

An Islamic Economic Analysis of Illegal Cigarette Trade and Its Implications for Market Justice and Public Welfare

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Abstract

The circulation of illicit cigarettes has become a significant economic and social issue in Indonesia due to its impact on market competition, government revenue, and public welfare. This study aims to analyze the implications of illicit cigarette trade for market fairness and community welfare from the perspective of Islamic economics in Paiton District, Indonesia. A qualitative descriptive approach was employed through in-depth interviews, observations, and documentation involving representatives of the legal cigarette industry, retailers, and consumers. The findings reveal that the illicit cigarette trade creates market distortions by enabling producers to evade excise obligations and regulatory requirements, thereby gaining an unfair competitive advantage. This practice weakens the competitiveness of the legal tobacco industry, reduces government revenue, and threatens the sustainability of the formal tobacco sector. Although consumers benefit from lower prices, the long-term consequences include declining public welfare and reduced employment opportunities. From the perspective of Islamic economics, this practice contradicts the principles of 'adl (justice) and maslahah (public welfare), as it prioritizes individual gain at the expense of collective interests. Therefore, stronger law enforcement, public awareness, and ethical economic practices are essential to promote fair market competition and sustainable social welfare.

Keywords: *Illicit Cigarettes; Market Justice; Maslahah; Islamic Economics; Public Welfare.*

ABSTRAK

Peredaran rokok ilegal menjadi persoalan ekonomi dan sosial di Indonesia karena memengaruhi persaingan pasar, penerimaan negara, dan kesejahteraan masyarakat. Penelitian ini bertujuan menganalisis implikasi perdagangan rokok ilegal terhadap keadilan pasar dan kesejahteraan masyarakat dalam perspektif ekonomi syariah di Kecamatan Paiton. Penelitian menggunakan pendekatan deskriptif kualitatif melalui wawancara mendalam, observasi, dan dokumentasi yang melibatkan perwakilan industri rokok legal, pedagang, dan konsumen. Hasil penelitian menunjukkan bahwa perdagangan rokok ilegal menimbulkan distorsi pasar karena pelaku usaha menghindari kewajiban cukai dan regulasi sehingga memperoleh keunggulan kompetitif yang tidak adil. Kondisi tersebut melemahkan daya saing industri legal, mengurangi penerimaan negara, serta mengancam keberlanjutan industri tembakau. Meskipun konsumen memperoleh harga lebih murah, dampak jangka panjangnya berupa menurunnya kesejahteraan masyarakat dan berkurangnya peluang kerja. Dalam perspektif ekonomi syariah, praktik ini bertentangan dengan prinsip 'adl dan maslahah karena mengutamakan keuntungan individu dengan mengorbankan kepentingan kolektif. Diperlukan penegakan hukum, edukasi masyarakat, serta penguatan praktik ekonomi yang etis untuk mewujudkan persaingan usaha yang adil dan kesejahteraan berkelanjutan.

Kata Kunci: Rokok Ilegal; Keadilan Pasar; Maslahah; Ekonomi Syariah; Kesejahteraan Masyarakat.

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A. Introduction

The illegal cigarette trade has become one of the most persistent challenges facing governments, businesses, and societies worldwide. Beyond its status as a regulatory violation, illicit tobacco circulation creates significant economic distortions that affect market stability, public revenue, and social welfare. According to the World Health Organization ¹, Illicit cigarette trade remains a major challenge in Indonesia. Data from the Directorate General of Customs and Excise indicate that the prevalence of illicit cigarettes reached approximately 5.5% of total cigarette consumption in 2023, causing substantial losses in state excise revenue and undermining fiscal policy. The widespread circulation of illegal cigarettes also weakens market competition by enabling producers to evade excise obligations and regulatory standards, thereby creating unfair advantages over compliant businesses.² Previous studies have predominantly examined this issue from legal, fiscal, and public health perspectives, emphasizing law enforcement, tax losses, and smoking-related health risks. Meanwhile, studies from the perspective of Islamic economics remain limited, particularly those examining how illicit cigarette trade affects market justice ('adl) and public welfare (maslahah) at the local level. Addressing this gap, the present study investigates the implications of illicit cigarette trade for market fairness and community welfare from the perspective of Islamic economics in Paiton District, Indonesia.

The expansion of illegal cigarette markets is closely associated with economic incentives created by tax differentials and regulatory disparities. Illegal producers often avoid excise taxes, licensing requirements, and production standards, enabling them to offer products at substantially lower prices than legally manufactured cigarettes ³. While lower prices may appear beneficial to consumers in the short term, the long-term consequences are considerably more complex. Chaloupka et al. (2019) argue that illicit tobacco trade weakens market efficiency by disrupting fair competition and reducing government capacity to finance public services through taxation ⁴. Similarly, Ross et al. (2020) emphasize that the circulation of illegal cigarettes generates negative externalities that extend beyond individual consumers and affect

¹ Eric Hobsbawm, *Home» Understanding the World» Historian Eric Hobsbawm: Important Thinkers Who Help Us to Understand Our Time, to Be Able to Make Our Time to a Time of Human Dignity for Alle Our Time*, 26 February 2025, <https://bawschoolnet.wordpress.com/2013/03/09/historian-eric-hobsbawm-important-thinkers-who-help-us-to-understand-our-time-to-be-able-to-make-our-time-to-a-time-of-human-dignity-for-alle-our-time/>.

² Krisna Galih Pratama, 'Efektivitas Peraturan Pemerintah Nomor 28 Tahun 2024 Tentang Kesehatan Terhadap Larangan Penjualan Rokok Eceran Perspektif Maslahah Mursalah (Studi Kasus : Pedagang di Kota Metro)' (undergraduate, IAIN Metro, 2025), <https://repository.metrouniv.ac.id/id/eprint/11720/>.

³ Ana Díez-Izquierdo et al., 'Correlation between Tobacco Control Policies and Preterm Births and Low Birth Weight in Europe', *Environmental Research* 160 (January 2018): 547–53, <https://doi.org/10.1016/j.envres.2017.10.033>.

⁴ Frank J. Chaloupka et al., 'The Use of Excise Taxes to Reduce Tobacco, Alcohol, and Sugary Beverage Consumption', *Annual Review of Public Health* 40, no. Volume 40, 2019 (2019): 187–201, <https://doi.org/10.1146/annurev-publhealth-040218-043816>.

broader economic and social systems ⁵. Therefore, the phenomenon should be understood not merely as an issue of law enforcement but as a multidimensional challenge involving economic justice, institutional governance, and collective welfare.

Indonesia represents a particularly important context for examining the consequences of illegal cigarette trade. As one of the world's largest tobacco-producing and tobacco-consuming countries, Indonesia relies heavily on the tobacco sector as a source of employment and state revenue. Excise taxes generated by the tobacco industry contribute significantly to government income and support various public development programs ⁶. In addition, millions of Indonesians depend directly or indirectly on tobacco-related economic activities, including farming, manufacturing, distribution, and retail sectors. However, the widespread circulation of illegal cigarettes poses a serious threat to the sustainability of these economic contributions. By bypassing excise obligations and regulatory requirements, illegal producers gain unfair advantages that undermine legal businesses and reduce government revenues intended for public welfare programs.

The economic impact of illegal cigarettes extends beyond fiscal losses. The presence of untaxed products creates market distortions that challenge the principle of fair competition. Legal manufacturers must comply with excise regulations, production standards, labor requirements, and distribution controls, whereas illegal producers avoid many of these obligations ⁷. As a result, legitimate businesses face competitive disadvantages despite operating within the legal framework. Such conditions contradict the principles of efficient markets and equitable competition that are essential for sustainable economic development. Moreover, the persistence of illegal trade may discourage investment, weaken consumer confidence, and threaten employment opportunities within the formal tobacco industry.

From the perspective of Islamic economics, these consequences raise important ethical concerns. Islamic economic thought is founded upon principles of justice ('adl), trustworthiness (amanah), transparency, and public welfare (maslahah). Economic activities are not viewed solely as mechanisms for profit generation but as instruments for achieving social balance and collective prosperity ⁸. Market participants are expected to engage in fair competition, fulfill

⁵ Thomas L. Ortel et al., 'American Society of Hematology 2020 Guidelines for Management of Venous Thromboembolism: Treatment of Deep Vein Thrombosis and Pulmonary Embolism', *Blood Advances* 4, no. 19 (2020): 4693–738, <https://doi.org/10.1182/bloodadvances.2020001830>.

⁶ Ade Endang Rispani and Arif Rahman Hakim Syadzali, 'A Jurisprudential Review of the Application of Monetary Punishment for the Circulation of Illegal Cigarettes', *Syariah: Journal of Fiqh Studies* 3, no. 1 (2025): 43–62, <https://doi.org/10.61570/syariah.v3i1.134>.

⁷ Luk Joossens and Martin Raw, 'From Cigarette Smuggling to Illicit Tobacco Trade', *Strategic Directions and Emerging Issues in Tobacco Control*, *Tobacco Control* 21, no. 2 (2012): 230–34, <https://doi.org/10.1136/tobaccocontrol-2011-050205>.

⁸ M. Umer Chapra, *The Future of Economics: An Islamic Perspective*, vol. 21 (Kube Publishing Ltd, 2016),

their obligations, and avoid practices that cause harm to others. Consequently, economic activities that generate injustice, exploit regulatory loopholes, or undermine public interests are inconsistent with the normative foundations of Islamic economics.

The concept of market justice occupies a central position within Islamic economic discourse. Justice in market transactions encompasses not only fairness in exchange but also fairness in opportunities, obligations, and competitive conditions ⁹. Chapra argues that economic justice requires the establishment of an environment in which all participants operate under the same rules and responsibilities. Any practice that allows certain actors to gain advantages through unlawful means disrupts market equilibrium and creates social inequalities ¹⁰. Within this framework, the circulation of illegal cigarettes can be interpreted as a violation of market justice because it enables producers and distributors to obtain financial benefits while avoiding obligations that must be borne by legal market participants.

Equally important is the concept of public welfare (maslahah), which serves as one of the fundamental objectives of Islamic economics. Al-Ghazali emphasizes that economic policies and activities should promote societal well-being and protect essential human interests. Similarly, Al-Shatibi argues that economic systems should contribute to the realization of collective benefits while preventing harm to society ¹¹. Public welfare is not limited to individual prosperity but includes broader dimensions such as economic stability, social justice, institutional integrity, and sustainable development. In the context of illegal cigarette trade, the reduction of government revenue, distortion of market competition, and weakening of regulatory institutions may collectively undermine public welfare and hinder the achievement of these objectives.

Previous studies have investigated illegal cigarette circulation from various perspectives. Joossens and Raw (2018) examined the impact of illicit tobacco trade on taxation systems and government revenues, concluding that illegal cigarettes significantly reduce fiscal capacity and weaken regulatory effectiveness ¹². Chaloupka et al. (2019) focused on the relationship between illicit tobacco markets and public policy, highlighting the challenges faced by governments in controlling illegal distribution networks ¹³. Meanwhile, Ross et al. (2020) explored consumer behavior and demonstrated that price differentials often influence the demand for illicit tobacco

⁹ Mohammad Hashim Kamali, *Environmental Care in Islamic Teaching: A Qur'anic Perspective* | *ICR Journal*, 14 October 2020, <https://www.icrjournal.org/index.php/icr/article/view/555>.

¹⁰ Chapra, *The Future of Economics*, vol. 21.

¹¹ Imam al-Ghazali, *Ihya' 'Ulumuddin 10* (Nuansa Cendekia, 2020); Abu Ishaq Al-Syathibi and Beirut, 'Al-Muwafaqat Fi Ushul Al-Syari'at', *Beirut-Lebanon: Dar Al-Ma'arif, Tt*, 2004; Syarif Hidayatullah, 'Maslahah Mursalah Menurut Al-Ghazali', *Al-Mizan: Jurnal Hukum Dan Ekonomi Islam* 2, no. 1 (2018): 115–63.

¹² Joossens and Raw, 'From Cigarette Smuggling to Illicit Tobacco Trade'.

¹³ Chaloupka et al., 'The Use of Excise Taxes to Reduce Tobacco, Alcohol, and Sugary Beverage Consumption'.

products ¹⁴. Within the Indonesian context, several studies have discussed enforcement mechanisms, excise policies, and the socioeconomic consequences of illegal cigarettes. However, most of these studies remain concentrated on legal, fiscal, and administrative dimensions.

Although the illicit cigarette trade has been widely examined, previous studies have primarily focused on legal enforcement, excise revenue losses, tobacco-control policies, and consumer purchasing behavior. While these studies provide important insights into regulatory and fiscal challenges, they rarely explain how illicit cigarette trade influences market justice, fair competition, and public welfare from the perspective of Islamic economics. In particular, limited attention has been paid to the application of the Islamic economic principles of 'adl (justice) and maslahah (public welfare) in assessing the ethical and socio-economic consequences of illicit market practices at the community level.

This study addresses these gaps by developing an analytical framework that links illicit cigarette trade with market justice and public welfare through the lens of Islamic economics. Unlike previous research that concentrates on legal compliance or fiscal impacts, this study examines how excise evasion creates market distortions, undermines fair competition, affects community welfare, and conflicts with the ethical values of 'adl and maslahah. By integrating these dimensions, the study extends Islamic economic discourse beyond normative discussions toward an empirical assessment of contemporary informal market practices.

Paiton District was selected because the circulation of illicit cigarettes remains evident in local commercial activities, providing an appropriate setting to investigate interactions among producers, retailers, consumers, and regulators. The findings contribute to the development of Islamic economics by demonstrating how the principles of justice and public welfare can be operationalized to evaluate illegal economic activities and by offering an ethical framework for promoting fair market governance and sustainable community welfare.

Accordingly, this study aims to analyze the implications of illegal cigarette trade for market justice and public welfare in Paiton District from an Islamic economic perspective. Specifically, it seeks to examine how illegal cigarette circulation influences competitive fairness among market actors, affects public welfare, and challenges the implementation of ethical economic principles within local communities. The findings are expected to contribute to the development of Islamic economic literature while providing practical insights for policymakers, regulators, and stakeholders seeking to promote fair markets and sustainable public welfare.

¹⁴ Ortel et al., 'American Society of Hematology 2020 Guidelines for Management of Venous Thromboembolism'.

B. Discussion

1. Illegal Cigarette Trade and Market Justice: An Islamic Economic Perspective

The findings of this study reveal that the circulation of illegal cigarettes in Paiton District has created significant challenges to market justice and fair competition. The issue extends beyond a mere violation of excise regulations and represents a broader economic phenomenon that influences the behavior of consumers, traders, producers, and market institutions. Field observations indicate that illegal cigarettes are widely available in local retail outlets and are frequently sold alongside legal products, making them easily accessible to consumers. As a result, illegal cigarettes have gradually become normalized within local economic activities, reducing public sensitivity to their legal and economic implications. This condition demonstrates that illegal cigarette circulation is not simply an isolated regulatory issue but a structural market problem that affects the fairness and integrity of economic transactions ¹⁵.

One of the most prominent factors driving the circulation of illegal cigarettes is their significantly lower price compared to legally produced cigarettes. This price difference arises because illegal producers avoid excise taxes, licensing requirements, and other regulatory obligations that constitute a substantial component of production costs in the formal tobacco industry. Consequently, illegal cigarettes can be marketed at prices that are considerably lower than those of legal products. In economic terms, this situation creates an asymmetrical competitive environment in which illegal producers gain advantages not through productive efficiency or innovation but through the avoidance of legal obligations ¹⁶. Such a condition undermines the principle of fair competition and creates distortions within the market structure.

This reality was confirmed during interviews with representatives of the legal tobacco industry. The Marketing Manager of PT Gudang Garam explained: *“Illegal cigarette producers do not pay excise taxes, allowing them to sell their products at very low prices.”*

This statement highlights the fundamental source of competitive imbalance in the cigarette market. The lower price of illegal cigarettes is not generated by superior business performance but by regulatory non-compliance. Legal manufacturers are required to bear production costs associated with excise duties, labor protection, quality standards, and

¹⁵ Nila Duriyatus Shofa et al., ‘Munasabah QS. Al-Ma’idah 87-88 and QS. Al-Nahl 116 as the Moral Foundation for Combating Illegal Cigarettes and Illegal Thrifting’, *Al-Fahmu: Jurnal Ilmu Al-Qur’an Dan Tafsir* 5, no. 1 (2026): 72–82, <https://doi.org/10.58363/alfahmu.v5i1.721>.

¹⁶ Rahmatina A. Kasri et al., ‘New Evidence of Illicit Cigarette Consumption and Government Revenue Loss in Indonesia’, *Tobacco Induced Diseases* 19 (November 2021): 84, <https://doi.org/10.18332/tid/142778>.

distribution regulations. Illegal producers, on the other hand, bypass these responsibilities while continuing to compete in the same market ¹⁷. Consequently, the resulting competition cannot be considered fair because market participants do not operate under equal obligations and conditions.

The influence of price disparities is also evident in consumer behavior. A local cigarette retailer noted: *“Consumers have increasingly shifted to untaxed cigarettes since the prices of legal cigarettes continue to rise.”*

This finding indicates that consumer purchasing decisions are strongly influenced by economic considerations. Consumers tend to prioritize affordability, particularly in situations where legal cigarette prices continue to increase due to excise adjustments and production costs. From the perspective of rational choice theory, such behavior can be understood as an effort to maximize utility while minimizing expenditure. However, while this decision may appear rational at the individual level, it generates broader economic consequences at the collective level ¹⁸. The continuous demand for illegal cigarettes strengthens illegal distribution networks and reinforces market distortions, thereby contributing to the persistence of unfair competition.

The consequences of this phenomenon are directly experienced by legal producers. Another interview participant emphasized: *“If illegal cigarettes continue to increase, sales of legal cigarettes decline and companies suffer losses.”*

This statement reflects the economic pressure faced by legally compliant businesses. As consumers increasingly choose untaxed products, legal manufacturers experience declining sales and reduced profitability. Over time, such conditions may weaken the sustainability of formal enterprises and limit their ability to maintain investment, innovation, and employment opportunities ¹⁹. Therefore, the circulation of illegal cigarettes affects not only business performance but also the broader economic ecosystem that depends on the formal tobacco sector.

The findings of this study are consistent with previous research on illicit tobacco trade. Joossens and Raw argue that illegal cigarette markets undermine fair competition by enabling non-compliant producers to avoid fiscal obligations while continuing to participate in the market ²⁰. Similarly, Chaloupka et al. emphasize that illicit tobacco

¹⁷ Luk Joossens et al., ‘The Impact of Eliminating the Global Illicit Cigarette Trade on Health and Revenue’, *Addiction* 105, no. 9 (2010): 1640–49, <https://doi.org/10.1111/j.1360-0443.2010.03018.x>.

¹⁸ Hisam Ahyani and António José Pereira Figueiredo, ‘Integrating Shariah Principles in Modern Family and Economic Life for Social Well-Being and Justice’, *Munakahat* 1, no. 1 (2024): 94–107.

¹⁹ Aisyah As-Salafiyah and Aam Slamet Rusydiana, *The Potency of Pesantren Economics | The Economic Review of Pesantren*, 13 October 2023, <https://journals.smartinsight.id/index.php/ERP/article/view/124>.

²⁰ Joossens et al., ‘The Impact of Eliminating the Global Illicit Cigarette Trade on Health and Revenue’.

products create market distortions by allowing illegal operators to offer lower prices than legal competitors ²¹. These studies support the present findings, which demonstrate that the competitive advantage enjoyed by illegal cigarette producers in Paiton District is primarily derived from regulatory evasion rather than productive efficiency. Consequently, illegal cigarette circulation weakens market integrity and reduces incentives for legal compliance.

From the perspective of Islamic economics, the issue of illegal cigarettes can be examined through the concept of 'adl (justice), which constitutes one of the most fundamental principles of economic life. Justice in Islam is not limited to equality of outcomes but includes fairness in rights, obligations, opportunities, and responsibilities. Chapra argues that an economic system can only function effectively when all participants operate within a framework of justice that prevents exploitation and ensures equal treatment ²². Similarly, Kamali explains that justice requires market actors to comply with ethical and legal standards that preserve balance and fairness within economic transactions ²³.

Viewed through this framework, the circulation of illegal cigarettes represents a clear challenge to market justice. Producers who evade excise taxes obtain financial benefits without contributing to the obligations that support public institutions and economic governance ²⁴. In contrast, legal producers must bear the costs associated with compliance. As a result, the burden of maintaining the market system is distributed unequally. Such conditions violate the principle of justice because economic gains are obtained without corresponding responsibilities. Therefore, illegal cigarette circulation creates a situation in which market rewards are disconnected from legal and ethical obligations.

The findings also highlight the relevance of amanah (trustworthiness) within Islamic economic ethics. Business activities are expected to be conducted honestly and responsibly, with due consideration for the rights of others and the broader interests of society. Producers and traders are encouraged to pursue profit through lawful means while

²¹ Chaloupka et al., 'The Use of Excise Taxes to Reduce Tobacco, Alcohol, and Sugary Beverage Consumption'.

²² Chapra, *The Future of Economics*, vol. 21.

²³ Kamali, *Environmental Care in Islamic Teaching*.

²⁴ Rashedul Hasan et al., 'Building Trust in Waqf Management — Implications of Good Governance and Transparent Reporting', *The Singapore Economic Review*, ahead of print, 25 July 2020, world, <https://doi.org/10.1142/S0217590820420059>.

fulfilling their obligations toward consumers, competitors, and public institutions ²⁵. The avoidance of excise duties contradicts this principle because it prioritizes private financial gain at the expense of collective economic interests. Consequently, illegal cigarette trade should not be viewed solely as an economic strategy but also as a violation of ethical norms that underpin Islamic market conduct.

Another important finding concerns the gradual normalization of illegal cigarettes within local economic life. Because these products are widely available and easily accessible, many consumers no longer perceive them as illegal goods. Instead, they are increasingly regarded as ordinary commodities that can be purchased without significant concern. This normalization process weakens public awareness regarding the broader consequences of illegal trade and contributes to the sustainability of illicit distribution networks ²⁶. In the long term, such conditions may reduce respect for legal economic institutions and encourage the acceptance of other forms of regulatory non-compliance.

The normalization of illegal cigarettes also reflects a broader challenge to economic governance. Effective markets depend not only on formal regulations but also on public trust and collective commitment to legal norms. When illegal products become socially acceptable, the legitimacy of regulatory systems may gradually erode. This situation creates a cycle in which non-compliance becomes increasingly tolerated, making enforcement efforts more difficult and reducing the effectiveness of market regulation. Consequently, addressing illegal cigarette circulation requires not only legal intervention but also educational and social approaches aimed at strengthening public awareness and ethical responsibility.

Overall, the findings demonstrate that illegal cigarette trade in Paiton District has significantly disrupted market justice by creating unequal competitive conditions between legal and illegal producers. The ability of illegal producers to avoid excise obligations enables them to offer lower prices and attract consumers despite operating outside the legal framework. This situation undermines fair competition, weakens the sustainability of formal enterprises, and contradicts the principles of justice, trustworthiness, and responsibility emphasized in Islamic economics. Therefore, illegal cigarette circulation should be understood not merely as a regulatory violation but as a structural challenge to market justice and ethical economic governance. Strengthening enforcement, increasing

²⁵ Dr Sajjad Ahmad et al., 'Integrating Islamic Ethics with Modern Governance: A Comprehensive Framework for Accountability Across Religious, Social, and Economic Dimensions', *Al-Irfan* 8, no. 15 (2023): 51–79, <https://doi.org/10.58932/MULB0043>.

²⁶ Stephen Brammer et al., 'Corporate Social Responsibility and Institutional Theory: New Perspectives on Private Governance', *Socio-Economic Review* 10, no. 1 (2012): 3–28, <https://doi.org/10.1093/ser/mwr030>.

public awareness, and promoting Islamic economic values are essential steps toward restoring fairness and integrity within the market system.

2. Illegal Cigarette Trade and Public Welfare: Assessing the Socioeconomic Consequences

The findings of this study reveal that the circulation of illegal cigarettes in Paiton District extends beyond market competition and significantly affects public welfare. While consumers often perceive illegal cigarettes as economically beneficial due to their lower prices, the broader consequences indicate a more complex socioeconomic reality. The apparent financial savings enjoyed by individual consumers are accompanied by collective losses experienced by the state, legal businesses, workers, and society at large²⁷. Consequently, the issue of illegal cigarette trade should not be viewed solely through the lens of consumer affordability but also through its implications for public welfare and sustainable economic development.

Field observations and interview findings indicate that the popularity of illegal cigarettes is primarily driven by economic considerations. Consumers are attracted to lower prices, especially amid increasing living costs and rising prices of legal cigarettes. For many individuals, illegal cigarettes provide an affordable alternative that enables them to maintain consumption habits while reducing daily expenditures. However, the short-term economic advantages perceived by consumers often obscure the broader social costs generated by illegal trade. The widespread circulation of untaxed products reduces government revenues derived from excise taxes, thereby limiting fiscal resources available for public services and development programs²⁸.

The Marketing Manager of PT Gudang Garam emphasized the broader consequences of illegal cigarette circulation by stating that the increasing market share of illegal cigarettes does not only affect corporate profitability but also influences the wider economic ecosystem connected to the tobacco industry. As legal companies experience declining sales, the risk of reduced production, lower investment, and workforce adjustments becomes increasingly significant. These consequences ultimately affect employees and communities that rely on the legal tobacco sector for their livelihoods.

The findings suggest that the socioeconomic implications of illegal cigarettes can be summarized as follows:

²⁷ Meirani Rahayu Rukmanda et al., 'Empowering Sharia-Based Micro, Small and Medium Enterprises (MSMEs) in Indonesia: A Socioeconomic and Ethical Framework for Inclusive Development', *International Journal of Nusantara Islam* 13, no. 2 (2025): 245–56, <https://doi.org/10.15575/ijni.v13i2.47733>.

²⁸ Anas Alhifni et al., 'The Cultural Embeddedness of Economic Action: Islamic Values, Entrepreneurship, and FinTech Innovation', *Journal of Cultural Analysis and Social Change*, 4 December 2025, 95–104, <https://doi.org/10.64753/jcasc.v10i4.2782>.

<i>Aspect</i>	<i>Positive Perception of Consumers</i>	<i>Broader Socioeconomic Consequences</i>
<i>Product Price</i>	Cheaper than legal cigarettes	Creates unfair competition for legal producers
<i>Consumer Expenditure</i>	Reduces short-term spending	Encourages continued dependence on illegal markets
<i>Government Revenue</i>	No direct benefit perceived by consumers	Loss of excise revenue and public funds
<i>Business Sustainability</i>	Higher sales for illegal distributors	Reduced competitiveness of legal industries
<i>Employment</i>	No immediate impact perceived	Potential reduction in formal-sector employment
<i>Public Welfare</i>	Temporary individual savings	Reduced collective economic benefits

Table 1 illustrates the contrast between individual benefits and collective consequences. Although consumers may experience immediate savings through lower-priced products, the wider economic effects demonstrate substantial costs to public welfare. This finding supports the argument that individual economic rationality does not always generate socially desirable outcomes.

From an economic perspective, the reduction in excise revenue constitutes one of the most significant consequences of illegal cigarette circulation. Tobacco excise taxes represent an important source of government income and are frequently allocated to public infrastructure, healthcare services, educational programs, and social welfare initiatives²⁹. When cigarettes are produced and distributed outside the legal system, these financial contributions are lost. Consequently, the government faces constraints in generating revenue that could otherwise support broader development objectives. Similar findings were reported by Joossens and Raw (2018), who concluded that illicit tobacco trade significantly reduces fiscal capacity and weakens the ability of governments to finance public programs³⁰.

The issue becomes particularly relevant when analyzed through the concept of public welfare in Islamic economics. Islamic economic thought emphasizes that economic activities should generate benefits not only for individuals but also for society as a whole. The concept of *maslahah* (public welfare) requires that economic transactions contribute to collective prosperity and avoid causing harm to the broader community³¹. According to Al-Ghazali, public welfare is achieved when economic activities protect

²⁹ Jasser Auda, 'Maqasid for Re-Envisioning Islamic Higher Education for Sustainability and Socio-Economic Development', in *Islamic Finance and Sustainable Development* (Routledge, 2025); Asyraf Wajdi Dusuki, 'What Does Islam Say about Corporate Social Responsibility', *Review of Islamic Economics* 12, no. 1 (2008): 5–28.

³⁰ Joossens and Raw, 'From Cigarette Smuggling to Illicit Tobacco Trade'.

³¹ Mohammad Hadi Sucipto and Khotib Khotib, 'Perdebatan Maslahah Mursalah Dalam Kitab-Kitab Al Imam Al Ghazali', *El-Faqih: Jurnal Pemikiran Dan Hukum Islam* 6, no. 1 (2020): 1–17.

and promote societal interests ³². Similarly, Al-Shatibi argues that economic practices should support the realization of collective benefits while preventing social and economic harm ³³.

Viewed through the framework of *maqāṣid al-sharī‘ah*, the circulation of illicit cigarettes contradicts the fundamental objectives of Islamic economics by undermining both *ḥifẓ al-māl* (the protection of wealth) and *ḥifẓ al-nafs* (the protection of life). Excise evasion reduces legitimate state revenue, distorts fair market competition, and imposes economic losses on law-abiding businesses, while the distribution of unregulated tobacco products raises concerns regarding product quality, consumer protection, and potential public health risks. In accordance with the principle of *dar’ al-mafāsid muqaddam ‘alā jalb al-maṣāliḥ* (preventing harm takes precedence over securing benefit), the short-term financial gains enjoyed by consumers cannot justify the broader economic and social harms borne by society. Moreover, illicit cigarette trade weakens social responsibility by shifting collective costs onto the public while benefiting only a limited group of economic actors. Although tobacco excise constitutes an important source of government revenue, public health policies simultaneously aim to reduce tobacco consumption, creating an apparent policy tension. From the perspective of *maqāṣid al-sharī‘ah*,³⁴ however, this tension should be resolved through policies that suppress illicit trade, strengthen consumer protection, promote fair market competition, and safeguard public welfare, thereby balancing fiscal sustainability with the overarching objectives of justice and the prevention of harm. ³⁵. Therefore, the economic gains enjoyed by individual consumers cannot fully compensate for the broader costs imposed on society.

Interview findings also suggest that many consumers remain unaware of these wider consequences. For most consumers, purchasing decisions are primarily influenced by affordability rather than considerations of taxation, market fairness, or public welfare. This situation reflects a gap between individual economic behavior and collective economic outcomes. Consumers often evaluate products based on personal utility, whereas the broader implications of illegal trade remain largely invisible in daily

³² al-Ghazali, *Ihya’ ‘Ulumuddin* 10.

³³ Al-Syathibi, ‘Al-Muwafaqat Fi Ushul Al-Syari’at’.

³⁴ Jasser Auda, *Re-envisioning Islamic Scholarship: Maqasid Methodology as a New Approach* (Claritas Books, 2022).

³⁵ Joshua D. Atkinson, ‘Chapter Title : Qualitative Methods Book Title : Journey into Social Activism Book Subtitle : Qualitative Approaches This Chapter Explores ’, *Journey into Social Activism*, no. May 2021 (2017): 27–64.

transactions³⁶. Consequently, illegal cigarette circulation persists because its social costs are dispersed across society rather than directly experienced by individual buyers.

The findings are consistent with previous studies emphasizing the relationship between illicit trade and welfare losses. Chaloupka et al. argue that illegal tobacco markets generate negative externalities by reducing public revenues and weakening regulatory effectiveness³⁷. Similarly, Ross et al. (2020) demonstrate that illicit tobacco products create broader socioeconomic costs that exceed the immediate benefits enjoyed by consumers. The present study reinforces these conclusions by showing that illegal cigarette circulation in Paiton District affects not only economic transactions but also the broader welfare structure of the community.

Another important finding concerns the relationship between illegal cigarette circulation and social responsibility. Islamic economics views economic actors as moral agents whose decisions influence not only personal outcomes but also collective welfare. Economic behavior is therefore evaluated not solely on the basis of efficiency or profitability but also according to its social consequences. The purchase and distribution of illegal cigarettes indirectly contribute to a system that weakens legal economic institutions and reduces resources available for public development³⁸. As such, the issue extends beyond legality and enters the realm of ethical responsibility.

The concept of *maslahah 'ammah* (public interest) provides an important analytical lens for understanding these dynamics. Islamic scholars emphasize that public interests should take precedence over narrow individual gains when conflicts arise between private and collective benefits. In the context of illegal cigarettes, the relatively small savings obtained by individual consumers must be weighed against the larger social costs generated by lost tax revenues, weakened legal industries, and reduced economic stability³⁹. The findings suggest that the collective disadvantages substantially outweigh the private benefits, indicating that illegal cigarette circulation is inconsistent with the objectives of public welfare.

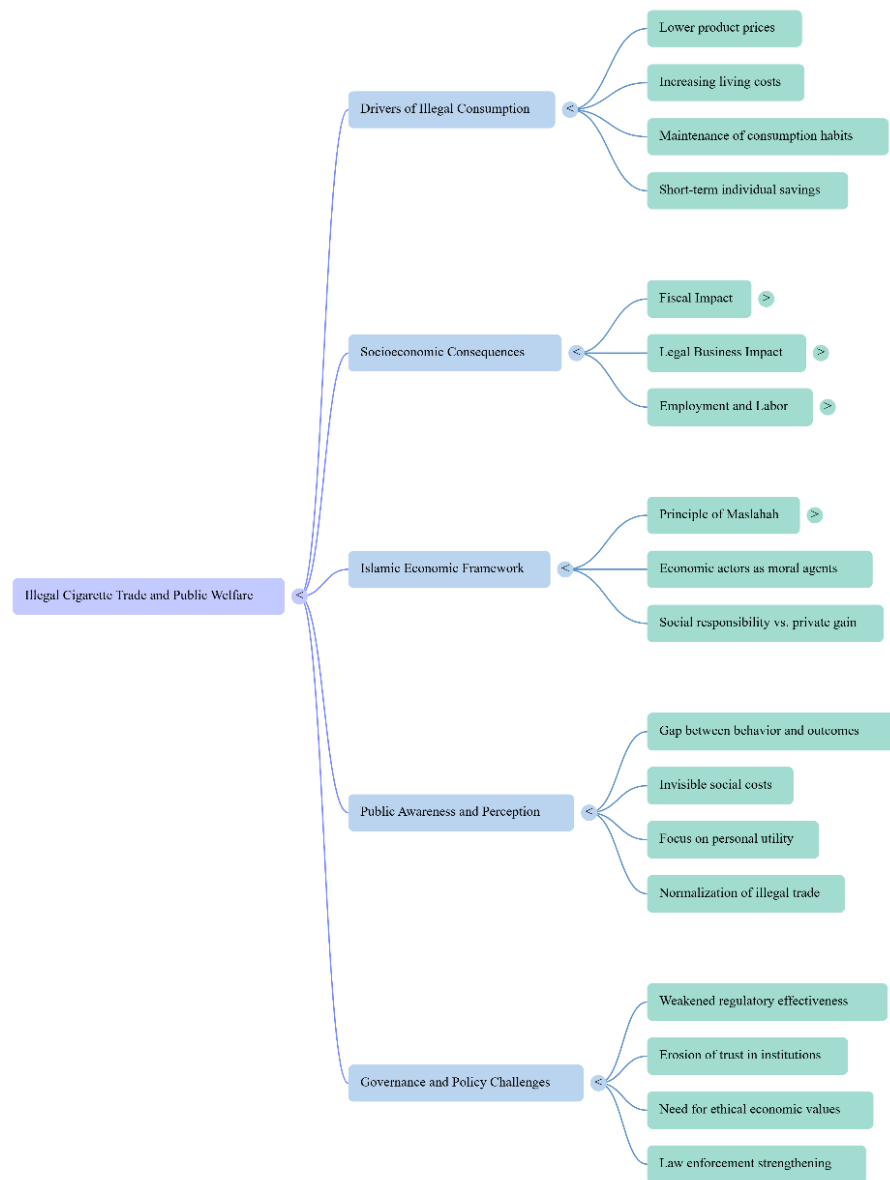
Figure 1. The Socioeconomic Toll of the Illegal Cigarette Trade

³⁶ Nigel W. Arnell, 'Climate Change and Global Water Resources: SRES Emissions and Socio-Economic Scenarios', *Global Environmental Change*, Climate Change, vol. 14, no. 1 (2004): 31–52, <https://doi.org/10.1016/j.gloenvcha.2003.10.006>.

³⁷ Chaloupka et al., 'The Use of Excise Taxes to Reduce Tobacco, Alcohol, and Sugary Beverage Consumption'.

³⁸ Wency Bui and Norashidah Mohamed Nor, 'The Determinants of Illicit Cigarette Trade in Malaysia', SSRN Scholarly Paper no. 3800728 (Social Science Research Network, 9 March 2021), <https://doi.org/10.2139/ssrn.3800728>.

³⁹ Mohammad Hashim Kamali, "'Maqasid Al-Shari'ah": The Objectives of Islamic Law', *Islamic Studies* 38, no. 2 (1999): 193–208.



Furthermore, the normalization of illegal cigarettes within local communities creates long-term challenges for economic governance. When illegal products become socially accepted, regulatory compliance may gradually weaken, creating an environment in which unlawful economic practices become increasingly tolerated. Such conditions can undermine trust in market institutions and reduce public commitment to legal economic behavior. This finding highlights the importance of strengthening not only law enforcement but also public awareness regarding the broader implications of illegal trade.

Overall, the findings demonstrate that illegal cigarette circulation in Paiton District generates significant consequences for public welfare despite providing short-term financial benefits to some consumers. The reduction of government revenue, weakening of legal businesses, potential threats to employment, and erosion of collective economic benefits indicate that the social costs of illegal cigarettes are substantial. From the perspective of Islamic economics, these consequences conflict with the principles of

maslahah, social responsibility, and collective welfare. Therefore, efforts to address illegal cigarette circulation should focus not only on regulatory enforcement but also on promoting public awareness, strengthening ethical economic values, and encouraging a greater understanding of the relationship between individual consumption choices and broader social welfare outcomes.

C. Conclusion

This study concludes that the circulation of illegal cigarettes in Paiton District undermines market justice and public welfare by creating unfair competition and generating broader socioeconomic costs. From the perspective of Islamic economics, these practices are inconsistent with the principles of 'adl (justice) and *maslahah* (public welfare), highlighting that illicit trade should be understood not only as a legal or fiscal issue but also as an ethical and socioeconomic concern.

The main contribution of this study lies in extending the analysis of illicit cigarette trade beyond conventional legal, fiscal, and public health perspectives by employing an Islamic economic framework. Specifically, the study demonstrates how the principles of 'adl and *maslahah* can be applied to evaluate market distortions and their implications for collective welfare at the local level.

These findings provide both theoretical and practical contributions to the development of Islamic economics by offering an ethical framework for assessing illicit economic activities. They also support the formulation of policies that integrate law enforcement, public awareness, and Islamic economic values to promote fair market governance and sustainable public welfare.

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