

We are thankful to the anonymous reviewer for raising some comments to our manuscript, to which our response is as under:

- a. We respect the suggestion/opinion – the data constrains refrained us from using the Global Financial Development dataset of the World Bank. This index covers data from 1996 to 2017 (22 observations), which we believe is too short to be econometrically tested. Similarly, the institutional quality measure by World Governance Indicators of the World Bank starts from 1996 to 2018, with missing data for the years 1997, 1999, and 2001. This also limits the observation even below 22 which restricted us to use alternative measure form ICRG that contains longer time span form 1984 to date.
- b. We tried to incorporate in our study the most significant financial institutions operating in China. Other notable financial institutions consist of insurance companies, brokerage firms, and vice versa. Moreover, China opened up its financial sector to more foreign investment to cope with rising risks and challenges facing the industry. Foreign investors can take a stake or control entities including wealth management units of commercial lenders, pension fund managers and currency brokers, the central bank.
- c. We use the term FDI for the abbreviation of ‘Foreign Direct Investment’ in the third line of the opening paragraph of introduction. However, the term ‘FD’ we used to represent ‘Financial Development’. The description of the explanatory variables is given on page#13 of the paper. The data span is from 1986 to 2018, where most of the data is available and the market reforms allow the Chinese government to regulate the joint-ventures’ laws in 1980s. We did not perform the sectoral analysis of financial development. FDI inflows in the financial sectors are just part of the aggregate FDI. The sentence is actually meant ‘We aim to investigate the causal relationship between FDI and financial development across different specifications’.

Besides the respectable referee’s comments, we also suggest some improvements in the paper.

- a. On page 11, line#9; we write ‘To comprehend the relationship between FDI and *FDI*’ is meant ‘To comprehend the relationship between FDI and *FD*’.