The Other China Shock: Chinese Finance and Bond Markets*

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Abstract

China's rise as a source of sovereign credit not only facilitated increased borrowing by many low- and middle-income sovereigns, but also shifted the connection between domestic political institutions and access to credit – the "democratic advantage". While recent analyses suggest that this democratic advantage is conditional on liquidity and risk tolerance in private capital markets, we provide an alternate account. We hypothesize that the capacity of developing country sovereigns to issue bonds in international markets, as well as the limited penalty experienced by non-democratic sovereign borrowers in such markets, is partly the result of Chinese outward financing. We test these claims using a newly-updated issue-level dataset of sovereign bonds, and we instrument for Chinese outward lending using various aspects of China's domestic liquidity conditions. Our analyses point to an underappreciated aspect of the emergence of new bilateral creditors: their effects on long-standing linkages between political institutions and credit access in private capital markets and, therefore, on governments' choice among financing instruments.

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1 Introduction

For the last two decades, China has played a growing and important role in overseas lending and, more generally, in the international financial system. China may offer an alternative to the US-led economic order, by spearheading the creation of new financial institutions (Qian, Vreeland and Zhao, 2023) and offering alternative sources of financial assistance (Horn et al., 2023*b*; Liao and McDowell, 2016). Although significant barriers to the widespread adoption of the renminbi remain (McDowell, 2023), China's presence has arguably reduced the effectiveness of existing mechanisms to address debt and financial crises (Ferry and Zeitz, 2024).

Much attention has been paid to whether China's overseas lending activity has been an effective means of diplomatic influence. Governments of many low- and middle-income countries have sought loans for general budget support, as well as finance for infrastructure projects, from Chinese government-connected financial institutions. What is less well appreciated is that the surge in Chinese official and quasi-official bilateral lending also increased liquidity in the overall market for sovereign finance. We suggest that China served as an alternative not only to Western-led multilateral development banks or Paris Club bilateral creditors, but also to borrowing from private markets.

Beginning in the early 1990s, but especially in the late 2000s and early 2010s, access to private bond market financing expanded markedly. Many Global South countries that had been limited to borrowing from multilateral or bilateral official creditors, often with concessional terms, found themselves able to access international bond markets. While doing so typically required paying higher interest rates, borrowing at short maturities or denominating debt in foreign currency (Eichengreen and Hausmann, 2005; Mihalyi and Trebesch, 2023), sovereign borrowers' range of options nonetheless increased (Mosley and Rosendorff, 2023). International financial institutions' loans often came with requirements of economic reform

as well as "good governance," but bond-based financing often was viewed as more flexible, with fewer political constraints on borrowers and few restrictions on the use of borrowing proceeds (Zeitz, 2024).

Existing explanations of the expansion of access to credit focus on the confluence of two factors: expanded liquidity in private capital markets, generating a search for return in emerging and frontier markets and a diminished concern with investment risk (Rey, 2013; Reinhart, Reinhart and Trebesch, 2016); and the third and fourth waves of democratization, which – via the presence of democratic political institutions – served to reduce investors' concerns with default risk. Although the "democratic advantage" in sovereign borrowing has long been discussed (Beaulieu, Cox and Saiegh, 2012*a*; North and Weingast, 1989; Schultz and Weingast, 2003), more recent scholarship argues that this advantage is conditional on capital market liquidity (Ballard-Rosa, Mosley and Wellhausen, 2021*b*). When interest rates in mature markets are low, return-seeking investors pay scant attention to the risks posed by non-democratic political institutions. When rates are higher and liquidity is more constrained, however, investors are more discriminating – and developing country democracies are better able to issue sovereign bonds.

We argue that the "conditional democratic advantage" logic focuses on an important, but not the only, source of liquidity in global capital markets. It fails to account for the rise of China as a source of sovereign finance. In the late 2000s, and driven largely by domestic political and economic factors, China emerged as a major sovereign lender (Chen, 2024; Horn, Reinhart and Trebesch, 2021). To the extent that governments are able to access credit from China, they can extend their sovereign borrowing without reliance on international bond markets. Hence, we claim that the frequent absence of a democratic advantage in sovereign borrowing is driven largely by the availability of credit from China, rather than by dynamics in private capital markets (Ballard-Rosa, Mosley and Wellhausen, 2021*b*). For countries with access to Chinese loans, domestic political institutions become

less important to the borrowing process.

Our theoretical logic and empirical results suggest that existing accounts of developing countries' access to sovereign credit omit the indirect effects of China's presence on governments' capacity to borrow, as well as on their choices of borrowing instruments. Not only did China-based financial institutions offer an additional source of credit to sovereigns (Bunte, 2019*b*; Chen, 2024; Horn et al., 2023*a*; Zeitz, 2024); China's overall presence in the sovereign lending space also altered the broader link between borrowers' political institutions and their ability to access credit. We test our claims using a newly-updated issue-level dataset of sovereign bonds, and we instrument for Chinese outward lending using various aspects of China's domestic liquidity conditions.

We find that increased Chinese lending is associated with lower levels of bond issuance in primary capital markets. We also find that the disadvantage in sovereign bond borrowing experienced by non-democratic regimes is attenuated where Chinese financing is present. Our findings further our understanding of how the rise of new creditors – including but not limited to China – changes low- and middle-income country governments' capacity to borrow. China's presence also may alter the risk assessment practices of private creditors (Liu and Mosley, N.d.).

2 Theory and Hypotheses

International bond markets have long played a central role in sovereign finance. A wide range of governments – sovereign states as well as colonial entities – issued bonds during the late 19th and early 20th centuries (Queralt, 2022). In the contemporary era, bond-based financing has been a mainstay for governments of wealthy democracies. Bond market investors certainly are attentive to default and currency risk, but proceeds from sovereign bond issues typically have few restrictions on their use, allowing governments wide latitude

in their expenditure decisions (Mosley, 2003).

Governments of low- and middle-income countries, however, had limited access to bond-based financing. Private investors often perceived default and currency risk to be extremely high for such countries; they refused to lend at any price ("credit rationing"), lending such governments to rely instead on concessional financing from bilateral official creditors and multilateral financial institutions, or on more expensive direct loans from commercial banks (Devlin, 1990). The resolution of the 1980s developing country debt crisis began to shift this pattern: the 1989 Brady Plan exchanged existing commercial bank loans to sovereigns for Brady bonds. These bonds were collateralized by U.S. Treasury bonds, addressing concerns about default risk. Such concerns were further addressed by the involvement of the International Monetary Fund (IMF), which provided conditional loans while governments were negotiating restructurings with private creditors. The IMF's required structural adjustment programs may have further improved investors' perceptions of creditworthiness.[1]

Access to bond market financing expanded further throughout the 1990s and early 2000s. This was a function not only of investors' expectations of future economic growth in the context of trade and financial liberalization, but for many countries, also due to the presence of certain domestic political institutions. A long-standing claim – indeed, based on the English crown's access to credit in the 17th century – is that democratic political institutions enhance governments' perceived credibility to repay their debt, improving the willingness of lenders to offer credit, and on better terms (North and Weingast, 1989). This "democratic advantage" logic asserts that investors are reassured by electoral accountability, executive constraints, the rule of law, and economic policy transparency. Hence, democratic political institutions have been linked both with access to credit markets and the terms of borrowing once credit is accessed. For instance, governments with democratic political institutions are

[1] On the potential "catalytic effect" of IMF programs, see Chapman et al. (2017); Edwards (2006); Krahnke (2023).

more likely to receive a credit rating (typically a prerequisite for bond market access), and more likely as well to receive higher ratings (Beaulieu, Cox and Saiegh, 2012*b*).

More recent analyses suggest that private investors' concern with default risk – and therefore, with the features of a country's domestic political institutions – varies over time, with the global capital cycle. When markets are flush with liquidity, returns in mature markets tend to be low, and investors seek higher returns elsewhere. Investors pay less attention to the downside risk of such investments (Ballard-Rosa, Mosley and Wellhausen, 2021*b*; Mosley, 2003; Rey, 2013). By contrast, when global capital markets are tight, default risk becomes more salient to investors, making it more difficult for countries with weak economic or institutional fundamentals to gain access to credit. Risk-mitigating domestic political institutions will be particularly important for access to credit, especially for borrowers in the Global South. Consequently, the relative importance of democracy as a signal of creditworthiness varies with global liquidity conditions - a conditional democratic advantage.

Claims about global liquidity conditions typically are made with reference to asset prices in major financial markets, especially the United States (Longstaff et al., 2011; Miranda-Agrippino and Rey, 2022). The global capital flow cycle has been largely viewed as captured by the U.S. Federal Reserve's (and, to a lesser extent, the European Central Bank's) monetary policy stances, as well as by movements and volatility in major U.S. stock market indices. For instance, Ballard-Rosa, Mosley and Wellhausen (2021*b*) offer compelling evidence that the democratic advantage is contingent on global capital conditions, operationalized based on US key interest rates. Democracy facilitates bond market borrowing by emerging and frontier market sovereigns when global liquidity is tight (but is irrelevant when liquidity is high).[2] Similarly, Cormier and Shea (2025) link U.S. interest rates (again, as a measure of global liquidity) with governments' decisions regarding reserve accumulation.

[2]In what follows we corroborate this finding with alternative measures of liquidity (the US treasury rate and the VIX) and alternative measures of democracy.

The US Federal Reserve, however, is not the only source of liquidity in global capital markets. In the late 2000s, driven largely by domestic political and economic factors, China emerged as a major source of global liquidity. (Chen, 2024; Dreher et al., 2022; Horn, Reinhart and Trebesch, 2021; Lee et al., 2024). China's government launched its "Going Global Strategy" in the late 1990s, aiming to facilitate investment abroad. Especially after the global financial crisis, and eager to earn higher returns on foreign currency reserve holdings, China and its policy banks increased their overseas lending activity (**?**), later branded as the "Belt and Road Initiative" (Kaplan, 2021). Coincident with the expansion in China's outward lending was an increase in demand for credit. For instance, beginning in the mid-2000s, over thirty low-income sovereigns categorized as Highly-Indebted Poor Countries (HIPCs) received relief from some of their debt to multilateral official, bilateral official and commercial creditors, facilitating access to new credit.[3]

Like bond financing, Chinese project finance comes from a variety of sources. In line with AidData's *Global Chinese Development Finance Dataset v3.0's* TUFF methodology (Goodman et al., 2024) - the source of our Chinese project-level data - we define "official Chinese finance" as financing that originates from Chinese government agencies (central and subnational), state-owned banks (China Eximbank, China Development Bank), state-owned commercial banks (ICBC, Bank of China, China Construction Bank), state-owned enterprises and their subsidiaries, and state-owned funds (e.g., the Silk Road Fund).[4] AidData classifies these flows into ODA-like and other official flows (OOF) using OECD-DAC categories; purely private Chinese financing without state-backing is excluded.[5] The resulting debt is either taken on by a debtor government entity or is guaranteed by such an agency. The

[3]This relief was conditional on HIPC governments' implementation of fiscal policy reforms, and it was intended to redirect resources from debt service to infrastructure, education, health care and the like. It also, however, resulted in renewed borrowing capacity.

[4]Gelpern et al. (2025) reports that almost half of the finance provided by these institutions to emerging market and developing economies between 2000 and 2021 are effectively collateralized.

[5]In our analysis, we aggregate project commitments to the country-year level, and our instrument is constructed from project counts.

funds are often program-related; fungibility permits the freeing up of funds for unrestricted purposes.

Chen (2024) highlights the "commercial rationale underlying the operating mechanisms of China's state banks" (p.1760). The state-owned policy banks focus on commercially oriented projects, operate with little reliance on government funds, and are directed to operate in financially sustainable ways. Much Chinese lending to sovereign is therefore on commercial (rather than concessional) terms, on terms comparable to those offered in private markets (Bunte, 2019*a*; Zeitz, 2025).

Many debtor states, therefore see Chinese lenders as an attractive alternative not only to official multilateral creditors, but also to private bond markets. Given a constraint on the debt-carrying capacity any borrowing state faces, debtors are likely to substitute away to some degree, from private commercial lending and towards Chinese creditors (given their similar characteristics). Diversifying across creditors limits a borrower's exposure to any particular set of contingencies, and potentially reduces perceptions of credit market risk.

The first-order effect of access to Chinese finance is to reduce the frequency and level of bond market borrowing for all borrowers, irrespective of their regime type.

Hypothesis 1: More Chinese finance reduces the frequency and level of bond issues.

Our primary interest, however, is in the *heterogeneous effects* across domestic regime type. If countries have less access to China as a source of project finance, then we expect the contingent democratic advantage to continue to operate. Bond markets will continue to take domestic institutions as signals of credibility and are likely to offer more credit to democracies relative to autocracies, *ceteris paribus*. If instead a borrowing state has access to Chinese finance, bond market investors will a) view Chinese liquidity as a source of potential repayment funds and b) may choose to down-weight political institutions as an important criterion in the decision to lend if they wish to have access to that borrower. Autocracies

will be penalized less by bond market investors when the borrower has access to Chinese finance and the contingent democratic advantage is attenuated.

Hypothesis 2: The effect of democracy on private bond issuance (and levels) decreases with access to Chinese finance.

In order to make a stronger causal claim, we must acknowledge that access to Chinese finance is not distributed at random; it is possible that China makes financing more available to autocracies for geopolitical reasons, and this might matter for countries' decisions to access the bond market. Our Bartik-style shift-share instrument takes account of the history of access to Chinese project finance (so if there is a systematic bias towards autocrats, this would be reflected in the share parameter); the shift term, however leverages plausibly exogenous supply-side shocks (on industrial production and foreign exchange reserves), reducing the potential bias associated with Chinese government policy.

3 Data and Empirical Strategy

Our unit of analysis is the country-year, covering a total 148 low- and middle-income sovereigns that had at least the theoretical capacity to issue in international bond markets over decades from 2000 to 2021. The unit allows us to connect variation in governments' annual exposure to Chinese finance with contemporaneous outcomes in their bond market access. The primary dependent variables are drawn from an issue-level dataset of sovereign bond issuance (Ballard-Rosa, Mosley and Wellhausen, 2021*a*), collapsed to the annual level. We update this dataset to include bond issues through 2021. We construct three measures of market access: a binary indicator for whether any internationally-listed bond was issued in a given year, the frequency/count of issuances within the year, and the natural log of the total amount issued in a year by a country. These measures capture both the extensive margin of entry and access to bond markets and the intensive margin of reliance on private

creditors once access is achieved.[6]

Our empirical strategy exploits plausibly exogenous variation in Chinese official financing using an instrumental variable design. Following Dreher, Fuchs, Parks, Strange and Tierney (2021) and Shea, Reinsberg and Kern (2025), we employ a Bartik-style shift-share instrument (Goldsmith-Pinkham, Sorkin and Swift, 2020) that leverages China's domestic liquidity conditions to predict the probability of outward Chinese lending to each country in a given year. The instrument is meant to capture plausibly exogenous variation in China's ability to extend overseas sovereign loans. The "shift" comes from two macroeconomic shifts within China: the growth of its foreign exchange reserves and episodes of domestic industrial overproduction, particularly in the steel sector. Periods of rapid reserve accumulation increased the liquidity available to Chinese state-owned banks for overseas lending, while industrial overcapacity created strong incentives for the country to invest in overseas projects that could absorb its excess industrial production. Nowhere was this more pronounced than in the steel sector. The "share" component of the instrument is built from the historical distribution of China's project commitments across borrowers, which determines how much of each year's outward lending push is likely to reach a given country. By combining the shift and the share, we are able to isolate the outward push of Chinese lending, separate from any contemporaneous recipient country demand for Chinese loans.

The "shift" component captures annual shocks to China's capacity and incentives to lend overseas that are plausibly exogenous to bond market activity. Following Dreher, Fuchs, Parks, Strange and Tierney (2021), we combine (i) the log of China's foreign exchange currency reserves, sourced from CEIC's monthly Chinese foreign exchange currency reserves series (in millions USD), aggregated to the annual mean, and (ii) the log of annual Chinese steel production (in thousands of tons), aggregated from CEIC's industrial production data

[6] In future work, we will also explore average yield, maturity, and coupon terms, but the main analysis in this paper focuses on issuance decisions rather than the *terms* of the issuance.

series.[7] A majority of Chinese overseas lending happens under the Chinese Export-Import Bank and other state-owned financial institutions, so foreign currency reserves are an important proxy for China's capacity to lend overseas (Dreher et al., 2022; Shea, Reinsberg and Kern, 2025). Steel production captures domestic industrial capacity; overcapacity encourages outward project finance to absorb excess supply, as occurred in the 2010s (Bluhm et al., 2025; Dreher, Fuchs, Hodler, Parks, Raschky and Tierney, 2021). We lag both series by one year to ensure that only predetermined shocks enter the first stage.[8]

The "share" component is derived from AidData's *Global Chinese Development Finance Dataset, v3.0*, providing project-level coverage of Chinese official finance updated till the study period (Goodman et al., 2024). For each recipient country, we compute the cumulative share of all Chinese-financed projects it had received up to year $t-1$ relative to the global cumulative total.[9] This is intended to capture long-run bilateral exposure to China and serves as the channel through which China's overseas push translates into country-specific flows, helping us partial out the effect of any countries that were strategically close to China, and therefore, likely to receive Chinese loans, for reasons independent of bond market access or Chinese liquidity. We also focus on AidData because it provides the most comprehensive and up-to-date coverage: alternative datasets such as Horn, Reinhart and Trebesch (2021) which draw from multiple sources are limited in time (end in 2017), whereas AidData extends through our full analysis period. Our instrument is therefore the product of the lagged reserve and steel shocks (the shift) with the pre-determined country-specific project share (the share).[10] This has the design advantage of modeling the heterogenous effects of Chinese liquidity on lending for different countries that may be differentially important to China

[7] https://www.ceicdata.com/en

[8] Results are robust to $t-2$ lags for both currency reserves and steel production.

[9] This includes project commitments. In future analyses, we will explore whether results are robust to project disbursements as well. It is worth noting that Chinese project disbursements are said to be quite opaque.

[10] In the appendix, we also present the results with the share of project loan amounts (logged) received by the country to construct the "share" of Chinese lending.

strategically and thus differentially likely to receive Chinese finance regardless of liquidity conditions.

The distribution of the "share" term in our data reflects the unequal exposure of countries to Chinese finance. Most sovereigns had received very few projects prior to any given year, while a handful of borrowers absorbed a disproportionately large fraction of Chinese overseas lending. The median country's cumulative Chinese project share was just 0.073 percent of the global total in any given point of time between 2000-2022. By contrast, the 95th percentile country had nearly 2 percent share, and the most exposed countries' share reached more than 5 percent of all Chinese projects committed worldwide. This right-skew is intentional in a Bartik setup: it is what allows variation in the macro "shift" to map differentially into recipient country-level predicted borrowing. The liquidity "shift" variables show an obvious trend over the sample period. China's mean foreign exchange reserves grew from around 160 billion USD in 2000 to a peak of over 3.9 trillion USD in 2014, before declining somewhat in the latter half of the 2010s (Figure 1). Total annual steel production followed a similar trajectory: from 131 million tons in 2000 to more than 1.1 billion tons by mid-2010s. These liquidity trends mirror the lending push seen by China, especially towards the late 2000s, motivated by excess industrial production and flush currency reserves.

Our main theoretical focus is on revisiting the "democratic advantage" hypothesis (Beaulieu, Cox and Saiegh, 2012*a*), and how the presence of Chinese finance interacts with domestic political institutions in shaping sovereigns' bond market access. To control for regime type, we make use of the V-Dem Polyarchy index, measuring the extent to which a country qualifies as an electoral democracy (Coppedge et al., 2016). We also make use of the Polity IV score, which provides a well established measure of regime type.[11] Both are lagged by one year to allay simultaneity bias.

Our baseline controls follow the literature on sovereign market access. As mentioned, we

[11] https://www.systemicpeace.org/polityproject.html

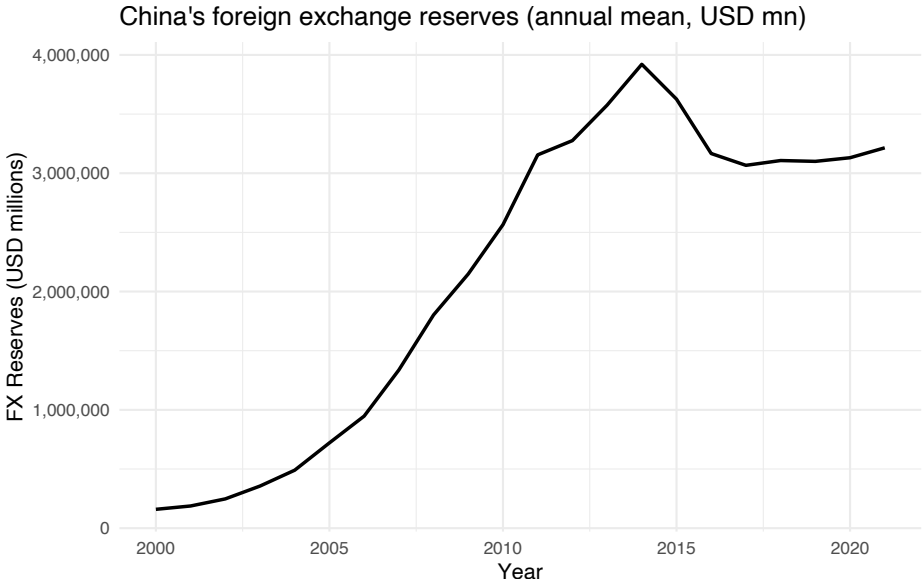

Figure 1: China's foreign exchange reserves (USD millions)

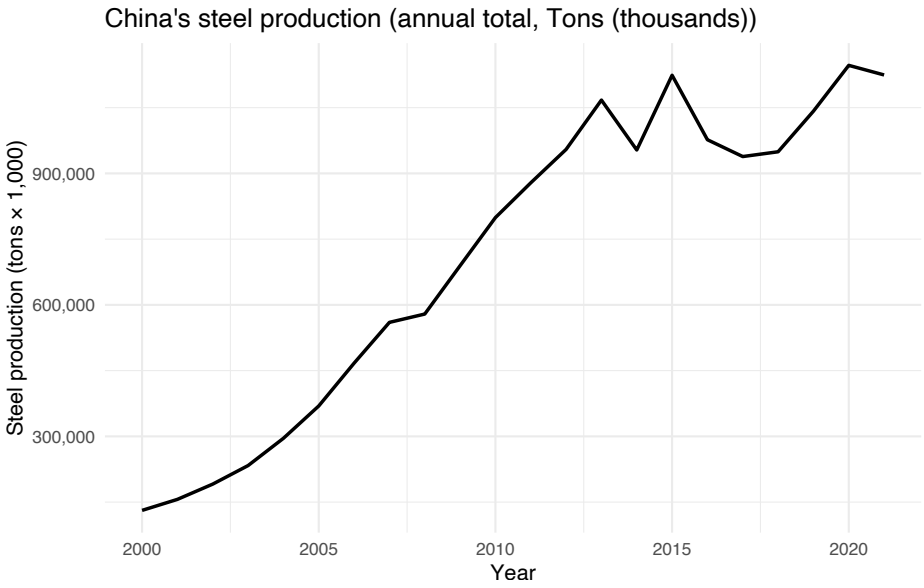

Figure 2: China's annual steel production (tons × 1,000)

proxy for domestic political institutions with two standard measures of democracy: V-Dem's Polyarchy Index (rescaled 0-1) and the Polity IV score (-10 to +10), each lagged by a year. Second, we capture global investor risk appetite/liquidity using two alternative controls - again lagged one year: the U.S. 10-year Treasury Rate (annual average) following Ballard-Rosa, Mosley and Wellhausen (2021*a*), and the CBOE VIX Index (annual average of monthly values), a commonly used barometer for market uncertainty and expected volatility.[12] Rotating these measures through otherwise identical specifications checks that our results are not an artifact of any single proxy for global conditions. Third, we include the log of GDP per capita (current USD) from the World Development Indicators (WDI),[13] lagged by one year, as a parsimonious control for countries' economic development that may correlate with both market access and demand for Chinese finance.

We further adjust for key structural and policy covariates. Oil rents (as a share of GDP) taken from WDI, lagged one year, help absorb variation in countries' external financing needs and collateral capacity associated with oil price volatility. We also include a control for the Heavily Indebted Poor Countries (HIPC) initiative relief, coded as an indicator for "post-completion" years ($t + 2$) to net out the temporary expansion in debt-carrying capacity that HIPC participant countries that have had their debt waived recently may have received, potentially confounding any relationship with other forms of borrowing. Country fixed effects absorb time-invariant country-specific differences in institutions, legal origin, resource endowments, and geography; year fixed effects absorb global shocks such as the global financial crisis and COVID-19. Finally, the first stage includes the Bartik "share" term—each country's cumulative share of past Chinese project commitments (from AidData)—as a control, alongside the lagged development, oil, and democracy covariates noted above, plus country and year fixed effects. Including the share term prevents the instrument

[12] https://www.cboe.com/tradable_products/vix/

[13] https://databank.worldbank.org/source/world-development-indicators.

from proxying for time-invariant Chinese alignment or historical relationships that make some countries systematically more likely to receive projects regardless of contemporary shifts in China's lending capacity.

3.1 Model

Formally, our empirical strategy proceeds in two stages. In the first stage, we estimate the effect of China's domestic liquidity shocks on the predicted probability of receiving Chinese overseas financing. Specifically, we regress the log number of Chinese-financed projects (or alternatively, the logged total amount of Chinese finance) received by country i in year t on the interaction of liquidity shocks – lagged foreign exchange reserves and steel production – with each country's historical share of Chinese projects. The first stage additionally conditions on the lagged covariates described above, as well as country and year fixed effects. Formally, let $ChineseFinance_{it}$ denote the intensity of Chinese official finance to country i in year t (our baseline measure is the log of the number of new project commitments; in robustness we also use the logged amounts). Define the Bartik-style shift share:

$$Z_{i,t-1} \equiv \left[\ln(\text{Reserves}_{t-1}) + \ln(\text{Steel}_{t-1})\right] \times s_{i,t-1},$$

where $s_{i,t-1}$ is country i's cumulative share of Chinese projects up to $t-1$. The main first stage equation then is:

$$ChineseFinance_{it} = \pi_0 + \pi_1 Z_{i,t-1} + \pi_2 s_{i,t-1} + \boldsymbol{\beta}'\mathbf{X}_{i,t-1} + \mu_i + \tau_t + \varepsilon_{it}. \tag{1}$$

The instrument $Z_{i,t-1}$ follows Dreher, Fuchs, Parks, Strange and Tierney (2021) combining China's liquidity levels using currency reserves and industrial (steel) production with historical exposure to Chinese loans. $\mathbf{X}_{i,t-1}$ are lagged controls: log GDP per capita, a global

liquidity proxy (using either the 10-year UST rate or VIX), and a control for democratic institutions (V-Dem Polyarchy or Polity IV). μ_i and τ_t are country and year fixed effects; ε_{it} is the error term.

In the second stage, we use the fitted values of Chinese lending from the first stage as instruments for actual Chinese finance, interacting them with measures of democracy to capture heterogeneous effects by regime type. The dependent variables in these second-stage models are the three measures of sovereign bond market access: a binary indicator for any issuance, the frequency of issuances, and the logged total amount issued. Each specification includes the same set of controls—GDP per capita, global liquidity proxies, oil rents,—as well as country and year fixed effects. Formally, let $y_{it} \in \{\text{AnyIssue}_{it},\ \text{TotalIssues}_{it},\ \ln(1 + \text{Amount}_{it})\}$ denote our three annual bond market outcomes. Then, the second stage is:

$$y_{it} = \alpha + \theta_1 \widehat{\mathit{ChineseFinance}}_{it} + \theta_2 \text{Democracy}_{i,t-1} + \theta_3 \big(\widehat{\mathit{ChineseFinance}}_{it} \times \text{Democracy}_{i,t-1}\big) + \boldsymbol{\gamma}' \mathbf{X}_{i,t-1} + \mu_i + \tau_t + \varepsilon_{it}. \tag{2}$$

where $\widehat{\mathit{ChineseFinance}}_{it}$ is the predicted volume of Chinese official finance from the first stage that country i is likely to receive, instrumented by $Z_{i,t-1}$. $\text{Democracy}_{i,t-1}$ is the lagged measure of regime type. The coefficient term θ_3 captures the conditional effect of Chinese finance availability by regime type on bond market outcomes, our main parameter of interest. $\mathbf{X}_{i,t-1}$ is the vector of lagged controls, μ_i and τ_t are country and year fixed effects respectively, while ε_{it} denotes the error term.

Instrumenting for Chinese finance is needed given the likely endogeneity of observed Chinese financial flows. Government's demand for credit or the choice of creditor is often not random, it may respond to contemporaneous fiscal pressures, transparency preferences (Mosley and Rosendorff, 2023), political alignments, or shifts in access to other forms of finance (Ahuja and Cheng, N.d.). At the same time, China's allocation of loans is not purely

supply-driven (Zeitz, 2025; Cormier, 2023); it may reflect diplomatic or strategic objectives that correlate with unobserved determinants of bond issuance. A naïve OLS regression of bond market access on realized Chinese finance would therefore conflate endogenous demand and selection effects with the causal impact of Chinese credit availability. Our shift-share instrument addresses this challenge by leveraging plausibly exogenous supply-side shocks to China's lending capacity, interacting them with pre-determined country exposure to China. The exclusion restriction rests on the argument that changes in China's foreign reserves and industrial overcapacity (proxied by steel production) affect low and middle-income countries' bond market activity only *through* their influence on the scale of Chinese overseas lending, not by directly shaping private investors' decisions. This design follows other recent work in international political economy exploring the implications of China's emergence as a global lender (Shea, Reinsberg and Kern, 2025; Dreher, Fuchs, Parks, Strange and Tierney, 2021), and allows us to recover the effect of Chinese finance availability on bond-market access for borrower countries.

A natural concern is that our exclusion restriction may be violated if China's reserves or industrial overcapacity affect sovereigns' bond market access through channels other than Chinese finance. For instance, changes in China's liquidity conditions could, in principle, be correlated with global macroeconomic cycles that simultaneously shape investors' willingness to buy emerging market bonds. Several features of our design mitigate this concern. Year fixed effects absorb common global shocks, including shifts in advanced economy interest rates, investor risk sentiment, and commodity prices. We also directly control for global investor risk and liquidity conditions (UST rates, VIX), ensuring that our instrument is not simply proxying for fluctuations in global capital markets. In the robustness analysis, we also incorporate country-level measures of debt-carrying capacity, controlling for HIPC completion and sovereign credit ratings, to address the possibility that Chinese lending and bond market access are jointly determined by the same fundamentals. Moreover, we show

descriptively that the trends in China's industrial production and reserve accumulation do not move in lockstep with other global liquidity proxies, suggesting that the instrument captures supply-side conditions specific to China rather than global liquidity cycles. While no placebo test can rule out all possible violations of the exculusion restriction, we believe are results are not artifacts of broader global conditions or unrelated policy channels.

4 Results

We begin by replicating the core finding of Ballard-Rosa, Mosley and Wellhausen (2021*a*) that the institutional advantage democracies enjoy in bond markets is conditional on global liquidity/investor risk sentiment, using our updated Bloomberg bond issuance data through the end of 2021 (collapsed to the country-year level). Table 1 presents the interaction between democracy and the U.S 10-year treasury rate. Across all three measures of market access (any issuance, frequency, and amount), the coefficient on the interaction is positive and statistically significant, confirming the "contingent democratic advantage" hypothesis that during periods of tighter global liquidity (higher UST rates), democracies are more likely to issue bonds, issue more frequently, and raise larger amounts relative to autocracies.

Substantively, the results suggest that more democratic institutions allow democracies to maintain capital market access even as borrowing conditions tighten globally, consistent with the idea that investors perceive them to be safer, more credible borrowers during riskier periods. Table 2 provides a complementary test using the CBOE Volatility Index (VIX) as an alternative proxy for global investor risk appetite.[14] Higher values of the VIX indicate higher risk, as they signal increased expected volatility and greater uncertainty in the market, often accompanied by heightened investor fear. The pattern is similar and even stronger using this

[14]The VIX is a more comprehensive measure of investor risk perceptions and market volatility than the UST rate, updated daily, and we rely on it as our main measure of risk/liquidity in the subsequent analysis in this paper.

Table 1: Bond Market Issuance by Regime Type and Global Liquidity (OLS)

	Any Issuance	Frequency	Log Amount
Democracy (Polyarchy, lagged)	-0.285	-132.632	-7.392
	(0.238)	(102.906)	(5.060)
UST rate × Democracy	0.092*	54.385**	2.010*
	(0.053)	(25.936)	(1.097)
Lagged GDP per capita (log)	-0.037	-14.167	-0.076
	(0.069)	(24.487)	(1.429)
Lagged Oil Rents	-0.001	0.105	-0.025
	(0.004)	(1.062)	(0.086)
Observations	1,689	1,689	1,689
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
SE clustered by country	Yes	Yes	Yes

Country and year fixed effects included; standard errors clustered by country.

measure: the interaction of democracy with market volatility is positive and statistically significant at the 5% (for any issuance and frequency of issuance) and the 1% level (for amounts issued), indicating that democracies are less constrained by market risk during volatile periods than their less democratic peers. In both specifications, the baseline effect of democracy alone is small or negative, reinforcing the claim that the democratic advantage is contingent and emerges specifically in moments of constrained liquidity rather than as a constant democratic premium (Ballard-Rosa, Mosley and Wellhausen, 2021*a*). In what follows, we examine whether this contingent democratic advantage persists once we account for the growing role of China as an alternative source of borrowing for the countries in our sample.

4.1 The Contingent Democratic Advantage and Chinese Finance

To assess whether China's emergence alters private market borrowing patterns for the countries in our sample, we first need to establish that shifts in Chinese liquidity (as instrumented by currency reserves and steel production) actually predict changes in Chinese overseas

Table 2: Bond Market Issuance by Regime Type and Global Liquidity (OLS)

	Any Issuance	Frequency	Log Amount
Democracy (Polyarchy, lagged)	-0.268	-75.091	-8.238**
	(0.180)	(84.100)	(4.063)
VIX Index × Democracy	0.010**	5.336**	0.239***
	(0.005)	(2.050)	(0.090)
Lagged GDP per capita (log)	0.018	-2.043	1.097
	(0.077)	(24.371)	(1.569)
Lagged Oil Rents	-0.002	-0.274	-0.044
	(0.003)	(1.345)	(0.064)
Observations	1,322	1,322	1,322
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
SE clustered by country	Yes	Yes	Yes

Country and year fixed effects included; standard errors clustered by country.

lending activity. If Chinese liquidity shocks interacted with countries' historical exposure to Chinese projects do not strongly predict actual Chinese lending, then any conclusions about their effects on sovereign borrowing would be on weak empirical footing. We therefore demonstrate below that our instrument is strongly predictive of Chinese overseas lending.

Table 3 reports the first-stage results using the instrument combining China's foreign currency reserves and steel production, with each country's historical exposure to Chinese projects. The instrument strongly predicts subsequent Chinese project commitments: the coefficients on the lagged instrument are large, positive, and highly statistically significant across both the one- and two-year lag specifications (Columns 1 and 2, respectively), and the F-statistic is 26.384 and 23.752, respectively, well above the conventional threshold for the strength of the instrument. Substantively, periods of reserve accumulation and industrial overproduction in China indeed translate into greater Chinese overseas lending, accounting for countries' prior exposure to Chinese finance. In the appendix section A1.1, we show that the first stage continues to hold when using reserves and steel production separately as instruments, under different lag structures, and using the VIX as the global liquidity

measure. The first stage is positive and significant, but weaker in strength when using logged project loan amounts rather than project counts as the dependent variable. As a robustness check addressing concerns that countries' exposure to Chinese finance may evolve over time, we re-construct the shift-share instrument using a rolling five-year window for the project commitments share (summing projects over a $t-5$ to $t-1$ time window instead of the full cumulative share). Table A10 in the appendix shows that this rolling instrument remains a strong predictor of subsequent Chinese project commitments. The rolling shift–share term is large and highly significant when predicting new project counts ($F = 18.3$) and it is positive and statistically significant when predicting project loan amounts as well. Substantively, the first-stage results confirm that exogenous shocks to Chinese liquidity, interacted with recent exposure to Chinese projects, continue to be highly predictive of where Chinese finance flows next even under a time-varying definition of Chinese finance exposure.

Table 4 then reproduces the models reported in Table 1 but also accounts for the presence of Chinese finance using our shift-share instrument. Once Chinese project commitments are included in the model, the core interaction between global liquidity and democracy disappears. Across all three outcomes related to bond market issuance, the coefficient on the interaction term between democracy and global liquidity is small in magnitude and statistically indistinguishable from zero. In other words, the institutional advantage that democracies appeared to enjoy during periods of tighter private capital markets Table 1 no longer holds when we account for the presence of Chinese credit.

Instead, Chinese finance itself emerges as a strong and significant predictor of bond market activity: the coefficient on the instrumented term (log of new Chinese project commitments) is negative and strongly significant across all three specifications. This suggests that when Chinese lending expands, low- and middle-income sovereigns rely less on bond markets, regardless of regime type. Substantively, the implication is that the democratic advantage is not conditional on private market liquidity; rather, it erodes when countries have

Table 3: First Stage: Chinese Project Commitments IV Model

	Dependent variable:	
	New China Projects (ln)	
	1-year Lag	2-year Lag
	(1)	(2)
Combined Instrument x Pr(Project), 1-year lag	10.479***	
	(1.193)	
Combined Instrument x Pr(Project), 2-year lag		7.654***
		(1.306)
Pr(Project)	−162.387***	−78.739**
	(30.985)	(34.493)
Lagged GDP per capita (log)	−0.030	−0.023
	(0.038)	(0.041)
US Treasury Rates (lagged)	−0.154***	−0.215***
	(0.020)	(0.026)
Lagged Oil Rents	0.004	0.003
	(0.003)	(0.003)
Lagged Polyarchy Index	0.057	0.142
	(0.139)	(0.148)
Constant	1.393***	1.353***
	(0.275)	(0.295)
Country FE	*Yes*	*Yes*
Year FE	*Yes*	*Yes*
Observations	2,139	2,019
R^2	0.662	0.649
Adjusted R^2	0.637	0.622
Residual Std. Error	0.438 (df = 1990)	0.441 (df = 1872)
F Statistic	26.384*** (df = 148; 1990)	23.752*** (df = 146; 1872)
Note:		*p<0.1; **p<0.05; ***p<0.01

access to alternative financing sources (here, from China). The absence of the contingent democratic advantage also holds when we swap the UST Rate with the VIX index to measure market volatility/investor risk, as reported in Table A16 of the appendix A1.2. This offers a strong indication that China's rise as a global creditor reshapes not only sovereign borrowing more generally, but also the link between domestic institutions and sovereign credit.

The disappearance of the conditional democratic advantage once Chinese finance is accounted for raises a natural follow-up: does Chinese credit itself have systematically different effects by regime type once we have controlled for global liquidity conditions? In other words, if democracies no longer enjoy an advantage in bond markets during periods of low liquidity, might it be because they are the ones most able to substitute Chinese lending for private issuance? To examine this question, we turn to our main conditional specification, which swaps out global liquidity for the Chinese finance instrument in the interaction term with regime type.

Table 5 presents our main 2SLS estimates of the interaction between Chinese finance and regime type, conditioning on global liquidity (UST Rate) and standard covariates with country and year fixed effects as we have been using. Across all three bond market issuance outcomes, the interaction term *Log(Chinese Projects)* × *Democracy* is negative and statistically significant.[15] The main effect of *Log(Chinese Projects)* is small and imprecise, while the main effect of *Democracy* is positive for issuance frequency (and directionally positive elsewhere). Taken together, these coefficients imply that the marginal effect of Chinese finance on private bond issuance declines with democracy: evaluated at low levels of democracy, the effect of Chinese lending on bond issuance is close to zero (or modestly positive), but for highly democratic countries the effect turns negative. In other words, where institutions

[15] As a transparency check, we re-estimate both the first stage and the 2SLS second stage without year fixed effects, retaining country fixed effects and the same covariates, but cluster the standard errors by country. The results are materially unchanged: the instrument remains strong in the first stage (Appendix Table A11), and the key interaction between Chinese finance and democracy stays negative and statistically significant across outcomes in the second stage (Appendix Table A19).

Table 4: Second Stage IV-2SLS: Interaction of Democracy and Global Liquidity

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	-0.103^{***}	-26.968^{***}	-2.002^{***}
	(0.033)	(8.670)	(0.655)
Lagged GDP per capita (log)	-0.036	-13.835	-0.052
	(0.034)	(9.137)	(0.690)
US Treasury Rates (lagged)	-0.153^{***}	-27.614^{***}	-3.108^{***}
	(0.022)	(5.733)	(0.433)
Lagged Polyarchy Index	-0.326^{**}	-143.346^{***}	-8.187^{***}
	(0.150)	(39.653)	(2.994)
UST Rate × Polyarchy	-0.001	0.075	-0.027
	(0.003)	(0.747)	(0.056)
Lagged Oil Rents	0.089^{***}	53.578^{***}	1.950^{***}
	(0.031)	(8.279)	(0.625)
Constant	1.807^{***}	366.772^{***}	33.821^{***}
	(0.325)	(86.249)	(6.513)
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	1,689	1,689	1,689
R^2	0.607	0.561	0.678
Adjusted R^2	0.576	0.526	0.653
Residual Std. Error (df = 1566)	0.298	78.966	5.963
Note:			*p<0.1; **p<0.05; ***p<0.01

are more democratic, Chinese lending appears to act as a substitute for private market borrowing rather than a complement. Counterintuitively, Chinese finance appears to blunt the democratic institutional advantage in bond markets by reducing democracies' need for private market capital overall. The availability of Chinese money provides an alternative pool of capital that democratic governments can substitute toward, even during periods where they would enjoy an institutional advantage in private markets. Results are even stronger when substituting the VIX index for the UST rate (Table A17 in the appendix), and more precisely estimated negative interactions across all outcomes, even though the VIX sample is smaller. Control coefficients behave as expected: higher market volatility is generally associated with lower issuance, while democracies (those without any access to Chinese finance) issue more frequently on the bond market. One reading of this result is that, given their better market access, democracies have more scope to substitute toward Chinese bilateral financing when it becomes available without incurring a high penalty from market investors, and therefore, choose to do so more often.

As a robustness check, and to address concerns that the "share" term may overweight distant borrowing history - we re-estimate the 2SLS models using a five-year rolling shift-share instrument that replaces the cumulative project share with the rolling share of project committments over $t-5$ to $t-1$. As before, this model places greater emphasis on recent Chinese finance exposure. The results, reported in Appendix Table A18, are even stronger. The negative interaction term between instrumented Chinese finance and democracy is strongly significant across all three bond market issuance outcomes, and the coefficients larger in magnitude. Even when shortening the window of lending by China, we see that democracies substitute away from bond markets when Chinese finance is available.

Figures 3 and 4 visualize the conditional effect of Chinese finance availability across regime types on bond issuance outcomes. The top panel (Fig 3) shows that at low levels of democracy, a one-standard deviation increase in Chinese projects has a negligible effect on

Table 5: IV-2SLS: Interaction of Chinese Finance and Democracy

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.007	36.127*	0.402
	(0.079)	(21.288)	(1.590)
Democracy	0.409	288.334***	7.943
	(0.277)	(74.462)	(5.561)
Lagged GDP per capita (log)	−0.033	−11.565	0.018
	(0.035)	(9.403)	(0.702)
US Treasury Rates (lagged)	−0.110***	−1.574	−2.162***
	(0.015)	(3.994)	(0.298)
Lagged Oil Rents	−0.002	−0.470	−0.046
	(0.003)	(0.755)	(0.056)
Log(Chinese Projects) × Democracy	−0.231*	−133.131***	−5.070*
	(0.136)	(36.503)	(2.726)
Constant	1.412***	132.844	25.141***
	(0.340)	(91.133)	(6.807)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,689	1,689	1,689
R^2	0.603	0.546	0.674
Adjusted R^2	0.572	0.510	0.649
Residual Std. Error (df = 1566)	0.299	80.300	5.997
Note:			*p<0.1; **p<0.05; ***p<0.01

the probability of issuing bonds in international capital markets. As democracy increases, however, the effect turns negative and statistically significant. The bottom panel (Fig 4) demonstrates a similar pattern for the amount issued: in more democratic countries, higher Chinese lending significantly reduces their scale of bond issuance.

Having established that China matters for sovereign borrowing outcomes, we further probe whether global liquidity shocks matter equally across low and middle-income borrowers based on their structural access to Chinese finance. We conduct an analysis splitting the sample with a simple binary for high versus low structural access to Chinese finance. We operationalize the degree of access using the "share" component of our shift-share instrument: the cumulative share of Chinese-financed projects a country had received relative to the global total over the 2000-2022 period. Countries above the median of this distribution are coded as "high access" and those below as "low access". This time-invariant indicator proxies for countries' structural access to Chinese finance across our sample period. We then re-estimate the baseline Ballard-Rosa, Mosley and Wellhausen (2021*a*) specification from Tables 1 and 2 interacting global liquidity/investor risk sentiment with democracy, now separately for each access group of countries. This allows us to test whether the contingent democratic advantage documented earlier persists only in countries without ready access to Chinese credit.

Figure 5 visualizes the marginal effects of global liquidity across regime types for the high versus low Chinese finance access groups separately. The results strongly reinforce our key argument in this paper. In the low-access to Chinese finance group (left column in Fig 5), we recover the original 'contingent democratic advantage' whereby democracies appear better able to weather tight global liquidity conditions, issuing significantly more frequently relative to autocracies when US Treasury Rate or market volatility is high. By contrast, in the high-access group (right-hand column), the contingent democratic advantage disappears entirely: the marginal effects of higher UST rates or market volatility on bond issuance

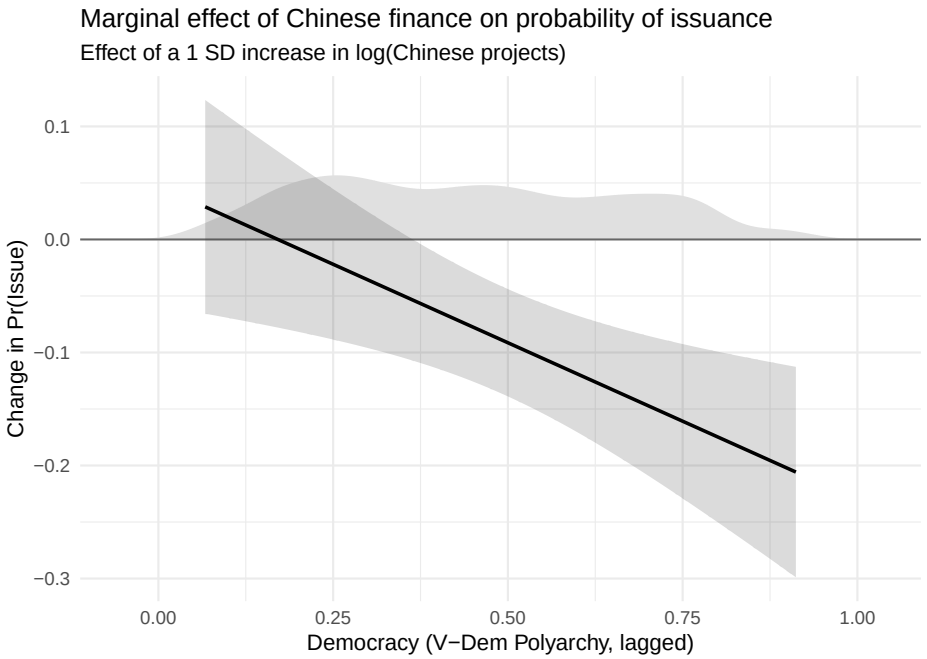

Figure 3: Marginal effect of Chinese finance on issuance probability.

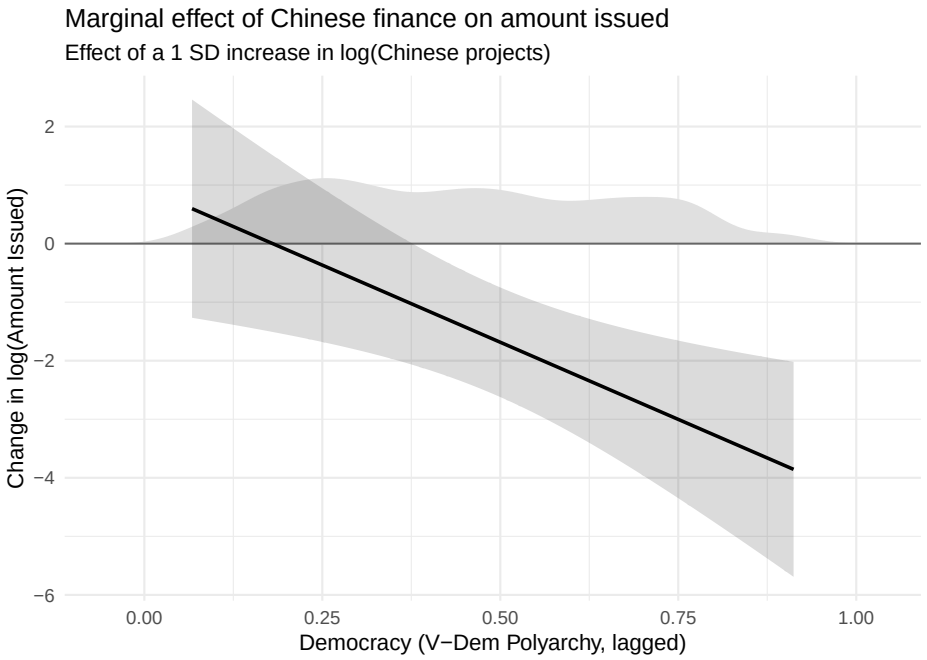

Figure 4: Marginal effect of Chinese finance on issuance amount.

frequency flatten out and lose statistical significance across regime types. In other words, global liquidity conditions only matter for democratic countries when the alternative pool of Chinese finance is lacking. In places where Chinese credit is accessible, market investors' willingness to lend during tight periods no longer matters, because those governments can substitute away from private capital markets toward Chinese loans. This reconciles our main result: the democratic advantage in illiquid bond markets is conditional on borrowers' access to Chinese alternative finance.

4.2 Robustness

A potential concern is that our main results might be confounded by other contemporaneous changes in debt-carrying capacity that expanded low-income governments' ability to borrow during the 2000s. One particularly important case is the Heavily Indebted Poor Countries (HIPC) initiative, which provided large-scale debt relief to some of the low-income countries in our sample. Achieving HIPC "completion" meant that significant portions of the country's external debt gets written off, temporarily expanding fiscal space and potentially altering sovereigns' ability to issue new debt [16]. This may bias our estimates of the effect of Chinese finance on bond market issuance. To account for this possibility, we include a control for HIPC completion coded as an indicator for the two years after countries reached completion $(t + 2)$, capturing the immediate post-relief boost to borrowing capacity.

In section A1.3 of the appendix, Tables A22 and A23 report the results when this HIPC control is added to the IV-2SLS specifications. Across both the UST and VIX measures of global liquidity, the key interaction between Chinese finance and democracy remains negative and largely significant, closely mirroring our baseline findings without the HIPC control. The HIPC control itself enters with a negative and significant coefficient term across outcomes,

[16] Cordella, Cufre and Presbitero (2026) investigate whether China and other new bilateral creditors systematically increased lending after HIPC debt relief; they find instead that it was multilateral creditors who expanded their lending to HIPC countries

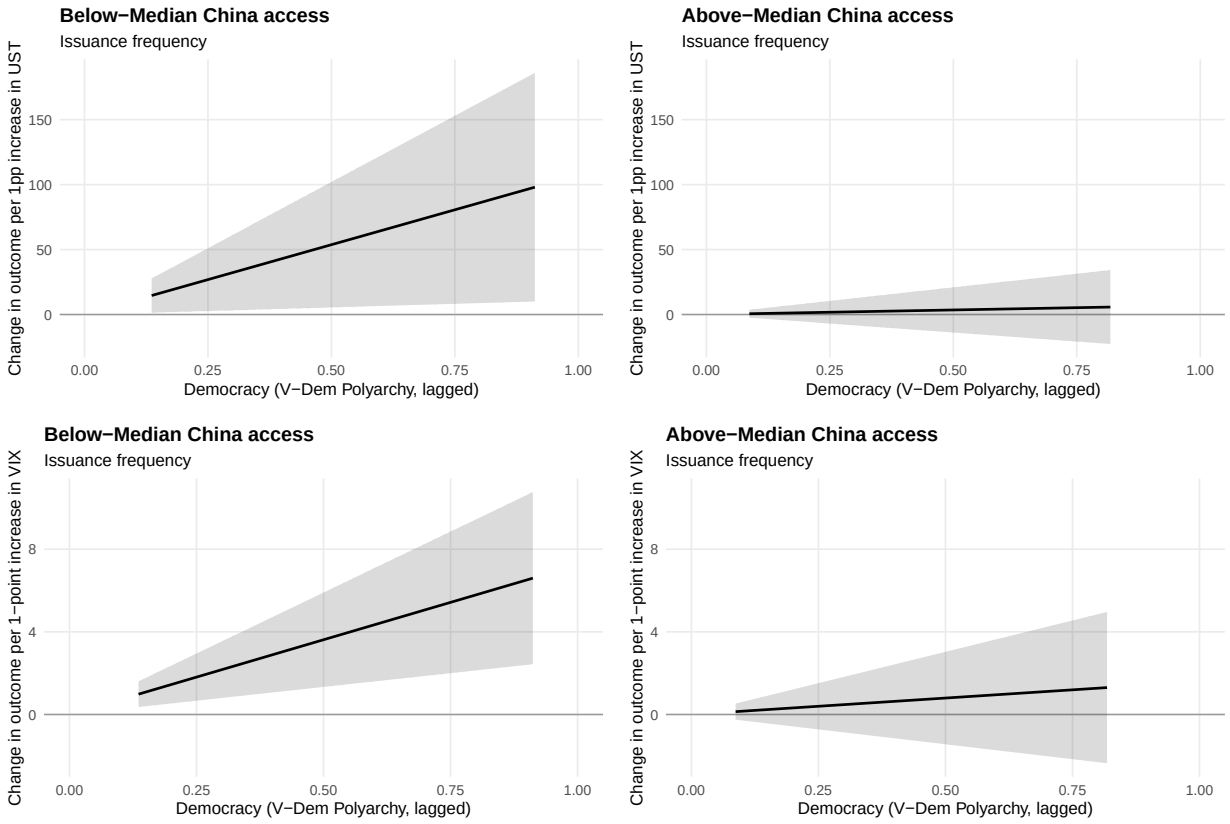

Figure 5: Marginal effect of global liquidity on bond issuance frequency, conditional on democracy using OLS with fixed effects. Countries separated by above and below-median access to the overall share of Chinese overseas projects across the sample period (2000–2022). Results in the first row use U.S. 10-year Treasury rates as the liquidity measure, while the second row uses the CBOE VIX index. Higher values of both the UST rate and VIX index indicate tighter liquidity. Country and year fixed effects included; standard errors clustered by country.

owing to barriers to market access the club of low-income countries' that typically emerge of the HIPC program likely confront. Crucially, however, the inclusion of HIPC completion does not attenuate the conditional effect of Chinese finance: democracies democracies continue to substitute away from bond markets when Chinese credit is available.

A second related concern is that our results could be picking up cross-sectional differences in countries' underlying debt-carrying capacity rather than the availability of Chinese finance. Some countries may be forced to turn to China if, for instance, their poor credit ratings in the market prevent them from accessing large amounts of private sector debt. To address this, we directly control for sovereign credit ratings using Moody's and S&P issuer ratings. We convert each agency's letter grade rating to an ordinal "notch" scale, average the monthly notches to the country-year level, and then invert the scale so that higher values denote better credit ratings for the borrower. Tables A24 and A25 in the appendix show that adding these controls to our model leaves the main result intact-and, if anything, strengthens it. The interaction term on Chinese finance and democracy is negative and statistically significant at the 1% level across outcomes using both ratings. The coefficients on the ratings behave as expected: better credit ratings are associated with a higher probability of issuance and larger amounts issued, while the negative coefficient on issuance frequency likely reflects the pattern that higher-rated borrowers issue less often but in bigger tranches. Despite the reduced sample due to not every country in our sample having a credit rating, the conditional result persists using both measures.

Another robustness concern is whether our results hinge on the specific measures of democracy or liquidity used in the main specification. Our baseline uses V-Dem's Polyarchy index, which captures the de facto quality of electoral democracy: clean elections, freedoms of association/expression, suffrage, and elected officials (Coppedge et al., 2016). As a robustness check, we replace the Polyarchy measure with the Polity IV score (polity2), a long-standing and widely used measure of institutionalized regime characteristics, ranging from -10 to

+10. Appendix Tables A20 and A21 present the results with Polity IV instead of the V-Dem Polyarchy measure of democracy. Substantively, the findings remain unchanged and are in fact stronger with the Polity IV democracy measure: the interaction between Chinese finance and democracy remains negative and statistically significant. As we routinely report, we also continually change between lagged measures of global liquidity/market volatility in our analysis, switching between the 10-year US Treasury rates and the CBOE VIX Volatility index. The VIX measures the expected volatility of the S&P 500 index over the next 30 days based on option pricing, with higher values indicating increased market uncertainty and tighter liquidity. In many ways, the VIX is a more comprehensive measure of global investor risk sentiment than the Treasury rates, and varies a lot more year on year. Our results are, if anything, stronger with the VIX, as seen in Tables A17 and A21.

A valid remaining concern is also if Chinese liquidity shocks mirror those in the global economy at large, like those captured by the UST rate or VIX. If so, our instrument would be collinear with global market risk conditions and the split by Chinese access would be a repurposing of global market liquidity. Figure 6 alleviates this concern. It plots the annual time series for China's foreign exchange reserves and steel production (the shift variables in our instrument), the global count of Chinese overseas projects, and the two market-wide liquidity proxies (UST 10-year yield and the VIX index). We see that the patterns diverge in meaningful ways and don't necessarily move in lockstep between China and the markets: Chinese reserves and steel production rise steeply from the late 2000s to the mid-2010s (as we saw earlier in Figs 1 and 2) before leveling off to some extent, while UST rate has generally been trending downwards over most of the sample period, with some moderate temporary increase in the late 2010s before the onset of the COVID-19 pandemic when it dropped steeply again. The VIX is much more episodic and dynamic - it spikes during crisis years and otherwise reverts to lower levels.[17] This lack of lockstep movement between Chinese

[17]Note that we are working on getting access to the VIX for the full sample period.

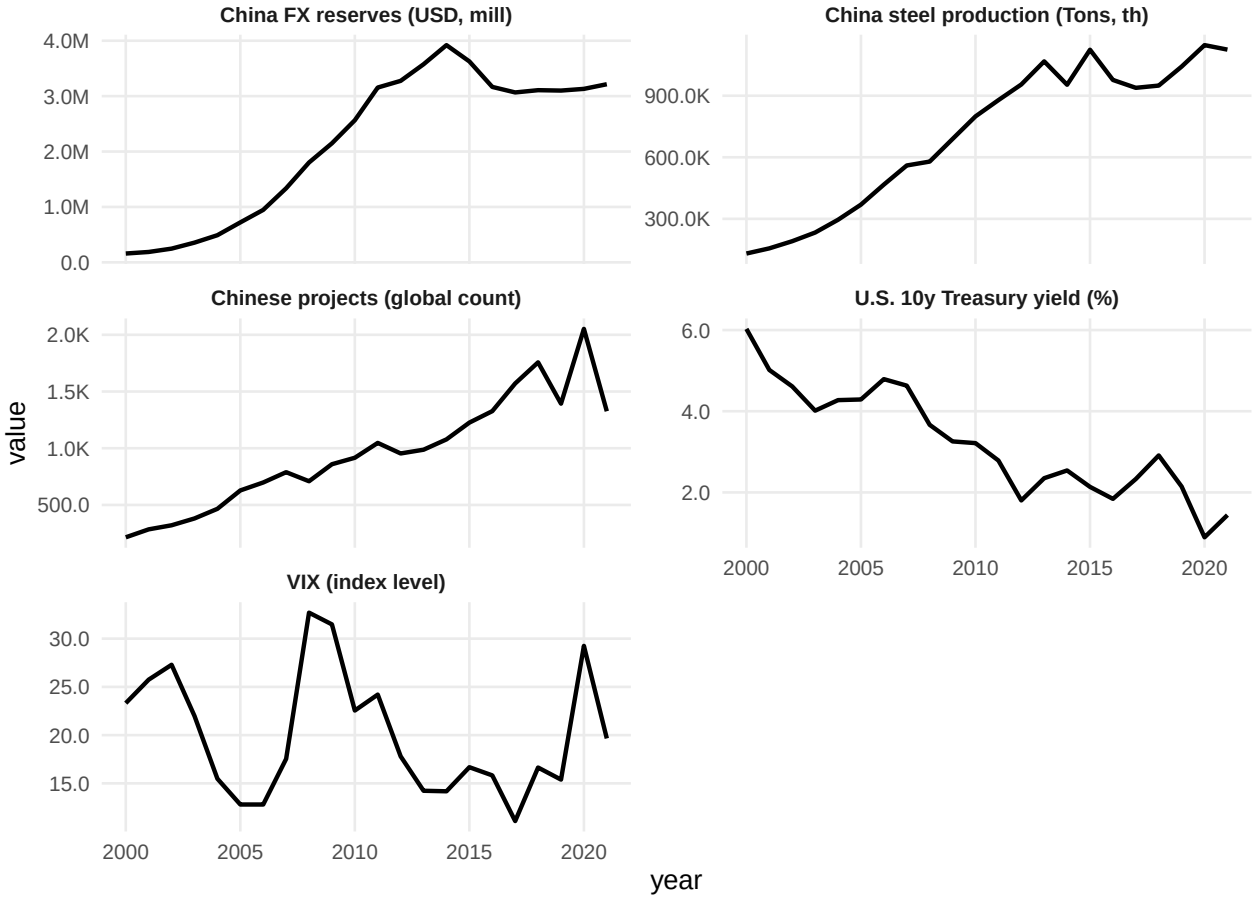

Figure 6: Trends in Chinese vs Global Liquidity

liquidity shocks/lending activity and global market risk appetite reassures us that our first-stage variation is not simply re-labeled market volatility/global liquidity, and strengthens our interpretation that China offers a meaningfully different source of finance for sovereign borrowers.

5 Conclusion

The late 2000s and early 2010s were marked by two important trends in sovereign finance – a long period of low U.S. and European interest rates, in an era of post-financial crisis quantitative easing, and the rise of China as the most important bilateral offiical creditor

to low and middle income countries. These shifts were not entirely unrelated: low returns on U.S. Treasury securities (a key instrument of Chinese reserve holdings) helped motivate China's search for higher returns overseas. Our analyses suggest, however, that these two changes are somewhat distinct from one another. Not all countries experience a shift in the availability of credit from China, and broader movements in private capital markets do not occur in lockstep with the growth in Chinese outward lending.

We also offer evidence that the availability of Chinese finance offers a better explanation for the lack of a link between domestic political institutions and access to bond market financing. Our results suggest that, when borrowers can expect access to credit from Chinese state-connected institutions, they are less likely to issue bonds. To the extent that advantages accrue to borrowers with democratic institutions, these are present only when financing from Chinese sources is not an option.

Our findings raise several questions for future analysis. First, while China was the most important source of new official bilateral credit in recent decades, it is not the only country that has expanded its lending activity. Brazil, India, Saudia Arabia, the United Arab Emirates and others also have sought to increase their overseas lending, perhaps to seek higher returns for state-connected financial entities, and perhaps as a tool of diplomatic influence. While these new creditors have thus far lent on a smaller scale than China, it might nevertheless be the case that their presence further erodes the link between domestic political institutions and access to credit.

Second, future work should explore the terms on which developing country governments with a Chinese financing option are able to borrow. For instance, do non-democratic countries pay higher rates than democracies when they borrow from China, as they might sometimes expect to do in private capital markets? Or are Chinese creditors making lending decisions without regard to borrowers' domestic political institutions? It also is worth noting that the practices of Chinese state-connected lenders vary (Bräutigam, 2022; **?**), so their

lending practices also may differ.

Third, to what extent do bond market investors view themselves as competing for lending with new creditors such as China? If financial market participants worry about losing lending market share to China (Devlin, 1990), they might adjust the terms of their lending. This would imply that, to the extent that sovereigns continue to access bond markets, those with greater access to Chinese credit would face better lending terms.

List of Tables

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A1 Appendix: Additional Analyses and Robustness

Appendix Index

A1.1 First and Second Stage with Alternative Instruments

Table A6: First Stage: Chinese Loans IV Model (Currency Reserves)

	Dependent variable:	
	New China Projects (ln)	
	(1)	(2)
Reserves x Pr(Project), 1-year lag	17.280***	
	(1.962)	
Reserves x Pr(Project), 2-year lag		12.682***
		(2.137)
Pr(Project)	−119.937***	−48.561*
	(26.148)	(29.077)
Lagged GDP per capita (log)	−0.029	−0.024
	(0.038)	(0.041)
US Treasury Rates (lagged)	−0.158***	−0.217***
	(0.020)	(0.025)
Lagged Oil Rents	0.004*	0.003
	(0.003)	(0.003)
Lagged Polyarchy Index	0.057	0.142
	(0.139)	(0.148)
Constant	1.410***	1.364***
	(0.275)	(0.295)
Country FE	*Yes*	*Yes*
Year FE	*Yes*	*Yes*
Observations	2,139	2,019
R^2	0.662	0.650
Adjusted R^2	0.637	0.622
Residual Std. Error	0.438 (df = 1990)	0.441 (df = 1872)
F Statistic	26.392*** (df = 148; 1990)	23.768*** (df = 146; 1872)
Note:		*p<0.1; **p<0.05; ***p<0.01

Table A7: First Stage: Chinese Loans IV Model (Steel Production)

	Dependent variable:	
	New China Projects (ln)	
	(1)	(2)
Steel Production x Pr(Project), 1-year lag	26.386***	
	(3.032)	
Steel Production x Pr(Project), 2-year lag		19.143***
		(3.344)
Pr(Project)	−224.800***	−122.601***
	(38.361)	(42.880)
Lagged GDP per capita (log)	−0.030	−0.022
	(0.038)	(0.041)
US Treasury Rates (lagged)	−0.148***	−0.212***
	(0.020)	(0.026)
Lagged Oil Rents	0.004	0.003
	(0.003)	(0.003)
Lagged Polyarchy Index	0.057	0.143
	(0.139)	(0.148)
Constant	1.368***	1.336***
	(0.275)	(0.295)
Country FE	*Yes*	*Yes*
Year FE	*Yes*	*Yes*
Observations	2,139	2,019
R^2	0.662	0.649
Adjusted R^2	0.637	0.622
Residual Std. Error	0.438 (df = 1990)	0.441 (df = 1872)
F Statistic	26.358*** (df = 148; 1990)	23.721*** (df = 146; 1872)
Note:		*p<0.1; **p<0.05; ***p<0.01

Table A8: First Stage: Chinese Loans IV Model (Predicting Loan Amounts)

	Dependent variable:		
	China Loan Amounts (ln)		
	(1)	(2)	(3)
Steel Production x Pr(Project), 1-year lag	62.172*		
	(31.808)		
Reserves x Pr(Project), 1-year lag		39.314*	
		(20.599)	
Combined Instrument x Pr(Project), 1-year lag			24.172*
			(12.524)
Pr(Project)	−383.353	−117.881	−222.980
	(402.486)	(274.480)	(325.213)
Lagged GDP per capita (log)	−0.186	−0.180	−0.183
	(0.400)	(0.400)	(0.400)
US Treasury Rates (lagged)	−0.203	−0.234	−0.221
	(0.215)	(0.207)	(0.210)
Lagged Oil Rents	−0.001	−0.001	−0.001
	(0.028)	(0.028)	(0.028)
Lagged Polyarchy Index	−0.708	−0.706	−0.707
	(1.460)	(1.460)	(1.460)
Constant	14.236***	14.336***	14.297***
	(2.887)	(2.886)	(2.886)
Country FE	*Yes*	*Yes*	
Year FE	*Yes*	*Yes*	
Observations	2,139	2,139	2,139
R^2	0.318	0.318	0.318
Adjusted R^2	0.267	0.267	0.267
Residual Std. Error (df = 1990)	4.597	4.597	4.597
F Statistic (df = 148; 1990)	6.271***	6.269***	6.270***
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A9: First Stage: Chinese Loans IV Model (using VIX)

	Dependent variable:	
	New China Projects (ln)	
	1-year Lag	2-year Lag
	(1)	(2)
Combined Instrument x Pr(Project), 1-year lag	10.151***	
	(1.237)	
Combined Instrument x Pr(Project), 2-year lag		7.259***
		(1.361)
Pr(Project)	−154.582***	−69.592*
	(31.765)	(35.552)
Lagged GDP per capita (log)	−0.046	−0.032
	(0.044)	(0.048)
VIX Volatility Index (lagged)	−0.069***	−0.068***
	(0.007)	(0.007)
Lagged Oil Rents	0.003	0.001
	(0.003)	(0.003)
Lagged Polyarchy Index	0.041	0.099
	(0.162)	(0.174)
Constant	2.353***	2.191***
	(0.352)	(0.373)
Country FE	*Yes*	*Yes*
Year FE	*Yes*	*Yes*
Observations	1,678	1,563
R^2	0.666	0.656
Adjusted R^2	0.636	0.622
Residual Std. Error	0.419 (df = 1538)	0.422 (df = 1425)
F Statistic	22.102*** (df = 139; 1538)	19.798*** (df = 137; 1425)
Note:		*p<0.1; **p<0.05; ***p<0.01

Table A10: First Stage: Chinese Finance (5-Year Rolling Shift–Share)

	Dependent variable:	
	New China Projects (ln)	China Loan Amounts (ln)
	(1)	(2)
Rolling Shift–Share (projects, 5y)	6.575***	19.297*
	(1.081)	(10.266)
Rolling Share of Projects (5y)	−155.676***	−409.972
	(28.604)	(271.757)
Lagged GDP per capita (log)	0.001	−0.122
	(0.042)	(0.402)
US Treasury Rates (lagged)	−0.140***	−0.100
	(0.021)	(0.204)
Lagged Oil Rents	0.005*	0.002
	(0.003)	(0.029)
Democracy (Polyarchy, lagged)	−0.090	−1.148
	(0.156)	(1.481)
Constant	2.255***	17.137***
	(0.306)	(2.903)
Country FE	*Yes*	*Yes*
Year FE	*Yes*	*Yes*
Observations	2,139	2,139
R^2	0.577	0.299
Adjusted R^2	0.545	0.247
Residual Std. Error (df = 1990)	0.490	4.659
F Statistic (df = 148; 1990)	18.320***	5.745***
Note:		*p<0.1; **p<0.05; ***p<0.01

Table A11: First Stage: Chinese Projects IV (No Year FE)

	Dependent variable:	
	New China Projects (ln)	
	1-year Lag	2-year Lag
	(1)	(2)
Combined Instrument × Pr(Project), 1y	13.828***	
	(1.863)	
Combined Instrument × Pr(Project), 2y		13.472***
		(1.959)
Pr(Project)	−251.810***	−236.237***
	(42.037)	(45.402)
Lagged GDP per capita (log)	0.085**	0.086*
	(0.039)	(0.049)
US Treasury Rates (lagged)	−0.100***	−0.079***
	(0.017)	(0.018)
Lagged Oil Rents	−0.001	−0.003
	(0.004)	(0.004)
Democracy (Polyarchy, lagged)	0.065	0.135
	(0.229)	(0.232)
Constant	0.659**	0.545*
	(0.288)	(0.325)
Country FE	*Yes*	*Yes*
Year FE	*No*	*No*
SE clustered by country	*Yes*	*Yes*
Observations	2,139	2,019
R^2	0.614	0.598
Adjusted R^2	0.589	0.571
Residual Std. Error	0.466 (df = 2009)	0.469 (df = 1890)
F Statistic	24.736*** (df = 129; 2009)	21.993*** (df = 128; 1890)
Note:		*p<0.1; **p<0.05; ***p<0.01

Table A12: Second Stage: Chinese Loans IV-2SLS Models (Reserves, $t-1$)

	Dependent variable:			
	Any Bond Issuance	Frequency No. Issues	Amount USD	Yield
	(1)	(2)	(3)	(4)
Log(Chinese Projects)	-0.107^{***}	-29.190^{***}	-2.101^{***}	-0.103
	(0.033)	(8.794)	(0.657)	(0.204)
Lagged GDP per capita (log)	-0.019	-3.812	0.313	-0.312
	(0.034)	(9.137)	(0.683)	(0.213)
US Treasury Rates (lagged)	-0.109^{***}	-0.765	-2.134^{***}	-0.659^{***}
	(0.015)	(3.999)	(0.299)	(0.093)
Lagged Oil Rents	-0.002	-0.973	-0.065	0.010
	(0.003)	(0.740)	(0.055)	(0.017)
Lagged Polyarchy Index	-0.023	39.790	-1.531	-1.381^{**}
	(0.105)	(28.148)	(2.103)	(0.656)
Constant	1.591^{***}	234.378^{***}	29.060^{***}	6.657^{***}
	(0.317)	(84.962)	(6.348)	(1.971)
Country FE	*Yes*	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*	*Yes*
Observations	1,689	1,689	1,689	1,669
R^2	0.604	0.547	0.675	0.416
Adjusted R^2	0.573	0.512	0.650	0.370
Residual Std. Error	0.299 (df = 1567)	80.129 (df = 1567)	5.987 (df = 1567)	1.856 (df = 1548)

Note: *p<0.1; **p<0.05; ***p<0.01

Table A13: Second Stage: Chinese Loans IV-2SLS Models (Reserves, $t-2$)

	Dependent variable:			
	Any Bond Issuance	Frequency No. Issues	Amount USD	Average Yield
	(1)	(2)	(3)	(4)
Log(Chinese Projects)	-0.099^{***}	-33.484^{***}	-1.844^{***}	-0.105
	(0.035)	(9.363)	(0.699)	(0.222)
Lagged GDP per capita (log)	-0.026	-3.028	0.128	-0.339
	(0.036)	(9.700)	(0.725)	(0.233)
US Treasury Rates (lagged)	-0.130^{***}	-1.479	-2.598^{***}	-0.831^{***}
	(0.019)	(5.080)	(0.379)	(0.121)
Lagged Oil Rents	-0.001	-0.789	-0.034	0.010
	(0.003)	(0.798)	(0.060)	(0.019)
Lagged Polyarchy Index	-0.013	45.788	-1.303	-1.427^{**}
	(0.111)	(29.727)	(2.221)	(0.711)
Constant	1.610^{***}	240.959^{***}	29.721^{***}	7.119^{***}
	(0.338)	(90.518)	(6.761)	(2.156)
Country FE	*Yes*	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*	*Yes*
Observations	1,594	1,594	1,594	1,575
R^2	0.599	0.542	0.673	0.419
Adjusted R^2	0.567	0.505	0.646	0.371
Residual Std. Error	0.297 (df = 1474)	79.687 (df = 1474)	5.952 (df = 1474)	1.894 (df = 1456)

Note: *p<0.1; **p<0.05; ***p<0.01

Table A14: Second Stage: IV-2SLS Results (Log. Steel Production, $t-2$)

	Dependent variable:			
	Any Issuance	Frequency	Log Amount Issued	Average Yield
	(1)	(2)	(3)	(4)
Chinese Projects (ln)	-0.096^{***}	-33.804^{***}	-1.796^{**}	-0.090
	(0.035)	(9.387)	(0.701)	(0.223)
Lagged GDP per capita (log)	-0.026	-3.027	0.128	-0.339
	(0.036)	(9.703)	(0.724)	(0.233)
US Treasury Rates (lagged)	-0.129^{***}	-1.560	-2.586^{***}	-0.827^{***}
	(0.019)	(5.084)	(0.379)	(0.121)
Lagged Oil Rents	-0.001	-0.790	-0.034	0.010
	(0.003)	(0.799)	(0.060)	(0.019)
Lagged Polyarchy Index	-0.012	45.640	-1.281	-1.420^{**}
	(0.111)	(29.738)	(2.219)	(0.711)
Constant	1.602^{***}	242.064^{***}	29.554^{***}	7.070^{***}
	(0.338)	(90.573)	(6.760)	(2.156)
Country FE	*Yes*	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*	*Yes*
Observations	1,594	1,594	1,594	1,575
R^2	0.600	0.542	0.673	0.419
Adjusted R^2	0.568	0.505	0.647	0.372
Residual Std Error	0.297 (df = 1474)	79.713 (df = 1474)	5.949 (df = 1474)	1.894 (df = 1456)

Note: *p<0.1; **p<0.05; ***p<0.01

Table A15: Second Stage IV-2SLS: Combined Instrument, $t-1$ (Unconditional)

	Dependent variable:			
	Any Issuance	Frequency	Log Amount Issued	Average Yield
	(1)	(2)	(3)	(4)
Log(Chinese Projects)	-0.106^{***}	-29.154^{***}	-2.082^{***}	-0.098
	(0.033)	(8.793)	(0.657)	(0.204)
Lagged GDP per capita (log)	-0.019	-3.813	0.313	-0.312
	(0.034)	(9.137)	(0.683)	(0.213)
US Treasury Rates (lagged)	-0.109^{***}	-0.757	-2.130^{***}	-0.658^{***}
	(0.015)	(3.999)	(0.299)	(0.093)
Lagged Oil Rents	-0.002	-0.973	-0.065	0.010
	(0.003)	(0.740)	(0.055)	(0.017)
Lagged Polyarchy Index	-0.022	39.808	-1.521	-1.379^{**}
	(0.105)	(28.147)	(2.103)	(0.656)
Constant	1.588^{***}	234.258^{***}	28.998^{***}	6.640^{***}
	(0.317)	(84.960)	(6.346)	(1.971)
Country FE	*Yes*	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*	*Yes*
Observations	1,689	1,689	1,689	1,669
R^2	0.604	0.547	0.675	0.416
Adjusted R^2	0.573	0.512	0.650	0.370
Residual Std. Error	0.299 (df = 1567)	80.127 (df = 1567)	5.985 (df = 1567)	1.856 (df = 1548)

Note: *p<0.1; **p<0.05; ***p<0.01

A1.2 Democracy Measures and Global Liquidity Robustness

Table A16: Second Stage IV-2SLS: Interaction of Democracy and Global Liquidity (VIX)

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	−0.104***	−10.522	−1.901***
	(0.032)	(9.329)	(0.638)
Lagged GDP per capita (log)	0.018	−1.986	1.108
	(0.035)	(10.061)	(0.688)
VIX Volatility Index (lagged)	−0.050***	−6.916***	−1.019***
	(0.006)	(1.696)	(0.116)
Lagged Polyarchy Index	−0.340**	−82.457*	−9.568***
	(0.155)	(44.724)	(3.060)
VIX Index × Polyarchy	−0.002	−0.301	−0.049
	(0.003)	(0.792)	(0.054)
Lagged Oil Rents	0.011**	5.447***	0.259**
	(0.005)	(1.545)	(0.106)
Constant	1.963***	336.225***	36.130***
	(0.371)	(107.047)	(7.323)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,322	1,322	1,322
R^2	0.717	0.662	0.776
Adjusted R^2	0.691	0.631	0.756
Residual Std. Error (df = 1210)	0.261	75.157	5.142
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A17: IV-2SLS: Chinese Finance × Democracy (V-Dem Polyarchy) with VIX

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.064	32.776	1.272
	(0.072)	(20.666)	(1.425)
Democracy	0.530**	192.751***	7.978
	(0.260)	(74.191)	(5.118)
Lagged GDP per capita (log)	−0.00003	−6.353	0.765
	(0.036)	(10.346)	(0.714)
VIX Index (lagged)	−0.047***	−4.672***	−0.928***
	(0.005)	(1.497)	(0.103)
Lagged Oil Rents	−0.002	−0.297	−0.039
	(0.003)	(0.807)	(0.056)
Log(Chinese Projects) × Democracy	−0.372***	−94.954**	−7.057***
	(0.131)	(37.403)	(2.580)
Constant	1.640***	227.559**	29.530***
	(0.388)	(110.820)	(7.644)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,322	1,322	1,322
R^2	0.707	0.656	0.768
Adjusted R^2	0.680	0.625	0.747
Residual Std. Error (df = 1210)	0.265	75.850	5.232
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A18: IV-2SLS: Chinese Finance × Democracy — 5-Year Rolling Shift–Share Instrument

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.209	126.490*	4.434
	(0.240)	(67.282)	(4.852)
Democracy	1.276**	647.710***	25.973**
	(0.627)	(175.470)	(12.655)
Lagged GDP per capita (log)	−0.060	−22.817**	−0.552
	(0.040)	(11.228)	(0.810)
Liquidity/Investor Risk (lagged)	−0.119***	−3.713	−2.388***
	(0.026)	(7.339)	(0.529)
Lagged Oil Rents	0.0002	0.261	−0.009
	(0.003)	(0.875)	(0.063)
Log(Chinese Projects) × Democracy	−0.704**	−326.887***	−14.946**
	(0.311)	(87.062)	(6.279)
Constant	1.152*	0.685	20.312
	(0.638)	(178.650)	(12.884)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Rolling 5-year project share in instrument?	*Yes*	*Yes*	*Yes*
Observations	1,689	1,689	1,689
R^2	0.570	0.464	0.641
Adjusted R^2	0.536	0.422	0.614
Residual Std. Error (df = 1566)	0.312	87.244	6.292
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A19: IV-2SLS: Chinese Finance × Democracy (No Year FE)

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.232	46.303	4.621
	(0.144)	(34.099)	(3.076)
Democracy (Polyarchy, lagged)	0.977**	193.063	16.651*
	(0.435)	(133.003)	(9.488)
Lagged GDP per capita (log)	0.233***	21.509	5.371***
	(0.053)	(15.674)	(1.033)
VIX (lagged)	−0.004***	−0.157	−0.078***
	(0.001)	(0.429)	(0.026)
Lagged Oil Rents	−0.004	−0.582	−0.082
	(0.003)	(1.084)	(0.066)
Log(Chinese Projects) × Democracy	−0.575**	−88.020	−10.977**
	(0.225)	(63.225)	(4.757)
Constant	−1.321***	−98.095	−28.986***
	(0.464)	(102.461)	(9.381)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*No*	*No*	*No*
SE clustered by country	*Yes*	*Yes*	*Yes*
Observations	1,322	1,322	1,322
R^2	0.676	0.653	0.743
Adjusted R^2	0.650	0.626	0.723
Residual Std. Error (df = 1225)	0.277	75.739	5.470
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A20: IV-2SLS: Chinese Finance × Democracy (Polity IV) with UST Rate

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	−0.044	−5.482	−0.728
	(0.040)	(11.649)	(0.809)
Democracy	0.039***	11.433***	0.775***
	(0.012)	(3.390)	(0.235)
Lagged GDP per capita (log)	−0.040	−3.634	−0.080
	(0.036)	(10.436)	(0.724)
Liquidity/Investor Risk (lagged)	−0.169***	2.937	−3.230***
	(0.026)	(7.450)	(0.517)
Lagged Oil Rents	−0.002	−0.210	−0.047
	(0.003)	(0.877)	(0.061)
HIPC Completion (t+2)	−0.163***	−23.506	−3.228***
	(0.051)	(14.751)	(1.024)
Log(Chinese Projects) × Democracy	−0.013**	−4.596***	−0.267**
	(0.005)	(1.502)	(0.104)
Constant	1.943***	145.657	34.694***
	(0.390)	(112.132)	(7.784)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,429	1,429	1,429
R^2	0.657	0.589	0.723
Adjusted R^2	0.626	0.552	0.698
Residual Std. Error (df = 1311)	0.281	80.735	5.604
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A21: IV-2SLS: Chinese Finance × Democracy (Polity IV) with VIX

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	−0.023	2.641	−0.305
	(0.038)	(11.219)	(0.755)
Democracy	0.053***	10.059***	1.015***
	(0.011)	(3.232)	(0.218)
Lagged GDP per capita (log)	−0.016	−1.117	0.455
	(0.037)	(10.883)	(0.733)
Liquidity/Investor Risk (lagged)	−0.046***	−3.757**	−0.901***
	(0.005)	(1.569)	(0.106)
Lagged Oil Rents	−0.0002	−0.308	−0.011
	(0.003)	(0.870)	(0.059)
HIPC Completion (t+2)	−0.120**	−14.858	−2.390**
	(0.048)	(14.176)	(0.954)
Log(Chinese Projects) × Democracy	−0.021***	−4.249***	−0.409***
	(0.005)	(1.478)	(0.099)
Constant	1.814***	233.699**	32.120***
	(0.375)	(110.550)	(7.441)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,254	1,254	1,254
R^2	0.713	0.655	0.772
Adjusted R^2	0.685	0.623	0.751
Residual Std. Error (df = 1145)	0.261	76.934	5.178
Note:			*p<0.1; **p<0.05; ***p<0.01

A1.3 Debt-Carrying Capacity and Credit Quality Controls

Table A22: IV-2SLS: Chinese Finance × Democracy (V-Dem Polyarchy) with UST Rate

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	−0.007	34.401	0.116
	(0.079)	(21.203)	(1.580)
Democracy	0.378	284.766***	7.337
	(0.276)	(74.296)	(5.537)
Lagged GDP per capita (log)	−0.033	−11.635	0.010
	(0.035)	(9.397)	(0.700)
Liquidity/Investor Risk (lagged)	−0.111***	−1.677	−2.179***
	(0.015)	(3.990)	(0.297)
Lagged Oil Rents	−0.002	−0.534	−0.056
	(0.003)	(0.755)	(0.056)
HIPC Completion (t+2)	−0.186***	−25.088*	−3.687***
	(0.054)	(14.531)	(1.083)
Log(Chinese Projects) × Democracy	−0.210	−130.608***	−4.659*
	(0.135)	(36.409)	(2.713)
Constant	1.461***	138.964	26.113***
	(0.338)	(90.975)	(6.779)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,689	1,689	1,689
R^2	0.606	0.546	0.676
Adjusted R^2	0.575	0.511	0.651
Residual Std. Error (df = 1565)	0.298	80.246	5.980
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A23: IV-2SLS: Chinese Finance × Democracy with VIX

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.057	32.286	1.139
	(0.072)	(20.592)	(1.418)
Democracy	0.522**	192.557***	7.811
	(0.259)	(74.117)	(5.105)
Lagged GDP per capita (log)	−0.002	−6.626	0.725
	(0.036)	(10.355)	(0.713)
Liquidity/Investor Risk (lagged)	−0.047***	−4.714***	−0.936***
	(0.005)	(1.496)	(0.103)
Lagged Oil Rents	−0.002	−0.329	−0.044
	(0.003)	(0.807)	(0.056)
HIPC Completion (t+2)	−0.102**	−12.271	−2.016**
	(0.049)	(13.922)	(0.959)
Log(Chinese Projects) × Democracy	−0.363***	−94.295**	−6.878***
	(0.130)	(37.331)	(2.571)
Constant	1.686***	232.220**	30.435***
	(0.387)	(110.691)	(7.624)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,322	1,322	1,322
R^2	0.708	0.656	0.769
Adjusted R^2	0.681	0.625	0.748
Residual Std. Error (df = 1209)	0.265	75.852	5.224
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A24: IV-2SLS: Chinese Finance × Democracy with Credit Ratings Control

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.170*	63.684*	3.787*
	(0.095)	(34.906)	(1.973)
Democracy (Polyarchy, lagged)	0.636**	335.905***	13.803**
	(0.310)	(114.408)	(6.468)
Lagged GDP per capita (log)	−0.079	−4.711	−0.559
	(0.048)	(17.658)	(0.998)
UST rate (lagged)	−0.056***	10.467	−1.021***
	(0.019)	(6.936)	(0.392)
Lagged Oil Rents	−0.007*	−1.457	−0.186**
	(0.004)	(1.438)	(0.081)
Credit Rating (Moody's)	0.019***	−8.118***	0.347***
	(0.006)	(2.321)	(0.131)
Log(Chinese Projects) × Democracy	−0.445***	−155.886***	−9.540***
	(0.150)	(55.408)	(3.132)
Constant	1.786***	−73.032	29.937***
	(0.493)	(181.657)	(10.270)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,048	1,048	1,048
R^2	0.462	0.581	0.564
Adjusted R^2	0.402	0.535	0.515
Residual Std. Error (df = 942)	0.243	89.450	5.057
Note:			*p<0.1; **p<0.05; ***p<0.01

Table A25: IV-2SLS: Chinese Finance × Democracy with Credit Rating Control (S&P)

	Dependent variable:		
	Any Issuance	Frequency	Log Amount
	(1)	(2)	(3)
Log(Chinese Projects)	0.297***	58.456*	5.894***
	(0.096)	(33.765)	(1.973)
Democracy (Polyarchy, lagged)	1.270***	489.695***	23.017***
	(0.356)	(125.968)	(7.359)
Lagged GDP per capita (log)	−0.088*	−3.442	−0.629
	(0.048)	(17.117)	(1.000)
UST rate (lagged)	−0.070***	1.042	−1.279***
	(0.021)	(7.446)	(0.435)
Lagged Oil Rents	−0.008**	−1.164	−0.197**
	(0.004)	(1.324)	(0.077)
Credit Rating (S&P)	0.021***	−11.191***	0.390***
	(0.007)	(2.468)	(0.144)
Log(Chinese Projects) × Democracy	−0.669***	−217.324***	−13.407***
	(0.161)	(56.886)	(3.323)
Constant	1.575***	−105.101	26.545**
	(0.513)	(181.489)	(10.602)
Country FE	*Yes*	*Yes*	*Yes*
Year FE	*Yes*	*Yes*	*Yes*
Observations	1,034	1,034	1,034
R^2	0.435	0.550	0.548
Adjusted R^2	0.373	0.500	0.499
Residual Std. Error (df = 931)	0.262	92.527	5.405
Note:			*p<0.1; **p<0.05; ***p<0.01