Return of capital dominates return on capital?: FDI in developing countries

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Abstract
Previous comparisons of different measures of institutional quality and political risk that influence foreign direct investment (FDI) are mixed and therefore difficult to interpret. In contrast, we report robust empirical rankings of political risks that provide a relatively clear and intuitive characterization: factors that affect the likelihood of abrupt and total loss of foreigners' capital (i.e., return of capital) dominate factors that affect rates of return (i.e., return on capital) and volatility conditional on strictly positive valuation. Expropriation risk appears to matter most. A one-standard-deviation reduction in expropriation risk is associated with gains in FDI ranging from 10% to 64%.