Industrial Land Discount in China A Public Finance Perspective

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China’s land market features a substantial industrial discount: industrial-zoned land is an order of magnitude cheaper than residential land. In contrast to explanations centered on subsidies to industry or promoting industry growth, we emphasize the importance of future tax revenues from the land and find that local public finance incentives can largely rationalize this price gap. Under the "land finance" system, land sales are an important source of revenues for Chinese local governments. We show that local governments, who serve as monopolistic land sellers in China, face a trade-off between supplying residential or industrial land that is determined by the different time profiles of revenues from industrial and residential land sales, local governments’ financial constraints, and the extent of local governments’ tax revenue sharing with other levels of government.

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