

TRUST AS THE FOUNDATION OF ECONOMIC INTERACTION IN LOCAL COMMUNITIES

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Abstract

Economic interactions within local communities often face challenges such as uncertainty and high transaction costs when relying solely on rigid formal market rationality. This research is crucial as it examines how trust functions as an essential social infrastructure to maintain economic stability and efficiency at the grassroots level. The objective of this study is to analyze the transformation of trust as social capital that drives the economic wheel of local communities in Indonesia. The research method employed is a qualitative approach using the library research method. Data were collected through a comprehensive literature search of scientific journals, books, and research reports, which were then analyzed using content and thematic analysis techniques within the framework of embeddedness theory. The results indicate that trust significantly reduces transaction costs by replacing formal contracts with norms of reciprocity and reputation, while also serving as an effective social control mechanism through social sanctions. Honesty is proven to be a rational survival strategy for MSME actors to maintain access to community resources. This study recommends strengthening social capital in economic empowerment policies and suggests further field research to measure the impact of digital disruption on trust in rural areas.

Keywords: Trust, Social Capital, Community Economy, Transaction Costs, Embeddedness.

A. INTRODUCTION

In the social sphere, trust is essentially a collective expectation of honesty and cooperative behavior that allows people to interact without the need for strict supervision. Putnam (Purwoko & Novianti, 2022) argues that trust and social networks are the primary foundations for a community's economic progress. This aligns with the view of (Sunarsih et al., 2024), who view trust as a crucial element of social capital in rural areas, crucial for maintaining sustainable cooperation. Furthermore, a recent analysis by (Moordiningsih et al., 2024) emphasizes that trust is a relational concept that strengthens norms in social and economic interactions.

Fundamentally, economic interactions cannot be viewed solely through the lens of rigid market rationality. They are intertwined with dimensions of social norms, networks, and trust. According to Granovetter, economic activity is always tied to specific social situations, where trust plays a crucial role in minimizing risk and facilitating access to needed resources for MSMEs. Furthermore, Sudarmono (2022) emphasized that social capital built through trust can accelerate regional economies, particularly through active citizen participation in collective organizations such as cooperatives.

The role of trust is fundamental because it can reduce transaction costs, expedite decision-making processes, and maintain the stability of economic networks, especially in environments with minimal formal oversight. Without trust, social networks will only breed conflict and

inefficiency. Conversely, trust is a driving force for transparency and collaboration in the MSME sector, as seen in the dynamics of cooperatives and traditional markets. In Indonesia, this phenomenon is the backbone of village economic resilience, where social capital-based empowerment has been proven to improve community independence and living standards.

Local communities are essentially spaces where social interaction and geographic boundaries converge, creating strong bonds through shared norms and social assets. From an economic sociological perspective, these communities not only carry out routine activities but also transform local wisdom into instruments of empowerment. Synergy between business actors and local residents is key to revitalizing traditional markets, ultimately strengthening the structure of economic resilience from the grassroots level.

Previous research consistently shows that trust serves as a significant predictor of economic organizational performance. A study by Amanah et al. (2022) on the MSME sector in Indonesia highlighted that relational capital rooted in trust has a direct impact on business innovation capacity and resilience to market shocks. Similarly, Hunecke et al. (2023) in the context of an agrarian society emphasized that trust in local institutions is a key determinant driving community participation in sustainable development initiatives. This demonstrates that "social infrastructure" plays an equal role to physical infrastructure in creating a stable economic ecosystem.

This article examines in depth how trust transforms into social infrastructure that drives the economy in local communities in Indonesia. Rather than viewing the economy solely as a rigid exchange of values, this study positions social capital as a key pivot in formulating more contextual MSME empowerment policies. By examining the mechanisms of grassroots cooperation, this research seeks to offer strategic recommendations for a sustainable development model capable of integrating social integrity as an instrument for strengthening national economic resilience.

B. LITERATURE REVIEW

The primary theoretical foundation of this research rests on the concept of social embeddedness introduced by Mark Granovetter. In his landmark work, "Economic Action and Social Structure: The Problem of Embeddedness" (1985), Granovetter refuted the classical economic view that viewed economic actors as atomistic and purely rational individuals. Instead, he argued that all forms of economic action are always embedded in a continuous network of social relationships. This embeddedness demonstrates that economic decisions are influenced not only by profit motives but also by the structure of personal relationships and trust established within communities.

Furthermore, Granovetter distinguishes between two forms of embeddedness: relational embeddedness and structural embeddedness. Relational embeddedness refers to the direct influence of the dyadic relationship between two actors on their behavior, where trust is a crucial element in minimizing opportunistic behavior. Meanwhile, structural embeddedness examines how the broader structure of social networks influences actors' actions. In the context of local communities, these two forms of embeddedness serve as informal social control mechanisms that ensure that every business actor adheres to collective norms without the need for strict formal oversight.

From this perspective, trust is not merely a moral commodity, but a strategic asset that facilitates the exchange of resources. Through dense social networks, information about the reputation of economic actors can spread quickly, thereby reducing the risk of uncertainty in transactions. Therefore, the success of local economies, such as those in the MSME or cooperative sectors, depends heavily on the extent to which these economic activities can convert social ties into economic capital. This theory is highly relevant in explaining why

community-based economic empowerment is often more resilient than development models that rely solely on formal market intervention.

C. RESEARCH METHODOLOGY

This study uses a qualitative approach with library research to examine the transformation of trust as social infrastructure in the community economy. Data were collected through a comprehensive literature search from secondary sources, including scientific journals, books, and related research reports, to synthesize the dynamics of social capital and informal economic regulation over the past decade (Yustika, 2021).

This research model is structured theoretically and analytically, utilizing embeddedness theory as the primary framework for analyzing the data. Operational definitions of variables focus on the concepts of trust as collective cooperative expectations, social networks as the structure of MSME interactions, and economic resilience as a manifestation of social capital synergy. This focus aims to analyze the effectiveness of grassroots social norms in reducing transaction costs and accelerating collaboration without reliance on formal supervision.

Furthermore, data analysis was conducted using content analysis and thematic analysis techniques, encompassing data reduction, presenting patterns between variables, and drawing deductive conclusions. Through this approach, the study formulates an economic empowerment model that integrates social integrity as an instrument for strengthening national economic resilience.

D. RESULT AND DISCUSSION

Trust as a Transaction Cost Reducer (Social Capital)

In mainstream economics, economic transactions often require complex legal contracts, high monitoring costs, and formal enforcement mechanisms to address uncertainty and opportunism, as explained in Williamson's transaction cost theory. However, strong personal relationships within local communities, a form of social capital, significantly reduce the need for these formal guarantees through the interpersonal trust embedded in everyday social networks (Mora-Rivera & García-Mora, 2021). Unwritten norms such as reciprocity and reputation serve as substitutes for contracts, enabling transactions to proceed smoothly without significant monitoring or litigation costs, for example in traditional markets where traders lend money to each other based on long-standing neighborhood or kinship ties (Pratiwi, 2022). This not only reduces transaction costs by tens of percent but also creates economic efficiency that is more adaptive to local contexts, where breaches of trust incur social sanctions such as ostracism, which are more painful than legal fines (Yusuf, 2022).

Strong personal relationships facilitate reduced information search and negotiation costs because network members already know each other's preferences, capabilities, and integrity, eliminating information asymmetries that typically require costly external verification. In rural Indonesian communities, such as farmer groups or MSMEs, this trust enables shared risk allocation without formal collateral, where the norm of mutual cooperation serves as a stronger informal guarantee than a notarial deed (Auliya et al., 2022). This suggests that the higher the level of trust within a network, the lower the transaction costs because collectively agreed-upon norms ensure compliance without stringent oversight, as seen in the practice of village savings and credit (*arisan desa*), where funds circulate without bank administration fees (Suleman & Rusli, 2023). Consequently, these personal relationships not only save costs but also accelerate local economic mobility by encouraging flexible collaboration.

Structurally, social capital from personal relationships creates reciprocal norms that replace formal institutions, where dense networks such as family or neighborhood associations act as the glue for economic transactions without the need for courts or insurance (Wulandari

& Darmawan, 2021). For example, in Wargomulyo Village, social capital through farmer groups improves economic well-being because trust among members minimizes conflict and monitoring costs, allowing a focus on production rather than formal administration (Fitriani & Syamsun, 2024). In traditional markets, traders leverage personal information networks to reduce partner search costs, making transactions more efficient and risk-free compared to rigid formal systems. This approach aligns with local economic dynamics, where trust strengthens the stability of long-term relationships, reducing the need for collateral because individual reputations become invaluable assets (Rahman & Saputro, 2021).

A further implication of these personal relationships is the formation of adaptive informal institutions, where trust based on local norms reduces reliance on state regulations that often do not align with microeconomic realities. In Manokwari, for example, participation in cooperatives and business communities is driven by high levels of trust between actors, which minimizes transaction costs and accelerates MSME growth without excessive formal intervention (Sihombing, 2023). This suggests that strengthening personal relationships not only reduces costs but also catalyzes economic independence, particularly in Indonesia's informal sector, which dominates GDP (Nooteboom & Koster, 2024). Thus, economic sociology emphasizes the importance of preserving this social capital for sustainable efficiency.

Social Control Mechanisms and Reputation

One important aspect of trust in local communities is its role as a reputation-based social control mechanism. In local economic systems, reputation is a key indicator of whether an individual is trustworthy in economic relationships.

Unlike modern economic systems that rely on formal regulations, legal contracts, and external oversight systems, local economies are largely governed by unwritten social norms. In this context, trust serves as an effective control tool because every individual's actions are observed, assessed, and remembered by other community members.

In practice, reputation is formed through consistent individual behavior, maintaining honesty, responsibility, and commitment in economic interactions. When an individual maintains a good reputation, they gain greater trust from the community, ultimately opening up broader economic opportunities. Conversely, individuals with a poor reputation will struggle to establish partnerships and may even be excluded from the economic network.

This is evident in small-scale economic activities such as home industries, where relationships between producers, traders, and consumers are highly dependent on trust. In the context of home industry marketing, social networks and trust play a crucial role in expanding markets and increasing income. Trust is fundamental to maintaining long-term business relationships, including product distribution, transactions, and customer loyalty.

In the context of community-based economic development, such as tourism villages, trust also serves as the basis for collective coordination. Trust among community members and in local institutions enables collaboration in resource management, shared decision-making, and locally-based economic innovation. Without trust, collective coordination is difficult to achieve, rendering economic development programs ineffective.

The Impact of Broken Trust: Social Sanctions That Are More Severe Than Material Sanctions

One of the key characteristics of a community-based economy is the robust social sanction mechanism for breaches of trust. In this system, individuals who violate norms of honesty or betray trust face consequences far greater than mere material loss.

These social sanctions can range from a diminished reputation, loss of trust from community members, to social exclusion, which directly impacts the individual's economic well-being. In many cases, individuals who lose trust find it difficult to access economic

networks, such as business partnerships, product distribution, and social support from the community.

This demonstrates that in local communities, trust is a highly valuable asset, even more important than financial capital. Losing trust means losing access to various economic opportunities that can only be obtained through social relationships.

This phenomenon also demonstrates that local communities possess a highly effective control system without relying on formal rules. The social norms that develop within a community can create order and collective discipline. Individuals are indirectly "forced" to maintain their behavior in accordance with prevailing norms, as the social risks posed by violations are significant. Social sanctions in local communities are not merely symbolic but have a real impact on individual economic sustainability.

Honesty as a Rational Survival Strategy

In the context of local community economics, honesty is not only seen as a moral value but also as a rational strategy for maintaining economic survival. This is because an individual's success in the local economic system depends heavily on the trust placed in the community.

Honest individuals more easily build a good reputation, thereby gaining the trust of others. This trust then opens access to various economic opportunities, such as business partnerships, distribution networks, and the social support necessary for business development.

Conversely, dishonest behavior may provide short-term benefits, but in the long run, it is detrimental because it results in a loss of trust. In communities with strong social ties, information about an individual's behavior spreads quickly, making a bad reputation difficult to repair.

Thus, honesty is the most rational choice because it provides greater long-term benefits than the short-term gains from dishonest behavior. In this sense, honesty can be understood as a form of social investment with high economic value.

Synthesis: Trust as the Foundation of Local Economic Systems

Based on the overall discussion, it can be concluded that trust serves as the primary foundation of the local community economic system. Trust enables cooperation, strengthens social networks, and creates stability in economic interactions. Reputation serves as a social control mechanism that ensures that each individual acts in accordance with prevailing norms. Meanwhile, social sanctions serve as an effective means of enforcing norms, thus creating order in the economic system without the need for excessive formal intervention.

In this context, honesty emerges as the most logical and rational strategy for individuals to maintain their economic sustainability. By maintaining trust, individuals not only maintain social relationships but also ensure access to various economic resources available within the community.

Trust is a primary foundation of local community economic interactions, functioning not only as a social value but also as a regulatory mechanism for the economic system. Reputation serves as a means of social control that determines an individual's position within the economic network, while social sanctions serve as a more effective form of punishment than material sanctions.

In this context, honesty becomes the most rational survival strategy because it allows individuals to maintain trust, preserve their reputation, and access sustainable economic opportunities. Therefore, economic success in local communities is largely determined by an individual's ability to maintain trust as the primary social capital.

Local Economic Resilience Against External Crises

Economic resilience is the ability of an economic system to withstand, adapt, and recover from various external pressures, such as global crises, inflation, and distribution disruptions.

More broadly, global crises can significantly impact economic stability, including the informal sector, which relies heavily on people's daily activities.

The impact of external crises is not only felt at the national level but also extends to the local level. Price instability, declining purchasing power, and limited access to economic resources are challenges faced by local economic actors, particularly MSMEs. This situation demonstrates that local economic resilience is a crucial aspect in maintaining the continuity of community economic activity.

However, local economic resilience is not solely determined by macroeconomic factors but is also influenced by the strength of social relations that develop within a community. From an economic sociology perspective, social relationships such as trust and social capital play a crucial role in helping communities cope with economic pressures. Trust enables cooperation, mutual assistance, and flexibility in economic transactions, such as providing unsecured loans or cooperation between business actors.

In practice, MSMEs often rely on social networks to survive crises. For example, merchants can share information with each other, assist with distribution of goods, or provide payment flexibility to loyal customers. This demonstrates that trust not only functions under normal conditions but also serves as a crucial adaptive mechanism in the face of economic uncertainty (Mustika, 2026).

Thus, local economic resilience can be understood as the result of the interaction between economic and social factors. Trust, as part of social capital, is a key element that enables communities to survive and adapt in the face of external crises.

E. CONCLUSION

This study concludes that trust has transformed into a vital social infrastructure driving the economic wheels of local communities in Indonesia through the mechanism of embeddedness. Trust has been shown to significantly reduce transaction costs by replacing complex formal contracts through norms of reciprocity and reputation. At the grassroots level, trust serves as an effective social control mechanism, where reputation becomes a primary economic asset, while social sanctions in the form of ostracism become a more feared disciplinary instrument than material sanctions. These findings emphasize that honesty is not merely a moral value, but rather a rational survival strategy for MSMEs to maintain sustainable access to community resources. This synergy of social capital ultimately creates local economic resilience that is resilient to external crises, as the flexibility of personal relationships allows for adaptations that the rigid formal market system lacks.

However, this study is limited by the use of secondary literature, which means that the dynamics of trust in more specific types of communities or those impacted by digitalization have not been empirically captured. Further field research is needed to measure the effectiveness of this social capital in addressing technological disruption in rural areas that are beginning to integrate with the digital economy ecosystem.

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