Response to Referee Report 1 on

"Does foreign direct investment in financial services induce financial development? Lessons from emerging economies"

Thank you very much for your valuable suggestions and comments, which are much appreciated. We will revise the paper as described in the responses below:

1. There is a battery of tests on Unit root and cointegration. Each of one with its advantages and disadvantages. The paper only uses two unit-root tests, and the set of Pedroni's panel-cointegration test. Most of the test can be summarized in two tables as in Table 2 and 3 in Aquino and Ramírez- Rondán, 2020; there is not needed to explain each test, the tables can be self-contained for that.

Response: We employed two types of cointegration tests, such as Pedroni (1999, 2004) panel cointegration tests and Kao (1999), to check the robustness of our estimation across different estimation techniques. We used different tables to make the presentation of our analysis clear to the readers.

2. In equation (5), it is not clear who are y and X. I understood from the discussion that both are FDI in financial services and financial development; a complete equation to test is including the other variables used in the FMOLS estimation (at the end the cointegration-tests are based on the residuals of such regression), and in the causality regression analysis.

Response: We have made the equation complete by incorporating all the variables.

3. Since financial development does not cause FDI in financial services, I recommend for the cointegration test and the FMOLS estimator to use the specification (2) in Table 6

Response: We find a long-run unidirectional causality from financial development to FDI in financial services rather than the vice versa as pointed out by the referee. Concurrently, our analysis shows that there exists a long-run relationship between FDI in financial services and financial development.

4. FMOLS is superior to OLS in order to deal with endogeneity, but the other alternative one is Dynamic OLS (DOLS), it is useful as a robustness to estimate the model also by DOLS (Kao and Chiang, 2001).

Response: We have already done the DOLS estimation and have incorporated that in the revised version of the paper.

5. FDI can be seriously affected by capital controls, I suggest including the capital index measure from Fernández et al. (2016). The latest version covers the sample of the paper.

Response: We have checked the capital index data, and it is not available for our entire sample of countries and time period. Hence we are constrianed not to use the capital index variable for our analysis.

6. FDI inflows move as a results of push and pull factors. Since emerging economies are small (maybe open) economies, and then they are influenced by external factors (push 2 factors); as a robustness exercise, the paper can include variables such us terms of trade, China or US GDP, US uncertainty, for example (see Fratzscher, 2012).

Response: We have already done the robustness check using US GDP and have incorporated it in the revised version of the paper.