

SUPPLEMENTARY MATERIAL

FOREIGN FINANCING AND THE INTERNATIONAL SOURCES OF PROPERTY RIGHTS

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World Politics

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A Online appendix: formal model

Equilibrium with Transfer Proportional to Size of Partnership

The solution concept is Subgame Perfect Nash Equilibrium, which is appropriate for a sequential move game.¹ We proceed via backwards induction with the government's decision of whether to implement a damaging policy. The government implements the damaging policy if and only if: $\mu - \sigma r[\rho(1-f) + \iota f] \geq v$. Recall that $\eta = \mu - v$. Taken together, we have the threshold, η^* , defined as

$$\eta^* \equiv \sigma r[\rho(1-f) + \iota f]. \quad (\text{A.1})$$

If $\eta < \eta^*$, the government does not implement the damaging policy; if $\eta \geq \eta^*$, the government implements the policy. Note that η^* is guaranteed to be in the unit interval. Because η is distributed uniformly on the interval $[0,1]$, the firm believes that the government will not implement the policy with probability η^* , and that the government will implement the policy with probability $1 - \eta^*$. As η^* increases, the threshold for implementing the damaging policy increases, and the government is less likely to implement the policy.

The foreign firm accepts the domestic firm's partnership offer if:²

$$t \leq \eta^* r + (1 - \eta^*) r(1 - \sigma + \sigma \iota) \quad (\text{A.2})$$

The domestic firm's expected utility from partnership is $\eta^* r(1-f) + (1-\eta^*) r(1-f)[1-\sigma + \rho\sigma] + \iota f$. The domestic firm's expected utility without partnership is $\eta^0 r + (1-\eta^0) r[1-\sigma + \rho\sigma]$, where η^0 is the probability that the government will not implement the damaging policy without any partnership and $\eta^0 \equiv \sigma r\rho$. In equilibrium, the domestic firm offers and sells a portion of its assets to a covered foreign firm if

$$\iota \geq \iota^* \equiv \frac{r[1-\sigma(1-\rho)] + 2\rho(1-\rho)\sigma^2 r^2 - t}{\sigma^2 r^2(1-\rho)}. \quad (\text{A.3})$$

As long as Equation A.3 is satisfied, there is a full range of t that would be incentive compatible for both firms: $t \in [0, \eta^* r + (1 - \eta^*) r(1 - \sigma + \sigma \iota)]$. Note that if $t = \eta^* r + (1 - \eta^*) r(1 - \sigma + \sigma \iota)$, the domestic firm would sell the entirety of its assets to the foreign firm; in this case, the partnership provides the largest deterrent effect possible and the domestic firm receives its expected profits with no risk. This would also be acceptable to the foreign firm, who is indifferent between forming and not forming the partnership at this price.³

¹Because the government moves last (substantively, damaging policies can only be implemented after an investment is made), there is no updating by private actors.

²This comes from the foreign firm's participation constraint: $0 \leq \eta^* r f + (1 - \eta^*) r f(1 - \sigma + \sigma \iota) - \iota f$.

³In game theoretic terms, the surplus would go to the first mover, as the second mover cannot credibly commit not to accept without a more attractive outside option. For example, if the domestic firm is allowed to first offer a price and an investment share, it would offer $t = \eta^* r + (1 - \eta^*) r(1 - \sigma + \sigma \iota)$ and $f^* = 1$, and the foreign firm would accept. Alternatively, the Nash bargaining solution would anticipate an equal division

Let f^* be the equilibrium amount of foreign ownership. The firm selects f to maximize its utility, creating the first order condition

$$\frac{\partial \eta^*}{\partial f} [r\sigma(1-f)(1-\rho)] - r[\eta^*\sigma(1-\rho) + 1 - \sigma(1-\rho)] + t = 0, \quad (\text{A.4})$$

subject to the constraint that $f \geq 0$. Plugging in η^* and $\frac{\partial \eta^*}{\partial f}$ ⁴ and solving for f provides the firm's equilibrium level of partnership as $f^* = \max \left\{ 0, \frac{\sigma^2 r^2 (1-\rho)(\iota-2\rho) - r(1-\sigma(1-\rho)) + t}{2\sigma^2 r^2 (1-\rho)(\iota-\rho)} \right\}$.

In equilibrium, the government implements the damaging policy if $\eta \geq \sigma r[\rho(1-f) + \iota f]$, and does not implement the policy otherwise. The foreign firm accepts any offer of partnership where $t \leq \eta^* r + (1-\eta^*)r(1-\sigma + \sigma\iota)$. The domestic firm offers a partnership if $\iota \geq \iota^*$ and forms a partnership with foreign ownership share f^* in anticipation of the government's decision.

Lemmas and Propositions

Lemma 1. *For a given level of foreign ownership, the probability that the government implements a damaging policy decreases in domestic property rights.*

Proof. Take the derivative of η^* with respect to ρ ; $\frac{\partial \eta^*}{\partial \rho} > 0$. □

Lemma 2. *If the foreign firm is covered by an investment agreement, the probability that the government implements a damaging policy decreases in foreign ownership.*

Proof. Take the derivative of η^* with respect to f ; $\frac{\partial \eta^*}{\partial f} = (1-\sigma)r(\iota-\rho) > 0$, because for a covered foreign firm $\iota > \rho$. □

Proposition 1. *Domestic firms are more likely to seek out financial relationships with foreign firms that are covered by an investment agreement as domestic property rights decrease.*

Proof. For $\iota > \rho$, $\frac{\partial \kappa}{\partial \rho} > 0$. Hence, the condition for foreign ownership, condition (A.3), is more likely to hold as ρ decreases. □

Proposition 2. *Financial relationships between domestic firms and firms that lack cover by an investment agreement should not be more likely as domestic property rights decrease.*

of the surplus. One would expect t close to 0 when the domestic firm has less bargaining power, i.e., because there are few international investors. One would expect t close to $\eta^* r + (1-\eta^*)r(1-\sigma + \sigma\iota)$ when the domestic firm has more bargaining power. t would increase, as the competitiveness of the market place increases: if there is competition among many possible investors, the price of the asset begins to near the expected return on the asset.

$$\frac{\partial \eta^*}{\partial f} = r\sigma(\iota-\rho) > 0.$$

Proof. For uncovered firms, $\iota = \rho$.⁵ The threshold for expropriation is now, $\eta^* \equiv \sigma r \rho$, which is independent of f ; thus, $\frac{\partial \eta^*}{\partial f} = 0$. The first order condition for the firm is now $-r[\eta^* \sigma(1 - \rho) + 1 - \sigma(1 - \rho)]$, which is strictly less than zero, so the costs of giving up control always outweigh the benefits, and the domestic firm would not form a partnership. \square

Equilibrium where Transfer Equals Zero (deterrence is only incentive for partnership)

This section details the solution when the foreign firm makes no payment to the domestic firm. Discussion of the foreign firm is omitted here, because the foreign firm would always accept the partnership: it pays nothing and receives some of the domestic firm's profits.

As before, the solution concept is sub-game perfect Nash equilibrium, and we proceed via backward induction. The government implements the damaging policy if and only if: $\mu - \sigma r[\rho(1 - f) + \iota f] \geq v$. Recall that $\eta = \mu - v$. Taken together, we have the threshold, η^* , defined as

$$\eta^* \equiv \sigma r[\rho(1 - f) + \iota f]. \quad (\text{A.5})$$

The firm's expected utility may now be written as $\eta^* r(1 - f) + (1 - \eta^*)[(1 - \sigma)r(1 - f) + \rho \sigma r(1 - f)]$. In equilibrium, the domestic firm sells a portion of its assets to a covered foreign firm if

$$\kappa \equiv \frac{1 - \sigma(1 - \rho)}{r\sigma^2(1 - \rho)(\iota - 2\rho)} < 1. \quad (\text{A.6})$$

As κ increases, the domestic firm becomes less likely to sell its assets.

Let f^* be the equilibrium amount of foreign ownership. The firm selects f to maximize its utility, creating the first order condition

$$\frac{\partial \eta^*}{\partial f} [r\sigma(1 - f)(1 - \rho)] - r[\eta^* \sigma(1 - \rho) + 1 - \sigma(1 - \rho)] = 0, \quad (\text{A.7})$$

subject to the constraint that $f \geq 0$. Plugging in η^* and $\frac{\partial \eta^*}{\partial f}$ ⁶ and solving for f provides

the firm's equilibrium level of partnership as $f^* = \max \left\{ 0, \frac{1}{2} - \frac{(1 - \sigma) + \rho \sigma [1 + \sigma(1 - \rho)r]}{2r\sigma^2(1 - \rho)(\iota - \rho)} \right\}$.

In equilibrium, the government implements the damaging policy if $\eta \geq \sigma r[\rho(1 - f) + \iota f]$, and does not implement the policy otherwise. The firm forms a partnership with foreign ownership share f^* , in anticipation of the government's decision.

⁵It may even be true that $\iota < \rho$ if the domestic firm is better able to avail themselves of domestic legal recourse.

⁶ $\frac{\partial \eta^*}{\partial f} = r\sigma(\iota - \rho) > 0$.

Allowing for $\eta \sim G(\eta)$

Recall that $\eta = \mu - \nu$ represents the government's net benefit of implementing the harmful policy. The net benefit is the private information of the government, but the firm knows it is distributed uniformly on the interval $[0, 1]$. Here we relax that assumption and instead assume that the domestic firm believes that the net benefit, η , is distributed according to some known cumulative distribution function, $G(\eta)$ with support covering the unit interval and with associated probability density function, $g(\eta) > 0$.

The probability that the government implements the damaging policy is then, $G(\eta^*)$, where $\eta^* = \sigma r[\rho(1-f) + \iota f]$, as before. The firm's objective function is,

$$G(\eta^*)r(1-f) + (1-G(\eta^*))r[(1-\sigma)(1-f) + \rho\sigma(1-f)]. \quad (\text{A.8})$$

The firm maximizes his utility with respect to f , the share of foreign ownership, to produce the following first order condition,

$$g(\eta^*)\sigma^2 r(1-f)(\iota-\rho)(1-\rho) - G(\eta^*) - (1-G(\eta^*)) [1-\sigma(1-\rho)] = 0. \quad (\text{A.9})$$

and the following second order condition,

$$g'(\eta^*)\sigma^3 r^2(1-f)(\iota-\rho)^2(1-\rho) - 2g(\eta^*)\sigma^2 r(\iota-\rho)(1-\rho). \quad (\text{A.10})$$

A sufficient, but not necessary, condition for the second order condition to be less than zero (and thus a unique maximum) is that $g'(\eta^*) \leq 0$. This holds if larger values of η become increasingly unlikely; this is consistent with the idea that expropriation is a relatively rare event. The sufficient condition holds for the uniform distribution because $g' = 0$. It also holds for common distributions such as the normal distribution in its right tail and for the exponential distribution.

The proofs of Lemmas 1 and 2 follow from the derivative of η^* as before. Because we cannot solve for f explicitly, the proof of Proposition 1 requires a different set-up.

Proof. Here we show that the equilibrium f is decreasing in ρ , and thus the threshold for foreign partnership is likely to be larger than zero when ρ is small. We use the implicit function theorem (IFT) to sign $\frac{\partial f}{\partial \rho}$. The numerator of the IFT is,

$$\frac{\partial f}{\partial \rho} = g'(\eta^*)\sigma^3 r^2(\iota-\rho)(1-f)^2(1-\rho) - g(\eta^*)\sigma^2 r(1-f)(2+i-3\rho) - (1-G(\eta^*))\sigma. \quad (\text{A.11})$$

A sufficient condition for the numerator to be negative is again that $g'(\eta^*) \leq 0$. The denominator is the second order condition, which is likewise negative when $g'(\eta^*) \leq 0$. The IFT then is negative overall, and f is decreasing in ρ (as long as $g'(\eta^*) \leq 0$), which is what we wanted to show. \square

B Online appendix: empirical models

The following countries are included in the sample: Albania, Argentina, Azerbaijan, Bangladesh, Bolivia, Bulgaria, Cameroon, Congo, Costa Rica, Croatia, Dominican Republic, Ecuador, Egypt, Estonia, Georgia, Guatemala, Honduras, Jamaica, Jordan, Kazakhstan, Latvia, Mexico, Morocco, Mozambique, Nicaragua, Panama, Peru, Romania, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia, Turkey, Ukraine, Uruguay. Table B.1 presents summary statistics of our main variables.

Figure B.1 displays the difference in means and confidence intervals for the comparison of observations with investment agreements with the U.S. and observations without investment agreements with the U.S. As Figure B.1 shows, the two samples are similar – and in some cases nearly identical – for the control variables, with the exception of geographic distance from the U.S.

The remaining tables list additional results mentioned in the text. We first re-estimate our main models from Table 2. In Table B.2, we drop country-years with no M&As reported. We use the same data for Table B.3, where we additionally account for the truncated nature of the dependent variable by estimating truncated negative binomial regression models. Table B.4 includes observations with no M&As reported and instead estimates zero-inflated negative binomial regression models; the inflation equation includes a constant and the property rights variable. The negative, statistically significant association between property rights and M&As remains in all of the models.

The property rights variable has missing observations for early years. Given the slow movement on the property rights variable, for our main models we replaced missing values with the average of neighboring years. In Table B.5, we use the unimputed data and re-estimate the models from Table 2. Similarly, we used a binary measure of democracy, based on polity scores, in our main models. In Table B.6, we instead use the continuous polity measure. The results are robust to these changes.

Tables B.7 and B.8 provide several robustness checks by including additional control variables. First in Table B.7, in column 1, we include a variable for political dependence on the U.S., in the form of military aid received from the U.S. as a percentage of GDP. In column 2, we include a measure of the rule of law, from the perspective of foreign investors, as provided by the International Country Risk Guides. In column 3, we include the variable together with the measure of the investment environment as perceived by foreign investors. In column 4, we account for links to the U.S. created by migrant networks, using the logged number of U.S. migrants to each country, which may explain financial relationships between firms. In column 5, we drop M&As that involve state-owned enterprises, which may be less subject to political risk than other firms.

Table B.8 reports more results with control variables added. First, we include the share of natural resource production in GDP, obtained from the World Bank, to account for the structure of a country's economy; in particular, countries reliant on natural resources tend to have poorer institutional environments and, because natural resource extraction is often capital-intensive (and lucrative), tend to attract foreign investors. Second, we include a dummy variable for countries that are using the U.S. dollar as official

currency (obtained from the Penn World Tables), which should facilitate investments for U.S. firms. We also include a variable for the exchange rate level, relative to the U.S. dollar (obtained from the Penn World Tables, column 3) and a variable for the exchange rate regime (obtained from the IMF classification of exchange rates, column 4). In column 5, we include a variable for IMF programs in place, given that one goal of IMF programs is the strengthening of the domestic institutional environment (in particular, the provision of property rights) and the attraction of international investments. The results are robust to the inclusion of these control variables.

Table B.9 presents the results from several models to account for unobserved country heterogeneity. For column 1, we estimate a hierarchical model that allows for partial pooling. The model allows for both country-specific intercepts and country-specific effects of domestic property rights. In column 2, we estimate a random effects model that allows for unobserved heterogeneity across countries, but not for country-specific slope estimates. In column 3, we estimate a fixed effects model. The coefficient estimate on domestic property rights remains negative and statistically significant at the 5 per cent level in all models.

Table B.10 displays results when accounting for several measures of economic openness, which may correlate with both the negotiation of investment agreements and M&As between domestic and foreign companies. In column 1, we include a control variable for the lagged, year-on-year change in capital account openness (in addition to the current level already included in the model); in column 2, we include a control variable for changes in trade openness, measured as the lagged year-on-year change in the average applied tariff rate; in column 3, we include a control variable for changes in trade openness, measured as the lagged year-on-year change in bilateral trade with the U.S.; in column 4, we include changes in capital account openness and changes in trade openness. The results remain robust to the inclusion of these variables.

Table B.11 presents results with bond and equity issues by firms on the U.S. market as the dependent variable. Otherwise, the models are identical to our models in Table 2 of the article. The negative association between property rights and financial relations with foreign firms remains. Table B.12 shows that this dependent variable also replicates the non-findings for firms from countries without investment agreements with the U.S.; for firms from countries with investment framework agreements that lack meaningful protections for foreign investors; and for issues on the domestic market. Finally, Table B.13 combines the data on M&As with the data on bond and equity issues to arrive at a more comprehensive measure of attempts by domestic firms to form financial relationships with foreign firms.

Table B.1: Summary statistics, M&A data

Variable	Mean	Std. Dev.	Min.	Max.	N
M&As	2.52	5.54	0	37	468
Property rights	0.48	0.11	0.20	0.73	468
Democracy	0.63	0.48	0	1	468
GDP	24.22	1.39	21.4	27.9	468
GDP per capita	3.97	3.72	0.31	21.2	468
Population	16.34	1.23	14.0	18.8	468
Capital account	0.68	0.27	0.13	1	468
Economic complexity	-0.30	0.68	-1.95	1.22	468
Distance to US	8.31	0.51	7.28	9.11	468
Domestic credit	3.23	0.77	0.33	4.63	468

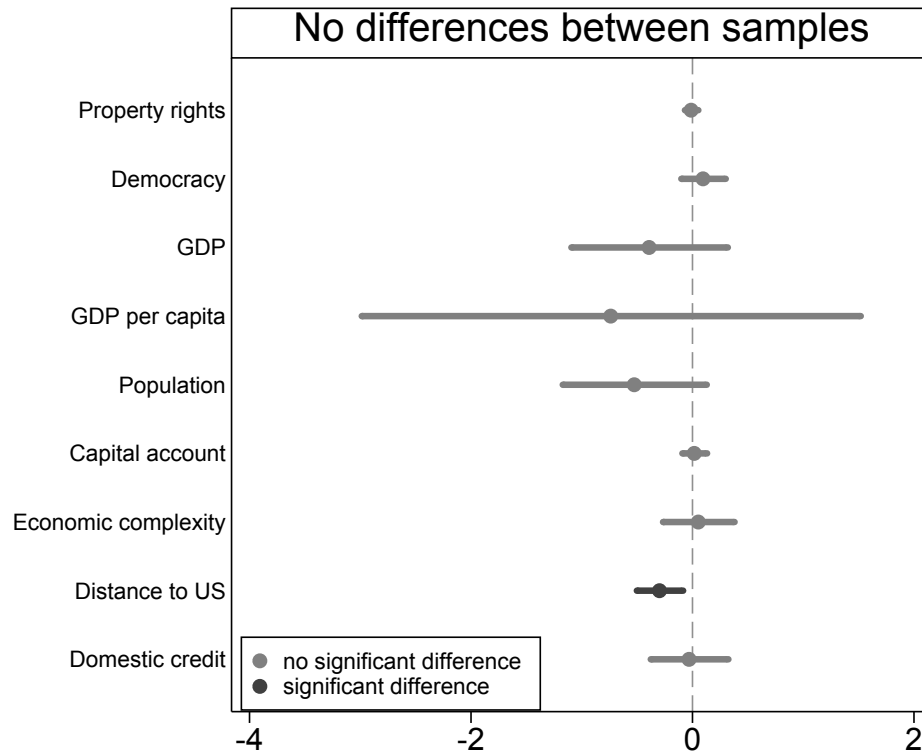


Figure B.1: Comparison of observations with investment agreements with the U.S. and observations without investment agreements with the U.S. for the main variables. Difference in means and 95% confidence interval. With the exception of distance from the U.S., the samples do not differ significantly on these variables.

Table B.2: Drop zero M&As

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-3.17*** (1.13)	-3.63** (1.43)	-3.81*** (1.46)	-3.63** (1.44)	-3.36*** (1.13)
Democracy	.31* (.19)	.37** (.19)	.43** (.22)	.40** (.20)	.24 (.18)
GDP	1.08*** (.24)	1.02*** (.23)	1.13*** (.25)	1.18*** (.26)	1.08*** (.26)
Population	-.62*** (.22)	-.58*** (.20)	-.73*** (.22)	-.75*** (.23)	-.61** (.25)
GDP per capita	-.069 (.04)	-.068* (.04)	-.10** (.05)	-.100** (.05)	-.069 (.05)
Capital account	.33 (.25)	.44 (.35)	.47 (.31)	.49 (.34)	.34 (.24)
Economic complexity	.15 (.14)	.23 (.18)	.23 (.17)	.16 (.16)	.16 (.13)
Distance to US	.050 (.18)	.075 (.18)	.067 (.22)	.013 (.18)	.024 (.19)
Domestic credit	.12 (.09)	.034 (.10)	.046 (.12)	.12 (.10)	.14 (.09)
Bank interest margin		-.046 (.03)			
Stock market capitalization			.079 (.08)		
Listed companies				-.032 (.10)	
Corporate governance					.062 (.05)
Constant	-14.1*** (3.54)	-12.9*** (3.57)	-13.3*** (3.65)	-13.8*** (4.01)	-14.2*** (3.62)
Year FE	yes	yes	yes	yes	yes
Number Obs.	241	232	203	210	231
Number Countries	33	33	25	25	31

Negative binomial regression, coefficient estimates and standard errors (clustered by country).
*** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.3: Truncated regression

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-3.88** (1.61)	-4.51** (1.91)	-5.06*** (1.89)	-4.67** (1.82)	-4.29** (1.67)
Democracy	.63*** (.24)	.70*** (.25)	.65** (.27)	.63** (.25)	.47** (.23)
GDP	1.55*** (.28)	1.44*** (.26)	1.54*** (.27)	1.60*** (.29)	1.53*** (.29)
Population	-.96*** (.27)	-.88*** (.25)	-1.06*** (.25)	-1.09*** (.26)	-.93*** (.29)
GDP per capita	-.15** (.06)	-.14** (.06)	-.17** (.07)	-.17** (.07)	-.14** (.06)
Capital account	.35 (.32)	.49 (.43)	.55 (.39)	.59 (.42)	.37 (.31)
Economic complexity	.21 (.19)	.32 (.24)	.31 (.22)	.22 (.21)	.24 (.18)
Distance to US	.16 (.21)	.20 (.22)	.18 (.26)	.12 (.22)	.12 (.22)
Domestic credit	.17 (.13)	.050 (.12)	.040 (.16)	.13 (.12)	.22* (.12)
Bank interest margin		-.070* (.04)			
Stock market capitalization			.093 (.11)		
Listed companies				-.076 (.14)	
Corporate governance					.12* (.06)
Constant	-20.9*** (3.67)	-18.9*** (3.64)	-18.5*** (3.52)	-19.0*** (4.05)	-20.8*** (3.67)
Year FE	yes	yes	yes	yes	yes
Number Obs.	241	232	203	210	231
Number Countries	33	33	25	25	31

Truncated negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.4: Zero-inflated regression

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-4.35*** (1.35)	-4.80*** (1.64)	-3.57*** (1.30)	-3.36** (1.37)	-4.48*** (1.46)
Democracy	.63*** (.21)	.68*** (.22)	.83*** (.22)	.79*** (.21)	.55** (.22)
GDP	1.39*** (.28)	1.30*** (.27)	1.36*** (.34)	1.41*** (.34)	1.37*** (.30)
Population	-.80*** (.27)	-.72*** (.26)	-.80** (.33)	-.82** (.34)	-.78** (.30)
GDP per capita	-.11** (.05)	-.11** (.05)	-.14** (.06)	-.14** (.06)	-.11** (.05)
Capital account	1.02*** (.25)	1.14*** (.29)	.99*** (.23)	.99*** (.27)	1.03*** (.24)
Economic complexity	.48*** (.15)	.55*** (.19)	.53*** (.17)	.48*** (.16)	.50*** (.15)
Distance to US	.45** (.19)	.45** (.20)	.37 (.23)	.30 (.21)	.42** (.21)
Domestic credit	-.015 (.13)	-.12 (.13)	-.18 (.14)	-.098 (.11)	-.0098 (.14)
Bank interest margin		-.046 (.03)			
Stock market capitalization			.092 (.08)		
Listed companies				-.016 (.10)	
Corporate governance					.063 (.08)
Constant	-22.0*** (3.62)	-20.5*** (3.78)	-20.8*** (4.14)	-21.1*** (4.37)	-22.0*** (3.76)
Year FE	yes	yes	yes	yes	yes
Number Obs.	468	437	331	339	453
Number Countries	35	35	26	26	33

Zero-inflated negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.5: Unimputed property rights data

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-3.02*** (1.17)	-2.95** (1.26)	-3.44*** (1.17)	-3.16** (1.31)	-3.19** (1.24)
Democracy	.60*** (.22)	.75*** (.23)	.82*** (.21)	.76*** (.22)	.49** (.22)
GDP	1.64*** (.33)	1.57*** (.31)	1.57*** (.37)	1.67*** (.38)	1.58*** (.36)
Population	-1.04*** (.32)	-.98*** (.30)	-1.05*** (.37)	-1.10*** (.39)	-.97*** (.36)
GDP per capita	-.14** (.06)	-.15*** (.06)	-.18*** (.06)	-.18*** (.06)	-.14** (.06)
Capital account	.75** (.35)	.76** (.36)	.84*** (.28)	.83** (.32)	.73** (.32)
Economic complexity	.45** (.18)	.49** (.21)	.50*** (.18)	.42** (.18)	.47*** (.17)
Distance to US	.41** (.20)	.32* (.19)	.36 (.22)	.23 (.21)	.35* (.21)
Domestic credit	.098 (.13)	-.021 (.13)	-.13 (.13)	-.0035 (.11)	.12 (.14)
Bank interest margin		-.064 (.04)			
Stock market capitalization			.16** (.07)		
Listed companies				.0049 (.11)	
Corporate governance					.095 (.08)
Constant	-24.6*** (3.99)	-22.7*** (4.07)	-21.9*** (4.07)	-22.7*** (4.30)	-24.3*** (4.13)
Year FE	yes	yes	yes	yes	yes
Number Obs.	396	375	276	282	387
Number Countries	35	35	25	25	33

Negative binomial regression, coefficient estimates and standard errors (clustered by country).
*** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.6: Continuous Polity score

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-2.86** (1.16)	-2.95** (1.43)	-3.28** (1.35)	-3.10** (1.42)	-3.06** (1.23)
Polity score	.066*** (.02)	.074*** (.02)	.078*** (.02)	.072*** (.02)	.054*** (.02)
GDP	1.44*** (.29)	1.32*** (.28)	1.33*** (.34)	1.38*** (.34)	1.42*** (.31)
Population	-.79*** (.28)	-.66** (.27)	-.72** (.34)	-.76** (.34)	-.76** (.31)
GDP per capita	-.12** (.05)	-.11** (.05)	-.14** (.06)	-.14** (.06)	-.12** (.05)
Capital account	.71*** (.27)	.82*** (.29)	.84*** (.25)	.87*** (.30)	.75*** (.26)
Economic complexity	.45*** (.16)	.52*** (.20)	.52*** (.17)	.47*** (.17)	.48*** (.16)
Distance to US	.42** (.20)	.41** (.21)	.38 (.24)	.31 (.23)	.38* (.22)
Domestic credit	.072 (.14)	-.025 (.14)	-.12 (.15)	-.038 (.12)	.072 (.15)
Bank interest margin		-.036 (.04)			
Stock market capitalization			.099 (.09)		
Listed companies				-.029 (.11)	
Corporate governance					.077 (.08)
Constant	-24.2*** (3.97)	-22.7*** (4.26)	-21.6*** (4.29)	-21.7*** (4.51)	-23.9*** (4.09)
Year FE	yes	yes	yes	yes	yes
Number Obs.	468	437	331	339	453
Number Countries	35	35	26	26	33

Negative binomial regression, coefficient estimates and standard errors (clustered by country).
*** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.7: Additional control variables I

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-3.09*** (1.19)	-2.84** (1.34)	-2.81** (1.39)	-3.53*** (1.34)	-3.10** (1.32)
Democracy	.71*** (.21)	.76*** (.22)	.76*** (.23)	.64*** (.22)	.67*** (.21)
GDP	1.49*** (.31)	1.44*** (.30)	1.44*** (.30)	1.37*** (.31)	1.56*** (.31)
GDP per capita	-.12** (.05)	-.13** (.05)	-.13** (.05)	-.096* (.05)	-.12** (.05)
Population	-.85*** (.27)	-.83*** (.28)	-.82*** (.28)	-.75** (.30)	-.89*** (.29)
US military aid	.059 (.15)				
Capital account	.83*** (.28)	.83*** (.30)	.83*** (.30)	.78*** (.29)	.86*** (.30)
Economic complexity	.47*** (.17)	.49*** (.18)	.49*** (.18)	.47*** (.17)	.41** (.16)
Distance to US	.45** (.19)	.43** (.22)	.43* (.23)	.49* (.29)	.36* (.20)
Domestic credit	.059 (.14)	-.024 (.13)	-.024 (.13)	.089 (.15)	.098 (.14)
Rule of law (ICRG)		.00073 (.09)	.00060 (.09)		
Foreign investor protections			-.036 (.65)		
US migrants				.021 (.03)	
Constant	-24.4*** (4.76)	-23.4*** (4.11)	-23.4*** (4.29)	-23.4*** (4.09)	-25.3*** (4.08)
Year FE	yes	yes	yes	yes	yes
Number Obs.	460	450	450	429	468
Number Countries	35	34	34	35	35

Negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.8: Additional control variables II

	M&As between domestic and U.S. firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-2.38** (1.18)	-3.24*** (1.20)	-3.64*** (1.14)	-3.63*** (1.19)	-4.13*** (1.30)
Democracy	.83*** (.18)	.68*** (.20)	.66*** (.21)	.71*** (.23)	.64*** (.23)
GDP	1.40*** (.27)	1.47*** (.29)	1.62*** (.31)	1.73*** (.33)	1.64*** (.31)
GDP per capita	-.11*** (.04)	-.12** (.05)	-.16*** (.06)	-.20*** (.07)	-.15** (.06)
Population	-.78*** (.25)	-.84*** (.28)	-1.00*** (.29)	-1.10*** (.31)	-1.00*** (.29)
Capital account	.87*** (.30)	.89*** (.29)	.96*** (.31)	.99*** (.35)	1.04*** (.33)
Economic complexity	.50*** (.18)	.45*** (.17)	.50*** (.17)	.47*** (.18)	.47*** (.16)
Distance to US	.46** (.19)	.43** (.19)	.53** (.21)	.56** (.24)	.54** (.22)
Domestic credit	.084 (.12)	.029 (.14)	.028 (.16)	.035 (.15)	.11 (.16)
Natural resources	.18** (.08)				
Dollarization		-.27 (.24)			
Exchange rate level			-.000 (.00)		
Exchange rate regime				.014 (.19)	
IMF program					.035 (.16)
Constant	-24.2*** (3.35)	-23.7*** (3.83)	-25.5*** (4.30)	-26.4*** (4.57)	-25.8*** (4.22)
Year FE	yes	yes	yes	yes	yes
Number Obs.	468	468	399	354	390
Number Countries	35	35	34	35	34

Negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.9: Country heterogeneity

	M&As between domestic and U.S. firms		
	Mixed effects	Random effects	Fixed effects
Property rights	-2.77** (1.11)	-3.23*** (1.03)	-2.95** (1.50)
Democracy	.40* (.21)	.33 (.20)	.085 (.24)
GDP	.99*** (.23)	1.10*** (.21)	.74*** (.25)
GDP per capita	-.068* (.04)	-.065* (.04)	-.035 (.04)
Population	-.39 (.25)	-.51** (.22)	-.047 (.38)
Capital account	.99*** (.31)	.97*** (.27)	.71** (.34)
Economic complexity	.67*** (.18)	.65*** (.16)	.88*** (.26)
Distance to US	.29 (.26)	.37 (.23)	.45 (.57)
Domestic credit	.29** (.13)	.27** (.12)	.49*** (.13)
Constant	-20.7*** (3.27)	-19.9*** (2.81)	-19.8*** (5.67)
Year FE	yes	yes	yes
Number Obs.	468	468	439
Number Countries	35	35	33

Negative binomial regression, coefficient estimates and standard errors. *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.10: Economic reforms

	M&As between domestic and U.S. firms			
	(1)	(2)	(3)	(4)
Property rights	-3.00*** (1.14)	-3.00** (1.50)	-3.60*** (1.16)	-3.63** (1.45)
Democracy	.68*** (.19)	1.09*** (.29)	.79*** (.19)	1.08*** (.28)
GDP	1.39*** (.28)	1.52*** (.34)	1.10*** (.32)	1.22*** (.34)
Population	-.77*** (.27)	-.96*** (.36)	-.84*** (.28)	-1.01*** (.34)
GDP per capita	-.11** (.05)	-.15** (.06)	-.12** (.05)	-.14** (.06)
Economic complexity	.50*** (.16)	.46** (.21)	.56*** (.16)	.47** (.21)
Distance to US	.43** (.19)	.49** (.20)	1.13*** (.27)	1.17*** (.33)
Domestic credit	.026 (.14)	.073 (.12)	.0017 (.13)	.085 (.13)
Capital account	.93*** (.26)	.60* (.34)	.86*** (.25)	.57* (.33)
Change capital account	-2.08*** (.77)			-.90 (.61)
Applied tariff		.17 (.17)		.047 (.16)
Change applied tariff		-.40 (.35)		-.33 (.36)
Bilateral trade openness			.31*** (.10)	.31*** (.11)
Change bilateral trade openness			-.18 (.19)	-.47** (.21)
Constant	-23.3*** (3.78)	-24.3*** (3.20)	-25.0*** (3.68)	-25.9*** (3.13)
Year FE	yes	yes	yes	yes
Number Obs.	468	304	426	288
Number Countries	35	33	35	33

Negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.11: Bond and equity issues on the U.S. market

	Issues by domestic firms				
	(1)	(2)	(3)	(4)	(5)
Property rights	-4.66** (2.05)	-4.74** (2.03)	-6.32*** (2.12)	-5.91*** (2.20)	-4.96** (2.02)
Democracy	.61 (.39)	.61 (.39)	.63* (.36)	.53 (.34)	.33 (.34)
GDP	3.22*** (.48)	3.26*** (.57)	2.82*** (.40)	2.90*** (.39)	3.04*** (.45)
Population	-2.49*** (.55)	-2.54*** (.64)	-2.20*** (.46)	-2.13*** (.44)	-2.31*** (.53)
GDP per capita	-.24*** (.09)	-.23** (.10)	-.21*** (.08)	-.21*** (.07)	-.24*** (.08)
Capital account	-.65 (.59)	-.74 (.62)	-.43 (.69)	-.57 (.76)	-.59 (.49)
Economic complexity	-.18 (.25)	-.22 (.25)	-.071 (.26)	-.19 (.24)	.0071 (.22)
Distance to US	-.35 (.25)	-.33 (.27)	-.18 (.29)	-.49* (.25)	-.44** (.21)
Domestic credit	.56*** (.18)	.61*** (.18)	.32 (.21)	.36* (.20)	.53*** (.18)
Bank interest margin		.037 (.04)			
Stock market capitalization			.19 (.19)		
Listed companies				.22 (.20)	
Corporate governance					.31*** (.10)
Constant	-32.7*** (4.37)	-33.2*** (5.00)	-28.2*** (3.66)	-29.0*** (4.27)	-31.4*** (3.86)
Year FE	yes	yes	yes	yes	yes
Number Obs.	468	437	331	339	453
Number Countries	35	35	26	26	33

Negative binomial regression, coefficient estimates and standard errors (clustered by country).
*** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.

Table B.12: Bond and equity issues – no access to arbitration

	No IA (1)	No arbitration (2)	Domestic issues (3)
Property rights	1.12 (1.27)	-1.83 (2.76)	-1.03 (2.67)
Democracy	.91*** (.28)	1.34*** (.49)	-.18 (.43)
GDP	1.40*** (.27)	1.50*** (.29)	2.07*** (.48)
GDP per capita	.012 (.02)	.024 (.02)	-.19* (.10)
Population	-.15 (.27)	-.44 (.35)	-.67 (.46)
Capital account	2.17*** (.63)	3.51*** (1.02)	2.30*** (.79)
Economic complexity	.16 (.28)	.17 (.32)	.51* (.26)
Distance to US	-.17 (.28)	.27 (.31)	1.52*** (.52)
Domestic credit	.62*** (.23)	.26 (.17)	.90*** (.32)
Constant	-34.5*** (4.49)	-33.4*** (5.41)	-52.8*** (10.27)
Year FE	yes	yes	yes
Number Obs.	712	227	468
Number Countries	53	22	35

Coefficient estimates and standard errors (clustered by country). Negative binomial regressions. *** significant at 1%, ** significant at 5%, * significant at 10%. Column (1): Issues of bonds and equity on the U.S. market by firms not from countries with U.S. BITs or trade agreements with investment chapters. Column (2): Issues of bonds and equity on the U.S. market by firms from countries with U.S. investment framework agreements or other investment agreements that do not provide access to arbitration. Column (3): Issues of bonds and equity on the domestic market in countries with U.S. BITs and trade agreements with investment chapters.

Table B.13: M&A activity and bond and equity issues combined

	(1)	(2)	(3)	(4)	(5)
Property rights	-3.69*** (1.23)	-3.69*** (1.31)	-4.54*** (1.31)	-4.32*** (1.36)	-3.83*** (1.24)
Democracy	.62*** (.21)	.65*** (.21)	.70*** (.22)	.66*** (.21)	.39* (.20)
GDP	1.79*** (.27)	1.73*** (.27)	1.65*** (.32)	1.70*** (.30)	1.73*** (.30)
Population	-1.16*** (.27)	-1.10*** (.28)	-1.10*** (.32)	-1.09*** (.32)	-1.08*** (.32)
GDP per capita	-.13*** (.05)	-.12** (.05)	-.14** (.06)	-.14*** (.05)	-.14*** (.05)
Capital account	.51 (.38)	.51 (.38)	.61* (.34)	.56 (.39)	.52 (.33)
Economic complexity	.37** (.17)	.37* (.19)	.41** (.19)	.34** (.17)	.45*** (.15)
Distance to US	.20 (.21)	.19 (.22)	.20 (.21)	.043 (.17)	.087 (.20)
Domestic credit	.14 (.14)	.093 (.13)	-.086 (.16)	-.032 (.12)	.15 (.14)
Bank interest margin		.0041 (.03)			
Stock market capitalization			.098 (.09)		
Listed companies				.065 (.12)	
Corporate governance					.21** (.08)
Constant	-23.7*** (3.50)	-23.1*** (3.84)	-20.3*** (3.23)	-20.5*** (3.31)	-23.3*** (3.54)
Year FE	yes	yes	yes	yes	yes
Number Obs.	468	437	331	339	453
Number Countries	35	35	26	26	33

Negative binomial regression, coefficient estimates and standard errors (clustered by country). *** significant at 1%, ** significant at 5%, * significant at 10%. Countries with U.S. BITs or trade agreements with investment chapters.