Comments to the Authors

General comment

The paper addresses a very relevant question, in the Chinese context, but also more broadly: to what extent the dependence of local authorities on funding from land use concessions/licences hampers innovation in the economy of these same cities. The empirical methodology is sound, but the theoretical framework and the presentation of the reality/context to which the study refers should be improved. Remember that this is not an economy magazine, nor is it an Asian journal, where in principle readers will be more easily familiarised with the Chinese context.

1.Relationship between LGLFD and UIQ

There is no explanation as to why the hypothesis that there may be a tendency for LGLFD to have a greater weight in places where the propensity for innovation is lower was not considered. It is known that there is a tendency for innovation to be concentrated in certain locations, in order to take advantage of agglomeration economies (Stiglitz, 1989, p. 199, apud Dawkins, 2003, p. 151). Thus, it is natural that in places where there is less innovation, local authorities will rely more on revenues obtained not directly from entrepreneurial business activity, because these will be lower than in places where there is more innovation.

Another possible reason is that in the early stages of the growth and development processes of industry and services, there tends to be a higher rate of expansion of infrastructural space, because these activities were previously non-existent or very small.

Conversely, in already developed areas (where innovative activities are usually concentrated), the renewal of activities may often not involve new infrastructure or the creation of new industrial or urban spaces, which is why there is less revenue from land concessions.

These hypotheses may help to explain why in the regional heterogeneity test (4.5.1) the negative effect of LGLFD on UIQ is not significant in the Midwest sample and in the East sample.

So it can happen that the empirical model used correctly describes the existence of a relationship between LGLFD and UIQ, but not the sense of causality between these two terms. In other words: what causes what? Does the LGLFD cause the lower UIQ? Or does the lower UIQ lead to the higher LGLFD?

The question of the meaning of causality also arises when interpreting some of the results of the various tests of the empirical model.

Reference

Dawkins, Casey J. (2003), *"*Regional Development Theory: Conceptual Foundations, Classic Works, and Recent Developments". *Journal of Planning Literature*, Vol. 18, No.2 (November 2003), pp. 131-172. DOI: 10.1177/0885412203254706.

2. Theoretical framework
It would be useful if there were a few paragraphs in which the theoretical framework of the relationship between LGLFD and UIQ was explained more clearly. The presentation of the theoretical framework in the introduction is sometimes oversimplified, with the assertion of relationships that are not obvious, even though some authors may defend them.

The authors themselves recognise (p. 2) that, "As the above studies show, there is no consistent conclusion regarding the impact of LGLFD on innovation".
Therefore, the presentation of the various positions invoked, and the studies that support them, should be more nuanced, in the sense of not presenting these ideas as if they were established facts. This could just be a wording problem that the authors/translators could easily solve.

For instance,
Lines 44-45
"To achieve the expected economic growth, local governments obtain fiscal revenue by earning land grant spreads"
It is not clear whether local governments have the expectation, well-founded or not, that their tax revenue will generate economic development. If so, how? Or if it is a position that the authors defend, based on the references they use.

In addition, a definition of UIQ should be provided at the outset (in the introduction). In fact, the index chosen to operationalise this concept in the empirical model (3.2.1 Dependent Variable) shows that the authors have a good understanding of the issue of innovation and the problems associated with measuring it. On the other hand, the designation "Urban Innovation Quality" has no advantage over the simpler "Inovation Quality". Although innovation usually takes place in an urban context, sometimes this may not be the case.

3. General background
Many English-speaking readers are unfamiliar with China's tax system and the territorial organisation of this large country. Although this is occasionally clarified throughout the text, it would be useful if there were a few paragraphs on these topics at the beginning, to enable those unfamiliar with the Chinese reality to get their bearings straight away. For example, it would be useful to have a few lines on "the tax-sharing reform" and "the 'GDP Championship'" in China.
As it stands, the beginning of the text does not make it clear what is being discussed.

Consider reducing the introduction and adding a theoretical framework section with some context about the reality in China.

4. Conclusions and Policy Implications
The conclusions might need to be reconsidered in the light of comment 1 on the direction of causality in the model.

In any case, the conclusions and their theoretical implications should be discussed.
On the other hand, the policy recommendations should be better justified. Remember, many readers of this journal don't know what you're referring to, because they don't know what taxation systems are like in China.
Besides, to "increase spending on science and technology innovation, deepen financial market reform, and provide better financial support for enterprises' innovative production activities" are very general recommendations, which could be suitable for many contexts.

Specific questions

p. 2
Lines 84 to 92
The introduction is not the right place to present the study's conclusions.

Lines 127-128

Why “the use of local government revenues for infrastructure construction further increases housing prices”?

Lines 149-150
See words repeated.

Lines 165-166
“the continuous improvement of infrastructure have increased real estate prices”. Please explain why.

Lines 182-184
The reasoning is not clear. Companies in general tend to try to influence the behaviour of governments in order to obtain rents.

Lines 184-202
The whole argument up to the end of the paragraph is confused.

Lines 257-258
The territorial organisation in China and its recent changes that are relevant to this study should have been explained at the beginning of the article.

Line 267
Is it "variables"?

Lines 295-299
It is not clear what the lag considered / applied is.

Lines 411-412
Lines 411-412

How do you know it's not the other way round? In small towns, the UIQ is usually lower; therefore, the impact of the LGLFD is also lower.

Line 430
"LGLFD has improved the regional economy"
Provide a brief explanation of how/why.