

## COMPETITION LAW AND ECONOMIC EFFICIENCY ON DIGITAL PLATFORMS: A STUDY OF SHOPEE IN INDONESIA

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### ABSTRACT

Digital transformation has potential predatory pricing practices and significantly reshaped the landscape of trade in Indonesia, particularly through the emergence of e-commerce platforms such as Shopee. The dynamics of business competition in the digital space have introduced new legal challenges, especially concerning pricing practices, market dominance, and the protection of small enterprises. This study is important because the rapid growth of digital platforms has outpaced existing legal frameworks, creating regulatory gaps that threaten market fairness and consumer protection. Using a normative juridical research method, it examines the principles outlined in Law No. 5 of 1999 and their implementation within digital business models. The analysis reveals that although Shopee enhances economic efficiency and broadens market access, there are indications of market dominance through cross-subsidization. Therefore, regulatory adjustments are necessary to ensure fair competition in the digital economy sector. Hence, this study contributes to bridging the theoretical and practical gap in understanding how traditional competition law can adapt to digital market dynamics.

**Keywords:** competition law; economic efficiency; e-commerce; Indonesia; predatory pricing practice

### A. Introduction

The development of the digital economy has fundamentally transformed the pattern of economic interaction within Indonesian society.<sup>1</sup> Over the past decade, digital-based trade has become one of the key contributors to Indonesia's economy and remains a significant sector today.<sup>2</sup> According to the report by Google, Temasek, and Bain & Company, the value of Indonesia's digital economy reached USD 82 billion in 2023 and is projected to grow

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- 1 Diah Rukmana Sari and Nasrudin Nasrudin, "Constructing Indonesian Digital Economy Index in Determining Economic Policy Priorities amidst the Covid-19 Pandemic," *Economics and Finance in Indonesia* 68, no. 1 (2022): 62-74, <https://doi.org/10.47291/efi.2022.05>.
  - 2 Febrian Al Aziz and Mahlil Adriaman, "Ancaman Shop Tokopedia Dalam Praktek Monopoli Perdagangan Dan Persaingan Usaha Tidak Sehat Terhadap Keberlangsungan UMKM Di Kota Bukittinggi," *Bhirawa Law Journal* 5, no. 2 (2024): 1-11, <http://jurnal.unmer.ac.id/index.php/blj/>.

to USD 130 billion by 2025.<sup>3</sup> This growth is driven by the widespread penetration of the internet, the expansion of online transactions, and the rise of major digital platforms such as Shopee,<sup>4</sup> Tokopedia, BliBli.com, Lazada, etc which facilitate transactions for millions of businesses and consumers daily.<sup>5</sup>

However, behind this impressive growth lies a range of legal issues related to business competition in the digital space. The transformation from conventional business models to digital platforms has introduced new economic practices that are not fully covered by existing positive laws.<sup>6</sup> Platform-based business models, which rely heavily on user data, recommendation algorithms, and network effects, have challenged traditional concepts within competition law.<sup>7</sup>

Shopee, as one of the largest digital platforms in Indonesia and a dominant player in Southeast Asia,<sup>8</sup> serves as a concrete example of Indonesia's economic dynamics.<sup>9</sup> Previously, Shopee was a company based in Singapore that began developing its e-commerce business in 2015 (previously known as Garena).<sup>10</sup> The company initially started as an online shopping platform with a mobile-first concept, recognizing the potential market in the Southeast Asian region, where it has since continued to expand and grow. Shopee's aggressive strategies including large-scale discounts, shipping subsidies, and continuous promotions have succeeded in attracting consumers and expanding market reach. Nevertheless, these strategies raise fundamental questions from a competition law perspective, particularly regarding whether such practices constitute legitimate market innovation or indicate potential predatory pricing that could eliminate competitors and disrupt market balance.<sup>11</sup>

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3 Google and Temasek, "E-Conomy SEA 2018 Southeast Asia's Internet Economy Hit Inflection Point" (Singapura, 2018).

4 Kompas.com, "Persaingan E-Commerce Ketat, Shopee Unggul Dalam Jumlah Kunjungan Pelanggan," Kompas.com, 2021, accessed Nov 5, 2025, <https://money.kompas.com/read/2021/10/08/145757126/persaingan-e-commerce-ketat-shopee-unggul-dalam-jumlah-kunjungan-pelanggan?page=all>.

5 Rianto Anugerah Wicaksono, "E-Commerce Market Saturation in Indonesia: The Dynamics of Price Competition from Islamic Economic Perspective.," *Jurnal Ekonomika Dan Bisnis Islam* 8 (2025): 1-19, <https://doi.org/10.26740/jekobi.v8n1.p1-19>.

6 Q.Xing-hong, S.Qiang, and H.Zhi-sheng, "Competitive and Cooperative Strategies for Online Shopping Logistics Service Supply Chain Considering Customer Expectations and Quality Cost," *Journal of Industrial Engineering and Engineering Management* 33, no. 3 (2019): 136-46, <https://doi.org/https://doi.org/10.13587/j.cnki.jieem.2019.03.016>.

7 A. Ezrachi and M. E. Stucke, *Virtual Competition: The Promise and Perils of the Algorithm-Driven Economy* (Harvard University Press, 2016).

8 Endah Mustika Asih, "Analisis Pada Shopee Sebagai E-Commerce Terpopuler Di Indonesia," *Jurnal Ekonomi Bisnis Antartika* 2, no. 1 (2024): 73-79, <https://doi.org/10.70052/jeba.v2i1.299>.

9 Laras Putri Olifiani, Moh Talabul Amal, and Fany Anggun Abadi, "Pengaruh E-Commerce Shopee Terhadap Ekonomi Indonesia Di Masa Pandemi," *Jurnal Komunikasi Peradaban* 3, no. 2 (2025): 1-13.

10 M. Zeng and F. Li, "Digital Platform Ecosystems in Southeast Asia: The Case of Shopee," *Asia Pacific Business Review* 28, no. 4 (2022): 521-538.

11 Iqta Adzkiya, Elisatris Gultom, and Deviana Yuanitasari, "Analisis Dugaan Monopoli Sistem Pembayaran Oleh Shopee Di Indonesia, Mencakup Dampaknya Terhadap Persaingan Usaha, Penegakkan Hukum, Dan Implikasi Hukum Dalam Ekosistem E-Commerce Digital," *Jihhp* 5, no. 5 (2025): 1-10, <https://dinastirev.org/DOI:https://doi.org/10.38035/jihhp.v5i5https://creativecommons.org/licenses/by/4.0/>.

Shopee's e-commerce model recorded the highest transaction value, reaching USD 47 billion in 2023.<sup>12</sup> This achievement reflects remarkable efficiency in distribution, expansion of small-scale economic activities, and acceleration of digital economic inclusion across various regions of Indonesia.<sup>13</sup> However, from a legal standpoint, the issue becomes complex due to the involvement of vast amounts of user data and the algorithmic power that determines product visibility.

In Indonesian competition law, Law No. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition serves as the primary legal framework governing market behavior.<sup>14</sup> Article 3 explicitly states that the goal of competition law is to safeguard the public interest and enhance national economic efficiency. However, the data-driven, algorithmic, and multi-sided nature of the digital economy is not explicitly accommodated within the existing legal norms.<sup>15</sup> Consequently, there exists a normative gap between the evolving dynamics of digital business practices and the capacity of regulation to enforce them effectively.<sup>16</sup>

At the global level, several competition authorities such as the European Commission, the U.S. Federal Trade Commission (FTC), and the U.K. Competition and Markets Authority (CMA) have identified potential abuses of dominant positions by digital platforms through data control and self-preferencing behavior, where platforms prioritize their own products or services over those of third parties.<sup>17</sup> This phenomenon can be observed in Shopee's business model, which functions not only as a marketplace provider but also as an active economic actor that determines transaction flows, pricing, and product exposure.

Digital transformation has fundamentally changed the way businesses compete and interact in the marketplace. In the context of the digital economy, market power is no longer determined solely by production scale or financial capital but also by access to data, control over algorithms, and network effects that reinforce the dominant position of certain platforms. This condition poses a serious challenge to traditional competition law systems, which were primarily designed for industrial-based economies.<sup>18</sup> They emphasize that competition law must adapt to the emergence of non-traditional forms of dominance,

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12 Nabilah Muhamad, "Shopee Dominasi Pasar E-Commerce Asia Tenggara Pada 2023," *databoks.katadata.co.id*, 2024, accessed Nov 5, 2025, [https://databoks.katadata.co.id/teknologi-telekomunikasi/statistik/66989de7b7168/shopee-dominasi-pasar-e-commerce-asia-tenggara-pada-2023#:~:text=Langsung baca artikel \"Shopee Dominasi,pembayaran masih dalam proses aktivasi.&text=Berdasarkan laporan Momen.](https://databoks.katadata.co.id/teknologi-telekomunikasi/statistik/66989de7b7168/shopee-dominasi-pasar-e-commerce-asia-tenggara-pada-2023#:~:text=Langsung baca artikel \)

13 Asih, "Analisis Pada Shopee Sebagai E-Commerce Terpopuler Di Indonesia."

14 "Undang-Undang Nomor 5 Tahun 1999 Tentang Larangan Praktek Monopoli Dan Persaingan Usaha Tidak Sehat" (n.d.).

15 Lutfiyah Al Humairah, "Strategi Ekspansi Shopee Di Indonesia: Respon Dan Kebijakan Indonesia Dalam Perspektif Ekonomi Politik Internasional," *Dialogika: Jurnal Penelitian Komunikasi Dan Sosialisasi* 1, no. 3 (2025): 53-61.

16 R. Whish and D. Bailey, *Competition Law: Tenth Edition* (Oxford: Oxford University Press, 2021).

17 J. Crémer, Y.-A. de Montjoye, and H. Schweitzer, *Competition Policy for the Digital Era* (European Commission Report, 2019).

18 R. Whish and D. Bailey, *Competition Law*, 10th ed. (Oxford University Press, 2021).

where digital platforms can control the flow of information and market behavior through algorithmic technologies. In this context, market power is derived not only from market share but also from user data that can be tracked and from recommendation algorithms that determine product visibility and consumer behavior.<sup>19</sup> In other words, control over data in the digital world has become a new form of economic power that is often beyond the reach of conventional competition law instruments.

Ezrachi and Stucke introduce the concept of “algorithmic collusion,” referring to a new form of collusion in the digital environment where coordination occurs not through explicit agreements among firms, but through algorithmic interactions that automatically adjust prices.<sup>20</sup> This phenomenon challenges the fundamental principle of competition law, which traditionally requires an explicit agreement to establish collusion. In digital markets such as Shopee, algorithms can determine prices, highlight featured products, and prioritize certain sellers based on the platform’s commercial interests. This may create market distortions and disadvantage small businesses that lack comparable technological capacity.

Furthermore, the digital economy also gives rise to what is known as “self-preferencing,” where digital platforms use their role as market operators to favor their own products or services. The Google Shopping case in the European Union serves as a key precedent, where the European Commission ruled that Google had prioritized its own products over those of competitors.<sup>21</sup> Such practices are also potentially relevant in Indonesia, where Shopee, as one of the largest digital marketplace operators, can determine product and seller exposure through its internal algorithmic systems.

From a legal standpoint, Law No. 5 of 1999 in Indonesia does not yet explicitly address data-based dominance or algorithmic collusion. The Indonesian Competition Commission (KPPU) continues to use a conventional approach, assessing violations based on market share, written agreements, and price control activities. Meanwhile, the Competition Policy for the Digital Era report highlights that the unique characteristics of digital markets require new methods for assessing dominance—incorporating indicators such as access to large datasets, network effects, and exclusionary algorithmic behavior.<sup>22</sup>

Shopee, as a primary example, operates within a legal framework that lacks specific guidelines for assessing anti-competitive behaviors based on algorithms or data control. Therefore, strengthening regulations and updating analytical guidelines for digital markets are crucial to ensure that competition law remains relevant and effective in addressing modern competitive dynamics. In this digital era, a new paradigm in competition law is urgently needed. Regulation should no longer focus solely on traditional price fixing or market

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19 F. H. Kristanto, H. Wimanda Rahma, and M. Nahrowi, “Factors Affecting E-Commerce Customer Loyalty In Indonesia,” *Jurnal Syntax Transformation* 39, no. 3 (2022): 1150–64, <https://doi.org/https://doi.org/10.46799/jst.v3i09.613>.

20 Ezrachi and Stucke, *Virtual Competition: The Promise and Perils of the Algorithm-Driven Economy*.

21 European Commission, “Google Search (Shopping) Case AT.39740” (Brussels, 2017).

22 Crémer, de Montjoye, and Schweitzer, *Competition Policy for the Digital Era*.

dominance but must also consider data power, algorithmic behavior, and the mechanisms of economic platformization. Future law enforcement must adopt a multidisciplinary approach that integrates perspectives from law, digital economics, and information technology to maintain a balance between innovation and market fairness.<sup>23</sup>

Based on this analysis, it can be observed that research examining Shopee from a normative legal perspective remains limited, making this study novel both in terms of its subject matter and its methodological approach. Furthermore, this condition highlights the urgency of reassessing the effectiveness of Indonesia's competition law in addressing platform-based economic structures. As Fox argues,<sup>24</sup> developing countries need to adapt their competition laws to not only focus on economic efficiency but also to ensure structural fairness and sustainable market ecosystems. In this context, a legal analysis of Shopee's business practices becomes relevant to understanding how Indonesia's competition law can regulate digital competition dynamics and maintain a balance between economic innovation and the protection of small and medium enterprises.

Therefore, this article seeks to examine the relationship between competition law and economic efficiency within the digital economy context, using Shopee as the primary case study.

## B. Research Method

This study employs a normative juridical approach, which focuses on the examination of legal norms, principles, and doctrines to assess the conformity between statutory regulations and their practical implementation within a specific context.<sup>25</sup> This approach is used because the legal issue under study namely, the application of competition law to digital platforms such as Shopee concerns the normative aspects of Indonesia's positive law, which must be analyzed through relevant legislation, legal doctrines, and theoretical frameworks. The normative juridical approach is complemented by conceptual and comparative approaches. The conceptual approach examines key legal concepts such as *economic efficiency*, *dominant position*, *predatory pricing*, and *algorithmic collusion* within competition law. Meanwhile, the comparative approach is used to analyze and compare how digital competition law is enforced in other jurisdictions (e.g., European Union, Singapore, and the United State) that have developed more advanced legal frameworks to regulate digital platforms.

Data for this research are drawn from primary, secondary, and tertiary legal sources.<sup>26</sup> The primary sources include relevant legislation such as Law No. 5 of 1999 concerning

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23 Sufiya M. Shaikh, "Law Through a Multidisciplinary Lens: Insights From Social, Economic, Technological and Historical Frameworks," *Indian Journal of Law and Legal Research* VII, no. III (2025): 6556–66.

24 E. M. Fox, *Antitrust and Global Capitalism: The Quest for Inclusive Competition Policy* (Oxford University Press, 2019).

25 S. Soekanto and S. Mamudji, *Penelitian Hukum Normatif: Suatu Tinjauan Singkat* (Rajawali Press, 2015).

26 L. J. Moleong, *Metodologi Penelitian Kualitatif* (Bandung: Remaja Rosdakarya, 2019).

the Prohibition of Monopolistic Practices and Unfair Business Competition; Law No. 11 of 2008 on Electronic Information and Transactions (ITE) and its amendments; the Indonesia Competition Commission (KPPU) regulations concerning digital market assessment and dominant position guidelines; as well as KPPU decisions and annual reports. Secondary sources include scholarly works such as books, journal articles, and institutional reports relevant to the research topic. Tertiary sources consist of legal encyclopedias, law dictionaries, and other supporting documents that clarify legal terminology and contextualize issues in digital law. The data collection technique used in this research is library-based, involving a comprehensive review of national and international legal sources accessed through databases such as HeinOnline, ScienceDirect, and OECD iLibrary. The search was conducted using keywords including *digital competition law*, *platform economy regulation*, *predatory pricing*, *algorithmic collusion*, and *Shopee Indonesia*.

Data were analyzed using a qualitative descriptive method, interpreting legal provisions and competition law theories to identify the conformity or inconsistency between Shopee's business practices and Indonesia's positive legal norms.<sup>27</sup> The analysis follows the stages of legal interpretation grammatical, systematic, and teleological as suggested by Marzuki.<sup>28</sup> Through this approach, the study aims to produce an in-depth legal analysis of the application of competition law in the digital era and to offer adaptive legal recommendations suited to the dynamics of platform-based economies, with Shopee serving as the focal case of analysis.<sup>29</sup>

## C. Discussions

In this discussion, the researcher will address the research problems in accordance with the subtopics of discussion to facilitate a clearer understanding of the structure and flow of this study. The explanation is as follows:

### 1. The Principle of Economic Efficiency in Competition Law

The principle of economic efficiency represents one of the fundamental objectives of competition law. In the Indonesian context, Article 3(c) of Law No. 5 of 1999 explicitly states that the purpose of competition law is "to enhance national economic efficiency as an effort to improve public welfare." Thus, every policy or law enforcement measure concerning competition must strike a balance between achieving efficiency and maintaining a competitive market structure.

According to Motta,<sup>30</sup> efficiency in competition law consists of three main dimensions: allocative efficiency, productive efficiency, and dynamic efficiency. Allocative efficiency

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27 Matthew B. Miles and A. Michael Huberman, *Qualitative Data Analysis: A Methods Sourcebook*, 3rd ed. (Arizona State University: SAGE Publications, 1994).

28 P. M. Marzuki, *Penelitian Hukum* (Jakarta: Kencana Prenada Media Group, 2017).

29 Hardani et al., *Metode Penelitian Kualitatif Dan Kuantitatif*, 2020.

30 M. Motta, *Competition Policy: Theory and Practice* (Cambridge University Press, 2018).

refers to the market's ability to allocate resources in line with consumer needs; productive efficiency relates to the production of goods and services at the lowest possible cost; and dynamic efficiency concerns innovation and the continuous improvement of product quality. In the context of the digital economy, these dimensions undergo transformation due to the pervasive influence of technology, data, and algorithms.

In this study, the digital platform Shopee has significantly contributed to distribution and transactional efficiency in Indonesia. Through integrated logistics, digital payment systems, and algorithmic matching technologies, Shopee has successfully reduced transaction costs and expanded market access for micro and small business units. According to the OECD,<sup>31</sup> the digital economy serves as a solution for improving market efficiency, reducing transaction costs, and expanding access to markets for small enterprises. However, such efficiency must be evaluated not only from an economic standpoint but also in terms of long-term competitive fairness.

This implies that digital platform dominance can create new forms of economic dependency, in which small businesses act merely as content providers without bargaining power against the platform's algorithmic policies. Therefore, efficiency achieved through digital mechanisms must not come at the expense of business diversity or fair competition. At the national legal level, digital economic activities are not only governed by Law No. 5 of 1999 but also intersect with Law No. 11 of 2008 on Electronic Information and Transactions (ITE), as amended by Law No. 19 of 2016. Although the ITE Law does not specifically regulate competition, it functions as a legal instrument overseeing electronic trade activities, data protection, and digital transaction integrity. In practice, synergy between the ITE Law and the Competition Law is essential to prevent data misuse and algorithm-based discriminatory practices that could undermine market fairness.

Another regulation, namely the Regulation of the Minister of Trade of the Republic of Indonesia Number 31 of 2023,<sup>32</sup> also governs business actors engaged in trade through electronic systems. However, similar to previous regulations, it does not specifically address electronic commerce; instead, it only refers to individuals who operate online-based trading activities.

According from Gal and Rubinfeld,<sup>33</sup> highlight that users' personal data can be considered a form of "currency" in the digital economy, where data concentration by a single entity may create new forms of dominance that are difficult to regulate under traditional legal frameworks. Therefore, the principle of efficiency in the digital era must include informational efficiency and data security, ensuring that all market participants have balanced access to and protection of digital data used in business processes.

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31 OECD, "Digital Economy Outlook 2023," 2023.

32 "Peraturan Menteri Perdagangan Republik Indonesia Nomor 31 Tahun 2023 Tentang Perizinan Berusaha, Periklanan, Pembinaan, Dan Pengawasan Pelaku Usaha Dalam Perdagangan Melalui Sistem Elektronik" (n.d.).

33 M. S. Gal and D. L. Rubinfeld, "The Hidden Costs of Free Digital Services. Oxford," *Journal of Legal Studies* 39, no. 3 (2019): 517-51.

Furthermore, the OECD's Competition in Digital Markets report emphasizes that efficiency in the digital economy can only be considered legally legitimate if it results from non-exclusive innovation,<sup>34</sup> not from data or algorithm control that prevents new competitors from entering the market. Accordingly, in the case of Shopee, pricing strategies, aggressive promotions, and product recommendation systems must be evaluated not only for their short-term benefits to consumers but also for their potential long-term impacts on market structure and competitive sustainability.

From an Indonesian legal perspective, reinterpretation of Articles 19 and 25 of Law No. 5 of 1999 is necessary so that the assessment of "market control" and "abuse of dominant position" goes beyond quantitative indicators such as market share, incorporating factors such as control over digital data, network effects, and cross-platform integration.

Thus, the principle of economic efficiency in digital competition law can no longer be understood narrowly as cost reduction or output maximization alone. It must be reconceptualized as a multidimensional principle that harmonizes economic performance with legal equity, technological ethics, and societal inclusiveness. In this sense, true efficiency is achieved when digital markets operate transparently, empower small enterprises, encourage fair innovation, and ultimately contribute to sustainable public welfare in line with Indonesia's constitutional mandate of social justice.

## 2. Legal Analysis of Shopee's Business Practices

The legal analysis of Shopee's business practices as one of the largest e-commerce platforms in Southeast Asia illustrates the intersection between digital innovation and the principles of competition law.<sup>35</sup> The digital economy model adopted by Shopee, which operates as a two-sided platform, creates market dynamics determined not only by price mechanisms but also by control over digital infrastructure, algorithms, and user data.<sup>36</sup> In traditional competition law, the main analytical focus lies on market dominance through market share and pricing behavior. However, in the context of the digital economy, as argued by Petit,<sup>37</sup> market power in the era of big tech is no longer defined solely by price dominance,<sup>38</sup> but rather by a platform's ability to control digital ecosystems and influence consumer behavior through data and algorithms.

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34 OECD, "Digital Economy Outlook 2023."

35 Mela Devita, Zuhrial M Nawawi Nawawi, and Nuri Aslami, "E-Commerce Shopee Marketing Strategy in International Business," *Journal of Social Research* 1, no. 12 (2022): 491–97, <https://doi.org/10.55324/josr.v1i12.350>.

36 Xiaohui Zhou and Xin Tian, "Impact of Live Streamer Characteristics and Customer Response on Live-Streaming Performance: Empirical Evidence from e-Commerce Platform," *Procedia Computer Science* 214, no. C (2022): 1277–84, <https://doi.org/10.1016/j.procs.2022.11.306>.

37 N. Petit and D. Teece, "Dynamic Efficiency and Competition Policy in Digital Markets," *Industrial and Corporate Change* 31, no. 5 (2022): 987–1009.

38 Kinanti Putri Kusumah Lestari, Kurnia Khafidhatur Rafiah, and Muhammad Rifqi Arviansyah, "Live Shopping and Consumers' Purchase Intention in E-Commerce: A Systematic Literature Review," *Airlangga Journal of Innovation Management* 6, no. 1 (2025): 171–83, <https://doi.org/10.20473/ajim.v6i1.70707>.

Shopee has employed aggressive strategies such as price promotions and shipping subsidies to attract new users and retain customer loyalty. While these strategies enhance short-term efficiency and market access, from a legal perspective, they can also raise suspicions of predatory pricing, which, if proven, indicates an intent to eliminate competitors. Article 20 of Law No. 5 of 1999 prohibits selling below cost with the intent to drive competitors out of the market. Fletcher and Lianos, argue that below-cost pricing in digital markets is difficult to assess using conventional cost-based approaches,<sup>39</sup> as platform marginal costs are near zero, and their business models often rely on cross-subsidization from other revenue streams such as advertising or logistics. Therefore, assessing intent and market effect becomes more relevant than simply comparing price and production costs.

Official reports from the Indonesia Competition Commission (KPPU) between 2022 and 2024 indicate that Shopee's large-scale and repetitive discount promotions potentially disrupt competition, particularly among small and medium enterprises (SMEs) that lack equivalent financial capacity or subsidy levels. This situation reflects a potential market exclusion, where dominant players leverage capital resources to lock in consumers and sustain loyalty. Argue from Khan concept of the Amazon Antitrust Paradox highlights how digital market dominance can arise from vertical integration,<sup>40</sup> data control, and distribution infrastructure, which is relevant to Shopee's strategy. Shopee's extensive use of subsidies may thus be viewed as an instrument to expand market power and create structural dependency among small businesses operating within its digital ecosystem.

Furthermore, Shopee's use of data raises significant legal concerns. The platform's capability to analyze transaction behaviors, product preferences, and purchasing patterns enables it to strengthen its position through algorithmic personalization. According from Cremer,<sup>41</sup> in a report for the European Commission, emphasized that control over digital assets especially data constitutes a new form of market power. In Shopee's case, exclusive access to consumer and transaction data may be exploited to reinforce its dominant position, either by more targeted promotions or through algorithmic adjustments favoring specific sellers. Such practices may constitute abuse of dominance under Article 25(1) of Law No. 5 of 1999, as they create structural imbalances between the platform and dependent businesses.

A parallel can be drawn to the Google Shopping case,<sup>42</sup> in which Google was found guilty of self-preferencing placing its own products at the top of search results to the detriment of competitors. If Shopee's algorithms similarly prioritize "Shopee Mall" products or exclusive partner sellers, this may constitute discriminatory behavior and unfair competition against

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39 A. Fletcher and I. Lianos, "Reassessing Predation in Digital Markets," *Competition Policy International* 17, no. 2 (2021): 45-62.

40 L. Khan, "Amazon's Antitrust Paradox," *Yale Law Journal* 126, no. 3 (2018): 710-805.

41 Crémer, de Montjoye, and Schweitzer, *Competition Policy for the Digital Era*.

42 European Commission, "Google Search (Shopping) Case AT.39740."

independent merchants. Iacobucci and Ducci note that self-preferencing risks market foreclosure, stifles innovation, and reduces consumer choice.<sup>43</sup>

Another emerging concern is the potential for algorithmic collusion in Shopee's pricing and promotional systems. Even without explicit agreements among competitors, algorithms that autonomously learn from market data can produce outcomes resembling collusion. According from Deng, Geradin, and Riefa,<sup>44</sup> argue that such phenomena challenge traditional competition law, which relies on evidence of explicit coordination. If Shopee's algorithms interact with competitors' algorithms to indirectly synchronize prices, the market may appear competitive while actually exhibiting price homogenization that harms consumers. This scenario calls for an effect-based legal approach, focusing on market impact rather than explicit intent.

From a broader regulatory perspective, Indonesia's Law No. 5 of 1999 (Competition Law), Law No. 11 of 2008 (Electronic Information and Transactions/ITE Law),<sup>45</sup> and the Personal Data Protection Law must be strengthened to effectively address digital economy challenges. The ITE Law imposes responsibilities on electronic system operators to safeguard user data, while the Personal Data Protection Law establishes the legal basis for transparent and proportional data processing. If Shopee uses consumer data to strengthen its market position without adequate consent or transparency, such practices may violate not only competition principles but also data protection norms. As Bania emphasizes, integrating competition policy with data protection frameworks is crucial to prevent excessive concentration of digital power.<sup>46</sup>

In conclusion, this legal analysis reveals that Shopee's practices in Indonesia require comprehensive regulatory oversight that goes beyond traditional price- and output-based assessments. The KPPU should expand its analytical framework to include new determinants of market power, such as data control, algorithmic behavior, and platform conduct toward SMEs. Additionally, stronger inter-agency coordination between competition, digital, and data protection authorities is essential. Reinforcing legal guidelines on digital markets represents a strategic step to ensure that innovation and economic efficiency do not compromise fairness and sustainability in Indonesia's digital competition landscape. In this regard, the future of competition law enforcement must evolve toward a multidimensional approach that integrates economic analysis, legal reform, and technological literacy. Such an approach will enable regulators to anticipate and address algorithm-driven market distortions, prevent predatory pricing disguised as promotional strategies, and safeguard equitable participation for micro and small enterprises. Moreover, enhancing legal certainty

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43 E. Iacobucci and F. Ducci, "Self-Preferencing and the Digital Economy: Legal and Economic Perspectives," *Antitrust Law Journal* 89, no. 1 (2022): 123–68.

44 F. Deng, D. Geradin, and C. Riefa, "Algorithmic Collusion and Antitrust Enforcement Challenges," *Journal of Antitrust Enforcement* 10, no. 3 (2022): 472–99.

45 "Undang-Undang Nomor 11 Tahun 2008 Tentang Informasi Dan Transaksi Elektronik" (n.d.).

46 N. Bania, "Data Power and Antitrust: The Emerging Intersection of Competition and Privacy Law," *Stanford Technology Law Review* 25, no. 1 (2022): 115–47.

and transparency in digital trade practices can strengthen consumer trust, foster ethical innovation, and contribute to Indonesia's long-term economic resilience. Thus, fair and sustainable digital market governance should not merely aim to control competition, but to cultivate an inclusive and balanced digital ecosystem aligned with the nation's broader goals of social justice and welfare.

### 3. Shopee's Business Model and Legal Challenges

Shopee operates in Indonesia a multi-sided marketplace model that combines the roles of market intermediary, auxiliary service provider, and ecosystem manager for payment and promotional systems. Within this business process, the model relies on cross-subsidization, where one business unit funds discounts, vouchers, and shipping subsidies to lower final prices for consumers. The goal is to accelerate user growth and reinforce network effects. Economically, this form of cross-subsidization can increase short-term market efficiency but also carries the risk of competitive distortion if such subsidies are used as an exclusionary tool against rivals unable to sustain comparable subsidies.

In practice, Shopee's marketplace structure integrates various components of the digital economy—e-commerce transactions, digital finance (through ShopeePay and SPayLater), and logistics (through Shopee Xpress)—into a unified ecosystem. This integration allows Shopee to leverage internal data analytics and algorithmic personalization to optimize pricing and user engagement across platforms. Such interconnectivity generates significant *network effects*, where the value of the platform increases as more buyers and sellers participate. However, these same network effects can create high entry barriers for new competitors and strengthen Shopee's position as a dominant intermediary in the market.

Economically, this form of cross-subsidization can increase short-term market efficiency but also carries the risk of competitive distortion if such subsidies are used as an exclusionary tool against rivals unable to sustain comparable subsidies.<sup>47</sup>

From a legal standpoint, large-scale subsidies and aggressive promotional strategies must be tested against Article 20 (predatory pricing) and Article 25 (abuse of dominant position) of Indonesia's Law No. 5 of 1999. Two evidentiary issues arise when these provisions are applied to digital platforms. First, traditional cost-based benchmarks (such as Average Variable Cost) are often inadequate for multi-sided platforms because the marginal transaction cost in digital environments is very low, and subsidies typically originate from other business units. Second, intent to exclude is difficult to establish when a strategy can be justified as consumer-friendly market penetration. Therefore, recent literature advocates an effects-based approach rather than a purely price cost test, suggesting modified predation tests that account for platform structure, capital access, and potential recoupment. These

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47 Qi Fu and Gaoyan Lyu, "Competition Between Two-Sided Platforms With Quality-Based Subsidization," *International Journal of Electronic Commerce* 26, no. 4 (2022): 526–51.

studies stress the need for tailored assessments to detect algorithmic forms of predation.<sup>48</sup>

In Indonesia, enforcement practices have illustrated this tension. In 2024, the KPPU opened an investigation into Shopee's courier service arrangements and later closed several cases following behavioral commitments by the parties involved. This development reflects KPPU's emerging antitrust approach toward platform-based discriminatory behavior without relying solely on conventional cost formulas. Public announcements also revealed conflict-of-interest concerns, heightening worries about self-preferencing. This practice has been a regulatory focus in Europe, where the European Commission accepted Amazon's behavioral commitments in 2022 and the Digital Markets Act (DMA) explicitly prohibits several forms of preferential treatment by "gatekeepers." Such precedents provide useful reference points for how jurisdictions formalize prohibitions and remedies for platform favoritism.<sup>49</sup>

Another major challenge lies in data dominance and information asymmetry. Shopee collects extensive data on transactions, search behavior, pricing history, and seller performance. This capability enables the platform to optimize recommendation algorithms, target promotions, and tailor offers enhancing its competitive advantage. Recent literature identifies two key insights: (1) data can function as a barrier to entry and a source of market power when access is exclusive; and (2) traditional oversight mechanisms must be supplemented by data access and algorithmic transparency rules to allow regulators to evaluate competitive impact. Nonetheless, several scholars caution against automatically treating all data accumulation as monopolistic behavior. Overregulation could stifle innovation; hence, empirical evidence on the actual impact of data on market power is necessary.<sup>50</sup> Normatively, integrating competition law and data protection law serves as a crucial instrument for balancing efficiency with fair competition.<sup>51</sup>

From a normative legal perspective, several implications arise from the combination of commercial facts and academic findings. The interpretation of predatory pricing (Article 20) should evolve toward a test that reflects the two-sided nature of digital markets and the origin of subsidies. A purely variable-cost-based test is insufficient; evidence of exclusionary effects and the likelihood of recoupment must be central to the analysis.<sup>52</sup> This approach

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48 Zhou and Tian, "Impact of Live Streamer Characteristics and Customer Response on Live-Streaming Performance: Empirical Evidence from e-Commerce Platform."

49 Reuters, "E-Commerce Firm Shopee to Adjust Services in Indonesia after Antitrust Violation," Reuters.com, 2024, <https://www.reuters.com/business/retail-consumer/indonesia-says-e-commerce-firm-shopee-admits-violating-monopoly-rule-2024-06-26/html>.

50 Marco Gambaro, "Big Data Competition and Market Power," *Market and Competition Law Review* 2, no. 2 (2019): 99–122.

51 Alden Abbott and Satya Marrar, "Is Data Really a Barrier to Entry? Rethinking Competition Regulation in Generative AI" (Arlington, 2025).

52 Christopher R. Leslie, "Predatory Pricing Algorithms," *New York University Law Review* 98, no. 1 (2023): 49–111.

aligns with emerging literature advocating modified predation tests for digital platforms.<sup>53</sup> Likewise, the definition of abuse of dominance (Article 25) should expand to include control over data, logistics access, and algorithmic self-preferencing as potential abuse forms when they lead to market foreclosure. Non-price factors must therefore be integrated into dominance assessments a principle already reflected in the EU's DMA approach to gatekeeper behavior.<sup>54</sup>

Regarding remedial measures, traditional sanctions should be complemented by appropriate structural or behavioral remedies for platforms. These may include obligations of non-discrimination in ranking and algorithms, data interoperability requirements, and limited algorithmic transparency. Such measures echo international policy recommendations on digital markets and align with commitments demanded by European regulators.<sup>55</sup>

Finally, regulatory coordination is crucial. Since the core issues span competition, electronic transactions, and data processing, a technical and procedural coordination mechanism must be established to ensure that investigations can access technical evidence while complying with personal data protection laws.<sup>56</sup> Normatively, this reflects the idea that digital-era antitrust enforcement requires cross-regulatory technical capacity.<sup>57</sup>

In conclusion, Shopee's business model based on cross-subsidization and ecosystem control has generated efficiency benefits but also poses significant competitive risks. Indonesia's Law No. 5 of 1999 provides the normative foundation to address anti-competitive practices such as predatory pricing and abuse of dominance, yet its enforcement effectiveness depends on adapting evidentiary methods, recognizing non-price forms of abuse, and improving regulatory coordination frameworks. The latest international literature supports this trajectory, recommending platform-specific tests, transparency and interoperability obligations, and remedies addressing self-preferencing and algorithmic harms, while emphasizing the need for robust empirical evidence before imposing restrictions that might inadvertently hinder innovation.

#### **4. Economic Efficiency and the Protection of Market Fairness**

Shopee is often praised for its contribution to economic efficiency through the digitalization of product distribution, the expansion of market access, and the reduction of transaction costs. The platform enables small-scale entrepreneurs to reach consumers

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53 Anush Ganesh, "Predatory Pricing in Platform Markets: A Modified Test for Firms within the Scope of Article 3 of the DMA and Super-Dominant Platform Firms under Article 102 TFEU," *European Competition Journal*, 2025, 1–37, <https://doi.org/10.1080/17441056.2024.2428032>.

54 Martin Peitz, "The Prohibition of Self-Preferencing in the DMA," *CERRE Issue Paper*, 2022.

55 Bania, "Data Power and Antitrust: The Emerging Intersection of Competition and Privacy Law."

56 Peter J. van de Waerdt, "Reinforcing Data Protection and Competition through Art. 6(2) of the Digital Markets Act," *International Review of Law and Economics* 82, no. 106265 (2025): 1–17, <https://doi.org/10.1016/j.irl.2025.106265>.

57 KPPU, "Indonesia: Closed KPPU Investigation into Shopee and Shopee Express for Alleged Abuse of Market Power," [digitalpolicyalert.org](https://digitalpolicyalert.org), 2024, <https://digitalpolicyalert.org/event/24371-closed-kppu-investigation-into-shopee-and-shopee-express-for-alleged-abuse-of-market-power?html>.

across regions without requiring substantial physical infrastructure. In the short term, marketplace systems such as Shopee enhance *allocative efficiency* by rapidly matching supply and demand while minimizing transaction costs. However, from a competition law perspective, economic efficiency cannot serve as an absolute justification if it is achieved through practices that undermine a competitive market structure. This principle aligns with the spirit of Articles 3 and 9 of Law No. 5 of 1999, which emphasize that the purpose of competition law is not merely efficiency but also to ensure equal opportunities for business actors and to protect the public interest.

Normatively, the core issue lies in balancing economic efficiency and market fairness. On one hand, Shopee's strategies such as promotions, large-scale discounts, and shipping subsidies can enhance consumer welfare by lowering prices and increasing accessibility. On the other hand, if such strategies systematically suppress profit margins of small businesses and create dependency on the platform's ecosystem, the efficiency becomes illusory, built upon exclusive practices that weaken long-term market competitiveness. This aligns with the view of Capobianco and Nyoike in the *OECD Competition Policy Roundtable on Competition in Digital Markets*,<sup>58</sup> which asserts that competition policy in the digital era must assess efficiency dynamically, taking into account its long-term effects on innovation and market pluralism.

Moreover, the issue of market fairness in the digital context extends beyond pricing it also involves access to data, algorithms, and visibility within the platform. Shopee, through its algorithmic infrastructure, possesses the capacity to determine which products are prioritized or displayed more frequently to consumers. This algorithmic ranking system, often presented as neutral or efficiency-oriented, can in practice embed preferential treatment toward certain sellers, such as large-scale vendors, strategic partners, or those participating in paid advertising programs. As a result, smaller businesses and micro-entrepreneurs are systematically disadvantaged in terms of digital visibility and transaction volume, even in the absence of explicit price or entry barriers.

Such algorithmic governance enables platforms to subtly manipulate market outcomes under the guise of technical optimization, creating what some scholars refer to as "*code-based market dominance*." In the context of Indonesia, this presents a significant regulatory challenge because the current legal framework—particularly Law No. 5 of 1999—was designed for traditional market settings and lacks explicit provisions addressing algorithmic decision-making or data-driven market control.

Legally, such practices can be interpreted as a violation of the fair competition principle stipulated under Article 25(1)(a) of Law No. 5 of 1999, which prohibits business actors from abusing a dominant position to manipulate market mechanisms or restrict competition.

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58 A. Capobianco and P. Nyoike, "Competition Policy in Digital Markets: Balancing Efficiency and Fairness," 2021.

The unilateral control exercised by platforms through data analytics and algorithmic design effectively constitutes a modern form of market manipulation, where visibility becomes the new competitive currency. Therefore, regulatory authorities such as the KPPU should consider integrating algorithmic accountability and data governance principles into competition assessments. By doing so, Indonesia can align its enforcement framework with emerging global standards that recognize algorithmic bias and data asymmetry as central threats to fair competition in digital markets.

According from Fox,<sup>59</sup> emphasizes that competition law in developing countries, including Indonesia, should not merely imitate neoliberal logic centered solely on consumer efficiency. Given that Indonesia's economic structure is still dominated by local micro- and small-scale enterprises within imperfectly competitive markets, competition law should function as an *instrument of fairness* to prevent economic exploitation by dominant market players, including global digital corporations. This reasoning is consistent with the *inclusive competition policy* approach introduced by UNCTAD,<sup>60</sup> which considers market sustainability and economic inclusion as equally vital dimensions. Therefore, Indonesia's competition law must maintain a balance between consumer interests and the welfare of small businesses, rather than prioritizing low prices as the sole indicator of societal welfare.

Economic efficiency achieved through discriminatory practices also risks creating *long-term market harm*. Research from Petit and Teece,<sup>61</sup> in *Industrial and Corporate Change* note that when a single platform dominates digital value chains, apparent surface-level efficiency often conceals a decline in *dynamic efficiency*. In Shopee's case, promotional incentives and closed algorithmic systems may foster dependency among small businesses on the Shopee ecosystem for survival. Consequently, when promotional incentives diminish, these small businesses struggle to adapt outside the platform. Similar phenomena have been observed in India and Brazil, where dominant platforms create concentrated market structures despite appearing competitive on the surface.<sup>62</sup>

From a normative standpoint, Article 33(4) of the 1945 Constitution provides a constitutional framework stating that the economy is organized based on economic democracy, emphasizing togetherness, efficiency with justice, and sustainability. Thus, Indonesia's competition law should not be interpreted solely within the framework of free-market economics but should also function as an instrument to realize social justice and equitable distribution of economic opportunities. Regulatory oversight of platforms like Shopee is therefore not anti-innovation; rather, it is a means to ensure that digital economic growth remains inclusive and does not create new inequalities in market access.

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59 Fox, *Antitrust and Global Capitalism: The Quest for Inclusive Competition Policy*.

60 UNCTAD, "Model Law on Competition. United Nations Conference on Trade and Development," 2021.

61 Petit and Teece, "Dynamic Efficiency and Competition Policy in Digital Markets."

62 K. Meagher, "Digital Platform Power and Competition Policy in Emerging Economies," *Journal of Competition Law & Economics* 19, no. 1 (2023): 89-110.

The principle of balance between efficiency and fairness is also reflected in European practice through the *Digital Markets Act* (DMA), which regulates “gatekeepers.” This approach illustrates that market fairness cannot be overlooked in the name of efficiency. Such a regulatory model can serve as a reference for Indonesia in formulating specific guidelines on *fair digital competition*, particularly regarding algorithmic transparency, prohibition of self-preferencing, and obligations for proportional data access. As Lianos argues,<sup>63</sup> fairness in digital markets requires *procedural fairness* to ensure that businesses dependent on digital infrastructures are not marginalized by internal platform policies.<sup>64</sup>

In conclusion, Shopee’s contribution to economic efficiency should be acknowledged as a form of technological and organizational innovation that enhances productivity, market connectivity, and consumer convenience. However, such efficiency must not evolve into an instrument of monopolization, data domination, or exclusionary pricing. Within the paradigm of fair competition law, the central challenge lies in reconciling dynamic efficiency with structural fairness—ensuring that gains from digital innovation are equitably distributed and that competition remains open and contestable.

#### D. Conclusion

The study of competition law in the digital economy particularly concerning Shopee’s business model demonstrates that platform-based economic transformation poses serious challenges to Indonesia’s competition law framework. Shopee, through cross-subsidization strategies, massive promotions, and user data integration, has generated significant economic efficiency, particularly by expanding market access for small-scale entrepreneurs. However, such efficiency carries risks of price distortion and potential abuse of dominant position, leading to imbalanced market structures. Normatively, Articles 20 and 25 of Law No. 5 of 1999 already provide legal grounds for addressing *predatory pricing* and *abuse of dominance*. Nevertheless, the complexity of digital business models necessitates reinterpretation of these provisions to address emerging forms of competition based on algorithms, data, and digital ecosystem control. In this context, competition law must not only safeguard economic efficiency but also ensure market fairness and the sustainability of long-term competition. International cases, such as the European Commission’s investigation into Amazon’s *self-preferencing* practices, highlight the urgency for Indonesia to develop more responsive legal instruments to address non-traditional dominance and to strengthen data protection authorities to prevent market power abuse by major digital firms. For instance, between 2020 and 2023, Shopee consistently offered cross-subsidized pricing and free shipping programs that undercut market prices. Several small enterprises also reported revenue declines due to prolonged discount campaigns, which indicate potential

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63 I. Lianos, “Competition Law as Social Policy,” *Current Legal Problems* 72, no. 1 (2019): 1–39.

64 I. Lianos, “Contestability and Fairness in Digital Markets: The DMA and Beyond,” *Competition Law International Review* 19, no. 1 (2023): 33–58.

predatory pricing behavior in the Indonesian e-commerce market. In the context of Shopee and similar digital platforms, adaptive regulation grounded in algorithmic transparency and accountability principles is essential to ensure that competition law remains relevant and effective in promoting equitable digital economic growth.

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Undang-Undang Nomor 5 Tahun 1999 tentang Larangan Praktek Monopoli dan Persaingan Usaha Tidak Sehat.

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