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State Capacity to Influence Actor Relations within the Chinese Real Estate Market: An Analytical Framework

He Gao [1,2], Walter Timo de Vries [2], Minrui Zheng [1,*] and Jianping Ye [1]

[1] School of Public Administration and Policy, Renmin University of China, 59 Zhongguancun Street, Beijing 100872, China; 2021000196@ruc.edu.cn (H.G.); jpye@ruc.edu.cn (J.Y.)
[2] Chair of Land Management, School of Engineering and Design, Technical University of Munich, 80333 Munich, Germany; wt.de-vries@tum.de
* Correspondence: minruizheng@ruc.edu.cn

Abstract: Analysis of Chinese real estate market shifted from eco nomic fundamentals to non-fundamentals, but consensus conclusions are still rarely reached. This is because institutional perspectives and national subjects are still lacking. Based on critical realistic approach, this paper integrates a state–society relationship and institution provision, constructing an analytical framework for the role of state capacity in the institutional construction of the real estate market. In terms of the intervention of the state on actors in the Chinese real estate market, the central government influences local governments, interest groups, and society at large through its administrative, extracting, and market service capacities, respectively, forming a chain of interests that serves the state–society relationship.

Keywords: real estate analysis; China; state capacity; land finance

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Citation: Gao, H.; de Vries, W.T.; Zheng, M.; Ye, J. State Capacity to Influence Actor Relations within the Chinese Real Estate Market: An Analytical Framework. *Land* **2023**, *12*, 1601. https://doi.org/10.3390/land12081601

Academic Editor: Fabrizio Battisti

Received: 30 June 2023
Revised: 8 August 2023
Accepted: 11 August 2023
Published: 14 August 2023

1. Introduction

The boom of the real estate market is an important part of China's economic miracle, and its mechanisms, solutions, and future direction are of great significance to economic and social development [1]). Since the reform of the housing system in 1998, China's real estate sector gradually marketed itself and developed rapidly, becoming a pillar of the national economy [2]. The root is that in China's urbanisation, China created the "land for development" model by obtaining financial credit through the land system, whereby the real estate market became the platform for social resources converted into capital [3]. This made the real estate market deeply tied to economic development, such that its variation became the "barometer" of the urban economy and thus became an economic proxy in the eyes of the government, industry, and academia. With the wild growth of the real estate market, the unbalanced development, the mismatch between supply and demand, the excessive growth in prices and investment, and the irregular development and transaction, practices came to the forefront [4]. It was also responsible for the economic systemic disentangling with the soaring financial risks. The central government declared to control the real estate market, but with little effect [5].

The understanding of the institutional logic and internal mechanisms of the current Chinese real estate market still needs to be deepened. The real estate market is a system that contains multiple subjects and involves multiple influencing factors [6]. It not only depends on economic factors, such as price, investment, supply, and demand, but also highly relates to the institutional base and the behaviour of actors [7]. China's real estate market characteristics and public sector behaviour are something specific, based on a land system in which the government has a monopoly on ownership and the land market, and the government's interest are quite important [8]. Most studies focused on finding and modelling a consistent, systemic, and rational relationship between property prices and land prices, price changes, economic cycles, and other economic laws in the real estate market, or on deriving a rational assessment on how effective monetary policies, purchase restriction policies, specific land policies, and other regulatory policies and their mechanisms are. Yet, these types of analyses based on conventional economic fundamentals and traditional logic of how to evaluate specific policy intervention mechanisms never led to applicable models and consistent conclusions with empirical realities [9–12]. Instead, studies relying on principles of land finance models, insights in government–enterprise relations, rent and tax extraction, and behaviour of interest groups in real estate provided more convincing empirical consistencies and institutional explanations [13–15], implying that it requires an analytical framework geared more towards the analysis of institutional functions and political and social outcomes [16]. The state subjectivity, which was always neglected in previous research, and its influence on the behaviour of real estate actors, is important.

In fact, state capacity is one of the dominant mechanisms in the practice of land, real estate, and urban and rural development. Since the 'reclaiming the state' trend, the importance of state capacity for economic and social development gradually returned to the theoretical perspective, and the competitive advantage of a 'strong state' of China became the consensus [17]. The practice in the field of land, real estate, and urban and rural development is a concentrated manifestation of the role of the state's capacity. The existing mechanisms of fiscal decentralisation, the overall mechanisms of government–market relations, the mechanisms of territorial governance, such as the land system, the spatial planning system, and urban-rural relations, and the economic realities, such as the financial system, credit regulations, and the choice of household investment goods, including the banking system, are largely dominated and set by the state, and are subject to the constraints or regulation of the established political structure and space [18,19], and each of these institutions is the basis on which the real estate market is constructed.

This paper returns to the state and subject relationship and constructs an analytical framework to study China's real estate market using the perspective of state capacity. The key objective of this article is to design a framework to analyze actor relations within the Chinese real estate market, which can better reveal the dynamics of decision-making processes than contemporary analytical frameworks. The significance lies in identifying how and under which conditions a state has effective agency over actors, which provides a new perspective on how actors create new institutional forms, and how power structures and interest chains ultimately change the real estate market in China. The structure is as follows: Section 2 is a review and commentary on China's real estate policy and real estate analysis, Section 3 applies a critical realistic approach aiming to design the framework, Section 4 is an interpretation of state–society relations, subjects, and state capabilities in the Chinese real estate market, Section 5 is the analysis framework based on national capacities and imperial logic, and Section 6 provides the conclusions and recommendation for further research.

2. Literature Review

2.1. History of Chinese Real Estate Policy

The development of China's real estate market went through three subsequent phases. The first was the housing system of the planned economy era (1949–1978), in which commodity attributes and the real estate market were completely non-existent, and the housing system, characterised by state turnkey, free distribution, low rents, and indefinite use, was a major component of the socialist welfare system [20,21]. The second was the reform of the housing system (1979–1998), where real estate was given commodity attributes and became an important industry and macroeconomic sector. Real estate, along with other economic sectors, went through multiple rounds of progressive reforms with piloting first, forming a dual-track logic of planned allocation and partial market in parallel [1]. However, for the executive power of administration, the expected growth of market forces to eventually replace administrative forces under the dual-track system failed to materialise. This prompted ultimately a more significant reform [22,23]. The third phase, the marketisation of the housing system (1998–to date), was when real estate dynamics finally became the driving force behind economic development and the financing cycle of urbanisation under the pressure of both external crisis and internal demand [5].

In July 1998, the State Council issued the "Circular on Further Deepening the Reform of the Urban Housing System and Accelerating Housing Construction", which explicitly phased out the physical allocation of housing and implemented marketplace. Since then, and continuing on into present day, real estate gradually became a pillar industry of the national economy from an important economic sector.

Policies are often considered ineffective. In the housing system reform, many policies failed to be put into practice [24]. The 1991 housing reform directly catered to the trend of overheated economic development and overinflated investment scale, which led to the strict control in 1993–1995 [8]. After the marketisation, the two biggest "bailouts" following the crises in 1997 and 2008 are highly effective, but the subsequent policies to stabilise housing prices had little effect [5]. The "no speculation in housing" and "return to the housing property" proposed since 2016 will not be effective until the "three red lines" proposed in 2020 [11]. Here are the three focuses: First is speculation. The huge real estate market is credit for the bank-based financial system, and the household sector lacks alternative sources of investment, making real estate the most central domain for speculation [25,26]. Second is the siphon effect. The development of the real estate market will push up property prices, inhibit the development of other industries, and exacerbate social problems such as the class division [27], but tight control threatens the economic growth itself [28]. Third is economic stability. The results of regulatory policies fully demonstrate the extremity of the real estate market [29]. This characteristic can amplify exogenous shocks and threaten the smooth functioning of the economy [30].

The current policy instruments are concentrated in four dimensions—housing, land, taxation, and finance—but the source of influence lies outside the market. Housing policies directly intervene in housing supply and demand, including intervention in the supply structure, the construction of subsidised housing, the support and adjustment of the rental market, and the eligibility restrictions and credit regulations for purchase [31]. Land policy is the control of land supply. Tax policy refers to the taxation of real estate transactions and tenure, currently focusing on transaction taxes and directed towards real estate taxes [32]. Financial policy is the state's regulation of capital markets, mainly macro-prudential policy and monetary policy [33]. None of the four currently function as a long-term mechanism with consistent conclusions: subsidised housing struggles due to local government's financial resources and willingness [34], the rental market is constrained by the difficulty of realizing "equal rights for rent" [35], demand-side restrictions are generally effective but their effectiveness and duration are not guaranteed [12], land supply is gradually limited by planning targets and land acquisition costs [19], property tax struggles due to unclear policy consequences and obstruction by interest groups [36,37], and whether the conditions for prudential policy are effective and whether monetary policy is truly effective also remain controversial [10,38].

2.2. Position of the Real Estate Sector

The urbanisation process led by land finances created a boom in real estate development and its upstream and downstream sectors. The 1994 reform of the fiscal and taxation system (also known as the "tax sharing system") brought about significant changes in the relationship between the central government and the local government, profoundly affecting the local government-led model of economic development [14]. It generated a consensus on two prominent issues governing local government (discretionary) behaviour: firstly, economic performance gave local governments the incentive to compete for economic growth; secondly, lack of incomes made local governments desperate for discretionary income, while taxes related to land concessions and urban expansion under the taxation system were enjoyed locally [39–41]). China's unique land system provides the stage for this, with local governments enjoying the benefits of land appreciation, controlling planning and acting as both land managers and operators [42]. Such mechanisms ultimately lead to a "land for development" model in which local governments use land as a tool to lead and drive economic development [43]. Land concessions and real estate-based taxes on urban expansion are the main source of revenue for local governments, and real estate and related industries are becoming increasingly important in economic values [44]. It also brings about business decisions by local governments, including resistance to higher-level policies and collusive behaviour by local government and business [13,45].

The real estate market is key to the capitalisation of land in the 'land for development' model, and its current difficulties are highly relevant to the unsustainability of this model. Land is a huge and growing source of credit for local governments, the revenue from land concessions is a one-off financing for the future appreciation of land sales, and the purchase and holding of real estate is the acquisition of urban "stock" [3,46,47]. The contemporary urban population further increased demand, as a result of which real estate companies are expanding and local governments are leading growth and are deeply tied to land finances. The central government, whilst wary of financial risks and social problems, is happy with the economic growth [48–51]. However, this was been exhausted. Urbanisation rates reached a certain level, and resource and environmental pressures and higher labour costs ended industrialisation with wide land supply and low cost, as well as high factor inputs [43]. The dependence of local governments on land appreciation and their future revenues also creates systemic risks [52]; this created uncertainty in the real estate market. The level of urbanisation, the age structure of the population, and the already extremely high cost of housing are limiting labour deployment and further population clustering, and the decline in demand tempered long-term expectations [53,54]. The seriousness of economic and social problems, such as high housing prices and the siphon effect, alerted the central government, the collusion between local governments and real estate companies was restricted, and the accumulated problems of real estate companies came to light [9,55].

As a pillar industry of China's national economy, real estate faces an inevitable transformation process. The importance of the real estate sector in the Chinese economy is undeniable [2], its position as a "pillar industry of the national economy" comes from official[1]. The accounting conclusions are broadly similar across the different calibres, such as the real estate economy as real estate development investment activities, production activities, and consumption activities, whose share of GDP is stable between 15 and 20%, and whose contribution to economic growth reached a maximum of around 30% [56,57]. Overall, similar to international experience, the relevant data aggregates are similar to those of developed countries such as the US, UK, and Japan over similar time periods [58]. However, the proportion of investment is significantly higher and the proportion of consumption significantly lower in China, reflecting the speculative nature of Chinese real estate [56]. The overheating of the real estate economy has some negative effect on the real economy, consumer spending, and financial operations [57].

2.3. Non-Fundamental Determinations of Price

The explanatory power of economic rationality in the analysis of Chinese house prices is declining. Fundamental factors relating to housing prices generally focus on real disposable income, population size and structure, land prices and construction costs, urbanisation, and public service levels [59]. In general international experience, economic fundamentals explain house price changes better, and the relevant empirical evidence covers a number of regions and long time horizons, such as Europe, North America, and Asia Pacific, and the property price changes are cointegrated with overall economic growth in the long run [60–65]. However, Chinese studies are different. The early literature concentrates on confirming the influence of macro-fundamental factors and their historical information [66,67], including the controllable, localised nature of the argumentative foam [68]. However, it was long the case that economic and income growth lagged behind rising house prices [67]. With only a slight lapse, house price growth in economically developed regions quickly deviated from economic fundamentals [69,70]. Related studies since attempted to separate non-fundamental factors from fundamental ones and to explain the former in terms of their mechanisms [7,69,71]. With the influence of economic fundamentals weakening, the explanation of property prices tends to be exogenous, represented by policy interventions [30,72].

The non-fundamental analysis focuses on the effectiveness of various policy interventions and returns to the fundamental question of how, when, and why institutions contribute to what type of development. Government intervention in the property market is not unique to China and there are numerous international studies on the objectives, instruments, and effects of policy, the main tools of which are generally monetary policy and credit restrictions [29,73–75]. The specificities of the Chinese property market give the government more tools, but the results of the policy assessment are not positive [76]. The core instruments of the housing dimension are restrictions on purchases and loans, with local governments limiting speculative demand through coercive administrative means. Existing studies only marginally agree on their effects, but their differential impact in areas of high housing prices, in the new and secondary housing markets, and in supply and demand across time, varies according to the subject of the study [4,18,77]. The land policy is to control land supply, an instrument that always had poor macro results [78]. Fiscal and monetary policies are the overall actions of the central government to regulate the macro economy and do not act on the real estate market alone. However, the established property tax pilot is so far removed from overall institutional change that its evidence is largely economically meaningless. There are no consistent findings for monetary policy, with studies focusing on financial accelerators, and it is difficult to distinguish quantitatively whether monetary policy is effective or not [79,80]. As the above attempts to bring the issue back to politics, there are early studies that point to the interference of communities of interest in public opinion and policy at the level of political personnel [16]. Based on this, studies on the land system, political promotion, government–market boundaries, government–enterprise relations, rent extraction, and interest groups around land finance and local government behaviour give more convincing empirical and institutional explanations [13,45,81–83].

2.4. Review

There is a good understanding of the phenomena in the Chinese real estate market, but there was never a consensus on whether the outcomes, reforms, and mechanisms are sufficiently responsible. While real estate prices significantly impacted social equity and industrial transformation, the identification of the economic behaviour of various actors and the subsequent systemic mechanisms remains elusive. In other words, most of the existing studies are still limited to a neoclassical perspective, and the estimation of political and social properties, institutional analysis, and application of state theory on this issue are still insufficient:

For one, the real estate market itself is less often seen as an institutional arrangement. Institutional analysis mostly focused on the impact of institutional changes such as land, taxation, and housing. However, the real estate market itself is also an institutional arrangement and is more political than market-based, aiming to obtain economic and social outcomes such as fiscal capacity and urbanisation processes. The absence of this perspective means that there is a lack of understanding of institutional structures and power structures.

Secondly, the behaviour of various stakeholders is less considered. The central government, local governments, real estate enterprises, and home buyers all have their own objectives, costs and benefits, and decision-making behaviour. The relevant objectives are not necessarily economic and short-term, and the reality of the real estate market depends on the competition and cooperation of the various actors. Studies were able to interpret local government behaviour and land finance, but overlooked the fact that the real estate market is also a political environment and a field where the state guides, draws on, penetrates, and competes and cooperates with society, making it difficult to interpret top-down policy transmission mechanisms.

Thirdly: ignoring of the state. Most of the existing interpretations are socially focused, and its boom is a shared success, while its chaos is a policy failure. However, looking back at the “three red lines” and the housing debt crisis, the central government is not necessarily incapable of intervening in local government–enterprise collusion. China could not engage in primitive accumulation of capital through colonisation and plunder, and its urbanisation and industrialisation had to be drawn internally. The real estate market is the way the state seeks to accumulate capital. With all land ownership being state-owned, the state deeply penetrating society in the cities, the upper levels of government having control over personnel at lower levels, and the state controlling institutional arrangement, the will of the systemic state should be clear. The link between the real estate market and state legitimacy, political commitment and governance should be made clear in order to identify the systemic construction of the state guiding each subject.

3. Methodology

Research approach. As this article aims at a critical analysis, the approach is a critical realistic one. A critical realistic approach is different from a conventional positivist standpoint, as it does not necessarily rely on direct observations coupled with statistical analyses and inferences, but relies on interpreting and re-interpreting realities and descriptions of realities. Such an approach aims at understanding and interpreting (social) reality rather than deriving conclusions based on ‘objective’ measurements or observations [84]. Interpretation depends on connecting social phenomena to multiple concepts and critical reasoning. This also assumes that one cannot derive an absolute objective understanding but a plausible construction of the connection of activities, actors, behaviour, and perceptions.

Methods of data collection: The primary source of data concerns documented evidence (in the form of literature, formal websites, position papers, and reports). There is not a systematic collection of scientific repositories, because the aim is not to provide an overview, but a content-specific search and selection process to construct other research, which aligns with the critical realistic approach.

Methods of analysis and interpretation in order to design the framework: The interference mechanism in critical realistic approaches relies on plausibility rather than statistical significance. Plausibility is reached when statements can be logically valid and reliable and meet the descriptions and interpretations of the social context. Since the aim of this research is to derive a new perspective, the plausibility lies in testing the validity by internal logic and external alignment with social realities.

4. Mechanisms Based on State Capacity

4.1. The Logical Thread of “State–Society”

The overarching thread of China’s real estate market is the state–society relationship. The real estate market is a platform for interaction between the state and society, with the state drawing resources from society and society needing to grow its social power through the preservation and appreciation of assets. The state has a natural and absolute advantage in competing with society, guiding the endogenous forces of society to cooperate with the state. Cooperation is based on the growth of mutual gains, and when that growth is not sustainable, the relationship changes from one of guidance to one of bondage, with society being able to form problems back to the state through other mechanisms. Under the main line of interaction between the state and society, the Chinese real estate market is characterised by typical Chinese problems, i.e., the state and society are not in a strict dichotomy, but are shaped and transformed by each other in competition and cooperation, creating a certain power structure and institutional logic between governmental and market mechanisms in the zone where the state and society should directly interact. This structure is not necessarily benign, it has a rather hawkish quality: the land system allows the state to construct a large number of companies that participate in the real estate market as social organisations. The most influential large organisations (companies) on the social side also use political discourse and logic, make political investments, act as agents of the state, and reap the benefits of collusion between government and business. The grassroots organisations in the upstream and downstream sectors cannot avoid links with the underworld and often use it as a source. The core of the problem is that the overly state-dominated real estate market does not form a "benign structural field" between the state and society [22]. When conflicts between the interests of the state and society emerge as growth stagnates, issues such as the property and value positioning of real estate, the independence of the market vis-à-vis the government, the power of the parties, and the accumulation of conflicts are further intensified, and their resolution essentially depends on the state releasing society.

The main thread on the national side is the central–local relationship. The central–local relationship is an important lens for interpreting China's economy because of the tax sharing system. The non-ideal models of political centralisation and economic decentralisation, the mismatch between local financial and administrative powers, and campaign governance are all fully present in land and urban–rural development, and are the institutional background and internal logical basis for China's real estate market. The relationship between the central government and the local government leads to a land finance model where the central government and the local government do not have the same considerations in the current real estate market. The central government sits at the top of the hierarchy and its core interest is political. It needs the real estate market boom to bring about GDP growth, but it also needs to consider the social problems caused by overheated real estate, as well as long-term growth issues such as industrial development. It also includes the current local systemic debt crisis and transfer payment scheduling [85]. Local governments, seeking to maximise their revenues, need to maximise their economic benefits from the real estate market and are happy to see the real estate market grow at a brisk pace. The "local government corporation" mechanism was chosen to encourage, indulge, and work closely with real estate "special interest groups". The interests of the central government, on the other hand, are constantly changing in response to changes in the real-time economic, social, and international situation. It is possible for macro operations and local government behaviour to be aligned in response to economic pressures, or for there to be a misalignment between central objectives and endogenous local incentives in the face of behavioural distortions and risk pooling. This goes in at least two directions: one is the behaviour of local governments and how, through executive powers and information advantages, they can promote further growth in property prices in the form of government–business collusion with territorial interests, or even reverse influence central policy through public opinion, data manipulation, and bundling of economic interests. This is a tool generally used in academia to explain the failure of established policies. The second is the central government's control over local governments, i.e., the central government's ability to centralise power. It is not only limited to real estate policy, but also covers personnel, regional economic policy, transfer payments, and other overall behaviour. The central government does have the ability to "change ideas or change people". This extrapolates to a logic not often seen in academic circles, and is evident in the overly cold real estate market after the "three red lines": the "victory" of local governments in the central territory game may be partly due to the central government's permissiveness. The failed regulatory policies may possibly be a gesture by the central government to respond to social problems, given the convergence of central and local interests.

The main thread on the social side is the administration and the market. The real estate market is, after all, still a "market", and the factors that act on supply, demand, or the price itself have to be translated into economic results through market mechanisms. So, where is the boundary of intervention by the visible hand? Given that the government is still deeply dependent on economic interests in real estate, and from the perspective of economic efficiency: firstly, the focus is on short-term conflicts. The long-term trend of the real estate market depends on urbanisation rates and demographics, which have progressive and irreversible limits, as well as population growth and age structure changes that are difficult to intervene in. Second is demand or supply regulation. The rapid rise in housing prices attracts capital and speculative demand for expansion. International experience mostly used demand–control policy instruments, and China's massive expansion of supply in the past gave rise to a surplus housing market and vacancy rate problems [86]. Administrative instruments should be in line with the demand regulation of market laws. Thirdly are interventions outside the market. Substantial advancement of real estate taxation, construction of subsidised housing, influencing commodity logic, supply of substitutes, etc., further defuse distortions and risk pooling within the market. State–society channels of interaction should be expanded to scale down the functions of the real estate market platform, requiring induced mechanisms of social pressure on the state.

4.2. Subjects and Institutional Provision

The Chinese real estate market consists of four main actors: the central government, local governments, real estate interests, and the public. The central government, which controls decision-making power and provides institutional change, can change the logic of the market and can intervene administratively. Local governments are the executors and agents of the central government in a ‘principal–agent’ relationship, but are able to regulate the central government’s institutional provision through their executive powers, and this ability to regulate depends on the central government’s control over local governments. The local government is also a participant in the real estate market, holding the land market and some of the social organisations that derive their income directly from the real estate market (be it direct income, land finance, or local taxes). The real estate interests are the main actors in the supply of goods in the market and are the recipients of the institutional supply. It is responsible for obtaining economic benefits in the real estate market and channelling some of these benefits to the local government, where it can influence the ‘regulatory’ capacity of the local government. The public is the subject of demand for goods in the market, the ultimate source of finance, and the recipient of institutional supply. The public generally has no direct means of influencing institutional change, but their will can accumulate into overall social problems and public pressure and influence policy makers.

The four subjects form three pairs of relationships: The first is the state subject and society as a whole, with the central and local governments subordinate to the state and the interest groups and social groups subordinate to society. The state has a decisive advantage and does not have to “compete” with social organisations to achieve self-fulfilment, but rather has a strong ability to organise and control them. These social organisations are ‘special interest groups’ and do not have the power to provide institutional provision, nor the power to organise the public on a broad scale. The ‘state–society’ relationship is one in which the state controls other social organisations through the provision of institutions and directly infiltrates the behaviour of the public. The second is the central–local relationship within the state. The interests of the central government and local governments are not the same. Local governments seek to maximise their economic interests, while the central government will control local governments to achieve its own ends. A centralised central government both designs the incentives and constraints and the logic of action of local governments, and is able to play against the solitary behaviour of local governments within the given institutional framework described earlier. The third is the relationship between the administration and the market at the social level. The state uses administrative power to intervene in the market mechanism. In the meantime, social organisations partially cooperate with the state, accepting the influence of institutional supply on the supply of goods, while the public maintain their investment and rigid demand, endogenously driving market growth and accepting the influence of institutional supply on the demand for goods.

Three pairs of relations convey three mechanisms of ‘state–society’ relations as Figure 1: firstly, the state draws on society, with economic benefits flowing from the public to social organisations and then to the state, while the central government and local governments share the political and economic benefits. The second is the building of the state apparatus within the state, in which the central government constantly promotes the institutional change of the bureaucracy, i.e., the building of the state apparatus, in order to make the extraction of society better serve the interests of the central government. The third is the cultivation and support of society by the state, the fundamental aim of which is to make the controllable economic benefits at the social level larger in order to increase the gains that the state can draw.

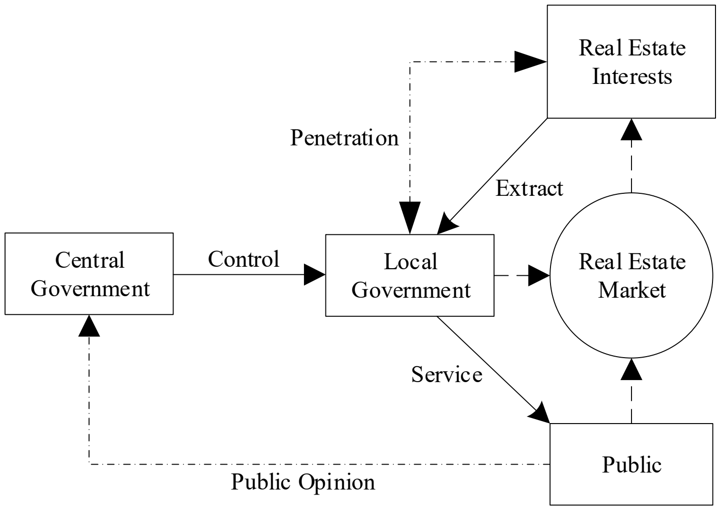

Figure 1. Relationships of the Chinese real estate market[2].

4.3. State Capacity

Michael Mann's account of the sources of social power and the relationship between state and society brings out the attributes of state capacity [87,88]: First, state capacity is essentially derived from power and is a concrete expression of the state's power over its own. It depends on the form in which the specific state organises its power over society, a form that is itself autonomy and penetration. Second, state capacity is the concrete realisation of power, an indicator, an outcome, and a quantity that can be measured. Third, state capacity is an assessment of established institutional arrangements. For a point in time or a process of change, state capacity is determined by the institutional foundations that set the power, i.e., the historical political reality. Specific categories of state capacity are generally defined as: the military capacity of the state to monopolise violence and impose coercion, the capacity to provide order and public services to exercise effective territorial control, the fiscal capacity to draw resources from society, the capacity to set and maintain the rules of the market and the functioning of the economy, the administrative capacity of the bureaucracy that includes the collection of information, the designation of policies and monitoring mechanisms, the capacity to regulate, transform society and coordinate effective governance, etc. [89–95]. Not many China-based national capacity studies are available, the best known are the eight competencies extended by [96], which together with [97] highlight the particular internal order shaped by the historical and cultural context of China.

The absolute top-down power structure in the real estate market is such that the main body of institutional provision is unique. The decision-maker is the central government, which has absolute personnel power to appointment and adjustment of local officials, and this results in three power structures that correspond to the 'state–society' relationship: First, the central government regulates local governments within the state, and local governments are expected to obey the central government. The central government makes local governments act in their own interests by setting incentives and constraints and by using its personnel powers. Second is the regulation of real estate interests by local governments. This means that the state forcibly draws economic benefits from the market, which are then translated into political benefits at the central government level. Third is the regulation of the public by the government as a whole. The state inspires, stimulates, and guides the public to enter the real estate market, to trade in the market and to push up prices in order to strengthen economic interests. When all three power structures are in effect simultaneously, the central government regulates local governments, interest groups, and the public, thus enabling the co-evolution of the real estate market. This corresponds to three classic categories of state capacity: administrative capacity, extractive capacity, and market-serving capacity.

Administrative capacity is the ability to run and manage the administrative apparatus of the state, i.e., the ability to enforce rules at all levels of the hierarchy. At the heart of this is the quality of the bureaucracy. This focuses primarily on the Weberian logic of bureaucracy; how the clerk of affairs, as an agent of the state, is able to maintain the rule of the state in the territory. The extension of administrative capacity is policy implementation, where the state is required to introduce timely policies that change with the economic and social environment because of the slowness of the bureaucracy. Administrative capacity extends here to the ability of the bureaucracy to implement policies and reallocate relevant political resources [98][3]. In the Chinese real estate market, the objective ability of local governments to implement relevant policies is absolute. From a central government perspective, the ability of this bureaucratic group within the state is primarily reflected in the central government's ability to control local governments in the context of the central–territorial relationship. This is the ability of the central government to set the logic of local government behaviour, which is antagonised by the ability of local governments to 'go it alone'.

Extractive capacity is the ability of the state to draw resources from society, or fiscal capacity. A strong fiscal capacity of the state is considered to be the most crucial institutional change brought about by history. The main one in the generalised analysis is tax capacity, which determines the scale and quality of the public goods provision and transfers. This was long seen as key or even central to the state capacity [102]. The ability to draw on this is the core logic and fundamental purpose of China's real estate market. This does not necessarily take the form of 'taxation', but all kinds of related revenues start with the incremental growth created by this market. Local governments are still highly dependent on the real estate market for revenue and public service provision. Even with all the problems, the "chamber pot" theory is still difficult to refute effectively[4]. This ability is specifically land finance, which is still difficult to break away from, even though its dependence became a political and social consequence.

Market-serving capacity is the ability of the state to set and maintain market mechanisms, and is a common perspective used by the new institutional economics to introduce state theory [89,103]. Setting and maintaining the rules of the market and the functioning of the economy is one of the fundamental institutional needs of human beings. Laws, institutions, and government services are public services that cannot be provided by the private sector, and the state needs to provide the institutions to define property rights, enforce contracts, fulfill credible commitments, and resolve market disputes in order to ensure that market mechanisms are fulfilled [104]. Policy interventions, the behaviour of market players, and the economic outcomes of China's real estate are all presented through market mechanisms. In fact, the relevant market mechanisms progressed over the course of the real estate market's development. Although still far from ideal, they also played an indelible role in the transactional behaviour of market players and the overall development of the real estate market.

In addition, there is still influence that needs to be clarified: First is the agency through coercive capacity. Coercive capacity is the ability of the state to legitimately monopolise violence, the most central expression of central authority and the basis of all state capacity, and the achievement of the most central military power of the state independent of society. This capacity, however, is clearly not required for consideration in this study. Second is the agency through enculturation ability. Derived from ideological power, it is the ability of the state to shape the beliefs of the public and develop a broad sense of identity and values to reduce the cost of governance [96]. The state does channel public opinion and confidence that 'real estate will always go up' and that it is 'too big to fail' to encourage participation in the real estate market. However, the basis for this remains the bank-based financial system, the lack of investment options for the household sector, and the institutional reality that the state is constantly building and improving its market mechanisms, and the mere enculturation ability is of limited significance in this study.

5. Analytical Framework as a Result

5.1. Mechanism of State Capacity

Migdal presents a dual image of the state shaping society: using authority to discipline society and the mobilisation of spontaneous obedience [93]. This dual image, together with the internal construction of the state, forms the basis for three mechanisms by which state capacity drives institutional change: the mechanism of institutional supply decision-making and vertical transmission through administrative capacity within the state, the mechanism of taming through extractive capacity outside the state, and the mechanism of broad social cooperation through market-serving capacity outside the state.

Vertical transmission of administrative capacity support. This mechanism derives from the political power of the state and is the process by which the state authoritatively mobilises and reorganises political resources, changes specific rules of governance, formulates decisions, and enforces them in order to bring about coercive institutional change. It is divided into two stages: decision-making by the ruler and implementation by the agent. The decision-making level of the ruler, where the political power at the top has the power to make decisions, to fundamentally determine the rules of governance such as the constitution, to create a specific order and institutional environment, and to quickly implement major and complex decisions with concentrated political power and veto power [105]. The implementation of this decision is a compulsory mobilisation and reallocation of political resources. It is carried out by a well-trained bureaucracy and its administrative capacity, including the acquisition and processing of information, the deployment of specific elements, the development of effective administrative measures, and other implementation programmes [106]. Its implementation relies on the vertical transmission of agents under the section hierarchy, which is reflected in the handling of the relationship between the central government and the local authorities, especially the ability of the various sections to effectively form coordination and guidance mechanisms, avoid games to improve the efficiency of the implementation of vertical transmission, and the ability to effectively strike a balance between the rigidity of the national unified policy and the principle of local governance in the division of powers and responsibilities between the central government and the local authorities [107].

Taming from extractive capacity is based on the state's monopoly of violent military power, which, in order to penetrate, control, and compete with society, must control the economic interests necessary to provide public goods and constrain social organisation. It is crucial for the state to build an effective taxation system, which is both a guarantee of the state's military power and a fundamental basis for the state's provision of public services to society. An effective fiscal system enhances the state's capacity to serve economic growth, but it also awakens collective social action and creates checks on the rulers. It also brings the country closer to society and promotes its overall progress [108]. Under this, the state has direct control over national security, infrastructure, natural resources, and other lifelines of the national economy that have a major impact on socio-economic development. The objective of the various sectors involved is not commercial profitability, but the consolidation of the power base of the state monopoly of violence [109]. The state, and especially local governments, will at the same time form interdependent elite social networks and government–business cooperation at the frontiers of state society through the creation or control of social organisations and the quasi-coercive use of contracts and strategic negotiation in society, thus gaining direct access to economic resources in the capacity of market players [110].

The social cooperation mechanism for market service capacity is a result-oriented generalisation, in which the state, due to the plurality of social power, also extensively uses its economic, ideological, and political power to inspire and build links between the state and social organisations, the private sector, close links with non-state actors, and achieve healthy competition and mutual stimulation between the state and society [111]. It requires, in fact, the coordination and matching of the various sources of power: at the ideological level, the guidance of the state should be in line with informal systems of ideas, social values, etc., which are widely derived from social networks and slow to change, thus enabling society to agree on the formal rules of the state spontaneously rather than under duress [93]. At the political level, the state can use the specific cooperation of the national community to gain political credibility and incorporate the interests of various subjects into the political agenda, linking the state and society through a wider range of actors, social science knowledge and information, and expanding specific capacities for action [112]. The key and dominant economic power as described above is matched by the ability of the state to effectively provide an institutional environment that coordinates and maintains market property rights mechanisms, enhances responsiveness to social interests and governance of public services, and achieves holistic mobilisation of society while effectively guiding economic and social development [113].

5.2. Validity of State Governance

Early scholars of the new institutional economy saw this as centred on the economic gains and efficiency changes caused by relative price changes. With the addition of the consideration of the political process of "things in the making", this effectiveness moves forward to the achievement of a certain social goal, which depends on the power structure of the political process [114–117]. Imposed institutional change is generally led by the state, which measures its own costs and benefits rather than those of society in the provision of institutions, and state autonomy gives the state independence in this decision-making process [118,119]. In an institutional environment in which the state is overwhelmingly dominant and has complete control, criteria such as legitimacy and adaptability go deeper into the essence of what the state sees as effective institutional change: whether the state acts in accordance with its logic of competition with society, which is also in accordance with the state's goal of interest, and the legitimacy behind it are mutually exclusive with state–society competition.

The objective of the state's interests is to consolidate and extend its state power. The expansion of state power relies on the realisation and further institutionalisation of existing state power and is an institutional change driven by state capacity, resulting in a further consolidation of legitimacy [15]. The Chinese real estate market is not a matter of political agenda, and the core objective of the state's interest here is very simple: to help society expand and thus control economic interests. Reference [120] points out some qualities of contemporary China, such as vast territory and diverse cultures, never changed, and that the advantages and challenges of the particular size of the state and the particular mode of governance persist to this day, and that the laws of the wider historical context still apply.

One is the principal–agent relationship, which means that increased penetration of the state into society will further increase the cost of governance [121]. The core interest of the state is to maintain and optimise the control of the bureaucracy, with the central government balancing the cost of governance with effective control of the lower levels. In the real estate market, this means that the central government is able to make the actual governance measures of local governments and their economic and social outcomes as consistent as possible with the central interest and avoid political and social problems.

The second is the relationship between the formal and the informal. Empires need the mediation and transformation of formal and informal systems to achieve governance [122]. Grassroots governments and officials often build networks of interchangeable elite relations through informal relationships and behaviours to achieve control over other social organisations, which is the so-called "official + market" relationship between government and business [123]. In between, the core interest of the state is to achieve effective penetration and ensure that social elites assist the state in drawing resources. This is specifically for local governments to effectively organise real estate interests to extract.

Thirdly, there is symbolic power versus actual power. Real control is easily shifted to local governments with flexibility, but the balance between the two is precarious [120]. There is a division of labour between central and local government within the state, using the 'name and substance' of each to shape and influence society. The will of society is not necessarily in the national interest, but the central government needs to use symbolic power to respond to the will of society. Local governments, with the acquiescence of the central government, can make the implementation of real power in line with the national interest and resolve short-term conflicts into institutional absorption in long-term change [124]. In other words, the 'loss of control' of local governments may be a governance mechanism that the central government tacitly approves of and relies on.

5.3. A Framework for Country Capacity-Led Analysis

Based on the above theoretical analysis, this paper proposes the following analytical framework for the "mechanism of institutional change in China's real estate market dominated by state capacity". The transmission chain of coercive institutional change in the "state–society" relationship is mapped out, and the dominance of state capacity in the construction of the real estate market and its mechanism of action are clarified as Figure 2:

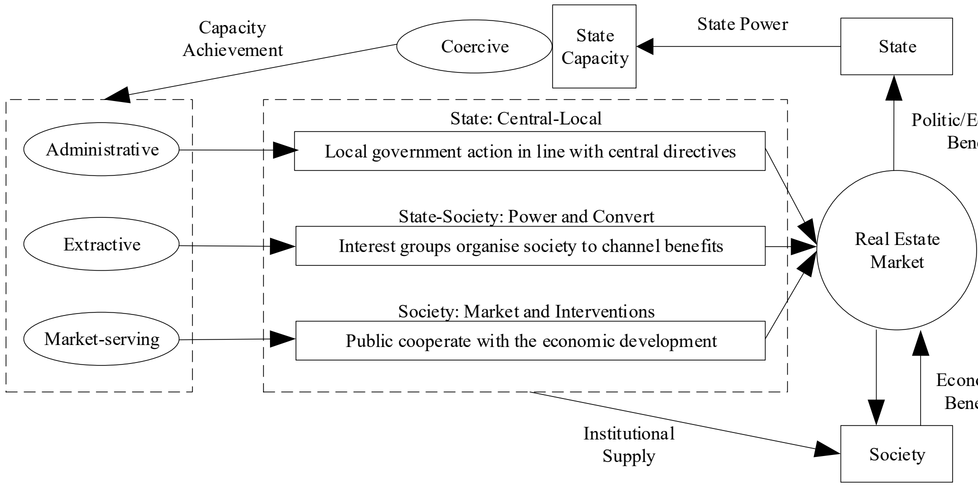

Figure 2. The analysis framework.

First, the logic of institutional change in China's real estate market is a central government-driven co-evolution of subjects. Through effective institutional provision, the central government guided local governments, real estate interests, and the public to form their own logic of action through a 'state–society' relationship, ultimately forming an institutional arrangement conducive to the achievement of national goals. The Chinese real estate market is a structure in which state power is overwhelmingly dominant and the central government dominates decision-making and institutional provision, with the institutional objective of capitalising land and serving the previous urbanisation model of 'development through land'. The essence of the structure is that the central government, through the logic of coercive institutional change, guides the behaviour of the various stakeholders, ultimately leading to the gathering and absorption of social capital. This chain of transmission involves three pairs of relationships: state and society, central and local, and government and market. The central government, through the internal construction of the state and the presentation of the two sides of the state, realises the co-evolution of the chain of interests by taming social agents or forming cooperation with them based on the setting of incentives and constraints in the bureaucracy.

Secondly, state capacity in China's real estate market is mainly presented as administrative capacity, extraction capacity, and market service capacity. These three capacities are derived from the political, economic, and ideological power of the state in a non-exclusive manner, acting on local governments, real estate interests, and the public, respectively. The real estate market in China flourished in only 25 years of practice since the reform of the urban housing system and contributed significantly to the Chinese economic miracle, underpinned by the effective direction of strong state power. This is the practice of institutional change in fundamental state power. The state built up its effective administrative, extractive, and market service capacities for each of the three actors who implement or receive decisions, and is effectively coordinated by society in the centralisation and enforcement of decisions. This completes the vertical transmission, obedience, and acceptance of institutional provision and achieves the objective of strengthening socio-economic interests, effectively building the state apparatus and appropriately drawing on socio-economic interests.

Thirdly, the promotion of institutional change by state capacity replicates the logic of the state. It is set in the context of an established institutional structure, with state effectiveness at its core, isomorphic with the traditional Chinese logic of empire. The mechanism of state capacity for promoting institutional change should be considered in the context of a specific institutional environment, where its objectives and economic and social consequences are evaluated in the context of the contrast between the power of the state and society, and fundamentally obey the logic of action for the stability of the polity in this civilisation. In the Chinese real estate market, the influence of state capacity on institutional change is driven by the core of state effectiveness, which is in line with the established goals of interest and the logic of governance. The fundamental goal is the effective extension of state power, specifically the expansion of economic interests premised on the realisation of political commitments. It is the transformation of symbolic and real power between formal and informal institutions in the central–territorial game resulting from the 'principal-agent' relationship, and the consequent dynamic transformation and impact on society.

6. Discussion and Conclusions

This paper establishes a novel framework to analyse how actors within the Chinese real estate sector relate to each other and thus shape an idiosyncratic real estate environment. The critical realist perspective generated an interpretation that is different from existing analytical frameworks and the types of analyses used in most traditional real estate studies, which tend to be mainly focused on interpreting statistical inferences. Instead, this paper posits that the conceptual relations need to be revisited based on intangibles, which are often left out of formal statistics. In China, the state is a much more dominant actor in institutional behaviour and structuring than in most other countries, which can be seen through the (tangible and intangible) artefacts of state capacity. The central government uses its state capacity to intervene in the various subjects, including local governments, and thus achieve a co-evolution of the chain of interests in the service of the state.

Essentially, the Chinese real estate market is a platform for the state to interact with society. However, this role can also be re-interpreted as a generator of socio-technical artefacts. From this perspective, the observable activities generate variations in a socio-political arena, with many non-measurable artefacts (hence not specifically visible in formal statistics) rather than an economic arena, which shapes economic outcomes. It is also for this reason that the analysis of non-monetary aspects of the economy shape the outcomes of the monetary ones. The types of governance and organisational personnel are more influential in such cases than the rational economic behaviour. Therefore, one needs to rely on an analysis from an institutional perspective. The state subject did manage to control nearly every relevant institutional arrangement, and did direct its vigorous growth and derive sufficient benefit from it. It thus fulfilled its historical mission in the last journey of urbanisation.

Such an institutional interpretation generates a novel (critical realist) interpretation of the state–society relationship. This interpretation starts from four subjects: the central government, local governments, real estate interests, and the social public, three pairs of relations between state and society, central and local, and administration and market, are gradually presented. These three pairs of relationships present three types of change mechanisms, corresponding to administrative capacity, extraction capacity, and market-serving capacity, respectively. The central government uses these three capacities to discipline other actors, enabling them to achieve common actions that primarily serve the national interest. The imperial logic of governance, which is territorial, unified, and focused on the costs of governance, is hidden in the exercise of state capacity.

Our analytical framework demonstrates a possibility to use state theory in depth in the context of land, real estate, and urban–rural development issues in China. Based on this, subsequent empirical studies will not only be able to examine behaviour, but will be able to delve further into mechanisms, such as specific organisational personnel appointments or the logic of the subject's actions. This, of course, also relies on either further macroeconomic proof, or further conceptual validation in more qualitative-oriented studies.

Author Contributions: Methodology, H.G. and W.T.d.V.; Writing—review & editing, H.G., W.T.d.V. and M.Z.; Supervision, J.Y. All authors have read and agreed to the published version of the manuscript.

Funding: This research was funded by [J.Y.] grant number [2019K20733], no external funding.

Data Availability Statement: Not applicable.

Conflicts of Interest: The authors declare no conflict of interest.

Notes

1. Xinhua News Agency. Liu He addresses the fifth round of the China-EU Business Leaders and Former Senior Officials Dialogue [EB/OL] (15 December 2022). Available online: http://www.news.cn/world/2022-12/15/c_1129211785.htm (accessed on 26 June 2023).
2. Solid lines are formal institutional interventions, dashed lines are informal impacts and participation.
3. References [98,99] base on [100,101] using the logic of the ruler's decision-making mechanism and the collective action of bureaucrats, deduce another important dimension of administrative capacity: The state's ability to gather information and the leadership to make quality decisions. This paper highly endorses this judgement. However, in the case of the Chinese real estate market, information gathering on price trends, developments and related economic and social issues is not complicated and can even create a social impression.
4. "Chamber pot" is a funny nickname of Chinese real estate market, widely used by public opinion. Although the problems are very 'smelly', China still has to use it for economy.

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