**Report on „Political Risk Guarantees and Capital Flows" (MS #1453)**

The present paper looks at the influence of political risk guarantees on capital flows. It distinguishes between FDI and portfolio flows. It finds that bilateral investment treaties (BIT) have a positive effect on the amount of non-guaranteed capital flows, such as portfolio flows. The paper uses a GMM method to establish these results.

While the paper covers an important topic, I find a number of flaws with the paper as it stands now.

My main worry is that the papers declared aim is not properly addressed in the paper. While the author argues to consider the influence of BITs, the literature reviewed does not address any single paper that looks at the role of BITs, although there is a very substantial literature. It merely mentions some literature (partly no contained in the list of references!) in footnotes but does not establish any connection with it. Readers would expect a connection to that literature and a thorough discussion how the author's findings are related to that literature. Although there is literature that comes to different conclusions concerning the effectiveness of BITS (such as Tobin and Rose-Ackerman 2012), it is not mentioned here. I would expect some comment on this and related papers. Instead, the literature review is focused on the effectiveness of capital controls, corruption and capital flows and the relation between shocks and capital flows. I fail to see the connection of these issues to this paper. At present, the title of the paper is grossly misleading.

Moreover, there is no discussion why the simple number of BITs with OECD countries should be an adequate representation of risk guarantee. I like the idea that BITs and ICRG can have different influences on different types of capital flows but that idea should be developed more fully, better placed in the overall literature, and explicitly pursued. One might also consider using additional variables, such as the Freedom House Index as robustness check. At present, it is not sufficiently well explained why the author believes his G and X variables capture different things and should thus be distinguished.

Minor points:

What is the variable X on page 9? I do not understand what a "rate of expropriation" should be. Presumably the author refers to expropriation risk? Similarly, G is described as a "rate of guarantee" which is an unfortunate expression as well.

The author claims to be the first to include portfolio flows in his analysis. However, a paper by Hashimoto and Wacker (IMF WP 12242) also includes portfolio flows. Very similar to the present paper it looks at the influence of institutional measures (in that case the IMF's SDDS) that should help to increase protection and transparency of capital flows. The author may take this into account.

I suggest using gross capital flows rather than net flows since the author is interested in overall capital flows.

I do not particularly like the notion of guaranteed capital flows. We know that also governments often fail to serve their debt. Since the risk of expropriation is an important here, “guaranteed” debt does not much sense. The author might rather simply distinguish between private and public debt.

The introduction of dummies for crises periods is arbitrary. In particular, I fail to see why the financial crisis is restricted to 2007-2009 but not beyond. At least a brief explanation would be welcome.