

The Role of Social Networks in International Trade and Economic Development

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Abstract. In an era of global trade, cultural differences and trade barriers persist, impacting international business transactions among companies. However, research has revealed that individuals within the same social network, regardless of their physical location, experience a mitigation of information asymmetry. This, in turn, facilitates the establishment of robust cross-border business relationships and enhances the efficiency of international trade. This effect is particularly pronounced among immigrants, who often maintain social networks that bridge cultural gaps and foster social connections. Such networks can markedly amplify the volume of trade for businesses. Moreover, these social networks play a pivotal role in facilitating market entry. Sharing a common social network serves as a trust-building mechanism in cross-border trade, enabling enterprises to share transaction risks and decrease the unpredictability of transactions. The study integrates the latest research on the pivotal role of social networks in global business. The findings demonstrate that ethnic networks, such as those formed by Chinese immigrants, significantly enhance trade volumes, particularly in product categories with high information asymmetry. Greater levels of social connectivity within these networks are associated with substantially higher bilateral trade volumes, especially for goods facing significant information friction. Immigrant networks serve not only as economic connections but also as cultural and social conduits crucial for promoting international trade. In conclusion, social networks mitigate information asymmetry and facilitate rapid expansion into overseas markets for businesses. They also optimize supply chain management by monitoring market dynamics and consumer feedback in real time, while clearly identifying market opportunities.

Keywords: Social network; international trade; globalization; immigration network; trust mechanisms.

1. Introduction

In the epoch of globalization and digitization, social networks are turning into powerful forces that lead the trends in international trade. Under the integration of globalization with digitization, social networks change not only the mode of interaction among enterprises but also the flow of information, market entries, and customer relationship management. As a critical dimension of the new economy, social networks gradually change the behavior of international trade by enterprises and have caught extensive attention from academics and the industry.

Research indicates that social networks enable enterprises not only to form effective cross-border business relationships but also to reduce information asymmetry. They will allow them to expand overseas markets quickly. For example, research conducted by James E. Rauch and Vitor Trindade demonstrates that the social networks of Chinese immigrants do indeed boost the volume of commodity trade in a significant manner, especially in commodity categories with apparent problems in information asymmetry [1]. Michael Bailey and others, in their essay "International Trade and Social Connections," verified that high levels of social connectivity in social networks were associated with significantly higher bilateral trade volumes, especially in commodities with significant information friction [2]. Gould empirically tested 1970–1986 the trade of United States countries with 47 trading partners and found a result that the immigrant network is an extraordinarily effective means to raise bilateral trade volumes, which means that immigrant networks work not only as economic linkages but as cultural and social carriers that are indispensable for international trade promotion [3]. Social networks help companies enter into and maintain mutualistic relations with other manufacturers and users of certain products.

Social network helps companies precisely target markets and recognize opportunities through real-time market dynamics and consumer feedback. Social networks also offer unparalleled potential for businesses to optimize their supply chain management by interacting directly with global suppliers, logistic partners, and distributors. Companies can have real-time monitoring of the procurement of raw materials, the production process, and transportation arrangement right through to the inventory levels of their whole supply chain, thus minimizing uncertainty, realizing efficiency, and ultimately reducing costs. Social networks also take part in driving trade growth and optimization of pricing strategies. In this case, using social networks will enable firms to be updated on the balance between supply and demand in target markets at that particular time, thus optimizing product pricing, avoiding price wars, and optimizing the profit margin. Meanwhile, social networks decrease information asymmetry and allow for more precise business evaluations of market potential with lower transaction costs and increasing general competitiveness.

Finally, social networks have offered a new way for the business sector to optimize their supply chain and market entry strategy, with real-time information on the market by the industry side, facilitating the enhancement of transparency and flexibility in supply chains, further fostering their market entry and pricing strategies for companies to participate in international competition effectively. Faced with the fast-changing global market, businesses must proactively engage social networks and consider them as an integral part of strategic plan implementation to attain sustainable growth and lasting success.

This study will bridge the gap in the literature and attempt to clarify, from a qualitative analysis perspective the specific impact of social networks on international business trade. The following research describes how companies use social networks to reduce information asymmetry, increase market coverage, improve customer satisfaction, and change their attitude and approach toward the selection of target markets.

2. The Impact of Social Networks on International Trade and Decision-making

Social networks are integral to the trust mechanisms of international transactions because they help share transaction risks through common cultural backgrounds, alum networks, and professional connections. More specifically, with trust mechanisms established, the social networks of Chinese entrepreneurs not only promote the cross-border flow of goods and services but diminish the uncertainty and risks of transactions. Social networks have gradually become an indispensable force in the international trade activities of enterprises. Social networks not only reduce information asymmetry and promote cooperation among enterprises but also have a unique advantage in complex and volatile cross-border transactions. However, there is a further need to explore how social networks influence enterprise decision-making, market entry strategy, and performance evaluation. It has recently become the object of research for enterprises in how social network resources should be used wisely to enhance international trade and the extent to which these networks can function across geographic distance and cultural differences effectively.

Trust is considered the basis for successful international transactions, and social networks reduce transaction risks by providing both parties with support networks based on shared cultural backgrounds, alumni networks, and professional contacts. Notably, Chinese entrepreneur networks not only facilitate cross-border flows of goods and services but also set up trust mechanisms that reduce the uncertainty and risks of transactions. In case of a breach of the contract, the entire network levies a blacklist penalty on the business owners, which is many times more painful than the legal route since it implies the loss of all future business opportunities with all members of the network. Social networks allow businesses to target overseas markets and find potential business opportunities with great precision. For instance, trade fairs and business exchanges organized by overseas Chinese associations offer valuable market information for the business participants, enabling them to adjust their product strategies in line with local needs. It does not only broaden the border of the business but also optimizes the product portfolio through increased competitiveness. Social networks facilitate

businesses in gaining an in-depth understanding of the consumer preferences in different markets to customize their products to meet specific region consumers' needs. For example, overseas Chinese communities often organize events to share consumer preferences and market trends to enable the business to adjust product strategies according to local market needs [4]. The importance of social networks in linking traders to business opportunities has also been widely suggested, especially in the trade of differentiated goods for which substantial information about the good is necessary [1].

For example, Bailey constructed an index that measures cross-country social connectivity using data from Facebook [2]. They showed that the trade volumes of countries with high social connectivity are significantly higher. It shows how, in the real world, social networks might be catalysts to the trade flow. For example, Bailey found a much more in-depth analysis of how specific products flow through social ties between production and consumption [2]. This led them to the conclusion that social networks are not just helping to facilitate cross-border trade in goods but are optimizing supply chains and reducing transaction costs. This suggests that social networks are crucial in enhancing market transparency and information-sharing, which means an essential driver in trade growth. They also verified that a 1 percent increase in social connectedness means bilateral trade increases of 0.65 percent.

In a study by Rauch and Trindade in 2002, they examined the role played by Chinese business networks in international trade with regard to differentiated product trade [1]. The two found that such networks aided in overcoming contract execution problems by creating trust mechanisms, especially in fields where standardization of products proved challenging. But in fact, Chinese entrepreneurs have succeeded in using their social networks not only to facilitate the cross-border flow of goods and services but also to build trust between the parties and reduce the risks and uncertainties related to the transactions. In a related study by Li Honglei, it was proved that the Chinese business network has an extended and valued role in the country's exports and imports with countries from Southeast Asia through specific product knowledge and relations with clients [5]. It not only showed the promoting role of social networks in international trade but also provided further evidence of the critical role played by trust in complex transactions.

3. The Importance of Migration Networks for Trade

Parson analyzed the role of networks of immigrants between Germany and Turkey [6]. It was established that, on top of the said links vigorously promoting trade in goods, other noted forms of close association with immigrant networks were groups of product categories. These authors suggest that it was not just a direct facilitation of the exchange of goods and services that was made more accessible but due to these immigrant networks acting as bridges for culture and information, information asymmetry was reduced, and there was much more trust involved among the transaction parties. Finally, Gould also conducted a study on bilateral trade data from 1970 to 1986 between the US and 47 trade partners and found that immigrant networks contributed positively to the volume of trade exchange between the two countries [3]. This means that the immigrant networks become not only an economic bond but also the carrier of cultural and social history, which has an irreplaceable role in promoting international trade.

According to Goncer-Demiral and Ince-Yenilmez, social networks allow for mutually beneficial relationships between businesses, product producers, and users [7]. Traditional model-based companies, based on a single or minimal information source, determine the basis of their market strategies, and the obvious result becomes information delays and skewing of decisions. That is all going to be changed with social networks; businesses are receiving real-time market dynamics and consumer feedback to pinpoint markets and their potential. For instance, business enterprises can now quickly respond to the change in market conditions by studying user behavior and trends in social media and then realigning their product lines or marketing strategies to meet the ever-changing consumer needs.

4. The Optimization Effect of Social Network on Supply Chain Management

Businesses also have unprecedented opportunities to optimize supply chain management. A direct linkage with suppliers, logistics partners, and distributors all over the globe helps the business to monitor in real-time all aspects, from sourcing raw materials through production status to arrangements for transportation and inventory levels. This transparency and agility do away with much of the uncertainty in the supply chain but also improve efficiency and drive costs down. It allows companies to align their supply chain strategies on time in response to events like natural disasters, market swings, policy adjustments, and other eventualities that are anticipated but not planned for. In this way, companies will be guaranteed a stable competitiveness of their supply chains.

Further, Bailey observes that social networks support an active role in trade growth by further optimizing pricing strategies: social networks are the primary source of trade volume increases and assist in adapting export strategies more precisely to demand [2]. Companies will also be in a position, using social networks, to get the latest information about the balance between supply and demand in their targeted markets, thus optimizing product prices to avoid price wars while increasing profit margins. On top of this, social networks decrease information asymmetry and enable companies to more thoroughly assess market potential in terms of transactions, reducing costs and thus increasing competitiveness.

This report synthesizes various cutting-edge studies concerning the centrality of social networks in international business. They not only speed up the process of globalization and digitization but are also responsible for reshaping international trade patterns and opening new avenues of cross-border cooperation between enterprises. James E. Rauch and Vitor Trindade's research shows that ethnic Chinese networks add an excellent deal to the volume of commodity trade, primarily in product categories characterized by high information asymmetry. According to Michael Bailey state dependence on commodity trade is further confirmed, along with a powerful link between high social connectivity networks and higher bilateral trade volumes, especially for those goods with substantial information friction [2].

It can be observed that social networks reduce information asymmetry and help businesses expand their overseas markets very fast. They have also made supply chain management optimization possible. This allows a company to monitor market dynamics and consumer feedback immediately, pinpointing market opportunities clearly [8]. Thus, for example, according to the Ulrik Beck et al. research of 2019, in The Gambia, the issue of unequal land distribution does not heighten ethnic and kinship restrictions. Rather social network makes the land and labor transfer equal. However, although the positive effects of social networks are widely recognized, Christopher R. Parsons casts doubt on it by showing that the positive impact of immigrant networks in trade might be confounded by unobserved factors, such as international bilateral relations [6]. In other words, further investigation could analyze more finitely the complexity of network structures in terms of network density, centrality, and homogeneity and how they change over time in the course of influencing international trade.

Specifically, future research should pay much greater attention to the heterogeneous impact of social networks in various countries and regions. So, for instance, Jing-Lin Duanmu and Yilmaz Guney found that. In contrast, the strength of the family tie may boost the trade promotion effects of some ethnic networks, ethnic diversity may weaken this effect, which suggests the sticking nature of the influence of social and cultural attributes on economic behavior [9]. Additionally, due to the heterogeneity in social networks and their differential impact on the different categories of products and services, the business will need to customize its strategies related to networks based on specific markets and commodity types to maximize trade benefits. Deep insight into the social network structure in target markets shall enable businesses to discern key nodes, build trust relationships, and effectively tap new markets.

5. Conclusion

At the micro level, social networks provide unprecedented market insights and marketing tools for businesses. Companies can use social media platforms to communicate directly with consumers, collect feedback, shape their brand image, and conduct targeted marketing. For export-oriented enterprises, social networks break geographical boundaries, enabling small and medium-sized enterprises to access potential global customers, thereby lowering the barrier to entry into the international market. For example, through platforms such as Facebook and LinkedIn, companies can target specific audience groups, conduct customized content marketing, and enhance their brand influence. Furthermore, social networks facilitate the optimization of supply chain management, enabling companies to find suppliers more efficiently, monitor industry trends, and even conduct initial business negotiations through social networks.

From the meso level, social networks have transformed industry structures and competitive landscapes. They accelerate the flow of information, reduce information asymmetry, and lower transaction costs for market participants. Social networks also promote the development of cross-border e-commerce, making B2B and B2C transactions more convenient. For example, platforms such as Tradove, which combine blockchain technology, use smart contracts to execute secure global transactions, improving transaction transparency and efficiency while reducing fraud risks. These platforms also help businesses conduct credit assessments, reducing the risks of cross-border transactions.

Macroscopically, social networks are reshaping the way global economies operate. They have driven the formation of global trade networks and facilitated the integration of global value chains. With the continued growth of internet users, social networks have become an important driving force for international trade. They not only accelerate the digital transformation of international trade but also promote the growth of service trade, especially the transactions of digital services and knowledge-intensive products. Social networks also help advance global trade liberalization, reduce trade barriers, and strengthen economic ties among countries. Globally, the international trade model supported by social networks is gradually becoming the new normal, influencing the formulation of international rules and policies.

In summary, social networks have a comprehensive impact on international trade, from the individual marketing strategies of businesses to the structural changes in the global economic system, all undergoing profound transformations. The popularization and application of social networks are gradually building a more open, interconnected, and efficient global trade environment.

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