 2008 concerning Information and Electronic Transactions and Article 18 paragraph (1) of Law Number 8 of 1999 concerning Consumer Protection, there are other regulations that are also relevant in regulating digital contract imbalances between SMEs and digital platforms. One of these is the principle of balance in Indonesian civil law, which emphasises that a contract must be made based on free agreement between the parties. If a contract is made unilaterally without room for negotiation, its validity may be questioned. This is particularly important in the context of adhesion contracts often imposed by digital platforms on SMEs. Additionally, Law No. 20 of 2008 on SMEs also underscores the importance of healthy and equitable partnerships between SMEs and large businesses. Article 26 states that partnership relationships must be mutually beneficial. Thus, contracts that are detrimental to MSMEs are contrary to the spirit of protecting and empowering MSMEs. On the other hand, academic studies and public policy

discourse also encourage the need for specific regulations that govern contractual relationships between MSMEs and digital platforms in more detail. This regulation is expected to fill the legal gaps that have not been explicitly addressed in the ITE Law or the Consumer Protection Law, and to provide more concrete protection for SMEs as the vulnerable party in the digital economy ecosystem.

3.3. The Threat of Monopolistic Practices and Unfair Competition

The establishment of the Business Competition Supervisory Commission (KPPU) was a response to various forms of unfair business competition in Indonesia. One of the reasons behind this was the intervention of the authorities, who provided protection or privileges to certain businesses, which were often part of collusion, corruption, and nepotism (KKN). Such practices create imbalances in the business world and harm other business actors who do not receive special treatment. Unfair competition is still commonly found, whether carried out collectively by several business actors or individually (Widjjaningsih et al., 2022).

To demonstrate that competition law is not limited to civil law, one can look at the case handling mechanisms of the Business Competition Supervisory Commission (KPPU). The KPPU handles cases from two main sources: reports from the public and the KPPU's own initiatives. Reports from the public are divided into two types: reports without claims for compensation and reports with claims for compensation against businesses suspected of engaging in monopolistic practices or unfair competition. Reports accompanied by claims for compensation reflect a criminal dimension, as they involve elements of violations that harm others and may result in penalties. Meanwhile, case handling initiated by the KPPU itself is more civil in nature, as it focuses on monitoring and enforcing the principles of fair competition without direct claims for compensation. Thus, the KPPU's handling of cases reflects that competition law has dual criminal and civil dimensions, highlighting the complexity and importance of comprehensive regulations in maintaining a fair and competitive business climate (Rombot, 2020).

Legally, monopolistic practices and unfair business competition are regulated in Law No. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition, which serves as the basis for the Business Competition Supervisory Commission (KPPU) in taking action against violations. These provisions are reinforced by Government Regulation No. 44 of 2021 on the Implementation of the Prohibition of Monopoly Practices and Unfair Business Competition, which sets out the technical implementation of the prohibition on monopoly practices and unfair business competition. In addition, KPPU Regulation No. 2 of 2023 concerning Procedures for Handling Cases of Monopolistic Practices and Unfair Business Competition establishes procedures for handling cases systematically and efficiently, including investigations, examinations, and the imposition of sanctions on business actors proven to have committed violations. With these regulations, the government has a strong legal basis to supervise and take action against practices that are detrimental to MSMEs. However, the challenge ahead is to ensure that these regulations can be effectively applied in an ever-evolving digital ecosystem and provide real protection for MSMEs so that they can continue to compete fairly and sustainably.

In the context of the dominance of large digital platforms and their impact on the sustainability of SMEs, relevant legal provisions can be found in Law No. 5 of 1999 on the Prohibition of Monopoly Practices and Unhealthy Business Competition. One of the most important provisions is Article 17(1), which states that “Business entities are prohibited from gaining control over the production and/or marketing of goods and/or services that may result in monopolistic practices and/or unfair competition.” This provision directly prohibits market

domination by one or a group of business actors that could harm other business actors, including MSMEs.

In addition, Article 19 letter d also prohibits business actors from taking actions that could hinder other business actors from operating in the relevant market, including through unfair market control. This is highly relevant to the predatory pricing practices often employed by large platforms, where they sell products at very low prices to eliminate competitors, including local MSMEs. This practice creates an unhealthy market structure and undermines the sustainability of small businesses.

Furthermore, Article 25 paragraph (1) regulates the prohibition of abuse of dominant position, which is when a business actor has significant market power and uses it to establish prices, limit supply, or prevent other business actors from entering the market. In the digital ecosystem, this can occur through algorithm control, promotion, and user data access, as seen in the social commerce model.

With these provisions in place, it is clear that Indonesian law has provided a strong foundation for preventing monopolistic practices and unfair business competition. However, the main challenge lies in the effectiveness of implementation and oversight, especially in the face of the ever-evolving dynamics of the digital market. Therefore, strengthening the role of the Competition Supervisory Commission (KPPU) and updating regulations to adapt to digital technology are crucial for protecting SMEs and maintaining a healthy business environment.

To strengthen supervision of monopolistic practices and unfair business competition that impact MSMEs, the Indonesian government has established a number of important regulations, including PP No. 44 of 2021 and KPPU Regulation No. 2 of 2023. Government Regulation No. 44 of 2021 is a derivative of Law No. 5 of 1999 and provides a more technical legal basis for the Competition Supervisory Commission (KPPU) in carrying out its duties. Among other things, Article 4 states that the KPPU has the authority to enforce the law against business actors who engage in monopolistic practices or unfair competition. Furthermore, Articles 5 to 7 regulate the types of administrative sanctions that may be imposed, such as the cancellation of agreements, the cessation of vertical integration, and orders to cease the abuse of dominant positions. Meanwhile, Articles 10 to 12 explain the mechanisms for review, objection, and appeal of KPPU decisions, indicating that the legal process in the field of competition has both formal and substantive dimensions.

Furthermore, KPPU Regulation No. 2 of 2023 establishes procedures for handling cases systematically, from the investigation and examination stages to the imposition of sanctions. This regulation provides a more operational framework for KPPU in handling cases involving market dominance by large digital platforms, including predatory pricing practices and market control through social commerce. With these provisions, the state has a strong legal instrument to take action against business actors who harm MSMEs through unfair competition practices. However, its effectiveness depends heavily on the KPPU's courage and determination in enforcing the law, as well as adaptive regulatory support for developments in digital technology and new business models.

The dominance of large digital platforms such as Shopee, Tokopedia, and TikTok Shop has raised concerns about monopolistic practices and unfair business competition, particularly in relation to the sustainability of MSMEs in Indonesia. These platforms not only act as transaction facilitators, but also have complete control over various aspects of the digital ecosystem, such as search algorithms, promotion systems, and pricing. In this situation, MSMEs are at a disadvantage because they are highly dependent on platforms to access markets but have no influence over policies unilaterally determined by the platforms.

One of the real threats faced by MSMEs is predatory pricing, a sales strategy involving extremely low prices aimed at eliminating competitors. Predatory pricing in Indonesia is regulated under Law No. 5 of 1999. Provisions that explicitly prohibit this practice are contained in Article 20, which states that ‘Business actors are prohibited from setting prices below production costs or prevailing market prices that could result in unfair business competition.’ This article aims to prevent business actors from establishing very low prices, even below production costs, with the intention of removing competitors from the market. Once competitors have exited the market, the business operator will typically raise prices drastically to recover losses and dominate the market, which ultimately harms consumers and hinders innovation.

In addition to Article 20, predatory pricing practices may also violate other provisions of Law No. 5 of 1999, such as Article 19(d) and Article 25. If found to be in violation, the business entity may be subject to sanctions by the Competition Supervisory Commission (KPPU) under Article 47, including orders to cease activities, cancellation of agreements, compensation, and administrative fines ranging from IDR 1 billion to IDR 25 billion. This practice is evident on platforms such as TikTok Shop, where imported products are sold at much lower prices than local products. As a result, many MSMEs are unable to compete on price and are forced to cease operations. This situation not only damages the market structure, but also threatens the sustainability of the local economy, which is heavily dependent on MSMEs as its main driver.

In addition, the emergence of social commerce models, which combine social media and e-commerce features, further complicates the challenges faced by MSMEs. Platforms such as TikTok Shop enable direct transactions within the application, creating a closed ecosystem that is completely controlled by the platform provider. Although this model provides convenience and broad market access, it also increases the risk of unilateral domination and market manipulation through algorithm settings and the use of user data. To address these threats, stronger regulatory intervention from the government is needed to oversee digital business practices, prevent monopolies, and ensure healthy competition. Protection for SMEs must be a priority, both through strengthened anti-monopoly regulations and through empowerment programmes that enhance SMEs’ bargaining power in an increasingly complex digital ecosystem.

The social commerce model in Indonesia is regulated under Ministry of Trade Regulation No. 31 of 2023. Article 21(2) of Ministry of Trade Regulation No. 31 of 2023 states that ‘Electronic Commerce Service Providers (ECSPs) operating under the social commerce and marketplace business models are prohibited from acting as producers.’ This provision aims to prevent market cannibalism, where social commerce platforms produce their own trending items based on user data, thereby harming small and medium-sized enterprises (SMEs). In addition, this regulation also prohibits social commerce from conducting direct sales transactions on social media platforms. Social commerce is only allowed to facilitate the promotion of goods or services, not as a place of transaction. The main objective of this regulation is to separate the functions of social media and commercial activities, protect consumers, and prevent the misuse of personal data by digital platforms. The government also wants to ensure that businesses in the digital ecosystem are subject to fair regulations that do not harm local businesses.

The threat of monopolistic practices and unfair competition by large digital platforms such as Shopee, Tokopedia, and TikTok Shop has had a serious impact on the sustainability of MSMEs in Indonesia. The dominance of these platforms not only creates market dependency, but also allows them to control search algorithms, promotion systems, and pricing policies

unilaterally. One form of practice that is detrimental to MSMEs is predatory pricing, which is a strategy of selling products at very low prices to eliminate competitors, including local businesses. This practice damages the market structure and threatens the sustainability of MSMEs as the backbone of the national economy. This phenomenon is further complicated by the emergence of social commerce, a business model that combines social media and e-commerce, as implemented by TikTok Shop. Although it provides broad market access, social commerce also increases the risk of unilateral domination and market manipulation through the platform's control of data and algorithms. In this context, MSMEs not only lose competitiveness, but also lose control over interactions with consumers.

3.4. Analysis of the Urgent Need for Progressive Regulation and a Digital Oversight Task Force to Ensure a Fair and Sustainable Digital Ecosystem for MSMEs

Amidst rapid digital transformation, MSME players face major challenges in competing in a market increasingly dominated by large digital platforms. Practices such as predatory pricing, product counterfeiting, and consumer data abuse have created inequalities that are detrimental to MSMEs. Therefore, the establishment of progressive regulations is crucial to create a legal framework that is adaptive to technological developments, while protecting small businesses from unhealthy practices. This progressive regulation is reflected in Ministry of Trade Regulation No. 31 of 2023, which prohibits social commerce from acting as producers and limits direct transactions on social media platforms. However, oversight of the implementation of this regulation remains suboptimal. The existence of Law No. 5 of 1999 has not fully accommodated law enforcement against digital businesses, so amendments are needed to strengthen the role of the KPPU in overseeing business competition in the digital era.

In addition to regulations, the formation of a Digital Oversight Task Force is a strategic step to integrate oversight across institutions such as the Commission for the Supervision of Business Competition (KPPU), Ministry of Communication and Informatics (Kominfo), Ministry of Trade (Kemendag), and Financial Services Authority (OJK). This task force is expected to monitor digital trade practices, protect MSMEs from counterfeit goods and loan sharks, and encourage government spending on MSME products as mandated in Government Regulation No. 7 of 2021 on Facilitation, Protection, and Empowerment of Cooperatives and MSMEs. Furthermore, within the framework of the Indonesia Digital Vision 2045, the government emphasises the importance of universal access to digital literacy, data security, and support for SMEs as part of inclusive and sustainable digital economic development. Without adaptive regulations and integrated oversight, SMEs risk being left behind and marginalised in an increasingly complex digital ecosystem.

The urgency of establishing progressive regulations and a digital oversight task force has become increasingly important in the face of rapid digital economic growth in Indonesia, particularly to ensure that SMEs are not left behind in this transformation. The Indonesian government should have recognised that overly complex or non-adaptive regulations can hinder innovation and market access, especially for SMEs. Therefore, a progressive regulatory approach is needed, one that balances consumer protection, digital security, and innovation flexibility. These regulations must be able to accommodate technological dynamics such as social commerce, AI, and big data, without burdening small businesses.

In addition, the formation of a Digital Oversight Task Force is crucial. This task force serves to:

- a) Overseeing digital trade practices, including social commerce and cross-border e-commerce.

- b) Protecting MSMEs from unfair practices, such as predatory pricing or data misuse by large platforms.
- c) Facilitating coordination between institutions, such as the Ministry of Trade, Ministry of Communication and Information Technology, KPPU, and OJK, to ensure that digital policies are more integrated and responsive.
- d) Improving digital literacy and regulatory compliance among MSME players.

The urgency of establishing progressive regulations and a digital oversight task force within Indonesia's digital economy ecosystem is becoming increasingly important, especially to ensure sustainability and fairness for micro, small, and medium-sized enterprises (MSMEs). This is reflected in several provisions of the law. First, Government Regulation No. 7 of 2021, particularly Articles 35 and 36, emphasises the government's obligation to provide facilities and promotional opportunities for MSMEs, including within the digital ecosystem. Second, Ministry of Trade Regulation No. 31 of 2023 explicitly regulates the social commerce business model, where Article 21(2) prohibits digital platforms from acting as producers to prevent market dominance that harms MSMEs. Third, Law No. 5 of 1999 serves as the legal basis for the Competition Supervisory Commission (KPPU) to address practices such as predatory pricing and the abuse of dominant positions by large digital platforms. Although there are no specific regulations governing the formation of the Digital Oversight Task Force, its urgency has become a cross-ministerial concern, given the need for coordination between the KPPU, Kominfo, Kemendag, and OJK in overseeing digital trade practices. This task force is expected to protect MSMEs from unfair practices, improve digital literacy, and ensure compliance with regulations that support inclusive and sustainable digital economic growth.

As announced by the Minister of Micro, Small, and Medium Enterprises (MSMEs), Maman Abdurrahman, the plan to establish a Task Force for the Protection and Empowerment of MSMEs aims to protect MSMEs from unhealthy trade practices, including piracy and counterfeiting of products, and to take firm action against businesses involved in such activities. This initiative is a response to reports of widespread counterfeit goods at Mangga Dua Market in Jakarta, which has even been listed as a counterfeit market by the United States Trade Representative's Office. The Task Force is also expected to enhance oversight and production quality for MSMEs, as well as encourage businesses to produce better products that meet standards. Currently, the formation of the task force is still in the inter-ministerial coordination stage, including with the Ministry of Trade and the Ministry of Law and Human Rights, particularly the Intellectual Property Rights (IPR) Task Force. The government emphasises the importance of enforcing the law against IPR violations so that local MSMEs can develop in a healthy and competitive manner (Dalimunthe et al., 2022).

In addition, the Minister of MSMEs, Maman Abdurrahman, said that the formation of the MSME Protection Task Force also aims to protect micro and small businesses from illegal lending practices, particularly from loan sharks who charge high interest rates and have the potential to seize the assets of small communities. Maman emphasised that many SME operators are forced to borrow from loan sharks due to limited access to formal financing, such as the People's Business Credit (KUR). The Task Force will also ensure that the government's 40% spending allocation is genuinely used to purchase SME products, as mandated by Government Regulation No. 7 of 2021. Maman noted that this allocation has not been fully utilised by local SMEs, and the Task Force will conduct monitoring down to the regional level to ensure the policy is implemented effectively. In the near future, the Ministry of MSMEs will sign a memorandum of understanding with the Police and Law Enforcement Agencies (APH)

to strengthen the Task Force's functions. The aim is to deter usury practices and create a more fair and inclusive financing ecosystem for MSMEs.

Based on the statement by the Minister of Micro, Small and Medium Enterprises, Maman Abdurrahman, regarding the policy currently being drafted, the urgency of establishing progressive regulations and a Digital Oversight Task Force is crucial to ensuring a fair and sustainable digital ecosystem for MSMEs in Indonesia. First, the establishment of the MSME Protection and Empowerment Task Force is a response to the prevalence of unfair trade practices such as product counterfeiting, pirated goods, and extortion by loan sharks. This task force will serve as the frontline in law enforcement, mediation, and direct on-site supervision, including collaboration with the Police and Law Enforcement Authorities (LEA) to deter violators.

Second, the urgency of progressive regulation is reflected in the government's efforts to implement Government Regulation No. 7 of 2021, which requires 40% of government spending to be allocated to SME products and the provision of business space in public facilities. However, the implementation of this policy has not been optimal, so the Task Force will also be responsible for monitoring and evaluating to ensure that SMEs truly benefit from the policy.

Third, in the digital context, SMEs face significant challenges such as unfair market access, dominance by large platforms, and insufficient protection of intellectual property. Therefore, progressive regulations that are adaptive to technological developments and the establishment of a Digital Oversight Task Force are crucial to protect SMEs from digital monopolies, data misuse, and financing access disparities. These steps are also in line with the government's vision of building an inclusive digital economy, where MSMEs are the backbone of national economic growth. Without proper regulation and integrated oversight, MSMEs risk falling further behind in global and digital competition.

4. Conclusion

Legal protection for MSMEs in the digital ecosystem is a crucial aspect in realising fair, inclusive, and sustainable trade in the era of technological transformation. Although digitalisation opens up great opportunities for MSMEs to expand their markets and improve business efficiency, complex legal challenges such as contractual inequality, monopolistic practices, and misuse of personal data remain serious obstacles. Existing regulations, such as Law No. 5 of 1999, the ITE Law, the Consumer Protection Law, the PDP Law, and Ministry of Trade Regulation No. 31 of 2023, have provided an important legal foundation, but they have not fully addressed the dynamics and inequalities faced by SMEs in their interactions with large digital platforms.

Inequalities in digital contracts, market dominance by e-commerce platforms, and predatory pricing practices highlight the need for more progressive and SME-friendly regulatory updates. In this context, the establishment of the Digital Oversight Task Force is a strategic step to integrate cross-agency oversight, strengthen law enforcement, and ensure the implementation of policies that support SMEs. This task force is also expected to protect MSMEs from illegal lending practices, counterfeit goods, and financing access disparities. With an adaptive regulatory approach and integrated oversight, MSMEs can obtain stronger protection, increase competitiveness, and contribute optimally to national digital economic development. Therefore, the urgency of establishing progressive regulations and a Digital Supervision Task Force is not only a legal requirement, but also a strategy for inclusive and equitable economic development.

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