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 firms obtain better terms when raising funds in global capital markets. Focusing on the Yankee bonds market, we find that issuances by firms from countries with close political ties with the US feature lower yield spreads, higher issuance amounts, and longer maturities. Such an association is more pronounced for firms located in low income and highly indebted countries as well as firms in government-related industries, first-time issuers, and relatively smaller firms. Our study provides evidence supporting the notion that country-level political relationship is an important factor when raising capital in international markets.

Keywords: Bond spreads; Political ties; Yankee bonds

JEL Code: G12; G15; G30; F50

1. Introduction

Political connections (or ties) can facilitate the execution of various undertakings. This is true in many fields and has also been shown to hold in corporate finance. Much of the literature in this area has been on domestic or local political ties by senior executives or board members of firms (e.g. Faccio, 2006; Faccio et al., 2006; Goldman et al., 2009; Farag and Dickinson, 2020).[2] However, one of the largest political arenas with among the highest stakes, is the international state-to-state political sphere. Further, how national governments deal with each other often trickle down and spill over to businesses. Take for instance how US-China relations have recently soured leading to substantial trade tariffs in 2018 followed by numerous cases of sanctions and restrictions on the activities of various related businesses, also in asset markets.[3] In this paper, we explore the implications of state-to-state political ties on corporate financing in international bond markets.

Specifically, we explore whether state-to-state political ties between the United States of America (the US) and other (henceforth foreign) governments could be a novel factor in the pricing and issuance of capital raised in the Yankee bond market. The Yankee bond market is one of the largest cross-border bond markets where foreign firms issue US-dollar denominated debt in the US. We examine whether close political ties with the US, as measured in terms of voting similarity in the UN General Assembly (UNGA) and the amount of US economic and military aid obligations that go to a foreign country, is priced into Yankee bond issuances.[4]

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[1] For example, Faccio (2006) finds that political connections increase firm value. Farag and Dickinson (2020) find that political connections lower financial company risk while Goldman et al. (2009) find that firms exhibit positive abnormal returns following the nomination of a politically connected individuals to the board. See also Fisman (2001), Butler et al. (2009), Faccio (2010), Correia (2014), Acemoglu et al. (2016), Banerji et al. (2016), and Akin et al. (2021).

[3] For example, the *Holding Foreign Companies Accountable Act* signed into US law on December 18, 2020 was widely seen as potentially leading to Chinese companies giving up listings in US exchanges. For more details, please see: https://www.congress.gov/bill/116th-congress/senate-bill/945/text

[4] There is a large related literature linking voting at the United Nations, foreign aid, and international political ties. A non-exhaustive list includes Boone (1996), Alesina and Dollar (2000), Burnside and Dollar (2000), Dreher et al. (2009a,2009b), Carter and Stone (2015), Dreher et al. (2015), and Ambrocio and Hasan (2021).

We provide new evidence showing that firms located in countries with strong state-level political ties with the US tend to have lower borrowing costs, higher issuance amounts, and longer maturities for Yankee bonds. The economic impact is not trivial. On average, a one-standard-deviation improvement in political ties with the US is associated with 5 to 14 percent lower bond yield spreads, up to 50 percent larger issuance amounts, and up to 29 percent longer bond maturities. Our results are robust to the inclusion of factors such as institutional quality as well as the exclusion of potentially influential observations. We further reinforce our findings using information from heads of state visits to the White House and troop contributions in the 2003 Iraq War as additional measures of political ties with the US. The analysis incorporating information from these two measures 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 three potential channels through which political ties with the US may influence Yankee bond issuances. First, we find some evidence supporting the notion that stronger political ties with the US may reduce sovereign risk and in turn lower the cost of Yankee bond issuances. Consistent with this hypothesis, we find that the impact of closer political ties with the US on Yankee bond yield spreads is more pronounced for firms which are domiciled in countries with low levels of income and high sovereign debt. We also find that the effect of political ties with the US on Yankee bond spreads is more pronounced for firms in industries which are more closely related to their domestic governments.

Second, we also find some evidence suggesting a regulatory channel to the effect of US political ties on Yankee bond spreads. Specifically, we find that firms in the highly regulated financial sector tend to benefit more from stronger US political ties. Moreover, the stronger effect of US political ties on yield spreads for financial firms over non-financial firms disappeared after the *Dodd-Frank Act*, a financial regulatory reform implemented to address the perceived shortcomings in the financial sector which led

to the Global Financial Crisis. We also find that our documented effects are stronger for issuances by firms in countries with similarly high levels of contract enforcement as the US.

Finally, we find some evidence supporting an information-related channel to US political ties. Consistent with the notion that stronger ties with the US help channel and shape the flow of information about foreign firms to international investors, we find that the effect of US political ties on yield spreads is also stronger for first-time issuers and small firms. These are firms which are relatively more opaque and hard to value and thus stand to gain more from improvements related to the flow of information. We also find that stronger political ties help shape the tone of US news coverage of foreign firms which are already listed in US exchanges.

Our paper draws on the literature emphasizing the importance of domestic political connections in finance. Goldman et al. (2009) find that firms exhibit positive abnormal returns following the nomination of a politically connected individual to the board. 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. Boubakri et al. (2012) find that the cost of equity capital is lower for politically connected firms while Houston et al. (2014) also show that the cost of bank loans is significantly lower for companies whose board members have strong political ties. Faccio et al. (2006) and Acemoglu et al. (2016) find that politically connected firms around the world are more likely to be bailed out. Banerji et al. (2016) note that this increased likelihood of bailouts may be offset by reduced monitoring in bank lending. More recently, Farag and Dickinson (2020) find that political connections lower financial company risk.

A strand of the literature has begun to explore cross-border political connections for multinational firms. Solji and Tham (2017) find that foreign political connections add to firm value as they help firms enter foreign markets. Fink and Stahl (2020) show that foreign firms' campaign contributions during the 2016 US presidential election are associated with higher equity returns. Aleksanyan et al. (2021) find

that political state visits improve cross-border mergers and acquisitions outcomes. Similarly, Biguri and Stahl (2019) show that US multinationals' connections to European policymakers lead to favorable outcomes in tax treatment and mergers and acquisitions. This paper, however, is the first to study the effects and value of state-level political ties on corporate financing particularly in international bond markets.

Our study complements the current literature on the determinants of Yankee bond pricing which have largely focused on investor protection.[5] For example, Miller and Puthenpurackal (2002) find that creditor protection is important in terms of ex-post protection via the domestic legal framework and institutions governing bankruptcy proceedings.[6] 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 in issuers' home countries shape investor protection at the contractual level and find that issuers from countries with stronger creditor rights are less likely to use covenants. Our paper extends this literature by showing that state-level political ties may be another factor relevant for Yankee bond pricing.

Finally, our paper is related to those which document the far-reaching effects of US political interests. Early examples of this literature show how US political interests affect foreign aid flows (Faye and Niehaus, 2012) and IMF and World Bank lending (Thacker, 1999; Barro and Lee, 2005; Malik and Stone, 2018). More recently, Qian and Yanagizawa-Drott (2017) find that US geopolitical interests affect

[5] There is a large literature on the institutional determinants of cross-border financing. For example, Qi et al. (2010) find that domestic institutions such as those that cover political rights and freedom of the press are important for the cost of debt. Haselmann et al. (2010) find that credit supply responds to legal environment. Delis et al. (2020) show that democracy significantly reduces the cost of private credit. Giannetti and Yafeh (2015) find that cultural difference matter for international syndicated bank loans. See also Qian and Strahan (2007), Bekaert et al. (2016), and Fisman et al. (2017).
[6] On a broader scale using data across 129 countries, Djankov et al. (2007) show 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.

media coverage of human rights violations in foreign countries. Our paper adds to this strand of the literature by documenting the effect of US political ties on international corporate debt issuance.

The rest of the paper proceeds as follows: Section 2 provides an overview of the Yankee bond market; Section 3 discusses the hypothesis development and describes the data; Section 4 reports the results of the analyses; and Section 5 concludes.

2. Overview of the Yankee Bond Market

The Yankee bond market is one of the largest markets wherein foreign firms can raise corporate funding in the US public market.[7] The Yankee bond market has several defining features. First, Yankee bonds are all US dollar denominated. Second, Yankee bonds are all underwritten by US syndicates. Third, although issued by foreign firms, Yankee bond issuers are subject to regulation by the Securities and Exchange Commission (SEC) and the US legal system. Unlike other international corporate bond markets (e.g., Rule 144A bonds), foreign issuers are required to register with the SEC and are subject to SEC oversight.[8] 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, firms must register with the SEC and provide a prospectus including financial reports for the two years prior to the offering before issuing Yankee bonds. Issuers must also provide supplementary and periodic information after the issue. The legal bonding theory suggests that although foreign issuers face costly and burdensome litigation in the US, they also benefit from a more robust legal framework and achieve lower financing costs (see e.g. Coffee, 1999; Doidge, et al., 2004; and Licht et al., 2018).

The issuing firms' home-country environment is also relevant in Yankee bond contracting. Miller

[7] There are three bond markets for foreign firms to borrow in US dollars: the Eurodollar bond market, the Rule 144A bond market, and the Yankee bond market (see Gao, 2011).
[8] In 1990, the SEC approved Rule 144A, which allowed international firms to sell private placements without having to register with the SEC in contrast with Yankee bonds.

and Reisel (2012) show that both US and local investor protections are important for Yankee bond issuance. They also document that bond covenants serve as a complement to investor protection in the home country. Miller and Puthenpurackal (2002) and Qi et al. (2010) show that domestic institutions, political rights, and corruption in issuers' home countries also matter in international bond markets.

These features of the Yankee bond market are appealing for our analyses. While domestic conditions matter, these issuances are otherwise relatively homogenous in other areas such as in the area of legal and regulatory framework and are thus comparable with each other. More importantly, with factors directly related to the US as the primary source of commonality across these issuances, it is very likely that strong political ties between the US government and home-country governments of issuers in the Yankee bond market may have significant influence on the pricing and other terms that these firms obtain in the Yankee bond market.

3. Methodology and Data

3.1 Hypothesis Development and Model Specification

We conjecture that close political ties between the US and the home country of an issuing firm may be beneficial for raising capital in the Yankee bond market through at least one of three potential channels. Closer state-to-state political ties with the US may reduce sovereign risk of the issuers' home country which would have spillover effects on the issuers – a *sovereign risk* channel. Second, a *regulatory* channel may also be in effect through better regulatory discipline by facilitating SEC oversight and improving international regulatory coordination and cooperation. Third, investor attention may be directed towards firms in countries with stronger political ties with the US. In addition, stronger political ties may facilitate the flow of information or possibly even shape the perspective with which information

about these firms are viewed – an *information* channel. In the succeeding paragraphs, we discuss each of these channels in greater detail.

First, since the US has major economic, military, and political powers, closer state-to-state political ties with the US may provide an implicit hedge against sovereign risk in the issuers' home countries – *a sovereign risk hedge channel*.[9] Closer political ties with the US increase the likelihood of US assistance in times of sovereign difficulties. This can take the form of direct assistance, e.g. foreign aid as shown in Dreher et al. (2009a, 2009b), or indirectly through multinational organizations such as the IMF and World Bank (Thacker, 1999; Barro and Lee, 2005; Malik and Stone, 2018). In turn, the literature has shown that sovereign risk spills over to private borrowing costs (Bedendo and Colla, 2015; Bevilaqua et al., 2020). Thus, through a sovereign risk hedge channel, closer political ties with the US may lower the cost of obtaining finance in the Yankee bond market.

Second, political ties with the US may affect the pricing of Yankee bond issuances through a *regulatory channel*. Issuers of Yankee bonds must adhere to SEC regulations. Closer ties with the US can facilitate cross-border coordination among regulatory agencies and help ensure better investor protection under US jurisdiction. This is because closer political ties may qualitatively enhance the ability of the US government to better enforce its rules and norms on foreign states or put pressure on foreign governments to act in the interest of US-based investors.[10]

Third, stronger political ties with the US can also help mitigate information asymmetries between investors and firms by enhancing access to external information networks (Carney et al., 2020) – an *information channel*. Closer political ties with the US may also have the benefit of helping focus investor

[9] See Ambrocio and Hasan (2021) who show that closer ties with the US reduce the cost of sovereign borrowing.
[10] See 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.

attention to firms in these countries and possibly even help shape the perspective with which information about these firms are viewed from (Qian and Yanagizawa-Drott, 2017).

All these channels indicate that stronger political ties with the US would be favorable for issuers of Yankee bonds. Consequently, our main hypothesis is that closer political ties between foreign governments and the US are associated with lower Yankee bond issuance costs for firms located in these countries. Consider our baseline regression specification of the terms for a Yankee bond (*i*) issued by a firm (*k*) on measures of political ties with the US and other variables below.

$$Term_{i,t} = \alpha_c + \delta_t + \gamma_j + \beta_0 + \beta_1 \cdot Political\ tie_{c,t} + \beta_2 \cdot (Bond\ characteristics)_{i,t} + \beta_3 \cdot (Firm\ characteristics)_{k,t-1} + \beta_4 \cdot (country\ characteristics)_{c,t} + \varepsilon_{i,t} \quad (1)$$

Term would be the yield spreads of Yankee bonds at issuance and is the main dependent variable. In other specifications, *Term* may be the offering amount or the maturity. The coefficients $\alpha_c, \delta_t, \gamma_j$ are country (*c*), year (*t*), and industry (*j*) fixed effects respectively. The key explanatory variable is political ties with the US. Following the literature (e.g. Klock et al., 2005; Hasan et al., 2017), we include several bond characteristics such as the log offering amount, rating score, maturity, whether the issuance contains enhancements, covenants, and whether the issuance is redeemable and puttable. Firm characteristics such as firm size, return on assets (*ROA)*, leverage, and asset tangibility are also included as controls. In terms of country characteristics, we include a creditor rights index in our main regressions as well as measures of political uncertainty, civil liberties and democracy in the robustness checks. Other macroeconomic variables included in the regressions are measures of trade openness, trade with US, and the log of GDP. We include year, country, and industry fixed effects in all the regressions to account for time-, country- and industry-specific heterogeneities. A full description of these variables is presented in the next section.

Our main hypothesis is that stronger political ties with the US can lead to lower yield spreads.

H1a: Stronger political ties with the US are associated with lower at-issue yield spreads such that in a regression of yield spreads on political ties, the coefficient on our political ties measures, β_1 in equation (1), is negative.

A secondary hypothesis is that political ties may also relax the non-price terms of bond issuances. Specifically, we expect that stronger political ties with the US are associated with bond issuances of larger offering amounts and longer maturities.

H1b: Stronger political ties with the US are associated with bond issuances of larger amounts and longer maturities such that in regressions where the dependent variable in equation (1) is either bond offering amounts or maturities, the coefficient on our political ties measure, β_1, is positive.

We then explore the various proposed channels through which political ties with the US affect the cost of Yankee bond issuances. First, we examine the relative significance of the sovereign risk channel. Stronger political ties with the US government can provide support to home governments and help alleviate country risk concerns. In this regard, the effect of political ties should be stronger for countries in which improvements in political ties would have a stronger impact on sovereign risk. These would tend to be countries with higher levels of debt to GDP, lower levels of income, and lower sovereign ratings. If a firm's home country is burdened by higher government debt and limited fiscal space, government interventions used to address domestic economic difficulties may be subdued. Consequently, investors may pay more attention to factors affecting country risk with repercussions on the performance of debt issuances by firms in these countries.

H2a: The effect of political ties with the US on yield spreads is stronger for firms located in countries with higher levels of sovereign risk as indicated by high public debt to GDP ratios, low sovereign ratings, and low income.

Further, the spillover effects of political ties to firms through reduced sovereign risk should be stronger for firms in industries which are more closely related to their domestic governments. These are

typically firms in industries which do a lot of business with local governments or are (partly) financed with government funds. Consequently, through the sovereign channel we should also expect a stronger effect of political ties with the US for firms in industries with closer ties to their domestic governments.

H2b: The effect of political ties with the US on yield spreads is stronger for firms in industries which are more closely tied to their domestic governments.

Next, we consider differential effects relevant for verifying the regulatory channel of political ties. One aspect of this regulatory channel is the extent to which US regulatory discipline affects the pricing of Yankee bonds. Foreign issuers in the US are subject to enforcement actions from both US courts and regulatory agencies such as the SEC.[11] Prior studies have shown that the strength of SEC enforcement is significantly influenced by the intentions of the Congress as well as firms' political connections (Pritchard, 1999; Correia, 2014; Velikonja, 2016; Heese, 2019).[12] Thus, closer political ties with the US may potentially be beneficial to Yankee bond issuers through this regulatory channel specifically by facilitating the SEC's functions in terms of regulatory discipline and oversight while also mitigating potentially costly regulatory activism.

One sector that may disproportionally benefit from the regulatory channel of political ties is the financial sector. Financial firms are among the most regulated and supervised around the world. Further, the need for global cooperation in financial regulation has long been recognized as evidenced by the establishment of and developments at the Bank for International Settlements and the Basel Committee on Banking Supervision (or Committee on Banking Regulations and Supervisory Practices prior to 1990). It is then likely that financial firms, many of whom operate across borders, may disproportionately

[11] 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.

[12] For foreign issuers, the probability of public actions is also associated with cross-border enforcement cooperation as more jurisdictions are joining the *2002 Multilateral Memorandum of Understanding*, which facilitates enforcement cooperation across countries (Guseva, 2018).

benefit from better regulatory coordination especially with the US which is effectively at the center of the global financial landscape. To test this hypothesis, we exploit a sweeping change in US financial regulation brought about by the Global Financial Crisis. Specifically, we verify whether the enactment of the *Dodd-Frank Wall Street Reform and Consumer Protection Act* of 2010 disproportionately affected the way that political ties with the US benefit foreign firms in the financial sector.

The *Dodd-Frank Act,* signed into law on July 21, 2010, represented a significant change in the US financial landscape. For instance, Dimitrov et al. (2015), Toscano (2020), and Huang et al. (2021) show that the issuance and demand for credit ratings were significantly affected by the passage of the law. Du and Heo (2021) also show that the *Dodd-Frank Act* may have led to reduced corruption which affected corporate investment across US states. Most importantly, financial regulation has generally become more stringent after *Dodd-Frank* leaving less room for international political considerations to play a role. In other words, we should expect a weakening of the beneficial effects of political ties in terms of the regulatory channel for foreign financial firms after *Dodd-Frank.* Thus, if there is a significant regulatory channel to political ties, we should observe that financial firms benefit more from stronger political ties with the US relative to non-financial firms and that this differential benefit would decrease or even disappear following the enactment of *Dodd-Frank.* This leads us to our next hypothesis.

H3a: The differential effect of political ties with the US on yield spreads for foreign firms in the financial sector became weaker after the Dodd-Frank Act of 2010.

As a related implication, regulatory coordination between the US and other countries should be relatively easier for countries which have similar legal and institutional setups as the US. In this regard we should find stronger effects of political ties with the US on the pricing of Yankee bonds for firms located in countries with a similar legal system as the US (Common Law) and with institutional setups of similar high quality (see e.g. Djankov et al., 2007).

H3b: The effect of political ties with the US on yield spreads is stronger for firms located in countries under the Common Law legal system, and with similar levels of institutional quality, contract enforcement, and credit information networks as the US.

Finally, we evaluate the validity of the information channel of political ties - that stronger political ties with the US promotes investor appetite by improving the flow of information between investors and bond issuers. For instance, Carney et al. (2020) show that political connections can be beneficial by providing access to external information networks while Qian and Yanagizawa-Drott (2017) provide evidence showing that political relationships with the US can shape the way news media portray the situation in foreign countries.

Thus, closer political ties with the US can help focus investor attention to firms in these countries and possibly even help shape the perspective with which information about these firms are viewed from. In this regard, firms which are relatively more opaque or whose values are more difficult to assess with publicly available information should stand to benefit more from closer political ties with the US. These are typically firms who are first-time issuers in the Yankee bond market, smaller firms, and firms that are not also listed in US exchanges. This gives us our next hypothesis.

H4a: The effect of political ties with the US on yield spreads is stronger for first-time issuers in the Yankee bond market, smaller firms, and firms not listed in US exchanges.

Further, firms which are already covered by US news media and analysts, e.g. foreign firms already listed in US exchanges, may still benefit from an information channel to political ties through an improvement in the tone of news coverage. Closer political ties with the US may help shape the perspective with which information about these firms are digested. This gives us our final hypothesis.

H4b: Stronger political ties with the US improves the tone of US media coverage for foreign firms already listed in US exchanges.

3.2 Data and Sample Description

3.2.1 Sample Construction

The data used 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 match our bond data with firm financial data for the year prior to the bond issue from *Compustat Capital IQ*.[13] Finally, we match our bond and firm financial data with country-level variables covering measures of international political ties, institutional factors, and other 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 names and number of observations is provided in Online Appendix Table IA.1. Figure 1 plots the total issuance volume of Yankee bonds over years.

[FIGURE 1]

3.2.2 Bond and Firm 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 the natural logarithm of the bond offering amount in US$ thousands. *Maturity* is 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 the bond or issuer rating at the closest date after the issuance. *Enhancement* equals one if the bond issue has credit enhancements such as guarantees or letter of credit and zero otherwise. *Covenants* equals

[13] We match each issuer using CUSIP and company names to ensure as many matches as possible.

one if covenants are present 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 and zero otherwise.

Our analysis also includes 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 total assets. *Leverage* is the ratio of total liabilities to total assets. *Tangibility* is the ratio of net property, plant and equipment over total assets. We also distinguish firms in the financial sector *Financial firm*, firms in industries closely tied to domestic governments, *Ind_gov*, and foreign firms which are also already listed in US exchanges, *Listed in US Exchange*.

Finally, we collect information on US news media coverage of firms from the *RavenPack News Analytics Web Edition* dataset. From this dataset we count the number of total news mentions, as *Number of total news mentions*, as well as construct an index on the average tone of news mentions, as *Tone of news mentions*. The tone of news mentions is constructed by subtracting the number of negative news mentions from the number of positive news mentions and then dividing by the total number of news mentions.

3.2.3 Political Ties Variables

To measure state-level political ties with the US, we use two types of variables: voting similarity between a given country and the US at the United Nations General Assembly (UNGA) and economic/military aid commitments made by the US to other countries. The use of voting patterns at the UNGA in conjunction with US foreign aid flows is motivated by the large literature documenting the link between global politics, voting at the UN, and foreign aid.[14]

[14] See e.g. Alesina and Dollar (2000), Kuziemko and Werker (2006), Dreher et al., (2009a, 2009b), and Carter and Stone (2015) among others.

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

$$Voting_a_{c,t} = \frac{1}{R}\sum_{r=1}^{R} S2_{r,c,t} \quad (2)$$

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.[15] *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 logarithm of total economic and military aid given by the US to a country also in constant 2014 USD.

To consider both voting and aid aspects and to reduce noise or measurement error in our measures 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*.[16]

To address the concern that US aid flows and voting patterns at the UNGA may potentially be endogenous to other variables directly affecting the pricing of Yankee bonds, we include two additional variables which are plausibly more exogenous. The variable *WH visit* counts the number of official heads

[15] 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. An alternative data source of aid flows is the OECD development aid dataset. However, this dataset reports only economic aid to developing countries.
[16] The chosen principal component is the one where the loadings of both variables have the same sign (positive).

of state visits to the White House for each country in each year of our sample as a public (and symbolic) measure of the strength of political ties with the US. In addition, we also collect official peak troop contributions to the US-led Iraq invasion which began in 2003. The variable *Iraq* reports peak troop contributions (per 10,000 troops) for countries that participated in the Iraq war from 2003-2007.[17] The Iraq war was a contentious global political issue which divided multinational security organizations such as the UN Security Council and NATO. As such, foreign country contributions to the Iraq war may largely be interpreted as indications of political support for the US-led initiative. We then use these two measures to construct alternative aggregate measures of political ties using principal component analysis. These are labeled with a plus suffix (e.g. *PCecon_vaplus, PCecon_vbplus, etc.*).

3.2.4 Other Country Variables

Other than international political ties with the US, 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

[17] The Iraq war was a protracted effort which culminated in the US withdrawal in 2011. However, 2007 marked the beginning of gradual troop withdrawal from coalition members.

ten indicators measuring fair elections, political pluralism and participation, safeguards against corruption, and the transparency and well-functioning of government.

Following, Qi et al. (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). As additional measures of institutional quality we also include the World Bank Ease of Doing Business Index as well as scores for the (public and private) credit information coverage, contract enforcement, and resolving insolvency subcomponents.

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 and is used as a proxy measure for the economic 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. Table A.1 in the Appendix provides a detailed list of variable definitions and data sources.

3.2.5 Descriptive Statistics

Table 1 provides summary statistics for our matched sample covering bond, political ties, and the other firm and country characteristics variables. 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 mean 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 the majority of bond issuers in our sample have relatively high leverage over the sample period. The mean value of *Tangibility* is 0.15 and ranges from 0.00 to 0.81 which indicates a relatively low ratio of tangible assets such as property, plant and equipment relative to total assets in our sample.

The issuers' home country characteristics also show substantial heterogeneity. Regarding 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 while *Laid all* ranges from 5.19 to 22.37. The mean value of *PCecon_va* is -0.27 while the mean value of *PCecon_vb* is -0.27. The other two principal component variables, *PCall_va* and *PCall_vb,* also have similar mean values 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 most borrowers' home countries have ratings above AA+. The *Country rating score* by Fitch shows a similar trend.

4. Empirical Results

4.1 Baseline Results

Our 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 measuring political ties respectively. The inclusion of country, year, and industry fixed effects in these and succeeding regression results rule out potential

bias coming from omitted country-specific, period-specific, or industry-specific factors that may be jointly correlated with our dependent and political ties variables. Their inclusion also implies that our results exploit the within-country and across-time variation controlling for common factors in each time period (equivalently within-time across country controlling for country-specific factors) in our political ties measures. Unless otherwise stated, robust standard errors are clustered by country in our analysis.

In all but one specification, where *Laid all* is the explanatory variable, we find negative and statistically significant coefficients on the measures of political ties. The impact of stronger political ties with the US on yield spreads are also economically meaningful. For instance, the estimated coefficient in column (1) indicates that a one-standard-deviation increase in voting affinity (*Voting_a*) would reduce bond yield spreads by 61.7 basis points. Given average bond yield spreads in our sample, this is 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.

[TABLE 2]

Next, we conduct principal component analysis to extract a common factor driving our various measures of political ties. Results using the extracted principal component are shown in Table 3. The key explanatory variables are the principal components with positive loadings on both voting affinity and US aid measures. In columns (1) and (2), we use the principal component of US economic aid and one of 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 one of 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 estimated coefficient from column (1) suggests that a one-standard-deviation increase in *PCecon_va* reduces bond yield spreads by roughly 12.2 percent. The

results from Tables 2 and 3 affirm our first hypothesis, H1a, that stronger state-to-state political ties with the US is associated with lower cost of Yankee bond issuance in terms of yield spreads.

[TABLE 3]

We proceed with an evaluation of the effects of political ties on the non-price terms of Yankee bond issuances in Table 4. Columns (1) to (4) show the effect of political ties on the offering amount. In these regressions, all the estimated coefficients on the various political ties measures are positive and statistically significant. This suggests that, holding all other factors constant, issuers located in countries with stronger political ties with the US tend to have larger offering amount for each issue. In terms of economic magnitude, the coefficients in column (1) show that one-standard-deviation improvement in *PCecon_va* is associated with a 50.4 percent increase in offering amount on average.

Columns (5) to (8) of Table 4 report the effect of political ties 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* is associated with a 29.3 percent increase in maturity. All in all, the results in Table 4 affirms the second part of our first hypothesis, H1b, that stronger political ties with the US is related to improvements in the non-price terms of Yankee bond issuances namely larger offering amounts and longer maturities.

[TABLE 4]

4.2 Robustness

We conduct several exercises to verify the robustness of our main results. First, in regression results reported in the Appendix we show that our findings are not specific to issuers based in the UK which represent about 36 percent of our sample. We also show that our results are not confounded by the effects of the Global Financial Crisis. Figure 2 plots the average at-issue bond yield spreads in the Yankee

bond market covering our sample period. Beginning in 2007, average spreads increased dramatically because of the financial crisis which originated in the US. Our results remain even in regressions where we exclude the Global Financial Crisis. These results are reported in the Online Appendix Tables IA.3 and IA.4. Second, we conduct several exercises to verify that our results are robust to the inclusion of additional domestic institutional factors. In these regressions, we find that the coefficients on political ties remain significantly negative and at similar magnitudes. The regression results are presented in Table IA.5 in the Online Appendix.

[FIGURE 2]

To further strengthen our results, we conduct additional analyses using information from official heads of state visits to the White House and peak troop deployment contributions in the Iraq War by other countries as additional measures of political ties.[18] These two variables are alternative measures of the degree of cooperation between the United States and other countries which are also potentially more exogenous to other factors determining Yankee Bond pricing. Results using these alternative principal component measures are reported in the Online Appendix Table IA.8 and are in line with our main finding, that stronger political ties with the US are associated with lower cost of fund raising in the Yankee bond market.

We also conduct several exercises to mitigate potential endogeneity in our measures of political ties. Alesina and Dollar (2000) have shown that economic aid can be predictably stable and persistent over time in relation to several factors. Thus, measures of political ties with the US themselves may be endogenous to other factors that may be relevant for the pricing of Yankee bonds. In light of this concern,

[18] 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 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.

we estimate deviations in the flow of aid provided by the US relative to predictions from known determinants and re-estimate equation (1) using these deviations as measures of political ties. The results are reported in Table IA.2 in the Online Appendix. In these regressions, unpredicted changes in aid flows enter with significant and negative signs, consistent with our main results.

A relatively simple way to mitigate potential endogeneity of political ties is to simply use lagged values as predictors. In the Online Appendix Table IA.9, we report results replicating our baseline specification but using one-year lagged values of our political ties measures. In all cases, we find negative and statistically significant coefficients on our various measures of political ties with the US.

4.3 Inspecting the Mechanisms

Our next set of exercises verifies the extent to which the various channels through which political ties with the US can have effects on the pricing and issuance of Yankee bonds. In the succeeding sections, we evaluate the relative strengths of each of the three channels posited in our hypotheses.

4.3.1 Sovereign Risk Channel

First, we explore the relative merits of the *sovereign risk* channel. As we outlined in the hypothesis development, the presence of a *sovereign risk* channel should result in stronger observed effects for firms domiciled in countries with relatively higher risk of economic difficulties or sovereign default. In order to verify this hypothesis, we test whether the effect of political ties on bond pricing is higher when (i) the home country of the issuer has relatively low levels of income, (ii) high levels of sovereign debt, and (iii) when the home country of the issuer has relatively low sovereign credit ratings.

We construct indicator variables for whether the Yankee bond issuance was made by a firm from a country belonging to the Lower Middle or Low Income (as opposed to Upper Middle or High Income) categories of the World Bank – *Low Inc*, whether the issuance was done by a firm in a country-year where the country's public debt-to-GDP is above the median – *High Debt*, and whether the issuance was

done by a firm in a country-year when the sovereign credit rating was AAA according to S&P and Fitch – *AAA SP* and *AAA FT* respectively. Regression results where we interact our political ties variable *PCecon_va* with these indicator variables are reported in Table 5.

In columns (1) and (2), we introduce the income category and debt-to-GDP indicators interacted with our political ties measure one at a time. The results from column (1) indicate no statistically significant difference between issuances by firms in low income countries relative to high income countries. On the other hand, the results from columns (2) indicate that the effect of political ties in lowering yield spreads appears to be stronger for issuances by firms in countries with high public debt levels. There are, however, issues with a simple interpretation of the results in columns (1) and (2). These indicator variables are highly correlated. Countries with higher income tend to have higher debt-to-GDP levels.[19] To mitigate the potential biases arising from this correlation, we include all measures in a regression and report the results in column (5) of Table 5. The results from this specification resolves the two issues raised earlier and indicate that issuances by firms in low income countries and country-years with high public debt levels benefit more from stronger political ties with the US.

We add interactions between our political ties variable with country sovereign ratings in columns (3) and (4).[20] Here, we find no statistically significant differences. Clearly, the same issues regarding the interpretation of coefficients as in columns (1) and (2) are present in the results reported in columns (3) and (4). Therefore, we include interactions of all the indicators with our political ties variable in the last column of Table 5. These results provide some support for the *sovereign risk* channel, H2a, in that we

[19] Take for instance Japan, a high-income country with one of the highest debt-to-GDP levels in the world, and Brazil, an emerging economy with a relatively more moderate debt-to-GDP level. It is not unusual to think that international investors would find Brazilian sovereign debt to contain more sovereign risk than Japanese sovereign debt even though Japan has a debt-to-GDP ratio about 2.5 times larger as the two countries also differ in the degree to which they are able to sustain these debt levels. We have also considered external debt (public and publicly guaranteed debt held by non-residents) as an alternative measure of indebtedness.

[20] We have also considered indicators for Investment vs. Speculative Grade sovereign ratings and find similar (non-significant) results. We chose to report AAA vs non-AAA sovereign rating indicators as these represent a more even split of our sample.

find stronger effects of political ties with the US for issuances by firms in low income countries and countries with high levels of debt-to-GDP.

[TABLE 5]

Next, we turn to a second implication of the *sovereign risk* channel. If the effect of state-to-state political ties with the US on Yankee bond issuances operates through a *sovereign risk* channel, then we should expect stronger effects for issuances by firms in industries with closer ties to their domestic governments. Our hypothesis is that if a firm is in an industry that is more reliant on their domestic government than others, then it should derive greater benefit from its home country's stronger political ties with the US when it borrows in the Yankee bond market.

Based on *Mergent FISD*'s industry classification information, we construct a dummy variable *Ind_gov*, which takes the value of one if the industry relies more on its government (*Utilities* or *Government agencies* in our sample), and zero otherwise, and include its interaction with our political ties variables. By focusing on the differential effects of political ties across industries, we are able to introduce country-time fixed effects in the regressions as a control for any and all potentially omitted country-time variables. Table 6 presents the results.

In columns (1) and (3) we include the interaction of the political ties measure *PCall_va and PCall_vb* respectively along with a set of control variables and country-time fixed effects. In columns (2) and (4), we interact the political ties variables *PCecon_*va and *PCecon_*vb with *Ind_gov*. Note that the inclusion of country-time fixed effects renders control variables that only vary in country-time, which also includes the un-interacted measures of political ties, redundant and are thus omitted in the regression. In all of these cases, we find that stronger political ties with the US on average reduce bond spreads significantly more for issuances by firms in industries that have closer ties to their domestic government. Note further that industry-specific differences, for instance industry-level differences in default risk, are absorbed by the non-interacted *Ind_gov* term in our regression specification. Thus, we find evidence in

support of one of the hypotheses, H2b, pertaining to the *sovereign risk* channel.

[TABLE 6]

Taken together, the results reported in Tables 5 and 6 of this section provide supporting evidence for the *sovereign risk* channel. These results show that the effect of political ties on Yankee bond issuances are stronger for firms in countries with low income and high debt as well firms in industries with closer ties to their domestic governments.

4.3.2 Regulatory Channel

Next, we turn to the hypotheses relating to a *regulatory* channel of political ties. The first aspect of the *regulatory* channel we explore is with respect to the benefits arising from stronger political ties with the US for foreign financial firms around the passing of the *Dodd-Frank Act* in 2010. In this exercise, we exploit the differential effects of political ties for financial and non-financial firms and then compare these two sets of firms before and after *Dodd-Frank.* This triple differences-in-differences setting allows us to include a rich set of controls including country-time and industry fixed effects. Note that this also means that all control variables which only vary across country-time are excluded from the specifications. The results are reported in Table 7.

In columns (1) and (3) we interact our political ties variables with dummy variables for whether a firm is in the financial sector, *Financial firm*, and add another term which further interacts with a dummy for the post *Dodd-Frank Act* period, *Post Dodd-Frank.* We add industry fixed effects in columns (2) and (4). We first note that firms in the heavily regulated financial sector benefit more from stronger political ties than firms in the non-financial sector. This is evidenced by the negative and significant coefficients on the interaction between *Financial firm* and our political ties variable. Second, we find that we get a nearly equal and opposite additional effect post *Dodd-Frank*. This means that this differential effect for financial firms has disappeared after the passing of the *Dodd-Frank Act* as indicated by a near-zero and statistically insignificant effect given by the sum of coefficients reported in the bottom

row of Table 7. [21]

[TABLE 7]

We now turn to the second aspect of the *regulatory* channel which emphasizes the beneficial effects of political ties with the US in terms of strengthening international regulatory coordination. If regulatory coordination is a channel through which political ties with the US benefit issuers in the Yankee bond market, then we should find stronger effects for issuances by firms in countries which can more readily cooperate in regulatory terms with the US. These are countries with similar legal structures (Common Law), and institutional features such as overall institutional quality, coverage of credit information, ability to enforce contracts, and efficiency in resolving insolvencies. In order to test these hypotheses, we construct indicator variables representing similarities with the US according to the abovementioned dimensions and interact them with our political ties variable. *Common Law* is a dummy variable equal to one if the issuing firm is in a country under Common Law while the other indicator variables, *Ease of doing business, Credit info coverage, Contract enforcement,* and *Resolving insolvency* are indicator variables equal to 1 if the issuing firm is in a country-year with an above median score in the World Bank's ease of doing business index and subindices respectively. Country-year observations for these variables with values above median are considered more similar to the US relative to those with values below median. The results are reported in Table 8.

Among the various dimensions to legal and institutional features we consider, we find that it is only in the aspect of contract enforcement where we find a differential effect of political ties on Yankee bond yield spreads.[22] These results indicate that contract enforcement may be the specific avenue through

[21] In addition, we also document additional evidence consistent with specifically the US regulatory channel by running similar exercises using Eurobonds data over the period of 1992 to 2015. We find no evidence of statistically significant effects of political ties with the US for Eurobonds spreads. The regression results are reported in Table IA.6 of the Online Appendix.

[22] Interestingly, the coefficient on the non-interacted *Resolving insolvency* variable is counter-intuitively positive and significant. However, given that an overwhelmingly large share of the variation in this variable is purely cross-country and that the regression specification includes country fixed effects, we refrain from overly interpreting this specific result.

which stronger political ties with the US can improve conditions in the Yankee bond market under the regulatory coordination channel.

[TABLE 8]

The results reported in this subsection provided some evidence in support of the hypotheses under the *regulatory* channel*,* H3a and H3b. Specifically, we find evidence of the *regulatory* channel through SEC oversight and enforcement for financial firms as well as international regulatory coordination related to contract enforcement.

4.3.3. Information Channel

In our final set of exercises, we verify the strength of the *information* channel of political ties with the US. Under the hypothesis that political ties with the US benefit issuers in the Yankee bond market by facilitating the flow of information towards investors or even in helping shape that perspective through which information about these firms are viewed, then the effect of political ties with the US on the pricing of Yankee bonds should be stronger for firms that are more opaque or more difficult to value. To test this hypothesis, we interact our political ties variables with indicator variables for first time issuers in the Yankee bond market - *First time*, large (and presumably less opaque) firms – *Large firm,* and issuances by firms which are listed in US exchanges – *Listed in US Exchange.* In additional specifications, we also considered ratings disagreement as an additional indicator for firm opacity.[23] Finally, for the sample of firms who are also listed in US exchanges, we also construct an index *Quartiles: Number news* which measures the extent to which these firms are covered by US news using the *RavenPack* dataset. The regression results are reported in Table 9.

Since the differential effects we exploit are more granular than the country-time level, we include

[23] We did not find statistically significant differences between firms exhibiting ratings disagreement between S&P and Moody's and firms who have similar ratings from the two rating agencies. These results are provided in Table IA.7 of the Online Appendix.

country-time fixed effects to control for all possible confounding factors which vary at the country-time level. This also means that we no longer include control variables that only vary across country-time including the un-interacted political ties variables. We find statistically significant differential effects for first time against seasoned issuers as evidenced in the coefficient estimates reported in columns (1) and (5) of Table 9. First time issuers tend to benefit more from stronger political ties. Similarly, we also find that small firms benefit more from political ties with the US in the regression results reported columns (2) and (6).[24] On the other hand, we do not find statistically significant differences for issuances where the issuing firm is also listed in US exchanges (columns (3) and (7)).

[TABLE 9]

We conjecture that this may be because firms which are listed in US exchanges, while potentially not benefitting from increased exposure to US investors, may nevertheless benefit in a different way. These US-listed firms, which are already covered by US media and analysts, may still benefit from improvements in the way information about these firms are portrayed shaping the perspective with which this information is digested. We find that among the sample of US-listed firms, firms which have more news mentions benefit more from stronger ties with the US as shown in columns (4) and (8).

We also verify in additional analysis whether US media coverage of foreign firms improve with closer state-to-state political ties with the US. In the Online Appendix Table IA.10, we report results from a regression of the average tone of US news coverage – *Tone of news mentions* – on our index of political ties along with several control variables. The tone of news coverage is constructed by subtracting the number of negative news mentions from the number of positive news mentions and then normalizing with the total number of news mentions (see e.g. Ruf et al., 2021) from the *RavenPack* dataset for each

[24] Large firms are defined as those above the 40th percentile in terms of log total assets. We also considered other cutoff points such as the median of the distribution. However, preliminary results indicated that the 40th percentile is where the change in the coefficient is most statistically significant.

firm-year in our sample when the firm is listed in US exchanges. Across all specifications, we find supporting evidence that stronger state-to-state political ties between the US and a foreign issuers home country is associated with a more positive tone in US news coverage of that firm. These results provide some support for the *information* channel to political ties posited under hypotheses H4a and H4b.

5. Conclusions

In this paper, we examine the effects of state-to-state political ties with the US government on international corporate financing in the Yankee bond market. We find that firms domiciled in countries with closer political ties with the US face better borrowing conditions in the Yankee bond market. For instance, a one-standard deviation improvement in political ties with the US is associated with 5 to 14 percent lower at-issue bond yield spreads. Such an association is more pronounced for firms in low income and highly indebted countries as well as countries with a high level of contract enforcement. We also find stronger effects for firms in industries with closer ties to their domestic governments, first-time issuers, and smaller firms. Further, foreign firms already listed in US exchanges also benefit from improvements in the tone of news coverage.

Overall, our results show that state-to-state political ties matter in corporate finance complementing the large literature on firm-to-state political ties. Nevertheless, we have only explored the effects of political ties on the price and non-price terms of bond issuances. Another dimension to the potential effects of state-to-state political ties may be through an extensive margin in which political ties may affect the likelihood of firm issuance in international capital markets. This is an area for future research. Finally, whether the easing of borrowing conditions arising from stronger political ties also reflects lower credit risk in terms of delinquency and default down the road is also left for future research.

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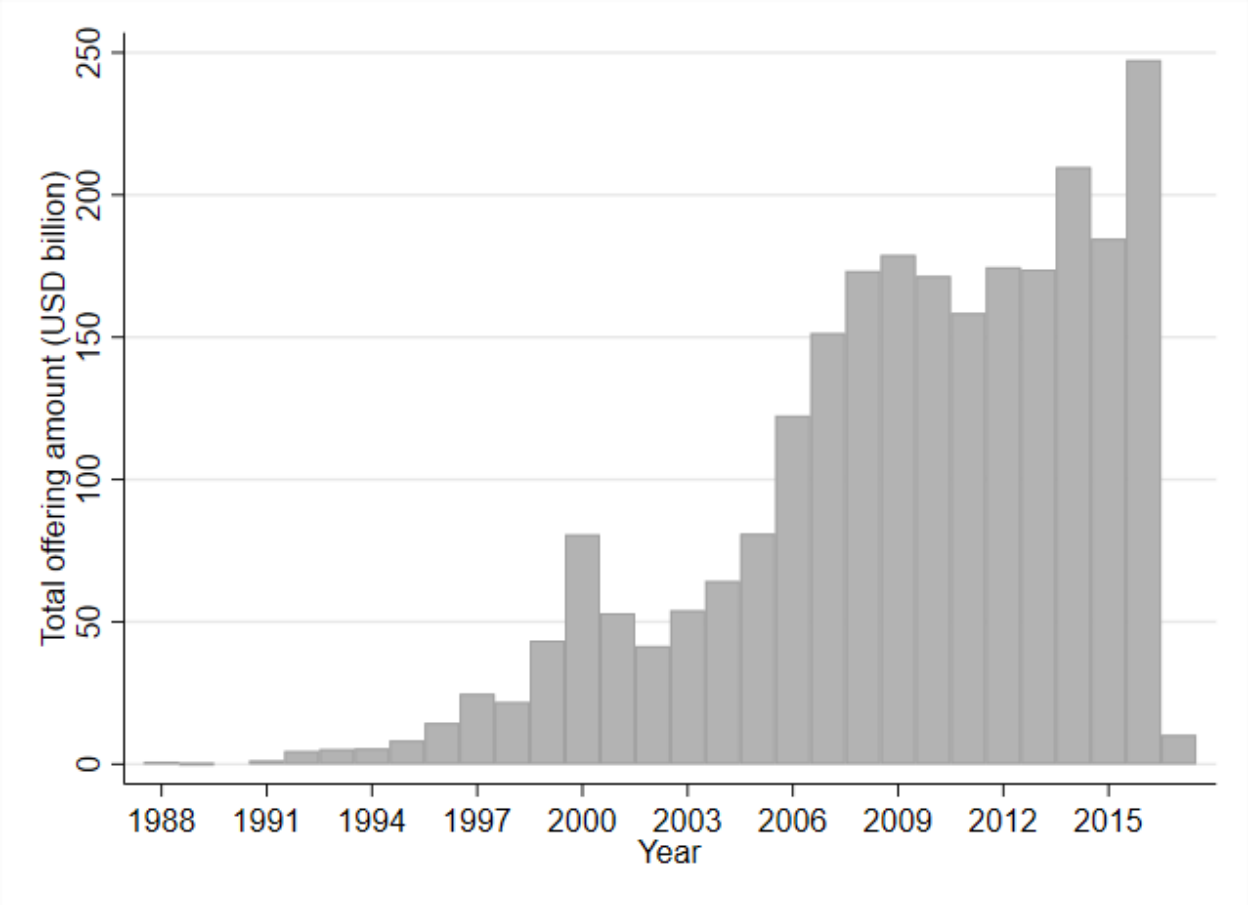

Figure 1: Total issuance volume in the Yankee bond market: 1988-2016

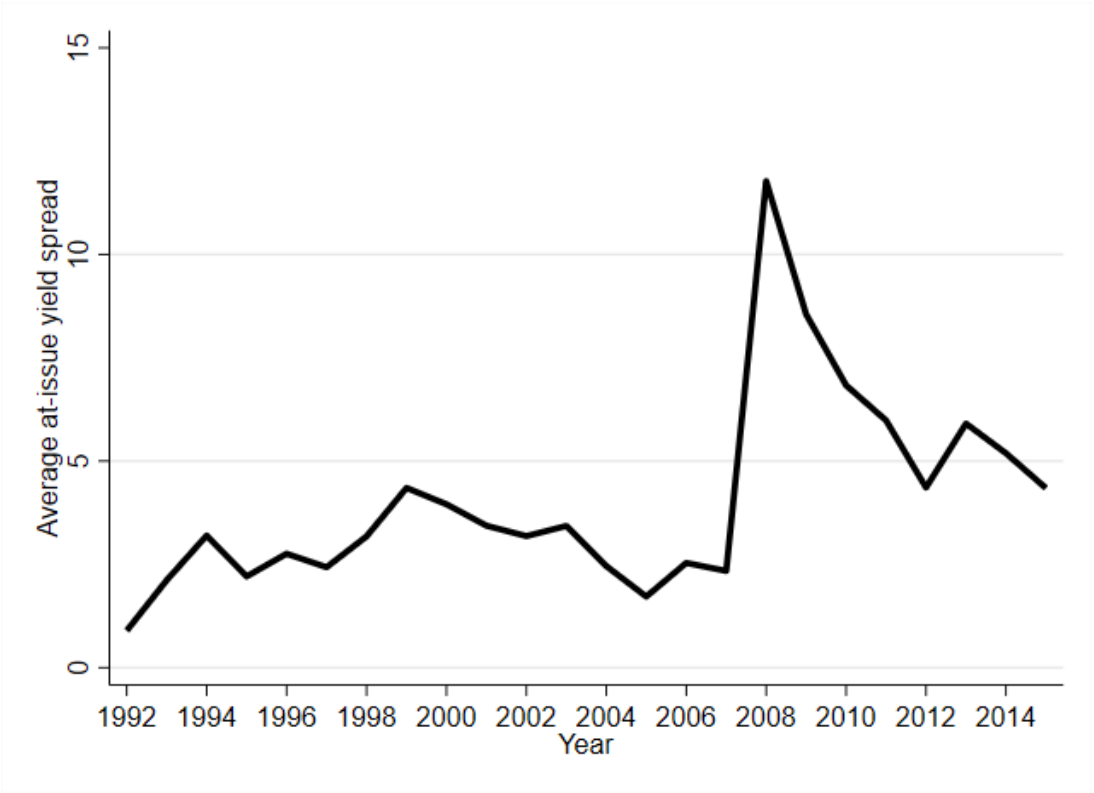

Figure 2: Average bond yield spreads over years in our sample

Table 1. Summary Statistics

Variable	Obs	Mean	Median	Std. Dev.	Min	Max
Country characteristics						
Voting_a	2,293	0	0.094	0.378	-0.903	0.951
Voting_b	2,293	0.03	0.117	0.307	-0.727	0.738
Laid econ	2,217	13.361	13.394	3.435	5.198	21.19
Laid all	2,286	13.552	13.416	3.439	5.198	22.374
PCecon_va	2,217	-0.272	0.034	1.051	-3.184	3.885
PCecon_vb	2,217	-0.272	0.022	1.048	-3.168	3.654
PCall_va	2,286	-0.258	0.047	1.052	-3.205	4.194
PCall_vb	2,286	-0.259	-0.009	1.046	-3.189	3.961
PCecon_vaplus	1,815	0	0.261	1.36	-2.713	3.595
PCecon_vbplus	1,815	0	0.227	1.365	-2.764	3.403
PCall_vaplus	1,880	0	0.261	1.36	-2.713	3.595
PCall_vbplus	1,880	0	0.243	1.37	-2.785	3.562
Creditor rights	2,174	2.464	3	1.482	0	4
Country rating (S&P)	2,276	19.568	22	4.063	1	22
Country rating (Fitch)	2,213	19.54	22	4.02	1	22
Openness (Trade/GDP)	2,293	65.453	60.154	41.12	14.731	422.648
Log GDP	2,293	27.802	28.109	1.034	18.995	29.751
Trade with US (pct. to GDP)	2,282	0.073	0.043	0.093	0.007	0.534
Government Debt (pct. to GDP)	1,370	72.452	83.01	34.543	1.89	193.43
External debt (pct. To GDP)	2,095	51.832	54.035	74.356	1.174	198.137
Ease of doing business	1,453	77.593	82.686	8.399	40.832	88.702
Credit info coverage	1,989	42.552	50	13.428	0	70.6
Contract enforcement	2,019	69.19	68.446	7.662	29.039	93.363
Resolving insolvency	2,020	73.529	81.786	13.775	0	90.614
Bond characteristics						
Bond yield spread (%)	2,293	5.68	3.694	5.098	0.267	18.688
Rating score	2,063	16.084	16.318	3.846	3	22
Covenants	2,284	0.182	0	0.386	0	1
Log offamt	2,293	10.459	11.918	3.194	0	15.895
Maturity	2,293	6.047	5.016	7.924	0.216	100.11
Enhancement	2,285	0.07	0	0.255	0	1
Redeemable	2,292	0.403	0	0.491	0	1
Puttable	2,281	0.01	0	0.1	0	1
Firm characteristics						
Firm size	2,292	12.466	13.291	2.536	4.847	22.596
ROA	1,981	0.046	0.036	0.051	-0.204	0.368
Leverage	2,292	0.837	0.941	0.194	0.142	1.75
Tangibility	2,019	0.151	0.008	0.249	0.001	0.807
Number of total news mentions	298	1089.879	0.000	4319.495	0.000	32484
Tone of news mentions	298	0.044	0.000	0.123	0.000	1.000

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 variables are 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. Cluster-robust standard errors are reported in parentheses with 38 country clusters. ***, **, 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***			
	(0.59)			
Voting_b		-2.720***		
		(0.76)		
Laid econ			-0.183**	
			(0.07)	
Laid all				-0.094
				(0.07)
Creditor rights	-1.078*	-0.997*	-1.469**	-1.164**
	(0.57)	(0.58)	(0.54)	(0.56)
Log offamt	-0.731***	-0.731***	-0.726***	-0.729***
	(0.12)	(0.12)	(0.12)	(0.12)
Rating score	-0.261***	-0.263***	-0.252***	-0.261***
	(0.05)	(0.05)	(0.05)	(0.05)
Maturity	-0.028	-0.028	-0.026	-0.027
	(0.02)	(0.02)	(0.02)	(0.02)
Enhancement	-0.580**	-0.577**	-0.565**	-0.560**
	(0.24)	(0.24)	(0.23)	(0.24)
Covenants	-0.435*	-0.427*	-0.401	-0.441*
	(0.24)	(0.25)	(0.25)	(0.24)
Redeemable	-0.049	-0.055	-0.070	-0.066
	(0.42)	(0.42)	(0.42)	(0.44)
Puttable	0.033	0.028	0.062	0.003
	(0.67)	(0.68)	(0.75)	(0.66)
Firm size	-0.112	-0.113	-0.113	-0.111
	(0.08)	(0.08)	(0.08)	(0.08)
ROA	-4.378**	-4.393**	-4.109*	-4.335**
	(1.90)	(1.90)	(2.17)	(1.90)
Leverage	1.234**	1.245**	1.251**	1.274**
	(0.49)	(0.50)	(0.48)	(0.51)
Tangibility	-0.642	-0.614	-0.706	-0.620
	(0.46)	(0.46)	(0.43)	(0.44)
Openness	0.006	0.007	0.000	0.003
	(0.01)	(0.01)	(0.01)	(0.01)
Log GDP	-1.176	-1.111	-0.720	-1.410
	(1.11)	(1.12)	(1.01)	(1.00)
Trade with US	-1.574	-1.433	-1.096	-1.867
	(2.56)	(2.60)	(2.11)	(2.28)
Constant	46.555*	44.063*	42.605*	56.680**
	(25.72)	(26.09)	(24.80)	(23.88)
Country FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
# of observations	1599	1599	1533	1592
adj. R-sq.	0.683	0.683	0.677	0.682

Table 3. 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. Cluster-robust standard errors are reported in parentheses with 38 country clusters. ***, **, 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***			
	(0.20)			
PCecon_vb		-0.745***		
		(0.22)		
PCall_va			-0.372*	
			(0.18)	
PCall_vb				-0.427**
				(0.19)
Creditor rights	-1.439**	-1.407**	-1.119*	-1.088*
	(0.57)	(0.57)	(0.57)	(0.58)
Log offamt	-0.724***	-0.723***	-0.728***	-0.727***
	(0.13)	(0.12)	(0.12)	(0.12)
Rating score	-0.250***	-0.251***	-0.260***	-0.261***
	(0.05)	(0.05)	(0.05)	(0.05)
Maturity	-0.026	-0.026	-0.027	-0.027
	(0.02)	(0.02)	(0.02)	(0.02)
Enhancement	-0.567**	-0.561**	-0.558**	-0.552**
	(0.23)	(0.22)	(0.24)	(0.23)
Covenants	-0.389	-0.383	-0.437*	-0.435*
	(0.25)	(0.25)	(0.25)	(0.25)
Redeemable	-0.083	-0.087	-0.076	-0.082
	(0.42)	(0.42)	(0.43)	(0.43)
Puttable	0.070	0.069	0.016	0.012
	(0.75)	(0.76)	(0.66)	(0.67)
Firm size	-0.116	-0.115	-0.112	-0.112
	(0.08)	(0.08)	(0.08)	(0.08)
ROA	-4.110*	-4.109*	-4.336**	-4.333**
	(2.16)	(2.15)	(1.90)	(1.90)
Leverage	1.268**	1.291**	1.275**	1.288**
	(0.49)	(0.50)	(0.51)	(0.51)
Tangibility	-0.685	-0.665	-0.592	-0.575
	(0.42)	(0.42)	(0.44)	(0.44)
Openness	0.002	0.002	0.005	0.005
	(0.01)	(0.01)	(0.01)	(0.01)
Log GDP	-0.646	-0.648	-1.372	-1.379
	(1.06)	(1.06)	(1.08)	(1.08)
Trade with US	-1.038	-1.012	-1.941	-1.960
	(2.36)	(2.36)	(2.39)	(2.37)
Constant	36.541	36.528	53.150**	53.133**
	(26.01)	(25.94)	(26.00)	(26.08)
Country FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
# of observations	1533	1533	1592	1592
adj. R-sq.	0.678	0.678	0.683	0.683

Table 4. 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 variables are *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. Cluster-robust standard errors are reported in parentheses with 38 country clusters. ***, **, 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**			
	(0.22)				(0.70)			
PCecon_vb		0.482**				1.792**		
		(0.22)				(0.69)		
PCall_va			0.363*				1.025*	
			(0.20)				(0.58)	
PCall_vb				0.365*				1.032*
				(0.20)				(0.58)
Creditor rights	-0.421	-0.432	-0.306	-0.325	1.199	1.138	-0.276	-0.330
	(0.47)	(0.47)	(0.39)	(0.39)	(3.55)	(3.53)	(3.38)	(3.37)
Rating score	-0.046	-0.045	-0.039	-0.038	0.415***	0.418***	0.432***	0.435***
	(0.06)	(0.06)	(0.06)	(0.06)	(0.13)	(0.13)	(0.14)	(0.14)
Enhancement	1.237***	1.235***	1.206***	1.205***	-0.057	-0.069	-0.021	-0.025
	(0.32)	(0.32)	(0.31)	(0.31)	(0.53)	(0.53)	(0.54)	(0.54)
Covenants	1.390***	1.387***	1.434***	1.432***	2.483***	2.468***	2.473***	2.468***
	(0.33)	(0.33)	(0.31)	(0.31)	(0.82)	(0.83)	(0.86)	(0.86)
Redeemable	-0.161	-0.161	-0.141	-0.141	0.044	0.050	0.660	0.661
	(0.17)	(0.17)	(0.16)	(0.16)	(0.39)	(0.39)	(0.64)	(0.64)
Puttable	-1.172**	-1.169**	-1.191**	-1.186**	2.859	2.866	1.030	1.044
	(0.55)	(0.55)	(0.49)	(0.49)	(3.18)	(3.18)	(3.54)	(3.54)
Firm size	0.005	0.005	0.000	0.000	0.036	0.036	0.034	0.034
	(0.07)	(0.07)	(0.07)	(0.07)	(0.12)	(0.12)	(0.13)	(0.13)
ROA	2.643**	2.648**	2.524**	2.527**	2.885	2.890	0.176	0.185
	(1.17)	(1.17)	(1.18)	(1.18)	(5.25)	(5.22)	(5.97)	(5.97)
Leverage	0.902	0.898	1.022	1.017	1.214	1.177	1.203	1.190
	(0.70)	(0.70)	(0.64)	(0.64)	(2.11)	(2.12)	(1.78)	(1.77)
Tangibility	-0.286	-0.290	-0.390	-0.394	2.244*	2.211*	0.833	0.820
	(0.45)	(0.45)	(0.47)	(0.47)	(1.28)	(1.28)	(1.75)	(1.75)
Openness	-0.021**	-0.020**	-0.017*	-0.017*	-0.056	-0.055	-0.062	-0.062
	(0.01)	(0.01)	(0.01)	(0.01)	(0.05)	(0.05)	(0.04)	(0.04)
Log GDP	3.768**	3.749**	4.252**	4.242**	-9.652	-9.686	-5.279	-5.307
	(1.78)	(1.79)	(1.60)	(1.61)	(6.49)	(6.45)	(6.01)	(5.98)
Trade with US	2.634	2.540	3.170	3.116	4.259	4.045	19.992	19.839
	(2.78)	(2.78)	(2.71)	(2.72)	(11.33)	(11.20)	(13.41)	(13.36)
Constant	-76.696*	-76.299*	-90.821**	-90.564**	258.855	259.580	144.485	145.209
	(45.04)	(45.20)	(39.70)	(39.80)	(167.25)	(166.14)	(152.32)	(151.60)
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	1533	1533	1592	1592	1533	1533	1592	1592
adj. R-sq.	0.617	0.617	0.613	0.613	0.340	0.340	0.310	0.310

Table 5. Effect of Political Ties on Bond Yield Spread: Sovereign Risk

The table reports the results of the regressions examining the effect of political ties on Yankee bond pricing for countries of varying degrees of sovereign risk. The dependent variable is the Yankee bond yield spread at issuance. The key explanatory variable is the principal component of voting and aid variables interacted with dummy variables of country categories. *Low Inc* is a dummy variable taking value of 1 if observation is in a country and year with country income category according to the World Bank is Low Income or Lower Middle and 0 if High Income or Upper Middle. *High Debt* is a dummy variable taking a value of 1 if the observation is in a country and year with a public debt-to-GDP ratio above the median and 0 if below the median. *AAA SP* and *AAA FT* are dummy variables taking a value of 1 if the observation is in a country and year with a sovereign S&P long-term rating and Fitch long term rating of AAA and 0 if lower respectively. Other controls in the regressions include *Redeemable*, *Puttable*, *Firm size*, *ROA*, *Leverage*, *Tangibility, Openness, Log GDP, Trade with US.* All the other variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 23-38 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**At-issue bond yield spread**				
	(1)	(2)	(3)	(4)	(5)
PCecon_va	-0.703***	-0.080	-0.629***	-0.361*	0.685
	(0.20)	(0.27)	(0.21)	(0.19)	(0.89)
Low Inc*PCecon_va	0.160				-3.348**
	(0.76)				(1.55)
High Debt*PCecon_va		-2.105***			-1.746***
		(0.56)			(0.56)
AAA SP*PCecon_va			-0.102		-0.825
			(0.36)		(0.83)
AAA FT*PCecon_va				-0.281	0.600
				(0.32)	(0.37)
Low Inc	1.559**				-1.081
	(0.58)				(1.42)
High Debt		0.256			-0.231
		(0.52)			(0.60)
AAA SP			-0.095		0.194
			(0.45)		(0.53)
AAA FT				-1.420***	-2.116***
				(0.41)	(0.48)
Creditor rights	-2.602***	0.113	-1.338**	-0.732	-7.282*
	(0.71)	(0.61)	(0.58)	(0.80)	(4.14)
Log offamt	-0.719***	-0.405***	-0.724***	-0.708***	-0.383***
	(0.12)	(0.06)	(0.13)	(0.13)	(0.06)
Rating score	-0.249***	-0.300***	-0.261***	-0.240***	-0.296***
	(0.05)	(0.04)	(0.05)	(0.05)	(0.04)
Maturity	-0.026	-0.094**	-0.027	-0.030	-0.095**
	(0.02)	(0.04)	(0.02)	(0.02)	(0.04)
Enhancement	-0.591**	-0.715***	-0.557**	-0.564**	-0.688***
	(0.22)	(0.23)	(0.22)	(0.23)	(0.22)
Covenants	-0.369	-0.423*	-0.396	-0.382	-0.483*
	(0.25)	(0.23)	(0.26)	(0.26)	(0.25)
Other controls	Y	Y	Y	Y	Y
Country FE	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y
# of country clusters	38	25	37	37	23
# of observations	1533	774	1524	1493	751
adj. R-sq.	0.679	0.452	0.678	0.678	0.451

Table 6. Effect of Political Ties on Bond Yield Spread: Industry Ties to Domestic Government

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. Cluster-robust standard errors are reported in parentheses with 42 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**At-issue bond yield spread**			
	(1)	(2)	(3)	(4)
Ind_gov*PCall_va	-1.181**			
	(0.57)			
Ind_gov*PCecon_va		-1.195*		
		(0.59)		
Ind gov*PCall vb			-1.202**	
			(0.58)	
Ind_gov*PCecon_vb				-1.220**
				(0.60)
Ind_gov	-0.146	-0.137	-0.138	-0.129
	(0.37)	(0.39)	(0.38)	(0.40)
Log offamt	-0.559***	-0.562***	-0.559***	-0.562***
	(0.15)	(0.15)	(0.15)	(0.15)
Rating score	-0.347***	-0.342***	-0.347***	-0.342***
	(0.04)	(0.05)	(0.04)	(0.05)
Maturity	-0.024	-0.027	-0.024	-0.027
	(0.03)	(0.03)	(0.03)	(0.03)
Enhancement	-0.253	-0.241	-0.257	-0.245
	(0.19)	(0.19)	(0.19)	(0.19)
Covenants	-0.621	-0.614	-0.619	-0.613
	(0.39)	(0.39)	(0.39)	(0.39)
Redeemable	0.038	0.034	0.034	0.030
	(0.41)	(0.40)	(0.41)	(0.40)
Puttable	-0.035	0.214	-0.050	0.198
	(0.59)	(0.68)	(0.59)	(0.69)
Firm size	0.019	0.025	0.020	0.026
	(0.09)	(0.10)	(0.09)	(0.10)
ROA	-4.232*	-4.122	-4.130*	-4.022
	(2.44)	(2.48)	(2.41)	(2.46)
Leverage	0.588*	0.540	0.563*	0.513
	(0.30)	(0.34)	(0.29)	(0.33)
Tangibility	-0.256	-0.278	-0.270	-0.295
	(0.49)	(0.51)	(0.49)	(0.51)
Constant	14.971***	14.977***	14.994***	14.997***
	(2.36)	(2.46)	(2.36)	(2.46)
Country-Year FE	Y	Y	Y	Y
Industry FE	N	N	N	N
# of observations	1699	1638	1699	1638
adj. R-sq.	0.688	0.683	0.688	0.683

Table 7. Political Ties and Regulation Changes: Dodd-Frank (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 *Dodd-Frank Wall Street Reform and Consumer Protection Act* of 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, and its interaction with *Post Dodd-Frank* and *Financial firm*. *Post Dodd-Frank* is defined as one if the bond is issued after the *Dodd-Frank Act* (2010) and *Financial firm* is defined as one if the firm is in the 6000 to 6799 SIC categories. All the other variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 42 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively. The sum of coefficients reported near the bottom of the table reports the estimated sum of the coefficients of *Financial Firm*Post Dodd-Frank*PCecon_va* and *Financial Firm*PCecon_va* in columns 1 and 2 and similarly with *PCecon* vb in columns 3 and 4.

Dep. Var.	**At-issue bond yield spread**			
	(1)	(2)	(3)	(4)
Financial firm*Post Dodd-Frank*PCecon_va	1.373*	1.397*		
	(0.79)	(0.74)		
Financial firm*PCecon_va	-1.298**	-1.458**		
	(0.57)	(0.56)		
Financial firm*Post Dodd-Frank*PCecon_vb			1.460*	1.467*
			(0.82)	(0.78)
Financial firm*PCecon_vb			-1.330**	-1.468**
			(0.57)	(0.57)
Log offamt	-0.567***	-0.554***	-0.566***	-0.554***
	(0.15)	(0.16)	(0.15)	(0.16)
Rating score	-0.361***	-0.365***	-0.362***	-0.366***
	(0.05)	(0.05)	(0.05)	(0.05)
Maturity	-0.029	-0.026	-0.029	-0.027
	(0.03)	(0.03)	(0.03)	(0.03)
Enhancement	-0.123	0.054	-0.119	0.055
	(0.26)	(0.24)	(0.26)	(0.24)
Covenants	-0.623	-0.578	-0.621	-0.575
	(0.39)	(0.37)	(0.39)	(0.38)
Redeemable	-0.001	0.045	-0.001	0.047
	(0.44)	(0.46)	(0.44)	(0.46)
Puttable	0.239	0.144	0.242	0.147
	(0.69)	(0.68)	(0.69)	(0.68)
Firm size	0.033	0.038	0.033	0.037
	(0.09)	(0.07)	(0.09)	(0.07)
ROA	-3.284	-3.262	-3.242	-3.196
	(1.99)	(2.26)	(1.99)	(2.27)
Leverage	0.049	0.477	0.060	0.477
	(0.38)	(0.63)	(0.37)	(0.63)
Tangibility	-0.217	-0.173	-0.235	-0.205
	(0.75)	(0.59)	(0.74)	(0.60)
Constant	15.507***	14.740***	15.505***	14.765***
	(2.61)	(2.77)	(2.60)	(2.77)
Sum of coeff.: Financial firms post Dodd-Frank	0.075	-0.061	0.130	-0.001
Standard error of sum of coeff.	(0.52)	(0.45)	(0.54)	(0.48)
Country-Year FE	Y	Y	Y	Y
Industry FE	N	Y	N	Y
# of observations	1638	1638	1638	1638
adj. R-sq.	0.684	0.683	0.684	0.683

Table 8. Effect of Political Ties on Bond Yield Spread: Domestic Institutional Quality

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing when conditioning on institutional quality. 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 and its interaction with indicators of institutional quality. Other controls in the regressions include *Redeemable*, *Puttable*, *Firm size*, *ROA*, *Leverage*, *Tangibility, Openness, Log GDP, Trade with US.* All variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 33-39 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**At-issue bond yield spread**				
	(1)	(2)	(3)	(4)	(5)
PCecon va	-0.788***	-1.283***	-0.742**	-0.468	-0.894***
	(0.26)	(0.21)	(0.29)	(0.32)	(0.24)
Common law*PCecon_va	-0.124				
	(0.32)				
Ease of doing business*PCecon va		0.228			
		(0.37)			
Credit info coverage*PCecon_va			-0.382		
			(0.38)		
Contract enforcement*PCecon_va				-0.666**	
				(0.28)	
Resolving insolvency*PCecon va					-0.046
					(0.17)
Common law	0.161				
	(1.43)				
Ease of doing business		0.270			
		(0.25)			
Credit info coverage			0.058		
			(0.39)		
Contract enforcement				0.309	
				(0.60)	
Resolving insolvency					1.218***
					(0.32)
Log offamt	-0.639***	-0.501***	-0.664***	-0.664***	-0.653***
	(0.13)	(0.12)	(0.15)	(0.15)	(0.15)
Rating score	-0.252***	-0.309***	-0.268***	-0.274***	-0.270***
	(0.05)	(0.06)	(0.06)	(0.06)	(0.06)
Maturity	-0.029	-0.043	-0.033	-0.034	-0.034
	(0.02)	(0.05)	(0.03)	(0.03)	(0.03)
Enhancement	-0.576**	-0.524	-0.599***	-0.534**	-0.550***
	(0.22)	(0.32)	(0.21)	(0.21)	(0.19)
Covenants	-0.460*	-0.617*	-0.482*	-0.513**	-0.503**
	(0.23)	(0.31)	(0.26)	(0.24)	(0.24)
Other controls	Y	Y	Y	Y	Y
Country FE	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y
# of country clusters	39	33	36	37	37
# of observations	1625	964	1415	1442	1442
adj. R-sq.	0.681	0.476	0.688	0.690	0.691

Table 9. Effect of Political Ties on Bond Yield Spread: Mitigating Information Asymmetry

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing when conditioning on factors related to firm opacity. 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 and its interaction with indicators of firm opacity. The sample in columns (4) and (8) are restricted to firms listed in US exchanges. Other controls in the regressions include *Redeemable*, *Puttable*, *Firm size*, *ROA*, *Leverage*, *Tangibility, Openness, Log GDP, Trade with US.* All variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 19-42 country clusters. ***, **, 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)
First time*PCecon_va	-0.555**							
	(0.22)							
Small firm*PCecon_va		-0.610*						
		(0.30)						
Listed in US Exchange*PCecon_va			0.005					
			(0.36)					
Quartiles: Number news*PCecon_va				-2.326***				
				(0.71)				
First time*PCecon_vb					-0.589**			
					(0.22)			
Small firm*PCecon_vb						-0.627**		
						(0.30)		
Listed in US Exchange*PCecon_vb							0.055	
							(0.35)	
Quartiles: Number news*PCecon_vb								-2.379***
								(0.72)
First time	0.067				0.052			
	(0.16)				(0.15)			
Small firm		0.387				0.375		
		(0.39)				(0.39)		
Listed in US Exchange			-0.152				-0.144	
			(0.43)				(0.44)	
Quartiles: Number news				0.277				0.066
				(0.95)				(1.00)
Other controls	Y	Y	Y	Y	Y	Y	Y	Y
Country-Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Industry FE	Y	Y	Y	N	Y	Y	Y	N
# of country clusters	42	42	42	19	42	42	42	19
# of observations	1638	1638	1638	249	1638	1638	1638	249
adj. R-sq.	0.680	0.680	0.679	0.764	0.680	0.680	0.679	0.764

Appendix A. 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).	Bailey et al. (2017); Voeten (2013); Own calculations
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).	
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	
WH visit	Number of official heads of state visits to the White House for each country and year.	US State Department
Iraq	Peak troop contributions to the Iraq War from 2003-2007in 10,000 troops.	US Congressional Report
PCecon_va	The 2nd principal component of *Voting_a* and *Laid econ*	Own calculations
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*	
PCecon_vaplus	The 1st principal component of *Voting_a*, *Laid econ, WH visit,* and *Iraq*	
PCecon_vbplus	The 1st principal component of *Voting_b*, *Laid econ, WH visit,* and *Iraq*	
PCall_vaplus	The 1st principal component of *Voting_a*, *Laid all, WH visit,* and *Iraq*	
PCall_vbplus	The 1st principal component of *Voting_b*, *Laid all, WH visit,* and *Iraq*	
Laid econ_dev	Deviation from an 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.	
Laid all_dev	Deviation from an 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.	
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)
Country rating	Numerical index of Sovereign Long Term (Foreign Currency) Credit Rating with AAA equal 22 and lower than C (in default) as 1 obtained from S&P and Fitch ratings. *AAA SP* is a dummy variable equal to 1 if the S&P sovereign rating is AAA and 0 otherwise. *AAA FT* is a dummy variable equal to 1 if the Fitch sovereign rating is AAA and 0 otherwise.	S&P, and Fitch Ratings
Openness (Trade/GDP)	Total trade volume/GDP	World Bank

Log GDP	Log of GDP in current million USD	
Trade with US (pct to GDP)	Trade volume with the US/GDP	
Government debt (pct to GDP)	Level of government debt/GDP in percentage. *High Debt* is a dummy variable equal to 1 if the country-year observation is above the median.	
Ease of doing business	World Bank Ease of Doing Business score	
Credit info coverage	Average of public and private credit information coverage sub-component scores of the World Bank Ease of Doing Business score	
Contract enforcement	Contract enforcement sub-component score of the World Bank Ease of Doing Business Index	
Resolving insolvency	Resolving insolvency sub-component score of the World Bank Ease of Doing Business Index	
Income category	World Bank country income categories of Low income, Lower Middle income, Upper Middle Income, and High-income countries. *Low Inc* is a dummy variable equal to 1 of the country is in the Low or Lower Middle-Income category.	
External debt (pct to GDP)	Ratio of government debt (public and publicly guaranteed) held by nonresidents as a percentage of GDP. *High Ext Debt* is a dummy variable equal to 1 if the country-year observation is above the median.	Joint External Debt Hub
Common law	A dummy variable equal to 1 if the country operates under the Common Law legal system.	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.	
Bond characteristics		
At-issue bond yield spread	The spread between the bond offering yield at issuance and the matched treasury rate.	Mergent FISD; Own calculations
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	
Rating spread	The spread between bond rating score at issuance and country rating score.	
Covenants	Dummy variable that equals one if the bond has covenants	
Redeemable	Dummy variable that equals one if the bond is redeemable	
Puttable	Dummy variable that equals one if the bond is puttable	
First time	Dummy variable that equals one if the issuance is the first observed Yankee bond issuance by the issuer.	
Rating split	Dummy variable equal to 1 if the bond ratings by S&P and Moody's differ.	
Rating split (+/-1)	Dummy variable equal to 1 if the bond ratings by S&P and Moody's differ by more than one notch (e.g. BBB and BBB+ are not considered a split).	
Post Dodd-Frank	Dummy variable that equals one if the bond is issued after *the Dodd-Frank Act* of 2010.	

Borrower characteristics		
Firm size	Log of total assets in million USD	
ROA	Net income before extraordinary items/Total assets	
Leverage	Total liabilities/Total assets	
Tangibility	Net property, plant, and equipment/Total assets	
Large firm	Dummy variable equal to 1 of the firm total assets is above the 40th percentile.	
Ind_gov	The dummy defined as 1 for Utility and Government Agencies, and 0 otherwise (Industry, Finance and Miscellaneous).	
Listed in US Exchange	Dummy variable equal to 1 if the firm is listed in a US Exchange	
Financial firm	Dummy variable equal to 1 if the firm is in the SIC category 6000 to 6799.	Compustat Capital IQ; RavenPack News Analytics Web Edition; Own calculations
Number of news mentions	Total number of news mentions at the firm-year level using the RavenPack web edition dataset (2007 onwards).	
Tone of news mentions	Balance score subtracting the number of negative news mentions from the number of positive news mentions and divided by the total number of news mentions at the firm-year level using the RavenPack web edition dataset (2007 onwards).	
Quartile: Number news	Index which takes the value of 0 if the firm-year does not appear in the RavenPack dataset and 1 through 4 if the firm-year belongs to the 1st through 4th quartiles of the distribution of the total number of news mentions.	
Dummy: High number news	Dummy variable which takes the value of 1 if the firm-year is above the median total number of news mentions in the RavenPack dataset and 0 if the firm-year has at least one news mention and is below the median number.	

Appendix B. Online Appendix

Table IA.1 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 IA.2. 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. *Laid econ_dev* is the deviation of *Laid* econ based on 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. 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 IA.3 Robustness checks: sample excluding UK issuers

The table reports the results of the regressions examining the effect of political ties on initial Yankee bond pricing, using the sample excluding UK issuers. 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	-0.296*			
	(0.173)			
PCecon_vb		-0.364**		
		(0.178)		
PCall_va			-0.290*	
			(0.154)	
PCall_vb				-0.337**
				(0.158)
Creditor rights	-1.535***	-1.510***	-1.293***	-1.265***
	(0.422)	(0.422)	(0.388)	(0.391)
Log offamt	-0.812***	-0.812***	-0.798***	-0.797***
	(0.0981)	(0.0981)	(0.0953)	(0.0952)
Rating score	-0.308***	-0.309***	-0.307***	-0.308***
	(0.0369)	(0.0369)	(0.0364)	(0.0364)
Maturity	-0.00105	-0.000913	-0.00193	-0.00192
	(0.0128)	(0.0128)	(0.0109)	(0.0108)
Enhancement	-0.343	-0.343	-0.323	-0.318
	(0.247)	(0.247)	(0.245)	(0.245)
Covenants	-0.0853	-0.0819	-0.102	-0.0998
	(0.166)	(0.166)	(0.164)	(0.164)
Redeemable	-0.721***	-0.720***	-0.718***	-0.721***
	(0.210)	(0.209)	(0.207)	(0.207)
Puttable	-0.165	-0.165	-0.219	-0.223
	(0.783)	(0.784)	(0.651)	(0.653)
Firm size	-0.136***	-0.136***	-0.137***	-0.137***
	(0.0438)	(0.0438)	(0.0435)	(0.0436)
ROA	-5.569***	-5.539***	-5.710***	-5.693***
	(1.494)	(1.489)	(1.470)	(1.467)
Leverage	1.542**	1.561**	1.656***	1.664***
	(0.651)	(0.652)	(0.617)	(0.617)
Tangibility	-0.861**	-0.840**	-0.850**	-0.833**
	(0.355)	(0.355)	(0.345)	(0.345)
Openness	-0.00546	-0.00540	-0.00313	-0.00300
	(0.00736)	(0.00740)	(0.00700)	(0.00703)
Log GDP	1.020	0.979	0.770	0.746
	(1.036)	(1.036)	(0.892)	(0.892)
Trade with US	1.608	1.502	1.372	1.318
	(3.056)	(3.056)	(2.996)	(3.000)
Cons.	-4.588	-3.765	0.953	1.393
	(26.16)	(26.17)	(22.51)	(22.53)
Country FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
# of observations	1123	1123	1151	1151
adj. R-sq	0.779	0.779	0.781	0.781

Table IA.4 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

Table IA.5 Robustness checks: 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. Other controls in the regressions include *Redeemable*, *Puttable*, *Firm size*, *ROA*, *Leverage*, *Tangibility, Openness, Log GDP, Trade with US.* 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)
Other controls	Y	Y	Y	Y	Y	Y	Y	Y
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 IA.6 Robustness checks: Political ties and Eurobonds

This table reports the results of the regressions examining the effect of political ties using Eurobond data. The dependent variables are *At-issue bond yield spread* and *Bond Type,* respectively. *Bond Type* is defined as one if the firm has issued both Eurobonds and Yankee bonds, or zero if the firm has only issued Eurobonds. The key explanatory variable is the principal component of voting and aid variables. All variables are defined in Appendix Table A.1. The data is retrieved from Data Stream. Cluster 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**				**Bond Type**			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
PCecon_va	-0.190				-0.0399			
	(0.198)				(0.0375)			
PCecon_vb		-0.134				-0.0258		
		(0.197)				(0.0341)		
PCall_va			-0.0809				0.0519	
			(0.111)				(0.0420)	
PCall_vb				-0.0333				0.0656
				(0.117)				(0.0465)
Log offamt	-0.0650	-0.0625	-0.181***	-0.180***	0.00510	0.00567	-0.0162**	-0.0163**
	(0.0580)	(0.0596)	(0.0447)	(0.0446)	(0.0247)	(0.0251)	(0.00692)	(0.00695)
Maturity	0.0596	0.0598	0.0663**	0.0664**	0.0141**	0.0141**	0.0113**	0.0112**
	(0.0372)	(0.0374)	(0.0302)	(0.0303)	(0.00658)	(0.00663)	(0.00420)	(0.00422)
Creditor rights	-0.660***	-0.664***	-0.458**	-0.453**	-0.0856**	-0.0865**	-0.0549	-0.0535
	(0.176)	(0.176)	(0.184)	(0.181)	(0.0391)	(0.0393)	(0.0360)	(0.0353)
Rating Score	-0.346***	-0.346***	-0.315***	-0.315***	0.00106	0.00100	0.00302	0.00309
	(0.0672)	(0.0672)	(0.0638)	(0.0638)	(0.00410)	(0.00406)	(0.00369)	(0.00368)
Openness	0.000737	0.000557	-0.00291	-0.00268	-0.000562	-0.000601	-0.00219	-0.00207
	(0.00996)	(0.00985)	(0.0107)	(0.0106)	(0.00216)	(0.00216)	(0.00224)	(0.00213)
Log GDP	-6.002**	-5.912**	-6.339**	-6.214**	0.183	0.206	0.426	0.486
	(2.316)	(2.321)	(2.589)	(2.662)	(0.555)	(0.559)	(0.556)	(0.581)
Trade with US	0.341	0.358	0.672**	0.687**	-0.0992	-0.0951	-0.0778	-0.0757
	(0.409)	(0.409)	(0.315)	(0.313)	(0.102)	(0.0997)	(0.0804)	(0.0767)
Constant	0.561	0.180	-7.584	-7.948	2.472	2.382	2.080	2.026
	(10.46)	(10.49)	(7.623)	(7.616)	(2.554)	(2.510)	(2.086)	(1.994)
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	547	547	614	614	547	547	614	614
Adj. R-sq	0.809	0.808	0.751	0.751	0.253	0.252	0.245	0.247

Table IA.7 Robustness checks: Political ties and Information Asymmetry

The table reports the results from additional regressions examining the effect of political ties on initial Yankee bond pricing when conditioning on factors related to information asymmetry. 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 and its interaction with indicators of firm opacity. All variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 38 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**At-issue bond yield spread**			
	(1)	(2)	(3)	(4)
Rating split*PCecon_va	-0.188			
	(0.13)			
Rating split (+/-1)*PCecon_va		-0.092		
		(0.40)		
Rating split*PCecon_vb			-0.178	
			(0.13)	
Rating split (+/-1)*PCecon_vb				-0.111
				(0.34)
Rating split	0.126		0.126	
	(0.13)		(0.13)	
Rating split (+/-1)		-0.124		-0.124
		(0.28)		(0.28)
Log offamt	-0.011	-0.004	-0.011	-0.004
	(0.03)	(0.04)	(0.03)	(0.04)
Rating score	-0.395***	-0.400***	-0.395***	-0.400***
	(0.05)	(0.05)	(0.05)	(0.05)
Maturity	0.029**	0.029**	0.029**	0.029**
	(0.01)	(0.01)	(0.01)	(0.01)
Enhancement	0.142	0.069	0.142	0.068
	(0.13)	(0.16)	(0.13)	(0.16)
Covenants	-0.299**	-0.270*	-0.299**	-0.270*
	(0.15)	(0.14)	(0.15)	(0.14)
Redeemable	0.171	0.172	0.172	0.172
	(0.13)	(0.12)	(0.13)	(0.12)
Puttable	-0.302	-0.288	-0.302	-0.288
	(0.36)	(0.34)	(0.36)	(0.34)
Firm size	-0.093*	-0.083	-0.092*	-0.083
	(0.05)	(0.05)	(0.05)	(0.05)
ROA	-3.633***	-3.556***	-3.644***	-3.562***
	(1.00)	(0.99)	(1.00)	(0.99)
Leverage	0.511	0.528	0.509	0.527
	(0.83)	(0.87)	(0.83)	(0.86)
Tangibility	-0.402	-0.382	-0.399	-0.381
	(0.65)	(0.66)	(0.65)	(0.65)
Constant	8.279***	8.563***	8.281***	8.572***
	(2.12)	(1.91)	(2.12)	(1.93)
Country-Year FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
# of observations	816	816	816	816
adj. R-sq.	0.814	0.813	0.814	0.813

Table IA.8 Robustness checks: Alternative 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. *PCecon_vaplus* is the principal component (positive loadings on all) of *Laid econ*, *Voting_a*, White House visits, and Iraq War troop contributions. *PCecon_vbplus* replaces *Voting_a* with *Voting b*. *PCall_vaplus* replaces *Laid econ* with *Laid all*. All variables are defined in Appendix Table A.1. Cluster-robust standard errors are reported in parentheses with 34 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**At-issue bond yield spread**			
	(1)	(2)	(3)	(4)
PCecon_vaplus	-0.988***			
	(0.27)			
PCecon_vbplus		-1.043***		
		(0.26)		
PCall_vaplus			-0.853***	
			(0.25)	
PCall_vbplus				-0.900***
				(0.25)
Creditor rights	-0.921	-0.914	-0.596	-0.489
	(2.14)	(2.13)	(0.83)	(0.83)
Log offamt	-0.728***	-0.728***	-0.727***	-0.727***
	(0.16)	(0.16)	(0.15)	(0.15)
Rating score	-0.237***	-0.240***	-0.247***	-0.250***
	(0.04)	(0.04)	(0.04)	(0.04)
Maturity	-0.038	-0.037	-0.030	-0.030
	(0.04)	(0.04)	(0.04)	(0.04)
Enhancement	-0.540**	-0.532**	-0.549**	-0.543**
	(0.24)	(0.24)	(0.21)	(0.22)
Covenants	-0.397	-0.385	-0.436	-0.428
	(0.31)	(0.31)	(0.31)	(0.31)
Redeemable	-0.045	-0.050	0.002	-0.002
	(0.50)	(0.50)	(0.49)	(0.49)
Puttable	-1.548**	-1.536**	-0.722	-0.763
	(0.68)	(0.68)	(0.51)	(0.50)
Firm size	-0.154**	-0.153**	-0.149**	-0.149**
	(0.06)	(0.06)	(0.06)	(0.06)
ROA	-3.513	-3.444	-4.682**	-4.650**
	(2.43)	(2.40)	(2.15)	(2.13)
Leverage	1.277**	1.282**	1.541***	1.551***
	(0.52)	(0.53)	(0.53)	(0.53)
Tangibility	-0.055	-0.029	-0.210	-0.190
	(0.50)	(0.50)	(0.50)	(0.50)
Openness	0.011	0.010	0.016	0.015
	(0.02)	(0.02)	(0.02)	(0.02)
Log GDP	-1.409	-1.302	-1.727	-1.675
	(1.19)	(1.20)	(1.17)	(1.19)
Trade with US	-10.751**	-10.406**	-11.285**	-11.006**
	(4.73)	(4.74)	(4.65)	(4.67)
Constant	57.986*	54.978	59.894*	58.283*
	(33.53)	(33.92)	(32.24)	(32.55)
Country FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
# of observations	1184	1184	1241	1241
adj. R-sq.	0.693	0.693	0.700	0.701

Table IA.9 Robustness checks: Lagged 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 one-year lagged value of the principal component of voting and aid variables. Other controls in the regressions include *Redeemable*, *Puttable*, *Firm size*, *ROA*, *Leverage*, *Tangibility, Openness, Log GDP, Trade with US.* All variables are defined in Appendix Table A.1. Cluster-robust standard errors are reported in parentheses with 34-35 country clusters. ***, **, 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)
Lag PCecon_va	-0.592***							
	(0.20)							
Lag PCecon_vb		-0.654***						
		(0.21)						
Lag PCall_va			-0.291*					
			(0.17)					
Lag PCall_vb				-0.324*				
				(0.17)				
Lag PCecon_vaplus					-0.981***			
					(0.23)			
Lag PCall_vaplus						-0.758***		
						(0.24)		
Lag PCecon_vbplus							-1.019***	
							(0.22)	
Lag PCall_vbplus								-0.793***
								(0.24)
Creditor rights	-0.755	-0.730	-0.570	-0.540	0.024	-0.103	0.017	-0.011
	(0.76)	(0.76)	(0.66)	(0.66)	(2.11)	(0.96)	(2.08)	(0.96)
Log offamt	-0.718***	-0.717***	-0.723***	-0.722***	-0.724***	-0.724***	-0.724***	-0.724***
	(0.13)	(0.13)	(0.12)	(0.12)	(0.16)	(0.15)	(0.16)	(0.15)
Rating score	-0.243***	-0.244***	-0.253***	-0.254***	-0.226***	-0.239***	-0.228***	-0.240***
	(0.05)	(0.05)	(0.05)	(0.05)	(0.05)	(0.04)	(0.05)	(0.04)
Maturity	-0.028	-0.028	-0.028	-0.028	-0.041	-0.033	-0.041	-0.033
	(0.02)	(0.02)	(0.02)	(0.02)	(0.04)	(0.04)	(0.04)	(0.04)
Enhancement	-0.636***	-0.637***	-0.623**	-0.622***	-0.546**	-0.581***	-0.545**	-0.580**
	(0.22)	(0.22)	(0.23)	(0.23)	(0.24)	(0.21)	(0.25)	(0.21)
Covenants	-0.492*	-0.487*	-0.473*	-0.470*	-0.533	-0.508	-0.522	-0.497
	(0.26)	(0.26)	(0.24)	(0.24)	(0.32)	(0.32)	(0.33)	(0.32)
Other controls	Y	Y	Y	Y	Y	Y	Y	Y
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 country clusters	34	34	35	35	34	35	34	35
# of observations	1504	1504	1564	1564	1166	1224	1166	1224
adj. R-sq.	0.680	0.680	0.682	0.682	0.695	0.699	0.695	0.700

Table IA.10 Effect of Political Ties on Bond Yield Spread: Shaping the Tone of News

The table reports the results of the regressions examining the effect of political ties on the tone of US media news mentions for firms which are listed in US exchanges. The dependent variable is the tone of news mentions which is an index subtracting the number of negative news mentions from the number of positive news mentions normalized by the total number of news mentions in each firm-year using the *RavenPack* dataset. The key explanatory variable is the principal component of voting affinity score and US aid. All variables are defined in Appendix Table A.1. Cluster robust standard errors are reported in parentheses with 19-21 country clusters. ***, **, and * denote statistical significance at the 1%, 5% and 10% levels, respectively.

Dep. Var.	**Tone of news mentions**			
	(1)	(2)	(3)	(4)
PCecon_va	0.046*	0.045*		
	(0.02)	(0.02)		
PCecon_vb			0.043*	0.039*
			(0.02)	(0.02)
Quartiles: Number news	0.081***	0.083**	0.080***	0.083**
	(0.03)	(0.03)	(0.03)	(0.03)
Firm size	-0.015**	-0.013*	-0.015**	-0.013*
	(0.01)	(0.01)	(0.01)	(0.01)
ROA	0.256	0.305	0.259	0.304
	(0.41)	(0.43)	(0.41)	(0.43)
Leverage	0.193	0.104	0.188	0.099
	(0.14)	(0.15)	(0.14)	(0.16)
Tangibility	-0.133	-0.132*	-0.133	-0.131*
	(0.08)	(0.07)	(0.08)	(0.07)
Log offamt		-0.000		-0.000
		(0.00)		(0.00)
Rating score		-0.004		-0.004
		(0.00)		(0.00)
Covenants		0.000		-0.001
		(0.02)		(0.02)
Redeemable		0.029*		0.029*
		(0.01)		(0.02)
Puttable		-0.014		-0.014
		(0.03)		(0.03)
Constant	0.063	0.168	0.061	0.167
	(0.13)	(0.29)	(0.13)	(0.29)
Country FE	Y	Y	Y	Y
Industry FE	Y	Y	Y	Y
Year FE	Y	Y	Y	Y
# of country clusters	21	19	21	19
# of observations	255	249	255	249
adj. R-sq.	0.657	0.663	0.655	0.660