

The Impact of Cultural Distance on China's Foreign Trade

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Abstract:

In the wave of globalization characterized by the deep integration of international trade, cultural distance has become an important factor affecting China's foreign trade. Based on Hofstede's cultural dimension theory, this paper systematically combs the theoretical relationship between cultural distance and China's foreign trade. The purpose of this study is to reveal the influence mechanism of cultural distance on China's foreign trade from the theoretical level, and to provide theoretical reference for enterprises' cross-cultural management, industrial internationalization layout and national trade policy formulation. According to the research, enterprises should flexibly adjust the localization marketing strategy according to the difference of cultural distance; governments and industry associations should incorporate cultural factors into the negotiation of free trade agreements to promote the coordinated development of culture and trade; enterprises also need to strengthen the cross-cultural talent training system to support the high-quality development of China's foreign trade.

Keywords:

Cultural Distance, China's Foreign Trade, Hofstede's Cultural Dimensions, Cross-culture

1. Introduction

1.1. Research Background

Since joining the World Trade Organization in 2001, China has actively integrated into the family of international trade. With its rich labor force and abundant resources, China has made remarkable achievements in foreign trade. Since the reform and opening up, China has vigorously developed foreign trade based on the traditional comparative advantages and the principle of "two benefits take its weight and two harms take its light." China has taken opening up as a long-term basic national policy, and the strategy of building a strong trade country is an important part of the national strategic system.

Driven by globalization, economic ties among countries around the world have become increasingly close, and the scale of international trade continues to expand. However, cultural differences, as an intangible factor, play an increasingly important role in international trade. Cultural differences between different countries and regions may create obstacles in communication, understanding, values, etc., between

the transacting parties, thereby affecting the smooth progress of trade. As Song Yimiao et al. (2015) [1] pointed out, “cultural differences have a significant impact on China’s foreign trade, jointly influencing the trade pattern along with institutional and geographical distances.” As the world’s largest goods trading nation, China has a long history and unique cultural traditions. Chinese culture exhibits significant differences from other countries in terms of values, social norms, consumption habits, etc. This unique cultural attribute means that when conducting foreign trade, China inevitably faces challenges and opportunities brought about by cultural distance. In-depth research on the impact of cultural distance on China’s foreign trade has important practical significance for enhancing China’s competitiveness in global trade.

1.2. Research Significance

1.2.1. Theoretical Significance

Filling the gap in cultural factor research: In the field of international trade theory, traditional trade theories such as comparative advantage theory and factor endowment theory mainly focus on the impact of material factors such as labor, capital and technology on trade, and rarely incorporate cultural factors into the core analysis framework. Based on Hofstede’s cultural dimension, this study quantitatively analyzes the relationship between cultural distance and China’s foreign trade, and fills in some gaps in the study of cultural factors in international trade theory. Revealing the influence mechanism of cultural distance on trade through empirical research can enrich and expand the connotation of traditional trade theory and provide a new perspective and analysis path for international trade theory research. Peng Yalei (2023) [2] analyzed the impact on China’s foreign trade from the perspective of the interaction effect of institutional, cultural and geographical distance, and provided a useful reference for comprehensively considering the role of cultural factors in trade from multiple dimensions.

Promoting the localization of theoretical development: The existing research mostly focuses on the relationship between culture and trade in developed countries, and pays insufficient attention to developing countries, especially China with unique cultural background and trade mode. The empirical analysis of China in this study will help to improve the applicability of the culture-trade relationship theory in the context of developing countries, promote the localization and innovation of international trade theory, and enhance the explanatory power and predictive power of the theory to the real trade phenomenon.

1.2.2. Practical Significance

Assisting enterprises in cross-cultural management: With the acceleration of the internationalization process of Chinese enterprises, the challenges of cross-cultural management are becoming increasingly severe. This study can help enterprises to understand the impact of cultural distance on trade, and accurately grasp the demand characteristics, consumption preferences and business norms of consumers in different cultural backgrounds. Zhao Jie (2020) [3] shows that cultural distance has a significant impact on bilateral trade in goods, highlighting the importance of enterprises to adjust their business strategies according to differences in cultural distance. For example, in the product design stage, enterprises can adjust the product function, appearance, packaging, etc. according to the cultural characteristics of the target market; in the formulation of marketing strategies, more attractive advertising

and promotion activities can be designed according to local cultural values, thereby improving the success rate of market development and operational efficiency. Taking cross-border e-commerce enterprises as an example, by analyzing cultural distance, enterprises can optimize website interface design, payment mode selection, after-sales service mode, etc., enhance consumers' shopping experience, and enhance their brand competitiveness in the international market.

Guiding industrial internationalization layout: The research conclusions can provide guidance for the internationalization development of different industries. For labor-intensive industries, cultural distance may affect product market demand and sales channels; for knowledge-intensive and technology-intensive industries, the role of cultural differences is more significant in areas such as technological cooperation and talent exchange. By identifying the differences in the impact of cultural distance on trade across different industries, governments and industry associations can formulate targeted industrial policies and development plans, guide industrial structural adjustment, transformation, and upgrading, and promote the sustainable development of industries in the international market.

Supporting national trade policy formulation: The research results can provide important reference for the government in formulating foreign trade policies. In the negotiation of free trade agreements, taking cultural factors into account will help to formulate trade rules that are more in line with actual needs and promote the coordinated development of cultural exchanges and trade cooperation. At the same time, based on the research conclusions, the government can increase support for cross-cultural research and talent training, create a policy environment and social atmosphere conducive to cross-cultural management of enterprises, enhance China's voice and influence in the global trading system, and help China change from a big trading country to a strong trading country.

2. Literature Review

2.1. Cultural Distance

Culture is an intangible "mental programming." Cultural differences affect specific behaviors and attitudes through "mental programming," enabling people to perceive the existence of cultural differences but not to measure the specific magnitude of the differences. Cultural distance is a specific quantification of the magnitude of cultural differences.

Cultural distance between countries refers to the quantitative reflection of the difference between one country's cultural values and those of another, determined by the cultural levels of the two countries. Scholars from various fields have proposed different theories to measure cultural differences, the most famous and widely recognized being the cultural dimensions theory proposed by Hofstede. This theory holds that different groups, different countries, or regions, due to differences in education, social work, and experiences, form different ways of thinking, i.e., differences in "mental programming" exist between countries. These differences can be divided into six dimensions: Power Distance, Uncertainty Avoidance Index, Individualism versus Collectivism, Masculinity versus Femininity, and Indulgence versus Restraint (Zhang Jianguang et al., 2018) [4]. Hofstede used these six cultural dimensions to describe cultural differences. He calculated the score for each dimension through questionnaires and the VSM method. These scores represent a

country's cultural level, which does not indicate the superiority or inferiority of the culture but only the relative position of each culture.

Therefore, cultural distance between countries can be measured by the scores from Hofstede's cultural dimensions theory. The larger the absolute difference in scores, the greater the cultural distance. In summary, cultural distance is a quantification of cultural differences, used to more intuitively represent the differences between national cultures.

2.2. Transaction Cost Theory

Transaction cost theory defines transaction costs as non-productive costs incurred in the operation of an economic system, including information search, negotiation and contracting, supervision and enforcement, and dispute resolution. Its core logic is to minimize costs by matching governance structures with characteristics such as asset specificity, uncertainty, and transaction frequency (Zhang Xiaohu, 2022) [5]. This theory has shown explanatory power in multiple fields: At the corporate strategy level, hierarchical governance can suppress opportunism in situations of high asset specificity, guiding “make or buy” decisions (Chen Zile et al., 2022) [6]; in the supply chain field, Hema Fresh reduces transaction costs caused by high spoilage of fresh products through self-built logistics and digital systems (Su Huiyi, 2023) [7]; digital capabilities of small and medium-sized enterprises significantly improve supply chain financing performance by alleviating information asymmetry (Lu Qiang et al., 2023) [8]. The smart contract features of emerging technologies like blockchain can reduce contract execution and supervision costs in collaborative innovation (Zhao Chao, 2022) [9]. The theory is also applicable to public management, for example, optimizing fire supervision processes can reduce institutional transaction costs (Xu Jinliang et al., 2023) [10], and market-oriented contracting of state-owned enterprises reduces principal-agent costs through contract design (Zhu Shengkai et al., 2024) [11]. International research continues to deepen behavioral assumption measurement and expand application scenarios (Lin Liang, 2021) [12], demonstrating that this theory remains vital in the digital economy era.

2.3. Demand Preference Similarity Theory

The demand preference similarity theory, proposed by Linder, emphasizes that the scale of international trade depends on the similarity of demand structures between two countries, and the demand structure is mainly determined by per capita income level: countries with similar incomes are more likely to form intra-industry trade because consumers have convergent preferences regarding product quality, category, and grade (Zhu Gangti, 1987) [13]. Empirical studies show that trade volume between China and high-income countries is significantly higher than with low-income countries (Li Guojiang et al., 2005) [14], and this theory also applies to cultural trade. For example, China's book copyright trade is concentrated in East Asian countries such as Japan and Korea with similar income levels, reflecting the “demand preference threshold effect” of cultural consumption (Zhang Hongwei, 2011) [15]. In regional cooperation, due to the trend of income convergence between China and ASEAN, the potential for intra-industry trade in manufactured goods is significant (Zhang Ying et al., 2007) [16]; however, preference divergences caused by income differences between China and developed countries may also lead to trade frictions (Dang Jun et al., 2007) [17]. At the practical level, developing countries can break through traditional trade restrictions through “demand preference adaptation”

strategies, such as improving product quality to match high-income markets or developing differentiated products to explore emerging markets (Sun Jianjun, 2014) [18], highlighting the unique value of this theory for explaining the trade patterns of emerging economies.

3. Theoretical Framework and Mechanisms

3.1. Introduction to Hofstede's Six Cultural Dimensions

Hofstede's six cultural dimensions theory provides a systematic framework for analyzing cultural differences between different countries.

Power Distance: Measure the degree to which less powerful members of organizations and institutions accept and expect unequal distribution of power. In countries with high power distance, decision-making is mostly made by senior managers due to the influence of traditional Chinese hierarchy. In countries with low power distance, such as the Nordic countries, where power is relatively dispersed, front-line employees have a greater voice. This difference directly affects the level of decision-making and communication in business negotiations.

Individualism/Collectivism: Individualism emphasizes individual independence and self-realization, represented by the United States; collectivism focuses on group interests and social harmony, such as the "team first" culture of Japanese companies. In international trade, consumers in individualism culture prefer personalized products, while consumers in collectivism culture pay more attention to the social recognition of products.

Uncertainty Avoidance: Reflects the extent to which members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these. Countries with high uncertainty avoidance, such as Germany, emphasize rules and order and prefer mature and stable products; countries with low uncertainty avoidance, such as Singapore, are more willing to accept innovation and change and have higher acceptance of new products.

Masculinity/Femininity: Male culture emphasizes competition, achievement and material success, just like the United States; female culture emphasizes relationships, quality of life and care, such as the Netherlands. This dimension affects the focus of product design: the market dominated by masculine culture may tend to high-function products, while the market in feminine culture pays more attention to the emotional value of products.

Long-term Orientation/Short-term Orientation: Long-term oriented culture, such as China, attaches great importance to frugality, perseverance, long-term planning; short-term oriented culture, such as the United States, pays more attention to immediate interests and instant gratification. This difference is obvious in cross-border investment, contract signing and other business activities, and enterprises with long-term orientation are more inclined to establish long-term cooperative relations.

Indulgence/Restraint: Indulgent cultures, such as Brazil, encourage people to enjoy life and release desires; restrained cultures, such as India, emphasize self-discipline and restraint of desires. This affects product consumption scenarios and marketing strategies; for example, in indulgent cultural markets, entertainment and leisure products are in high demand.

3.2. Mechanism Analysis

3.2.1. Impact of High Power Distance Dimension Differences on Service Trade

The core of service trade is the interaction between service providers and consumers. The difference of high power distance will lead to low communication efficiency. Taking business consulting services as an example, customers from high-power-distance countries may find it difficult to communicate with the consulting team on an equal basis due to hierarchical concepts, resulting in incomplete information transmission. At the same time, service pricing and decision-making processes may also be divided due to differences in power structures, increasing transaction costs, thereby inhibiting the expansion of service trade. When studying the impact of institutional distance and cultural distance on China's foreign trade, Zhang Jie (2021) [19] also emphasized the potential impact of cultural dimension differences on trade, and provided theoretical support for analyzing the inhibitory effect of power distance on service trade.

3.2.2. Impact of Individualism Differences on High-Tech Product Trade

High-tech products are often innovative and personalized. Individualistic culture emphasizes the unique needs of individuals and is more willing to pay a premium for high-tech products with innovative functions and unique designs. For example, American consumers' enthusiasm for Apple phones is partly because the product meets the needs of individual expression uniqueness. In countries with strong collectivism culture, consumers pay more attention to the practicality and public recognition of high-tech products, making individualistic differences a key factor affecting the direction and scale of high-tech products trade. In the study of the impact of cultural distance on bilateral trade, Bu Yang (2018) [20] mentioned the shaping effect of individualism/collectivism dimension differences on product demand, which is consistent with the analysis of the hypothesis.

4. Discussion and Implications

4.1. Practical Implications

4.1.1. Differentiated Localized Marketing Strategy

In the face of countries with high cultural distance, enterprises must strengthen local marketing strategies. Taking the luxury and daily necessities industries as an example, there are significant differences in their marketing strategies in the high cultural distance market. Luxury emphasizes brand story and cultural connotation. When entering a market with large cultural differences, it is necessary to dig deeper into local cultural elements and integrate them into brand narratives. For example, the French luxury brand Hermès, when entering the Chinese market, incorporated traditional Chinese auspicious culture and launched products such as scarves and leather goods with Chinese elements, not only retaining the brand's high-end style but also narrowing the distance with consumers through cultural fusion. Daily necessities, as basic living necessities, focus more on practicality and price sensitivity. Enterprises can adjust product functions and packaging specifications according to local consumption habits. For example, Unilever, in the Southeast Asian market, launched small, easily dissolvable laundry powder to meet local consumers' needs due to the hot climate and frequent clothes changing, increasing market share. Liu Zhihui (2020)

[21], in his study on the impact of cultural distance on the binary margin of China's export trade, indicated that enterprises should adjust product strategies and marketing strategies according to the cultural distance of different countries to adapt to different market demands.

4.1.2. Cultural Dimension Adaptation Practices in Cross-border E-commerce

Taking SHEIN as an example, its success is largely due to the precise adaptation to the cultural dimension. In product design, SHEIN uses big data to analyze the fashion preferences of consumers in different countries. For example, European and American consumers like simple and atmospheric styles, while Middle Eastern consumers like gorgeous and intricate decorations, and adjust clothing styles, patterns, colors, etc. In terms of marketing promotion, it plans promotional activities around local festivals and cultural hotspots, such as launching theme clothing during Western Halloween, inviting local social media influencers to carry out modeling displays, triggering discussions and increasing brand awareness. At the same time, it has optimized website interface language, payment methods, and logistics distribution - for example, supporting cash delivery in some Middle Eastern countries to address consumer trust in online transactions. This provides replicable experience for cross-border e-commerce companies operating in different cultural markets. Tian Hui (2015) [22] also shows that enterprises should formulate targeted business strategies according to the cultural characteristics of different regions to enhance their competitiveness in the international market when studying the regional differences in the impact of cultural distance on China's import and export trade.

4.2. Policy Recommendations

4.2.1. Cultural Cooperation Clauses in Free Trade Agreements

It is of great significance to incorporate cultural cooperation provisions into the negotiation of free trade agreements. On the one hand, cultural cooperation clauses can promote the liberalization of cultural products and services trade between the two sides, reduce tariff and non-tariff barriers to the import and export of cultural products, such as relaxing market access restrictions on cultural products such as books and movies, thus promoting the international development of cultural industries. On the other hand, through the establishment of cultural exchange and cooperation mechanisms, holding cultural exhibitions, artistic performances, academic seminars and other activities to enhance mutual understanding and cultural identity between the two peoples, and create a good cultural atmosphere for trade cooperation. For example, the cultural year activities carried out by China and ASEAN countries under the framework of free trade agreements have strengthened exchanges in the fields of culture, education, tourism, etc., and led to the growth of trade in related industries. When analyzing the impact of cultural and institutional distance on the export trade between China and other BRICS countries, Li Xiaoyun (2019) [23] also emphasized the need to strengthen cultural cooperation in trade agreements and promote the coordinated development of culture and trade.

4.2.2. Construction of Enterprise Cross-Cultural Talent Training Systems

Enterprises should pay attention to the construction of cross-cultural talent training system. First of all, develop comprehensive training courses covering language learning, cultural difference awareness, cross-cultural communication skills,

international business etiquette and other aspects to help employees understand the cultural characteristics and business rules of the target market. Second, adopt diversified training methods, such as internal training, external expert lectures, overseas field trips, etc., to improve employees' cross-cultural practical ability. Furthermore, establish incentive mechanisms to encourage employees to actively participate in cross-cultural training and international business projects, and provide promotion and reward opportunities for outstanding employees. Through the perfect cross-cultural talent training system, enterprises can improve their own operational capabilities and competitiveness in the international market. When studying the impact of cultural and institutional differences on China's import and export trade, Geng Menghui (2016) [24] pointed out that in order to succeed in international trade, enterprises must attach importance to the cultivation of cross-cultural talents to cope with trade challenges under different cultural backgrounds.

5. Research Prospects

5.1. In-depth Research by Sub-sector

Future research can compare the differences in the impact of cultural distance on cultural and creative industry trade and manufacturing trade for different sub-sectors. The research can explore how to use cultural differences to transform local cultural elements into competitive advantages of cultural and creative products, and the influence mechanism of cultural distance on international cooperation and copyright trade of cultural and creative industries. For the manufacturing industry, we can analyze the role of cultural distance in technical standards, quality management, supply chain collaboration, etc., and study how to optimize the international layout and production and operation efficiency of the manufacturing industry through cultural integration and cross-cultural management, so as to provide theoretical support for different industries to formulate targeted trade strategies. Qin Kede et al.(2014) [25] provided ideas for further exploring the impact of cultural distance from the perspective of sub-sectors in the empirical study of the relationship between the change of geographical direction of export trade and cultural distance.

5.2. Research on Dynamic Cultural Distance

With the advancement of globalization, the effect of cultural convergence is becoming more and more obvious, and cultural distance is also in a state of dynamic change. Future research can focus on the rules and influencing factors of the evolution of cultural distance in the context of globalization, such as the reshaping effect of Internet technology development, cultural communication of multinational corporations, and international migration on cultural distance. At the same time, it discusses the long-term impact of dynamic cultural distance on international trade, and how enterprises and governments should adapt to these changes and adjust trade strategies and policies. For example, research can examine changes in consumer demand and market competition patterns under the trend of cultural convergence, provide forward-looking suggestions for corporate product innovation and market expansion, and help China maintain a competitive advantage in a rapidly changing international trade environment. Jiang Chenchun (2012) [26] laid the foundation for the study of dynamic cultural distance in the long-term study of the impact of national cultural distance on import and export trade.

Conflicts of Interest

The author declares that there is no conflict of interest regarding the publication of this article.

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