# Political Ties and Raising Capital in Global Markets: Evidence from Yankee Bonds[1]

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Abstract

This paper examines whether state-to-state political ties help to obtain better terms when raising capital in global capital markets. Focusing on publicly issued Yankee bonds, we observe that firms from countries with close political ties to the US have been successful in reducing borrowing costs. Specifically, a one-standard-deviation improvement in such ties can lead to a 5-14 percent reduction in at-issue yield spreads. Such an association is more pronounced for firms located in countries that are highly indebted, in government-related industries, and during home-country recessions. Our study sheds lights on the importance of country-level political relationships in international fund-raising.

**Keywords:** Yankee bonds; Political ties; Bond yield spread

**JEL Code:** G15; G30; P16

## 1. Introduction

Firms are increasingly global, not only in terms of markets served, sourcing of inputs, and integration of supply chains, but also in terms of obtaining finance. Consequently, the determinants and consequences of cross-border financing are popular topics of study in the literature (e.g. Pagano et al., 2002; Eun and Sabherwal, 2003; Doidge et al. 2010).[2] By and large, the focus has been on cross-border equity issuance and bank lending and much less is known about cross-border bond financing. Over the last three decades, there has been a remarkable growth in international bond issuances and, over the last decade, such issuances have averaged around 6 trillion USD annually.[3] In recent years, about half of these bonds have been issued in US dollars. Of particular interest is the *Yankee Bond* market, whereby firms around the globe raise corporate debt in the United States.

In this paper, we consider a novel factor, state-to-state political ties, specifically the strength of relations between the US and foreign governments of firms issuing Yankee bonds, as a key determinant of the pricing of international capital raising. We test the hypothesis that close political ties between the US and the home country of an issuing firm reduce the cost of Yankee Bond issuance by improving creditor protection and by providing a hedge against sovereign risk. Concretely, we examine whether close political ties, as measured in terms of voting similarity in the UN General Assembly (UNGA) and the amount of US economic and military aid obligations to a country, is priced into Yankee bond issuances.[4]

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[2] A non-exhaustive sample of the literature on cross-border equity listing is Bailey et al. (2006), Doidge et al. (2004), Doidge et al. (2009), Errunza and Miller (2000), Errunza et al. (1999), Karolyi (2006), and Pagano et al. (2002). For studies on international bank lending see Boehmer and Megginson (1990), Haselmann et al. (2010), Houston et al. (2012), and Delis et al. (2017).

[3] Please see: https://www.bis.org/statistics/secstats.htm

[4] There is a large related literature on the economic effects of foreign aid. A non-exhaustive list includes Alesina and Dollar (2000), Boone (1996), Burnside and Dollar (2000), Clemens et al. (2012), Dreher et al. (2015), Easterly (2003), and Temple and Van de Sijpe (2017).

Unlike other international bond markets (e.g., Eurobonds), the Yankee bond market provides a unique setting to investigate a number of issues.[5] A defining feature of this market is that, while the home-country environment and firm characteristics are important determinants of the pricing of bond issuances, foreign issuers of Yankee bonds must adhere to the US Security and Exchange Commission's (SEC's) regulations.[6] Consequently, one of the reasons why the Yankee bond market is thriving is that Yankee bonds issued by firms across the globe with diverse home-country environments are relatively comparable to US domestic bond issuances for investors. To date, the literature on the determinants of Yankee bond issuances have focused on the pricing and valuation of creditor protection along institutional quality in home countries and security-level dimensions (Miller and Puthenpurackal, 2002; Miller and Reisel, 2012). We provide a first evidence showing that state-level political ties, specifically with the US government, also play a significant role in the pricing of Yankee bond issuances.

Our analysis shows that closer political ties with the US lead to lower borrowing costs, higher issuance amount and longer maturity for firms in the Yankee bond market. Specifically, a one-standard-deviation improvement in political ties with the US can, on average, results in a 5 to 14 percent reduction in at-issue Yankee bond yield spreads, a 50.4 percent increase in bond issuance amount and a 29.3 percent increase in bond maturity. Our results on bond pricing terms are robust to the inclusion of other factors related to country-level variation, such as institutional quality and creditor protection, country risk, and political and democratic liberties, as well as the exclusion of observations around the recent global financial crisis.

[5] In 1990, the US Securities and Exchange Commission (SEC) approved Rule 144A, which allowed international firms to sell private placements without having to register with the SEC in contrast with Yankee bonds.

[6] For the SEC regulation, for example, as a reporting company in the US with both shares and bonds registered with the SEC and traded on the New York Stock Exchange, Allianz SE was investigated by the SEC in 2012 due to the Foreign Corrupt Practices Act (FCPA) violation and finally paid disgorgement of $5,315,649, prejudgment interest of $1,765,125 and a penalty of $ 5,315,649 for a total of $12,396,423 (https://www.sec.gov/news/press-release/2012-2012-266htm ).

We also show that our results are robust to any other potentially omitted country-time covariates using a difference-in-difference strategy. We distinguish between industries that are highly exposed to their governments and those that are not so exposed. Firms in these highly exposed industries are more likely to benefit from closer state-to-state political ties with the US as they themselves are more closely tied to their home governments. Exploiting the differential effect of time-variation in country-level political ties with the US and across these highly exposed and less exposed industries, we find that a one-standard-deviation increase in political ties with the US leads to a 29 percent reduction in spreads for firms in industries that are closely tied to their domestic governments relative to firms in other industries. To address endogeneity concerns, we conduct instrumental variable analysis using official heads of state visits to the White House and peak troop deployment contributions in the Iraq War 2003 by other countries. These two variables measure the degree of (both actual and symbolic) cooperation between other countries and the United States and are plausibly exogenous to other factors determining Yankee Bond pricing and thus influence Yankee Bond Issuances only through their effect on political ties. The analysis confirms our key finding that stronger political ties with the US can reduce the cost of capital raising in the Yankee bond market.

We then investigate two potential channels by which stronger political ties with the US benefit Yankee bond issuances, the sovereign risk hedge and investor protection channels. Since the US is a major global economic, military, and political powerhouse, closer ties to the US may also provide an implicit state "bailout" guarantee that helps reduce or provide a hedge against sovereign risk. Bekaert et al. (2016) find that political risk is an important driver of sovereign spreads. A strand of the literature has shown that IMF and World Bank programs are influenced by stronger ties with the US. For instance, Malik and Stone (2018) find that the World Bank

withholds loan disbursements to enforce conditionality, but private multinational firms in the US lobby for these funds to be released. Thacker (1999) finds that stronger ties with the US, measured in terms of voting coincidence at the UN, improves the likelihood of obtaining IMF loans.[7] Consequently, stronger political ties with the US provides an implicit hedge against sovereign risk faced by investors that may arise due to the potential collapse of domestic macroeconomic conditions.

First, we test whether Yankee bond issuances by firms in country-years where sovereign risk is heightened lead to stronger effects on yield spreads. We find that the impact of closer political ties on Yankee bond yield spreads is more pronounced for firms in highly indebted countries and during recessions in a home country, consistent with the hypothesis that closer political ties with the US mitigate the risk of adverse domestic conditions on issuing firms. On the other hand, we find that the effect of political ties is also stronger when the home country of the issuing firm has good sovereign ratings. Consequently, these findings lead us to conclude that closer political ties with the US help reduce the cost of borrowing most significantly through a sovereign risk hedge channel when sovereign risk is heightened (for highly indebted countries and during recessions) but not imminent (good sovereign rating).

State-to-state political ties may also influence Yankee bond issuances through an investor protection channel. Closer state ties may enhance the certification effect that Yankee bond issuances in the US market provide by implicitly strengthening the idea that US rules and norms regarding investor protection may be applied to safeguard international investors. Thus, closer political ties with the US may potentially add another layer of investor protection given that closer ties may enhance the ability of the US government to better enforce its rules and norms on

[7] Barro and Lee (2005) find similar results See also Dreher et al. (2009a,2009b) for results based on UN security council seats and World Bank and IMF lending.

foreign states or put pressure on foreign governments to act in the interest of US-based investors.[8] Politically influenced SEC regulation (Pritchard, 1999; Correia, 2014; Heese, 2019; Velikonja, 2016) may also serve as another dimension through which stronger state political ties with the US can provide investor protection.

We also find evidence supporting the investor protection channel of political ties with the US. We show that political ties with the US may serve as protection against SEC oversight by exploiting a unique event, the US Supreme Court's ruling in *Morrison v National Australian Bank* (hereafter, *Morrison*) in 2010, as a shock to the threat of SEC enforcement in the securities market for foreign issuers. The unexpected ruling in *Morrison* substantially pared back the ability of private litigants to sue foreign reporting companies for fraud in the US, resulting a higher reliance on SEC's enforcement as a supplement to securities class actions and further on Congressional intent regarding exercising jurisdiction over foreign matters (Fox, 2012; Bartlett, et al. 2018; Correia and Klausner, 2018; Bartlett et al., 2018).[9] Consistently, we find that post *Morrison*, the political ties with the US are even more negatively associated with the Yankee bond spreads at issuance, indicating that a ruling change that strengthens the SEC's enforcement for foreign issuers makes political ties with the US even more important in the pricing of Yankee bonds. Finally, we explore how political ties interact with other factors relating to investor protection previously studied in the Yankee Bond literature. We find that the effect of political ties on Yankee bond yields is stronger when creditor rights are already high in the home country.

[8] A related stream of the literature provides evidence that the US exerts influence and pressure on foreign governments through US aid and news media coverage in Faye and Niehaus (2012) and Qian and Yanagizawa-Drott (2017) respectively.

[9] Originally, in *Morrison*, the US Supreme Court held that US securities antifraud laws, specifically, Section 10b and Rule 10b-5, do not reach transaction in securities of non-US firms traded outside of the US market, even if investors claim that their losses arose from conducts in the US. Hence, *Morrison* is about the territorial reach of US securities laws on autifraud, and reduces foreign firms' exposure to private securities litigation in the US, and might further increase foreign firms' willingness to enter the US market.

Taken together, our results suggest that political ties are most beneficial for firms in countries with high government debt, good sovereign credit ratings and creditor rights protection, and during home country recessions. These findings indicate that political ties work best in reducing borrowing costs when the likelihood of needing investor protection is low (good creditor rights) but exposure to country risk is significant (highly indebted countries in a recession) but still low default risk (good sovereign ratings).

Our paper draws on the literature emphasizing the importance of political connections in firm financing.[10] Using campaign contribution data around the Brazilian elections of 1998 and 2002, Claessens et al. (2008) show that firms making substantial contributions experienced higher stock returns and increased their bank financing. Further, Boubakri et al. (2012), working largely from the viewpoint that politically connected firms are less risky, find that the cost of equity capital is lower for such firms. Houston et al. (2014) also show that the cost of bank loans is significantly lower for companies whose board members have strong political ties. In a related paper, Solji and Tham (2017) show that foreign political connections add to multinational firm value as they help firms enter foreign markets. This paper, however, is the first to elevate the study of the effects and value of political connections on firms to the level of state-to-state political ties and examine the effect on Yankee bond issuances.

Our study complements the current literature on the determinants of Yankee bond pricing which have largely focused on investor protection.[11] For example, Miller and Puthenpurackal

[10] See e.g. Karolyi (2018) who shows that personal relations matter for firm financing conditions. Further, Faccio (2006) finds that political connections (politician as large shareholder or senior executive) increase firm value, while Goldman et al. (2009) find that firms exhibit positive abnormal returns following the nomination of a politically connected individual to the board. Similar results are obtained in Fisman (2001) and Acemoglu et al. (2016). See also Banerji et al. (2016), and Butler et al. (2009).

[11] There is a large literature on the determinants of cross-border financing. Qi et al. (2010) find that other domestic institutions, such as those that cover political rights and freedom of the press, are important channels for reducing the cost of debt. Haselmann et al. (2010) find that credit supply responds to legal environment. Delis et al. (2017), using the polity index, show that democracy significantly reduces the cost of private credit. Giannetti and Yafeh

(2002) find that creditor protection is important in terms of ex-post protection via domestic legal framework and institutions governing bankruptcy proceedings.[12] Miller and Reisel (2012) show that security-level protection in terms of covenants serve as ex-ante (prior to default) mechanisms and are important determinants of the pricing of Yankee bonds. Qi et al. (2011) examine how country-level legal and institutional quality shapes investor protection at the contractual level and find that bonds issued firms from countries with stronger creditor rights are less likely to use covenants. Finally, our use of voting similarity in the United Nations General Assembly and foreign aid as measures of political ties relates our paper to the extensive literature on the determinants and effects of foreign aid and international political dimensions to multilateral organizations. Of special interest is the study by Alesina and Dollar (2000), who find that important determinants of aid flows are a combination of institutions, policies, and political variables. They also provide evidence suggesting that US aid is used to induce countries to vote in line with US policies.

The rest of the paper proceeds as follows: Section 2 provides an overview of the Yankee bond market; Section 3 describes the data, variables and summary statistics; Section 4 details the methodology and presents empirical results; and Section 5 concludes.

## 2. An overview of the Yankee bond market

The Yankee bond market is one of the largest markets for non-US firms to raise US corporate debt in the public market. Unlike other international corporate bond markets (e.g., Rule

(2015), find that cultural difference affect the contract terms of international syndicated bank loans. More specifically, they document that more culturally distant lead banks offer borrowers smaller loans at a higher interest rate and are more likely to require third-party guarantees.

[12] Djankov et al. (2007) show, using data across 129 countries, that creditor protection through the legal system and credit bureaus increases the ratio of private credit to GDP. See also Houston et al. (2012), who find that bank credit flows to markets with less restrictive regulations and stronger property and creditor rights protection.

144A bonds), foreign issuers are required to register with the SEC and use a US local syndicate as an underwriter.[13] Recent years have witnessed the fast rise of this market. The Yankee bond issuance by non-financial foreign firms has represented an increasing share of the total US debt issuance in recent years[14] and has nearly doubled over the past decade, from US$395.9 bn in 2007 to $711.9bn in 2017. Figure 1 shows the total issuance volume of Yankee bonds from 1990 to 2016.

[FIGURE 1]

The Yankee bond market has several unique features. First, Yankee bonds are all US dollar-denominated. Second, although issued by non-US firms, Yankee bond issuance is regulated by the SEC and the US legal system. Foreign issuers must adhere to similar regulations as US firms, including the Securities Act of 1933 and the Securities Exchange Act of 1934. For example, the US Securities Act of 1933 requires that, before issuing Yankee bonds, firms must register with the SEC and provide a prospectus including financial reports for the two years prior to the offering. The financial reports must be reconciled with generally accepted US accounting principles (GAAP). The Securities Exchange Act of 1934 further requires that issuers must provide supplementary and periodic information after the issue. Third, Yankee bonds are all underwritten by US syndicates. Fourth, the issuing firms' home-country environment is also relevant in Yankee bond contracting. Miller and Reisel (2012) document that both US and local investor protections are important for Yankee bond issuance, and bond covenants serve as a complement to investor protection in the home country. Qi et al. (2010) show that political rights

[13] There are three bond markets for foreign firms to borrow in U.S. dollars: the Eurodollar bond market, the Rule 144A bond market, and the Yankee bond market (see, Gao, 2011).

[14] The rise in Yankee bond issuance has been even more pronounced for financial institutions in recent years. Three financial institutions (including UBS, Sumitomo Mitsui and Banco Santander) collectively issued a record of $293.5 bn Yankee bonds in 2017. See also: https://blogs.wsj.com/moneybeat/2018/01/16/foreign-companies-flock-to-the-u-s-bond-market/?ns=prod/accounts-wsj

and corruption in issuers' home countries also affect international capital raising through bond markets. Finally, SEC oversight of Yankee bond issuances also relate Yankee bonds to evidence suggesting that the SEC's prosecutions are subject to political influence. For example, Correia (2014) shows that firms that make contributions to congressmen who sit on oversight committees are only about half as likely as others to be subject to SEC enforcement.[15] These features of the Yankee bond market suggest that strong ties with the US government, including indirectly through relationships between the US government and the government of a firm's home country, may have significant influence on foreign firms who intend to raise debt in the Yankee bond market.

## 3. Data and descriptive statistics

### *3.1 Sample construction*

The data in this study are collected from multiple sources. We begin with a sample of 23,080 Yankee bonds with initial pricing information from Mergent FISD. Following Miller and Reisel (2012), we exclude bonds issued before 1991 due to relatively poor data quality, as well as bonds issued by divisions of US companies and convertible bonds.

We then match our bond data with firm financial data for the year prior to the bond issue from Compustat Capital IQ.[16] Finally we match our bond and firm financial data with country-level variables, including international political ties, as well as other institutional factors and country characteristics, retrieved from various sources. This procedure results in a sample of 2,293 Yankee bonds issued by 449 firms from 46 developed and developing countries, over the period of 1992 to 2015. A full list of country name and number of observations is provided in

[15] See also Pritchard (1999), Heese (2019), and Velikonja (2016).
[16] We match each issuer using CUSIP and company names, to ensure as many matches as possible.

Appendix Table A.2.

*3.2 Political ties variables*

To measure international political ties, we consider two types of variables encompassing different dimensions of political ties: voting similarity between a given country and the US in the United Nations General Assembly (UNGA) and economic/military aid commitments given by the US to other countries.

For voting similarities, we adopt the widely used Signorino and Ritter (1999) measure of voting similarity in the voting patterns of two countries (one of which is the US) from the U.N. General Assembly (see also Garmaise and Natividad, 2013). *Voting_a* is an index for voting affinity originally ranging from -1 (least similar interests) to 1 (most similar interests), based on two-category vote data (1= "yes" or approval of an issue; 2= "no" or disapproval of an issue). *Voting_b* is the index of voting affinity with the same range but using three-category vote data (1= "yes" or approval of an issue; 2= abstain, 3= "no" or disapproval of an issue). The measures are constructed for each country *c* in year *t* by averaging the Signorino-Ritter score (S2) of voting similarity with the US for each resolution (*r*) in year *t*:

$$Voting\_a_{c,t} = \frac{1}{R}\sum_{r=1}^{R} S2_{r,c,t} \quad (1)$$

*Voting_b* is constructed in a similar manner.

For US aid obligations, we retrieve aid data from the US Agency for International Aid (USAID) Greenbook dataset.[17] *Laid econ* is defined as the natural logarithm of total economic aid given by the US to a country in constant 2014 USD; and *Laid all* is defined as the natural

[17] The USAID Greenbook dataset allows us to distinguish between economic and military aid as well as to include firms from both developing and developed countries in our sample. The OECD development aid dataset, however, focuses only on economic aid and only to developing countries.

logarithm of total economic and military aid given by the US to a country also in constant 2014 USD. To consider both aspects and reduce noise in our measure for political ties, we also employ principal component analysis to obtain an aggregated measure. *PCecon_va* or *PCecon_vb* is defined as the principal component of *Voting_a* and *Laid_econ* or *Voting_b* and *Laid_econ*; in a similar manner, *PCall_va* or *PCall_vb* is defined as the principal component of *Voting_a* and *Laid_all* or *Voting_b* and *Laid_all*.[18]

*3.3 Bond characteristics variables*

Our main dependent variable is the *At-issue bond yield spread*, defined as the difference between the at-issue bond yield and the yield of US Treasury bonds matched by maturity and issuance date. We also consider other key bond characteristics: *Log offamt* is defined as the natural logarithm of the bond offering amount in US$ thousands; *Maturity* is defined as the bond duration in years; *Rating score* is the numeric score of the bond rating at issue, e.g. 22 for AAA, 21 for AAA-, and so on. If the bond rating is missing at issuance, we use instead the bond rating or an issuer rating at the closest date after issuance. *Enhancement* equals one if the bond issue has credit enhancements such as guarantees, letter of credit, etc., and zero otherwise; *Covenants* equals one if covenants are present in the indenture, and zero otherwise; *Redeemable* equals one if the bond is redeemable under certain circumstances, and zero otherwise; *Puttable* equals one if a put option is present in the bond issue, and zero otherwise.

*3.4 Firm characteristics variables*

Our analysis also considers an assortment of firm characteristics. *Firm size* is the natural logarithm of the book value of total assets; *ROA* is defined as the net income as a percentage of

[18] The chosen principal component is the one where the loadings of both variables have the same sign (positive).

total assets; *Leverage* is the ratio of total liabilities to total assets; *Tangibility* is defined as net property, plant and equipment over total assets.

*3.5 Other country characteristics variables*

Other than international political ties, we consider a set of other institutional factors that include the legal and political systems of borrowers' home countries. *Creditor rights* is an index developed by Djankov et al. (2007), which measures 1) whether there are restrictions when a debtor files for reorganization, 2) whether secured creditors can seize their collateral once reorganization is approved, 3) whether secured creditors are paid out first, 4) whether the management would be out for running business during reorganization. The index ranges from 1 (weakest protection) to 4 (strongest protection). *Civil* and *Democracy*, both ranging from 1 to 7, measure civil liberties and democracy, both from Freedom House. For each measure, 1 represents the greatest degree of freedom and 7 the least. *Civil* is a composite based on answers to 15 questions on topics such as freedom and independence of the press, religious and academic freedom, freedom of expression and assembly, well-functioning NGOs and unions, as well as the rule of law and personal rights. On the other hand, *Democracy* is a composite of ten indicators measuring fair elections, political pluralism and participation, safeguards against corruption, and the transparency and well-functioning of government. Following, Qi, Roth and Wald (2010), we also use Henisz's political constraint index as an alternative measure of political rights. The first measure of political constraints in our analysis, *Political constraints_a*, as proposed in Henisz (2002), measures the feasibility of political change. The second measure, *Political constraints_b* is a structurally derived, internationally comparable indicator of political constraints, as proposed in Henisz (2000).

Our investigation also includes an assortment of macro-economic variables. *Openness* is calculated as total trade volume over GDP; *Log GDP* is the natural logarithm of GDP in current USD; *Trade with US* is the trade volume with the US over GDP, measuring the trade relationship with the US; *Government debt* is defined as the total government debt over GDP; *Country rating* is a numerical index of sovereign long-term credit rating by S&P or Fitch, e.g., 22 for AAA, 21 for AAA-, and so on. *Rating spread* is defined as the difference between bond rating score at issuance and country rating score in the same year. Table A.1 in the Appendix provides a detailed list of variable definitions.

*3.6 Descriptive statistics*

Table 1 provides summary statistics for our matched Yankee bond sample with political-tie variables as well as other firm and country characteristics. The statistics reveal substantial heterogeneity. *At-issue bond yield spread* ranges from 0.27% to 18.69% with a sample mean of 5.68% and standard deviation of 5.10%. The *bond rating score* ranges from 3 to 22, with a sample mean of 16.08 and a standard deviation of 3.85. *Maturity* ranges from 0.22 years to 100.11 years, with a sample of 6.05 years, In our sample, on average, 18.2 percent of bonds have *covenants* in the contracts; 7.0 percent have credit *enhancements*; 40.3 percent are *redeemable* under certain circumstances, and 1.0 percent of bond contracts have *put* options.

[TABLE 1]

For firm characteristics, *Firm size* (log of total assets) ranges from 4.84 to 22.60, with a sample mean of 12.47; *ROA* ranges from -0.20 to 0.37, with a sample mean of 0.05 and a standard deviation of 0.05; *Leverage* ranges from 0.14 to 1.75, with a sample of 0.84, indicating that majority bond issuers in our sample have relatively high leverage over the sample period; the mean value of *Tangibility* is 0.15, ranging from 0.00 to 0.81, indicating that bond issuers in

our sample have relatively less tangible assets, such as property, plant and equipment, than others.

The issuers' home country feature also shows substantial heterogeneity. For voting affinity with the US, *Voting_a* ranges from -0.90 to 0.95, with a sample mean of 0.00; *Voting_b* ranges from -0.73 to 0.74, with a sample mean of 0.03. Regarding aid from the US, *Laid econ* ranges from 5.19 to 21.19; *Laid all* ranges from 5.19 to 22.37. The mean value of *PCecon_va*, the principal component variable of *Voting_a* and *Laid econ* is -0.27; the mean value of *PCecon_vb*, the principal component variable of *Voting_b* and *Laid econ* is -0.27. The other two principal component variables, *PCall_va* and *PCall_vb* also shows similar mean value and variation. *Creditor rights* range from 0 to 4, with a sample mean of 2.46, indicating that, on average, the countries in our sample have relatively strong creditor protections. The mean value of *Country rating score* by S&P is 19.57, suggesting that the majority of borrowers' home countries have ratings above AA+. The *country rating score* by Fitch shows a similar trend.

## 4. Methodology and Empirical Results

### *4.1 Methodology*

We start by examining the effects of international political ties on Yankee bond initial pricing, using the model below.

$$\begin{aligned} Yield\ spread_{i,t} &= \alpha_c + \delta_t + \gamma_j + \beta_0 + \beta_1 \cdot Political\ tie_{i,t-1} + \beta_2 \cdot (Bond\ characteristics)_{i,t} \\ &+ \beta_3 \cdot (Firm\ characteristics)_{i,t-1} + \beta_4 \cdot (country\ characteristics)_{i,t-1} \\ &+ \varepsilon_{i,t} \end{aligned} \tag{2}$$

where *At-issue bond yield spread* is the dependent variable and $\alpha_c, \delta_t, \gamma_j$ are country, year, and industry fixed effects respectively. The key explanatory variable is political ties with the US, where we expect a negative value for the coefficient $\beta_1$. Following the bond literature (e.g.

Klock, Mansi, and Maxwell, 2005; Hasan et al., 2017), we include bond characteristics: *Log offamt*, *Rating score*, *Maturity*, *Enhancement*, *Covenants*, *Redeemable*, *Puttable*. Firm characteristics included as controls are *Firm size*, *ROA*, *Leverage*, *Tangibility*. Miller and Reisel (2012) and Qi, Roth and Wald (2010) show that other institutional factors such as home country's domestic creditor rights and political rights are also significant for bond pricing in an international market. Hence, we also incorporate *Creditor rights* in our main regressions, as well as *Political uncertainty*, *Civil liberties* and *Democracy* for robustness checks. Other macroeconomic variables included in the regressions are *Openness*, *Trade with US* and *Log GDP*. We include year, country, and industry fixed effects into all the regressions to account for time-, country- and industry-specific heterogeneities.

*4.2 Baseline results*

Baseline results are reported in Table 2. In columns (1) to (4) we use *Voting_a*, *Voting_b*, *Laid econ* and *Laid all* as the key explanatory variables, each measuring political ties. In all specifications, coefficients of the political-tie variables are negative and significant, suggesting that firms from home countries possessing stronger political ties with the US than the others, as reflected by either stronger voting affinity with the US or more aid from the US, have significantly lower at-issue bond yield spreads. The impact of stronger political ties with the US is also economically meaningful. The results in column (1) show that a one-standard-deviation increase in voting affinity (*Voting_a*) would reduce bond yield spreads by 61.7 basis points which, given the average bond yield spreads in the analysis, implies an almost 11 percent reduction in spreads. Results in columns (2) through (4) yield similar magnitudes, whereby one-standard-deviation increase of the political ties variable leads to a reduction in yield spreads

between 30 and 90 basis points or between 5.7 and 14.3 percent.

[TABLE 2]

Alesina and Dollar (2000) suggest that economic aid can be quite stable and persistent over time for some countries. In order to address this issue and consider changes in the flow of aid provided by the US, we next estimate the same Equation (2) for the bond sample, using aid in deviations from that predicted by known determinants. *Laid econ_dev* is the deviation of *Laid* econ from the aid-prediction model in Alesina and Dollar (2000), where the aid variable is regressed on the five-year moving average of GDP per capita, its square, trade openness, indices for civil and political liberties, the log number of years a state was a colony and dummy variables for Israel and Egypt. *Laid all_dev* is calculated in a similar way. The results are reported in Table 3. In both regressions, unpredicted changes in aid flows enter with significant and negative signs, suggesting that firms from a home country with more aid from the US would have lower credit yield spreads when issuing Yankee bonds in the US. Similarly, the impact of US aid is also economically meaningful. For example, the results in column (1) show that a one-standard-deviation increase in *Laid econ_dev* would reduce bond yield spreads by approximately 42 basis points (or by 7.3 percent).

[TABLE 3]

In summary, evidence from the baseline regressions supports our hypothesis that firms from a home country with stronger political ties with the US tend to enjoy significantly lower spreads when they issue bonds in the US market.

*4.3 Robustness and discussion*

We perform various tests to evaluate robustness. First, we conduct principal component analysis to extract the common factor driving our two measures of political ties. Results using the extracted principal component are shown in Table 4. Key explanatory variables are the principal components with positive loadings on both voting affinity and US aid. In columns (1) and (2), we use the principal component of US economic aid and the two voting affinity variables. Both *PCecon_va* and *PCecon_vb* enter with negative signs and are significant at the 1% level. In columns (3) and (4), we use the principal component of US total economic and military aid and the two voting affinity variables. The estimated coefficients for both *PCall_va* and *PCall_vb* are negative and significantly different from zero. The estimated effects are also economically significant. For instance, the estimation from column (1) suggests that a one-standard-deviation increase in *PCecon_va* reduces bond yield spreads by roughly 12.2 percent.

[TABLE 4]

Next, we incorporate more country-level institutional factors into our analysis. Several studies document that, along with creditor protections, domestic political rights may also influence debt pricing (e.g., Qi, Roth and Wald, 2010; Delis, Hasan and Ongena, 2019). Therefore, we include political constraints and civil liberties as well as democracy as additional controls in our regressions. The regression results are presented in Appendix Table A.3. For brevity, we only report results using the principal component variables as the measure of political ties with the US. The results show that the coefficients on political ties remain significantly negative at the 1% level after controlling for these additional factors, and at a similar or even larger magnitude of economic effects.

We then show that our results are robust to potentially omitted country-time variables by focusing on differential effects across industries. Specifically, our hypothesis is that an industry's

relationship and dependence on the domestic government might influence the effect of political ties with the US on the cost of borrowing from the US market. If a firm is in an industry that is more reliant on government than others, then it should derive greater benefit from its home country's stronger political ties with the US when it borrows from the Yankee bond market. Moreover, such effects should be stronger and more significant during recessions. Therefore, we first include the dummy *Ind_gov*, which takes the value of one if the industry relies more on government (*Utilities* or *Government agencies* in our sample), and zero otherwise, and its interaction with political-tie variables. Table 5 presents the results. In columns (1) and (3) we include only political ties, *Ind_gov*, and a full set of control variables and, in columns (2) and (4), we employ a difference-in-difference strategy by adding the interaction term of political ties and *Ind_gov*. Given this strategy, we omit industry fixed effects but retain the country and year fixed effects to absorb any other potentially omitted country and time covariates. We find that stronger political ties with the US on average reduce bond spreads significantly, with the principal component variables entering with negative and significant signs in all the specifications. More importantly, the coefficients on the interaction term are negative and statistically significant, suggesting that the magnitude of the effect of political ties effect is larger for industries with closer ties to the government of their home country. Based on column (2), a one-standard-deviation increase in political connection with the US reduces the cost of borrowing by approximately 29.3 percent more for firms in government-dependent industries than for others. Results from column (4) point to similar effects.

[TABLE 5]

Recent studies show that it is easier for more politically connected firms to obtain government bailouts during crises e.g. Banerji, Duygun and Shaban, 2016). Therefore, the effect

of political ties with the US should be stronger for firms in government-dependent industries and during recessions, given the implied additional support from the US government. In order to test this hypothesis, we divide our sample into bonds issued during booms and those issued during recessions. The results are reported in Table 6. Consistent with our hypothesis, we find that the coefficients of the interaction term of political ties and *Ind_gov* are negative and significant only during recessions. We also verify that the statistical significance of our results is robust to clustered standard errors when clustering by home country. These results are reported in Appendix Table A.4.

[TABLE 6]

In addition, we show that our results are not driven by crisis periods or other extreme events such as the recent global financial crisis. Figure 2 shows the average at-issue bond yield spreads in the Yankee bond market in our sample period. Beginning in 2007, the average spreads increased dramatically because of the financial crisis that originated in the US. In order to isolate this effect, we also exclude bonds issued between 2007 to 2010 as a robustness check. Appendix Table A.5 reports the results. Our main results on the effect of political ties on the cost of borrowing in the Yankee bond market still hold. Overall, the robustness checks confirm our baseline results that political ties with the US are an important determinant of the cost of borrowing if a foreign firm issues bonds in the Yankee bond market.

[FIGURE 2]

As a final robustness exercise, we conduct instrumental variable regressions using official heads of state visits to the White House and peak troop deployment contributions in the Iraq War by other countries as instruments.[19] These two variables measure the degree of (both actual and

[19] Official White House visits are taken from the Office of the Historian of the State Department, https://history.state.gov/departmenthistory/visits. Peak troop contributions to the Iraq War are taken from the 2007

symbolic) cooperation between countries and the United States and are plausibly exogenous to other factors determining Yankee Bond pricing and thus influences Yankee Bond Issuances only through its effect on political ties, meaning that both the relevance condition and exclusive condition should be satisfied. Table 7 reports regression results.[20] Column (1) to (4) and (5) to (8) report the results using one instrument at a time and column (9) to (12) use both instruments. For instrument the peak troop deployment in the Iraq War we use the levels and squares to capture the non-linear relationship between troops sent and political ties. The *Cragg-Donald* F and *Kleibergen-Paap* F statistics indicate rejection of the null hypothesis of weak instruments. The *Kleigergen-Paap* LM statistics reject the hypothesis of under-identification. When there are at least two instruments, the *Hansen* J statistic fails to reject the overidentifying restrictions. Overall the results using IV point to the same direction as our main finding, that stronger political ties with the US can reduce the cost of fund raising in the Yankee bond market.

[TABLE 7]

*4.4 Effect on non-pricing terms*

We also investigate how the political ties with the US affect the non-pricing terms of Yankee bonds over time. Table 8 reports the results, using the principal component variables of the political ties. Column (1) to (4) show the effect on the offering amount. All the variables of political ties enter with positive and significant signs at the 1% level, suggesting that issuers located in countries with stronger political ties with the US tend to have larger offering amount for each issue, holding all the other factors as constants. In terms of economic magnitude, the coefficients in column (1) show that one-standard-deviation improvement in *PCecon_va* leads to

Congressional Report on Post-War Iraq Reconstruction and Stabilization efforts (RL32105). When presented at the UN, the US proposal to invade Iraq was highly divisive with several NATO countries, notably France and Germany, vocally opposed.

[20] First stage results available upon request.

a 50.4 percent increase in offering amount. Column (5) to (8) report the effect on bond maturity. The positive and significant coefficients on the variables of political ties suggest that issuers that located in countries with stronger political ties with the US tend to have longer maturity. The estimated effect is also economically large. Taking column (5) as an example, one-standard-deviation increase in *PCecon_va* could lead to a 29.3 percent increase in maturity.

[TABLE 8]

*4.5 Sovereign risk hedge channel*

To dig deeper into the potential channels which drive our results, we test the sovereign risk hedge channel by examining whether the effect of political ties on bond issuances are differentially driven by common indicators of heightened sovereign risk. In particular, we test whether the effect of political ties on bond pricing is higher when (i) the home country of the issuing firm is in the downturn of the business cycle (recessions), (ii) the home country of the issuer has relatively high levels of sovereign debt, and (iii) when the home country of the issuer has relatively better sovereign credit ratings.

*4.5.1 The effect of political ties during recessions*

We examine whether the effect of political ties on the cost of borrowing from the Yankee bond market is more pronounced in recessions. Since economic recessions in the home country are periods when domestic conditions are worse, investors would be more concerned in such periods about borrowers' ability and incentives to repay their debts and engage in asset substitution and other issues related to agency problems (Jiang et al., 2018). Strong political connections with the US might help mitigate such concerns by providing an additional layer of support. For example, some recent studies document that the US exerts influence and pressure on

foreign governments both through US aid and news media coverage (Faye and Niehaus, 2012; Qian and Yanagizawa-Drott, 2017). Similarly, Thacker (1999) and Barro and Lee (2015) find that voting coincidence with the US improves the likelihood of obtaining loans from the IMF.

A *Recession* dummy is defined as one when the GDP is below an HP filtered trend, and zero otherwise. We then split our sample into bonds issued during booms vs. those issued during recessions. The results are reported in Table 9 with the principal component of voting affinity and US aid as the main explanatory variable. Consistent with our hypothesis, the effect of political ties with the US is only significant during recessions, suggesting that additional insurance from the US government acts as a mitigating factor for uncertainty in a home country and reduces the cost of borrowing in the US market. Nevertheless, a *Chi-square* test on the estimated coefficients across samples suggests that the difference is not statistically significant. Moreover, our results show that the effect of creditor rights on bond spreads is more pronounced during booms, while the effect of political ties is more significant during recessions. Investors seems to place a higher value on policy- or government-oriented interventions as measures of investor protection in bad economic times relative to market- and institutional-based mechanisms, which are more highly valued in good times.

[TABLE 9]

### *4.5.2 The impact of government debt*

Next, we turn to whether government debt levels in a home country affect the cost of borrowing in the Yankee bond market and the values of stronger political ties. If a home country is burdened by higher government debt, investors may pay more attention to country risk, since fiscal policy may be limited to a large extent by repercussions on the performance of borrowing

firms. Stronger political ties with the US government can provide support to home governments and help alleviate country risk concerns. Hence, political ties may be interpreted as an additional implicit guarantee against the home-country risk of Yankee-bond-issuing firms.

In order to test this effect, we divide our sample into bond issuers from high- vs. low-debt countries using the median value of government debt over GDP. The regression results for each subsample are reported in Table 10. We find that the effect of political ties with the US is only negative and significant in the subsample of highly indebted countries. A *Chi-square* test shows that the difference across subsamples is also economically large and significant. In terms of the economic impact for the high-debt countries, a one-standard-deviation increase in political ties (*PCecon_va*) can reduce bond yield spreads by approximately 39.1 percent.

[TABLE 10]

*4.5.6 The impact of sovereign risk*

Finally, as a third indicator of whether stronger political ties with the US serve as a sovereign risk hedge, we examine how the effect of political ties differs for firms from home countries with different degrees of sovereign risk. In our sample, over 50 percent of issuers received a bond rating of AAA. Therefore, we divide our sample into AAA and non-AAA rated countries for this analysis. Table 11 reports the results. We use the rating spread between bond rating and country rating instead of the simple bond rating and exclude country fixed effects from the regressions. We use both sovereign ratings provided by S&P and Fitch for robustness. We find that, while the overall effect of political ties on the cost of borrowing is negative and significant for the full sample, this relation is significant only for AAA-rated countries, as shown in columns (2) and (5), indicating that the insurance effect of political affinity with the US

against the tail risk of sovereign default is stronger for top-rated countries. The *Chi-square* tests (with a P-value of 0.000 and 0.001 respectively) show that the economic impact of political affinity is significantly different between the two subsamples.[21] Furthermore, the effects of security-level protections (covenants) seem to reduce the cost of borrowing in a more significant and stronger way for non-AAA rated countries. The *Chi-square* tests also confirm this finding.

[TABLE 11]

Taking into consideration the heterogeneous effects for countries with different levels of sovereign risk and government debt and at different points of the business cycle, our finding suggests that strong political ties with the US are most effective in reducing the cost of borrowing from the Yankee bond market for borrowers from top-rated but also highly indebted countries and when said countries are in recessions. All in all, our results suggest that political ties may serve as a hedge for sovereign risk when such risk is more pronounced (high debt and during recessions) but not imminent (good sovereign credit ratings hence the default risk is low).

*4.6 Investor protection channel*

Next, we turn to another potential channel by which stronger political ties with the US provide added value to bondholders, the investor protection channel. Our first hypothesis in this respect is that stronger political ties with the US may protect bond issuers, and thus their bondholders, from regulatory activism by the SEC. To test this hypothesis, we exploit a unique ruling change in the threat of SEC regulatory enforcement brought by the US Supreme Court. Second, we also study whether or how political ties variable interacts with other measures of investor protection such as creditor rights protection in home countries as well as security-level

[21] For example, the sovereign rating for the UK remained at AAA, while its government debt level to GDP increased to 100.91%. Our results suggest that the effect of political ties with the US on Yankee bond pricing is particularly strong and significant for AAA-rated countries.

investor protection in terms of covenants.

### *4.6.1 The impact of ruling change: Morrison v. National Australian Bank (2010)*

In this section, we exploit a unique event, the US Supreme Court's ruling in *Morrison v. National Australian Bank*, as a shock to SEC's enforcement in securities market for foreign issuers. [22] This ruling, described as a "steamroller", substantially pared back the ability of private litigants to bring lawsuits against foreign companies for fraud (Bartlett et al., 2018). The overall effect of *Morrison* is a significant reduction of the exposure of foreign issuers to costly and burdensome private securities litigation in the US (e.g. Fox, 2012). Existing literature (e.g. Correia and Klausner, 2018; Choi and Pritchard, 2016) documents that the SEC's enforcement of the securities laws and private litigation complement each other in protecting investors in securities market. Therefore, one outcome of *Morrison* is the stronger reliance on SEC's enforcement for foreign issuers. In the meanwhile, *Morrison* also implies on the extraterritorial application of the US federal statutes. Bartlett et al. (2018) argue that a series of cases after *Morrison*, the Supreme Court drew foreclosing lines to prevent US exercise of jurisdiction abroad, further implying a more doctrinal point that the US as a matter of international norms and laws should not be exercising jurisdiction on foreign matters without Congressional intent. Given these, we should observe that the effect of political ties with the US in reducing Yankee bond pricing is even stronger after *Morrison*.

Table 12 reports the results. In column (1) and (3) we include a time indicator, *Post*

[22] The case *Morrison v. National Australian Bank* was argued on March 29, 2010, and finally decided on June 24, 2010 (For more ruling details, please see: https://www.supremecourt.gov/opinions/09pdf/08-1191.pdf). In *Morrison*, the US Supreme Court held that US securities antifraud laws do not reach transactions in securities of non-US firms traded outside of the US market. However, the trading in the US is still covered by US laws. The Supreme Court restated that "Section 10(b) reaches the use of a manipulative or deceptive device or contrivance only in connection with the purchase of sale of a security listed on an American stock exchange, and the purchase or sale of any other security in the US (*Morrison*, 561 U.S. at 273).

*Morrison*, defined as one if the bond is issued after *Morrison*, and zero otherwise during our sample period. In column (2) and (4) we further introduce the interaction term of political ties and *Post Morrison*. The results suggest that, holding all else equal, after *Morrison*, the at-issue bond spreads are lower significantly, while such effect is even stronger for foreign firms located in countries with stronger ties with the US. The economic impact is also not negligible. While on average one-standard-deviation increase in *PCecon_va* reduces the at-issue bond yield spreads for 9.5 percent, after *Morrison*, one-standard-deviation increase in *PCecon_va* reduces the spreads for additional 7.6 percent. Overall the results indicate that a ruling change that indirectly strengthens the SEC's enforcement results in a more important role of political connections with the US for foreign firms in issuing Yankee bonds.

[TABLE 12]

*4.6.2 The strength of creditor rights*

Qian and Strahan (2007) have shown that country-level institutional creditor protection affect the design of debt contracts as well as borrowing costs. Moreover, bond contracts are more likely to include security-level investor protection in the form of covenants when creditor rights are weak (Miller and Reisel, 2012). In this exercise, we examine how international political ties interact with institutional determinants of creditor protection and bond-contract design. We test whether political ties substitute for or complement other forms of country-level and security-level investor protection described in the literature.

To this end, we include the interaction of political ties and covenants in the regressions and further split our sample into high- and low-creditor-rights countries using the median value of the creditor rights index in our sample. Table 13 reports the results. First, our main results remain

unchanged: The effect of political ties with the US on cost of borrowing remains economically and statistically significant in all the regressions. In addition, results in columns (2) and (5) show that the magnitude of the coefficients is larger for the subsample of high-creditor-rights countries, suggesting that stronger political ties with the US is more effective in reducing borrowing costs for countries with stronger legal institutions. Second, the interaction terms enter with significant and negative signs in the subsample of high-creditor-rights countries only in columns (2) and (5), indicating that political affinity with the US complements security-level protections (i.e., covenants) in reducing bond spreads only for countries with stronger legal institutions, whereas such association is not significant for countries with weak legal protections.

[TABLE 13]

## 5 Conclusion

In this study, we examine the effect of state-to-state political ties on international capital raising using publicly issued Yankee bonds. We find that closer political ties with the US government lead to lower borrowing costs for non-US firms through Yankee bond issuances. Specifically, a one-standard-deviation improvement in political connection with the US can lead to a reduction of 5 to 14 percent in at-issue bond yield spreads. Such an association is more pronounced for firms in highly indebted and good-rated home countries and during recessions. Moreover, evidence shows that political ties with the US are more effective in reducing borrowing costs for firms in government-related industries. Overall, our study sheds lights on the importance of state-to-state political relationships in international capital raising.

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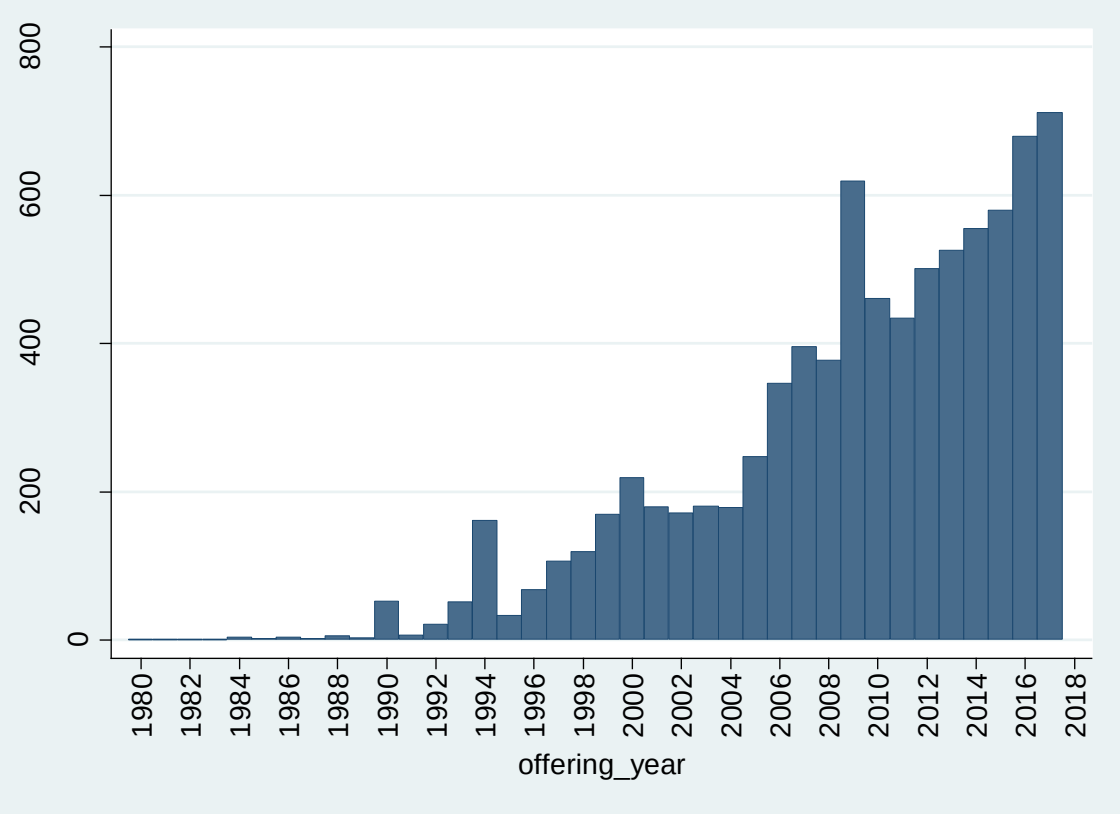


**Figure 1: Total issuance volume in Yankee bond market: 1980-2017**

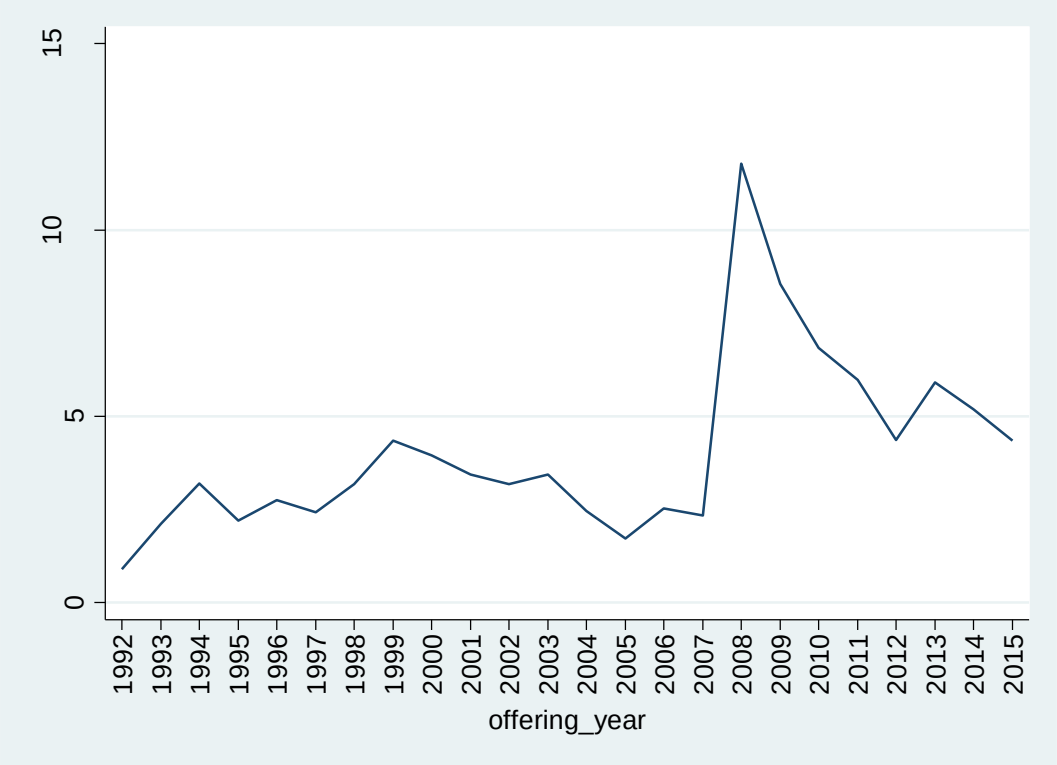


**Figure 2: Average bond yield spreads over years in our sample**

**Table 1. Summary Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| *Country characteristics* | | | | | |
| Voting_a | 2,293 | 0.000 | 0.378 | -0.903 | 0.951 |
| Voting_b | 2,293 | 0.030 | 0.307 | -0.727 | 0.738 |
| Laid econ | 2,217 | 13.361 | 3.435 | 5.198 | 21.190 |
| Laid all | 2,286 | 13.552 | 3.439 | 5.198 | 22.374 |
| Laid econ_dev | 2,217 | -0.960 | 2.301 | -7.419 | 4.751 |
| Laid all_dev | 2,286 | -0.648 | 2.066 | -6.717 | 5.360 |
| PCecon_va | 2,217 | -0.272 | 1.051 | -3.184 | 3.885 |
| PCecon_vb | 2,217 | -0.272 | 1.048 | -3.168 | 3.654 |
| PCall_va | 2,286 | -0.258 | 1.052 | -3.205 | 4.194 |
| PCall_vb | 2,286 | -0.259 | 1.046 | -3.189 | 3.961 |
| Creditor rights | 2,174 | 2.464 | 1.482 | 0.000 | 4.000 |
| Country rating (S&P) | 2,276 | 19.568 | 4.063 | 1.000 | 22.000 |
| Country rating (Fitch) | 2,213 | 19.540 | 4.020 | 1.000 | 22.000 |
| Openness Trade/GDP | 2,293 | 65.453 | 41.120 | 14.731 | 422.648 |
| Log GDP | 2,293 | 27.802 | 1.034 | 18.995 | 29.751 |
| Trade with US /GDP | 2,282 | 0.073 | 0.093 | 0.007 | 0.534 |
| *Bond characteristics* | | | | | |
| Bond yield spread (%) | 2,293 | 5.680 | 5.098 | 0.267 | 18.688 |
| Rating score | 2,063 | 16.084 | 3.846 | 3.000 | 22.000 |
| Covenants | 2,284 | 0.182 | 0.386 | 0.000 | 1.000 |
| Log offamt | 2,293 | 10.459 | 3.194 | 0.000 | 15.895 |
| Maturity | 2,293 | 6.047 | 7.924 | 0.216 | 100.110 |
| Enhancement | 2,285 | 0.070 | 0.255 | 0.000 | 1.000 |
| Redeemable | 2,292 | 0.403 | 0.491 | 0.000 | 1.000 |
| Puttable | 2,281 | 0.010 | 0.100 | 0.000 | 1.000 |
| *Firm characteristics* | | | | | |
| Firm size | 2,292 | 12.466 | 2.536 | 4.847 | 22.596 |
| ROA | 1,981 | 0.046 | 0.051 | -0.204 | 0.368 |
| Leverage | 2,292 | 0.837 | 0.194 | 0.142 | 1.750 |
| Tangibility | 2,019 | 0.151 | 0.249 | 0.001 | 0.807 |

**Table 2. Effect of Political Tie on Bond Yield Spread: Baseline Results**

The table reports the baseline results of the regressions examining the effect of political ties on initial Yankee bond pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the voting affinity score (*Voting_a* and *Voting_b*) and the US aid variables (*Laid econ* and *Laid all*). All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Voting_a | -1.632** | | | |
| | (0.777) | | | |
| Voting_b | | -2.720*** | | |
| | | (0.988) | | |
| Laid econ | | | -0.183*** | |
| | | | (0.0499) | |
| Laid all | | | | -0.0941** |
| | | | | (0.0450) |
| Creditor rights | -1.078** | -0.997** | -1.469*** | -1.164** |
| | (0.453) | (0.456) | (0.487) | (0.460) |
| Log offamt | -0.731*** | -0.731*** | -0.726*** | -0.729*** |
| | (0.0608) | (0.0608) | (0.0619) | (0.0606) |
| Rating score | -0.261*** | -0.263*** | -0.252*** | -0.261*** |
| | (0.0315) | (0.0315) | (0.0333) | (0.0320) |
| Maturity | -0.0276** | -0.0277** | -0.0263* | -0.0269** |
| | (0.0120) | (0.0120) | (0.0136) | (0.0120) |
| Enhancement | -0.580*** | -0.577*** | -0.565*** | -0.560*** |
| | (0.195) | (0.195) | (0.198) | (0.195) |
| Covenants | -0.435*** | -0.427*** | -0.401** | -0.441*** |
| | (0.158) | (0.158) | (0.163) | (0.159) |
| Redeemable | -0.0488 | -0.0553 | -0.0701 | -0.0657 |
| | (0.202) | (0.202) | (0.206) | (0.203) |
| Puttable | 0.0333 | 0.0279 | 0.0619 | 0.00306 |
| | (0.647) | (0.652) | (0.749) | (0.637) |
| Firm size | -0.112*** | -0.113*** | -0.113*** | -0.111*** |
| | (0.0391) | (0.0391) | (0.0410) | (0.0400) |
| ROA | -4.378*** | -4.393*** | -4.109*** | -4.335*** |
| | (1.322) | (1.318) | (1.400) | (1.330) |
| Leverage | 1.234** | 1.245** | 1.251** | 1.274*** |
| | (0.485) | (0.484) | (0.527) | (0.492) |
| Tangibility | -0.642** | -0.614* | -0.706** | -0.620** |
| | (0.316) | (0.315) | (0.325) | (0.316) |
| Openness | 0.00640 | 0.00708 | 0.0000454 | 0.00329 |
| | (0.00712) | (0.00716) | (0.00793) | (0.00720) |
| Log GDP | -1.176 | -1.111 | -0.720 | -1.410* |
| | (0.850) | (0.857) | (0.989) | (0.852) |
| Trade with US | -1.574 | -1.433 | -1.096 | -1.867 |
| | (3.145) | (3.193) | (3.006) | (3.038) |
| Cons. | 46.95** | 44.75** | 39.93 | 55.84*** |
| | (21.38) | (21.57) | (24.94) | (21.38) |
| Country FE | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y |
| # of observations | 1,599 | 1,599 | 1,533 | 1,592 |
| adj. R-sq. | 0.683 | 0.683 | 0.677 | 0.682 |

**Table 3. Effect of Political Ties on Bond Yield Spread: Deviated Aid Variables**

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the deviated US aid variables. All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | |
|---|---|---|
| | (1) | (2) |
| Laid econ_dev | -0.181*** | |
| | (0.0501) | |
| Laid all_dev | | -0.0876* |
| | | (0.0450) |
| Creditor rights | -1.433*** | -1.122** |
| | (0.484) | (0.459) |
| Log offamt | -0.726*** | -0.729*** |
| | (0.0618) | (0.0606) |
| Rating score | -0.252*** | -0.261*** |
| | (0.0333) | (0.0320) |
| Maturity | -0.0264* | -0.0270** |
| | (0.0136) | (0.0120) |
| Enhancement | -0.564*** | -0.561*** |
| | (0.199) | (0.195) |
| Covenants | -0.401** | -0.442*** |
| | (0.163) | (0.159) |
| Redeemable | -0.0737 | -0.0664 |
| | (0.206) | (0.203) |
| Puttable | 0.0734 | 0.00785 |
| | (0.747) | (0.637) |
| Firm size | -0.114*** | -0.111*** |
| | (0.0411) | (0.0400) |
| ROA | -4.137*** | -4.351*** |
| | (1.400) | (1.331) |
| Leverage | 1.243** | 1.266** |
| | (0.527) | (0.492) |
| Tangibility | -0.709** | -0.624** |
| | (0.325) | (0.316) |
| Openness | 0.00125 | 0.00392 |
| | (0.00801) | (0.00724) |
| Log GDP | -0.522 | -1.311 |
| | (0.983) | (0.848) |
| Trade with US | -1.276 | -1.982 |
| | (3.024) | (3.056) |
| Cons. | 32.07 | 51.87** |
| | (24.70) | (21.22) |
| Country FE | Y | Y |
| Industry FE | Y | Y |
| year FE | Y | Y |
| # of observations | 1,533 | 1,592 |
| adj. R-sq. | 0.677 | 0.682 |

**Table 4. Effect of Political Ties on Bond Yield Spread: Principal Component Analysis**

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing using principal component analysis. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PCecon_va | -0.659*** | | | |
| | (0.161) | | | |
| PCecon_vb | | -0.745*** | | |
| | | (0.166) | | |
| PCall_va | | | -0.372** | |
| | | | (0.146) | |
| PCall_vb | | | | -0.427*** |
| | | | | (0.149) |
| Creditor rights | -1.439*** | -1.407*** | -1.119** | -1.088** |
| | (0.488) | (0.485) | (0.456) | (0.458) |
| Log offamt | -0.724*** | -0.723*** | -0.728*** | -0.727*** |
| | (0.0620) | (0.0619) | (0.0606) | (0.0606) |
| Rating score | -0.250*** | -0.251*** | -0.260*** | -0.261*** |
| | (0.0330) | (0.0330) | (0.0318) | (0.0318) |
| Maturity | -0.0263* | -0.0259* | -0.0269** | -0.0268** |
| | (0.0136) | (0.0135) | (0.0120) | (0.0119) |
| Enhancement | -0.567*** | -0.561*** | -0.558*** | -0.552*** |
| | (0.200) | (0.200) | (0.195) | (0.195) |
| Covenants | -0.389** | -0.383** | -0.437*** | -0.435*** |
| | (0.163) | (0.164) | (0.159) | (0.159) |
| Redeemable | -0.0830 | -0.0872 | -0.0758 | -0.0815 |
| | (0.206) | (0.206) | (0.203) | (0.203) |
| Puttable | 0.0698 | 0.0689 | 0.0160 | 0.0119 |
| | (0.757) | (0.759) | (0.642) | (0.644) |
| Firm size | -0.116*** | -0.115*** | -0.112*** | -0.112*** |
| | (0.0408) | (0.0409) | (0.0399) | (0.0399) |
| ROA | -4.110*** | -4.109*** | -4.336*** | -4.333*** |
| | (1.395) | (1.391) | (1.327) | (1.325) |
| Leverage | 1.268** | 1.291** | 1.275*** | 1.288*** |
| | (0.521) | (0.521) | (0.489) | (0.489) |
| Tangibility | -0.685** | -0.665** | -0.592* | -0.575* |
| | (0.324) | (0.324) | (0.316) | (0.315) |
| Openness | 0.00231 | 0.00222 | 0.00478 | 0.00494 |
| | (0.00790) | (0.00793) | (0.00719) | (0.00722) |
| Log GDP | -0.646 | -0.648 | -1.372 | -1.379 |
| | (0.991) | (0.994) | (0.851) | (0.853) |
| Trade with US | -1.038 | -1.012 | -1.941 | -1.960 |
| | (3.053) | (3.054) | (3.063) | (3.066) |
| Cons. | 33.94 | 33.74 | 52.59** | 52.57** |
| | (24.88) | (24.97) | (21.30) | (21.37) |
| Country FE | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y |
| # of observations | 1,533 | 1,533 | 1,592 | 1,592 |
| adj. R-sq | 0.678 | 0.678 | 0.683 | 0.683 |

**Table 5. Effect of Political Ties on Bond Yield Spread: the Impact of Government Dependence**

The table reports the results of the regressions examining the impact of industry's dependence on the government on political ties and Yankee bond initial pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables, and its interaction with *Ind_gov*. Ind_gov is defined as 1 for Utility and Government Agencies, and 0 otherwise (Industry, Finance and Miscellaneous). All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PCecon_va | -0.662*** | -0.361** | | |
| | (0.156) | (0.157) | | |
| Ind_gov | 0.458** | -0.0871 | 0.446** | -0.0748 |
| | (0.223) | (0.235) | (0.223) | (0.234) |
| PCecon_va *Ind_gov | | -1.136*** | | |
| | | (0.208) | | |
| PCecon_vb | | | -0.752*** | -0.456*** |
| | | | (0.161) | (0.162) |
| PCecon_vb *Ind_gov | | | | -1.118*** |
| | | | | (0.212) |
| Creditor rights | -1.281*** | -0.891* | -1.254*** | -0.912* |
| | (0.481) | (0.481) | (0.479) | (0.477) |
| Log offamt | -0.734*** | -0.704*** | -0.733*** | -0.704*** |
| | (0.0602) | (0.0608) | (0.0602) | (0.0608) |
| Rating score | -0.265*** | -0.275*** | -0.266*** | -0.276*** |
| | (0.0320) | (0.0310) | (0.0319) | (0.0310) |
| Maturity | -0.0282** | -0.0247* | -0.0278** | -0.0247* |
| | (0.0138) | (0.0137) | (0.0137) | (0.0137) |
| Enhancement | -0.668*** | -0.423** | -0.661*** | -0.427** |
| | (0.203) | (0.188) | (0.203) | (0.189) |
| Covenants | -0.426*** | -0.475*** | -0.421*** | -0.468*** |
| | (0.155) | (0.153) | (0.156) | (0.154) |
| Redeemable | -0.0532 | -0.102 | -0.0577 | -0.109 |
| | (0.200) | (0.197) | (0.199) | (0.197) |
| Puttable | 0.0475 | 0.0697 | 0.0470 | 0.0507 |
| | (0.774) | (0.733) | (0.775) | (0.737) |
| Firm size | -0.131*** | -0.0652* | -0.131*** | -0.0666* |
| | (0.0378) | (0.0346) | (0.0377) | (0.0347) |
| ROA | -3.542*** | -2.885** | -3.536*** | -2.806** |
| | (1.318) | (1.222) | (1.315) | (1.222) |
| Leverage | 0.816** | 0.832** | 0.836** | 0.829** |
| | (0.401) | (0.395) | (0.400) | (0.394) |
| Tangibility | -0.803*** | -0.384 | -0.773*** | -0.384 |
| | (0.281) | (0.282) | (0.281) | (0.282) |
| Openness | 0.00311 | 0.00444 | 0.00290 | 0.00392 |
| | (0.00758) | (0.00780) | (0.00761) | (0.00779) |
| Log GDP | -0.810 | -0.925 | -0.802 | -0.925 |
| | (1.015) | (0.980) | (1.017) | (0.983) |
| Trade with US | 0.216 | 0.0118 | 0.230 | 0.0819 |
| | (3.013) | (3.064) | (3.015) | (3.044) |
| Cons. | 38.14 | 38.22 | 37.72 | 38.19 |
| | (25.62) | (24.68) | (25.68) | (24.77) |
| Country FE | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y |
| Industry FE | N | N | N | N |
| # of observations | 1,533 | 1,533 | 1,533 | 1,533 |
| adj. R-sq | 0.678 | 0.682 | 0.679 | 0.682 |

**Table 6. Effect of Political Ties on Bond Yield Spread: the Impact of Government Dependence over Business Cycle**

The table reports the results of the regressions examining the impact of industry feature (its dependence on government) over business cycle on political ties and Yankee bond initial pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables, and its interaction with *Ind_gov*. *Ind_gov* is defined as 1 for Utility and Government, and 0 otherwise (Industry, Finance and Miscellaneous). All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| Dep. Var | **At-issue bond yield spread** | |
|---|---|---|
| | (1) | (2) |
| | *Boom* | *Recession* |
| PCecon_va | -0.00833 | 0.172 |
| | (0.223) | (0.290) |
| Ind_gov | -0.169 | -0.425 |
| | (0.267) | (0.446) |
| PCecon_va *Ind_gov | -0.230 | -1.328*** |
| | (0.253) | (0.346) |
| Creditor rights | -2.321*** | -2.153 |
| | (0.761) | (1.557) |
| Log offamt | -0.589*** | -0.767*** |
| | (0.0730) | (0.124) |
| Rating score | -0.279*** | -0.341*** |
| | (0.0461) | (0.0434) |
| Maturity | -0.0189 | -0.0320 |
| | (0.0165) | (0.0202) |
| Enhancement | -0.427* | -0.259 |
| | (0.251) | (0.295) |
| Covenants | -0.879*** | 0.212 |
| | (0.206) | (0.247) |
| Redeemable | 0.228 | -0.977*** |
| | (0.268) | (0.337) |
| Puttable | -0.117 | 0.0159 |
| | (1.188) | (0.741) |
| Firm size | 0.0995** | -0.135** |
| | (0.0461) | (0.0648) |
| ROA | -0.230 | -3.726** |
| | (1.622) | (1.891) |
| Leverage | -0.108 | 1.291* |
| | (0.505) | (0.751) |
| Tangibility | -0.491 | 0.183 |
| | (0.380) | (0.516) |
| Openness | -0.0256*** | 0.0387* |
| | (0.00920) | (0.0202) |
| Log GDP | -0.138 | 2.661 |
| | (1.049) | (2.329) |
| Cons. | 25.05 | -53.90 |
| | (26.37) | (56.46) |
| Chi-sq | | 6.86*** |
| (P-value) | | (0.0088) |
| Country FE | Y | Y |
| Year FE | Y | Y |
| Industry FE | N | N |
| # of observations | 840 | 693 |
| adj. R-sq | 0.437 | 0.794 |

**Table 7. Effect of Political Ties on Bond Yield Spread: Instrument Variable Regressions**

The table reports the results of instrumental variable regressions examining the impact of political ties on Yankee bond initial pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables instrumented with official heads of state visits to the White House (WH visit) and peak troop deployment in the Iraq war (Iraq) where the latter enters in levels and squares to capture non-linear relationship between troops sent and political ties. All the other variables are defined in Appendix Table A.1. The Cragg-Donald F and Kleibergen-Paap F statistics indicate rejection of the null hypothesis of weak instruments. The Kleibergen-Paap LM statistics reject the hypothesis of under-identification. When there are at least two instruments, the Hansen J statistic fails to reject the overidentifying restrictions. First stage results available upon request. Robust standard errors are reported in parentheses. ***, **,* denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| PCall_va | -1.425*** | | | | -2.260*** | | | | -2.028*** | | | |
| | (0.40) | | | | (0.29) | | | | (0.27) | | | |
| PCecon_va | | -1.194*** | | | | -2.621*** | | | | -2.093*** | | |
| | | (0.38) | | | | (0.37) | | | | (0.30) | | |
| PCall_vb | | | -1.371*** | | | | -2.294*** | | | | -2.030*** | |
| | | | (0.38) | | | | (0.29) | | | | (0.26) | |
| PCecon_vb | | | | -1.157*** | | | | -2.661*** | | | | -2.065*** |
| | | | | (0.36) | | | | (0.37) | | | | (0.30) |
| Log offamt | -0.866*** | -0.879*** | -0.871*** | -0.883*** | -0.813*** | -0.799*** | -0.816*** | -0.802*** | -0.836*** | -0.840*** | -0.839*** | -0.845*** |
| | (0.06) | (0.06) | (0.05) | (0.06) | (0.05) | (0.06) | (0.05) | (0.06) | (0.05) | (0.06) | (0.05) | (0.06) |
| Rating score | -0.238*** | -0.215*** | -0.241*** | -0.216*** | -0.290*** | -0.303*** | -0.298*** | -0.311*** | -0.278*** | -0.283*** | -0.287*** | -0.289*** |
| | (0.04) | (0.04) | (0.04) | (0.04) | (0.03) | (0.03) | (0.03) | (0.03) | (0.03) | (0.04) | (0.04) | (0.04) |
| Maturity | -0.031 | -0.042 | -0.032 | -0.042 | -0.027** | -0.027* | -0.027** | -0.027* | -0.026 | -0.036 | -0.027 | -0.037 |
| | (0.02) | (0.03) | (0.02) | (0.03) | (0.01) | (0.01) | (0.01) | (0.01) | (0.02) | (0.03) | (0.02) | (0.03) |
| Enhancement | -1.243*** | -1.427*** | -1.256*** | -1.433*** | -0.839*** | -1.011*** | -0.824*** | -0.996*** | -1.066*** | -1.234*** | -1.061*** | -1.237*** |
| | (0.27) | (0.27) | (0.27) | (0.27) | (0.23) | (0.25) | (0.23) | (0.25) | (0.27) | (0.29) | (0.27) | (0.29) |
| Covenants | -0.645*** | -0.658*** | -0.646*** | -0.658*** | -0.334* | -0.230 | -0.322* | -0.211 | -0.598*** | -0.542** | -0.593*** | -0.538** |
| | (0.20) | (0.22) | (0.21) | (0.22) | (0.17) | (0.18) | (0.17) | (0.19) | (0.21) | (0.22) | (0.21) | (0.23) |
| Puttable | -1.105** | -1.530*** | -1.220** | -1.586*** | -0.262 | -0.227 | -0.316 | -0.275 | -0.802 | -1.453** | -0.932* | -1.550** |
| | (0.55) | (0.46) | (0.52) | (0.45) | (0.77) | (0.91) | (0.78) | (0.92) | (0.59) | (0.64) | (0.53) | (0.61) |
| Redeemable | 0.221 | 0.329 | 0.241 | 0.342 | -0.111 | -0.057 | -0.110 | -0.054 | 0.082 | 0.177 | 0.095 | 0.193 |
| | (0.26) | (0.26) | (0.26) | (0.26) | (0.20) | (0.20) | (0.20) | (0.20) | (0.25) | (0.26) | (0.25) | (0.26) |
| Firmsize | -0.240*** | -0.245*** | -0.231*** | -0.240*** | -0.159*** | -0.120*** | -0.145*** | -0.104** | -0.214*** | -0.189*** | -0.198*** | -0.177*** |
| | (0.04) | (0.04) | (0.04) | (0.04) | (0.03) | (0.04) | (0.03) | (0.04) | (0.04) | (0.04) | (0.04) | (0.05) |
| ROA | -2.568 | -1.482 | -2.347 | -1.343 | -3.274** | -2.772* | -3.211** | -2.713* | -3.677* | -2.697 | -3.498* | -2.502 |
| | (1.92) | (1.87) | (1.85) | (1.83) | (1.44) | (1.58) | (1.44) | (1.57) | (1.95) | (2.07) | (1.93) | (2.03) |
| Leverage | 1.382*** | 1.355** | 1.387*** | 1.336** | 0.774** | 0.782* | 0.795** | 0.778* | 1.515*** | 1.607*** | 1.540*** | 1.585*** |
| | (0.47) | (0.54) | (0.47) | (0.54) | (0.39) | (0.43) | (0.39) | (0.43) | (0.50) | (0.57) | (0.50) | (0.57) |
| Tangibility | -0.005 | -0.174 | 0.023 | -0.158 | -0.195 | -0.339 | -0.145 | -0.294 | 0.165 | 0.094 | 0.229 | 0.136 |
| | (0.35) | (0.36) | (0.35) | (0.36) | (0.28) | (0.30) | (0.29) | (0.30) | (0.37) | (0.38) | (0.37) | (0.38) |
| Ppenness | -0.021*** | -0.019*** | -0.020*** | -0.019*** | -0.020*** | -0.020*** | -0.019*** | -0.020*** | -0.025*** | -0.025*** | -0.025*** | -0.025*** |
| | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) | (0.00) |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Log GDP | -0.336** | -0.479*** | -0.360** | -0.493*** | -0.013 | 0.068 | 0.009 | 0.096 | -0.131 | -0.218 | -0.140 | -0.231 |
| | (0.17) | (0.16) | (0.16) | (0.15) | (0.12) | (0.13) | (0.12) | (0.14) | (0.16) | (0.16) | (0.16) | (0.16) |
| Trade with US | 12.761*** | 11.586*** | 12.386*** | 11.268*** | 8.014*** | 8.657*** | 7.691*** | 8.284*** | 15.791*** | 16.134*** | 15.640*** | 15.764*** |
| | (3.04) | (3.03) | (2.92) | (2.92) | (1.10) | (1.22) | (1.09) | (1.19) | (2.79) | (3.01) | (2.73) | (2.92) |
| Creditor rights | 0.066 | -0.014 | 0.063 | -0.014 | 0.118* | 0.017 | 0.123* | 0.021 | 0.090 | -0.032 | 0.089 | -0.032 |
| | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) | (0.07) |
| Year FE | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Inc. Group FE | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| Instrument | Iraq | Iraq | Iraq | Iraq | WH visit | WH visit | WH visit | WH visit | Both | Both | Both | Both |
| Cragg-Donald F | 42.783 | 56.307 | 48.190 | 62.037 | 362.926 | 290.003 | 360.633 | 285.247 | 106.252 | 91.320 | 108.609 | 93.862 |
| Kleibergen-Paap F | 16.489 | 20.469 | 18.867 | 22.874 | 226.154 | 164.125 | 240.719 | 172.305 | 58.359 | 43.750 | 59.919 | 44.873 |
| Kleibergen-Paap LM | 29.341 | 37.704 | 33.169 | 41.825 | 123.434 | 96.941 | 129.866 | 101.787 | 102.461 | 87.785 | 104.256 | 89.716 |
| Hansen J | 3.618 | 7.623 | 3.619 | 7.574 | N.A. | N.A. | N.A. | N.A. | 5.677 | 11.682 | 6.377 | 12.345 |
| # of observations | 1243 | 1186 | 1243 | 1186 | 1592 | 1533 | 1592 | 1533 | 1243 | 1186 | 1243 | 1186 |
| Adj. R-sq | 0.488 | 0.488 | 0.489 | 0.487 | 0.437 | 0.423 | 0.436 | 0.419 | 0.475 | 0.475 | 0.475 | 0.474 |

**Table 8. Effect of Political Ties on Non-Pricing Terms of Yankee Bonds**

The table reports the results of the regressions examining the effect of political ties on non-pricing terms of Yankee bonds. The dependent variable is *Log_offamt* and *Maturity* respectively. The key explanatory variable is the principal component of voting and aid variables. All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **Log offamt** | | | | **Maturity** | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| PCecon va | 0.480*** | | | | 1.688*** | | | |
| | (0.142) | | | | (0.503) | | | |
| PCecon_vb | | 0.482*** | | | | 1.792*** | | |
| | | (0.145) | | | | (0.511) | | |
| PCall_va | | | 0.363*** | | | | 1.025** | |
| | | | (0.119) | | | | (0.513) | |
| PCall_vb | | | | 0.365*** | | | | 1.032* |
| | | | | (0.120) | | | | (0.531) |
| Creditor rights | -0.421 | -0.432 | -0.306 | -0.325 | 1.199 | 1.138 | -0.276 | -0.330 |
| | (0.485) | (0.485) | (0.507) | (0.505) | (4.545) | (4.547) | (3.981) | (3.980) |
| Rating score | -0.0464 | -0.0453 | -0.0388 | -0.0376 | 0.415*** | 0.418*** | 0.432*** | 0.435*** |
| | (0.0316) | (0.0317) | (0.0300) | (0.0301) | (0.128) | (0.128) | (0.128) | (0.128) |
| Enhancement | 1.237*** | 1.235*** | 1.206*** | 1.205*** | -0.0572 | -0.0688 | -0.0212 | -0.0251 |
| | (0.191) | (0.191) | (0.188) | (0.188) | (0.656) | (0.655) | (0.662) | (0.662) |
| Covenants | 1.390*** | 1.387*** | 1.434*** | 1.432*** | 2.483*** | 2.468*** | 2.473*** | 2.468*** |
| | (0.147) | (0.147) | (0.142) | (0.142) | (0.710) | (0.709) | (0.691) | (0.690) |
| Redeemable | -0.161 | -0.161 | -0.141 | -0.141 | 0.0444 | 0.0497 | 0.660 | 0.661 |
| | (0.125) | (0.125) | (0.122) | (0.122) | (0.509) | (0.509) | (0.586) | (0.584) |
| Puttable | -1.172 | -1.169 | -1.191* | -1.186* | 2.859 | 2.866 | 1.030 | 1.044 |
| | (0.819) | (0.818) | (0.684) | (0.684) | (2.844) | (2.841) | (3.326) | (3.328) |
| Firm size | 0.00480 | 0.00479 | 0.000361 | 0.000442 | 0.0364 | 0.0360 | 0.0340 | 0.0342 |
| | (0.0304) | (0.0303) | (0.0299) | (0.0299) | (0.146) | (0.146) | (0.149) | (0.149) |
| ROA | 2.643** | 2.648** | 2.524** | 2.527** | 2.885 | 2.890 | 0.176 | 0.185 |
| | (1.070) | (1.067) | (1.008) | (1.006) | (5.421) | (5.410) | (5.330) | (5.324) |
| Leverage | 0.902* | 0.898* | 1.022** | 1.017** | 1.214 | 1.177 | 1.203 | 1.190 |
| | (0.487) | (0.486) | (0.448) | (0.448) | (1.966) | (1.964) | (1.824) | (1.823) |
| Tangibility | -0.286 | -0.290 | -0.390 | -0.394 | 2.244 | 2.211 | 0.833 | 0.820 |
| | (0.273) | (0.273) | (0.264) | (0.264) | (1.631) | (1.628) | (1.760) | (1.756) |
| Openness | -0.0207*** | -0.0204*** | -0.0170*** | -0.0169*** | -0.0556 | -0.0549 | -0.0622 | -0.0620 |
| | (0.00632) | (0.00631) | (0.00589) | (0.00589) | (0.0363) | (0.0363) | (0.0411) | (0.0410) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Log GDP | 3.768*** | 3.749*** | 4.252*** | 4.242*** | -9.652* | -9.686* | -5.279 | -5.307 |
| | (0.898) | (0.899) | (0.764) | (0.765) | (5.232) | (5.224) | (4.959) | (4.953) |
| Trade with US | 2.634 | 2.540 | 3.170 | 3.116 | 4.259 | 4.045 | 19.99 | 19.84 |
| | (2.635) | (2.632) | (2.515) | (2.515) | (12.05) | (12.04) | (13.26) | (13.25) |
| Cons. | -81.09*** | -80.62*** | -94.63*** | -94.37*** | 250.5* | 251.6* | 139.1 | 139.9 |
| | (22.83) | (22.85) | (19.36) | (19.39) | (134.6) | (134.5) | (127.7) | (127.5) |
| Country FE | Y | Y | Y | Y | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y | Y | Y | Y | Y |
| year FE | Y | Y | Y | Y | Y | Y | Y | Y |
| # of observations | 1,533 | 1,533 | 1,592 | 1,592 | 1,533 | 1,533 | 1,592 | 1,592 |
| adj. R-sq. | 0.617 | 0.617 | 0.613 | 0.613 | 0.340 | 0.340 | 0.310 | 0.310 |

**Table 9. Effect of Political Ties on Bond Yield Spread: Boom vs. Recession**

The table reports the results of the regressions examining the effect of political ties on bond yield spreads over business cycle (recession vs. boom). The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. *Boom* is defined as one when the home country's GDP is above an HP filtered trend; *Recession* is defined as one when the home country's GDP is below an HP filtered trend. All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| | *Boom* | *Recession* | *Boom* | *Recession* |
| PCecon_va | -0.0575 | -0.595* | | |
| | (0.220) | (0.334) | | |
| PCecon_vb | | | -0.195 | -0.668* |
| | | | (0.236) | (0.343) |
| Creditor rights | -2.192*** | -3.008 | -2.192*** | -3.144 |
| | (0.736) | (1.978) | (0.733) | (1.981) |
| Log offamt | -0.607*** | -0.988*** | -0.606*** | -0.987*** |
| | (0.0759) | (0.144) | (0.0759) | (0.144) |
| Rating score | -0.275*** | -0.312*** | -0.274*** | -0.313*** |
| | (0.0485) | (0.0512) | (0.0484) | (0.0512) |
| Maturity | -0.0204 | -0.0354 | -0.0200 | -0.0351 |
| | (0.0167) | (0.0237) | (0.0166) | (0.0237) |
| Enhancement | -0.432* | -0.723** | -0.431* | -0.710** |
| | (0.253) | (0.342) | (0.253) | (0.343) |
| Covenants | -0.770*** | 0.470* | -0.767*** | 0.476* |
| | (0.212) | (0.284) | (0.213) | (0.285) |
| Redeemable | 0.182 | -1.265*** | 0.184 | -1.268*** |
| | (0.277) | (0.420) | (0.277) | (0.420) |
| Puttable | -0.174 | -0.793 | -0.185 | -0.790 |
| | (1.230) | (1.110) | (1.234) | (1.107) |
| Firm size | 0.0916* | -0.249*** | 0.0889* | -0.249*** |
| | (0.0467) | (0.0760) | (0.0465) | (0.0760) |
| ROA | -0.348 | -5.642** | -0.365 | -5.653** |
| | (1.635) | (2.374) | (1.638) | (2.371) |
| Leverage | -0.246 | 0.914 | -0.225 | 0.911 |
| | (0.532) | (0.790) | (0.527) | (0.790) |
| Tangibility | -0.631* | -0.261 | -0.615* | -0.232 |
| | (0.369) | (0.468) | (0.369) | (0.467) |
| Openness | -0.0235** | 0.0322* | -0.0232** | 0.0323* |
| | (0.00986) | (0.0166) | (0.00992) | (0.0165) |
| Log GDP | -0.0646 | 1.226 | -0.0624 | 1.153 |
| | (1.059) | (2.410) | (1.059) | (2.400) |
| Cons. | 22.97 | -9.732 | 22.65 | -7.749 |
| | (27.18) | (63.50) | (27.24) | (63.21) |
| Chi-sq | | 1.34 | | 0.86 |
| (P-value) | | (0.2473) | | (0.3533) |
| Country FE | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y |
| Industry FE | N | N | N | N |
| # of observations | 847 | 695 | 847 | 695 |
| adj. R-sq | 0.415 | 0.721 | 0.416 | 0.721 |

**Table 10: Effect of Political Ties on Bond Yield Spread: the Impact of Government Debt**

The table reports the results of the regressions examining the impact of government fiscal condition (total debt level) on political ties and Yankee bond initial pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. We split the bond sample using the median value of Government debt/GDP of the country where the borrower is located. All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | *High debt* | *Low debt* | *High debt* | *Low debt* |
| | (1) | (2) | (3) | (4) |
| PCecon_va | -2.220*** | 0.174 | | |
| | (0.782) | (0.186) | | |
| PCecon_vb | | | -2.191*** | 0.164 |
| | | | (0.764) | (0.184) |
| Creditor rights | -38.30*** | -0.790 | -38.72*** | -0.785 |
| | (12.23) | (0.577) | (12.10) | (0.576) |
| Log offamt | -0.331*** | -0.0200 | -0.332*** | -0.0199 |
| | (0.117) | (0.0443) | (0.117) | (0.0444) |
| Rating score | -0.258** | -0.376*** | -0.260** | -0.375*** |
| | (0.109) | (0.0283) | (0.109) | (0.0283) |
| Maturity | -0.203*** | 0.00125 | -0.203*** | 0.00130 |
| | (0.0440) | (0.00886) | (0.0440) | (0.00886) |
| Enhancement | -0.533 | -0.112 | -0.542 | -0.113 |
| | (0.572) | (0.182) | (0.571) | (0.182) |
| Covenants | -1.443** | -0.263* | -1.436** | -0.263* |
| | (0.567) | (0.150) | (0.567) | (0.150) |
| Redeemable | 0.573 | 0.392** | 0.575 | 0.392** |
| | (0.446) | (0.154) | (0.446) | (0.154) |
| Puttable | - | 0.0634 | - | 0.0638 |
| | - | (0.418) | - | (0.419) |
| Firm size | 0.296 | -0.0220 | 0.292 | -0.0219 |
| | (0.196) | (0.0296) | (0.194) | (0.0296) |
| ROA | 2.502 | -2.148* | 2.396 | -2.157* |
| | (5.058) | (1.205) | (5.064) | (1.206) |
| Leverage | -0.770 | 1.752*** | -0.724 | 1.746*** |
| | (1.515) | (0.435) | (1.519) | (0.434) |
| Tangibility | 0.257 | -0.696** | 0.276 | -0.694** |
| | (1.148) | (0.335) | (1.147) | (0.335) |
| Openness | 0.132*** | -0.00660 | 0.134*** | -0.00662 |
| | (0.0452) | (0.0113) | (0.0445) | (0.0113) |
| Trade with US | -23.38** | 7.772** | -24.01** | 7.794** |
| | (10.87) | (3.538) | (10.64) | (3.532) |
| Cons. | 87.65*** | 8.798*** | 89.20*** | 8.751*** |
| | (25.84) | (2.638) | (25.51) | (2.627) |
| Chi-sq | | 9.67*** | | 9.79*** |
| (P-value) | | (0.0019) | | (0.0018) |
| Country FE | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y |
| Industry FE | N | N | N | N |
| # of observations | 385 | 389 | 385 | 389 |
| adj. R-sq | 0.379 | 0.735 | 0.379 | 0.734 |

**Table 11: Political Ties and Bond Spread: Top- vs. Non-top- rated Country**

The table reports the results of the regressions examining the effect of political tie on Yankee bond pricing for high- or low-rated countries. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. We split the sample into bonds issued by borrowers in AAA-rated and non-AAA-rated countries. All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | | | |
|---|---|---|---|---|---|---|
| | *S&P ratings* | | | *Fitch ratings* | | |
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | *Full sample* | *AAA* | *Non-AAA* | *Full sample* | *AAA* | *Non-AAA* |
| PCecon_va | -0.543*** | -1.198*** | 0.342** | -0.562*** | -1.126*** | -0.0380 |
| | (0.132) | (0.306) | (0.150) | (0.137) | (0.298) | (0.181) |
| Rating spread | -0.118*** | -0.261*** | -0.242*** | -0.136*** | -0.207*** | -0.202*** |
| | (0.0274) | (0.0630) | (0.0282) | (0.0267) | (0.0690) | (0.0314) |
| Covenants | -0.713*** | -0.315 | -0.340** | -0.749*** | 0.247 | -0.652*** |
| | (0.170) | (0.302) | (0.158) | (0.172) | (0.438) | (0.190) |
| Creditor rights | -0.0939 | -0.0844 | 0.0712 | -0.0832 | -0.0871 | -0.0691 |
| | (0.0688) | (0.114) | (0.101) | (0.0688) | (0.119) | (0.0915) |
| Log affamt | -0.825*** | -0.697*** | -0.345*** | -0.816*** | -0.885*** | -0.562*** |
| | (0.0564) | (0.0675) | (0.115) | (0.0566) | (0.0737) | (0.0874) |
| Maturity | -0.0440*** | -0.0983*** | 0.00334 | -0.0488*** | -0.0318* | -0.0351* |
| | (0.0146) | (0.0195) | (0.0119) | (0.0167) | (0.0174) | (0.0179) |
| Enhancement | -1.278*** | -1.126*** | 0.128 | -1.278*** | -1.630*** | -0.469* |
| | (0.226) | (0.294) | (0.244) | (0.226) | (0.376) | (0.252) |
| Redeemable | 0.0636 | 0.104 | -0.0998 | 0.0566 | -0.618 | 0.480* |
| | (0.205) | (0.330) | (0.175) | (0.205) | (0.416) | (0.261) |
| Puttable | -0.0899 | 0 | 0.238 | -0.0347 | 0 | 0.0482 |
| | (0.927) | (.) | (0.550) | (1.022) | (.) | (0.708) |
| Firm size | -0.209*** | 0.245** | -0.128*** | -0.204*** | -0.281** | -0.0667** |
| | (0.0323) | (0.113) | (0.0297) | (0.0322) | (0.142) | (0.0328) |
| ROA | -1.744 | 0.699 | -3.757*** | -1.054 | 5.918 | -3.516** |
| | (1.391) | (3.058) | (1.291) | (1.426) | (3.629) | (1.573) |
| Leverage | 0.856 | 1.689* | 1.701*** | 0.811 | 2.197** | 0.460 |
| | (0.551) | (0.969) | (0.538) | (0.556) | (0.966) | (0.624) |
| Tangibility | -1.047*** | 0.176 | -0.361 | -1.072*** | 1.478** | -0.148 |
| | (0.362) | (0.697) | (0.331) | (0.378) | (0.706) | (0.378) |
| Openness | -0.0105*** | -0.0108*** | -0.0148*** | -0.0111*** | -0.0137*** | -0.00769** |
| | (0.00171) | (0.00366) | (0.00294) | (0.00173) | (0.00392) | (0.00298) |
| Log GDP | -0.316*** | 0.946*** | -0.139 | -0.335*** | 0.284 | -0.0216 |
| | (0.0966) | (0.359) | (0.0976) | (0.0977) | (0.388) | (0.111) |
| Trade with US | 3.470*** | 18.29*** | 1.074 | 3.688*** | 16.50*** | 2.060** |
| | (0.965) | (3.585) | (0.914) | (0.979) | (3.305) | (1.001) |
| Cons. | 23.82*** | -19.65* | 12.58*** | 25.18*** | 3.800 | 12.28*** |
| | (2.746) | (10.41) | (2.810) | (2.730) | (11.32) | (3.234) |
| Chi-sq (PCecon_va) | | | 21.87*** | | | 10.42*** |
| (P-value) | | | (0.0000) | | | (0.0012) |
| Chi-sq (Covenants) | | | 0.04 | | | 3.75* |
| (P-value) | | | (0.8480) | | | (0.0529) |
| Country FE | N | N | N | N | N | N |
| Year FE | Y | Y | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y | Y | Y |
| # of observations | 1,524 | 896 | 628 | 1,493 | 615 | 878 |
| adj. R-sq | 0.642 | 0.674 | 0.470 | 0.643 | 0.758 | 0.377 |

## Table 12: The Impact of Ruling Change: *Morrison v. National Australian Bank (2010)*

The table reports the results of the regressions examining the impact of regulation change on the association between political ties and Yankee bond initial pricing, using the case *Morrison v. National Australian Bank*. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables, and its interaction with Covenants. *Post Morrison* is defined as one if the bond is issued after *Morrison v. National Australian Bank (2010).* All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PCecon_va | -0.669*** | -0.513*** | | |
| | (0.140) | (0.167) | | |
| Post Morrison | -0.738*** | -0.782*** | -0.729*** | -0.777*** |
| | (0.187) | (0.191) | (0.186) | (0.190) |
| PCecon_va *Post Morrison | | -0.410* | | |
| | | (0.241) | | |
| PCecon_vb | | | -0.703*** | -0.549*** |
| | | | (0.140) | (0.166) |
| PCecon_vb *Post Morrison | | | | -0.410* |
| | | | | (0.238) |
| Log offamt | -0.684*** | -0.690*** | -0.685*** | -0.691*** |
| | (0.0529) | (0.0539) | (0.0529) | (0.0538) |
| Rating score | -0.234*** | -0.231*** | -0.237*** | -0.233*** |
| | (0.0346) | (0.0349) | (0.0346) | (0.0348) |
| Maturity | -0.0395*** | -0.0390*** | -0.0393*** | -0.0388*** |
| | (0.0146) | (0.0146) | (0.0146) | (0.0146) |
| Enhancement | -0.394* | -0.400** | -0.392* | -0.393* |
| | (0.201) | (0.202) | (0.202) | (0.202) |
| Covenants | -0.338** | -0.330** | -0.329** | -0.323** |
| | (0.161) | (0.161) | (0.161) | (0.162) |
| Redeemable | -0.103 | -0.0908 | -0.110 | -0.0986 |
| | (0.194) | (0.194) | (0.194) | (0.194) |
| Puttable | 0.0752 | 0.0172 | 0.0643 | 0.0129 |
| | (0.799) | (0.807) | (0.797) | (0.806) |
| Firm size | -0.0914** | -0.101** | -0.0921** | -0.102** |
| | (0.0440) | (0.0444) | (0.0440) | (0.0443) |
| ROA | -5.233*** | -5.637*** | -5.137*** | -5.548*** |
| | (1.443) | (1.467) | (1.436) | (1.462) |
| Leverage | 1.631*** | 1.676*** | 1.644*** | 1.684*** |
| | (0.544) | (0.544) | (0.543) | (0.544) |
| Tangibility | -0.731** | -0.767** | -0.714** | -0.750** |
| | (0.335) | (0.337) | (0.335) | (0.336) |
| Openness | 0.0129* | 0.0136* | 0.0119 | 0.0132* |
| | (0.00778) | (0.00787) | (0.00780) | (0.00790) |
| Log GDP | 2.782*** | 2.770*** | 2.771*** | 2.736*** |
| | (0.553) | (0.555) | (0.553) | (0.554) |
| Trade with US | -2.972 | -1.218 | -2.827 | -1.180 |
| | (3.084) | (3.393) | (3.108) | (3.392) |
| Cons. | -59.11*** | -58.80*** | -58.74*** | -57.92*** |
| | (13.69) | (13.71) | (13.67) | (13.69) |
| Country FE | Y | Y | Y | Y |
| Year FE | N | N | N | N |
| Industry FE | Y | Y | Y | Y |
| # of observations | 1,628 | 1,628 | 1,628 | 1,628 |
| adj. R-sq | 0.662 | 0.662 | 0.662 | 0.663 |

**Table 13: Political Ties, Creditor Rights and Bond Contracting**

The table reports the results of the regressions examining the association between political ties and creditor rights in affecting Yankee bond initial pricing. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables, and its interaction with *Covenants*. We split the sample using the median value of creditor rights index. All the other variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | | | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| | *Full sample* | *High CR* | *Low CR* | *Full sample* | *High CR* | *Low CR* |
| PCecon_va | -0.979*** | -0.674** | -0.701*** | | | |
| | (0.152) | (0.334) | (0.224) | | | |
| Covenants | -0.321* | -0.865*** | -0.0349 | -0.311* | -0.849*** | -0.00904 |
| | (0.164) | (0.295) | (0.212) | (0.165) | (0.293) | (0.214) |
| PCecon_va*Covenants | 0.744*** | -0.448* | 1.016*** | | | |
| | (0.191) | (0.269) | (0.270) | | | |
| PCecon_vb | | | | -1.046*** | -0.697** | -0.811*** |
| | | | | (0.153) | (0.342) | (0.227) |
| PCecon_vb *Covenants | | | | 0.724*** | -0.442* | 1.010*** |
| | | | | (0.194) | (0.266) | (0.274) |
| Log offamt | -0.643*** | -0.407*** | -0.856*** | -0.644*** | -0.408*** | -0.858*** |
| | (0.0521) | (0.0855) | (0.113) | (0.0522) | (0.0854) | (0.113) |
| Rating score | -0.263*** | -0.287*** | -0.308*** | -0.265*** | -0.288*** | -0.307*** |
| | (0.0322) | (0.0594) | (0.0456) | (0.0321) | (0.0595) | (0.0455) |
| Maturity | -0.0289** | -0.0934*** | -0.00207 | -0.0285** | -0.0937*** | -0.00178 |
| | (0.0137) | (0.0190) | (0.0156) | (0.0137) | (0.0190) | (0.0155) |
| Enhancement | -0.491** | -0.725** | -0.0643 | -0.485** | -0.728** | -0.0684 |
| | (0.194) | (0.290) | (0.288) | (0.195) | (0.291) | (0.288) |
| Redeemable | -0.0164 | 0.699* | -0.809*** | -0.0220 | 0.699* | -0.807*** |
| | (0.198) | (0.372) | (0.243) | (0.198) | (0.372) | (0.242) |
| Puttable | 0.187 | -1.654*** | -0.225 | 0.202 | -1.651*** | -0.219 |
| | (0.714) | (0.517) | (0.916) | (0.717) | (0.513) | (0.921) |
| Firm size | -0.0841** | 0.105 | -0.0977** | -0.0848** | 0.103 | -0.0998** |
| | (0.0388) | (0.103) | (0.0461) | (0.0390) | (0.103) | (0.0460) |
| ROA | -4.370*** | 2.418 | -4.793** | -4.369*** | 2.435 | -4.739** |
| | (1.369) | (2.787) | (1.911) | (1.364) | (2.789) | (1.901) |
| Leverage | 1.168** | 0.0329 | 1.883** | 1.183** | 0.0579 | 1.904** |
| | (0.512) | (0.919) | (0.758) | (0.511) | (0.921) | (0.757) |
| Tangibility | -0.586* | -0.469 | -0.921** | -0.567* | -0.453 | -0.888** |
| | (0.315) | (0.622) | (0.418) | (0.314) | (0.623) | (0.415) |
| Openness | 0.00797 | 0.0254 | -0.0310** | 0.00793 | 0.0235 | -0.0324** |
| | (0.00803) | (0.0166) | (0.0140) | (0.00799) | (0.0166) | (0.0141) |
| Log GDP | -1.360 | 0.0180 | -0.292 | -1.332 | -0.0728 | -0.452 |
| | (0.991) | (1.969) | (1.327) | (0.995) | (1.959) | (1.324) |
| Trade with US | -0.888 | -5.148 | 1.514 | -0.851 | -4.879 | 1.949 |
| | (3.437) | (4.785) | (6.378) | (3.401) | (4.740) | (6.298) |
| Cons. | 47.76* | 7.822 | 29.78 | 46.85* | 10.24 | 33.86 |
| | (25.13) | (52.55) | (34.19) | (25.24) | (52.27) | (34.09) |
| Chi-sq | | | 16.84*** | | | 16.58*** |
| (P-value) | | | (0.0000) | | | (0.0000) |
| Country FE | Y | Y | Y | Y | Y | Y |
| Year FE | Y | Y | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y | Y | Y |
| # of observations | 1,628 | 633 | 900 | 1,628 | 633 | 900 |
| adj. R-sq | 0.682 | 0.469 | 0.766 | 0.683 | 0.469 | 0.766 |

## Appendix

Table A.1 Variable definitions

| Variable | Definitions | Source |
|---|---|---|
| *Political Tie variables* | | |
| Voting_a | Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests). Dyadic affinity score using 2 category vote data (1="yes" or approval for an issue; 2="no" or disapproval for an issue). | UN Voting database |
| Voting_b | Values for the affinity data ranges from -1 (least similar interests) to 1 (most similar interests), using 3 category vote data (1="yes" or approval for an issue; 2= abstain, 3="no" or disapproval for an issue). | UN Voting database |
| Laid econ | Log of total economic aid obligations given by the US to a country in constant 2014 USD | USAID |
| Laid all | Log of total economic and military aid obligations given by the US to a country in constant 2014 USD | USAID |
| PCecon_va | The 2nd principal component of *Voting_a* and *Laid econ* | |
| PCecon_vb | The 2nd principal component of *Voting_b* and *Laid econ* | |
| PCall_va | The 2nd principal component of *Voting_a* and *Laid all* | |
| PCall_vb | The 2nd principal component of *Voting_b* and *Laid all* | |
| Laid econ_dev | Deviation from the aid prediction model based on Alesina and Dollar (2000) using *Laid econ*, where the aid variable is regressed on the five-year moving average of GDP per capita, its square, a measure for trade openness, indices for civil and political liberties, the log number of years a state was a colony (zero for never), and dummy variables for Israel and Egypt. | Own calculations |
| Laid all_dev | Deviation from the aid prediction model based on Alesina and Dollar (Journal of Economic Growth, 2000) using *Laid econ*, where the aid variable is regressed on the five year moving average of GDP income per capita, its square, a measure for trade openness, indices for civil and political liberties, the log number of years a state was a colony (zero for never), and dummy variables for Israel and Egypt. | |
| *Bond characteristics* | | |
| At-issue bond yield spread | The spread between the bond offering yield at issuance and the matched treasury rate. | |
| Log offamt | Log of the Yankee bond offering amount in thousand USD | |
| Maturity | Bond duration in years. | |
| Rating score | Bond rating score at issuance | |
| Enhancement | Dummy variable that equals one if the bond contract has credit enhancement | Mergent FISD; Own calculations |
| Covenants | Dummy variable that equals one if the bond contract has covenants | |
| Redeemable | Dummy variable that equals one if the bond is redeemable | |
| Puttable | Dummy variable that equals one if the bond is puttable | |
| Post Morrison | Dummy variable that equals one if the bond is issued after *Morrison v. National Australian Bank* (2010). | |
| *Borrower characteristics* | | |
| Firm size | Log of total assets in mn USD | Compustat Capital IQ |
| ROA | Net income before extraordinary items/Total assets | |
| Leverage | Total liabilities/Total assets | |
| Tangibility | Net property, plant, and equipment/Total assets | |
| Ind_gov | The dummy defined as 1 for Utility and Government Agencies, and 0 otherwise (Industry, Finance and Miscellaneous). | |
| *Borrower's country characteristics* | | |

| | | |
|---|---|---|
| Creditor rights | The creditor rights index that measures (1) whether there are restrictions, such as credit consent, when a debtor files for reorganization; (2) whether secured creditors are able to seize their collateral once reorganization is approved; (3) whether secured creditors are paid first; (4) whether an administrator, not management, is responsible for running the business during reorganization. The value ranges from 0(weakest creditor protection) to 4 (strongest creditor protection). | Djankov et al. (2007) |
| Political constraints | The first political constraints index (political constraints_a) measures the feasibility of political change, that is, the extent to which a change in the preferences of any one actor may lead to a change in government policy (Henisz, 2002). The second political constraints index (political constraints_b) is a structurally-derived internationally comparable measure of political constraints (Henisz, 2000). | POLCON Dataset (2017) |
| Civil | Civil liberties index, based on 1 to 7 scale, constructed according to 15 questions on free and independent press, religious and academic freedom, freedom of expression and assembly, the well-functioning of NGOs and unions, as well as the rule of law and personal rights. | Freedom House (2017) |
| Democracy | Political rights in the electoral process subcategory, based on 1 to 7 scale, constructed based on ten indicators measuring fair elections, political pluralism and participation, safeguards against corruption and the transparency and well-functioning of government. | Freedom House (2017) |
| Openness | Total trade volume/GDP | |
| Log GDP | Log of GDP in current mn USD | |
| Trade with US | Trade volume with the US/GDP | WDI |
| Government debt | Level of government debt/GDP | |
| Recession | The dummy is defined as one when the GDP is below an HP filtered trend, and zero otherwise | |
| Country rating | Numerical index of Sovereign Long Term (Foreign Currency) Credit Rating with AAA equal 22 and lower than C (in default) as 1. | S&P, and Fitch Ratings |
| Rating spread | The spread between bond rating score at issuance and country rating score. | |

**Table A.2 Number of Yankee bonds by country and Mean Value of Political tie Variables**

| **Country** | **# of Obs.** | **Mean of *Voting_a*** | **Mean of *Voting_b*** | **Mean of *Laid econ*** | **Mean of *Laid all*** |
|---|---|---|---|---|---|
| Argentina | 50 | -0.23 | -0.15 | 14.70 | 16.01 |
| Australia | 176 | 0.29 | 0.23 | 11.15 | 12.35 |
| Austria | 13 | -0.11 | -0.05 | 13.34 | 13.42 |
| Bahamas | 7 | -0.45 | -0.36 | 14.31 | 15.06 |
| Belgium | 3 | -0.10 | -0.04 | 16.88 | 16.88 |
| Brazil | 98 | -0.51 | -0.39 | 17.05 | 17.15 |
| Canada | 20 | 0.48 | 0.42 | 17.00 | 16.68 |
| Chile | 49 | -0.40 | -0.33 | 15.03 | 15.50 |
| China | 62 | -0.63 | -0.48 | 18.04 | 18.07 |
| Colombia | 18 | -0.55 | -0.41 | 19.66 | 20.02 |
| Cyprus | 1 | 0.31 | 0.31 | 12.55 | 12.55 |
| Czech Republic | 2 | 0.25 | 0.23 | 15.18 | 16.55 |
| Dominican Republic | 1 | 0.05 | 0.04 | 16.85 | 16.94 |
| Fiji | 1 | -0.39 | -0.17 | 14.47 | 14.47 |
| France | 156 | 0.20 | 0.19 | 13.56 | 13.18 |
| Greece | 6 | -0.04 | 0.01 | 12.92 | 14.67 |
| India | 6 | -0.71 | -0.52 | 18.76 | 18.80 |
| Indonesia | 4 | -0.62 | -0.47 | 19.41 | 19.44 |
| Ireland | 14 | -0.01 | 0.04 | 14.64 | 14.64 |
| Israel | 1 | 0.94 | 0.77 | 18.88 | 22.11 |
| Japan | 26 | 0.00 | 0.04 | 14.26 | 14.26 |
| Kazakhstan | 2 | -0.61 | -0.44 | 18.33 | 18.76 |
| Malaysia | 7 | -0.43 | -0.32 | 11.79 | 13.86 |
| Marshall Islands | 1 | 0.72 | 0.66 | 18.02 | 18.02 |
| Mexico | 152 | -0.47 | -0.37 | 18.70 | 19.09 |
| Mongolia | 1 | -0.42 | -0.34 | 16.89 | 17.07 |
| Morocco | 1 | -0.52 | -0.43 | 17.81 | 18.06 |
| Netherlands | 32 | 0.21 | 0.19 | 12.08 | 12.10 |
| Nigeria | 2 | -0.43 | -0.34 | 20.14 | 20.16 |
| Norway | 272 | -0.26 | -0.17 | 7.45 | 7.46 |
| Panama | 9 | -0.41 | -0.31 | 16.44 | 16.70 |
| Peru | 19 | -0.47 | -0.36 | 18.78 | 18.85 |
| Philippines | 12 | -0.44 | -0.32 | 18.32 | 18.43 |
| Russia | 8 | -0.69 | -0.47 | 20.78 | 21.04 |
| Singapore | 25 | -0.57 | -0.44 | 13.06 | 13.06 |
| South Africa | 3 | -0.64 | -0.48 | 19.95 | 19.96 |
| South Korea | 83 | -0.12 | -0.02 | 13.68 | 13.37 |
| Spain | 6 | 0.11 | 0.12 | 15.55 | 15.58 |
| Sri Lanka | 1 | -0.67 | -0.58 | 17.50 | 17.59 |
| Sweden | 30 | 0.04 | 0.07 | 11.31 | 10.87 |
| Switzerland | 9 | -0.29 | -0.19 | 10.11 | 10.11 |
| Thailand | 20 | -0.47 | -0.37 | 17.42 | 17.54 |
| Turkey | 28 | -0.11 | -0.04 | 17.42 | 17.64 |
| Ukraine | 3 | -0.12 | -0.06 | 19.22 | 19.35 |
| United Arab Emirates | 19 | -0.72 | -0.57 | 14.63 | 14.63 |
| United Kingdom | 834 | 0.32 | 0.29 | 12.87 | 13.00 |

## Table A.3: Robustness checks: controlling for additional domestic institutional factors

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing when controlling for more domestic institutional factors. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting affinity score and US aid. All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| PCecon_va | -0.759*** | -0.731*** | -0.633*** | -0.667*** | | | | |
| | (0.165) | (0.167) | (0.162) | (0.161) | | | | |
| PCecon_vb | | | | | -0.861*** | -0.836*** | -0.719*** | -0.750*** |
| | | | | | (0.169) | (0.171) | (0.167) | (0.165) |
| Political constraints_a | 0.772 | | | | 0.795 | | | |
| | (0.565) | | | | (0.564) | | | |
| Political constraints_b | | -0.302 | | | | -0.219 | | |
| | | (0.610) | | | | (0.608) | | |
| Civil | | | -0.387* | | | | -0.359* | |
| | | | (0.202) | | | | (0.201) | |
| Democracy | | | | -0.512*** | | | | -0.504*** |
| | | | | (0.179) | | | | (0.178) |
| Creditor rights | -1.915*** | -1.730*** | -1.729*** | -1.800*** | -1.899*** | -1.741*** | -1.677*** | -1.763*** |
| | (0.582) | (0.613) | (0.475) | (0.471) | (0.580) | (0.611) | (0.474) | (0.466) |
| Log offamt | -0.723*** | -0.726*** | -0.724*** | -0.720*** | -0.721*** | -0.725*** | -0.723*** | -0.719*** |
| | (0.0635) | (0.0634) | (0.0619) | (0.0620) | (0.0635) | (0.0633) | (0.0619) | (0.0620) |
| Rating score | -0.262*** | -0.257*** | -0.249*** | -0.245*** | -0.263*** | -0.258*** | -0.250*** | -0.246*** |
| | (0.0348) | (0.0347) | (0.0330) | (0.0332) | (0.0348) | (0.0347) | (0.0329) | (0.0332) |
| Maturity | -0.0280** | -0.0275* | -0.0262* | -0.0267** | -0.0276* | -0.0271* | -0.0258* | -0.0263* |
| | (0.0142) | (0.0140) | (0.0136) | (0.0135) | (0.0141) | (0.0140) | (0.0135) | (0.0135) |
| Enhancement | -0.520** | -0.548*** | -0.559*** | -0.587*** | -0.513** | -0.539*** | -0.554*** | -0.581*** |
| | (0.202) | (0.200) | (0.199) | (0.199) | (0.202) | (0.201) | (0.199) | (0.199) |
| Covenants | -0.392** | -0.373** | -0.390** | -0.376** | -0.389** | -0.369** | -0.384** | -0.371** |
| | (0.177) | (0.177) | (0.163) | (0.163) | (0.177) | (0.177) | (0.164) | (0.163) |
| Redeemable | -0.0628 | -0.0627 | -0.0847 | -0.0862 | -0.0660 | -0.0665 | -0.0887 | -0.0902 |
| | (0.212) | (0.212) | (0.206) | (0.206) | (0.212) | (0.212) | (0.206) | (0.206) |
| Puttable | -0.0138 | -0.0159 | 0.0873 | -0.00396 | -0.0122 | -0.0114 | 0.0853 | -0.00399 |
| | (0.769) | (0.772) | (0.755) | (0.757) | (0.771) | (0.773) | (0.757) | (0.759) |
| Firm size | -0.104** | -0.103** | -0.110*** | -0.111*** | -0.104** | -0.103** | -0.110*** | -0.111*** |
| | (0.0445) | (0.0450) | (0.0411) | (0.0408) | (0.0444) | (0.0448) | (0.0411) | (0.0408) |
| ROA | -3.723** | -3.548** | -4.214*** | -4.530*** | -3.732** | -3.566** | -4.206*** | -4.522*** |
| | (1.520) | (1.525) | (1.387) | (1.413) | (1.516) | (1.521) | (1.383) | (1.409) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Leverage | 1.149** | 1.314** | 1.306** | 1.326** | 1.186** | 1.340** | 1.326** | 1.347** |
| | (0.558) | (0.547) | (0.522) | (0.524) | (0.557) | (0.546) | (0.522) | (0.524) |
| Tangibility | -0.539 | -0.575 | -0.663** | -0.689** | -0.514 | -0.550 | -0.645** | -0.669** |
| | (0.358) | (0.358) | (0.325) | (0.322) | (0.357) | (0.357) | (0.325) | (0.322) |
| Openness | -0.00372 | -0.00523 | 0.00640 | 0.00578 | -0.00414 | -0.00549 | 0.00603 | 0.00562 |
| | (0.0108) | (0.0109) | (0.00820) | (0.00803) | (0.0108) | (0.0110) | (0.00822) | (0.00806) |
| Log GDP | -0.334 | -0.503 | -0.559 | -0.959 | -0.334 | -0.505 | -0.567 | -0.954 |
| | (1.062) | (1.051) | (0.987) | (0.999) | (1.066) | (1.055) | (0.990) | (1.002) |
| Trade with US | 1.081 | 0.557 | -0.611 | 0.0326 | 1.213 | 0.739 | -0.617 | 0.0485 |
| | (3.213) | (3.235) | (3.058) | (3.047) | (3.205) | (3.234) | (3.059) | (3.049) |
| Cons. | 26.59 | 31.05 | 34.26 | 45.87* | 26.54 | 31.06 | 34.05 | 45.47* |
| | (27.60) | (27.28) | (24.82) | (25.15) | (27.72) | (27.41) | (24.90) | (25.24) |
| Country FE | Y | Y | Y | Y | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y | Y | Y | Y | Y |
| year FE | Y | Y | Y | Y | Y | Y | Y | Y |
| # of observations | 1,451 | 1,451 | 1,533 | 1,533 | 1,451 | 1,451 | 1,533 | 1,533 |
| adj. R-sq. | 0.673 | 0.673 | 0.678 | 0.678 | 0.674 | 0.674 | 0.678 | 0.679 |

## Table A.4 Robustness checks: using standard errors clustered by country

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing, with the standard errors clustered by country. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. All variables are defined in Appendix Table A.1. Robust standard errors clustered by country are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PCecon_va | -0.659*** | | | |
| | (0.202) | | | |
| PCecon_vb | | -0.745*** | | |
| | | (0.215) | | |
| PCall_va | | | -0.372* | |
| | | | (0.185) | |
| PCall_vb | | | | -0.427** |
| | | | | (0.193) |
| Creditor rights | -1.439** | -1.407** | -1.119* | -1.088* |
| | (0.574) | (0.574) | (0.570) | (0.578) |
| Log offamt | -0.724*** | -0.723*** | -0.728*** | -0.727*** |
| | (0.125) | (0.125) | (0.121) | (0.121) |
| Rating score | -0.250*** | -0.251*** | -0.260*** | -0.261*** |
| | (0.0516) | (0.0514) | (0.0489) | (0.0490) |
| Maturity | -0.0263 | -0.0259 | -0.0269 | -0.0268 |
| | (0.0234) | (0.0233) | (0.0223) | (0.0222) |
| Enhancement | -0.567** | -0.561** | -0.558** | -0.552** |
| | (0.225) | (0.221) | (0.236) | (0.235) |
| Covenants | -0.389 | -0.383 | -0.437* | -0.435* |
| | (0.248) | (0.249) | (0.246) | (0.248) |
| Redeemable | -0.0830 | -0.0872 | -0.0758 | -0.0815 |
| | (0.419) | (0.417) | (0.435) | (0.435) |
| Puttable | 0.0698 | 0.0689 | 0.0160 | 0.0119 |
| | (0.751) | (0.756) | (0.664) | (0.668) |
| Firm size | -0.116 | -0.115 | -0.112 | -0.112 |
| | (0.0770) | (0.0763) | (0.0817) | (0.0815) |
| ROA | -4.110* | -4.109* | -4.336** | -4.333** |
| | (2.159) | (2.149) | (1.904) | (1.898) |
| Leverage | 1.268** | 1.291** | 1.275** | 1.288** |
| | (0.494) | (0.503) | (0.509) | (0.513) |
| Tangibility | -0.685 | -0.665 | -0.592 | -0.575 |
| | (0.424) | (0.422) | (0.438) | (0.436) |
| Openness | 0.00231 | 0.00222 | 0.00478 | 0.00494 |
| | (0.0132) | (0.0131) | (0.0121) | (0.0121) |
| Log GDP | -0.646 | -0.648 | -1.372 | -1.379 |
| | (1.063) | (1.061) | (1.076) | (1.079) |
| Trade with US | -1.038 | -1.012 | -1.941 | -1.960 |
| | (2.360) | (2.357) | (2.387) | (2.374) |
| Cons. | 33.94 | 33.74 | 52.59* | 52.57* |
| | (26.13) | (26.08) | (26.36) | (26.45) |
| Country FE | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y |
| year FE | Y | Y | Y | Y |
| # of observations | 1,533 | 1,533 | 1,592 | 1,592 |
| adj. R-sq | 0.678 | 0.678 | 0.683 | 0.683 |

## Table A.5 Robustness checks: sample excluding 2008's financial crises

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing using the sample period without 2007-2010. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables. All variables are defined in Appendix Table A.1. Robust standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

| **Dep. Var** | **At-issue bond yield spread** | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| PCecon_va | -0.774*** | | | |
| | (0.284) | | | |
| PCecon_vb | | -0.933*** | | |
| | | (0.295) | | |
| PCall_va | | | -0.333* | |
| | | | (0.195) | |
| PCall_vb | | | | -0.409* |
| | | | | (0.205) |
| Creditor rights | -0.586 | -0.540 | -0.365 | -0.331 |
| | (0.477) | (0.485) | (0.491) | (0.504) |
| Log offamt | -0.590*** | -0.590*** | -0.592*** | -0.592*** |
| | (0.0905) | (0.0904) | (0.0869) | (0.0867) |
| Rating score | -0.264*** | -0.265*** | -0.287*** | -0.288*** |
| | (0.0417) | (0.0409) | (0.0387) | (0.0386) |
| Maturity | -0.0248 | -0.0244 | -0.0255 | -0.0254 |
| | (0.0297) | (0.0295) | (0.0264) | (0.0264) |
| Enhancement | -0.470 | -0.459 | -0.497* | -0.492* |
| | (0.311) | (0.309) | (0.281) | (0.282) |
| Covenants | -0.563* | -0.556* | -0.622** | -0.621** |
| | (0.290) | (0.292) | (0.281) | (0.282) |
| Redeemable | 0.239 | 0.233 | 0.290 | 0.286 |
| | (0.369) | (0.365) | (0.379) | (0.378) |
| Puttable | 0.456 | 0.449 | 0.272 | 0.267 |
| | (0.668) | (0.675) | (0.598) | (0.602) |
| Firm size | 0.0226 | 0.0189 | 0.0328 | 0.0316 |
| | (0.0493) | (0.0486) | (0.0568) | (0.0566) |
| ROA | -2.331 | -2.414 | -2.274* | -2.314* |
| | (1.806) | (1.802) | (1.341) | (1.343) |
| Leverage | 1.301** | 1.342** | 1.249* | 1.270* |
| | (0.612) | (0.621) | (0.655) | (0.657) |
| Tangibility | -0.180 | -0.154 | -0.142 | -0.125 |
| | (0.411) | (0.408) | (0.400) | (0.398) |
| Openness | -0.0128 | -0.0121 | -0.00940 | -0.00881 |
| | (0.0133) | (0.0132) | (0.0110) | (0.0110) |
| Log GDP | -1.492 | -1.537 | -2.091* | -2.107* |
| | (1.473) | (1.462) | (1.171) | (1.172) |
| Trade with US | -1.737 | -1.639 | -2.639 | -2.631 |
| | (3.776) | (3.727) | (4.041) | (3.999) |
| Cons. | 52.26 | 52.92 | 68.12** | 68.26** |
| | (36.55) | (36.29) | (29.51) | (29.56) |
| Country FE | Y | Y | Y | Y |
| Industry FE | Y | Y | Y | Y |
| year FE | Y | Y | Y | Y |
| # of observations | 1,029 | 1,029 | 1,088 | 1,088 |
| adj. R-sq | 0.444 | 0.446 | 0.458 | 0.458 |