Thank you very much for your detailed reading of our paper. All your comments are very interesting and suggestive. We will try to answer them in an orderly way.

In the first place, following the empirical literature we used a binary variable for measuring the effect of DTT on FDI. Such binary variable takes the value of one for the years when there exist a DTT between Spain and the corresponding state (and the value of cero otherwise). Subsequently, such variable was replaced by two different binary variables, each of which identifies the existence of old and new DTT respectively, being old DTT those created before the beginning of the data sample: 1993 for our sample. When doing so, we classified old renegotiated DTT into the group of new DTT from the year of renegotiation on.

Hence, meanwhile new DTT takes the value of cero first and then the value of one, most of the old DTT takes the value of one for all the years of the data sample. The exceptions are the denounced Danish DTT and the five renegotiated DTT. They were created before 1993 and terminated before 2013. Therefore, they take the value of one first and then the value of cero for the years of the data sample.

The endogeneity problem has been usually related to old DTT by the empirical literature. It is though that old DTT are related to non-observable characteristics included in the error term. On the contrary, the authors suppose that for new DTT all factors affecting FDI are controlled for. Following Blonigen and Davies (2002:15), "new treaties afford a much better opportunity to measure the impact of a tax treaty, as we have data on FDI activity both before and after the treaty takes place". That is, for new DTT the relationship between DTT and FDI might be examined within a country and not only between countries. Moreover, some of the old DTT were created a long time ago, which complicates the analysis. Additionally, we suggested in note 19 of the paper that the problem may exist for the whole DTT. FDI may have influenced the creation of DTT given the outbreak of the international taxation problems. However, subsequently we concluded that because of the long process that entails the creation of international agreements, the possible influence of FDI on DTT occurs some time before the existence of such DTT.

It is true that more disaggregated data might be helpful for cleaner identification. For instance, Blonigen, Oldenski and Sly (2014) introduced industry and firm level characteristics to account for the potential endogeneity of DTT formation at the country level. We also took the financial sector out of the data series in non-reported robustness tests and did not obtain additional conclusions. From our point of view, exploiting the heterogeneity of industries is more useful for studies using firm-level data as the one mentioned of Blonigen, Oldenski and Sly.

We also completely agree with you that when FE are introduced the possible endogeneity derived from old DTT, the one mentioned in Blonigen and Davies (2002), does not constitute a problem. The reason is that time-constant variables cannot be identified because of the within transformation of the model. Maybe we did not explain this correctly in the paper. On the one hand, in page 10 we warned about the fact that the variable DTT was basically capturing the effect of new DTT as most of the old DTT have a time-constant value and then were subsumed into the fixed effects. On the other hand, the endogeneity issue mentioned later in the same paragraph tried to justify the preceding sentence of such same paragraph. Rewriting the sentence, we wanted to say: as long as the endogeneity issue is related to old DTT, it does not

seem a problem the fact that the variable DTT is basically capturing the effect of the Spanish DTT created during the sample period.

However, it is also true that in our sample not all DTT created before 1993 have a timeconstant value. As said before, this is not the case for the denounced Danish DTT and the five renegotiated DTT. They are the reason why estimations produce results for old DTT when fixed effects apply. Moreover, you are right stating that when renegotiated DTT are treated as the prolongation of old DTT, the identification of the old treaties effect is based solely on Denmark. We are going to clarify this question in the paper.

We also agree with you that the fixed effects approach has the advantage of taking care of any time-constant cofounding effect, but cannot solve the issues of non-observable variables changing over time and reverse causality. We selected such approach for the outbound sample and the random effects one for the inbound sample based on the Hausman test. Regarding non-observable variables changing over time and reverse causality, we disallowed these problems from our analyses, at least for new DTT. As you noticed, we rejected the endogeneity problem we detected for the whole DTT in note 19 of the paper.

With regard to renegotiated DTT, Table A5 seems to confirm that they would have played an important role regarding the positive effect of DTT for the outbound sample. Results from new DTT turn to be not statistically significant for the global sample and the sample of developed countries when renegotiated DTT are taken out of the group of new DTT. Related to this, we find the following suggestion you made very interesting: "having no Treaty in place should have different effects that switching from one DTT to the other". We are also going to warn about this in the revised version of the paper.

The analysis of the International Tax System of countries had the intention of looking at the specific effect on FDI of a part of the content of DTT defining the tax treatment given to foreign dividends when repatriated by the residence country of the investor. DTT declare either the exemption or the credit method for the correction of double taxation that emerges for this kind of income. The exemption method gives rise to the Territorial System and the credit method to the Worldwide one.

Additionally, although DTT prevail over the internal law of countries, these laws have to be simultaneously examined because they complement each other. This is the reason why we said that "although the content of DTT was the same for two countries, the effect of such DTT could differ between them if their domestic laws are different". Particularly, the Spanish net of DTT declares usually that the double taxation problem will be avoided following either the provisions of the domestic law or the DTT provisions itself. However, our intention was not to look at the DTT conditional on the domestic laws or to examine the effect of DTT conditional on the systems. This is the reason why we did not interact the DTT and the International Tax System variables. Our intention was to examine a part of the content of DTT, which has to be simultaneously examined together with the internal law of countries. On the other hand, we kept the DTT variable in the analysis together with the International Tax System one because the International Tax Systems represent only a part of the content of DTT.

Regarding the results of the Territorial system indicator, it results statistically significant at 10% level for the whole sample and the sub-sample of developed countries and not significant for the sub-sample of developing countries, as described in the paper. Following the empirical literature we consider a 10 percent level of significance enough to say that there is statistical significant.

We also share the view that the financial crisis impacted the FDI flows and we took it into account by introducing temporal effects in the specifications. However, following your comment we should maybe introduce these temporal effects in equation 1 from the beginning. Moreover, as you noticed, Table 7 shows only the estimation for the basic equation, which does not include temporal effects. Then, we are going to present the estimations for the temporal effects specification in the revised version of the paper. On the other hand, we included two alternative specifications controlling for temporal effects: one includes yearly binary variables and the other sub-periods binary variables. As to the latter one, the division of the time was made based on the evolution of the Spanish FDI, as you noticed. We though that these were important periods of time for which it was necessary to control in order not to forget any important characteristic affecting FDI.

Following your recommendation, we are going to include the remaining coefficients of the model variables and a descriptive statistics table in the revised version of the paper.

Finally, we also agree with you that using a binary variable for measuring the effect of DTT is simplistic, as recognised in the paper. Nevertheless, the examination of the effect of the International Tax System of countries goes beyond the binary variable analysis, as the International Tax System variable is constructed from the content of DTT and that of the internal law of countries. That said, it is true that there is a lot of work to do regarding the examination of the content of DTT in order to further understand their effects.