

Economic policy uncertainty and foreign direct investment: The role of social connectedness in Vietnam

Thu Ha Nguyen^{1*}, Truong Giang Nguyen², Cao Chuong Nguyen³

^{1,3}Hanoi Open University, Hanoi, Vietnam

²Academy of Finance, Hanoi, Vietnam

*Corresponding author: ntha13@hou.edu.vn

Article Info

Article history:

Received 06 August 2024

Accepted 23 October 2024

Published 23 April 2025

JEL Classification Code:

D83, E60.

Authors emails':

giang.nguyen@hvtc.edu.vn

chuongnc@hou.edu.vn

DOI:

[10.20885/ejem.vol17.iss1.art1](https://doi.org/10.20885/ejem.vol17.iss1.art1)

Abstract

Purpose — This study examines the association between home countries' economic policy uncertainty (EPU) and foreign direct investment (FDI) inflows into Vietnam. It also investigates how social connections between home countries and Vietnam, as measured by the Social Connectedness Index, moderate the EPU-FDI relationship.

Method — Using data from 12 home countries from 2011 to 2022, this study analyses the impact of EPU on FDI inflows through regression models, incorporating the social connectedness index to explore moderating effects.

Findings — The results show that higher EPU is significantly associated with lower FDI inflows into Vietnam. Social connectedness mitigates the negative impact of EPU on FDI by reducing information friction and enhancing trust in uncertain policy environments. These results are robust for home countries that experience periods of high global uncertainty and geopolitical risk and are members of APEC.

Implications — The findings suggest that both the home and host countries should focus on stabilizing their policies and leveraging social connections to mitigate the negative impact of policy uncertainty, thereby improving policymaking and investment strategies.

Originality — This research uniquely examines how EPU in home countries affects FDI in the specific emerging country of Vietnam. It introduces social connections as a moderating factor, offering new insights into the interplay between policy uncertainty and international investment behavior.

Keywords — Foreign Direct Investment, Economic Policy Uncertainty, Social Connectedness, Facebook, Vietnam

Introduction

Since policy formulation in its initial stages is often opaque, firms find it difficult to anticipate the long-term consequences of forthcoming policies for their investments. At the same time, governments struggle to anticipate the policy's ultimate impact and its effects on the market once implemented. This economic policy uncertainty (EPU henceforth), particularly prevalent in the aftermath of the global financial crises, Brexit, and the current Russia – Ukraine war, underscores the importance of stabilizing policy environments for sustainable economic growth. The extent of literature on the effect of EPU on corporate behaviors in general and foreign direct investment (FDI) substantially discusses the uncertainty in the host countries or host cities.

Foreign direct investment is crucial to the global competitive advantage of Multinational Enterprises (MNEs) and the development of host countries. FDI brings firms massive benefits, including harnessing the value of intangible assets, achieving productivity gains, reducing production costs, and leveraging tax advantages. For host countries, FDI is an essential source of capital and accounts for a significant share of GDP. The decision, however, is costly and uncertain, as it requires a large amount of capital commitment and faces various sources of risk, including political risk. Therefore, compared with other corporate investment decisions, FDI is more sensitive to EPU.

FDI plays a critical role in developing economies, with various factors influencing inflows, including host countries' economic, geographical, and cultural attributes (Blonigen & Piger, 2014; Ly et al., 2018). MNEs are motivated by market access, tax advantages, and efficiency gains (Cheng & Kwan, 2000; Egger & Pfaffermayr, 2004; Haufler & Stähler, 2013). While uncertainty in host countries deters FDI (Büthe & Milner, 2008), home-country uncertainty can drive firms to invest abroad to diversify risks (Lensink et al., 2000). This study examines how home-country EPU influences FDI decisions.¹

The effect of EPU in home countries on FDI in host countries may differ from other firms' investment decisions. For joint investment decisions, the "Wait-to-see" theory suggests that firms hold up their investment due to costly reversibility 11–13 when facing uncertainty in their domestic business environment. Since FDI typically involves substantial sums that are costly and difficult to reverse (Azzimonti, 2019; Rivoli & Salorio, 1996), the 'wait-to-see' effect is likely more pronounced in this type of investment."

Furthermore, firms may hesitate to invest abroad when facing instability in their home country's policy environment, increasing capital acquisition costs. However, the capital flight thesis argues that firms and individuals in countries with unstable political situations and volatile policies seek investment opportunities in foreign markets. These authors argue that local investors withdraw their money, fearing that future government actions could undermine the value of their holdings. However, the extent to which EPU in home nations affects businesses' decisions to expand internationally remains unclear.

Nevertheless, when firms decide to produce abroad, they incur new risks that are proportionately higher and more difficult to control than those associated with purely domestic investments. Risk arises from differential treatment in the courts and adverse market reactions to legal suit announcements. Arbitrary actions of foreign governments may hurt firms' performance, and operational risk arises from firms' unfamiliarity with foreign business environments.

Social networks are becoming essential determinants of global economic activity, influencing investment decisions by facilitating relationships, knowledge dissemination, and trust-building. Recent studies have demonstrated that in various economic contexts, social connectivity dramatically reduces information friction (Bailey, Cao, Kuchler, Stroebel, et al., 2018; Bailey et al., 2021). Previous studies show that social networks influence individual and household financial decisions, such as stock market participation and investment choices (Brown Jeffrey R. & Weisbenner, 2008; Ouimet & Tate, 2020). Another study area focuses on how social connectedness, such as through immigration networks, reduces information frictions and facilitates cross-border investments (Burchardi Konrad B. & Hassan, 2019; Wagner et al., 2002).

This study contributes to the current literature in two ways. First, this study adds to a substantial body of research on how businesses respond to uncertainty. The literature includes studies on cash holdings (Duong et al., 2020; Phan et al., 2019), cost of capital (Drobetz et al., 2018; Liu & Wang, 2022; Xu, 2020), investment behavior (Gulen & Ion, 2016; Julio & Yook, 2016; Kim & Kung, 2017b). While previous studies investigate the impact of political stability in host nations on FDI inflows, this study addresses whether government policy uncertainty of home countries encourages or discourages foreign investment by firms. Second, this study extends the literature on the economic impact of social networks. Existing literature documents the positive effect of social connections on actual economic activities by reducing information frictions.

¹ We are not trying to exhaust the literature, Paul & Feliciano-Cestero (2021) provides an excellent review for the FDI literature in the last 50 years.

This study investigates how domestic political unrest affects FDI in Vietnam. For two reasons, Vietnam is an ideal setting for studying the relationship between EPU and FDI. First, as a developing nation, Vietnam prioritizes attracting foreign direct investment as a central development strategy (Decision No. 667/QĐ-TTg). This strategy has proven effective, as Vietnam ranks 29th globally regarding FDI inflows. Secondly, Vietnam is recognized for its high political stability and is ranked 15th globally. The stability could explain the findings of this study and mitigate the argument of the host country's unstable business environment. This study analyzes a sample of FDI inflows into Vietnam from 12 home countries spanning 2011 to 2022, comprising 1,529 country-month observations. Utilizing EPU data from [Baker et al. \(2016\)](#), this study reveals a significant negative impact of EPU on FDI inflows. Specifically, the baseline findings indicate that a 1-standard-deviation increase in EPU is associated with a 4.68% decrease in FDI inflows. Our subsample analyses show that the adverse effect of EPU persists in the subsamples of low world uncertainty and geopolitical risk indexes.

Methods

Sample Construction

The sample of this study intersects three primary data sources: (1) Foreign direct investment inflows into Vietnam from the General Statistics Office; (2) EPU Index obtained from the Economic Policy Uncertainty website² and (3) Social connectedness index (SCI) between home countries and Vietnam from Facebook, a global online social networking service ([Bailey, Cao, Kuchler, & Stroebel, 2018](#)). Observations with insufficient information are excluded from the construction of the FDI measures, as are those with missing social connectedness or control variable values. The final data set for the baseline regression contains 1529 country-months of 12 home countries investing in Vietnam over 12 years from 2011 to 2022.³ The definitions and data sources of all the key variables used in the analysis are presented in Table 1.

Table 1. Description of variables

Variables	Definition	Source
<i>FDI</i>	FDI from the home country <i>i</i> to Vietnam	General Statistics Office (GSO), Vietnam Ministry of Planning and Investment (https://fia.mpi.gov.vn/)
<i>FDI_c</i>	FDI flow is scaled by the consumer price index (CPI)	General Statistics Office (GSO), Vietnam Ministry of Planning and Investment (https://fia.mpi.gov.vn/) and (https://worldbank.org/)
<i>SCI</i>	SCI between home country <i>i</i> and Vietnam	Data for Good (https://dataforgood.facebook.com/)
<i>GDP</i>	The Gross Domestic Product (GDP) growth of Vietnam <i>i</i>	World Development Indicators (WDI) (https://worldbank.org/)
<i>PRICE</i>	The price differences are computed by dividing Vietnam's Consumer Price Index (CPI) by the CPI of the home (origin) country, and then further multiplying this ratio by the nominal bilateral exchange rate	World Development Indicators (WDI) (https://worldbank.org/)
<i>TARIFF</i>	The average tariffs measured by the import duties or taxes imposed on goods traded between the home country and Vietnam	World Development Indicators (WDI) (https://worldbank.org/)

Based on prior literature ([Bailey et al., 2021](#)), this research includes many country-specific characteristics that are good predictors of foreign investment. At the country level, the control variables

² <http://www.policyuncertainty.com>.

³ Our sample is derived from the intersection of three data sources: FDI, SCI, and EPU. After merging the data, 12 countries obtained all the complete data from 2011 to 2022. These countries are primarily major investors in Vietnam and maintain strong social connectedness.

are (1) the Gross Domestic Product (GDP) growth of Vietnam; (2) Price differences computed by dividing Vietnam's Consumer Price Index (CPI) by the CPI of the home (origin) country, and then further multiplying this ratio by the nominal bilateral exchange rate; (3) Average tariffs measured by the import duties or taxes imposed on goods traded between the home country and Vietnam. The descriptive statistics of these country-level control variables are presented in Table 2.

Table 2. Descriptive statistics

Variable	N	Mean	SD	p25	p50	p75
<i>FDI</i>	1529	0.050	0.067	0.003	0.013	0.120
<i>FDI_c</i>	1529	0.093	0.129	0.006	0.023	0.182
<i>EPU</i>	1529	0.623	0.361	0.367	0.530	0.790
<i>ln(SCI)</i>	1529	7.195	1.502	5.549	7.333	8.659
<i>GDP</i>	1529	7.386	3.361	4.000	7.000	10.000
<i>PRICE</i>	1529	0.009	0.032	0.002	0.004	0.005
<i>TARIFF</i>	1529	0.080	0.110	0.010	0.050	0.100

Table 3 reports a matrix of Pearson correlation coefficients between the variables in the main tests. Moreover, significant negative correlation coefficients exist between EPU and FDI measures, suggesting that higher uncertainty in the home country will reduce foreign investment flows in Vietnam. None of the cross-correlations in the absolute values of independent variable pairs is sufficiently high to trigger concerns over multicollinearity.

Table 3. Correlation Matrix

	<i>FDI</i>	<i>FDI_c</i>	<i>EPU</i>	<i>ln(SCI)</i>	<i>GDP</i>	<i>PRICE</i>	<i>TARIFF</i>
<i>FDI</i>	1						
<i>FDI_c</i>	0.986	1					
<i>EPU</i>	-0.069	-0.081	1				
<i>ln(SCI)</i>	0.831	0.803	0.032	1			
<i>GDP</i>	-0.020	-0.038	0.199	0.006	1		
<i>PRICE</i>	0.270	0.220	-0.061	0.462	0.029	1	
<i>TARIFF</i>	0.046	0.014	0.143	0.014	0.149	0.014	1

Model Regressions

The estimation for this research is to use an OLS model with year-fixed effects to control time-specific factors that might influence FDI across all countries, such as global economic trends or policy changes. This allows us to focus on the variations in FDI driven by country-specific factors, ensuring a more accurate estimation of the effects of EPU, SCI, and their interaction. As displayed in Eq. (1), using FDI as the dependent variable, the equation is thus specified as:

$$FDI_{i,t} = \beta_0 + \beta_1 EPU_{i,t} + \beta_2 \ln(SCI)_{i,t} + \beta_3 EPU_{i,t} \times \ln(SCI)_{i,t} + \Psi G_{i,t} + \varepsilon_{i,t} \quad (1)$$

where $FDI_{i,t}$ is an alternative proxy of two measures: the amount of foreign development investment (reported in millions U.S.\$) from home country i to Vietnam, and the FDI flow is scaled by the consumer price index (CPI), EPU_i is the economic policy uncertainty index of home country i , and $\ln(SCI)$ is the natural logarithm of SCI between home country i and Vietnam. Following previous studies in the FDI literature (Hsieh et al., 2019), this study includes the vector G_i , which reflects control variables.

Results and Discussion

The moderating effect of Social Connectedness on the relationship between Foreign Direct Investment and Economic Policy Uncertainty

The results of Eq. (1) are presented in Table 4. Columns (1) to (4) report the estimate of the EPU, and the coefficients of EPU are negative and significant, indicating that investors who are residents

of uncertain policy countries are reluctant to invest abroad. These findings are consistent with previous arguments that investors are discouraged from investing overseas due to instability in the economic policies of resident countries (Buchanan Bonnie G. & Weihrich, 2017; Phan et al., 2019; Xu, 2020).

Columns (5) to (8) show the results of the interaction term between EPU and SCI. The interaction term coefficients between EPU and SCI are significantly positive for both specifications. Specifically, for a 1% increase in social connectedness between home countries and Vietnam, the moderating role of social networks will reduce 4.68% the effect of EPU on FDI inflows into Vietnam. When considering GDP, price differences, and average tariffs, the influence of social connectedness remains statistically significant at the 1% level, consistent with previous findings (Hsieh et al., 2019).

Table 4. The Moderating Effect of Social Connectedness: Baseline Results

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Variables	FDI	FDI	FDI_c	FDI_c	FDI	FDI	FDI_c	FDI_c
EPU	-0.013*** (-2.70)	-0.010** (-2.19)	-0.029*** (-3.18)	-0.023** (-2.52)	-0.060*** (-3.70)	-0.061*** (-3.73)	-0.074** (-2.19)	-0.068** (-2.01)
ln(SCI)					0.034*** (24.98)	0.034*** (24.26)	0.066*** (23.72)	0.067*** (23.56)
EPU* ln(SCI)					0.006*** (2.65)	0.006*** (2.65)	0.005 (1.07)	0.004 (0.89)
GDP		-0.000 (-0.98)		-0.001 (-1.36)		-0.000 (-0.96)		-0.001 (-1.55)
PRICE		0.560** *		0.879** *		0.047 (1.51)		-0.102 (-1.60)
TARIFF		0.033** (2.16)		0.030 (1.00)		0.030*** (3.47)		0.025 (1.42)
Constant	0.058*** (17.11)	0.052*** (11.51)	0.111*** (17.01)	0.107*** (12.03)	-0.183*** (-19.14)	-0.182*** (-18.37)	-0.362*** (-18.27)	-0.363*** (-17.74)
Obs	1,529	1,529	1,529	1,529	1,529	1,529	1,529	1,529
R-squared	0.005	0.079	0.007	0.055	0.700	0.703	0.656	0.657

Note: ***, **, and * denote the statistical significance at 1%, 5%, and 10%, respectively. Obs is the number of observations.

The moderating effect of Social Connectedness in the World Uncertainty Environment

This section explores how global uncertainty affects the role of social connections in Vietnam's investment landscape. The World Uncertainty Index (WUI) by Ahir et al. (2019) is a proxy for global uncertainty, impacting investor behavior even in emerging markets like Vietnam. Nguyen and Lee (2021) emphasize that increasing global uncertainty significantly lowers FDI flows, especially in underdeveloped financial markets. Thus, high uncertainty is expected to overshadow the potential benefits of local social ties.

To investigate the impact of global uncertainty, the sample was split into two groups based on the median value of the WUI. WUI takes a value of 1 for countries with WUI above the median and 0 for those below. In Table 5, the regression results highlight the impact of EPU and social connectedness (SCI) on FDI in Vietnam under varying levels of global uncertainty. In columns (1) to (4), EPU significantly negatively affects FDI regardless of global uncertainty levels. However, in high global uncertainty conditions (WUI=1), shown in columns (5) and (7), the positive and significant interaction coefficients between SCI and EPU, with 0.015 and 0.021, suggest that strong social connections help mitigate the negative effects of economic uncertainty on FDI. These findings align with previous research. The negative impact of EPU on FDI under low uncertainty is consistent with studies that highlight uncertainty as a deterrent to investment (Hsieh et al., 2019). Meanwhile, the positive role of SCI under high uncertainty supports the view that social ties enhance information flow and reduce investment risks (Büthe & Milner, 2008).

Table 5. The Moderating Effect of Social Connectedness in the World Uncertainty Environment

	WUI=1	WUI=0	WUI=1	WUI=0	WUI=1	WUI=0	WUI=1	WUI=0
VARIABLES	(1) <i>FDI</i>	(2) <i>FDI</i>	(3) <i>FDI_c</i>	(4) <i>FDI_c</i>	(5) <i>FDI</i>	(6) <i>FDI</i>	(7) <i>FDI_c</i>	(8) <i>FDI_c</i>
<i>EPU</i>	0.002 (0.33)	-0.024*** (-3.55)	-0.001 (-0.06)	-0.048*** (-3.77)	-0.120*** (-5.13)	0.007 (0.33)	-0.186*** (-3.80)	0.085* (1.90)
<i>ln(SCI)</i>					0.030*** (14.89)	0.037*** (19.95)	0.064*** (14.92)	0.073*** (19.70)
<i>EPU* ln(SCI)</i>					0.015*** (4.48)	-0.004 (-1.25)	0.021*** (3.08)	-0.018*** (-2.86)
<i>GDP</i>	-0.000 (-0.25)	0.000 (0.44)	-0.001 (-0.39)	0.001 (0.80)	0.000 (0.66)	0.001 (1.17)	0.000 (0.32)	0.002* (1.86)
<i>PRICE</i>	0.548*** (6.98)	0.580*** (8.52)	0.877*** (5.59)	0.906*** (7.02)	0.039 (0.86)	0.069* (1.67)	-0.131 (-1.38)	-0.038 (-0.46)
<i>TARIFF</i>	0.081** (2.29)	0.027 (1.51)	0.154** (2.18)	0.002 (0.05)	0.096*** (4.91)	0.012 (1.16)	0.182*** (4.45)	-0.025 (-1.19)
Constant	0.040*** (4.91)	0.053*** (7.79)	0.084*** (5.12)	0.098*** (7.65)	-0.170*** (-11.73)	-0.211*** (-15.27)	-0.356*** (-11.75)	-0.425*** (-15.32)
Obs	762	767	762	767	762	767	762	767
R-squared	0.067	0.105	0.047	0.081	0.718	0.704	0.683	0.658

Note: ***, **, and * denote the statistical significance at 1%, 5%, and 10%, respectively. Obs is the number of observations.

The moderating effect of Social Connectedness under Geopolitical Risk

Geopolitical risk is defined as “the risk associated with wars, terrorist acts, and tensions between states affecting the normal and peaceful course of international relations.” Caldara and Iacoviello (Caldara & Iacoviello, 2022). Elevated GPR prompts investors to prioritize locations offering stability and resilience against geopolitical shocks (Khan & Akbar, 2013). Political instability exacerbated by GPR can deter investment by raising doubts about a government’s ability to manage economic challenges effectively (Ismail, 2017). Transparent policies, robust institutions, and clear communication are critical in fostering investor confidence (Fania et al., 2020), underscoring the importance of comprehensive GPR information to help investors assess risk appetite. Therefore, investors from home countries with high GPR indices may seek alternative information channels before investing overseas.

Table 6. The Moderating Effect of Social Connectedness under Geopolitical Risk

	GPR=1	GPR=0	GPR=1	GPR=0	GPR=1	GPR=0	GPR=1	GPR=0
VARIABLES	(1) <i>FDI</i>	(2) <i>FDI</i>	(3) <i>FDI_c</i>	(4) <i>FDI_c</i>	(5) <i>FDI</i>	(6) <i>FDI</i>	(7) <i>FDI_c</i>	(8) <i>FDI_c</i>
<i>EPU</i>	-0.003 (-0.43)	-0.016** (-2.30)	-0.008 (-0.58)	-0.029** (-2.20)	-0.141*** (-5.61)	-0.008 (-0.35)	-0.264*** (-5.04)	0.069 (1.57)
<i>ln(SCI)</i>					0.029*** (14.75)	0.037*** (18.42)	0.056*** (13.80)	0.076*** (18.65)
<i>EPU* ln(SCI)</i>					0.018*** (5.02)	-0.002 (-0.54)	0.033*** (4.45)	-0.015** (-2.41)
<i>GDP</i>	-0.000 (-0.00)	-0.001 (-1.18)	0.001 (0.91)	-0.004*** (-2.89)	0.000 (0.08)	-0.001 (-1.27)	0.001 (1.60)	-0.003*** (-4.10)
<i>PRICE</i>	0.697*** (7.94)	0.491*** (7.67)	1.130*** (6.49)	0.778*** (6.36)	0.065 (1.25)	0.043 (1.11)	-0.094 (-0.86)	-0.067 (-0.87)
<i>TARIFF</i>	0.008 (0.27)	0.050*** (2.71)	-0.047 (-0.81)	0.088** (2.50)	0.029* (1.80)	0.036*** (3.39)	-0.005 (-0.14)	0.064*** (3.01)
Constant	0.046*** (6.00)	0.057*** (9.86)	0.083*** (5.49)	0.122*** (11.07)	-0.153*** (-10.96)	-0.204*** (-14.17)	-0.305*** (-10.48)	-0.410*** (-14.13)
Obs	772	757	772	757	772	757	772	757
R-squared	0.078	0.090	0.055	0.076	0.709	0.705	0.668	0.667

Note: ***, **, and * denote the statistical significance at 1%, 5%, and 10%, respectively. Obs is the number of observations.

Accordingly, Table 6 presents the estimated regressions for subsample countries with high and low GPR indexes. GPR takes the value 1 of countries with GPR above the median and 0 for those below. From columns (1) to (4), there is no moderating effect of SCI, and EPU significantly reduces FDI for countries with low GPR (GPR=0). In contrast, for high-GPR countries (GPR=1) in columns (5) and (7), the interaction coefficients between EPU and SCI are significant at 1%, 0.018, and 0.033, respectively. This finding indicates that strong social connections help mitigate the adverse effects of uncertainty, especially in times of heightened geopolitical risk. These findings align with previous research, showing that political instability deters investment (Ismail, 2017), while social connections and transparent communication reduce risk (Khan & Akbar, 2013). Social media likely plays a crucial role in enabling investors to access timely information and manage geopolitical risks effectively.

The moderating effect of Social Connectedness under regional economic regions

The analysis was expanded to include FDI inflows from 12 home countries to provide a more comprehensive examination. Although the dataset does not distinguish between M&A and greenfield FDI (Davies et al., 2018), explore whether the impact of policy uncertainty (EPU) on FDI inflows varies across home countries, dividing them into two subsamples: Asia-Pacific Economic Cooperation (APEC) members (APEC=1) and non-APEC countries (APEC=0). Arslan and Güzel (2018) highlight the significance of regional integration and economic cooperation in directing FDI flows. APEC membership strengthens economic ties and reduces uncertainty among member nations through trade agreements and cooperative projects. Similarly, Mishra and Jena (2019) provide evidence that regional integration is vital in attracting FDI, especially for emerging economies.

Table 7. The Moderating Effect of Social Connectedness: Regional Subsample Analysis

	APEC=1	APEC=0	APEC=1	APEC=0
VARIABLES	(1) <i>FDI</i>	(2) <i>FDI</i>	(3) <i>FDI_c</i>	(4) <i>FDI_c</i>
<i>EPU</i>	-0.159*** (-6.02)	0.013 (1.49)	-0.231*** (-4.08)	0.017 (0.96)
<i>ln(SCI)</i>	0.036*** (18.46)	0.007*** (6.49)	0.073*** (17.61)	0.012*** (5.92)
<i>EPU* ln(SCI)</i>	0.020*** (5.72)	-0.003** (-2.17)	0.027*** (3.68)	-0.005* (-1.71)
<i>GDP</i>	-0.001* (-1.82)	0.000 (1.30)	-0.002** (-2.42)	0.000 (1.49)
<i>PRICE</i>	-0.007 (-0.21)	-1.924*** (-9.53)	-0.205*** (-2.84)	-3.787*** (-9.22)
<i>TARIFF</i>	0.033*** (3.23)	0.024*** (4.33)	0.029 (1.33)	0.035*** (3.14)
Constant	-0.204*** (-13.44)	-0.026*** (-4.18)	-0.415*** (-12.77)	-0.045*** (-3.58)
Obs	924	605	924	605
R-squared	0.713	0.244	0.655	0.233

Notes: ***, **, and * denote the statistical significance at 1%, 5%, and 10%, respectively. Obs is the number of observations.

Since Vietnam is part of APEC, social connections are likely to mitigate the impact of policy uncertainty on FDI inflows. Table 7 shows that the coefficients of the interaction term (*EPU*ln(SCI)*) are significantly positive in the APEC sample (columns 1 and 3), at 0.020 and 0.027, respectively, indicating that social connectedness helps reduce the negative effect of EPU, thus encouraging investment. This finding aligns with Fania et al. (2020), who emphasize the importance of communication channels in fostering investor confidence during periods of uncertainty. In contrast, the coefficients for non-APEC countries (columns 2 and 4) show an insignificant EPU

effect, with positive values of 0.013 and 0.017. At the same time, the interaction term between EPU and SCI is negative (-0.003 and -0.005), suggesting that social connections do not effectively alleviate EPU's impact in these countries. This supports the view that the benefits of social ties are more pronounced in economically integrated regions, reinforcing Mishra and Jena's (2019) argument that regional integration is critical for attracting FDI, particularly in emerging markets like Vietnam.

Conclusion

This research has investigated the dynamic relationship between the policy uncertainty of the economy and FDI inflows into Vietnam, and under the moderating effect of social connectivity evaluated by Facebook. Our findings emphasize that online social networks are becoming more widely acknowledged for their significant impact on the development of economic activity in a globalized society. We now better grasp the factors influencing FDI, especially in developing countries like Vietnam.

The results of this study demonstrate that uncertain economic policies negatively influence FDI flows. This effect occurs when additional controls, such as trade dynamics and financial factors, are considered. Besides, the moderating role of social networks mitigates the negative impact of uncertainty in economic policies on FDI in home countries with high world uncertainty indices, high geopolitical indices, and APEC countries, indicating that the heightened economic and policy uncertainty environment domestic nations encounter is likely to influence investment judgments.

This study contributes to the growing corpus of research on the factors influencing FDI and on the role of social connectedness in moderating the impact of policy uncertainty in home countries on foreign investments in Vietnam. The results might be helpful for policymakers and MNEs when considering how social networks affect economic globalization and navigate the dynamic landscape of foreign investment.

Acknowledgments

This study was funded by project code B2023-MHN-05 from the Ministry of Education and Training of Vietnam.

Appendix

List of Home Countries		
Australia	Italia	Singapore
Canada	Japan	Spain
Germany	South Korea	United Kingdom
India	Netherlands	United States

References

- Ahir, H., Bloom, N., & Furceri, D. (2019). *Caution: Trade uncertainty is rising and can harm the global economy*. VoxEU.Org. <https://cepr.org/voxeu/columns/caution-trade-uncertainty-rising-and-can-harm-global-economy>
- Arslan Ü., S. Y., & Güzel, A. E. (2018). Causal relationship between foreign direct investment and export: The case of developing economies of Asia. *Asian Economic and Financial Review*, 8(4), 537–551. <https://doi.org/10.18488/journal.aefr.2018.84.537.551>
- Azzimonti, M. (2019). Does partisan conflict deter FDI inflows to the US? *Journal of International Economics*, 120, 162–178. <https://doi.org/10.1016/j.jinteco.2019.06.001>
- Bailey, M., Cao, R., Kuchler, T., & Stroebel, J. (2018). The economic effects of social networks: Evidence from the housing market. *Journal of Political Economy*, 126(6), 2224–2276. <https://doi.org/10.2139/ssrn.2753881>

- Bailey, M., Cao, R., Kuchler, T., Stroebe, J., & Wong, A. (2018). Social connectedness: Measurement, determinants, and effects. *Journal of Economic Perspectives*, 32(3), 259–280. <https://doi.org/10.1257/jep.32.3.259>
- Bailey, M., Gupta, A., Hillenbrand, S., Kuchler, T., Richmond, R., & Stroebe, J. (2021). International trade and social connectedness. *Journal of International Economics*, 129, 103418. <https://doi.org/10.1016/j.jinteco.2020.103418>
- Baker, S. R., Bloom, N., & Davis, S. J. (2016). Measuring economic policy uncertainty. *The Quarterly Journal of Economics*, 131(4), 1593–1636. <https://doi.org/10.1093/qje/qjw024>
- Bernanke, B. S. (1983). Irreversibility, Uncertainty, and Cyclical Investment. *Quarterly Journal of Economics*.
- Blonigen, B. A., & Piger, J. (2014). Determinants of foreign direct investment. *Canadian Journal of Economics/Revue Canadienne d'économie*, 47(3), 775–812. <https://doi.org/10.1111/caje.12091>
- Brown Jeffrey R., I. Z. S. P. A., & Weisbenner, S. (2008). Neighbors matter: Causal community effects and stock market participation. *The Journal of Finance*, 63(3), 1509–1531. <https://doi.org/10.1111/j.1540-6261.2008.01364.x>
- Buchanan Bonnie G., C. C. X. L. E., & Weihrich, S. (2017). Uncertainty and firm dividend policy—A natural experiment. *Journal of Corporate Finance*, 42, 179–197. <https://doi.org/10.1016/j.jcorpfin.2016.11.008>
- Burchardi Konrad B., C. T., & Hassan, T. A. (2019). Migrants, ancestors, and foreign investments. *The Review of Economic Studies*, 86(4), 1448–1486. <https://doi.org/10.1093/restud/rdy044>
- Büthe, T., & Milner, H. V. (2008). The politics of foreign direct investment into developing countries: Increasing FDI through international trade agreements? *American Journal of Political Science*, 52(4), 741–762. <https://doi.org/10.1111/j.1540-5907.2008.00340.x>
- Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. *American Economic Review*, 112(4), 1194–1225. <https://doi.org/10.1257/aer.20201131>
- Campello, M., Kankanhalli, G., & Kim, H. (2024). Delayed creative destruction: How uncertainty shapes corporate assets. *Journal of Financial Economics*, 153(January), 103786. <https://doi.org/10.1016/j.jfineco.2024.103786>
- Cheng, L. K., & Kwan, Y. K. (2000). What are the determinants of the location of foreign direct investment? The Chinese experience. *Journal of International Economics*, 51(2), 379–400. [https://doi.org/10.1016/S0022-1996\(99\)00032-X](https://doi.org/10.1016/S0022-1996(99)00032-X)
- Davies, R. B., Desbordes, R., & Ray, A. (2018). Greenfield versus merger and acquisition FDI: Same wine, different bottles? *Canadian Journal of Economics/Revue Canadienne d'économie*, 51(4), 1151–1190. <https://doi.org/10.1111/caje.12353>
- Drobetz, W., El Ghoul, S., Guedhami, O., & Janzen, M. (2018). Policy uncertainty, investment, and the cost of capital. *Journal of Financial Stability*, 39, 28–45. <https://doi.org/10.1016/j.jfs.2018.08.005>
- Duong, D. K., Phan, T. T. P., Pho, K. H., & McAleer, M. (2020). Impact of board characteristics and state ownership on dividend policy in Vietnam. *Advances in Decision Sciences*, 24(4), 1–34. <https://doi.org/10.47654/v24y2020i4p1-34>
- Egger, P., & Pfaffermayr, M. (2004). Distance, trade and FDI: a Hausman–Taylor SUR approach. *Journal of Applied Econometrics*, 19(2), 227–246. <https://doi.org/10.1002/jae.721>

- Fania, N., Yan, C., Kuyon, J. B., & Djeri, S. (2020). Geopolitical risks (GPRs) and foreign direct investments: A business risk approach. *Global Journal of Management and Business Research*, 20(1), 1–9.
- Gulen, H., & Ion, M. (2016). Policy uncertainty and corporate investment. *The Review of Financial Studies*, 29(3), 523–564. <https://doi.org/10.1093/rfs/hhv050>
- Haufler, A., & Stähler, F. (2013). Tax competition in a simple model with heterogeneous firms: How larger markets reduce profit taxes. *International Economic Review*, 54(2), 665–692. <https://doi.org/10.1111/iere.12010>
- Hsieh, H. C., Boarelli, S., & Vu, T. H. C. (2019). The effects of economic policy uncertainty on outward foreign direct investment. *International Review of Economics & Finance*, 64, 377–392. <https://doi.org/10.1016/j.iref.2019.08.004>
- Ismail, I. I. (2017). An empirical study on country risk as a predictor of market entry decisions: Impact of political, economic and financial risks on FDI inflows of Horn of Africa and Middle East North Africa Region (MENA). *Marketing*, 2(5), 24–32. <https://doi.org/10.18775/jibrm.1849-8558.2015.25.3004>
- Julio, B., & Yook, Y. (2016). Policy uncertainty, irreversibility, and cross-border flows of capital. *Journal of International Economics*, 103, 13–26. <https://doi.org/10.1016/j.jinteco.2016.08.004>
- Khan, M. M., & Akbar, M. I. (2013). The impact of political risk on foreign direct investment. *MPRA Paper 47283*. <https://mpra.ub.uni-muenchen.de/47283/>
- Kim, H., & Kung, H. (2017a). The asset redeployability channel: How uncertainty affects corporate investment. *Review of Financial Studies*, 30(1), 245–280. <https://doi.org/10.1093/rfs/hhv076>
- Kim, H., & Kung, H. (2017b). The asset redeployability channel: How uncertainty affects corporate investment. *The Review of Financial Studies*, 30(1), 245–280. <https://doi.org/10.2139/ssrn.2022669>
- Lensink, R., Hermes, N., & Murinde, V. (2000). Capital flight and political risk. *Journal of International Money and Finance*, 19(1), 73–92. [https://doi.org/10.1016/S0261-5606\(99\)00051-8](https://doi.org/10.1016/S0261-5606(99)00051-8)
- Liu, J., & Wang, H. (2022). Economic policy uncertainty and the cost of capital. *International Review of Financial Analysis*, 81, 102070. <https://doi.org/10.1016/j.irfa.2022.102070>
- Ly, A., Esperança, J., & Davcik, N. S. (2018). What drives foreign direct investment: The role of language, geographical distance, information flows and technological similarity. *Journal of Business Research*, 88, 111–122. <https://doi.org/10.1016/j.jbusres.2018.03.007>
- Mishra, B. R., & Jena, P. K. (2019). Bilateral FDI flows in four major Asian economies: a gravity model analysis. *Journal of Economic Studies*, 46(1), 71–89. <https://doi.org/10.1108/JES-07-2017-0169>
- Nguyen, C. P., & Lee, G. S. (2021). Uncertainty, financial development, and FDI inflows: Global evidence. *Economic Modelling*, 99, 105473. <https://doi.org/10.1016/j.econmod.2021.02.014>
- Ouimet, P., & Tate, G. (2020). Learning from coworkers: Peer effects on individual investment decisions. *The Journal of Finance*, 75(1), 133–172. <https://doi.org/10.1111/jofi.12830>
- Paul, J., & Feliciano-Cestero, M. M. (2021). Five decades of research on foreign direct investment by MNEs: An overview and research agenda. *Journal of Business Research*, 124, 800–812. <https://doi.org/10.1016/j.jbusres.2020.04.017>
- Phan, H. V., Nguyen, N. H., Nguyen, H. T., & Hegde, S. (2019). Policy uncertainty and firm cash holdings. *Journal of Business Research*, 95, 71–82. <https://doi.org/10.1016/j.jbusres.2018.10.001>

Rivoli, P., & Salorio, E. (1996). Foreign direct investment and investment under uncertainty. *Journal of International Business Studies*, 27(2), 335–357.
<https://doi.org/10.1057/palgrave.jibs.8490138>

Wagner, D., Head, K., & Ries, J. (2002). Immigration and the trade of provinces. *Scottish Journal of Political Economy*, 49(5), 507–525. <https://doi.org/10.1111/1467-9485.00245>

Xu, Z. (2020). Economic policy uncertainty, cost of capital, and corporate innovation. *Journal of Banking & Finance*, 111, 105698. <https://doi.org/10.1016/j.jbankfin.2019.105698>