# IMPACT OF SOCIAL CONNECTEDNESS ON FOREIGN INVESTMENT CAPITAL: EVIDENCE FROM ASIAN COUNTRIES INVESTING IN VIETNAM

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***Abstract:*** *This study examines the correlation between foreign direct investment (FDI) inflows from Asian countries into Vietnam from 2010 to 2022 and social networks, as indicated by Facebook friend relationships (Social Connectivity Index, or SCI). The empirical results demonstrate that social connections significantly impact FDI inflows, suggesting that these linkages are crucial for reducing information friction and attracting foreign capital to Vietnam. These findings remain robust across various model specifications, including year-fixed effects and other known FDI determinants.*

***Keywords:*** *Foreign direct investment (FDI), Social network, Facebook social network, Social connectedness index (SCI).*

## I. Introduction

The trend of digital transformation, the digitization of the economy, and social activities form the foundation for the fourth industrial revolution. In particular, social networks have emerged as powerful change agents. They create connections, disseminate knowledge, and influence behavior on an unprecedented scale. These networks have transformed the way we share ideas, communicate, and conduct business. They play a crucial role in closing information gaps, building trust, and fostering cooperation between investors in their home countries and their counterparts in host nations. In an increasingly interconnected and globalized society, social networks are likely to be even more influential in shaping international economic activity. It has been demonstrated that social connectivity reduces the knowledge gap and the friction associated with contract enforcement (see Chaney, 2016, for a review).

Foreign direct investment (FDI) is a key driver of development for emerging economies, providing vital international capital, technological innovation, and managerial skills (Javorcik, 2004; Alfaro, 2017). These contributions help address local issues such as poverty (Klein et al., 2001) and income inequality (Figini & Görg, 2011) while supporting sustained economic growth (Aust et al., 2020). To attract FDI inflows, host countries often implement a range of policies

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(Paul & Feliciano-Cestero, 2021). For multinational enterprises (MNEs), FDI offers opportunities for demand diversification and financial gains (Doukas & Travlos, 1988), although it also involves significant risks and costs due to large capital commitments and uncertainties, including political risk (Desai et al., 2008). As a result, MNEs require extensive, credible information to make well-informed investment decisions.

Social connectedness helps reduce information gaps and contract enforcement frictions, potentially facilitating foreign investment by providing better information about host countries. Despite its potential impact on foreign investment, the relationship between social connectedness and FDI is not well understood. This study examines how social networks influence FDI inflows into Vietnam, a rapidly growing Southeast Asian economy. Vietnam's significant increase in FDI over recent decades (Anwar & Nguyen, 2010; Dang, 2013) is attributed to policy reforms and trade liberalization, yet the country still faces challenges related to market imperfections and institutional weaknesses (Palepu & Khanna, 2010).

Since the leading investors in Vietnam are from Asia, our research analyzes FDI flows from ten Asian countries into Vietnam from 2010 to 2022, focusing on how social connectedness, measured by online interactions through platforms like Facebook (Bailey et al., 2018), affects investment decisions. The findings indicate that increased social connectedness is associated with higher FDI inflows, with one standard deviation increase in social connectedness leading to a 6.2% rise in FDI. This relationship holds across various models, even after accounting for various country characteristics.

Our study enhances the literature by examining how social connectedness affects FDI inflows, shifting focus from traditional attributes like risk and regulation to the role of social networks. Using the Social Connectedness Index, based on Facebook friendships, we capture the impact of regional connections on FDI. Our findings reveal a significant link between social connectivity and investment flows to Vietnam, highlighting how social networks influence economic globalization. This insight offers valuable guidance for investors and policymakers and suggests further exploration into the factors driving FDI in the global economy.

## II. Literature Review

### *2.1. Literature about Social Connetecdness*

Social networks play a crucial role in economic decisions, mainly where information exchange is vital. Research shows that social connections can reduce barriers to trade and investment by mitigating information and contract enforcement frictions. For instance, immigrant networks have been shown to facilitate international trade and FDI by fostering trust and reducing concerns about information asymmetry (Burchardi et al., 2017). Similarly, social connectedness can enhance trust and reduce information gaps, thereby promoting bilateral trade (Bailey et al., 2021). Prior studies demonstrate the impact of information from networks on financial decisions, including family debt levels and stock market activity (Brown et al., 2008; Georgarakos et al., 2014; Ouimet & Tate, 2022).

Much of the recent research relies on survey data from Facebook, measured by the Social Connectedness Index (SCI), to measure social ties on a broader scale. This data has been used to study various economic phenomena, such as real estate investments, bank lending, and international trade (Bailey et al., 2019; Kuchler et al., 2022). Notably, Kuchler et al. (2022) found

that investors are more likely to invest in regions where they have stronger social connections, suggesting that familiarity with an investment destination enhances investor confidence and decision-making.

In Vietnam, Hoai (2003) explored the impact of social networks on the stock market, examining how investor emotions and interactions on social networks, particularly Facebook, correlate with fluctuations in the stock market. This research represents the influence of social networks on financial resources in Vietnam, while the positive role of social networks in reducing information friction and their specific impact on FDI remains less understood. Our study aims to address this gap by investigating how social connections, especially those facilitated through platforms like Facebook, affect FDI decisions, providing new insights into the relationship between social networks and international economic activity.

### *2.2. Literature about Determinants of Foreign Direct Investment*

The extensive literature on FDI traditionally focuses on the determinants of FDI at the country-pair level, emphasizing factors such as traditional gravity, cultural distance, relative labor endowments (Blonigen & Piger, 2019), language, geographical distance, information flows, and technological similarity (Ly et al., 2018). These studies underscore the significant influence of international trade dynamics on FDI, showing that robust trade relations between countries tend to attract more FDI. Multinational corporations seek local presence in markets where they conduct business, driven by the desire to mitigate contract enforcement frictions and protect property rights (Büthe & Milner, 2008; Berger et al., 2013; Kox & Rojas-Romagosa, 2020).

Emerging economies, including Vietnam, have become attractive destinations for FDI due to their rapid growth and untapped potential. However, limited research has focused on the national and regional determinants of FDI in Vietnam. Some studies, such as Mirza & Giroud (2004) and Hsieh (2005), highlight factors like political stability, market size, government policies, and labor force quality as key drivers of FDI in Vietnam. Other research points to the impact of agreements like the US-Vietnam Bilateral Trade Agreement on FDI inflows, emphasizing factors such as openness, actual exchange rates, and domestic savings (Parker et al., 2005; Nguyen et al.,2002).

## III. Methodology and variables

### *3.1. Main variables*

#### *3.1.1. Independent variable*

SCI (Social Connectedness Index) is an index that measures the degree of correlation between Facebook users and their friend networks across different locations. SCI is defined as the relative probability of a friendship relationship on Facebook between a Facebook user in this country and a Facebook user in another country (Bailey et al. - 2018). The index of connection level on the social network Facebook between two locations, *i* and *j*, is shown as follows:

$$SCI_{i,j} = \frac{\text{Facebook Connections i,}}{\text{Facebook Users i} * \text{Facebook Users j}} \quad (1)$$

in which Facebook users *i* and *j* are the number of Facebook users in locations i and j, and Facebook Connections i and j are the total number of friends connected on Facebook between locations i and j.

#### *3.2.2. Dependent variable*

Our dependent variable is foreign direct investment capital from ten Asian countries into Vietnam from 2010 to 2022. Data on FDI inflows from the General Statistics Office (GSO), an agency under

the Ministry of Planning and Investment of Vietnam.

### *3.2. Research model*

To test the hypothesis about the impact of SCI on FDI, we use a gravity model originally used to examine investment flows between pairs of countries as a function of economic size and other factors, following Bailey et al., 2021. We estimate the OLS model with fixed effects, as shown in Eq. (2), using ln(FDI) as the dependent variable. Using logarithms allows us to interpret the coefficients as elasticities in the OLS model, allowing for easy comparison with the gravity specification. Therefore, the equation is defined as:

$$ln(\text{FDI})_{ijt} = ln(\text{SCI})_{ij} + G_{ijt} \quad (2)$$

In which:

*FDI*: foreign direct investment capital into Vietnam from 2010 to 2022;

*SCI*: index connecting foreign Facebook social networks with Vietnam;

*i, j, t* represent the partner country investing in Vietnam, Vietnam, and the time factor, respectively.

*G* presents for control variables by following Bailey et al. (2021) and Büthe & Milner (2008) for FDI determinants:

*GDP*: Gross foreign domestic product and Vietnamese gross domestic product;

*PRICE*: Price difference is calculated by dividing Vietnam's Consumer Price Index (CPI) by the CPI of the partner country investing in Vietnam, then multiplying this ratio by the nominal bilateral exchange rate;

*TARIFF*: Average tariff level measured by import duties or taxes on goods traded between the partner country investing in Vietnam and Vietnam;

*PS: Political Stability* is measured by perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism of origin country *i* at year t;

ASEAN is a binary variable that equals one if the origin country i is a member of the ASEAN group. Also, we control for GPR: geopolitical risk index at month k of year t defined as "the risk associated with wars, terrorist acts, and tensions between states affecting the normal and peaceful course of international relations" following Caldara & Iacoviell (2022)at the beginning of the Korean War, during the Cuban Missile Crisis, and after 9/11. Higher geopolitical risk foreshadows lower investment and employment and is associated with higher disaster probability and larger downside risks. The adverse consequences of the GPR index are driven by both the threat and the realization of adverse geopolitical events. We complement our aggregate measures with industry- and firm-level indicators of geopolitical risk. Investment drops more in industries that are exposed to aggregate geopolitical risk. Higher firm-level geopolitical risk is associated with lower firm-level investment. (JEL C43, E32, F51, F52, G31, H56, N40.

## IV. Empirical results and discussion

### *4.1. Current status of foreign direct investment in Vietnam*

Table 1 presents FDI data for Vietnam until 2023. Vietnam has attracted 144 countries and territories worldwide to invest in Vietnam. Among them, Vietnam's largest FDI partners mainly come from East Asia. Specifically, Korea leads with total registered investment capital in Vietnam of nearly 85,865.80 million USD with a total number of projects of 9,863. Singapore ranks second

with a total registered investment capital in Vietnam of 74,519.37 million USD and third in Japan, with a total registered investment capital of nearly 73,962.94 million USD, followed by Taiwan, Hong Kong, and China.

*Table 1: 10 Asian partners with the largest FDI capital investment in Vietnam*

*(Cumulative projects valid until December 20, 2023)*

| No | Countries | Number of projects | FDI (millions USD) |
|---|---|---|---|
| 1 | South Korea | 9,863 | 85,865.80 |
| 2 | Singapore | 3,494 | 74,519.37 |
| 3 | Japan | 5,264 | 73,962.94 |
| 4 | Hong Kong | 2,458 | 34,124.02 |
| 5 | Thailand | 735 | 14,054.61 |
| 6 | India | 392 | 1,119.27 |
| 7 | Brunei Darussalam | 156 | 964.82 |
| 8 | Indonesia | 122 | 651.43 |
| 9 | Philippines | 95 | 608.20 |
| 10 | Malaysia | 733 | 13,106.89 |
| | Others | 15,828 | 169,940.54 |
| **Total** | | 39,140 | 468,917.54 |

*Source: Foreign Investment Agency – Ministry of Planning and Investment (2023)*

That analysis shows that foreign direct investment in Vietnam mainly comes from neighboring countries in Asia and Southeast Asia (ASEAN). The reasons should be as follows:

(i) Vietnam is located in the Asia and Southeast Asia (ASEAN) region, geographically close to these countries. Vietnam has a long coastline that is convenient for trade with these countries. Thus, Vietnam has a history, culture, and political regime similar to those of ASEAN countries, so connecting will be easier than connecting with other countries.

(ii) Investment partners know Vietnam's operating environment, policies, mechanisms, and laws.

(iv) Vietnam is increasingly opening up and integrating with the world, signing and implementing many Free Trade Agreements (FTA) with partners in Asia and ASEAN.

### *4.2. Current status of social connectedness between Asian countries and Vietnam*

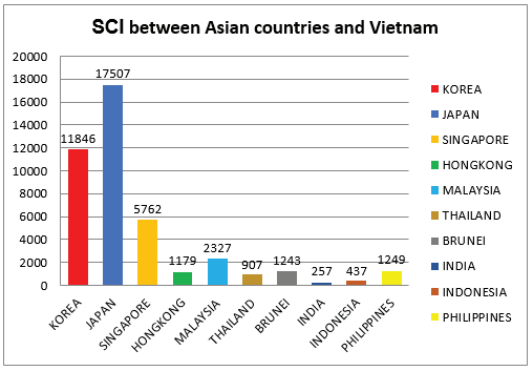


*Figure 1: Summary of SCI index of 10 Asian countries with Vietnam*

*Source: Author compiled from MetaData*

Statistics from data sources published by Facebook show that the SCI index of Asian countries and Vietnam shows a significant difference. Figure 1 shows that the SCI index between Japan and Vietnam is the highest, with an SCI of 17,507; the second is Korea, with an SCI of 11,846, followed by countries such as Taiwan, Singapore, Malaysia, and Thailand. We can see that countries with a high SCI index, or in other words, these countries, have a relatively high social relationship with Facebook.

### *4.3. The impact of Facebook social connectedness on foreign direct investment in Vietnam*

The current social network connections and foreign direct investment in Vietnam show that Vietnam has social and economic relationships, mainly with neighboring Asian countries. The summary of our main variables is described as follows:

*Table 2. Data summary*

| Variables | N | Mean | SD | p25 | p50 | p75 |
|---|---|---|---|---|---|---|
| ln(FDI) | 804 | 10.039 | 0.736 | 9.431 | 10.074 | 10.714 |
| ln(SCI) | 804 | 8.241 | 1.116 | 7.072 | 8.206 | 9.380 |
| $\ln(GDP_i)$ | 804 | 5.184 | 0.625 | 5.193 | 5.407 | 5.587 |
| $\ln(GDP_j)$ | 804 | 1.894 | 0.588 | 1.609 | 2.079 | 2.398 |
| ln(PRICE) | 804 | 0.020 | 0.974 | -0.420 | -0.165 | 0.229 |
| ln(TARIFF) | 804 | 1.153 | 1.809 | 0.000 | 0.811 | 2.727 |
| PS | 804 | 0.466 | 0.746 | 0.110 | 0.585 | 1.040 |
| ASEAN | 804 | 0.500 | 0.500 | 0.000 | 0.500 | 1.000 |
| GPR | 804 | 97.768 | 31.326 | 80.377 | 90.608 | 106.589 |

*Table 3: Pearson correlation between main variables*

| | ln(FDI) | ln(SCI) | $\ln(GDP_i)$ | $\ln(GDP_j)$ | ln(PRICE) | ln(TARIFF) | PS | ASEAN | GPR |
|---|---|---|---|---|---|---|---|---|---|
| ln(FDI) | 1 | | | | | | | | |
| ln(SCI) | 0.817 | 1 | | | | | | | |
| $\ln(GDP_i)$ | -0.258 | -0.331 | 1 | | | | | | |
| $\ln(GDP_j)$ | 0.374 | 0.000 | 0.230 | 1 | | | | | |
| ln(PRICE) | -0.236 | 0.057 | 0.081 | -0.537 | 1 | | | | |
| ln(TARIFF) | 0.138 | 0.325 | -0.298 | -0.358 | 0.298 | 1 | | | |
| PS | 0.704 | 0.594 | -0.018 | 0.053 | -0.165 | 0.025 | 1 | | |
| ASEAN | -0.478 | -0.449 | 0.385 | 0.000 | -0.229 | -0.385 | -0.310 | 1 | |
| GPR | 0.097 | 0.000 | 0.051 | 0.250 | -0.133 | -0.164 | 0.043 | 0 | 1 |

Descriptive data of the variables are presented in Table 2. The data of the main variables provided by the research team are consistent with those reported in previous studies. For example, the average value of ln(FDI) from each country to Vietnam is 10.039, with a standard deviation of 0.736. Table 3 reports a matrix of Pearson correlation coefficients between variables in our main experiments. None of the cross-correlation coefficients in the absolute values of pairs of independent variables is high enough to raise concerns about multicollinearity.

*Table 4. Regression model results*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Variables | *ln(FDI)* | *ln(FDI)* | ln(FDI) | ln(FDI) | ln(FDI) | ln(FDI) |
| *ln*(SCI) | 0.539*** | 0.539*** | 0.580*** | 0.583*** | 0.350*** | 0.362*** |
| | (4.44) | (4.44) | (11.40) | (11.49) | (30.44) | (33.67) |
| $ln(GDP_i)$ | | | 0.303*** | 0.307*** | -0.142*** | -0.099*** |
| | | | (8.55) | (9.30) | (-7.65) | (-5.59) |
| $ln(GDP_j)$ | | | 0.515*** | 0.421*** | 0.481*** | 0.218*** |
| | | | (33.26) | (16.81) | (22.42) | (5.74) |
| *ln*(PRICE) | | | 0.114*** | 0.086*** | -0.018 | -0.080*** |
| | | | (11.68) | (8.33) | (-1.42) | (-5.86) |
| *ln*(TARIFF) | | | 0.018*** | 0.016*** | 0.013** | 0.016** |
| | | | (4.59) | (3.99) | (2.31) | (2.46) |
| PS | | | | | 0.332*** | 0.302*** |
| | | | | | (19.85) | (19.16) |
| ASEAN | | | | | -0.122*** | -0.168*** |
| | | | | | (-5.14) | (-7.46) |
| GPR | | | | | -0.000 | -0.000 |
| | | | | | (-0.43) | (-0.33) |
| Constant | 5.599*** | 5.107*** | 2.693*** | 2.959*** | 6.884*** | 7.300*** |
| | (5.54) | (5.05) | (5.66) | (6.27) | (49.07) | (52.64) |
| Observations | 804 | 804 | 804 | 804 | 804 | 804 |
| R-quared | 0.667 | 0.822 | 0.672 | 0.695 | 0.895 | 0.913 |
| Year FE | | Yes | | Yes | | Yes |

*Source: Authors' calculation*

The results of Eq. (2) are presented in Table 4. Columns (1) and (2) report coefficient estimates of ln(SCI) without control variables, while Columns (3) to (6) show the coefficients of control variables. There is a significant positive correlation between SCI social connectedness and FDI for both settings. Specifically, in Columns (1) and (2), the coefficient of *ln(SCI)* is 0.539, suggesting that a standard deviation increase in SCI leads to a 6.2%(=0.539x1.16/10.039) increase in FDI from its mean value.

Columns (3) and (4) introduce a series of additional country-to-country factors that we use as control variables. When these factors are considered, we find that the effect of social connections on FDI decreased slightly but was still statistically significant at the 1% level. The GDP of both the investing country and the receiving country and the difference in prices have a positive and statistically significant effect on FDI, which is compatible with the results. by Gavriilidis (2021). Significantly we also control for political uncertainty, trade agreements, and worldwide geopolitical risks in Columns (5) and (6). The significant coefficients of SCI affirm that social networks continue to be a crucial factor influencing FDI inflows into Vietnam, even when considering other political and trade factors related to the country's characteristics.

*Table 5. IV Analysis*

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | 1st stage | 2nd stage | 1st stage | 2nd stage | 1st stage | 2nd stage |
| Variables | ***ln(SCI)*** | ***ln(FDI)*** | ***ln(SCI)*** | ***ln(FDI)*** | ***ln(SCI)*** | ***ln(FDI)*** |
| genetic_distance_ weighted | 27.987*** (58.36) | | 33.581*** (61.72) | | 16.030*** (20.26) | |
| ln(SCI) | | 0.558** (2.19) | | 0.556*** (7.11) | | 1.624* (1.96) |
| ln_gdpi | | | 0.342*** (12.77) | 0.267*** (3.47) | 0.003 (0.44) | 0.329*** (3.99) |
| ln_gdpj | | | -0.367*** (-11.25) | 0.603*** (16.44) | -0.129*** (-14.48) | 0.716*** (5.91) |
| ln_price | | | -0.281*** (-15.42) | 0.341*** (10.41) | -0.031*** (-5.71) | 0.193*** (5.58) |
| ln_tariff | | | -0.031*** (-3.49) | 0.020*** (4.34) | 0.006*** (2.67) | 0.002 (0.30) |
| PS | | | | | 0.645*** (73.16) | -0.868 (-1.63) |
| ASEAN | | | | | -0.408*** (-8.09) | |
| GPR | | | | | -0.000 (-0.74) | 0.000 (0.21) |
| Constant | 7.017*** (232.65) | 4.963** (2.28) | 5.691*** (39.98) | 2.968*** (4.08) | 7.836*** (89.29) | -6.311 (-0.88) |
| Observations | 670 | 670 | 670 | 670 | 670 | 670 |
| R-squared | 0.836 | 0.637 | 0.887 | 0.964 | 0.992 | 0.962 |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes |

*Source: Authors' calculation*

Based on Spolaore and Wacziarg (2018), we employ genetic_distance_ weighted as an instrumental variable to address the endogeneity problem. Since genetic distance has no direct bearing on current investment connections, it is a valuable tool for determining how long it has been since the origin and home nations' last common ancestors. A significant coefficient is obtained in the first stage when genetic distance is used as an instrument (Columns 1 and 2), and a positive, statistically significant correlation between ln_*SCI* and *FDI* is obtained in the second stage in Table 5. The robustness of these results is further supported by additional controls in Columns (3)_(6), suggesting that endogeneity issues do not materially change our baseline conclusions in Table 4.

## V. Conclusion

This study examines the correlation between social networks, as determined by Facebook friend relationships, and FDI inflows from ten Asian countries into Vietnam between 2010 and 2022. Our study shows that social connectedness significantly impacts FDI inflows into Vietnam. The results are robust across various models, indicating that reducing information friction through social connections boosts foreign investments.

Based on the research findings, we provide a number of policy recommendations to optimize the

advantages of social connectivity for FDI in Vietnam. Governance policies must be supported and communicated through various media platforms to guarantee broad distribution. Besides, Vietnam's economic prospects and investment potential should be better promoted on global social media platforms to draw interest from outside.

Accordingly, proactiveness is also crucial for enterprises. Vietnamese businesses should step up their digital transformation initiatives so that they can give prospective investors clear and understandable information. Purchasing various technology and social media platforms will contribute to more robust information flows, which will lessen investor anxiety for overseas investors. To build deeper international ties and get access to new markets, businesses should actively participate in international programs, such as conferences, exhibitions, and trade forums.

Although social connectivity offers valuable insights into FDI drivers, to completely understand and effectively impact foreign investment flows, social connectivity should be analyzed in conjunction with a wider range of characteristics. According to our research, social ties become especially important when uncertainty and investment friction occur. This trend is also apparent when investment is impeded by political, cultural, or economic uncertainty. Social ties can lessen these obstacles by building trust and lowering information friction. Further research should explore how different types of social connections, beyond online platforms, impact economic outcomes in diverse settings.

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# ẢNH HƯỞNG KẾT NỐI MẠNG XÃ HỘI ĐẾN VỐN ĐẦU TƯ NƯỚC NGOÀI: THỰC NGHIỆM CÁC QUỐC GIA CHÂU Á ĐẦU TƯ VÀO VIỆT NAM

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***Tóm tắt:*** *Nghiên cứu này xem xét mối tương quan giữa dòng vốn đầu tư trực tiếp nước ngoài (FDI) vào Việt Nam từ các quốc gia châu Á trong giai đoạn từ 2010 đến 2022 và mạng lưới xã hội, được đo lường bởi mối quan hệ bạn bè trên Facebook (Chỉ số Kết nối Xã hội, hay SCI). Kết quả thực nghiệm cho thấy các kết nối xã hội có ảnh hưởng đáng kể đến dòng vốn FDI, gợi ý rằng những liên kết này đóng vai trò quan trọng trong việc giảm rủi ro thông tin không minh bạch, từ đó thu hút vốn nước ngoài vào Việt Nam. Những phát hiện này vẫn vững chắc khi kiểm tra qua các mô hình khác nhau, bao gồm các hiệu ứng cố định theo năm và các yếu tố ảnh hưởng của FDI.*

***Từ khóa:*** *Đầu tư trực tiếp nước ngoài (FDI), Kết nối mạng xã hội, Mạng xã hội Facebook, Chỉ số kết nối xã hội (SCI).*

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