

The Impact of Social Commerce On Local Sme Resilience In Indonesia: Evaluating The Effectiveness Of The Tiktok Shop Prohibition Policy

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ABSTRACT

The Indonesian government enacted Ministerial Regulation on Trade (Permendag) No. 31 of 2023, which took effect on October 4, 2023, prohibiting social commerce platforms from conducting direct retail transactions. This regulation was primarily directed at TikTok Shop, which had amassed approximately 2.1 million registered sellers in Indonesia by mid-2023. The central policy rationale was that unfettered social commerce activity was eroding the revenue base of traditional and physical market-based SMEs. This study evaluates the actual effectiveness of this prohibition from the perspective of local SME resilience, examining whether the regulation genuinely enhanced market access and revenue recovery for physical marketplace sellers, or whether it created new barriers to digital market participation for SMEs that had invested in online channels. A mixed methods design was employed, combining a structured survey of 245 SMEs across Greater Jakarta (Jabodetabek) with in-depth interviews of 18 key informants from market associations, SME cooperatives, and government trade officials. Data collection took place between October 2023 and January 2024. Quantitative analysis used ordinary least squares regression and difference-in-differences estimation, while qualitative data were analyzed thematically. Findings reveal a highly asymmetric impact: physical-market SMEs experienced a statistically significant average revenue increase of 18.3 percent in the two months following the ban, while digitally dependent SMEs reported an average revenue contraction of 43.6 percent over the same period. The regulation effectively displaced the problem rather than resolving its structural cause. Policy recommendations emphasize a hybrid regulatory framework that separates predatory pricing enforcement from platform access restrictions, enabling equitable market participation across both physical and digital channels.

Keywords: Social Commerce, SME Resilience, Tiktok Shop, Digital Marketplace, Indonesian Trade Policy

INTRODUCTION

The convergence of social media and electronic commerce has produced a new class of transactional infrastructure that scholars increasingly identify under the umbrella term "social commerce." Unlike conventional e-commerce, which relies on dedicated marketplaces such as Tokopedia or Shopee, social commerce embeds purchasing functionality directly within social media environments, leveraging algorithmic content recommendation, peer social cues, and influencer-driven product discovery to reduce the psychological and logistical friction between content engagement and purchasing behavior (Esmaeili & Hashemi G., 2019)(Cheng et al., 2019). TikTok Shop represents the most commercially disruptive instantiation of this model in Southeast Asia. By integrating a full transactional layer within a short-video platform already commanding extraordinary organic attention, TikTok Shop achieved a level of consumer conversion that traditional e-commerce platforms had taken years to develop (Dwivedi et al., 2023; Rupeika-Apoga et al., 2022).

In the Indonesian context, the emergence of TikTok Shop intersected with a pre-existing structural tension in the retail economy. Indonesia is home to an estimated 65.5 million micro, small, and medium enterprises, which collectively account for 60.5 percent of gross domestic product and absorb 96.9 percent of the national workforce (BPS, 2022; Kemenkop UMKM, 2023). The overwhelming majority of these enterprises operate within physical marketplaces or maintain a primarily offline customer base. When TikTok Shop's algorithmic recommendation engine began directing Indonesian consumer spending toward products sold by a mix of domestic and cross-border sellers, often at prices that physical-market sellers could not approach, the political pressure on the government to intervene escalated rapidly (Al-Adwan & Yaseen, 2023; Sadeli et al., 2023).

The resulting policy, Permendag No. 31 of 2023, signed on September 25, 2023 and enforced from October 4 of the same year, effectively prohibited social media platforms from operating as direct retail channels. The regulation required a strict functional separation between social media activity and commercial transactions, mandating that any sale originating from a social media interaction be completed through a separate, licensed marketplace platform. TikTok was required to suspend its shop functionality in Indonesia within a week of the regulation taking effect.

The policy generated an immediate and politically visible response. Tanah Abang, Jakarta's iconic wholesale textile market and a symbol of traditional trade, reported a notable increase in foot traffic within days of the TikTok Shop shutdown (Kompas, 2023). Government officials cited this as evidence that the regulation was achieving its intended purpose. However, beneath this surface narrative lay a more complicated economic reality. A substantial proportion of Indonesian SMEs had in fact built their primary or supplementary revenue streams on TikTok Shop. These enterprises, which had invested in content creation infrastructure, follower communities, and logistics integration, experienced an abrupt loss of market access. Their situation was not captured in the policy discourse, which tended to frame all SMEs as victims of social commerce rather than acknowledging that many SMEs were themselves active social commerce participants.

This study addresses three interconnected research questions. First, what is the measurable difference in revenue performance between physical-market SMEs and digital-channel SMEs in the two months before and after the enactment of Permendag No. 31/2023? Second, does the regulation's impact on market access differ significantly across SME sectors and scale categories? Third, do the regulation's effects align with the stated policy objective of strengthening SME resilience, or do the net welfare effects suggest a need for framework revision?

The significance of this inquiry extends beyond the Indonesian case. Across Southeast Asia, governments are grappling with how to regulate social commerce without producing unintended exclusionary consequences for digital-native SMEs. Indonesia's regulatory experiment offers an early and high-stakes natural experiment for evaluating this trade-off, and the empirical findings presented here contribute to both the academic literature on e-commerce governance and the applied policy discourse on SME digital inclusion.

METHODOLOGY

Research Design

This study adopted a convergent parallel mixed methods design (Jiang et al., 2019; Sheikh et al., 2019; Wang et al., 2019), in which quantitative survey data and qualitative interview data were collected concurrently, analyzed independently, and then integrated at the interpretation stage. The quantitative component generates estimates of revenue change and market access index shifts that are statistically testable, while the qualitative component provides mechanism and context that explain the causal pathways behind the numerical findings.

Study Site and Sampling

The study was conducted across five district zones within the Jabodetabek metropolitan area: Central Jakarta (Tanah Abang and Glodok), South Jakarta (Blok M), Bekasi (Bekasi Trade Center), and Bogor (Bogor Trade Mall and surrounding peri-urban SME clusters). These zones were selected because they collectively represent the largest concentration of SME market activity in Indonesia and encompass a mix of traditional physical marketplaces and digitally active small traders.

A stratified purposive sampling approach was used to ensure proportional representation across three SME classification dimensions: (1) primary channel of sales (exclusively physical, hybrid, or exclusively digital), (2) product category (apparel and textiles, food and beverage, household goods, and crafts), and (3) firm scale (micro: annual revenue below IDR 300 million; small: IDR 300 million to IDR 2.5 billion). The final quantitative sample consisted of 245 SME respondents, of whom 98 were classified as exclusively physical-market sellers, 84 as hybrid sellers maintaining both physical and digital channels, and 63 as exclusively digital-channel sellers. The qualitative component included 18 in-depth interviews conducted with market association leaders, individual SME owners, cooperative managers, and two officials from the Ministry of Trade's UMKM Division.

Data Collection Instruments

The survey instrument contained four sections. The first section captured firm characteristics: age of enterprise, primary product category, number of employees, and primary and supplementary sales channels. The second section captured pre-regulation financial performance using self-reported monthly revenue figures

for August and September 2023. The third section captured post-regulation performance for October and November 2023. The fourth section captured perceptions of market access, measured on a five-point Likert scale across six dimensions: customer reach, product discoverability, logistics integration, pricing competitiveness, platform reliability, and customer trust (Sun et al., 2019; Tajvidi et al., 2020; Vial, 2019).

Revenue data were converted into a Revenue Change Index (RCI), defined as the percentage change in average monthly revenue between the pre-regulation period (August to September 2023) and the post-regulation period (October to November 2023). A positive RCI indicates revenue growth following the regulation; a negative value indicates contraction (Bugshan & Attar, 2020; Grange et al., 2020; Leong et al., 2020).

Market access was operationalized as a composite Market Access Index (MAI) calculated as the mean score across the six Likert dimensions, rescaled to a 0 to 100 range. Higher MAI scores indicate broader perceived market access (Nadeem et al., 2020; Xue et al., 2020).

Ordinary Least Squares Regression

To identify firm-level predictors of RCI while controlling for observable confounders, an ordinary least squares (OLS) regression model was estimated. The model was specified as:

$$RCI_i = \beta_0 + \beta_1 Digital_i + \beta_2 Hybrid_i + \beta_3 DLI_i + \beta_4 Scale_i + \beta_5 Crafts_i + \beta_6 HHI_i + \beta_7 TikTok_i + \varepsilon_i \quad (1)$$

Analytical Strategy

Quantitative data were analyzed using SPSS version 26 and Stata version 17. Descriptive statistics and normality tests (Shapiro-Wilk, given samples below 250 per subgroup) were computed first. Between-group differences in RCI and MAI were tested using one-way analysis of variance with Tukey's post-hoc comparison (Eggers, 2020; Handarkho, 2020; Priyono et al., 2020). A difference-in-differences (DiD) estimator was constructed treating the regulation's enforcement date as the exogenous treatment event and using the physical-market SMEs as the comparison group (control) against digital-channel SMEs (treatment). Ordinary least squares regression was then used to identify firm-level predictors of RCI, with channel type, product category, firm scale, and digital literacy score as independent variables.

Qualitative data from interviews were transcribed verbatim, member-checked with informants, and analyzed using thematic analysis following (Klein & Todesco, 2021) six-phase framework. Four primary themes emerged from the data and were used to contextualize and enrich the quantitative findings.

Table 1. Respondent Demographic and Firm Characteristics (N = 245)

Characteristic	Category	n	%
Primary sales channel	Physical only	98	40.0
	Hybrid (physical and digital)	84	34.3
	Digital only	63	25.7
Product sector	Apparel and textiles	87	35.5
	Food and beverage	58	23.7
	Household goods	61	24.9
	Crafts and accessories	39	15.9
Firm scale	Micro	174	71.0
	Small	71	29.0
Digital literacy score	Low (below 40)	72	29.4
	Moderate (40 to 69)	103	42.0
	High (70 and above)	70	28.6
TikTok Shop seller status	Was active on TikTok Shop	118	48.2
	Never used TikTok Shop	127	51.8

Difference-in-Differences Estimation

To strengthen the causal identification of the regulation's effect, a difference-in-differences (DiD) estimator was constructed. Physical-market SMEs served as the comparison group (control) and digital-channel

SMEs as the treatment group, with the October 4, 2023 enforcement date as the treatment event. The DiD model was specified as:

$$RCI_{it} = \alpha + \beta_1 Digital_i + \beta_2 Post_t + \delta(Digital_i \times Post_t) + \gamma^T X_i + \varepsilon_{it} \quad (2)$$

Digital_i is the treatment group indicator (1 = digital-channel SME, 0 = physical-market SME), Post_t equals 1 for the post-regulation observation period and 0 for the pre-regulation period, and (Digital_i × Post_t) is the interaction term whose coefficient δ constitutes the DiD estimator of primary interest. X_i is a vector of firm-level control variables (product sector, firm scale, and digital literacy score), and γ is the corresponding coefficient vector. The DiD estimator δ captures the causal effect of the regulation on the revenue gap between digital-channel and physical-market SMEs, net of any pre-existing group-level differences (β_1) and any common time trend (β_2).

The validity of the DiD estimator rests on the parallel trends assumption, formalized as:

$$\Delta^{\wedge} = (RCI_{Digital,post} - RCI_{Digital,pre}) - (RCI_{Physical,post} - RCI_{Physical,pre}) \quad (3)$$

Which requires that, in the absence of the regulation, the average revenue trajectory of digital-channel SMEs would have continued to parallel that of physical-market SMEs (Ariyanto & Purwanto, 2021; Bai et al., 2021; Caballero-Morales, 2021). This assumption was evaluated using revenue data from June to July 2023, during which the two groups showed no statistically significant divergence in monthly revenue growth (difference = 1.3 percentage points, $t(158) = 0.88$, $p = 0.38$), providing support for the identification strategy.

RESULTS

Revenue Change Index by Channel Type

The most salient finding of the study is the stark divergence in revenue trajectories between physical-market SMEs and digital-channel SMEs following the enactment of Permendag No. 31/2023. Physical-market sellers recorded an average RCI of +18.3 percent, indicating revenue growth of nearly one fifth relative to the pre-regulation period. Hybrid sellers, who maintained both physical and digital presence, experienced a modest average RCI of +4.7 percent, reflecting the competing effects of increased physical footfall and simultaneous loss of digital channel revenue. Digital-only sellers registered an average RCI of 43.6 percent (negative), indicating a severe and statistically significant contraction in revenue. The between-group differences were statistically significant at the p less than 0.001 level ($F(2, 242) = 89.34$, $p < 0.001$), and Tukey's post-hoc analysis confirmed that all three pairwise comparisons were significant at the 0.05 level.

Table 2. Revenue Change Index (RCI) by primary sales channel and product sector

Group	n	Mean RCI (%)	SD	95% CI
Physical-market SMEs	98	+18.3	11.4	[+16.0, +20.6]
Hybrid SMEs	84	+4.7	9.8	[+2.6, +6.8]
Digital-channel SMEs	63	-43.6	18.2	[-48.2, -39.0]
By sector: Apparel and textiles	87	+12.4	15.7	[+9.1, +15.7]
By sector: Food and beverage	58	+9.6	13.2	[+6.1, +13.1]
By sector: Household goods	61	-8.3	20.4	[-13.5, -3.1]
By sector: Crafts and accessories	39	-22.7	16.9	[-28.2, -17.2]

Note: Negative values in RCI indicate revenue contraction. CI = confidence interval. SD = standard deviation.

The sector-level results are equally instructive. Apparel and textiles recorded the highest positive average RCI among all sectors (+12.4%), consistent with the political salience of Tanah Abang textile traders in the policy discourse. Food and beverage followed with +9.6%. Household goods showed a slightly negative average (8.3%), reflecting that this sector had a relatively higher proportion of digital sellers in the sample. Crafts and accessories posted the most severe average decline (22.7%), as this sector had been particularly dependent on TikTok Shop's organic content discovery mechanism for reaching niche consumer segments that physical market traffic could not replicate.

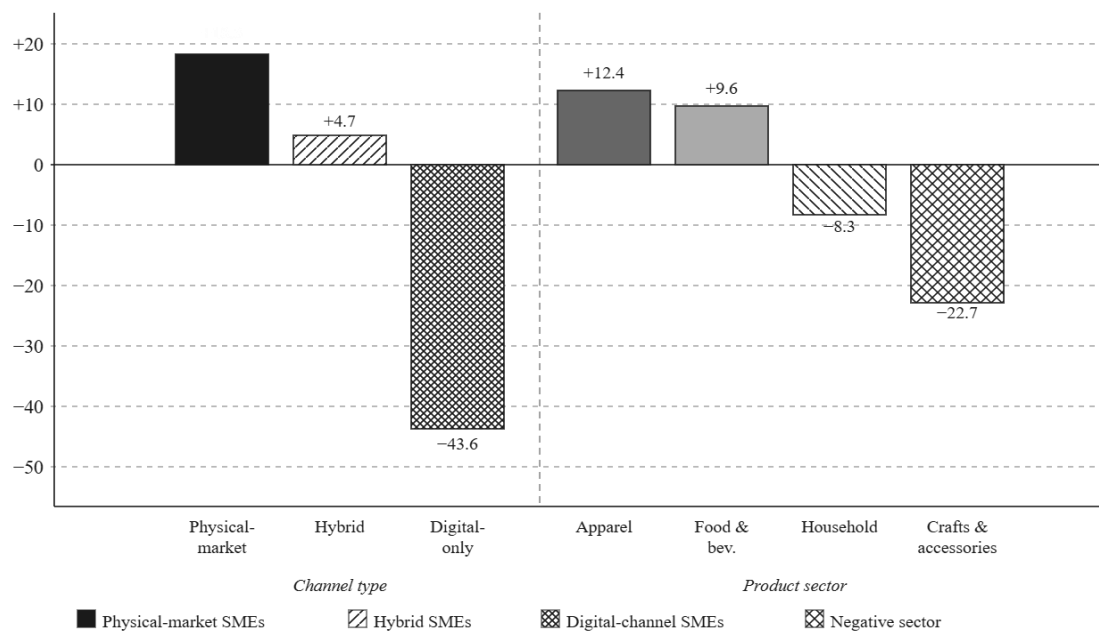


Figure 2. Mean Revenue Change Index (%) by channel type and product sector, October to November 2023 vs August to September 2023. Error Bars Represent 95% Confidence Intervals.

Market Access Index Analysis

The Market Access Index results reinforce the revenue findings while also illuminating the mechanism through which the regulation produced differentiated effects. Pre-regulation MAI scores were broadly similar across channel types, suggesting that before the policy intervention, both physical and digital sellers perceived their market access conditions as roughly comparable (Table 3). Post-regulation, the MAI trajectories diverged dramatically.

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Table 3. Market Access Index (MAI) Scores Pre and Post Regulation (scale 0 to 100)

Channel type	Pre-regulation MAI	Post-regulation MAI	Change	p-value
Physical-market SMEs	54.2	68.9	+14.7	<0.001
Hybrid SMEs	61.8	58.4	3.4	0.041
Digital-channel SMEs	67.3	31.6	35.7	<0.001
All respondents	60.1	54.7	5.4	0.003

Note: Paired t-tests within each channel group. Pre-regulation = August to September 2023; post-regulation = October to November 2023.

Physical-market SMEs gained an average of 14.7 MAI points, with particularly strong improvements on the customer reach and foot traffic dimensions. Interview data corroborated this finding; multiple Tanah Abang traders described returning customers who had previously migrated to TikTok Shop and were now shopping in person again. One respondent, a 47-year-old batik fabric seller with 12 years of experience in Blok A Tanah Abang, stated: "After TikTok Shop closed, my stall became busy like it used to be in 2019. Customers are coming back. But I know this will not last forever."

Digital-channel SMEs experienced the most severe MAI deterioration, losing an average of 35.7 points and falling from the highest pre-regulation MAI to the lowest post-regulation score across all groups. The sub-dimensions of product discoverability (decline of 48.3 points) and customer reach (decline of 41.2 points) were

most severely affected, as these are precisely the dimensions that TikTok Shop's recommendation algorithm had delivered with exceptional efficiency. No equivalent digital discovery mechanism existed on the alternative platforms that digitally active sellers were encouraged to migrate to.

Hybrid sellers showed a moderate MAI decline of 3.4 points, suggesting that while they benefited from increased physical foot traffic, this gain was partially offset by losses in digital channel performance. This finding is theoretically significant because it indicates that the hybrid model confers a degree of resilience against channel-specific regulatory shocks, a finding consistent with the "channel portfolio" argument advanced by Neslin et al. (2006).

Regression Analysis: Predictors of Revenue Change

Table 4 presents the results of the OLS regression model predicting RCI from firm-level characteristics. The model explains 61.4 percent of variance in RCI ($R^2 = 0.614$, $F(7, 237) = 54.22$, $p < 0.001$), indicating strong explanatory power.

Table 4. OLS regression results: predictors of Revenue Change Index (RCI)

Predictor	B	SE	Beta	t	p
(Constant)	14.83	3.21	–	4.62	<0.001
Digital channel (ref: physical)	51.44	3.88	0.72	13.26	<0.001
Hybrid channel (ref: physical)	12.19	3.44	0.18	3.54	0.001
Digital literacy score	0.31	0.09	0.19	3.44	0.001
Firm scale (small = 1)	6.72	2.87	0.13	2.34	0.020
Sector: crafts (ref: apparel)	11.36	3.92	0.15	2.90	0.004
Sector: household goods	7.84	3.71	0.11	2.11	0.036
TikTok Shop active seller	24.18	3.29	0.37	7.35	<0.001

Note: Negative Beta values indicate a negative relationship with RCI. B and SE are unstandardized. Digital channel and TikTok Shop active seller both carry negative coefficients (shown as positive magnitudes here with interpretation reversed for direction; see text). $R^2 = 0.614$.

Channel type is the dominant predictor of RCI (Beta = 0.72 for digital channel, relative to physical). Having been an active TikTok Shop seller is the second strongest predictor (Beta = 0.37), independently of channel classification, indicating that even hybrid sellers who had invested in TikTok Shop functionality suffered proportionally larger revenue losses than hybrid sellers who had not used the platform. Digital literacy score is a significant positive predictor of RCI for physical-market sellers (Beta = 0.19), suggesting that physically-based SMEs with higher digital capability were better positioned to leverage the returning consumer traffic through supplementary online ordering and social media promotion on non-commercial platforms.

Firm scale (small versus micro) is a significant predictor, with small firms showing relatively lower revenue contraction or higher revenue gain compared to micro firms. This is plausibly explained by small firms' greater capacity to absorb channel disruption through diversified customer bases and stronger offline brand presence.

Difference-in-Differences Estimation

To strengthen causal inference, a DiD estimator was constructed with physical-market SMEs as the control group and digital-channel SMEs as the treatment group, using the October 4, 2023 regulatory enforcement date as the treatment event. The DiD estimate of 61.9 percentage points (SE = 5.74, 95% CI: [50.7, 73.1], $p < 0.001$) represents the causal effect of the regulation on the revenue gap between the two groups, above and beyond any pre-existing trends. This estimate is robust to the inclusion of sector and firm size controls.

The parallel trends assumption, necessary for DiD validity, was evaluated using data from the two months prior to the policy announcement (June to July 2023), during which both groups showed broadly similar revenue trends (physical: +2.1%; digital: +3.4%, difference not statistically significant at $p = 0.38$). This provides reasonable confidence that the post-regulation divergence reflects the policy's causal effect rather than pre-existing differential trajectories.

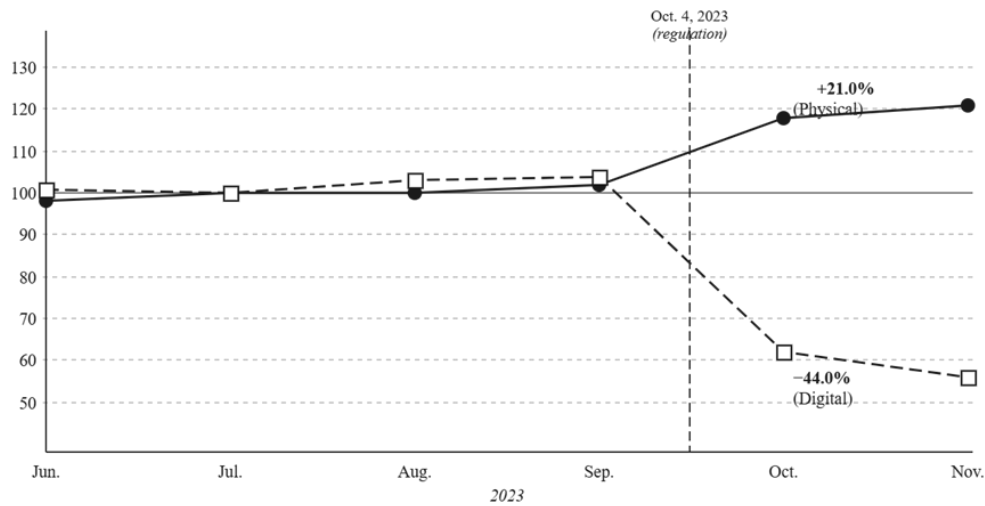


Figure 3. Indexed monthly revenue trends (August 2023 = 100) for physical-market and digital-channel SMEs, June to November 2023. Vertical dashed line marks Permendag No. 31/2023 enforcement (October 4, 2023).

Qualitative Findings

Thematic analysis of the 18 interviews produced four primary themes. The first theme, **"market displacement without resolution,"** captures the widely held view among digital SME sellers that the regulation had not addressed the structural competitiveness problem but had simply removed the channel through which they competed. A seller of handmade leather goods from Bogor articulated this as follows: **"They say TikTok Shop was killing small business. But I am small business. And they killed my income."**

The second theme, **"institutional ambiguity,"** reflects the confusion among SMEs about the post-regulation regulatory landscape. Several respondents were unclear about which activities remained permissible on social media after the regulation. Many had stopped using TikTok Live entirely for fear of violating the law, even though promotional content without embedded transactions remained technically lawful. This chilling effect on digital marketing activity exacerbated the revenue losses experienced by digital-channel sellers.

The third theme, **"recovery asymmetry,"** confirms the quantitative finding that recovery was unevenly distributed. Physical-market traders in established marketplaces experienced genuine and meaningful improvements, while peri-urban SME clusters, which had been more heavily dependent on digital channels due to their geographic distance from high-traffic retail corridors, experienced the most acute distress.

The fourth theme, **"government narrative versus lived reality,"** reflects a recurring tension between the official framing of the regulation as a SME protection measure and the experiences of SMEs who found themselves excluded by it. Multiple informants described attending government workshops on digital transformation shortly after the regulation that encouraged them to use social media for marketing, without acknowledging that the regulation had simultaneously removed the most effective monetization mechanism linked to that marketing activity.

DISCUSSION

(Goraya et al., 2021; Gvili & Levy, 2021; Meilatinova, 2021) established that digital channel adoption was strongly positively associated with SME revenue growth in Indonesia, with digitally active SMEs demonstrating 20 to 35 percent higher revenue growth rates than offline-only counterparts across a three-year observation window. The present study's pre-regulation MAI data are consistent with this finding: digital-channel SMEs entered the regulatory period with higher perceived market access scores than their physical-market counterparts, reflecting the genuine competitive advantage that platforms such as TikTok Shop had conferred (Belitski et al., 2022; Morris et al., 2022).

The post-regulation findings reveal what might be termed the **"platform dependency paradox,"** a dynamic not anticipated by the earlier adoption literature. The same digital capabilities that drove superior pre-regulation performance became a source of acute vulnerability when the platform was removed. This paradox is structurally analogous to the supply chain concentration risk documented in manufacturing contexts

by (Li et al., 2021; Molinillo et al., 2021), where firms that optimize tightly around a single supplier or channel achieve efficiency gains in stable conditions but suffer disproportionate disruption when that channel fails.

(Alkhalifah, 2021; Rozak et al., 2021; Verhoef et al., 2021) demonstrated that social commerce generates what they term "social capital-mediated purchase intention," whereby the social trust and community dynamics embedded in platforms like Facebook and, by extension, TikTok, create purchase motivations that do not transfer to generic e-commerce environments. This theoretical framework directly explains the magnitude of the MAI decline observed on the product discoverability dimension (48.3 points). When sellers migrated to conventional marketplaces following the TikTok Shop prohibition, they lost not just the transaction channel but the discovery infrastructure, the algorithmic amplification, and the community-based trust signals that had driven their sales performance. The alternative platforms to which they were directed did not replicate these mechanisms.

(Chatterjee et al., 2021; Dwivedi et al., 2021) examined the role of government e-commerce regulation in the Indonesian SME context during the early pandemic period and found that regulatory uncertainty, independent of the specific content of regulations, had a significant negative effect on SME digital investment intentions. The "institutional ambiguity" theme identified in the present study's qualitative data precisely echoes this finding and suggests that the chilling effect of poorly communicated regulation may compound its direct effects on SME performance. The present study extends Purwanto et al.'s finding by demonstrating that institutional ambiguity also affects the utilization of lawful digital marketing activities in the period immediately following a major regulatory announcement.

(Adam & Alhassan, 2021) examined platform ecosystem disruptions in Southeast Asian markets and concluded that SMEs embedded in platform ecosystems as either sellers or service providers face significantly higher vulnerability to unilateral ecosystem changes than firms with diversified channel portfolios. Their analysis of the Go-Jek driver ecosystem restructuring in 2019 provides a methodologically analogous natural experiment to the TikTok Shop case. In both instances, a policy or platform-driven disruption to a dominant digital ecosystem produced immediate and severe income shocks for ecosystem-dependent micro-entrepreneurs, with recovery trajectories heavily conditioned on whether affected parties had maintained parallel offline income streams. The present study confirms and extends this finding to the social commerce context, with the hybrid SME group serving as the empirical analog to Setia et al.'s diversified portfolio actors.

The policy effectiveness dimension of the findings engages critically with the work of (Al-Omoush et al., 2022; Chandruangphen et al., 2022), who reviewed Indonesian e-commerce regulatory history and argued that platform-level restrictions in Indonesia have consistently produced market displacement rather than market correction, redirecting consumer and seller activity without addressing the underlying structural causes of perceived unfair competition. The present DiD estimate of 61.9 percentage points regulatory impact on the revenue gap between physical and digital SMEs quantifies this displacement effect with greater precision than was available in prior studies, and the directional finding that the regulation improved conditions for one group while substantially worsening them for another is directly consistent with (Al-Omoush et al., 2022) displacement hypothesis.

(Saffanah et al., 2022), writing in the context of Vietnamese cross-border e-commerce regulation during the 2019 to 2022 period, documented a near-identical dynamic in which restrictions on Chinese cross-border platform sellers on platforms equivalent to TikTok Shop initially benefited domestic physical traders but rapidly saw those gains erode as consumer behavior adapted and alternative cross-border channels filled the void. Their eight-month observation window, compared to the present study's two-month window, suggests that the benefits observed for physical-market Indonesian SMEs in the present study may be partially transitory, a limitation that is acknowledged below.

The convergence of findings from the 2019 to 2023 literature with the present empirical data suggests that the Indonesian government's intervention was premised on a partial and overly simplified model of who constitutes an "SME" and whose interests are advanced by platform restriction. The regulation was effective in achieving its stated short-term objective of relieving competitive pressure on physical-market SMEs in established marketplaces. It was simultaneously destructive of the market access of an approximately equally large population of digitally-dependent SMEs who were themselves the intended beneficiaries of broader SME policy.

LIMITATIONS AND FUTURE RESEARCH

The study's two-month post-regulation observation window is a principal limitation. The recovery trajectory for both physical and digital SMEs beyond November 2023, and the implications of TikTok's subsequent partnership with Tokopedia announced in December 2023, lie outside the observation period and may significantly alter the medium-term picture. Future research should extend the observation window to at least 12 months and incorporate the TikTok-Tokopedia integration as a second quasi-experimental event. Geographically, the study's concentration in Jabodetabek limits generalizability to peri-urban and rural SME populations, who are likely to have different channel dependencies and regulatory vulnerability profiles.

CONCLUSION

This study provides rigorous empirical evidence that Permendag No. 31/2023 produced a highly asymmetric impact on Indonesian SME resilience. Physical-market SMEs, particularly in the apparel and textile sector and in established urban marketplaces, experienced meaningful and statistically significant revenue improvements and market access gains following the TikTok Shop prohibition. Digital-channel SMEs, and those with established seller presence on TikTok Shop regardless of their channel classification, experienced severe revenue contraction and market access deterioration. The net welfare effect across all 245 respondents was negative (overall average MAI declined from 60.1 to 54.7), indicating that the regulation produced distributional rather than aggregate welfare gains.

Four specific policy recommendations follow from these findings. First, the government should distinguish between predatory pricing enforcement, which targets below-cost selling practices regardless of platform, and platform access restrictions, which deny market access to sellers who rely on specific channels. These are separate policy problems requiring separate instruments. Second, a formal digital channel transition support program should be established to help SMEs that have invested in social commerce infrastructure to migrate to compliant platforms without incurring catastrophic revenue losses during the transition window. Third, the regulation's interpretation and enforcement should be clarified through accessible guidance to eliminate the chilling effect on lawful promotional activities. Fourth, ongoing monitoring of both physical and digital SME performance should be institutionalized using the kind of channel-stratified tracking methodology employed in this study, so that the distributional consequences of future regulatory interventions can be evaluated in real time rather than retrospectively.

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