The Diplomacy Discount in Global Syndicated Loans

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Abstract

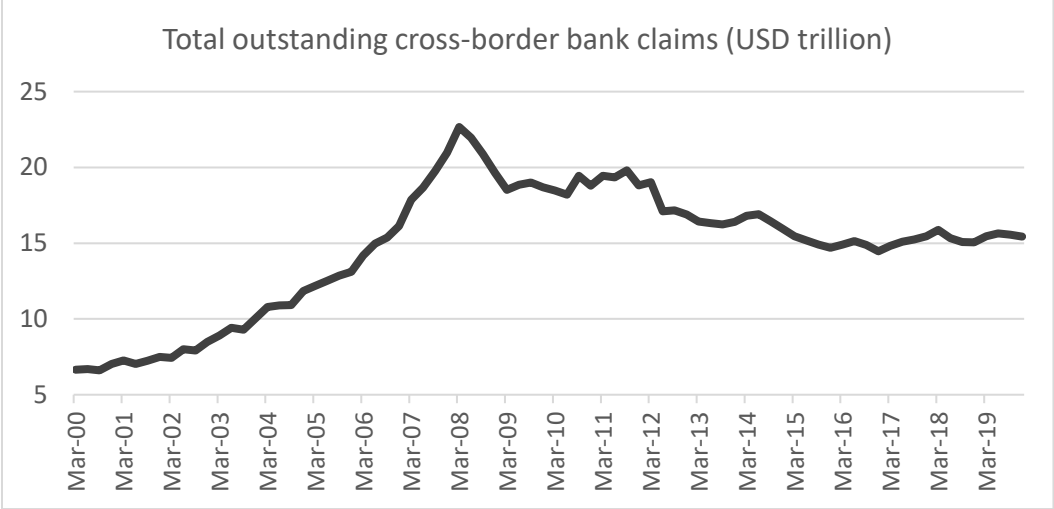
This paper investigates whether state-to-state political ties with the United States affect the pricing of global syndicated loans. We find that a one-standard-deviation improvement in state political ties between the U.S. and the government of a borrower's home country is associated with a 14.7 basis points lower loan spread, shaving off about 11.8 million USD in interest payments over the duration of the average loan for borrowers. Results also show that the effect of political ties is stronger for narrower and more concentrated loan syndicates, when lead arrangers are U.S. banks, during periods in which the U.S. is engaged in armed conflicts, when the U.S. president belongs to the Republican Party, and for borrowers with better balance sheets and prior lending relationships. Notably, not all firms benefit equally, as cross-listed firms and firms in countries with strong institutional quality and ability to attract institutional investors are much less affected by political ties.

Keywords: Global syndicated loans; Loan pricing; Political ties; International relations

JEL classification: G15, G21, G30, F50

1. Introduction

Cross-border bank-based financing remains an important segment of external financing around the world. The value of outstanding claims, amounting to over USD 22 trillion, peaked in 2008 but had been growing since the early 1990s. The global financial crisis of 2008-09 brought to a halt the meteoric rise in cross-border bank lending and, after an approximately three-fold expansion over the period 2000-2008, the stock of cross-border bank claims fell to about 70 percent of its peak value by the end of 2019.[1] Many other factors have since contributed to its relative decline following the financial crisis, among which geopolitical tensions have recently surfaced as a key factor. Many of these tensions are linked to the U.S. and U.S. foreign policy, which has recently become decidedly more mercantilist. In this paper, we study how geopolitical tensions specifically relating to political ties with the U.S. have affected the borrowing conditions of private firms who seek bank-based cross-border financing through the global syndicated loan market.



Source: BIS International Banking Statistics

[1] See BIS statistics at: https://www.bis.org/statistics/consstats.htm

Our focus on state-to-state political ties is motivated by the growing literature emphasizing the importance of socio-political and institutional factors in the pricing of international debt (see, e.g., Qian and Strahan, 2007; Bae and Goyal, 2009; Qi, Roth and Wald, 2010; Giannetti and Yafeh, 2012; Delis, Hasan and Ongena, 2020). State-to-state political ties can facilitate cross-border lending by ensuring smooth and cooperative interaction of regulatory agencies across borders, thereby enhancing cross-border investor protection.[2] Specific to the U.S., closer political ties with a global military and economic superpower might also provide an implicit hedge against sovereign risk. Such ties can take the form of direct economic and military support or indirect support through multilateral institutions such as the IMF and the World Bank toward borrowers' home-country governments.[3] Consequently, we expect that closer state-to-state political ties with the U.S. can help mitigate sovereign risk and improve investor (bank) protection, thus leading to lower borrowing costs.

To test this hypothesis, we consider more than ten thousand loan facilities in the global syndicated loan market over the period 1995-2018 along with detailed lender, borrower, and country information. Our main outcome variable is the all-in spread drawn (AISD), which includes the loan spread over LIBOR plus any facility fee. Our main explanatory variable measures the strength of state-to-state political ties between a borrower's home country and the U.S. Following earlier contributions to the literature, we use similarity indices on voting patterns at the United Nations General Assembly (UNGA) between sovereign states and the United States.[4]

[2] For instance, Lambert (2019) document evidence that lobbying by U.S. banks influences regulatory enforcement actions. Braun and Raddatz (2010) document international evidence that politically connected banks enjoy more favorable regulation. In terms of U.S. domestic bailout policies, Mian, Sufi and Trebbi (2010) find evidence that U.S. congressmen who received support from financial-sector donors were more likely to vote in favor of the U.S. 2008 bailout legislation.

[3] See evidence on the effect of global political ties on IMF and World Bank lending in Thacker (1999), Barro and Lee (2005), and Malik and Stone (2018) among others, as well as on sovereign ratings and yields in Ambrocio and Hasan (2021).

[4] See, e.g., Garmaise and Natividad (2013) and Ambrocio, Gu and Hasan (2019).

We find a statistically and economically sizeable effect of state-to-state political ties on the cost of syndicated loan borrowing. A one-standard-deviation improvement in a country's political ties with the U.S. is associated with 14.7 basis points lower borrowing costs, which equals 9.8% lower loan spreads compared to the average spread in our sample, highlighting a substantial benefit to borrowing firms in such countries. These effects are also economically significant, as can be seen in the implied savings in interest payments for these firms. For the average loan size and maturity (USD 1.82 billion and 4.4 years respectively), a loan spread that is 14.7 basis points lower corresponds to approximately USD 2.68 million in lower interest expenses every year.

Several sensitivity tests show that these baseline findings are robust and, of these, the following four are noteworthy. First, we use different sets of fixed effects (see, e.g., Jiménez, Ongena, Peydró and Saurina, 2014) to control for alternative bank- and firm-side explanations of our findings and the macroeconomic environment in lenders' and borrowers' countries. Second, we use alternative model specifications with different loan control variables to show that the results are not affected by the "bad controls" problem.

Third, we strengthen identification of the effects of political ties by examining differential effects during international conflicts. We expect the effect of state political ties to be stronger during the buildup to and main stages of international conflicts (wars) by the U.S. since allies are more likely to be called upon and expected to provide continuous support for U.S. government proposals in the UNGA. We indeed find stronger effects in periods when the U.S. is engaged in extraterritorial conflicts such as the wars in Afghanistan and Iraq and the civil war in Syria; however, this effect is independent of the generic discount in loan spreads due to similar voting patterns during non-war periods. Fourth, we show that our results are not driven by potential sample-selection bias. We estimate a Heckman-type model (Heckman, 1979), which explicitly

accounts for the probability that a firm takes out a loan with a given bank and find that our results remain unchanged.[5]

We delve deeper into the potential drivers of our results and investigate the role of political conditions in the U.S. We find that the loan-spread discount is greater when the President of the United States is a member of the Republican Party. We consequently examine potential differences due to the status of the lending bank and find that the effect is stronger if the lead bank is government-controlled. Furthermore, the effect of political ties on borrowing costs is more potent for larger firms and for those with strong balance sheets (e.g., greater returns on assets, retained earnings, and asset growth; and lower debt-to-equity).

Importantly, the easing effect of political ties on loan spreads is independent of that attributed to previous lending ties between a bank-firm pair. Although close political ties measure lower spreads more for relationship relative to first-time borrowers, the generic effect of our voting-similarity measure persists over and above that of relationship lending. Lastly, we see no significant interactions with other bilateral ties with the U.S., such as common borders and participation in mutual defense pacts or non-aggression treaties. These results indicate that the value of state-to-state political ties with the U.S. operates mainly when members of a bank-loan syndicate have tight links to their governments and for borrowers with good credit standing.

Our results regarding the easing effect of political ties on firm cost of credit beg the question of whether all firms benefit from this mechanism. Arguably, firms with financing flexibility and access to foreign capital markets can achieve lower credit costs, ceteris paribus. Similarly, firms operating in countries with strong institutional environments and ability to attract institutional investors face lower financing constraints. Our results support these arguments, as

[5] See also similar exercises in Dass and Massa (2011) and Giannetti and Yafeh (2012).

cross-listed firms and those in countries with high-quality institutional environments are less, if at all, reliant on their countries' political ties as a means for lowering their borrowing costs.

Finally, an important aspect of our analysis pertains to the role of syndicate structure as a means for alleviating potential adverse selection and subsequent moral hazard concerns regarding borrowers' solvency risks. We find that loans carry an additional discount if lead banks are headquartered in countries with closer political ties to the U.S. Along the same lines, an increase in lead banks' loan share via the formation of a narrower and more concentrated syndicate magnifies the easing effect of voting similarity on loan spreads.

We organize the rest of the paper as follows: Section 2 relates our study to the existing literature and further highlights the novelty of our work relative to previous studies. Section 3 discusses the data set and empirical specifications. Section 4 presents and discusses the main empirical results, showing the impact of political ties on the cost of credit. Section 5 examines the operating mechanisms and heterogeneities in our findings due to certain bank and firm characteristics and country relationships. Section 6 analyzes the role of syndicate structure and Section 7 concludes the paper. An Internet Appendix provides several additional summary statistics and robustness checks.

2. Related literature

This paper builds on the growing literature on the determinants of cross-border bank financing. Delis, Hasan and Ongena (2020) show that democratization is associated with cheaper financing costs in the global syndicated loan market, while Qi, Roth and Wald (2010), Qian and Strahan (2007) and Bae and Goyal (2009) provide evidence that domestic legal and institutional factors related to creditor protection are important. Giannetti and Yafeh (2012) demonstrate the

importance of cultural proximity between parties in international syndicated loans. Haselmann, Pistor and Vig (2010) find that foreign banks react substantially more than domestic banks to improvements in domestic legal institutional quality and creditor legal protection. Houston, Lin and Ma (2012) provide evidence in support of regulatory arbitrage in international banking. Boehmer and Megginson (1990) study the determinants of secondary market pricing of developing country syndicated loans and identify factors related to sovereign solvency as particularly important. Our results add state-to-state political ties to the list of qualitative country-level factors as important determinants of cross-border bank financing.

Our paper also relates to the literature on the economic implications of forging global political ties. The use of voting patterns at the UNGA as a measure of state-to-state political ties follows an established stream of literature such as studies by Thacker (1999) and Barro and Lee (2005), who document the effects of political ties with the U.S. on IMF lending, and Alesina and Dollar (2000) on U.S. political ties and U.S. foreign aid flows. Garmaise and Natividad (2013) document how global political ties facilitate microfinance funding. Ambrocio and Hasan (2021) show that closer political ties with the U.S. lower sovereign borrowing costs, while Ambrocio, Gu and Hasan (2019) show that state-to-state political ties lower the cost of private bond issuances by foreign firms in the U.S. Our results show that the effects of global political ties with the U.S. extend to the cost of global bank-based borrowing in the syndicated loan market.

Finally, our work complements a related strand of literature that focuses on firm-to-state political ties as an important factor in external financing and firm valuation.[6] Claessens, Feijen and Laeven (2008) show that political connections, proxied through campaign contributions, lead to preferential access to bank financing. Houston, Jiang, Lin and Ma, (2014) show that politically

[6] See, e.g., Fisman (2001), Butler, Fauver and Mortal (2009), Goldman, Rocholl and So (2009), and Banerji, Duygun and Shaban (2016).

connected board members lower firm bank-borrowing costs. Acemoglu, Johnson, Kermani and Kwak (2016) show that political connections are especially valuable in crisis periods. Our work extends this literature by showing that state-to-state political ties also benefit private firms through lower borrowing costs in the global syndicated loan market.

3. Data and empirical methodology

We obtain data from three sources. Syndicated loan facilities (the unit of our analysis) are collected from DealScan, which includes the most comprehensive and historical loan-deal information available on the global syndicated loan market. Our sample period covers the years from 1995 to 2018. We drop all loans for which there is no conventional pricing (i.e., no spread, as in some very specialized credit lines). We match loan data with country-level variables measuring international political ties. We further match loan facilities with bank- and firm-specific characteristics from Compustat, as well as with additional macroeconomic and institutional (country-year) variables from several freely available sources. The number of loan facilities for our baseline specifications ranges from 12,197 to 12,850, depending on the controls and the set of fixed effects used. Our preferred specification includes 12,831 loans granted by 141 lead lenders headquartered in 13 countries and to 1,033 borrowers from 26 countries; Table 1 provides key descriptive statistics.[7]

[Insert Table 1 about here]

Empirical identification. To examine whether firms from countries with closer political ties to the U.S. face lower borrowing costs, we use a regression approach very similar to that in Giannetti and Laeven (2012), Giannetti and Yafeh (2012) and Delis, Hasan and Ongena (2020):

[7] Consistent with relevant studies on the syndicated loan market, we only include information on lead lenders (see, e.g., Santos and Winton, 2019; Delis, Hasan and Ongena, 2020).

$$Cost\ of\ credit_{lt} = a_0 + a_1 Vote_{kt-1} + a_2 Controls_{kt} + u_{lt} \quad (1)$$

where $Cost\ of\ credit_{lt}$ measures the cost of loan facility l originating at time t. The most widely used measure is the all-in spread drawn (AISD), denoting the spread over LIBOR, although one strand of the literature (e.g., Berg, Saunders, Steffen and Streitz, 2016) also highlights the importance of fees and the all-in spread undrawn (AISU). The vector a_0 denotes different types of fixed effects, described later. Controls is a vector of control variables of dimension k, and u is a stochastic disturbance.

Vote is the Signorino and Ritter (1999) measure of voting similarity in the voting patterns of two countries (one of which is the U.S.) from the UNGA (see also Garmaise and Natividad, 2013). This measure is an index for voting affinity originally ranging from -1 (completely opposite) to +1 (completely similar), based on two-category vote data (1="yes" or approval of an issue; 2="no" or disapproval of an issue). The measure is constructed for each country k in year t by averaging the Signorino-Ritter score (S2) of voting similarity with the U.S. for each resolution (r) in year t:

$$Vote_{kt} = \frac{1}{R}\sum_{r=1}^{R} S2_{r,k,t} \quad (2)$$

To facilitate our analysis, the index is normalized and assumes values between 0 and +1, although we also employ the non-normalized index for sensitivity purposes, as well as the Signorino and Ritter 3-option index (-1, 0, +1), which is the initial index adjusted for missing and abstained votes. We further employ a variation of our baseline measure, constructed by replacing the Signorino and Ritter (1999) index with the reversed Thacker (1999) voting-similarity index in

equation (2). The resulting 2-option measure (*Vote with us*), assumes values of 0 and +1, reflecting voting completely opposite to the U.S. and completely the same as the U.S., respectively.

We identify a lender's or a borrower's country as that in which the lender or the borrower is respectively located. Should a loan be provided by a parent bank's foreign affiliate or subsidiary, the lender's country is set as the country of the affiliate/subsidiary. Similarly, for firms receiving loans through their foreign subsidiaries, we set the borrower's country as that of the affiliate/subsidiary.[8]

The main coefficient of interest is a_1, which shows the effect of *Vote* on the firm cost of credit. Differently phrased, we obtain identification from the fact that firms in countries with stronger political ties to the U.S. enjoy lower borrowing costs relative to firms in countries with weaker ties. We expect that a_1 is negative if country-level political ties are material for the determination of loan spreads and thus decrease the cost of credit for firms in countries with closer U.S. ties.

Controls and fixed effects. We include several control variables and fixed effects. Following the relevant literature (e.g., Ivashina, 2009; Adelino and Ferreira, 2016; Almeida, Cunha, Ferreira and Restrepo, 2017; Hasan, Hoi, Wu and Zhang, 2017; Kim, 2019; Delis, Hasan and Ongena, 2020), we control for loan characteristics such as the log of the loan amount, loan maturity (in months), the number of lenders in the syndicate, dummies for performance-pricing provisions and/or collateral, and the total number of covenants. We also control for the total assets of the bank (*Bank size*), the bank return on assets (*Bank ROA*), and the bank's non-performing

[8] For example, although Citibank (a parent bank) is headquartered in the U.S., for loans provided by Citibank International Plc, we set the lender's country as the UK. In sensitivity tests (available on request), we examine cases of cross-border loans where the lending bank has an affiliate or subsidiary in the borrower's country, by identifying all banks' subsidiaries/affiliates in the borrower's country. Similarly, we further identify all firms' subsidiaries/affiliates in the borrower's country, although the number of these subsidiaries is relatively small.

loans (*Bank NPLs*). Similarly, our firm controls include the firm size (*Firm size*), the firm return on assets (*Firm ROA*), the firm common equity capital (*Firm equity*) and the firm debt-to-assets ratio (*Firm debt*). We include borrowers' country-level variables such as the GDP growth rate (*GDP growth*), GDP per capita (*GDP per capita*), the dependence on trade (*Trade dependence*) and on the financial sector's credit provision (*Financial dependence*), and an indicator of the prevalence of democracy (*Polity*). These variables account for macroeconomic and political developments in borrowers' countries. Exact definitions of these variables are provided in Table A1 and summary statistics in Table 1.

The inclusion of loan type fixed effects is important since loan facilities include credit lines and term loans, which are fundamentally different in their contractual arrangements and pricing (Berg, Saunders and Steffen, 2016). We further include fixed effects based on the purpose of the loan (e.g., corporate purposes, working capital, takeovers or acquisitions, debt repayment) as well as year, bank, and firm fixed effects. Taken together, these fixed effects complement our bank- and firm-level characteristics and allow us to control for general bank- and firm-side explanations of our findings (such as differences in banks' financial soundness, corporate governance, or in firms' credit risk and performance), that are not isolated by the inclusion of our set of control variables. We further control for differences in the macroeconomic environment of borrowers' countries using the latters' fixed effects. These fixed effects saturate the effect of *Vote* on *AISD* from other country socioeconomic and political effects on bank lending.[9]

In even more stringent specifications, we control for characteristics common to a firm's industry that may affect firms within that industry equally (firm industry effects). We also control

[9] These are country factors affecting all banks and firms within a country. Several studies examine such macro effects on international bank lending (e.g., Delis, Hasan and Ongena, 2020; and associated references), and in this study these macro effects are fully controlled via the fixed effects.

for forces stemming from the macroeconomic environment in a lender's country (lender's country effects), as well as differences between a given pair of lender and borrower countries (e.g., the exchange rate dynamics) through the use of country-pair effects. Finally, in alternative specifications, where we interact *Vote* with different syndicate- and macro-level characteristics, we include borrower's country × year fixed effects, which controls for any time-variant developments in the borrower's country and ensures that the estimated coefficient on each interaction of *Vote* is not subject to any reverse-causality issue.

4. The Effect of Political Ties on the Cost of Credit

4.1. Baseline results

Table 2 reports the results of the estimation of Equation (1) using OLS and various fixed effects, including the coefficient estimates and t-statistics obtained from standard errors clustered by firm *and* year.[10] In line with our discussion in Section 2, we consider different fixed effects. In column (1), we adopt the simplest set of our fixed effects, namely year, bank, and firm fixed effects. In column (2), we introduce borrower's country fixed effects that control for macroeconomic conditions in the firm's country, while column (3) introduces loan-type and loan-purpose fixed effects. Next, in column (4), we add lender's country fixed effects to capture the macroeconomic dynamics in the bank's country. Column (5) includes our most demanding specification, since we further add firm, industry, and country-pair fixed effects.

[Insert Table 2 about here]

Across all specifications, the general finding is that stronger voting similarity (as reflected in the coefficient of *Vote*) exerts a negative and statistically significant effect on loan spreads. We

[10] In the last row of each table, we report the number of banks and firms from which we obtain identification in the corresponding estimations.

choose specification (3) as our baseline since it controls (to a reasonable extent) for changing bank and firm characteristics and the macroeconomic environment in the borrower's country without being overburdened by fixed effects; furthermore, the results are similar to either the less or the more stringent specifications. The main coefficient of interest, a_1, reveals that a one-standard-deviation increase in *Vote* decreases *AISD* by an average of 14.7 basis points (= 86.6 basis points × 0.17).

Economically speaking, this is a sizeable effect, equal to a 9.8% (= 14.7 basis points ÷ 149.5 basis points) decrease for the average loan amount in our sample. Given that the average loan size is USD 1.82 billion, firms from countries with strong voting similarity to the U.S. save approximately USD 2.68 million (= USD 1.82 billion × 14.7 basis points) per year in foregone interest. For an average loan maturity of 4.4 years, this represents approximately USD 11.8 million in interest savings over the duration of a loan.[11]

Since our voting-similarity measure reflects the magnitude of a country's political ties with the U.S., we expect the effect of *Vote* to be more pronounced for loans provided by U.S. banks. We examine this premise in Table 3, where we estimate our baseline regression by splitting our sample into loans from non-U.S. and U.S. banks (columns (1) and (2) respectively). The coefficients on *Vote* in both columns are relatively similar in magnitude and statistical significance to our baseline, pointing to moderate differences when distinguishing between the two lender types.

Column (3) examines the differential effect of *Vote* on loans granted by U.S. banks by including the interaction of our voting measure with an indicator of whether the lead bank is headquartered in the U.S. (*U.S. bank*). Results from this column show that the coefficient on the

[11] Employing LIBOR as the discount rate, the decrease in interest expense equals USD 11.2 million for the average 12-month LIBOR rate of 2.1% during our sample period (for similar calculations, see Ivashina and Sun, 2011).

main term of *Vote* is negative and statistically significant, albeit relatively lower than our baseline estimate. The rest of the effect is picked up by the double interaction term, which comprises approximately 19% of the overall effect. Importantly, the combined effect of *Vote* on *AISD* (reflected in the sum of the coefficients on *Vote* and *Vote* × *U.S. bank*) is approximately 16.5 basis points, only slightly higher than our baseline estimate. Interestingly, the coefficient on *U.S. bank* is positive and statistically significant, suggesting that loans from U.S. banks carry a higher spread ceteris paribus.

[Insert Table 3 about here]

In Table A2 of the Appendix, we estimate alternative specifications where we control for changes in the firm's fundamentals as well as differences in the macroeconomic, financial, and institutional environment in the borrower's country. Specifically, we include additional firm controls (leverage, asset growth, retained earnings, tangibility, credit rating and rating category), several macroeconomic controls (debt-to-GDP ratio, price level, level of economic and military aid received by the U.S., interbank market conditions) and general economic controls (global stock-price volatility). These variables (especially the macroeconomic ones) should correlate strongly with the borrower's country fixed effects to the extent that these variables change slowly over time. We do not use all indicators at once because they tend to have high pairwise correlations. The results in Table A2 confirm our baseline estimates on the effect of *Vote* on loan spreads.

In Table A3 we examine the sensitivity of our estimates to the "bad controls" problem, by interchangeably excluding loan-level control variables from our specifications.[12] We initially omit all loan-level variables (column (1)) and sequentially introduce quantitative information on the

[12] Since the "bad controls" problem is due to differences in the composition of loans to a given firm, in an alternative sensitivity test we include weights based on the number and amount of loans received by each firm (results available upon request).

loan (*Loan amount, Maturity, Collateral, Number of lenders, Performance provisions* and *General covenants*) in columns (2)-(4).[13] Irrespective of the specifications used, the coefficient on *Vote* retains its negative and statistically significant coefficient, confirming the lower cost of credit for firms headquartered in countries with close political ties to the U.S.

In each of the columns of Table A4, we consider alternative versions of our principal voting-similarity measure. Columns (1)-(2) include the non-normalized version of *Vote* (lagged and contemporaneous), while column (3) includes the 3-option version; results in both columns confirm their negative and statistically significant effect on *AISD*. This effect is further confirmed for the Thacker (1999) measure, as according to column (4), a one-standard-deviation increase in *Vote with us* raises loan spreads by 11.2%.

The size and magnitude of coefficients on the control variables in Tables 2-3 are generally in line with expectations and the earlier works of Ivashina (2009), Bae and Goyal (2009), Cai, Saunders and Steffen (2018), and Delis, Hasan and Ongena (2020). Specifically, loan spreads decrease with the loan amount and increase with maturity. The imposition of collateral further increases *AISD* as these loans are generally deemed to be riskier. Also, loans are more competitively priced when more lending banks are included in the syndicate. Unsurprisingly, more-profitable and less-leveraged firms face lower spreads, while most bank-level characteristics are non-significant (with the exception of bank return on assets); this finding indicates that the setting of a lower loan spread in response to greater voting similarity may be absorbing the effect of conventional bank loan-supply considerations. Lastly, macro forces seem to be at play, since the higher the GDP growth and democratic prevalence in the borrower's country, the lower the spread on loans directed to the borrowers' countries.

[13] The replacement of *General covenants* with the number of financial covenants (*Financial covenants*) or net covenants (*Net covenants*) leaves our results unchanged.

4.2. Identification from war conflicts and geopolitical risks

Thus far, an implicit assumption in our identification strategy is that firms borrow at a lower interest rate if their home country sovereign government is favorably disposed towards the U.S. Such, however, might be a temporary phenomenon, mainly prevalent during periods of global tension and conflict, where the sovereign nations can capitalize on their provision of voting support for U.S. proposals. If these periods are prolonged and require the continuous or continued support of U.S. allies, we should observe a notable discount in the loans directed to these allies' corporations during their duration. Nevertheless, borrowers may also receive a lower interest rate after the easing of conflicts as an enticement to support future U.S. proposals at the UNGA. In these cases, we should observe a fall in loan spreads in response to similar voting patterns over and above that observed during periods of conflict.

To examine this contingency, we consider certain periods of armed conflicts. We focus on three major conflicts, namely the Afghanistan war that began in 2001, the Iraq war of 2003, and U.S. involvement in the Syrian civil war beginning in 2014.[14] In total, 2,844 loan facilities were granted during the course of these wars. The fact that firms continue to receive more favorable loan spreads even after disentangling the effect of these armed conflicts should be attributed to the strategic alliance between the sovereigns and the U.S. and not to a temporary reward in return for support during the wars. We introduce these exogenous shocks into our model by interacting them

[14] The Afghanistan and Syrian wars are ongoing, and therefore extend during the majority of our sample period, but have been characterized by different phases of varying intensity and escalation levels. It is therefore reasonable to expect that political ties are primarily manifested through support of U.S. proposals regarding the beginning and/or intensification of military intervention during their major phases. This is further useful for identification purposes (for more details on the wars and their different phases and intensity levels, see the Uppsala Conflict Data Program described in Gleditsch, Wallensteen, Eriksson, Sollenberg and Strand, 2002). To determine the major phase of each war, we resort to information provided by the Council of Foreign Relations and content of the resolutions issued by the United Nations Security Council during the duration of the wars.

with our voting-similarity measure and present results in Table 4. These results essentially provide an even more stringent identification method, implying that during periods of war our results are even stronger.

[Insert Table 4 about here]

We first consider the Afghanistan war, where 1,333 loan facilities were extended during the major phase of the war (from the fourth quarter of 2001 until the second quarter of 2005). From the estimates in column (1), it is evident that this period is associated with lower firm borrowing costs: the coefficient on *Vote* × *Afghanistan war* is negative and statistically significant. The additional interest-rate savings amount to approximately 3.4 basis points following a one-standard-deviation increase in our voting-similarity measure. It is important to note that this discount is independent of the lower interest rate charged during the non-war period: the coefficient on *Vote* remains statistically significant and within the range suggested by our baseline estimates. We next examine the effect of political ties on borrowing costs during the onset of the Iraq war. During the main stage of this war (in the first half of 2003), firms received 326 syndicated loan facilities. According to the coefficient on our double interaction term (column (2)), these facilities carried an additional 4.3 bps lower spread, which is almost 44% of the discount received in the non-conflict period.

Our next conflict concerns the war in Syria, during which firms received 2,047 loan facilities. As column (3) reveals, these facilities carried an interest-rate discount of approximately 13.4 basis points, roughly equal to the discount carried in normal times (coefficients on *Vote* × *Syria war* and *Vote* respectively). Last, in specification (4), we examine the overall effect of all wars occurring during our sample period. Again, these combined episodes of armed conflict result in a 6.3 basis points decrease in loan spreads, or 43% of the regular decrease in non-conflict periods

(coefficients on the double interaction term and the main term, respectively). Overall, while these exogenous armed conflicts were associated with discounted interest rate loans granted to corporations domiciled in countries with voting patterns similar to the U.S., results in this section suggest that these patterns have a persistent effect that extends to non-war periods.

We further examine the effect of general geopolitical risks on our results and hypothesize that the effect of political ties on loan spreads is stronger in times of rising geopolitical uncertainty. Geopolitical uncertainty can be defined as the broader risk associated with wars, terrorist acts, and tensions between states that affect the normal and peaceful course of international relations and reflects both the risk that these events materialize as well as new risks associated with an escalation of existing events (such as wars or military interventions). To examine this premise, in Table 5 we interact our voting-similarity measure with the geopolitical risk index of Caldara and Iacoviello (2018).[15] To allow for the direct interpretation of the coefficient estimates on both the interaction and the main terms, we mean-center the variables included in the interaction terms.

[Insert Table 5 about here]

Taking geopolitical tensions into consideration does not change our inferences about the effect of political ties on loan spreads: a one-standard-deviation increase in our voting-similarity measure lowers spreads by 15.3 basis points, an estimate very close to our baseline regression (coefficient on *Vote* in column (1)). However, this effect is magnified in the presence of geopolitical tensions. The coefficient on *Vote* × *Geopolitical risk* suggests that firms in countries with closer political ties to the U.S. are able to receive even cheaper loans when adverse

[15] The geopolitical risk index is constructed by counting the number of occurrences in leading English-language newspapers of articles discussing geopolitical events and associated risks. Specifically, the baseline geopolitical risk index is constructed starting in 1985 by running automated text-searches of the electronic archives available on ProQuest Newsstream of 11 newspapers: The Boston Globe, the Chicago Tribune, The Daily Telegraph, the Financial Times, The Globe and Mail, The Guardian, the Los Angeles Times, The New York Times, The Times, The Wall Street Journal, and the Washington Post. More information on the construction of the index is available in Caldara and Iacoviello (2018).

geopolitical events trigger an increase in geopolitical risk relative to times when it is contained: a one-standard-deviation increase in *Geopolitical risk* decreases spreads by an additional 4.2 basis points for loans to firms in these countries. We obtain similar results in columns (2)-(3), where we focus on the decomposition of the geopolitical risk index into its threats (column (2)) and acts (column (3)) components.

4.3. Political conditions in the U.S.

Having established the added importance of similar voting patterns during periods of war, we now turn our focus to political conditions in the U.S. Our approach is two-fold: a) to examine whether the easing effect of voting patterns on loan spreads is further reinforced when a certain political party is in power and b) to identify the potential effect of the political cycle. To accomplish this goal, we estimate specifications including the double interactions of our voting-similarity measure with indicators for whether Republicans or Democrats are in power (*Republican Party*) and whether federal elections are held in the year (*U.S. elections*) respectively. We present results in Table 6.

[Insert Table 6 about here]

As column (1) reveals, the effect of *Vote* on loan spreads is more pronounced under a Republican administration: approximately 59% of the overall effect of *Vote* (consisting of the sum of the main term and the double interaction) stems from the double interaction term; furthermore, this overall effect exceeds our baseline estimates, pointing to a 18.6 bps spread discount in response to a one-standard-deviation increase in our voting-similarity measure. This effect is not contingent on the phase of the political cycle, however; although the coefficient on the main term

is similar in sign, magnitude and statistical significance to our baseline, the coefficient on *Vote* × *U.S. election* fails to reach statistical significance at conventional levels (column (2)).

In columns (3) and (4) we replicate the specifications of columns (1) and (2) by fielding our specifications with borrower's country × year fixed effects. Effectively, this strategy exploits a difference-in-differences (DiD) setting, where we isolate any time-variant developments in the borrower's country that could otherwise affect loan spreads. In our context, this does not allow for estimating the coefficient on *Vote* by itself (since the latter is identified across countries and years), but the interacted term is equivalent to a DiD estimate that is robust to omitted-country variables and reverse-causality issues. Results from this exercise confirm that closer ties with the U.S. in periods of Republican administrations significantly and economically reduce loan spreads (column (3)), while the same is not observed in periods of U.S. elections (column (4)).

4.4. Additional results

An extension of our empirical analysis relates to the role of loan fees, since we might expect that closer political ties would reduce the cost of loans through lower fees. However, information on fees is generally limited since several loans (especially those outside the U.S.) are term loans that have limited fees. Nevertheless, in column (1) of Table A5 we replicate our baseline specification with *AISU* as the dependent variable and do not observe a statistically significant effect of *Vote* on *AISU*. Thus, it seems that voting similarity is only priced in spreads. The subsequent columns examine the response of the remaining loan terms. We observe that an increase in *Vote* enables firms to obtain loans with longer maturity that include fewer covenants (columns (3) and (5) respectively). Other terms, however, such as the loan amount (column (2)), or the decision on the

imposition of collateral (columns (4)), do not appear to be affected by our voting-similarity measure.

Furthermore, to ensure that our inferences are not sensitive to the type of clustering (also given the multi-level and multi-country nature of our data), we cluster standard errors by borrower's country and year, borrower's country and firm, bank and year, bank and firm, and borrower's country and lender's country (see Table A6). Results are similar to the baseline.

Thus far, our OLS estimations have assumed that all loans enter the model with equal weights. Normally, the different fixed effects in Table 2 provide a safeguard against cross-country variation. We nevertheless acknowledge that the empirical specification might leave the analysis open to the criticism that countries receiving fewer loans might affect our results disproportionately. To this end, we re-estimate our preferred model specification using weighted least squares and several different weights. The results in Table A7 are almost identical to our baseline.

Our results might also be subject to a sample-selection bias, in the sense that the variables driving our findings might further determine a firm's decision to receive a loan from a certain bank. For instance, the impact of a country's political ties to the U.S. on loan contracting may be due to firms in this country being more likely to request a loan. To eliminate this potential selection bias from our estimates, we follow Dass and Massa (2011) and employ Heckman's (1979) two-stage model to calculate the probability of a firm entering into a loan deal. In the first stage, we run a probit model to estimate the firm's loan-taking decision. During this stage, our loan sample is extended and includes all syndicated loan facilities available in Dealscan. We calculate Heckman's lambda (inverse mills ratio) and include it as an additional control variable in the second-stage OLS estimation of specifications (1)-(3) of Table A8.

In line with Dass and Massa (2011), we assume that the borrower's decision to seek a syndicated loan is a function of the main determinants of the decision to borrow in general. Consequently, our probit regression is augmented with a set of loan-, bank-, and firm-level characteristics, a set of weights for the number, origin, and direction of loans made in a given year, as well as loan type, year, bank, firm, and borrower's country dummies. Our set of annual weights include the number of loans by a given bank (*Bank loans*), the number of loans to a given firm (*Firm loans*), and the number of loans between a given bank-firm pair (*Bank-firm loans*).

We present results from this exercise in columns (1)-(3) of Table A8 (Panels A and B). Probit estimates (columns (1)-(3) of Panel A), indicate that the syndicated loan deal is more likely to be completed for larger firms with greater reliance on equity financing. Loans of a greater amount are more likely to be granted, particularly when these loans include many lenders, are secured, and carry pricing provisions and covenants. Importantly, estimates from the second-stage regressions (columns (1)-(3) of Panel B) confirm the strong negative impact of our voting-similarity measure on *AISD* (as reflected in the coefficient on *Vote*).

An additional type of selection bias might stem from the fact that firms headquartered in countries with close political ties with the U.S. are more likely to have high credit ratings. Therefore, the discounted loans directed to these firms might be due to their credit-rating status rather than to their countries' political ties with the U.S. To rule out this contingency, in columns (4)-(6) of Panel A we further model the probability that the borrower is in the highest risk-weighting category (i.e., having a credit rating between AAA+ and AA-). To this end, the borrower's rating category is assumed to be a function of a set of firm-level and macro-level characteristics, including the borrower country's voting similarity with the U.S. Our results show that most of these variables significantly affect the probability that a borrower is in the top risk-

weighting category with the correct expected signs. Estimates from columns (4) to (6) in Panel B point to a sizeable and statistically significant effect exerted by *Vote* on *AISD*, which even exceeds our baseline estimates.

5. Analyzing the mechanisms

Our analysis so far has shown that borrower country voting similarity with the U.S. has a discounting effect on the cost of loans granted to those borrowers. In this section, we identify the mechanisms through which similar voting patterns materialize into lower firm borrowing costs.

5.1 Exploring the mechanisms: Borrower fundamentals

The present section considers alternative demand-side explanations for our findings and identifies certain firm traits that act as drivers of our results. To this end, Table 7 includes the interaction of *Vote* with several different firm characteristics reflecting the firm's size, profitability, capital structure and operating performance. Specification (1) reveals that the effect of voting patterns on firm cost of credit is concentrated in large borrowers. Moreover, this effect is magnified for profitable firms: a one-standard-deviation increase in the firm's return on assets saves the firm an additional 3.0 basis points (=2.45 basis points × 0.17 × 7.26) on top of the savings due to a similarity in voting patterns (coefficients on *Vote* × *Firm ROA* and *Vote* respectively).

[Insert Table 7 about here]

The next two specifications consider the firm's decision with regard to its capital structure. Estimates point to a negative relationship between firm use of equity capital and loan spreads, as better capitalized firms face lower borrowing costs; however greater reliance on debt financing exerts the opposite effect, thereby increasing the firm's interest burden (coefficients on double

interactions in specifications (3) and (4) respectively). From a similar perspective, firms with greater asset growth and retained earnings further manage to extend their interest savings due to similar voting patterns (coefficients on double interactions in specifications (5) and (6) respectively). This is intuitive, since less reliance on external financing and greater reliance on their own funds lowers firm borrowing costs, ceteris paribus; as results from columns (3)-(6) reveal, this mechanism is further operative when considered along with voting-pattern similarity.

Finally, to identify the relative importance of these different borrower characteristics, specification (7) includes all double interactions simultaneously. We observe that *Firm ROA*, *Firm equity*, *Firm debt* and *Firm retained earnings* retain their significance and exert a larger differential effect on *AISD*, which suggests that the easing effect of *Vote* on loan spreads is magnified for profitable borrowers with more reliance on their own funds and equity financing and less reliance on debt financing.

5.2. Exploring the mechanisms: Government-owned banks

Another potential mechanism, through which similar voting patterns translate into lower loan spreads, is through government-owned banks. Politically connected banks are more suited to follow government guidelines and support targets of the administration (see, e.g., Sapienza, 2004; Brei and Schclarek, 2013). Their government ownership further enables them to attract deposits more easily than their non-connected counterparts; thus, state-owned banks are more likely to charge lower interest rates relative to private banks (see, e.g., Ferri, Kalmi and Kerola, 2014; Nys, Tarazi and Trinugroho, 2015). Due to their exclusive relationship with the government and their easier access to financial resources under more convenient conditions, we expect that the effect of political ties on loan spreads will be stronger for loans granted by government-owned relative to

non-government owned banks. We examine this premise by interacting our voting-similarity measure with indicators concerning the presence of government banks in the syndicate and present results in Table 8. Furthermore, we distinguish lead arrangers from participant banks, since lead banks are responsible for initial negotiations with the borrowing firm, the setting of the loan terms, and monitoring the loan facility after its origination (see Ivashina, 2009).

[Insert Table 8 about here]

As column (1) suggests, the response of loan spreads to an increase in our voting-similarity measure is not contingent on the inclusion of government participant banks in the syndicate (coefficient on double interaction); moreover, this result is not dependent on whether the participant bank is based in the U.S. (coefficient on triple interaction in column (2)). Results are different, however, when we consider the presence of lead arrangers. Specifically, the inclusion of at least one government lead bank in the syndicate results in a decrease in loan spreads over and above that attributed to a rise in voting similarity (coefficient on *Vote* × *Government bank (lead)* in column (3)). This decrease is further magnified when U.S. lead banks enter the syndicate (coefficient on *Vote* × *Government bank (lead)* × *U.S. bank* in column (4)).

Finally, specifications (5)-(8) replicate those in columns (1)-(4) by including borrower's country × year fixed effects, thereby controlling for any alternative explanations relating to borrower's country characteristics. Our estimates confirm the lower *AISD* for loans to firms in countries with closer political ties in the presence of government banks in the syndicate; however, this is only the case when government banks act as lead arrangers (columns (7) and (8)) rather than as participants (columns (5) and (6)). Again, this easing differential effect of lead government banks on *AISD* is more potent for U.S. banks (negative and statistically significant coefficient on *Vote* × *Government bank (lead)* × *U.S. bank* in column (8).

5.3. Exploring the mechanisms: Relationship lending

Our results thus far highlight an important competitive advantage of firms in countries with close political ties to the U.S. However, the operation of the political-ties channel bypasses the traditional bank-firm interplay, which is the primary factor during the loan-negotiation process. In that sense, political ties might coexist with alternative factors that minimize information asymmetry between the bank-firm pair and determine loan spreads. An important alternative factor is relationship lending. Prior lending relationships allow lenders to acquire valuable information about the borrowing firm's operations and credit risk. It is reasonable to expect that firms with prior lending ties with their banks would enjoy lower loan spreads relative to first-time borrowers. Nevertheless, this should be an effect over and above that attributed to close political ties. We test this hypothesis in Table 9, by interacting *Vote* with *Lending relationship*, a variable reflecting the existence of a prior lending relationship between the given bank-firm pair over the previous two-year period (see, e.g., Bharath, Dahiya, Saunders and Srinivasan, 2011; Dass and Massa, 2011).

[Insert Table 9 about here]

Estimates in column (1) suggest that relationship borrowers can save approximately 8.6 basis points (coefficient on *Vote* × *Lending relationship*). Most importantly, these savings are accrued on top of the spread discount due to their countries' similar voting patterns; the latter is reflected in the coefficient on *Vote* and is within the range suggested by our baseline estimates. The offsetting effect of relationship lending further increases with the size and magnitude of this relationship: the greater the number or the amount of loans between the given bank-firm pair during the previous 2-year period, the greater is the interest rate savings for the borrowing firms (coefficients on double interaction terms in columns (2)-(3)).

5.4 Exploring the mechanisms: Country relationships

We next investigate the possibility that firms gain access to lower borrowing costs due to continuous and established relationships that, in turn, drive voting-pattern similarity. To this end, in Table 10 we interact our voting-similarity measure with several indicators reflecting the alliance and (in)direct contiguity relationships between borrower countries and the U.S. (see Stinnett, Tir, Diehl, Schafer and Gochman, 2002).

[Insert Table 10 about here]

Estimates from column (1) suggest that formal alliances do not constitute a factor that contributes to firms' lower cost of credit (coefficient on *Vote* × *Alliance*). The latter primarily results from the strong presence of firms headquartered in countries classified as allies of the U.S., as more than 90% of loans in our sample are extended to these countries' firms. Intuitively, voting similarity should be more important when allied countries confirm their alliance in practice by providing support for U.S. proposals, among other activities. Furthermore, the response of loan spreads to voting similarity is not intensified by the existence of shared borders between borrower countries or their colonies and the U.S. (double interactions in columns (2) and (3) respectively), or the presence of ties of religion between them (double interaction in column (4)). Importantly, across all specifications, the effect of *Vote* on *AISD* is at least similar to, if not stronger than, that suggested by our baseline, while the differential effect of country relationships is not statistically significant. This result further indicates that closer political ties exert an easing effect on loan spreads that cannot be explained by deep-rooted country characteristics.

5.5 Exploring the mechanisms: Cross-listing and institutional investors

Having demonstrated the easing effect of close political ties on firm cost of credit, we examine whether the ability to access alternative sources of financing and attract institutional investors relieves firms of the need to rely on this effect. In line with our analysis of the relevant mechanisms, in this subsection we interact *Vote* with several variables reflecting firms' cross-listing status and the level of institutional ownership in borrower countries. A listing on a foreign stock exchange presents the issuing firm with an incentive to commit to providing higher quality financial information and exposes the company to further scrutiny by reputable intermediaries (Lang, Raedy and Wilson, 2006; Shi, Magnan and Kim, 2012). As a result, the firm is exposed to higher disclosure standards that provide credible information to market participants. This exposure is further driven by dual pressures from both host and home countries' stock exchanges that cross-listed firms face, which in turn make them more adept at attracting alternative sources of financing (Hillman and Wan, 2005). Similarly, cross-listed firms benefit in the product market by releasing more information to foreign markets; this product market internationalization translates into a higher likelihood that managers will issue forecasts, thereby minimizing information asymmetry about their future prospects and performance (see Saudagaran, 1988).

For these reasons, we expect that cross-listed firms rely less, if at all, on the easing effect exerted by their home countries' voting patterns on their borrowing costs relative to domestically listed companies. Their global outreach and superior networks, combined with their effective monitoring, provide cross-listed firms with a comparative advantage that renders them insensitive to their countries' voting decisions. We examine this premise in columns (1) and (2) of Table 11, where we interact *Vote* with an indicator of a firm's cross-listed status. Results from column (1), suggest that the effect of *Vote* on *AISD* is largely mitigated for cross-listed firms: the coefficient on the double interaction is positive and statistically significant and approximately 52% of the

coefficient on the main term of *Vote*. Furthermore, the reversal effect of the cross-listing status is magnified for firms listed on U.S. stock exchanges (in addition to their domestic stock exchange): for the latter, the effect of *Vote* is entirely reversed (coefficient on *Vote* × *Cross-listed in U.S.* in column (2)). It appears that, although an increase in voting similarity results in lower spreads for borrowing firms, this phenomenon does not apply to firms listed on multiple stock exchanges.

[Insert Table 11 about here]

We now examine the role of institutional quality, since strong institutions and the ability to attract institutional investors are largely considered a driving force that shapes firm performance and borrowing costs (see, among others, Qian and Strahan, 2007; Qi, Roth and Wald, 2010). In fact, their presence may reduce firm cost of credit, since firms with a higher proportion of institutional investors are likely to have lower agency costs due to better monitoring. Banks are consequently relieved of the need to engage in heavy monitoring, thereby passing the savings to the borrowing firms in the form of lower interest rates (see Bhojraj and Sengupta, 2003; Dyck, Lins, Roth and Wagner, 2019). In a similar vein, firms that are closely monitored by institutions are generally more profitable and less risky. As such, we expect that greater institutional-investor involvement provides a positive signal to lending banks, thereby allowing firms to rely less on political ties to obtain favorable loan rates.

We test this conjecture by distinguishing between countries located in the top 25th percentile of our sample in terms of institutional quality and protection. In specific, we consider the extent of firm disclosure intensity, the strength of investor protection, and the strength of legal rights, and interact the relevant binary indicators with our voting-similarity measure (columns (3), (4) and (5) respectively). Across all specifications, we observe that the effect of *Vote* is largely reversed (and even sometimes revoked) for countries in the top band of institutional scores

(coefficients on double interactions). We conclude that support for U.S. proposals does not constitute an effective mechanism for lowering domestic firms' loan spreads in countries with a strong presence of institutional investors and a strong institutional environment.

Overall, the results presented in this section suggest that the effect of stronger political ties between a borrower's country and the U.S. is not symmetrical across all borrowing firms. Rather, the effect is mainly concentrated in firms listed only on their domestic stock exchange and in countries with weak institutional quality that deters or prevents participation of institutional investors. On the other hand, the loan spreads of firms with alternative financing sources and ability to attract foreign institutional investors are less likely to be affected, irrespective of the voting record of their home country.

6. The role of lending syndicates

In this section, we identify whether the response of loan spreads to the borrower country's political ties is driven by their lead banks' actions or by those of participants and how lending-syndicate dynamics interact with political ties in shaping loan spreads.

6.1. Lender country's voting similarity

Lead banks play an active role in negotiations with a borrowing firm and the setting of loan terms, before soliciting participants' interest in joining a syndicate (see, e.g., Dennis and Mullineaux, 2000; Bruche, Mahlerbe and Meisenzahl, 2020). We would expect, thus, that the effect of voting similarity is mainly priced by the lead banks, especially if their countries also share close ties with the U.S. To test this premise, we calculate the average value of our voting-similarity measure for all lead banks (*Average Vote (lead banks)*) and for all participant banks in the syndicate (*Average*

Vote (participant banks)). We then sequentially interact *Vote* with each of these average measures in columns (1) and (2) of Table 12, which enables us to assess how the borrower country's voting record similarity is perceived within the syndicate.

[Insert Table 12 about here]

Estimates from column (1) reveal that loans carry a discount if lead banks come from countries that also have close political ties with the U.S. (the negative and statistically significant coefficient on the interaction term); moreover, this discount is over and above the generic discount due to the borrower country's political ties, as reflected in the coefficient on *Vote*. On the other hand, the political ties of the participant banks' countries do not appear to exert any differential effect on *AISD* (the coefficient on the interaction term in column (2) is statistically insignificant).

6.2. Syndicate structure

An additional channel through which the easing effect of voting similarity might be manifested is via the loan-syndicate structure. Lending bank unfamiliarity with the borrowing firm gives rise to an adverse selection problem, wherein the lead bank must convince the participant banks of the borrower's solid credit reputation. By forming a more concentrated syndicate and retaining a larger share of the loan, the lead bank can minimize this information-asymmetry problem. Participant banks would thus need to spend less time investigating the borrower to acquire more "informed" capital regarding the latter's financial health (see Dennis and Mullineaux, 2000; Lee and Mullineaux, 2004; Jones, Lang and Nigro, 2005; Sufi, 2007; Ivashina, 2009). In our setting, the addition to the syndicate of fewer banks, each with a higher stake in the loan, is expected to ease solvency risk concerns, and would, in turn, be reflected in lower spreads for loans granted by less diverse, more concentrated syndicates.

Below, we examine how syndicate structure interacts with a borrower country's voting similarity by interacting *Vote* with several characteristics reflecting the size and structure of the syndicate. We present results in columns (3)-(6) of Table 12. Estimates from column (3) show that a decrease in the syndicate's number of lenders provides a positive signal for the borrower's creditworthiness. Specifically, decreasing the number of lenders in the syndicate by 14 (i.e., decreasing *Number of lenders* by approximately one standard deviation) lowers *AISD* by an additional 5.9 basis points, or 48% of the generic discount due to greater voting similarity (the coefficient on *Vote* × *Number of lenders* and *Vote* respectively). Column (4), shows that this effect is less potent when we consider the presence of lead lenders, owing to their crucial role in minimizing information asymmetry.

In columns (5) and (6) we interact our voting similarity measure with the lead bank's loan share and degree of syndicate concentration, respectively. Either specification confirms the additional discount in the loan spread by limiting the loan share to fewer members in the syndicate. According to column (5), increasing *Bank share* by one standard deviation (or 14%) results in a lower *AISD* by approximately 2.1 basis points (the coefficient on *Vote* × *Bank share*). This is further reflected in the syndicate structure, since an increase in the Herfindahl-Hirschman index (i.e., forming a more concentrated syndicate) leads to a similar decrease in *AISD* (the coefficient on *Vote* × *HHI* in column (6)). Overall, results from Section 6 indicate that the effect of voting similarity is not symmetrical across the syndicate, but is mainly driven by the actions of lead banks.

7. Concluding remarks

This article expands the literature on the extent of international political-economic linkages in cross-border financing by investigating the effects of state-to-state political ties with a global

superpower, the United States, on the pricing of international syndicated loans. We find that stronger state political ties between the U.S. and the government of a borrower's home country, measured through voting similarity at the United Nations General Assembly, is associated with lower borrowing costs. This effect is stronger when lead arrangers are U.S. banks, during periods in which the U.S. is engaged in armed conflicts, when the U.S. president belongs to the Republican Party, and for borrowers with better balance sheets and prior lending relationships. Moreover, we document an easing effect of political ties on loan spreads, mainly via the formation of a narrower and more concentrated syndicate, which implies mitigation of information-asymmetry concerns regarding borrower credit risk when lead arrangers assume a larger share in the loan. These results parallel the literature on the socio-cultural determinants of cross-border debt pricing as well as the documented effect of state political ties on international bond pricing.

Even within countries with close ties to the U.S., we find that all firms do not equally benefit from closer political ties in lowering their loan spreads. Flexibility in terms of access to alternative sources of external financing, as well as the additional transparency and constant communication with market participants that is associated with listings on multiple exchanges, allows cross-listed firms to rely less, if at all, on the easing effect of their countries' ties with the U.S. From a similar perspective, firms operating in countries with strong institutional environments that can attract institutional investors are less likely to benefit from political ties as a means of lowering their borrowing costs.

It should be noted that our results are historical in nature and depend on qualitative features of foreign relations and U.S. foreign policy. While voting patterns at the United Nations have been found useful and informative in the literature as a measure of political ties, they by no means represent an all-encompassing measure of international foreign relations. Dramatic upheavals and

shifts in qualitative factors regarding political relationships not captured by voting patterns at the United Nations could change the implications of the results we document in this paper. Understanding the additional implications of these factors, perhaps using a more nuanced measure of state-level political ties, is left for future research.

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Table 1. Summary statistics

The table reports summary statistics (number of observations, mean, standard deviation, minimum and maximum values) for all variables used in the estimations of the main text. All variables are defined in Table A1.

	Obs.	Mean	Std. dev.	Min.	Max.
AISD	12,831	149.50	135.65	1.00	1,450.00
AISU	3,598	30.62	31.87	1.00	362.50
Vote	12,831	0.69	0.17	0.28	1.00
Vote (non-normalized)	12,831	0.49	0.27	-0.19	1.00
Vote (non-normalized current)	12,563	0.54	0.25	-0.19	1.00
Vote (3-option)	12,563	0.60	0.14	0.21	1.00
Vote with us	9,672	0.69	0.10	0.43	0.92
Average Vote (lead banks)	12,831	0.70	0.18	0.27	1.00
Average Vote (participant banks)	12,636	0.58	0.17	0.21	1.00
Loan amount	12,831	20.47	1.40	13.40	24.41
Loan amount (USD million)	12,831	1,820,000.00	2,990,000.00	0.66	39,900,000.00
Maturity (months)	12,831	52.91	30.35	2.00	515.00
Collateral	12,831	0.25	0.43	0.00	1.00
Number of lenders	12,831	18.06	13.67	1.00	94.00
Number of leads	12,831	10.93	7.99	0.00	44.00
Performance provisions	12,831	0.17	0.38	0.00	1.00
General covenants	12,831	0.18	0.60	0.00	6.00
Financial covenants	12,831	0.17	0.57	0.00	6.00
Net covenants	12,831	0.01	0.10	0.00	1.00
Bank share	12,831	0.11	0.14	0.00	1.00
HHI	12,831	1,083.54	1,449.89	200.00	10,000.00
Government lead bank	12,636	0.17	0.38	0.00	1.00
Government participant bank	12,636	0.10	0.30	0.00	1.00
Lending relationship	12,823	0.32	0.47	0.00	1.00
Lending relationship number	12,823	0.05	0.11	0.00	1.00
Lending relationship amount	12,776	0.05	0.11	0.00	1.00
Bank size	12,831	14.20	0.60	10.03	15.14
Bank ROA	12,831	3.26	15.27	-11.32	154.30
Bank NPLs	12,831	4.38	17.39	0.00	31.31
Firm size	12,831	9.76	1.93	3.24	24.10
Firm ROA	12,831	7.43	7.26	-137.53	54.85
Firm equity	12,831	8.56	2.02	0.62	22.33
Firm debt	12,831	34.46	26.35	1.50	92.36
Firm asset growth	11,493	0.08	0.28	-4.81	4.66
Firm retained earnings	12,700	13.91	21.03	-198.11	180.81
Cross-listed	12,814	0.19	0.39	0.00	1.00
Cross-listed in U.S.	12,814	0.10	0.30	0.00	1.00
GDP growth	12,831	2.14	2.37	-9.13	25.16
GDP per capita	12,831	41,490.50	11,148.03	10,730.00	97,864.20
Trade dependence	12,831	77.61	54.85	18.35	408.36
Financial dependence	12,831	155.68	36.52	28.20	276.84
Polity	12,831	9.87	0.40	-5.00	10.00
Geopolitical risk	12,247	101.52	29.26	40.67	178.03
Geopolitical risk (threats)	12,247	105.30	32.42	34.34	184.01

Geopolitical risk (acts)	12,247	82.84	25.95	46.72	154.11
Republican Party	12,831	0.50	0.50	0.00	1.00
U.S. elections	12,181	0.08	0.27	0.00	1.00
Alliance	12,831	0.89	0.31	0.00	1.00
Direct contiguity	12,831	0.00	0.02	0.00	1.00
Dependency contiguity	9,264	4.51	3.56	1.00	9.00
Religion	12,831	0.56	0.50	0.00	1.00
Disclosure	9,629	0.54	0.50	0.00	1.00
Investor protection	7,798	0.29	0.46	0.00	1.00
Legal rights	8,623	0.60	0.49	0.00	1.00

Table 2. Baseline results with different fixed effects

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. Each specification includes a different set of fixed effects, as given in the last part of the table. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)
Vote	-77.642**	-87.755***	-86.600***	-86.977***	-83.899***
	[-2.178]	[-2.591]	[-2.853]	[-2.873]	[-2.776]
Loan amount	-9.729***	-6.151***	-6.571***	-6.625***	-7.652***
	[-4.999]	[-3.636]	[-3.990]	[-4.019]	[-4.403]
Maturity	0.351***	0.373***	0.422***	0.420***	0.462***
	[3.590]	[3.936]	[3.718]	[3.705]	[3.853]
Collateral	54.166***	54.757***	29.164***	29.040***	24.060**
	[5.122]	[5.312]	[2.692]	[2.687]	[2.093]
Number of lenders	-0.851***	-0.761***	-0.678***	-0.679***	-0.628***
	[-3.959]	[-3.544]	[-3.301]	[-3.317]	[-3.071]
Performance provisions	1.109	1.922	0.626	0.751	-2.148
	[0.258]	[0.435]	[0.159]	[0.190]	[-0.538]
General covenants	4.316	3.645	8.019**	7.930**	6.503*
	[1.152]	[0.963]	[2.233]	[2.199]	[1.760]
Bank size	-3.352	-3.019	-0.983	-2.727	-2.791
	[-0.812]	[-0.756]	[-0.263]	[-0.783]	[-0.698]
Bank ROA	0.031	-0.003	-0.021	-0.009	6.110***
	[0.378]	[-0.045]	[-0.317]	[-0.137]	[2.904]
Bank NPLs	0.042	0.019	0.001	0.004	0.716
	[0.833]	[0.411]	[0.013]	[0.103]	[1.408]
Firm size	-0.377	1.892	2.416	2.289	1.926
	[-0.079]	[0.470]	[0.620]	[0.586]	[0.516]
Firm ROA	-1.648***	-1.656***	-1.764***	-1.768***	-1.891***
	[-3.384]	[-3.538]	[-4.053]	[-4.071]	[-4.264]
Firm equity	-19.723***	-19.775***	-16.048***	-15.844***	-15.578***
	[-3.449]	[-3.587]	[-2.943]	[-2.902]	[-2.817]
Firm debt	0.004***	0.004***	0.004***	0.003***	0.003***
	[3.296]	[3.382]	[2.924]	[2.837]	[2.692]
GDP growth	0.032	1.689	2.435*	2.452*	2.764**
	[0.022]	[1.235]	[1.883]	[1.895]	[2.005]
GDP per capita	0.001	-0.003**	-0.005***	-0.005***	-0.005***
	[1.193]	[-2.006]	[-3.240]	[-3.336]	[-2.655]
Trade dependence	0.200	-0.153	-0.207	-0.198	-0.255
	[0.973]	[-0.581]	[-0.821]	[-0.779]	[-1.062]
Financial dependence	0.343***	0.329**	0.238	0.217	0.249
	[2.677]	[2.047]	[1.578]	[1.422]	[1.549]
Polity	-51.577***	-24.620***	-10.011	-9.514	-9.648
	[-2.650]	[-2.585]	[-1.322]	[-1.240]	[-1.023]
Constant	1,011.400***	840.328***	726.701***	757.255***	778.704***
	[4.415]	[5.297]	[5.157]	[5.445]	[4.947]
Observations	12,850	12,850	12,831	12,831	12,197
Adj. R-squared	0.675	0.689	0.715	0.715	0.718
Loan type and purpose	N	N	Y	Y	Y
Year effects	Y	Y	Y	Y	Y
Bank effects	Y	Y	Y	Y	Y
Firm effects	Y	Y	Y	Y	Y
Firm industry effects	N	N	N	N	Y

Lender's country effects	N	N	N	Y	Y
Borrower's country effects	N	Y	Y	Y	Y
Country-pair effects	N	N	N	N	Y

Table 3. Non-U.S. loans vs. U.S. loans

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. Specification (1) includes loans granted only from non-U.S. banks (Non-U.S. loans). Specification (2) includes loans granted only from U.S. banks (U.S. loans). In specification (3), *Vote* is interacted with *U.S. bank*, i.e., a binary variable equal to one if the lender is from the U.S., and zero otherwise. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
	Non-U.S. loans	U.S. loans	All loans
Vote	-76.899**	-107.924***	-81.298***
	[-2.259]	[-2.690]	[-2.656]
Vote × U.S. bank			-15.535**
			[-2.021]
U.S. bank			19.660**
			[2.393]
Loan amount	-5.196***	-6.693***	-6.566***
	[-2.973]	[-2.778]	[-3.991]
Maturity	0.405***	0.609***	0.423***
	[3.299]	[3.348]	[3.729]
Collateral	26.561**	20.916	29.135***
	[2.187]	[1.361]	[2.693]
Number of lenders	-0.590***	-0.705**	-0.678***
	[-2.837]	[-2.485]	[-3.306]
Performance provisions	4.451	-4.639	0.745
	[1.005]	[-0.920]	[0.189]
General covenants	3.661	13.503***	8.014**
	[0.864]	[2.662]	[2.234]
Bank size	-2.613	0.727	-1.138
	[-0.654]	[0.067]	[-0.297]
Bank ROA	-0.101	0.022	-0.007
	[-0.740]	[0.095]	[-0.111]
Bank NPLs	0.020	-0.042	-0.001
	[0.340]	[-0.431]	[-0.027]
Firm size	1.364	0.106	2.268
	[0.291]	[0.023]	[0.583]
Firm ROA	-1.851***	-1.956**	-1.763***
	[-4.306]	[-2.562]	[-4.051]
Firm equity	-21.508***	-6.478	-16.009***
	[-2.944]	[-1.281]	[-2.933]
Firm debt	0.008	0.002	0.004***
	[0.870]	[1.595]	[2.915]
GDP growth	3.200**	1.363	2.461*
	[2.119]	[1.040]	[1.903]
GDP per capita	-0.006***	-0.003**	-0.005***
	[-3.428]	[-2.155]	[-3.262]
Trade dependence	-0.375	-0.192	-0.196
	[-1.644]	[-0.574]	[-0.772]
Financial dependence	-0.023	0.574***	0.24
	[-0.131]	[3.225]	[1.590]
Polity	-6.599	-13.390	-9.724
	[-0.610]	[-1.575]	[-1.285]
Constant	854.192***	590.992***	720.580***
	[5.086]	[2.581]	[5.114]
Observations	8,520	4,311	12,831
Adj. R-squared	0.719	0.712	0.715
Fixed effects	Y	Y	Y

Table 4. Identification from war conflicts

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Afghanistan war*, i.e., a binary variable equal to one for the period covering the main period of the Afghanistan war (i.e., from the fourth quarter of 2001 until the second quarter of 2005), and zero otherwise. In specification (2), *Vote* is interacted with *Iraq war*, i.e., a binary variable equal to one for the period covering the main period of the Iraq war (i.e., from the first quarter of 2003 until the second quarter of 2003), and zero otherwise. In specification (3), *Vote* is interacted with *Syria war*, i.e., a binary variable equal to one for the period covering the main period of the Syria war (i.e., from the fourth quarter of 2014 until the fourth quarter of 2016), and zero otherwise. In specification (4), *Vote* is interacted with *All wars*, i.e., a binary variable equal to one for the period covering the main period of the Afghanistan war, the Iraq war, and the Syria war (i.e., if any of *Afghanistan war*, *Iraq war*, or *Syria war* are equal to one), and zero otherwise. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote	-83.670***	-86.864***	-106.428***	-87.786***
	[-2.762]	[-2.869]	[-2.875]	[-2.836]
Vote × Afghanistan war	-20.066*			
	[-1.852]			
Vote × Iraq war		-25.473*		
		[-1.899]		
Vote × Syria war			-78.531**	
			[-2.240]	
Vote × All wars				-37.113**
				[-2.101]
Observations	12,831	12,831	12,831	12,831
Adj. R-squared	0.715	0.715	0.716	0.715
Full set of controls	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y

Table 5. Geopolitical risk

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Geopolitical risk*, i.e., an indicator of geopolitical risk by Caldara and Iacoviello (2018). In specification (2), *Vote* is interacted with *Geopolitical risk (threats)*, i.e., *Geopolitical risk* decomposed into threats components. In specification (3), *Vote* is interacted with *Geopolitical risk (acts)*, i.e., *Geopolitical risk* decomposed into acts components. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Vote	-89.987***	-89.122***	-87.280***
	[-2.788]	[-2.748]	[-2.799]
Vote × Geopolitical risk	-0.836*		
	[-1.804]		
Vote × Geopolitical risk (threats)		-0.648*	
		[-1.862]	
Vote × Geopolitical risk (acts)			-1.573**
			[-2.281]
Observations	12,247	12,247	12,247
Adj. R-squared	0.713	0.713	0.714
Full set of controls	Y	Y	Y
Fixed effects	Y	Y	Y

Table 6. U.S. political conditions

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Republican Party*, i.e., a binary variable equal to one if the incumbent U.S. President comes from the Republican Party in the year before the loan facility origination date, and zero otherwise. In specification (2), *Vote* is interacted with *U.S. elections*, i.e., a binary variable equal to one if elections are held in the U.S. in the year before the loan facility origination date, and zero otherwise. Specifications (1)-(2) include loan type and purpose, year, bank, firm and borrower's country fixed effects. In specifications (3)-(4), we replicate each of the specifications (1)-(2) by additionally including borrower's country × year fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote	-68.557**	-84.785**		
	[-2.192]	[-2.545]		
Vote × Republican Party	-40.724**		-58.161**	
	[-2.347]		[-2.191]	
Vote × U.S. elections		-4.529		-51.405
		[-0.824]		[-1.507]
Observations	12,831	12,173	12,793	12,146
Adj. R-squared	0.715	0.715	0.743	0.743
Full set of controls	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y

Table 7. Exploring the mechanisms: borrower fundamentals

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), we interact *Vote* with *Firm size*, i.e., the log of total firm assets. In specification (2), we interact *Vote* with *Firm ROA*, i.e., the return on total firm assets. In specification (3), we interact *Vote* with *Firm equity*, i.e., the log of firm equity capital. In specification (4), we interact *Vote* with *Firm debt*, i.e., the firm debt ratio. In specification (5), we interact *Vote* with *Firm asset growth*, i.e., the log of the change in firm total assets. In specification (6), we interact *Vote* with *Firm retained earnings*, i.e., the log of firm retained earnings. In specification (7), we simultaneously include each double interaction of the specifications (1)-(6). All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Vote	-57.652*	-66.863**	-68.946**	-84.088**	-86.665***	-83.168***	-48.996*
	[-1.876]	[-2.180]	[-2.140]	[-2.496]	[-2.720]	[-2.737]	[-1.716]
Vote × Firm size	-22.862**						-14.901
	[-2.142]						[-0.736]
Vote × Firm ROA		-2.450***					-0.753*
		[-4.029]					[-1.723]
Vote × Firm equity			-17.400***				-8.703*
			[-3.181]				[-2.171]
Vote × Firm debt				1.039***			0.816*
				[2.871]			[1.900]
Vote × Firm asset growth					-31.221**		-18.394
					[-2.462]		[-1.165]
Vote × Firm retained earnings						-1.641***	-0.695***
						[-3.853]	[-3.651]
Observations	12,831	12,831	12,831	12,831	11,482	12,700	11,356
Adj. R-squared	0.715	0.715	0.715	0.715	0.737	0.714	0.737
Full set of controls	Y	Y	Y	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y	Y	Y	Y

Table 8. Exploring the mechanisms: Government banks

The table reports coefficients and t-statistics [in brackets]. The dependent variable is AISD and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Government bank (participant)*, i.e., a binary variable equal to one if a government participant bank is included in the syndicate, and zero otherwise. In specification (2), *Vote* and *Government bank (participant)* are interacted with *U.S. bank*, i.e., a binary variable equal to one if the lender is from the U.S., and zero otherwise. In specification (3), *Vote* is interacted with *Government bank (lead)*, i.e., a binary variable equal to one if a government lead bank is included in the syndicate, and zero otherwise. In specification (4), *Vote* and *Government bank (lead)* are interacted with *U.S. bank*, i.e., a binary variable equal to one if the lender is from the U.S., and zero otherwise. Specifications (1)-(4) include loan type and purpose, year, bank, firm and borrower's country fixed effects. In specifications (5)-(8), we replicate each of the specifications (1)-(4) by additionally including borrower's country × year fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Vote	-73.019**	-65.177**	-52.289**	-45.757**				
	[-2.314]	[-2.040]	[-2.319]	[-2.093]				
Vote × Government bank (participant)	-17.294	-29.876			-53.619	-42.258		
	[-0.593]	[-1.018]			[-0.114]	[-0.069]		
Government bank (participant) × U.S. bank		-26.811				-14.823		
		[-1.608]				[-1.260]		
Vote × Government bank (participant) × U.S. bank		37.179				17.045		
		[1.178]				[1.120]		
Vote × Government bank (lead)			-51.345*	-44.474*			-51.947**	-59.615**
			[-1.819]	[-1.770]			[-2.062]	[-2.216]
Government bank (lead) × U.S. bank				21.905*				19.598**
				[1.788]				[2.382]
Vote × Government bank (lead) × U.S. bank				-18.939*				-20.885*
				[-1.819]				[1.837]
Observations	12,629	12,629	12,629	12,629	12,593	12,593	12,593	12,593
Adj. R-squared	0.722	0.722	0.722	0.722	0.752	0.752	0.752	0.752
Full set of controls	Y	Y	Y	Y	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y	Y	Y	Y	Y

Table 9. Exploring the mechanisms: Lending relationships

The table reports coefficients and t-statistics [in brackets]. The dependent variable is AISD and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Lending relationship*, i.e., a binary variable equal to one for a prior lending relationship between the lender and the borrower during the previous 2-year period, and zero otherwise. In specification (2), *Vote* is interacted with *Lending relationship number*, i.e., the ratio of the number of prior loans between the lender and the borrower during the previous 2-year period to the total number of loans received by the borrower during the same period. In specification (3), *Vote* is interacted with *Lending relationship amount*, i.e., the ratio of the amount of prior loans between the lender and the borrower during the previous 2-year period to the total amount of loans received by the borrower during the same period. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)
Vote	-85.828***	-88.551***	-90.125***
	[-2.828]	[-2.908]	[-2.963]
Vote × Lending relationship	-50.458*		
	[-1.750]		
Vote × Lending relationship number		-77.844*	
		[-1.878]	
Vote × Lending relationship amount			-80.256*
			[-1.895]
Observations	12,823	12,823	12,776
Adj. R-squared	0.713	0.713	0.713
Full set of controls	Y	Y	Y
Fixed effects	Y	Y	Y

Table 10. Exploring the mechanisms: deep-rooted country relationships

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), we interact *Vote* with *Alliance*, i.e., a binary variable equal to one for a formal alliance (either mutual defense pact or non-aggression treaty) between the borrower's country and the U.S., and zero otherwise. In specification (2), we interact *Vote* with *Direct contiguity*, i.e., a binary variable equal to one for a shared border (either land or sea) between the borrower's country and the U.S., and zero otherwise. In specification (3), we interact *Vote* with *Dependency contiguity*, i.e., a binary variable equal to one for a shared border (either land or sea) between the colonies/dependencies of the borrower's country and those of the U.S., and zero otherwise. In specification (4), we interact *Vote* with *Religion*, i.e., a binary variable equal to one for a common religious adherence between the borrower's country and the U.S., and zero otherwise. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote	-107.268***	-81.876***	-140.175***	-78.798**
	[-2.946]	[-2.640]	[-3.478]	[-2.533]
Vote × Alliance	25.615			
	[0.963]			
Vote × Direct contiguity		10.120		
		[0.931]		
Vote × Dependency contiguity			6.846	
			[1.077]	
Vote × Religion				-21.969
				[-1.096]
Observations	12,831	12,831	9,264	12,831
Adj. R-squared	0.715	0.713	0.729	0.715
Full set of controls	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y

Table 11. Cross-listing and institutional quality

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), we interact *Vote* with *Cross-listed*, i.e., a binary variable equal to one if the borrowing firm's common shares are listed on two or more stock exchanges, and zero otherwise. In specification (2), we interact *Vote* with *Cross-listed in U.S.*, i.e., a binary variable equal to one if the borrowing firm's common shares are listed on two or more stock exchanges, where one of them is a U.S. stock exchange, and zero otherwise. In specification (3), we interact *Vote* with *Disclosure*, i.e., a binary variable equal to one if the borrower's country extent of disclosure intensity index is above the 75th percentile of our sample, and zero otherwise. In specification (4), we interact *Vote* with *Investor protection*, i.e., a binary variable equal to one if the borrower's country strength of investor protection index is above the 75th percentile of our sample, and zero otherwise. In specification (5), we interact *Vote* with *Legal rights*, i.e., a binary variable equal to one if the borrower's country strength of legal rights index is above the 75th percentile of our sample, and zero otherwise. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)
Vote	-103.775***	-94.009***	-101.204**	-81.553*	-89.000**
	[-3.338]	[-3.026]	[-2.411]	[-1.899]	[-2.170]
Vote × Cross-listed	53.544***				
	[3.367]				
Vote × Cross-listed in U.S.		40.170**			
		[2.198]			
Vote × Disclosure			71.556**		
			[2.321]		
Vote × Investor protection				52.226**	
				[2.533]	
Vote × Legal rights					57.134***
					[2.640]
Observations	12,814	12,814	9,629	7,798	8,623
Adj. R-squared	0.714	0.713	0.748	0.783	0.729
Full set of controls	Y	Y	Y	Y	Y
Fixed effects	Y	Y	Y	Y	Y

Table 12. Syndicate characteristics

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. In specification (1), *Vote* is interacted with *Average Vote (lead banks)*, i.e., the average value of *Vote* for all lead banks in the syndicate. In specification (2), *Vote* is interacted with *Average Vote (participant banks)*, i.e., the average value of *Vote* for all participant banks in the syndicate. In specification (3), *Vote* is interacted with *Number of lenders*, i.e., the number of lenders involved in the syndicated loan. In specification (4), *Vote* is interacted with *Number of leads*, i.e., the number of lead banks involved in the syndicated loan. In specification (5), *Vote* is interacted with *Bank share*, i.e., the lead bank's share of the loan facility. In specification (6), *Vote* is interacted with *HHI*, i.e., the Herfindahl-Hirschman index of the syndicate. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Vote	-46.848**	-76.159**	-71.911**	-78.743**	-91.191**	-45.411**
	[-2.477]	[-2.427]	[-2.385]	[-2.414]	[-2.370]	[-2.425]
Vote × Average Vote (lead banks)	-20.016**					
	[-2.133]					
Vote × Average Vote (participant banks)		-15.501				
		[-1.445]				
Number of lenders			2.490***			
			[2.701]			
Number of leads				1.954		
				[1.123]		
Bank share					-87.390***	
					[-3.104]	
HHI						-0.009***
						[-3.255]
Observations	12,831	12,636	12,831	12,831	12,831	12,831
Adj. R-squared	0.717	0.716	0.719	0.718	0.719	0.720
Fixed effects	Y	Y	Y	Y	Y	Y

Internet Appendix
The Diplomacy Discount in Global Syndicated Loans

Abstract

This Appendix is intended for internet use only. The first section includes information on the definitions of the variables. The second section reports (i) results from alternative specifications with different controls, (ii) estimates from alternative voting measures, (iii) results for AISU and other loan characteristics, (iv) results from alternative estimation methods and (v) estimates from Heckman regressions.

Table A1. Variable definitions and sources

Variable	Description	Source
A. Dependent variables in main specifications		
AISD	All-in spread drawn, defined as the sum of the spread over LIBOR plus any facility fee.	DealScan
AISU	All-in spread undrawn, defined as the sum of the facility fee and the commitment fee.	DealScan
B. Main explanatory variables: Voting measures		
Vote	A measure of voting similarity between the borrower's country and the U.S. The measure is the Signorino and Ritter 2-option index of voting similarity with the U.S., averaged by UN session for issues deemed important by the U.S. State Department. The index ranges from -1 (completely opposite to U.S. vote) to +1 (completely similar to U.S. vote). The index is an average of votes for all issues within a UN session (or year). The index is normalized and assumes values between 0 (completely opposite to U.S. vote) to +1 (completely similar to U.S. vote). The *Vote (non-normalized)* is the initial index non-normalized. The *Vote (3-option)* is the Signorino and Ritter 3-option index, which is the initial index adjusted for missing and abstain votes. The *Average Vote (lead banks)* is the average *Vote* for all lead lenders in the syndicate and the *Average Vote (participant banks)* is the average for all participant lenders in the syndicate.	Signorino and Ritter (1999)
Vote with us	An alternative measure of voting similarity between the borrower's country and the U.S. The measure is the Thacker voting similarity index, averaged by UN session for issues deemed important by the U.S. State Department, higher is closer political ties. The index is an average of votes for all issues within a UN session (or year). The Thacker index has been reversed from Thacker's original measure. The index ranges from 0 (completely opposite to U.S. vote) and +1 (completely similar to U.S. vote).	Thacker (2011)
C. Explanatory variables: Loan characteristics		
Loan amount	Log of the loan facility amount in USD.	DealScan
Maturity	Loan duration in months.	DealScan
Collateral	A binary variable equal to one if the loan is secured with collateral, and zero otherwise.	DealScan
Number of lenders	The number of banks involved in the syndicated loan.	DealScan
Performance provisions	A binary variable equal to one if the loan has performance pricing provisions, and zero otherwise.	DealScan
General covenants	The total number of covenants in the loan contract.	DealScan
Financial covenants	The number of financial covenants in the loan contract.	DealScan
Net covenants	The number of net covenants in the loan contract.	DealScan
Bank share	The bank's share of the loan facility.	DealScan
HHI	The Herfindahl-Hirschman index of the syndicate (a measure of the concentration of holdings within a syndicate). The index is calculated using each syndicate member's share in the loan. It is the sum of the squared individual shares in the loan, and varies from zero to 10,000, with 10,000 being the index when a lender holds 100% of the loan.	DealScan
Loan type	A series of binary variables indicating loan type (e.g., term loans, revolvers, etc.).	DealScan
Loan purpose	A series of binary variables indicating loan purpose (e.g., corporate purpose, debt repay, etc.).	DealScan
Government lead bank	A binary variable equal to one if at least one lead lender in the syndicate is a government lender, and zero otherwise. The lender is classified as government	Bankscope

	lender, if it is owned by the government, directly or indirectly, at least at the 20% level.	
Government participant bank	A binary variable equal to one if at least one participant lender in the syndicate is a government lender, and zero otherwise. The lender is classified as government lender, if it is owned by the government, directly or indirectly, at least at the 20% level.	Bankscope
Lending relationship	A binary variable equal to one for a prior loan facility between the lender and the borrower in the 2-year period before the loan facility's origination year, and zero otherwise.	DealScan
Lending relationship number	The ratio of the number of prior loan facilities between the lender and the borrower in the 2-year period before the loan facility's origination year to the total number of loans received by the borrower during the same period.	DealScan
Lending relationship amount	The ratio of the amount of prior loan facilities between the lender and the borrower in the 2-year period before the loan facility's origination year to the total amount of loans received by the borrower during the same period.	DealScan

D. Explanatory variables: Lender characteristics

Bank size	The log of total bank assets.	Compustat
Bank ROA	The return on total bank assets (%).	Compustat
Bank NPLs	The ratio of non-performing loans to total loans (%).	Compustat

E. Explanatory variables: Borrower characteristics

Firm size	The log of total firm assets.	Compustat
Firm ROA	The return on total firm assets (%).	Compustat
Firm equity	The log of firm common equity capital.	Compustat
Firm debt	The ratio of total debt to total assets (%).	Compustat
Firm asset growth	The growth in total firm assets (%).	Compustat
Firm retained earnings	The ratio of retained earnings to total assets (%).	Compustat
Firm leverage	The ratio of total debt to common equity (%).	Compustat
Firm tangibility	The ratio of tangible assets to total assets (%).	Compustat
Firm credit rating	The credit rating converted to numerical values. The values range from 1 (AAA+) to 22 (D/SD).	S&P Credit Ratings
Firm rating category	The risk-weighting rating category converted to numerical values. The values range from 1 (having a credit rating between AAA+ and AA-) to 4 (having a credit rating between B+ and D/SD).	S&P Credit Ratings
Cross-listed	A binary variable equal to one if the firm's common shares are listed on one or more foreign stock exchanges in addition to the firm's domestic stock exchange, and zero otherwise. The variable *Cross-listed in U.S.* is the equivalent variable if the firm's common shares are listed on a U.S. stock exchange (in addition to its domestic stock exchange).	Compustat; Firm disclosures

F. Explanatory variables: Borrower's country characteristics

GDP growth	The GDP growth rate (%).	WDI
GDP per capita	The GDP per capita in constant prices (in USD thousand).	WDI
Trade dependence	Trade as a share of GDP (%).	WDI
Financial dependence	Domestic credit provided by financial sector as a share of GDP (%).	WDI
Polity	Polity score in the borrower's country. The polity score is the average of freedom house and the combined polity score. The freedom house is the average of the political rights index and the civil liberties index. The combined polity score is computed by subtracting the autocracy score (an eleven point autocracy scale) from	Polity IV Project (2016) The Quality of Government Institute

	the democracy score (an eleven point democracy score). The resulting unified polity scale for Polity ranges from 10 (most democratic) to 0 (least democratic).	
Debt-to-GDP	The ratio of public debt to GDP (%),	WDI
Inflation	Inflation (%), as measured by the consumer prices index.	WDI
US economic aid	U.S. economic aid commitments (in constant USD terms) as percentage of the recipient's (borrower's country) GDP.	USAID Greenbook
US military aid	U.S. military aid commitments (in constant USD terms) as percentage of the recipient's (borrower's country) GDP.	USAID Greenbook
Interbank rate	The annual interbank rate (%).	WDI
Disclosure	A binary variable equal to one if the borrower's country extent of disclosure intensity index (0-10) is above the 75th percentile of our sample, and zero otherwise.	FactSet
Investor protection	A binary variable equal to one if the borrower's country strength of investor protection index (0-10) is above the 75th percentile of our sample, and zero otherwise. The strength of investor protection index is constructed according to the DB06-14 methodology.	FactSet
Legal rights	A binary variable equal to one if the borrower's country strength of legal rights index (0-10) is above the 75th percentile of our sample, and zero otherwise. The strength of legal rights index is constructed according to the DB05-14 methodology.	FactSet

G. Explanatory variables: Common characteristics between the Lender's and Borrower's countries

Alliance	A binary variable equal to one for a formal alliance (either mutual defense pact or non-aggression treaty) between the borrower's country and the U.S., and zero otherwise.	Correlates of War Project
Direct contiguity	A binary variable equal to one for a shared border (either land or sea) between the borrower's country and the U.S., and zero otherwise.	Correlates of War Project
Dependency contiguity	A binary variable equal to one for a shared border (either land or sea) between the colonies/dependencies of the borrower's country and those of the U.S., and zero otherwise.	Correlates of War Project
Religion	A binary variable equal to one for a common religious adherence between the borrower's country and the U.S., and zero otherwise.	Correlates of War Project

H. Explanatory variables: U.S. conditions

Republican Party	A binary variable equal to one if the incumbent U.S. President comes from the Republican Party in the year before the loan facility origination date, and zero otherwise.	MIT Election Data and Science Lab
U.S. elections	A binary variable equal to one if elections are held in the U.S. in the year before the loan facility origination date, and zero otherwise.	MIT Election Data and Science Lab

I. Explanatory variables: Global conditions

Geopolitical risk	A monthly indicator of geopolitical risk based on newspaper articles covering geopolitical tensions (Caldara and Iacoviello, 2018). The index is constructed with an algorithm that computes the share of articles related to geopolitical risk in leading international newspapers published in the United States, the United Kingdom, and Canada. These newspapers cover geopolitical events that are of global interest, thus often implying an involvement of the United States. The index is normalized to average a value of 100 in the decade of 2000-2009. The variable *Geopolitical risk (threats)* is the indicator decomposed into threats components, while the variable *Geopolitical risk (acts)* is the indicator decomposed into acts components.	Caldara and Iacoviello (2018)
VIX	The Chicago Board of Exchange (CBOE) Volatility Index (VIX Index). The VIX index measures the implied volatility of options on the S&P 500.	Bloomberg; CBOE

Table A2. Different firm- and macro-controls

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. Each specification includes a different set of firm- and macro-level controls. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Vote	-88.825***	-90.689***	-82.718**	-81.442**	-96.678**	-83.628***
	[-2.764]	[-2.969]	[-2.110]	[-2.135]	[-2.266]	[-2.639]
Loan amount	-7.442***	-5.897***	-6.892***	-5.221***	-4.371*	-7.377***
	[-4.200]	[-3.510]	[-3.062]	[-2.985]	[-1.833]	[-4.292]
Maturity	0.328***	0.437***	0.103	0.279**	0.357**	0.402***
	[3.531]	[3.683]	[0.709]	[2.580]	[2.227]	[3.457]
Collateral	31.477***	26.721**	34.896***	18.284	-7.450	32.499***
	[2.814]	[2.463]	[2.618]	[1.453]	[-0.410]	[2.926]
Number of lenders	-0.551***	-0.670***	-0.848***	-0.425**	-0.821*	-0.601***
	[-3.057]	[-3.294]	[-3.188]	[-2.076]	[-1.840]	[-2.908]
Performance provisions	-0.365	0.496	10.228**	1.136	19.538***	-0.411
	[-0.090]	[0.126]	[2.292]	[0.236]	[2.591]	[-0.101]
General covenants	6.030	8.815**	-6.878	10.717***	0.238	7.951**
	[1.582]	[2.385]	[-1.026]	[2.594]	[0.027]	[2.118]
Bank size	-0.880	-1.344	1.598	0.570	-0.197	-0.980
	[-0.208]	[-0.350]	[0.338]	[0.149]	[-0.041]	[-0.244]
Bank ROA	4.693**	-0.020	0.017	4.927**	2.228	6.042***
	[2.181]	[-0.293]	[0.235]	[2.005]	[0.846]	[2.848]
Bank NPLs	0.341	0.007	-0.007	0.715	1.368***	0.605
	[0.626]	[0.175]	[-0.072]	[1.378]	[2.689]	[1.167]
Firm size	-0.209	0.069	0.805	6.010	34.565**	3.520
	[-0.041]	[0.016]	[0.165]	[1.097]	[2.311]	[0.856]
Firm ROA	-1.730***	-1.682***	-1.218**	-1.306**	-2.779***	-1.734***
	[-3.837]	[-4.097]	[-2.100]	[-2.580]	[-3.678]	[-3.830]
Firm equity	-12.607*	-11.449**	-6.328	-26.498***	-77.001***	-17.941***
	[-1.896]	[-1.984]	[-0.785]	[-3.044]	[-3.350]	[-3.040]
Firm debt	0.007	0.003**	0.010	0.015*	0.511***	0.004***
	[0.827]	[2.456]	[1.087]	[1.705]	[3.569]	[3.092]
GDP growth	2.191*	2.181*	2.442*	1.719	0.721	3.212**
	[1.677]	[1.739]	[1.889]	[0.877]	[0.268]	[2.282]
GDP per capita	-0.004**	-0.005***	-0.002	0.001	-0.005**	-0.005***
	[-2.514]	[-3.314]	[-1.516]	[0.428]	[-2.232]	[-2.851]
Trade dependence	-0.161	-0.214	-0.681**	-0.212	1.751*	-0.223
	[-0.639]	[-0.830]	[-2.089]	[-0.410]	[1.797]	[-0.866]
Financial dependence	0.274*	0.207	0.212	0.380*	0.148	0.269*
	[1.798]	[1.370]	[1.112]	[1.780]	[0.555]	[1.659]
Polity	-13.822	-8.266	-15.696	-11.512	-25.644	-13.995*
	[-1.642]	[-1.165]	[-1.234]	[-1.314]	[-0.519]	[-1.701]
Firm leverage	0.007					
	[0.530]					
Firm asset growth	-16.703***					
	[-3.135]					
Firm retained earnings		-0.466***				
		[-3.587]				
Firm tangibility		-0.668**				
		[-2.438]				
Firm credit rating			17.912			
			[0.989]			

Firm rating category			22.955*			
			[1.965]			
Debt-to-GDP				0.133		
				[0.445]		
Inflation				0.338		
				[0.141]		
Economic aid					4.944	
					[1.509]	
Military aid					-0.191	
					[-0.201]	
Interbank rate						-1.086
						[-0.569]
VIX						0.474
						[1.383]
Constant	756.567***	721.252***	539.590***	333.402*	909.080*	798.606***
	[5.046]	[5.212]	[2.582]	[1.767]	[1.709]	[5.277]
Observations	11,482	12,555	7,563	7,445	4,332	12,173
Adj. R-squared	0.738	0.714	0.744	0.770	0.842	0.717
Fixed effects	Y	Y	Y	Y	Y	Y

Table A3. Different loan controls

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. The last part of the table denotes the type of fixed effects used in each specification. Different specifications include different loan controls to show that the estimates on the term *Vote* are not overly sensitive to the loan controls used. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote	-97.168***	-86.304***	-91.394***	-90.888***
	[-3.186]	[-2.885]	[-2.972]	[-2.988]
Loan amount			-8.238***	-6.407***
			[-4.510]	[-3.874]
Maturity			0.454***	0.420***
			[4.051]	[3.696]
Collateral		34.367***		29.983***
		[3.206]		[2.753]
Number of lenders		-0.742***		-0.683***
		[-3.485]		[-3.339]
Performance provisions		0.447	-0.247	
		[0.113]	[-0.062]	
General covenants		7.285**	9.405**	
		[2.016]	[2.474]	
Bank size	2.185	0.497	0.010	-0.654
	[0.562]	[0.134]	[0.003]	[-0.175]
Bank ROA	-0.087	-0.041	-0.052	-0.028
	[-1.265]	[-0.628]	[-0.759]	[-0.419]
Bank NPLs	-0.020	-0.001	-0.018	0.002
	[-0.509]	[-0.025]	[-0.447]	[0.055]
Firm size	3.789	1.301	4.153	2.960
	[0.926]	[0.331]	[1.037]	[0.758]
Firm ROA	-2.073***	-1.748***	-1.987***	-1.808***
	[-4.590]	[-3.945]	[-4.503]	[-4.166]
Firm equity	-19.822***	-17.081***	-17.445***	-16.819***
	[-3.496]	[-3.056]	[-3.174]	[-3.093]
Firm debt	0.004***	0.004***	0.004***	0.004***
	[3.257]	[2.851]	[3.147]	[3.072]
GDP growth	2.355*	2.453*	2.470*	2.335*
	[1.812]	[1.901]	[1.866]	[1.850]
GDP per capita	-0.005***	-0.005***	-0.005***	-0.004***
	[-3.528]	[-3.405]	[-3.386]	[-3.209]
Trade dependence	-0.255	-0.166	-0.275	-0.220
	[-0.965]	[-0.678]	[-1.038]	[-0.869]
Financial dependence	0.214	0.220	0.233	0.239
	[1.413]	[1.458]	[1.551]	[1.585]
Polity	-7.138	-4.480	-11.720	-11.413
	[-1.002]	[-0.665]	[-1.513]	[-1.504]
Constant	597.624***	566.947***	777.419***	736.698***
	[4.392]	[4.285]	[5.368]	[5.237]
Observations	12,831	12,831	12,831	12,831
Adj. R-squared	0.705	0.710	0.711	0.714
Fixed effects	Y	Y	Y	Y

Table A4. Different voting measures

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. Different specifications include different voting measures. Specification (1) includes the non-normalized version of our voting measure (ranging from -1.00 to 1.00) measure. Specification (2) includes the contemporaneous non-normalized version of our voting measure (ranging from -1.00 to 1.00). Specification (3) includes the 3-option normalized version of our voting measure (ranging from 0.00 to 1.00). Specification (4) includes the Thacker voting similarity index (ranging from 0.00 to 1.00). All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote (non-normalized)	-52.922***			
	[-2.853]			
Vote (non-normalized current)		-65.499***		
		[-2.835]		
Vote (3-option)			-102.934**	
			[-2.111]	
Vote with us				-168.154*
				[-1.781]
Loan amount	-6.571***	-7.059***	-7.040***	-4.285**
	[-3.990]	[-4.205]	[-4.188]	[-2.315]
Maturity	0.422***	0.418***	0.417***	0.346***
	[3.718]	[3.603]	[3.592]	[3.203]
Collateral	29.164***	30.069***	30.025***	33.871**
	[2.692]	[2.699]	[2.693]	[2.511]
Number of lenders	-0.678***	-0.601***	-0.629***	-0.556**
	[-3.301]	[-2.906]	[-3.054]	[-2.445]
Performance provisions	0.626	-1.142	-1.434	-1.995
	[0.159]	[-0.285]	[-0.358]	[-0.416]
General covenants	8.019**	8.050**	8.112**	2.143
	[2.233]	[2.164]	[2.178]	[0.472]
Bank size	-0.983	-0.946	-0.878	-3.525
	[-0.263]	[-0.253]	[-0.235]	[-0.714]
Bank ROA	-0.021	0.017	0.023	8.143***
	[-0.317]	[0.204]	[0.273]	[3.423]
Bank NPLs	0.001	-0.037	-0.035	0.721
	[0.013]	[-0.706]	[-0.670]	[1.246]
Firm size	2.416	3.584	3.395	2.129
	[0.620]	[0.894]	[0.846]	[0.460]
Firm ROA	-1.764***	-1.694***	-1.700***	-1.599***
	[-4.053]	[-3.900]	[-3.906]	[-2.866]
Firm equity	-16.048***	-18.245***	-17.852***	-14.046**
	[-2.943]	[-3.247]	[-3.174]	[-2.571]
Firm debt	0.004***	0.004***	0.004***	0.008
	[2.924]	[3.174]	[3.162]	[0.706]
GDP growth	2.435*	2.978**	3.038**	2.962*
	[1.883]	[2.201]	[2.234]	[1.657]
GDP per capita	-0.005***	-0.005***	-0.005***	-0.007***
	[-3.240]	[-2.971]	[-2.858]	[-2.980]
Trade dependence	-0.207	-0.261	-0.278	0.287
	[-0.821]	[-1.038]	[-1.113]	[0.564]
Financial dependence	0.238	0.296*	0.312**	0.198
	[1.578]	[1.927]	[2.040]	[0.977]
Polity	-10.011	-10.446	-9.955	-15.090*
	[-1.322]	[-1.455]	[-1.402]	[-1.750]
Constant	693.023***	728.091***	740.082***	870.784***

	[4.949]	[5.030]	[5.008]	[4.322]
Observations	12,831	12,589	12,589	9,646
Adj. R-squared	0.715	0.714	0.714	0.747
Fixed effects	Y	Y	Y	Y

Table A5. Other loan characteristics

The table reports coefficients and t-statistics [in brackets]. The dependent variable is denoted in the second line of the table and all variables are defined in Table A1. The estimation method is OLS with standard errors clustered by firm *and* year. The lower part of the table denotes the type of fixed effects used in each specification. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1) AISU	(2) Loan amount	(3) Maturity	(4) Collateral	(5) General covenants
Vote	15.326	0.286	8.327*	-0.063	-0.525**
	[1.417]	[0.787]	[1.956]	[-0.665]	[-2.206]
AISD	0.282***	-0.001***	0.029***	0.000**	0.000**
	[16.275]	[-3.562]	[4.163]	[2.411]	[2.074]
Loan amount	0.899		0.940	-0.017***	0.017*
	[1.407]		[1.607]	[-2.829]	[1.674]
Maturity	0.044**	0.001		0.001***	-0.000
	[2.536]	[1.577]		[3.662]	[-0.862]
Collateral	-4.987*	-0.207***	8.167***		0.082
	[-1.954]	[-2.807]	[3.783]		[1.544]
Number of lenders	0.022	0.012***	0.052	-0.003***	-0.001
	[0.400]	[3.081]	[0.750]	[-3.976]	[-0.927]
Performance provisions	-0.630	0.098*	1.016	0.021	0.220***
	[-0.581]	[1.717]	[0.613]	[0.910]	[5.204]
General covenants	-0.399	0.067	-1.055	0.027	
	[-0.328]	[1.628]	[-0.844]	[1.612]	
Bank size	0.444	-0.001	3.550***	0.022*	0.043*
	[0.654]	[-0.021]	[3.114]	[1.783]	[1.806]
Bank ROA	0.018	-0.001	-0.061***	-0.001***	-0.001*
	[1.255]	[-0.942]	[-3.236]	[-2.729]	[-1.721]
Bank NPLs	0.008	-0.002**	-0.030	-0.000	-0.000
	[0.844]	[-2.467]	[-1.603]	[-1.640]	[-0.154]
Firm size	1.041	0.065*	-1.773**	0.037***	0.062**
	[1.061]	[1.911]	[-2.464]	[2.835]	[2.516]
Firm ROA	-0.366**	0.009**	0.237**	-0.003*	-0.005*
	[-2.421]	[2.284]	[2.188]	[-1.824]	[-1.696]
Firm equity	-2.844**	0.103***	-0.290	-0.034**	-0.085***
	[-2.273]	[2.598]	[-0.336]	[-2.468]	[-2.722]
Firm debt	0.003	-0.000	-0.000*	0.000**	0.000***
	[1.502]	[-0.347]	[-1.671]	[2.497]	[2.582]
GDP growth	-0.140	0.002	-0.016	-0.008	-0.016
	[-0.464]	[0.244]	[-0.060]	[-1.605]	[-1.110]
GDP per capita	-0.000	0.000	-0.000	0.000	0.000
	[-0.758]	[0.473]	[-0.802]	[1.239]	[0.712]
Trade dependence	0.072	-0.003*	0.056	-0.001	-0.002
	[0.723]	[-1.665]	[0.966]	[-0.960]	[-0.729]
Financial dependence	-0.039	-0.001	-0.067*	-0.000	-0.000
	[-1.065]	[-0.739]	[-1.904]	[-0.420]	[-0.397]
Polity	-2.783*	-0.352***	8.290	-0.017	-0.174***
	[-1.691]	[-2.974]	[1.462]	[-0.441]	[-2.649]
Constant	23.954	22.182***	-76.601	0.299	1.311
	[0.766]	[14.772]	[-1.236]	[0.567]	[1.417]
Observations	3,520	12,831	12,831	12,831	12,831
Adj. R-squared	0.940	0.732	0.612	0.763	0.629
Fixed effects	Y	Y	Y	Y	Y

Table A6. Different clustering of standard errors

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table 1. The estimation method is OLS. The lower part of the table denotes the type of fixed effects used in each specification and the last line of the table denotes the type of standard error clustering (BC&Y refers to Borrower's country *and* Year, BC&F refers to Borrower's country *and* Firm, B&Y refers to Bank *and* Year, B&F refers to Bank *and* Firm,, LC&BC refers to Lender's country *and* Borrower's country). All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)	(5)
Vote	-86.600***	-86.600**	-86.600**	-86.600**	-86.600***
	[-2.887]	[-2.761]	[-2.697]	[-2.662]	[-3.459]
Loan amount	-6.571**	-6.571***	-6.571***	-6.571***	-6.571**
	[-2.793]	[-3.016]	[-4.263]	[-3.279]	[-3.002]
Maturity	0.422**	0.422**	0.422**	0.422**	0.422**
	[2.534]	[2.761]	[2.729]	[2.625]	[2.913]
Collateral	29.164**	29.164**	29.164***	29.164***	29.164**
	[2.466]	[2.653]	[3.022]	[2.848]	[2.954]
Number of lenders	-0.678	-0.678*	-0.678**	-0.678*	-0.678*
	[-1.620]	[-1.793]	[-2.540]	[-1.932]	[-1.864]
Performance provisions	0.626	0.626	0.626	0.626	0.626
	[0.116]	[0.121]	[0.139]	[0.129]	[0.113]
General covenants	8.019	8.019	8.019	8.019*	8.019
	[1.351]	[1.670]	[1.558]	[1.830]	[1.559]
Bank size	-0.983	-0.983	-0.983	-0.983	-0.983
	[-0.234]	[-0.245]	[-0.143]	[-0.144]	[-0.250]
Bank ROA	-0.021	-0.021	-0.021	-0.021	-0.021
	[-0.356]	[-0.400]	[-0.399]	[-0.386]	[-0.416]
Bank NPLs	0.001	0.001	0.001	0.001	0.001
	[0.015]	[0.019]	[0.015]	[0.014]	[0.018]
Firm size	2.416	2.416	2.416	2.416	2.416
	[0.479]	[0.463]	[0.805]	[0.538]	[0.563]
Firm ROA	-1.764***	-1.764***	-1.764***	-1.764***	-1.764***
	[-2.903]	[-3.426]	[-3.545]	[-3.322]	[-3.816]
Firm equity	-16.048**	-16.048**	-16.048**	-16.048**	-16.048**
	[-2.517]	[-2.753]	[-2.790]	[-2.609]	[-2.712]
Firm debt	0.004*	0.004**	0.004***	0.004**	0.004**
	[1.943]	[2.156]	[2.889]	[2.542]	[2.350]
GDP growth	2.435	2.435**	2.435	2.435	2.435**
	[1.486]	[2.369]	[1.692]	[1.523]	[2.199]
GDP per capita	-0.005	-0.005	-0.005**	-0.005**	-0.005*
	[-1.572]	[-1.645]	[-2.581]	[-2.539]	[-1.840]
Trade dependence	-0.207	-0.207	-0.207	-0.207	-0.207
	[-1.250]	[-1.014]	[-1.172]	[-0.876]	[-1.163]
Financial dependence	0.238	0.238**	0.238	0.238	0.238
	[1.273]	[2.079]	[1.070]	[1.280]	[1.421]
Polity	-10.011**	-10.011	-10.011	-10.011*	-10.011*
	[-2.281]	[-1.679]	[-1.664]	[-1.714]	[-2.154]
Constant	726.701***	726.701***	726.701***	726.701***	726.701***
	[5.077]	[4.696]	[4.544]	[4.166]	[5.604]
Observations	12,831	12,831	12,831	12,831	12,831
Adj. R-squared	0.715	0.715	0.715	0.715	0.715
Fixed effects	Y	Y	Y	Y	Y
Clustering	BC&Y	BC&F	B&Y	B&F	LC&BC

Table A7. Weighted regressions

The table reports coefficients and t-statistics [in brackets]. The dependent variable is *AISD* and all variables are defined in Table 1. The estimation method is OLS with standard errors clustered by firm *and* year. Each specification includes a different weight. In specification (1), we weight by the number of loans between the lender's country and the borrower's country to the total number of loans in our sample. In specification (2), we weight by the number of loans between the lender and the borrower's country to the total number of loans in our sample. In specification (3), we weight by the number of loans between the borrower and the lender's country to the total number of loans in our sample. In specification (4), we weight by the number of loans between the lender and the borrower to the total number of loans in our sample. All specifications include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

	(1)	(2)	(3)	(4)
Vote	-86.820***	-86.950***	-85.513***	-86.456***
	[-2.860]	[-2.861]	[-2.824]	[-2.845]
Loan amount	-6.580***	-6.578***	-6.524***	-6.547***
	[-3.994]	[-3.992]	[-3.988]	[-3.975]
Maturity	0.422***	0.422***	0.423***	0.422***
	[3.720]	[3.718]	[3.735]	[3.720]
Collateral	29.160***	29.162***	28.819***	29.064***
	[2.692]	[2.693]	[2.663]	[2.690]
Number of lenders	-0.679***	-0.679***	-0.676***	-0.678***
	[-3.302]	[-3.302]	[-3.325]	[-3.299]
Performance provisions	0.607	0.656	0.978	0.630
	[0.154]	[0.166]	[0.251]	[0.160]
General covenants	8.015**	7.971**	7.972**	8.021**
	[2.232]	[2.218]	[2.213]	[2.234]
Bank size	-1.101	-0.839	-1.509	-0.987
	[-0.295]	[-0.226]	[-0.396]	[-0.264]
Bank ROA	-0.023	-0.022	-0.027	-0.020
	[-0.349]	[-0.328]	[-0.413]	[-0.311]
Bank NPLs	0.004	-0.001	-0.014	0.000
	[0.092]	[-0.020]	[-0.335]	[0.012]
Firm size	2.400	2.392	2.599	2.418
	[0.616]	[0.615]	[0.668]	[0.620]
Firm ROA	-1.764***	-1.765***	-1.755***	-1.766***
	[-4.052]	[-4.053]	[-4.021]	[-4.057]
Firm equity	-16.016***	-16.054***	-15.996***	-16.049***
	[-2.941]	[-2.943]	[-2.939]	[-2.942]
Firm debt	0.004***	0.004***	0.004***	0.004***
	[2.924]	[2.924]	[2.999]	[2.865]
GDP growth	2.431*	2.431*	2.398*	2.429*
	[1.880]	[1.880]	[1.854]	[1.879]
GDP per capita	-0.005***	-0.005***	-0.005***	-0.005***
	[-3.236]	[-3.231]	[-3.244]	[-3.229]
Trade dependence	-0.208	-0.208	-0.207	-0.207
	[-0.826]	[-0.825]	[-0.824]	[-0.821]
Financial dependence	0.238	0.239	0.234	0.237
	[1.579]	[1.585]	[1.560]	[1.576]
Polity	-10.121	-10.215	-8.325	-9.747
	[-1.340]	[-1.351]	[-1.178]	[-1.265]
Constant	727.964***	727.500***	710.187***	722.727***
	[5.166]	[5.165]	[5.159]	[5.033]
Observations	12,831	12,831	12,831	12,831
Adj. R-squared	0.715	0.715	0.715	0.715
Fixed effects	Y	Y	Y	Y

Table A8. Heckman sample-selection model

The table reports coefficients and t-statistics [in brackets] from Heckman's (1979) sample-selection model. The dependent variable is in the second line of each panel and all variables are defined in Table A1. Estimation method in Panel A is maximum likelihood and in Panel B is OLS with standard errors clustered by firm *and* year. Specifications (1)-(3) in Panel A report the estimates from the first-stage probit model to estimate the determinants of the firm's loan-taking decision and specifications (4)-(6) report the estimates from the first-stage probit model to estimate the determinants of the firm being in the highest risk-weighting category (having a credit rating between AAA+ and AA-). Specifications (1)-(3) in Panel A include loan type and purpose, year, bank, firm and borrower's country dummies and specifications (4)-(6) in Panel A include year, firm and borrower's country dummies. Panel B reports the estimates from the second-stage OLS regression for the effect of voting similarity on loan spreads. Each of the specification in Panel B includes the inverse mills ratio (*Lambda*) from the corresponding specification in Panel A. All specifications in Panel B include loan type and purpose, year, bank, firm and borrower's country fixed effects. The *, **, and *** marks denote statistical significance at the 10%, 5%, and 1% level, respectively.

Panel A: The firm's loan-taking decision and risk-weighting category

	The loan-taking decision by the firm			Firm being in the highest risk-weighting category		
	(1) Loan deal	(2) Loan deal	(3) Loan deal	(4) Rating category	(5) Rating category	(6) Rating category
Firm size	-0.105***	-0.092***	-0.144***	0.566***	0.417***	0.483***
	[-9.903]	[-8.185]	[-9.690]	[41.636]	[21.872]	[21.931]
Firm ROA	0.000	0.001	-0.003	0.032***	0.037***	0.045***
	[0.230]	[0.436]	[-1.400]	[11.815]	[12.594]	[14.631]
Firm equity	0.077***	0.061***	0.111***	0.288***	0.148***	0.205***
	[7.023]	[5.269]	[7.291]	[22.186]	[8.007]	[9.686]
Firm debt	0.003**	0.002**	0.003	-0.004***	-0.003***	-0.004
	[2.033]	[2.549]	[0.884]	[-5.783]	[-2.658]	[-1.514]
Firm leverage		-0.000***	0.000**		-0.004	-0.005**
		[-3.393]	[2.424]		[-0.106]	[-2.315]
Firm tangibility			-0.001		-0.324***	-0.351***
			[-0.700]		[-8.118]	[-8.155]
Loan amount	0.127***	0.137***	0.142***			
	[16.710]	[17.523]	[14.669]			
Maturity	0.000	0.000	0.000			
	[0.218]	[0.169]	[1.490]			
Collateral	0.719***	0.710***	0.604***			
	[27.164]	[26.571]	[18.043]			
Number of lenders	0.047***	0.049***	0.052***			
	[37.175]	[37.604]	[33.543]			
Performance provisions	0.819***	0.813***	0.875***			
	[22.683]	[22.511]	[19.451]			
General covenants	0.269***	0.265***	0.203***			
	[12.385]	[12.213]	[7.812]			
Bank size	0.119***	0.122***	0.109***			
	[6.261]	[6.386]	[4.712]			
Bank ROA	-0.002***	-0.002***	-0.063***			
	[-3.221]	[-3.644]	[-2.610]			
Bank NPLs	-0.001***	-0.001***	-0.013**			
	[-2.685]	[-2.852]	[-2.093]			
Bank loans	-1.386***	-1.843***	-2.363***			
	[-2.601]	[-3.421]	[-3.715]			
Firm loans	-7.619***	-19.233***	4.886			
	[-2.968]	[-5.855]	[1.172]			
Bank-firm loans		157.752***	109.889***			

		[6.164]	[3.421]			
Vote				-0.573***	-0.653***	-0.135
				[-7.004]	[-6.453]	[-1.210]
GDP growth				0.023***	0.019***	-0.006
				[4.128]	[2.774]	[-0.795]
GDP per capita				0.000***	0.000***	0.000***
				[16.204]	[15.362]	[12.025]
Trade dependence				-0.003***	-0.003***	-0.001
				[-8.173]	[-6.001]	[-1.395]
Financial dependence				-0.007***	-0.005***	-0.004***
				[-18.634]	[-11.046]	[-8.594]
Polity				0.216***	0.175***	0.063
				[5.689]	[3.548]	[0.988]
Inflation						-0.181***
						[-13.713]
Interbank rate						0.151***
						[14.578]
Constant	107.879***	97.574***	103.762***	-6.214***	-6.194***	-5.778***
	[20.638]	[17.986]	[15.080]	[-16.346]	[-12.878]	[-9.753]
Observations	23,182	23,182	16,596	25,318	17,935	17,739
Dummies	Y	Y	Y	Y	Y	Y

Panel B: The effect of Vote on loan spreads

	(1) AISD	(2) AISD	(3) AISD	(4) AISD	(5) AISD	(6) AISD
Vote	-88.228***	-88.884***	-97.264***	-135.116**	-121.163**	-142.445***
	[-2.903]	[-2.930]	[-2.708]	[-2.002]	[-2.428]	[-3.097]
Loan amount	-2.225	-2.661	-4.641**	-7.582***	-8.795***	-8.943***
	[-1.060]	[-1.247]	[-2.005]	[-3.257]	[-3.254]	[-3.239]
Maturity	0.424***	0.425***	0.201*	0.107	-0.046	-0.044
	[3.738]	[3.743]	[1.654]	[0.728]	[-0.276]	[-0.263]
Collateral	47.011***	44.627***	45.374***	35.584**	38.591**	38.917**
	[4.458]	[4.173]	[3.573]	[2.576]	[2.232]	[2.244]
Number of lenders	0.129	0.032	-0.222	-0.853***	-1.156***	-1.209***
	[0.530]	[0.126]	[-0.703]	[-3.078]	[-3.245]	[-3.220]
Performance provisions	17.691***	15.349**	8.146	9.514**	3.500	3.783
	[2.775]	[2.391]	[1.300]	[2.004]	[0.665]	[0.713]
General covenants	13.679***	12.971***	12.370***	-2.449	-3.514	-1.837
	[3.470]	[3.286]	[2.951]	[-0.337]	[-0.383]	[-0.199]
Bank size	0.972	0.515	2.901	1.378	-1.037	-1.456
	[0.254]	[0.135]	[0.683]	[0.286]	[-0.188]	[-0.267]
Bank ROA	-0.060	-0.061	3.473*	0.023	3.945*	3.747
	[-0.948]	[-0.948]	[1.736]	[0.270]	[1.697]	[1.619]
Bank NPLs	-0.049	-0.044	0.463	0.013	0.187	0.280
	[-1.046]	[-0.932]	[0.856]	[0.174]	[0.282]	[0.420]
Firm size	-1.031	-0.566	0.621	26.310	-12.051	18.330
	[-0.279]	[-0.156]	[0.109]	[0.466]	[-0.781]	[1.328]
Firm ROA	-1.674***	-1.680***	-1.671***	-1.129	-3.266**	-0.693
	[-3.844]	[-3.859]	[-3.358]	[-0.338]	[-2.272]	[-0.712]
Firm equity	-13.456***	-14.005***	-18.151**	-31.675	-17.931	-28.938**
	[-2.628]	[-2.758]	[-2.295]	[-1.090]	[-1.322]	[-1.990]
Firm debt	0.003***	0.003***	0.013	0.027	0.008	0.020*

	[2.825]	[2.838]	[1.583]	[0.949]	[0.743]	[1.841]
GDP growth	2.426*	2.433*	0.167	4.648*	-0.374	0.383
	[1.867]	[1.871]	[0.131]	[1.801]	[-0.256]	[0.282]
GDP per capita	-0.004***	-0.004***	-0.005***	-0.002	-0.004*	-0.002
	[-3.072]	[-3.125]	[-3.066]	[-0.618]	[-1.780]	[-1.023]
Trade dependence	-0.204	-0.202	-0.006	-0.516	-0.062	-0.177
	[-0.843]	[-0.834]	[-0.019]	[-1.242]	[-0.219]	[-0.616]
Financial dependence	0.289*	0.282*	0.157	0.076	0.485*	0.166
	[1.948]	[1.914]	[0.971]	[0.108]	[1.779]	[0.650]
Polity	-9.773	-9.419	-17.455*	1.476	-29.359*	-22.095
	[-1.286]	[-1.248]	[-1.707]	[0.051]	[-1.938]	[-1.474]
Lambda	55.370***	47.999***	33.183**	45.466	-44.984	30.678
	[3.458]	[2.930]	[2.170]	[0.382]	[-1.186]	[1.556]
Constant	549.965***	572.845***	745.705***	391.354	1,211.095***	736.422***
	[3.846]	[4.093]	[4.211]	[0.451]	[3.411]	[3.192]
Observations	12,831	12,831	9,580	7,563	5,953	5,925
Adj. R-squared	0.716	0.716	0.737	0.730	0.743	0.744
Fixed effects	Y	Y	Y	Y	Y	Y