

## Response to Referee 1

Thank you very much for your feedback on our manuscript and for the helpful comments and suggestions. We have made sincere effort to address all the comments and suggestions you have made. Please find below detailed point-by-point responses to your comments.

1) We agree that the institutional quality features of the developing countries should be also considered. Therefore, we have conducted an additional analysis and the results of this analysis are illustrated in Figure 4 on page 32. Furthermore, we have included two new paragraphs to discuss the impact of institutional features of the developing countries.

On page 13:

*Finally, even with the consideration of labour and capital, we acknowledge that these specifications might not reflect fully the complexity of growth models. For example, one leading candidate in growth regression is institutional quality (Acemoglu et al. 2001). However, during the investigated period (2000 - 2016) institutional quality changes very little over time. In fact, almost all institutional quality indices are unchanged in the short run such as Freedom House or Polity indices, therefore, they are not suitable for our regression models. That said, we do acknowledge the important role of institutional quality, not only on growth, but also on trade relations between countries. Therefore, in Section 4.3 we conduct a descriptive analysis to illustrate to whether the institutional quality measures are related with the growth in developing countries trading with China.*

On page 31:

*In addition to this, Figure 4 also illustrates a weak correlation between institutional quality and benefits from trade with China. Institutional quality is measured by World Bank Governance Indicators. This data, similar with other institutional quality indices, is often quite stable and almost unchanged from 2000 to 2016, because political development often evolves very slowly. The vague relationship might reflect that political development does not matter significantly for countries to gain benefits from trade with China.*

2) We agree that reducing the number of years included to the analysis would be a limitation. However, as you can see in Tables 6, 7a-b-c and 8, we do not exclude the period after the crisis, but before the crisis. The main aim here is to compare the results with the full sample (2000Q1-2016Q4) with the estimation results only with the sample from (2008Q1-2016Q4), or with the dummy variable model for the full sample.

Nevertheless, we have included following sentences to address the reduction in the number of years in some models.

On Page 29:

*We acknowledge that the reduction of years might lead to larger bias and RMSE as proven in Monte Carlo experiments of Chudik and Pesaran (2015), however, to check if the estimates stay robust, we still use the CCE approach for this period. Indeed, the CCE approach performs still much better than fixed effects estimates.*

3) As suggested we have corrected some minor typos and revised the paper carefully.

**References:**

- Acemoglu, D., Johnson, S., Robinson, J.A. (2001) The colonial origins of comparative development: An empirical investigation. *American Economic Review*. 91(5): 1369-1401.
- Chudik A, Pesaran, H (2015) Common correlated effects estimation of heterogeneous dynamic panel data models with weakly exogenous regressors. *Journal of Econometrics* 188: 393–420.