

# Legal Pluralism and the Social Anomaly of Halal Governance: MSME Compliance and Market Negotiation in Lombok's Halal Tourism Regulation

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## Abstract

Halal product assurance in Indonesia remains constrained by the gap between formal regulatory frameworks and the existing conditions and realities of Micro, Small, and Medium Enterprises (MSMEs). This study investigates how hybrid governance settings, where state law, local socio-cultural norms, and market incentives coexist and shape MSME compliance with halal certification requirements. Focusing on the tourism-dependent economy of Gili Trawangan, the article employs a qualitative socio-legal methodology, combining in-depth interviews, field observations, and document analysis. Guided by Critical Legal Pluralism, *Maqāṣid al-Syarī‘ah*, and Substantialist–Formalist Compliance Theory, the findings identify three distinct compliance pathways: adoption, adaptation, and resistance. These patterns emerge from actors' strategic negotiations across multiple normative orders, mediated by their compliance orientations and prioritization of *hifz al-māl*, *hifz al-dīn*, and *hifz al-nafs*. The study argues that effective halal governance cannot rely solely on legal enforcement but must realign economic and religious–ethical objectives to make those conditions mutually reinforcing. This reconceptualisation contributes to academic debates on legal pluralism in Islamic economic governance, offering policy recommendations to harmonise formal law with socio-economic contexts in tourism-based Muslim-minority regions.

**Keywords:** Halal certification, Legal Pluralism, *Maqāṣid al-Syarī‘ah*, Compliance Theory, MSMEs.

## I. Introduction

During the implementation of Regional Regulation No. 2 of 2016 on Halal Tourism in Lombok, Micro, Small, and Medium Enterprises (MSMEs) operators and actors (or in other words, small and medium businessmen) in Gili Trawangan are expected to

demonstrate a strong awareness of halal certification. Nevertheless, despite the fact that most business owners are Muslim, the formal requirements for gaining halal certification and the consideration of market segmentation have led many to resist the policy.<sup>1</sup> Theoretically, the economic orientation of MSME actors in Gili Trawangan is influenced by the social and cultural environment in which they operate.<sup>2</sup> In this case, the business practices of business actors are formed through two main aspects: the market driven by tourist demand and the religious paradigm they have adopted.<sup>3</sup>

As with MSME actors in other regions, MSME actors in Gili Trawangan face challenges in adapting their products and services to the regulations of Regional Regulation No. 2 of 2016 regarding halal certification. The market, which is dominated by tourists from diverse backgrounds, is the main challenge of this regulation. This market condition encourages MSME actors in Gili Trawangan to offer products that cater to the preferences of tourists, both local and international. Indirectly, this condition contributes to the transformation of Gili Trawangan's MSME actors' economic orientation, making them more open to market conditions as part of a strategy to maintain business continuity and increase tourism appeal.<sup>4</sup>

The behavior of Gili Trawangan's MSME actors, who reject halal certification and even sell non-halal products, has become an interesting issue amid the implementation of Regional Regulation No. 2 of 2016 aimed at boosting Lombok's halal tourism sector. At the same time, this attitude is not in line with the primary objective of Regional Regulation No. 2 of 2016, which aims to develop tourism that is more responsive to the needs of Muslim consumers.<sup>5</sup> As a result, a negative stigma arises that can damage the image of the Gili Trawangan tourist destination, especially among Muslim religious leaders in Lombok who consider halal certification as a key part of developing halal tourism.

This negative stigma brought into an opinion that Gili Trawangan's MSME actors do not support the concept of halal tourism as intended in Regional Regulation No. 2 of 2016 and seem to ignore the importance of halal certification on products as a consumption standard for Muslim tourists.<sup>6</sup> This condition creates a contradiction

<sup>1</sup> Muh. Baihaqi, "Wisata Halal Di Gili Trawangan Lombok Utara," *J-EBIS (Jurnal Ekonomi Dan Bisnis Islam)* 4, no. 2 (2019): 166–82, <https://doi.org/10.32505/v4i2.1257>.

<sup>2</sup> Ben Spigel and Richard Harrison, "Toward a Process Theory of Entrepreneurial Ecosystems," *Strategic Entrepreneurship Journal* 12, no. 1 (2018), <https://doi.org/10.1002/sej.1268>.

<sup>3</sup> Rachel Dodds, Sonya Rita Graci, and Mark Holmes, "Does the Tourist Care? A Comparison of Tourists in Koh Phi Phi, Thailand and Gili Trawangan, Indonesia," *Journal of Sustainable Tourism* 18, no. 2 (2010), <https://doi.org/10.1080/09669580903215162>.

<sup>4</sup> Nashuddin Nashuddin, "The Management of Muslim Spiritual Tourism in Lombok, Indonesia: Opportunities and Challenges," *Journal of Indonesian Islam* 10, no. 2 (2016): 213–36, <https://doi.org/10.15642/JIIS.2016.10.2.213-236>.

<sup>5</sup> Kadri Kadri, "Religion and Tourism: Promoting Inclusive Islam in Lombok Island, Indonesia," *Studia Islamika* 29, no. 2 (2022): 333–57, <https://doi.org/10.36712/sdi.v29i2.14471>.

<sup>6</sup> Peter Varga and et al., "Welcome to My Home: Muslim Residents' Perceptions of Western Tourists," *Tourism* 70, no. 4 (2022), <https://doi.org/10.37741/t.70.4.3>.

between the concept of halal tourism and marketing practices that do not fully consider halal certification.

Gili Trawangan represents an ideal site for examining this social anomaly, a discrepancy between the regulatory normativity of halal governance and the market-driven pragmatism of local business practice. While the government perceives halal certification as an instrument to attract Muslim tourists and enhance regional branding, MSME actors interpret it as a restrictive administrative burden that threatens their economic survival.<sup>7</sup> Despite being predominantly Muslim, many local entrepreneurs continue to market non-halal products, reflecting the tension between formal religious prescriptions and economic rationality.

Since Lombok was designated as one of the regions implementing national halal tourism, the area has attracted some scholars as a research object. Among the developing research focuses are halal tourism and **sharia** economics,<sup>8</sup> halal tourism and visitor satisfaction,<sup>9</sup> economic improvement through halal tourism,<sup>10</sup> halal tourism development strategies,<sup>11</sup> and debates related to the concept of halal tourism that continue to be explored from various perspectives.<sup>12</sup>

The development of these studies encompasses the impact of halal tourism on community income, as well as the challenges and opportunities associated with halal tourism in Lombok.<sup>13</sup> However, one aspect that has received insufficient attention from researchers is the attitudes and views of MSME actors toward halal certification in the implementation of halal tourism in this region. MSME actors in Gili Trawangan are a key pillar of Lombok's tourism sector, yet they are often overlooked in research that focuses more on macro-level tourism aspects. These actors tend to have a different perspective on providing products and services compared to MSME actors in other tourist areas. This condition highlights a significant research gap that remains largely unexplored,

<sup>7</sup> Baihaqi, "Wisata Halal di Gili Trawangan Lombok Utara." 166–82.

<sup>8</sup> M Syamsurrijal and et al., "From Decision Making to Practice: Economic Growth on Halal Tourism Policies Based on Sharia Regulation in Lombok, Indonesia," *Journal of Environmental Management and Tourism* 14, no. 4 (2023), [https://doi.org/10.14505/jemt.v14.4\(68\).24](https://doi.org/10.14505/jemt.v14.4(68).24).

<sup>9</sup> Filda Rahmiati, Norfaridatul Akmaliah Othman, and Melisa Audina Putri Sunanti, "Muslim Tourist Satisfaction of Halal Tourism in Lombok," *JURNAL SYARIKAH: JURNAL EKONOMI ISLAM* 4, no. 2 (2019), <https://doi.org/10.30997/jsei.v4i2.1501>.

<sup>10</sup> Damien Bazin and et al., "From Halal Tourism to the Sharia Economy: The Case of Lombok Honeymoon Halal Tourism," *Tourism and Hospitality Research*, 2024.

<sup>11</sup> M Setyo Nugroho and et al., "Coastal Tourism: Development Strategy of Loang Baloq Beach in Lombok Island, Indonesia," *Journal of Environmental Management and Tourism* 13, no. 4 (2022), [https://doi.org/10.14505/jemt.v13.4\(60\).04](https://doi.org/10.14505/jemt.v13.4(60).04).

<sup>12</sup> S D Khoiriati and et al., "Debating Halal Tourism Between Values and Branding: A Case Study of Lombok, Indonesia," *KnE Social Sciences* 3, no. 5 (2018), <https://doi.org/10.18502/kss.v3i5.2352>.

<sup>13</sup> Akbar Dimas Satria, Syauqi Imam Ahmadi, and Habibillah Hakiki, "Halal Tourism Development in Lombok, Indonesia: A SWOT Analysis," *Halal Tourism and Pilgrimage* 2, no. 2 (2022), <https://doi.org/10.58968/htp.v2i2.175>.

presenting an opportunity for further study on how MSME actors in Lombok view the application of the halal tourism concept.

Another recurring issue in halal tourism research in Lombok is the regulation of halal certification among MSMEs. Some researchers, such as Atmo Prawiro, have found that the complexity of halal certification requirements and the various obstacles faced by MSMEs in Lombok are major hindrances to the development of the halal tourism sector in the region.<sup>14</sup> The findings of this research indicate that while Lombok's potential for halal tourism is immense, government efforts to socialize and educate MSMEs about halal certification regulations and improve administrative processes are still not being optimally implemented. Therefore, a key takeaway from these findings is that the role of the local government in providing supporting infrastructure and socializing the concept of halal tourism is crucial.

For instance, research by Chunyan Liu reinforces this by showing that the central government plays a guiding role in directing rural tourism toward desired outcomes, while local governments play a service role by directly managing tourism practices and coordinating with businesses and residents to provide services and solve problems. The synergistic interaction between the central and local governments stimulates the rapid development of rural tourism.<sup>15</sup> This study found that negotiation and dialogue are essential in the implementation of Regional Regulation No. 2 of 2016, which serves as a crucial foundation for the regulation and development of Lombok's halal tourism industry. Halal literacy and Sharia compliance among MSME actors in Indonesia are seen as key factors in the successful implementation of such regulations.

Various previous studies, such as one conducted by Sukma Irdiana, have revealed the importance of halal literacy among MSME actors in fulfilling sharia standards and enhancing the competitiveness of halal tourism.<sup>16</sup> This research also examines the link between an understanding of the halal tourism concept and its impact on Sharia compliance in business operations. The findings show that a low level of literacy about halal tourism directly impacts non-compliance with Sharia principles, which in turn hinders the development of the halal tourism sector in the area.

Furthermore, studies on Sharia compliance among MSME actors are not new. Various previous studies have revealed the importance of understanding and applying **sharia** principles in running and managing micro, small, and medium-sized enterprises (MSMEs). A study by Heri Pratikto reveals that the readiness and interest of MSME

<sup>14</sup> Atmo Prawiro and Fathudin, "Challenges in the Halal Industry Ecosystem: Analyzing the Halal Certification Process for Micro, Small, and Medium Enterprises in Lombok, West Nusa Tenggara," *Mazahib* 22, no. 2 (2023): 431–84, <https://doi.org/10.21093/mj.v22i2.7010>.

<sup>15</sup> Chunyan Liu and et al., "Analyzing Government Role in Rural Tourism Development: An Empirical Investigation from China," *Journal of Rural Studies* 79 (2020), <https://doi.org/10.1016/j.jrurstud.2020.08.046>.

<sup>16</sup> Sukma Irdiana and et al., "Gold Door for Increasing MSMEs Income: The Role Of Sharia Financial Literacy," 2023, [https://doi.org/10.2991/978-94-6463-346-7\\_26](https://doi.org/10.2991/978-94-6463-346-7_26).

actors in preparing for halal certification are significantly influenced by their level of halal awareness and perception of the certification's effectiveness, both of which contribute to increasing consumer interest in the product.<sup>17</sup>

The results of this study suggest that MSMEs that apply Sharia principles can not only comply with legal rules but also potentially increase their competitiveness in a broader market. However, research conducted by indicates that while MSME actors express their willingness to follow **sharia** principles in building a halal tourism ecosystem as a long-term development strategy, full support from all stakeholders is still required. This research recommends that the banking sector should support the development of MSMEs within the halal tourism ecosystem to ensure its sustainability.<sup>18</sup>

While halal tourism research in Indonesia is abundant, a significant gap exists in actor-centred empirical studies that examine how MSMEs in multicultural destinations like Gili Trawangan interpret, negotiate, and operationalize halal certification mandates. Existing scholarship often portrays MSMEs as passive recipients of policy rather than active agents shaping halal tourism outcomes. Therefore, this study will investigate how a hybrid governance setting, where state law, local socio-cultural norms, and market incentives shape the compliance of MSMEs with halal certification requirements.

The fieldwork was conducted in Gili Trawangan, one of the Gili Matra islands in North Lombok, West Nusa Tenggara. This location was purposefully selected as it represents the most dynamic intersection of halal regulation, tourism liberalism, and socio-cultural diversity. Despite being situated in a province that promotes halal tourism, Gili Trawangan's market structure is dominated by international, non-Muslim visitors, making it an ideal case for studying the social anomaly between legal expectations and market realities.

Primary data were gathered through in-depth interviews, focus group discussions (FGDs), and non-participant observations conducted between August and September 2024. Nine key informants were selected using purposive sampling, comprising eight MSME actors and one religious community leader. Selection criteria included length of business operation, ownership background, and exposure to halal certification programs. During the FGDs, they were conducted to cross-validate individual narratives and explore collective perceptions regarding the enforcement of halal certification. The observations focused on the day-to-day practices of MSMEs, documenting product offerings, marketing patterns, and visible markers of halal or non-halal identity in

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<sup>17</sup> Heri Pratikto, Yuli Agustina, and Titi Mutiara, "Readiness and Interest in Halal Certification: Evidence of the Importance of Self-Declare Literacy and Types of Business of Indonesian MSMEs," *3rd International Conference on Halal Development (ICHaD 2022)* (Atlantis Press, 2023), [https://doi.org/10.2991/978-94-6463-188-3\\_20](https://doi.org/10.2991/978-94-6463-188-3_20).

<sup>18</sup> Siti Mujiatun and et al., "The Impact of Marketing Communication and Islamic Financial Literacy on Islamic Financial Inclusion and MSMEs Performance: Evidence from Halal Tourism in Indonesia," *Sustainability (Switzerland)* 15, no. 13 (2023), <https://doi.org/10.3390/su15139868>.

business premises. All interviews were conducted in Bahasa Indonesia, recorded with consent, and transcribed verbatim for analysis.

This study employs a qualitative socio-legal design to examine how Micro, Small, and Medium Enterprises (MSMEs) in Gili Trawangan negotiate compliance with halal certification within a hybrid governance environment. The socio-legal approach was chosen to bridge the gap between formal legal norms contained in Regional Regulation Regional Regulation No. 2 of 2016 on Halal Tourism and the lived realities of MSME actors embedded in multicultural tourism dynamics. By integrating doctrinal and empirical elements, the research explores how legal meaning is socially constructed, interpreted, and operationalized in everyday business practices. This methodological choice is guided by Critical Legal Pluralism, which views law not merely as state-imposed regulation but as a product of continuous negotiation among multiple normative orders. It allows the study to trace how MSME actors actively reinterpret and reshape halal norms in response to market pressures and cultural pluralism. The framework is further enriched with *maqāṣid al-syari‘ah* as an interpretive lens for understanding ethical motivations, and Substantialist–Formalist Compliance Theory to categorize behavioral responses toward halal certification.

This study begins with an introduction that outlines the background of halal product assurance in Indonesia and highlights a significant gap between the formal regulatory framework of Regional Regulation No. 2 of 2016 and the lived realities of Micro, Small, and Medium Enterprises (MSMEs) in Gili Trawangan. Next, the analysis of the compliance gap and MSME responses section explores how these business actors navigate this friction, moving beyond simple compliance or non-compliance to a nuanced spectrum of strategies, ranging from active resistance to pragmatic adaptation. Next, the MSME typology will be discussed, detailing their response to West Nusa Tenggara Provincial Regulation Number 2 of 2016 concerning halal certification and product compliance. The central research question is how the strategic priorities of MSMEs towards the three elements of *maqāṣid al-syari‘ah*, namely, *hifz al-māl* (protection of wealth/profitability), *hifz al-nafs* (welfare/well-being), and *hifz al-dīn* (religion/faith) create variations in their responses and justify the business practices they adopt? Finally, the conclusion and policy recommendations argue that effective halal governance must transcend mere legal enforcement by harmonizing economic and religio-ethical goals, and offering concrete suggestions for aligning formal law with the local socio-economic context to foster sustainable compliance.

## II. Policy Compliance Gap in MSME Halal Certification

In scholarly discussions concerning the response of Gili Trawangan's MSME actors to halal certification for food and beverage products, previous research has primarily

focused on the government's role as the main stakeholder in Lombok.<sup>19</sup> The government has a high level of awareness regarding the implementation of the Regional Regulation, particularly in developing a halal tourism sector that aligns with Lombok's local identity. However, a significant divergence in views exists between the government and the MSME actors.

The government perceives this policy as a strategic effort to attract more Muslim tourists, while MSME actors feel disadvantaged by the new regulation, believing that halal certification limits their market potential. This difference in perspective is a direct result of their differing experiences and interests. The distinct impacts on their businesses and daily lives are the primary drivers of this divergence in viewpoints.<sup>20</sup>

Before proceeding, it is crucial to contextualize Gili Trawangan's MSME actors. As one of Lombok's premier multicultural tourist destinations, Gili Trawangan's business ecosystem is heavily reliant on visitors, particularly international tourists.<sup>21</sup> Ironically, while Gili Trawangan is situated in a province that champions halal tourism, many MSME actors lack a deep understanding of halal tourism principles, both in terms of service provision and product certification that meets the needs of Muslim tourists. As Reni stated in an interview<sup>22</sup>:

"We have never been aware of a mandatory halal certification. We only knew about halal tourism, and that was just during a single socialization session when TGB was still the governor."

Since the issuance of Regional Regulation No. 2 of 2016 on halal tourism, MSME actors have been obligated to obtain halal certification for their food and beverage products. This regulation, however, is not limited to MSMEs and culinary products; it also encompasses other sectors supporting the tourism industry, such as hotels, travel services, and public facilities oriented toward Muslim-friendly services.<sup>23</sup> The district government has supported the implementation of this policy as a means of enforcing Regional Regulation No. 2 of 2016.

Specifically for Gili Trawangan, this regulation requires the destination to provide accommodations that are friendly to Muslim tourists. The rules cover various aspects of the halal tourism industry based on Sharia principles, as outlined in the regulation. Key provisions include the provision of halal food and beverages (Article 12), halal spas,

<sup>19</sup> Baihaqi, "Wisata Halal di Gili Trawangan Lombok Utara." 166–82.

<sup>20</sup> Kadri, "Religion and Tourism: Promoting Inclusive Islam in Lombok Island, Indonesia." 29–53.

<sup>21</sup> Adrienta Nayasha Shalsabilla, Mirna Irawan, and Muthia A Rafa, "The Impact of Tourism on the Sustainability of Gili Trawangan as a Natural Tourist Destination," *Journal of Rural Tourism* 3, no. 1 (2025), <https://doi.org/10.70310/jrt.2025.03010617>.

<sup>22</sup> Interview with Reni, MSME Actor in Gili Trawangan, Thursday, September 5, 2024.

<sup>23</sup> Rahmad Hidayat, M Awaluddin, and Candra Candra, "Implementasi Kebijakan Pariwisata Halal di NTB (Studi Implementasi Kebijakan Peraturan Daerah Provinsi NTB No.2 Tahun 2016 Tentang Pariwisata Halal)," *JLAP (Jurnal Ilmu Administrasi Publik)* 6, no. 2 (2019): 85–92, <https://doi.org/10.31764/jiap.v6i2.645>.

saunas, and massage parlors (Article 17), halal travel agencies (Article 18), and institutional frameworks for the management of halal tourism (Article 20).<sup>24</sup>

However, the numerous rules set by the government do not align with the readiness of MSME actors in Gili Trawangan. The rejection of the halal certification policy, particularly from local business owners, is due to a lack of harmony between regulatory interests and the realities on the ground.<sup>25</sup> Theoretically, the harmonization of halal certification policies aims to align the interests of the government and business actors to work in concert without creating friction that harms either party. Unfortunately, over the past decade, efforts to harmonize halal tourism development in Gili Trawangan have been minimal. As a result, many policies have created resistance from local business owners who feel their economic freedom is being restricted.<sup>26</sup> This imbalance has the potential to negatively impact the tourism sector in Gili Trawangan.

Nur Hidayah's research found that the conventional economic system is more appealing and familiar to traders, especially those in Micro, Small, and Medium Enterprises (MSMEs). Although Hidayah's study was conducted in the Jakarta, Bogor, Depok, Tangerang, and Bekasi (Jabodetabek) region, the shared business environment within Indonesia establishes a parallel with the conditions faced by MSME actors in Gili Trawangan. For these entrepreneurs, the conventional system, which emphasizes practical profit and benefits, is more appealing, even among Muslim business owners.<sup>27</sup> In other words, entrepreneurs are more interested in factors such as accessibility, benefits, and ease of use rather than religiously-based products.

As of August 2024, when this research was conducted, the harmonization of halal tourism policy, especially regarding product halal certification, remains suboptimal. In Gili Trawangan, the very notion of implementing halal certification has met with resistance from MSME actors. Business owners argue that this concept is incompatible with the character of the area and could potentially harm existing business practices. One MSME actor, Made, stated: "Gili Trawangan is known as a free tourist destination. If halal rules are strictly enforced, the number of foreign tourists could decrease, and we would clearly lose our market."<sup>28</sup> Similarly, other MSME actors believe that halal

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<sup>24</sup> Pemerintah Provinsi Nusa Tenggara Barat, "Peraturan Daerah Provinsi Nusa Tenggara Barat Nomor 2 Tahun 2016 Tentang Pariwisata Halal" (Mataram: Pemerintah Provinsi Nusa Tenggara Barat, 2016), 30. <https://peraturan.go.id/>.

<sup>25</sup> Nur Hidayah and Ucu Solihah, "Challenges and Opportunities in the Indonesian Halal Industry," in *Exploring the Halal Industry and Its Business Ecosystem Prospects*, ed. Ahmad Rafiki, Leni Marlina, and Muhammad Adam (Hershey, PA: IGI Global, 2025), 15.

<sup>26</sup> Kadri Kadri, "Manajemen Dakwah Ramah Pariwisata Berbasis Masjid di Gili Trawangan, Lombok," *Tasâmu* 18, no. 1 (2020): 29–53, <https://doi.org/10.20414/tasamu.v18i1.1986>.

<sup>27</sup> Nur Hidayah and Nadhil Novarel Mathari, "Literasi dan Inklusi Syariah dalam Ekonomi Informal: Pedagang Kaki Lima di Masa Covid-19," in *IGCIS 2022: International Global Conferences on Islamic Studies*, (Mataram, Indonesia, 2023), <https://doi.org/10.4108/eai.19-10-2022.2329046>.

<sup>28</sup> Interview with Made, MSME Actor in Gili Trawangan, Tuesday, September 10, 2024.

certification could restrict business freedom and erode the market share they have built over many years.

Another informant expressed that they did not feel any benefit from halal certification. According to them, this regulation simply adds to the administrative burden without providing any direct positive impact on small businesses in the area. Nyoman said: "If halal certification were applied to our products, it wouldn't be suitable for the tourists who visit Gili Trawangan."<sup>29</sup>

A lack of support from the local government, particularly the North Lombok Regency Government, in embracing Regional Regulation No. 2 of 2016 is another reason for the low acceptance of halal certification among MSME actors on Gili Trawangan. Of the eight regencies/cities in West Nusa Tenggara, only three Central Lombok, West Lombok, and East Lombok—are actively supporting the implementation of halal tourism in NTB.<sup>30</sup>

On the other hand, a small number of MSME actors in Gili Trawangan have welcomed this regulation by labeling their food and beverage products as halal. Nevertheless, the provision of a halal label is generally done at the restaurant level without any formal certification.

### **III. The Typology of MSME Actors**

As previously mentioned, the open and liberal economic orientation of MSME actors in Gili Trawangan leads to the assumption that they only cater to a single type of tourist. Moreover, the accommodation of international tourists, who are predominantly non-Muslim, has given rise to the stigma that their religious understanding is one of substantialist Islam.<sup>31</sup> Furthermore, MSME actors in Gili Trawangan are often perceived as solely selling products that support conventional tourism while rejecting halal tourism. However, this stigma is not entirely accurate. As a long-established tourist destination, Gili Trawangan's heterogeneity of vendors has created a duality of views.

This research demonstrates that MSME actors in Gili Trawangan do not share a single perspective on the halal status of their products. The typology of business actors regarding halal certification can be observed through the **three** types of accommodations they provide to tourists visiting Gili Trawangan: mainstream-substantialist, subordinate-formalist, and hybrid MSME groups.

#### **1. Mainstream-Substantialist Group**

The dynamics of international tourism in Gili Trawangan create a complex market environment for MSMEs. Faced with a halal tourism policy and a diverse clientele,

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<sup>29</sup> Interview with Nyoman, MSME Actor in Gili Trawangan, Wednesday, September 18, 2024.

<sup>30</sup> Fathurrahim Fathurrahim, "Implementasi Perda Wisata Halal Nomor 2 Tahun 2016 di Pulau Lombok," *Media Bina Ilmiah* 16, no. 1 (2021): 6231–38, <https://doi.org/10.33758/mbi.v16i1.1226>.

<sup>31</sup> Kadri, "Religion and Tourism: Promoting Inclusive Islam in Lombok Island, Indonesia." 29–53.

business owners are compelled to adapt, particularly concerning halal certification standards. However, resource and infrastructure challenges often hinder the implementation of this policy.<sup>32</sup> This phenomenon has given rise to a *mainstream-substantialist* group of MSMEs who interpret halal as an intrinsic part of a product's identity and authenticity, rather than a mere formal label.<sup>33</sup>

Unlike the formalist perspective that prioritizes labels and certification procedures, *mainstream-substantialist* MSMEs understand a product's halal status based on its essence and substance, such as cleanliness and moral integrity in the business process. This concept is rooted in local beliefs that associate Gili Trawangan as the "island of mosques." These business owners view halal certification as a bureaucratic burden that is both time-consuming and costly, leading them to prioritize product quality as a more relevant strategy for business sustainability.<sup>34</sup>

The *mainstream-substantialist* MSME group in Gili Trawangan defines halal substantively, not merely through formal and administrative certification labels. Operating in an area known as the "island of mosques," the essence and practice of halal are the primary benchmarks in their product offerings. This practice is reflected in how they source raw materials and process products without adhering to formal certification standards. For this group, halal certification is viewed as a complex and costly bureaucratic burden, prompting them to prioritize improving product quality as a more relevant strategy for business sustainability.<sup>35</sup> This understanding, rooted in respect for local values and market equilibrium, reflects a collective consciousness reflects a collective consciousness that values social and cultural harmony. The symbolic failure of halal certification to resonate with the social environment demonstrates the tension between modernity and local tradition. The rejection of this regulation is not merely simple resistance; it represents a complex social dynamic in which local identity and global market needs are in a constant tug-of-war. Even without formal certification, halal remains a moral and cultural pillar that serves as a manifestation of integrity and social responsibility to earn the trust of Muslim tourists.

The dominance of international tourists—who, according to Hadi, make up more than 90% fundamentally shapes the market strategies of these MSMEs. In this context, halal certification becomes less relevant because the primary market does not prioritize

<sup>32</sup> M Baihaqi, "Respon Pelaku Wisata Terhadap Peraturan Daerah NTB Nomor 2 Tahun 2016 Tentang Pariwisata Halal (Studi di Kawasan Wisata Gili Trawangan Lombok Utara)" (Universitas Islam Negeri Mataram, 2018), 70.

<sup>33</sup> Euis Amalia and Nur Hidayah, "Strategies for Strengthening Halal Industries towards Integrated Islamic Economic System in Indonesia: Analytical Network Process Approach," *Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah* 12, no. 1 (2020): 77-102.

<sup>34</sup> Hosen, "Religion and the Indonesian Constitution: A Recent Debate."

<sup>35</sup> Mark P Hampton and Julia Jeyacheya, "Power, Ownership and Tourism in Small Islands: Evidence from Indonesia," *World Development* 70 (2015): 481–95, <https://doi.org/10.1016/j.worlddev.2014.12.007>.

it.<sup>36</sup> Strategic concerns arise that a focus on certification could reduce the flexibility needed to meet diverse market needs, thus threatening business sustainability.

To address this dilemma, MSME actors adopt a product diversification strategy by providing non-halal goods in a separate location, away from residential areas. This practice, while ethically problematic within an Islamic business framework, is socially understood as a survival strategy and an accommodation to the preferences of non-Muslim tourists. As expressed by Hadi, this strategy is carried out discreetly, while halal products are openly displayed as a representation of the dominant values.<sup>37</sup> This strategy has proven effective in increasing income, demonstrating that in a multicultural tourism context, flexibility in meeting market preferences is more crucial.

Picture Alcoholic Beverages in Gili Trawangan.



Source: Author's personal documentation<sup>38</sup>

The behavior of the *mainstream-substantialist* group, which prioritizes efficiency and service, reflects a teleological mode of consumption. In this view, the value of an action is determined more by its pragmatic final outcome, such as increased income and consumer satisfaction, rather than strict adherence to symbolic norms. Consumer trust, from both Muslim and non-Muslim patrons, is built through transparency and consistent halal practices, not from an administrative label. This perspective aligns with Hosen's idea that ethical legitimacy can arise from a concordance of values, not solely from the authority of certification.<sup>39</sup>

Based on the preceding analysis, the resistance of MSME actors to halal certification as stipulated in Regional Regulation No. 2 of 2016 is a manifestation of the interplay between formal state law, customary norms, and market dynamics. While Regional Regulation No. 2 of 2016 could potentially increase *Pendapatan Asli Daerah* (PAD, Local

<sup>36</sup> Interview with Hadi, Religious Leader of Gili Trawangan, Friday, September 27, 2024.

<sup>37</sup> Interview with Hadi, Religious Leader of Gili Trawangan, Friday, September 27, 2024.

<sup>38</sup> Personal observation by the author in Gili Trawangan, Thursday, September 19, 2024.

<sup>39</sup> Nadirsyah Hosen, "Religion and the Indonesian Constitution: A Recent Debate," *Journal of Southeast Asian Studies* 36, no. 3 (2005): 419–40, <https://doi.org/10.1017/S0022463405000238>.

Own-Source Revenue) from hotel, restaurant, entertainment, and parking taxes, the logic of the market, particularly the significant number of foreign tourists, which reached 26,600 in 2024, is a more powerful driver of resistance among MSME actors. Simultaneously, unwritten customary norms regarding product permissibility have traditionally shaped the perception that formal halal certification is unnecessary for business practices.<sup>40</sup>

From the perspective of *maqāṣid al-syari‘ah*, the behavior of these MSME actors tends to prioritize *hifz al-māl* (protection of wealth) over *hifz al-dīn* (protection of religion). For this typology, *hifz al-dīn* in the sense of piety is considered a private matter that can be secondary. Conversely, *hifz al-māl* is viewed as a prerequisite for fulfilling other *maqāṣid al-syari‘ah* objectives, including *hifz al-dīn*. While their reputation in the Muslim market may decline, MSME actors with this typology place greater trust in non-Muslim consumers who prioritize the substantive qualities of cleanliness, comfort, and product quality. As one actor, Icang, explained, "Of course, we will continue to sell alcohol, because non-halal products are one of our sources of income as business owners to survive on Gili Trawangan."<sup>41</sup>

This resistance from MSME actors indirectly creates a conflict between substantive and formal compliance. The government, through its legal framework, presents a formalist approach to Islamic law compliance. In contrast, business actors, guided by their culture and market logic, demand a substantivist approach. Although this conflict remains latent, business actors explicitly reject certification procedures, voice their objections, or seek alternative pathways.<sup>42</sup>

Therefore, an adaptive governance model for Lombok's halal tourism regional regulation is necessary as a solution. The rules within the Regional Regulation No. 2 of 2016, which were initially restrictive, must be adapted to the conditions of tourists in Gili Trawangan. The government can implement differentiated policies for halal tourism implementation based on the on-the-ground conditions of business actors, mirroring the concept of "indigenization of Islam" as proposed by Abdurrahman Wahid.<sup>43</sup>

## 2. Subordinate-Formalist MSME Group

The *subordinate-formalist* MSME group in Gili Trawangan defines halal administratively, viewing it as merely a means of fulfilling government regulations. In contrast to the substantivist view, this minority group sees halal certification as a procedural obligation

<sup>40</sup> Hossein Esmaeili, "The Nature and Development of Law in Islam and the Rule of Law Challenge in the Middle East and the Muslim World," *Connecticut Journal of International Law* 26 (2010): 329.

<sup>41</sup> Interview with Icang, MSME Actor in Gili Trawangan, Monday, September 2, 2024.

<sup>42</sup> Tengku Ahmad Hazri, "The Rule of Law in Islam: Between Formalism and Substantivism," *ICR Journal* 7, no. 1 (2016): 65–80, <https://doi.org/10.52282/icr.v7i1.284>.

<sup>43</sup> Abdurrahman Wahid, *Pribumisasi Islam*, 20.

to ensure business continuity, not as a commitment to religious values.<sup>44</sup> This paradigm creates a distance between religious values and business practices, leading to a neglect of a deeper understanding of product quality and the social impact of halal standards. This view limits the role of halal certification as a strategic instrument that can strengthen competitiveness and product legitimacy in an increasingly complex market.

The gap between spiritual values and business practices is evident in the statements of business owners. Muhammad asserted, "What's most important is that customers trust us and the government doesn't make our business difficult."<sup>45</sup> This view indicates that compliance with regulations and consumer trust are considered more important than the substance of halal. In a similar vein, Icang considered certification a marketing trend without a serious commitment to quality.<sup>46</sup> This pragmatic attitude, which prioritizes short-term economic gain, has the potential to erode the essential meaning of certification as a guarantee of safety and blessing, thereby threatening the credibility of the entire halal certification system.

The implementation of halal policy triggers a tension between economic potential and market concerns. The Head of the NTB Tourism Office, Faozal, views the halal concept as a golden opportunity to attract the rapidly growing Muslim tourist market and improve service quality. However, Ali BD worries that implementing a halal label could reduce Gili Trawangan's appeal to the non-Muslim international market, which has long valued the area's character as a free and cosmopolitan space.<sup>47</sup> This tension shows the importance of a balanced approach, where halal certification does not become an obstacle, but rather a tool to create inclusive and sustainable tourism.

In this context, this typology of business actors prioritizes *hifz al-nafs* (protection of self/well-being) over other *maqāṣid al-ṣyarī‘ah* objectives. Administrative sanctions, such as written warnings, fines, and business license revocation for non-compliance with Regional Regulation No. 2 of 2016 on Halal Tourism, became a key trigger for the adoption of halal certification. According to Muhammad, the negative consequences of rejecting halal certification were perceived as greater than the benefits of adopting it.<sup>48</sup> However, the actors' acceptance of halal certification is purely a business strategy. This condition indicates that their implementation of halal certification for their products is not rooted in a deep-seated awareness and understanding of the halal label.

To overcome these obstacles, a relevant strategy is the internalization of Islamic values in product marketing. This approach not only meets formal requirements but also fosters consumer trust through adherence to business ethics, social justice, and environmental

<sup>44</sup> Nadirsyah Hosen, "Religion and the Indonesian Constitution: A Recent Debate," 419–40.

<sup>45</sup> Interview with Muhammad, MSME Actor in Gili Trawangan, Friday, September 20, 2024.

<sup>46</sup> Interview with Icang, MSME Actor in Gili Trawangan, Monday, September 2, 2024.

<sup>47</sup> Didin Hawari, "Ali BD Akan Hapus Wisata Halal Di NTB?," *Portal Berita Harian Radar Lombok*, n.d., <https://radarlombok.co.id/ali-bd-akan-hapus-wisata-halal-di-ntb.html>.

<sup>48</sup> Interview with Muhammad, MSME Actor in Gili Trawangan, Friday, September 20, 2024.

responsibility. This approach aligns with Amin's view, who states that integrating contextual halal values becomes a differentiating factor in marketing strategy, capable of building a strong and authentic product identity amidst fierce market competition.<sup>49</sup>

### 3. Hybrid MSME Group

The product marketing practices of MSME actors in Gili Trawangan represent an effort to balance market share needs with their religious values. In this context, the diversification of halal and non-halal products by MSME actors is a strategy to adapt to the demands of Regional Regulation No. 02 of 2016 concerning Halal Tourism, while also accommodating the diverse characteristics of tourists.<sup>50</sup> According to Filipa, product diversification in the tourism sector can enhance a destination's competitiveness by offering a variety of experiences and activities. This strategy offers greater potential for products to be tailored to the needs and individual interests of tourists, while also enhancing flexibility in responding to shifting tastes and demands.<sup>51</sup>

For Gili Trawangan's MSME actors, this strategy offers several benefits, including increased competitiveness, an expanded consumer base, and a stable income amid changing market demands. According to Reni, the results of this diversification of halal and non-halal products are evident in increased sales volume, an expanded distribution network, and optimized profitability through product innovation that aligns with consumer preferences and local cultural values.<sup>52</sup>

The product diversification practiced by MSME actors challenges the concept of product specialization that has been dominant. If business actors in Gili Trawangan rely too heavily on a single type of product, they face various risks that could hinder their business growth.<sup>53</sup> The findings of this study indicate that diversifying halal and non-halal products is a more adaptive strategy for MSME actors in Gili Trawangan. Concrete evidence from this study is a statement from Kejul, an MSME actor, who said, "By running a business like this, we can increase our income because both Muslim and non-Muslim tourists buy our products."<sup>54</sup> This statement indicates that non-halal product diversification is not merely an alternative but a strategic solution for business sustainability in the region.

In addition to diversifying halal and non-halal products, offering products based on traditional halal practices is a strategy used by Gili Trawangan's MSME actors to survive

<sup>49</sup> Interview with Amin, MSME Actor in Gili Trawangan, Tuesday, September 17, 2024

<sup>50</sup> Baihaqi, "Wisata Halal Di Gili Trawangan Lombok Utara." 166–82.

<sup>51</sup> Filipa Brandão, Zélia Breda, and Carlos Costa, "Innovation and Internationalization as Development Strategies for Coastal Tourism Destinations: The Role of Organizational Networks," *Journal of Hospitality and Tourism Management* 41 (2019), <https://doi.org/10.1016/j.jhtm.2019.10.004>.

<sup>52</sup> Interview with Reni, MSME Actor in Gili Trawangan, Thursday, September 5, 2024..

<sup>53</sup> Baihaqi, "Wisata Halal Di Gili Trawangan Lombok Utara." 166–82.

<sup>54</sup> Interview with Kejul, MSME Actor in Gili Trawangan, Friday, September 13, 2024.

in a market that does not require, and even rejects, formal halal certification.<sup>55</sup> In this scenario, MSME actors adapt by adhering to the religious moral values found in local customs amid the challenges posed by a tourist market with varying consumption preferences. However, Regional Regulation No. 2 of 2016 on Halal Tourism has had a diverse impact on the food and beverage products offered by MSME actors.

This regulation mandates the application of halal certification for food and beverage products. For some MSME actors, halal certification regulations pose a challenge in meeting the expectations of their heterogeneous market. Consequently, MSMEs in Gili Trawangan offer products based on traditional halal practices. This business strategy not only preserves local wisdom but also promotes inclusivity, embracing the diversity of tourists while adhering to government regulations.<sup>56</sup>

In the context of the commodification of religion, the actions of Gili Trawangan's MSME actors are aimed at preventing negative perceptions among non-Muslim tourists, who are their most extensive consumer base, regarding halal certification. According to Syafiq Hasyim, halal certification can be challenging for non-Muslim tourists. Halal certification often presents a dominant representation in the market for religious products and services. This can create a perception that halal certification is a universal norm, which may obscure or diminish the values and religious practices of non-Muslim tourists. Non-Muslim tourists may feel that their religious identity is not sufficiently recognized and valued, both in the commercial market and in society.<sup>57</sup>

**Table of MSME Product Offerings in Gili Trawangan**

Category	Product	Description
Traditionally Halal Products	Kebab	A specialty food from the Middle East.
	Fried potatoes	Processed fried potato dishes.
	Samosa	Pastries filled with either vegetables or meat.
	Beberok	A type of urap, a traditional Indonesian salad with grated coconut, specific to Lombok.

<sup>55</sup> Jonathan A J Wilson, "The Halal Phenomenon: An Extension or a New Paradigm?," *Social Business* 4, no. 3 (2014): 255–71, <https://doi.org/10.1362/204440814X14103454934294>.

<sup>56</sup> Atmo Prawiro, "Sosial Budaya Dan Pariwisata Halal Indonesia: Studi Sosial Budaya Destinasi Pariwisata Halal Di Lombok Nusa Tenggara Barat," Doctoral Thesis (Sekolah Pascasarjana UIN Syarif Hidayatullah Jakarta, 2021), <https://repository.uinjkt.ac.id/dspace/handle/123456789/57759>.

<sup>57</sup> Syafiq Hasyim, *The Halal Project in Indonesia: Shariatization, Minority Rights and Commodification* (Singapore: ISEAS – Yusof Ishak Institute, 2022), 15.

Non-Halal Products	Plecing	A vegetable dish served with Lombok's distinctive terasi (shrimp paste) sambal.
	Opak-opak	Crackers made from cassava.
	Babi	A dish made from pork.
	Bir Bintang	A well-known brand of beer.
	Alkohol	A beverage containing alcohol.
	Koktail	An alcoholic beverage cocktail.
	Wiski	Hard liquor distilled from fermented grains.
	Rum	Hard liquor made from sugarcane.
	Vodka	A type of clear hard liquor.
	Arak Madu	A local fermented beverage mixed with honey.
	Shooter	Hard liquor is served in a small portion.

Source: Author's Observation in Gili Trawangan<sup>58</sup>

In contrast to the previous two typologies, this group of MSMEs views *bijz al-din* (protection of religion) and *bijz al-mal* (protection of wealth) as equally important.<sup>59</sup> For these business owners, selling halal products is as crucial as selling non-halal products, as each caters to a distinct consumer base. International tourists, particularly those from Europe, often consider non-halal products an integral part of the Gili Trawangan tourism experience. On the other hand, Muslim tourists, especially domestic and local visitors, are more interested in enjoying halal products. Consequently, halal products are sold alongside non-halal offerings. This integrative approach has demonstrably allowed businesses of this typology to achieve greater profits.

Why do we enjoy marketing non-halal products and products without halal certification for food and beverages for MSME players in Gili Trawangan? When looking at the pattern of tourists coming to Gili Trawangan, the majority, almost 90 percent, are foreign tourists who are mostly non-Muslim. Meanwhile, around 10 percent are Muslim tourists. For us, this is a strategy for marketing food and beverage products. Although most of the tourists who visit are non-Muslim and have an interest in non-halal products such as Bintang Beer, alcohol, and cocktails, there are also Muslim tourists who look for halal products.<sup>60</sup>

The practice of offering traditionally halal products and diversifying into both halal and non-halal items can be linked to the concept of Islamic contextualization proposed by Indonesian Muslim thinkers such as Abdurrahman Wahid and Nurcholish Madjid. Abdurrahman Wahid, for instance, emphasized the importance of nativizing Islam,

<sup>58</sup> Personal observation by the author in Gili Trawangan, Thursday, September 19, 2024.

<sup>59</sup> Abdul Halim Ibrahim et al., "Maqasid al-Shariah Based Islamic Bioethics: A Comprehensive Approach," *Journal of Bioethical Inquiry* 16 (2019): 333–45.

<sup>60</sup> Interview with Reni, MSME Actor in Gili Trawangan, Thursday, September 5, 2024.

which is the effort to accommodate local values within Islamic practice.<sup>61</sup> Meanwhile, Nurcholish Madjid promoted a modern concept of Indonesian Islam, stressing its compatibility with multiculturalism, modernity, and social rationalization. Both thinkers asserted that Islam is not static; it must be able to adapt to the times through historical and cultural contextualization.<sup>62</sup>

The spirit of this contextualized Islam has been applied by MSME actors in Gili Trawangan's product marketing, particularly within the culinary sector focused on inclusive tourism. Furthermore, the attitude of Gili Trawangan's MSME actors, who reject the formalization of halal products, is an expression of substantialist Islam. This group holds the view that a product's halal status is not determined by formal halal certification, but by the intrinsic values inherent in the food and beverages themselves.<sup>63</sup>

#### **IV. Conclusion**

This study finds that Micro, Small, and Medium Enterprise (MSME) actors in Gili Trawangan navigate the formal halal certification framework outlined in Regional Regulation No. 2 of 2016 through diverse strategies mediated by a hybrid governance environment. Instead of uniform compliance, the findings identify three primary pathways: adoption, adaptation, and resistance. While many actors resist formal certification due to economic and operational considerations, they actively adapt and accommodate the halal concept through traditional practices and product diversification. This approach reflects a substantive compliance orientation, which prioritizes a product's intrinsic and ethical values over formal criteria.

This diversification arises from the strategic negotiations of business actors who prioritize *hifz al-māl* (protection of assets/economy), *hifz al-dīn* (protection of religion), and *hifz al-nafs* (protection of self/well-being). The study demonstrates that effective halal governance in regions like Gili Trawangan cannot rely solely on formal legal enforcement. Instead, it must align the economic and religio-ethical objectives of business actors to be mutually reinforcing. These findings reinforce Critical Legal Pluralism Theory by showing how state law, socio-cultural norms, and market forces interact to shape compliance. Therefore, policy recommendations should focus on mechanisms that harmonize formal law with the local socio-economic context to foster more substantive and sustainable compliance within the Muslim-minority tourism sector.

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<sup>61</sup> Abdurrahman Wahid, *Pribumisasi Islam* (Jakarta: P3M, 1989), 20.

<sup>62</sup> Nurcholish Majid, *Islam, Kemodernan, Dan Keindonesiaan* (Bandung: Mizan, 1987), 15.

<sup>63</sup> Nadirsyah Hosen, "Religion and the Indonesian Constitution: A Recent Debate," 419–40.

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### **Interview with Informants**

Interview with Reni, MSME Actor in Gili Trawangan, Thursday, September 5, 2024.

Interview with Nyoman, MSME Actor in Gili Trawangan, Wednesday, September 18, 2024.

Interview with Sabda, Staff of the North Lombok Tourism Office, Monday, September 23, 2024.

Interview with Hadi, Religious Leader of Gili Trawangan, Friday, September 27, 2024.

Interview with Made, MSME Actor in Gili Trawangan, Tuesday, September 10, 2024.

Interview with Kejul, MSME Actor in Gili Trawangan, Friday, September 13, 2024.

Interview with Icang, MSME Actor in Gili Trawangan, Monday, September 2, 2024.

Interview with Amin, MSME Actor in Gili Trawangan, Tuesday, September 17, 2024

Interview with Muhammad, MSME Actor in Gili Trawangan, Friday, September 20, 2024.