

Why Social Commerce Tiktok Shop Was Closed By The **Indonesian Government**

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Abstract

This research aims to find answers to why the Indonesian Government closed the Social Commerce Tiktok Shop. The approach in this research is descriptive qualitative using case study and literature study methods. This research aims to find answers to the problem formulation from various literary sources from books, scientific journals and other relevant news media. From the results of the research conducted, it can be seen that there are various reasons for the Indonesian government to close social commerce Tiktok shops, including violations in buying and selling activities at Tiktok shops such as predatory pricing, dumping and shadow banning which are detrimental to local MSME traders in Indonesia. It is hoped that this research will be a reference for future researchers regarding the Tiktok shop application with different variables.

Keywords: Shadow Banning, Predatory Pricing, Dumping, Tiktok Shop, Social Commerce

INTRODUCTION

The lack of visitors to malls and traditional merchant shops is due to changes in consumer behavior who prefer to shop online in marketplace, ecommerce and social commerce applications. This change in consumer behavior was caused by several factors, including the previous Covid-19 pandemic where there was a social distancing policy and restrictions on people's activities outside the home, so consumers chose to shop online (Mohdari, Syafril & Fahmi, 2022). Digitalization is actually an innovation that has been proclaimed for a long time, but since the Covid-19 pandemic, digitalization has become increasingly popular due to the increasing number of e-commerce purchases in Indonesia, and Banjarmasin is no exception (Halisa et al., 2023). Online shopping is defined as the behavior of visiting online shops via the internet to search for, bid on or buy products with the intention of buying and getting the product (Wibowo & Haryokusumo, 2020). Consumers who are getting used to shopping online do not



easily change their shopping patterns back to malls or traditional stores. This has an impact on the income of traders in malls and traditional shops so that many of them close their businesses and end up going bankrupt (Syafril, Syaifullah, 2023). Traders in several malls in the city of Jakarta such as Blok M, Mangga Dua, Glodok City, Plaza Semanggi, Ratu Plaza, Lotte Mart, and Tanah Abang Market as the largest convection wholesalers in Southeast Asia are also experiencing a lack of buyers who need help to find a solution.

The presence of the internet and smartphones has changed the world so quickly that everything is now in the palm of your hand. All modern human needs can be accessed via smartphone, such as watching television programs, listening to radio broadcasts, taking photos, reading newspapers and magazines, carrying out financial transactions, and shopping online on marketplace applications, ecommerce and now social commerce. The development of this technology cannot be stopped according to the development of human activities and creativity. Current technology certainly has a positive impact on humanity because everything is becoming easier, but it also has a negative impact where technological progress eliminates several human activities and jobs in various fields, including in the world of trade and buying and selling. Online business is an attractive business, not only for the founder, but for users and buyers as well (Srisadono, 2018).

Open business competition between offline traders and online traders has resulted in price wars to reach customers and increase sales turnover. This price war is of course won by online traders because their selling prices are cheaper. Online traders are more efficient because they do not have to pay shop rental costs, pay large employee salaries, and pay large operational costs and simplify the distribution chain of goods to the buyer's doorstep. Apart from that, online traders also use artist influencers as a promotional tool for the products they sell, thereby influencing consumers to buy their products (Rhenaldy, Lucky Nugroho, 2022). Influencers act as buyers or users of a brand who are able to present things that match the facts of the product so as to increase the sales level of the product brand (Rahmawati, 2021).

The onslaught of online traders from various platforms such as marketplaces, e-commerce and now social commerce Tiktok shops has caused offline traders to experience a decline in sales turnover of 50% to 80% compared to usual before the presence of online traders. This causes many offline traders to close their businesses and eventually go bankrupt. Social media is nothing new for Indonesian people, starting with Facebook, Twitter, Path, and most recently Tiktok. Social media is a platform for consumers and companies that is used to share information where companies must be innovative in promoting and selling products (Kottler, 2012). Apart from the "social" function, social media is currently transforming into a medium for creating new phenomena in the economic world, including as a promotional medium for buying and selling transactions. This has become a new force in the economic world where traders can cut marketing costs without reducing income and even marketing can be more effective (Hidayat et al., 2017). Apart from that, the function of this Tiktok application is to create interesting video content, this Tiktok application can also be used as a promotional tool for product sales through promotional videos and



live streaming (Evi et al., 2022). There is a tendency for the phenomenon of increasing the number of access to social media, certain applications in the midst of the Covid-19 pandemic, including the Tiktok application (Aditya & Laksana, 2020). Indonesia is the country with the second largest number of Tiktok application users in the world according to the data presented in the graph below (Katadata, 2023).

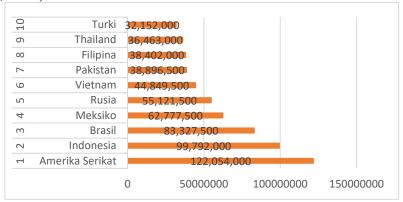


Figure 1. The Country Using the Largest Tiktok Application

Based on the latest We Are Social report, this short video application has 1.08 billion users worldwide as of July 2023. The number of global TikTok users increased by 5.7% compared to the previous year (year-on-year/yoy). However, when compared to the previous quarter, this application made by Bytedance fell 1% (quarter-to-quarter/qtq). The United States still occupies the top position with the highest number of global TikTok users, namely 122.05 million users in July 2023. Meanwhile, Indonesia is still in second place with 99.79 million users. This number decreased by 11.7% compared to the previous quarter. The growth of community activities and activities in meeting their needs using information technology, computers and technology is part of the digital economy (Rhenaldy, Lucky Nugroho, 2022). The Digital revolution was primarily about individuals as customers, as well as a fundamental change in market power from supplier to consumer (Akriti Kumari & Nasif Ahmed, 2022).

The Tiktok Shop feature can be used in all shopping activities from purchases, payment transactions, to delivery status without the need to switch to other platforms (Oktania & Indarwati, 2022). Apart from that, the Social Commerce Tiktok Shop application is suspected of carrying out unfair sales practices where predatory pricing, dumping and shadow banning occurs against other traders. This is what has caused many offline traders to protest to the government so that the Social Commerce Tiktok Shop application can no longer carry out buying and selling transactions in Indonesia. Tiktok social media, which was originally a creative medium for creating and watching short videos and for making friends, turned into a business medium when its users started to increase. This is of course very profitable from a business perspective because Tiktok already has a customer base that comes from its users. In the business world, the customer base is a very valuable asset. In online business, sellers and buyers do not know each other directly but trust each other. In carrying out online buying and selling transactions, the buyer and seller are brought together by the application manager and the buyer gets absolute protection rights (strict legal responsibility), in line with the principle of responsibility adhered to by the Consumer Protection Law (Vindi Mayce et al., 2023).



LITERATUR REVIEW

Predatory Pricing

Predatory pricing is the lowering of prices by one company for the purpose of driving rivals out of the business. At that point, the company can raise prices, and in fact, must raise prices in order to recoup losses and survive. The practice is illegal because, if successful, it creates a monopoly and eliminates choice. Prosecution of predatory pricing is difficult, given that the prosecutors are trying to prove that low prices can be a bad thing and even an illegal one (Investopedia, 2023)

The term predatory pricing actually refers to a sales strategy by reducing the selling price of an item drastically/extremely from the circulating/set price. To prevent this, the government has laws that regulate this practice, such as Law Number 5 of 1999 concerning the prohibition of monopolistic practices and unfair business competition (Mada, IDGR, 2013). Predatory pricing regulations in business competition in Indonesia use Article 20 of Law no. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition to regulate the implementation of developing business competition such as predatory pricing practices, which means the business strategy of setting selling prices at a loss (Restiti et al., 2021). This law binds online industry players so that they do not exploit prices through extreme promotions and kill offline traders. However, we need to be aware that business actors who do this can be said to be predatory pricing which is prohibited in the Indonesian economic system. Because this can lead to unhealthy business competition and threaten micro, small and medium enterprises (MSMEs) in Indonesia. According to (Rinawati, 2023), As a micro-enterprise according to the definition of Law No. 20 of 2008, it is a productive economic activity that stands alone, carried out by individuals who are not subsidiaries, controlled by, or directly or indirectly a part of mediumsized enterprises that meet the criteria for micro-enterprises. These kinds of stores usually sell various everyday necessities such as household items and daily essentials."

The practice of selling at a loss is carried out by entrepreneurs to get rid of their competitors. Regulations regarding the prohibition of selling at a loss in each country are different (Farhandi Himawan & Anna Maria Tri Anggraini, 2023). Selling at a loss is a price setting strategy by business actors to eliminate competitors from the relevant market in an effort to maintain their position as monopolists or dominants. In the short term, selling at a loss can be profitable because consumers enjoy low prices for goods or services. The main aim of predatory pricing is to remove competing business actors from the market and also prevent business actors who have the potential to become competitors from entering the same market.

Dumping.

Dumping is a form of predatory pricing practiced by businesses attempting to dominate a foreign market. Typically, businesses that practice dumping sell their products in a foreign market for cheaper than they can at home. An increasingly global marketplace has added a new risk to those



attempting to dump products: Some dumped goods are bought abroad and then shipped back to the home country to be sold at higher prices.

Dumping is the practice of selling products in export destination countries at prices below normal prices with the aim of controlling overseas markets. Dumping is often carried out by a country to seize the international market, so it is a case that has a high number in international trade. Economists generally classify dumping into three categories, namely; sporadic dumping, persistent dumping, and predatory dumping (Anggraeni, 2015).

The anti-dumping policy for a product aims to overcome unfair trade practices and protect domestic industry (Prasetya & Nurcahyo, 2022). Based on the objectives of Law no. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition, namely creating conducive business through regulating healthy business competition and then ensuring the creation of equal business opportunities for large business actors, medium business actors and small business actors (Samudra & Purwanto, 2020). For MSMEs, dumping practices have the impact of reducing profits for producers of similar goods and reducing production output from local competitors.

Shadow Banning

Shadow banning is an automatic process carried out by the TikTok algorithm to protect users from copyright issues, spam, threats and inappropriate content. Basically, this is TikTok's way of terminating a user's account. TikTok prohibits users from posting content related to pornography, or other sexual activities. So, if a user shares sexually explicit content, the user's account could be shadow banned on the platform. In some cases, user accounts may be permanently banned from TikTok due to these violations.

Shadow banning refers to a controversial and hard to detect type of social media content moderation. The term was reportedly coined by moderators of the Something Awful website and online forum in 2001, to refer to the practice of hiding posts from everyone else except for the poster. Because the problematic user does not perceive the ban, they continue posting to a fictional audience instead of creating a new account (Savolainen, 2022). "Shadowban" is a user-generated term given to the platform's "vaguely inappropriate content" policy, which hides users' posts from its Explore page, dramatically reducing their visibility (Caroline Are, 2022).

RESEARCH METHODS

This research is a qualitative descriptive research, namely research that tries to explain and analyze phenomena, events, social dynamics, behavior and opinions of a person or group towards something (Trulline, 2021). The research method used in this research is case studies and literature studies. This case study method was chosen because this research uses the problem formulation of Why the Indonesian Government Closed the Social Commerce Tiktok Shop. This research was also prepared using the library research method, namely research by collecting materials and theories contained in literature and other sources related to the problem being discussed (Syafril, 2019). The analytical method used is



qualitative analysis, namely reviewing data from case studies by conducting literature studies from several books, scientific journals and other online news media

RESULTS AND DISCUSSION

On Wednesday, October 4 2023, Tiktok Shop, the buying and selling feature from social media Tiktok, officially closed in Indonesia. The closure of the Tiktok Shop turns out to be one of the decisions made by President Jokowi and the government to protect small MSMEs which have not been able to earn more income due to the existence of the Tiktok Shop which sells certain products at prices that are much cheaper than the usual prices. On several occasions, the Minister of Cooperatives and SMEs, Teten Masduki, said that the reason the government prohibited social commerce such as Tiktok Shop from selling was because it wanted to limit the flood of imported products in digital stores. Apart from that, combining social media and digital stores will benefit the platform. It is claimed that Tiktok Shop is killing the country's MSMEs because the products it sells are very cheap. Therefore, the goods sold by native Indonesian traders in offline stores and other marketplaces are less competitive. In fact, the goods sold by traders at the Tiktok Shop were accused of being the result of cross-border trade.

There are several things that caused the social commerce Tiktok shop to be closed by the Indonesian government, including the suggestion that the Tiktok shop had violated regulations regarding fair free trade for local traders. Local traders experienced a decline in sales turnover and even went bankrupt because they were unable to compete with online traders at Tikrok shop because they lost on price and lost out on a wide market reach. Online traders in Tiktok shops can sell products at unreasonable prices or predatory pricing to gain a wide market share, thus killing the businesses of offline traders in malls and traditional markets. In some cases, online traders in Tiktok shops can sell 7 pieces of t-shirts for IDR 100,000,- which is impossible for offline traders to sell. In other cases, online traders in Tiktok shops can sell 7 pieces of agate stones complete with rings plus 5 pieces of agate stones without rings for IDR 100,000,- which is unreasonable because of the price of agate rings in traditional markets which is well known as the center of precious stones in Martapura, Banjar City, South Kalimantan, the cheapest price is IDR 50,000 per piece

Another case carried out by the Tiktok group of companies which is based in China is carrying out dumping trading where the Tiktok algorithm will detect the best-selling MSME products in Indonesia such as skincare products, headscarves and others. After finding out what products are the best sellers from the Tiktok shop application customer base, shell companies belonging to the Tiktok Group overseas produce them themselves using data they obtain from the Tiktok shop customer base with similar products and cheap production prices and then they sell them at the Tiktok shop. In this way, the Tiktok Group of companies gets huge profits because they duplicate products that sell well in the Tiktok shop without the hassle of doing research and already have a large customer base of



Tiktok social media users. The invasion of duplicate products made by Tiktok Group shell companies abroad at cheaper prices ultimately reduced sales turnover and even killed MSME producers in Indonesia.

Another case that befell MSME traders on the Tiktok shope application was the treatment of Tikto shop managers who carried out a semi shadow ban on local Indonesian MSME products which they had duplicated, where their sales turnover at Tikto shop decreased because they were unable to compete with duplicate products belonging to the Tiktok Group. Many local traders at Tiktok shop complain because their products lack visitors, don't get likes and shares and never For Your Page (FYP) anymore because they are hidden by the Tiktok shop algorithm. FYP is a page recommended by Tiktok which appears first when a user opens the application. Many online traders in Tiktok shops complain that their products are never FYP anymore and are losing competition to duplicate products belonging to the Tiktok group of companies which are cheaper to sell in the Indonesian market.

According to Gibran (2023), MSME players are said to experience shadow banning, where the distribution of their content is limited or even completely hidden. This practice was carried out without notification to users. The hardest part about shadow banning is that TikTok doesn't actually notify users that an account has been banned. This means that, often, restrictions on user accounts are unknown. Users can still create posts and interact with other people's posts. However, the user's account or posts will not be visible to other users. There are several main indicators that will determine whether a user's account has received shadow banning by Tiktok, as follows:

- Content not visible on page or For Your Page (FYP) search
- Video will not be uploaded. And instead it will say "under review" or "in progress"
- A drastic drop in the number of likes, views, or shares

The duration of Tiktok's shadow ban itself is not listed on the Tiktok platform. However, some creators and users claim that the shadow ban will last for two weeks or more. This also depends on the factors or causes of the TikTok account being shadow banned

Local online traders at Tiktok shops also complain about the long time it takes to disburse funds from sales, which can take an average of 3 to 6 days after the product is received by the buyer. This also causes capital turnover to be slow because the majority of MSME traders have limited or small capital. At the beginning of the emergence of the Tiktok shop, many MSME traders felt helped because their sales reach was very wide because Tiktok could be accessed by all internet users from various regions. From the buyer's perspective, the Tikto Shop application also provides benefits because it makes it easy to shop for various types of products at cheaper prices compared to buying from offline traders. It can be said that the Tiktok shop application benefits online sellers and buyers but harms offline traders because they lose to competitors so that their business lacks buyers and ultimately goes bankrupt.



CONCLUSION

From the presentation of this research, it can be concluded that the presence of the Tiktok social media application was initially an entertainment and friendship sharing application with many users who shared videos, music and others. After having many users, the Tiktok manager created a Tikto shop to sell various domestic MSME products online. This is of course very profitable from a business perspective because Tiktok has 2 (two) benefits at once, namely entertainment and online shopping. With a large customer base, Tiktok shop has become an online business giant, beating other online business applications such as e-commerce, marketplaces and websites in Indonesia.

As the wise saying goes, there is no such thing as a free lunch. When online Tiktok shop traders started to get busy, the Tiktok company took advantage of the online Tiktok Shop traders. Local products that sell well are targeted for duplicate products to be made and sold by companies affiliated with the Tiktok Group and manufacturers from China itself. This combination of application providers and own manufacturers ultimately killed local MSME traders because they lost in price competition and semi-shadow banning by the Tiktok shop application. This causes local MSME traders in Tiktok shops to experience a decline in sales turnover. Apart from that, offline traders in malls and traditional markets also experienced a big impact due to the lack of visitors to malls and traditional markets because they were less competitive with online traders in Tiktok shops. This also caused many malls to close and shops in traditional markets to close and eventually go bankrupt.

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