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To cite this article: Zhenfa Li, Fulong Wu & Fangzhu Zhang (21 May 2025): Power dynamics and spatiality in the financialisation of the city: financial intermediation in local government bonds in China, New Political Economy, DOI: [10.1080/13563467.2025.2506643](https://doi.org/10.1080/13563467.2025.2506643)

To link to this article: <https://doi.org/10.1080/13563467.2025.2506643>



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Published online: 21 May 2025.



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Power dynamics and spatiality in the financialisation of the city: financial intermediation in local government bonds in China

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ABSTRACT

This paper investigates financial intermediation in local government bonds (LGBs) in China to understand power dynamics and spatiality. It introduces actor-network theory (ANT) as a framework for enhancing the understanding situated in the financialisation of the city. The paper finds that the Chinese local government, as an asset manager, formed an actor-network to conduct financial intermediation. It wielded more power than the central government and other financial intermediaries. It sometimes fabricated data on infrastructure projects to finance unqualified projects, undermining the central government's objective of containing financial risk. Under the influence of the local government, other financial intermediaries provided overly optimistic assessments of unqualified projects to impress the local government and preserve their jobs. They also believed the government would not default on LGBs. Power spatiality was shaped by how the local government engaged other financial intermediaries and the geography of financial intermediaries that pre-existed the actor-network. Power and its spatiality were constructed within the actor-network and influenced by the political economy context in which the actor-network was situated.

ARTICLE HISTORY

Received 17 July 2024

Accepted 8 May 2025

KEYWORDS

Financial intermediation; city financialisation; actor-network theory; the state; China

Introduction

The city is increasingly financialised, reflected by the transformation of the built environment into financial assets and the financial logic in urban governance. The process has become an important topic in economic geography (Christophers 2012, Peck and Whiteside 2016, Aalbers 2020). Financial intermediation is crucial to the process. However, it has not been adequately studied, and understanding of the state, power dynamics, and power spatiality is limited (French and Leyshon 2004, Poovey 2015). Using actor-network theory (ANT) as an analytical tool (Callon 1987, Law 1992, Latour 2005), this paper examines financial intermediation in the issuing of local government bonds (LGBs) in China to show how it is conducted, the power relations among the central and local governments and private financial intermediaries, and the power spatiality formed.

ANT's post-structuralist paradigm extends existing views mainly informed by political-economic perspectives. According to ANT, the role of actors and power dynamics are not predefined but constructed during interactions between actors using their tools. These claims extend the understanding of the local state primarily as a 'local actor' contrasting financial intermediaries (Theurillat *et al.* 2016), fostering new power dynamics (Halbert and Attuyer 2016). Empirically, the Chinese local

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government was an asset manager leading the actor-network of financial intermediation. The role was created when it interacted with the central government and private financial intermediaries using the tools, including calculation devices that made infrastructure financial assets, and short-term contracts and real-time technologies hiring and working with other financial intermediaries. The interactions fostered power asymmetry, as the local government prioritised its political agenda over others' interests. The local government fabricated data on project information to finance unqualified infrastructure projects, undermining the central government's objective of constraining financial risk. It used short-term contracts and real-time technologies to influence financial intermediaries to provide over-optimistic assessments on unqualified projects.

ANT advocates that power spatiality is shaped by relations and is topological, while administrative boundaries and spatial scales are less useful for description (Murdoch 1998, Allen 2016). These ideas enrich the understanding of power spatiality mostly depicted through spatial scales (Torrance 2009, Halbert and Rouanet 2014). Empirically, the local government hired financial intermediaries across the country, far and near, depending on who was easier to manipulate.

However, with these benefits, some claims of ANT, such as rejecting the context and spatial scales, could fail to present empirical facts on financial intermediation, as the political economy context surely has an influence. In broader economic geography research beyond city financialisation, some scholars have tried to modify some claims of ANT and combine them with a political economy approach for an accurate explanation (e.g. Castree 2002). This paper echoes these efforts and proposes a modification to examine financial intermediation.

This paper acknowledges that the political economy context in which the actor-network of financial intermediation is embedded affects power dynamics and spatiality. Empirically, financial intermediaries gave over-optimistic assessments also because they believed the government would not default on LGBs. The local government sometimes had to hire a financial intermediary outside its administrative boundaries when none were available within.

This paper makes an analytical contribution to economic geography research on city financialisation by introducing ANT as an approach to the state, power, and power spatiality in financial intermediation. Empirically, this paper advances the knowledge of financial intermediation in the financialisation of Chinese cities, when most research is Western-centric (Wu 2023, Shi 2024).

The next section reviews the literature, followed by a section introducing ANT. The fourth section explains the methods. Next is city financialisation in China to demonstrate the political-economic context. The sixth section uses ANT to examine financial intermediation in LGBs. The final section concludes with further analytical implications.

Financial intermediation in the financialisation of the city

The city is undergoing financialisation, as the built environment is increasingly transformed into financial assets, and urban governance adopts a financial logic that prioritises financial metrics over use value (Aalbers 2020, Santos 2023). This process has become a popular topic in economic geography, although not every part gets enough attention. Financial intermediation, in which financial intermediaries facilitate financial deals with their expertise, is under-researched (Theurillat and Crevoisier 2014, Searle 2018). Many studies mention it briefly as a part of investment rather than make it the empirical or analytical focus (e.g. Halbert and Rouanet 2014, Kay and Tapp 2022). Therefore, the understanding could be limited in some respects, and some are hardly examined. The following reviews existing perspectives.

First, some examine how financial intermediaries facilitate financialisation by drawing together multi-scalar actors. They 'link the scales' to form 'transcalar territorial networks' that direct global capital into the territory (Halbert and Rouanet 2014, Theurillat *et al.* 2016). On the one hand, they transform place-based characteristics of the local market into standardised information and design local products that meet standards required by multi-scalar investors (Torrance 2009, Searle 2018). On the other hand, they initiate negotiations between financial investors and local

actors, including the local state, the community, and other stakeholders. Then, they propose a deal after balancing interests (Theurillat and Crevoisier 2014). Financial intermediaries could be small local firms or professionals with business across space, operating independently as specialists or as a part of a powerful investor.

Although actors could be multi-scalar, financial intermediation emphasises the local dimension. The process is performed mainly in a place according to the asset's location. Financial intermediaries need to collect physical information onsite and initiate negotiations involving local actors (Theurillat *et al.* 2016).

The second topic concerns the relationships between the group of financial intermediaries and other groups. Some studies demonstrate the close and exclusive relationship between financial intermediaries and their employers. Syndication, a form of group asset ownership in the US, is supported by a 'close-knit community' of professionals specialising in asset-backed derivatives (Kay and Tapp 2022). Developers usually hire the same professionals for every building they develop. Projects using tax increment financing in Chicago are performed in 'small networks, closed systems' (Weber 2010). The local authority works only with those it can trust. The Moscow government reveals a similar boutique consultancy by working with a small group of local firms (Volkova 2021).

Others focus on the relationship between financial intermediaries and local actors during the negotiations that facilitate financialisation. In this situation, financial intermediaries are hired by (or affiliated with) financial investors rather than by local actors. The negotiations are often protracted and characterised by adaptations and contestations, as the aspirations of financial actors often contradict those of local actors, fostering power asymmetry (David and Halbert 2014, Maron and Williams 2023). Lobbying skills, informal connections to policymakers, and financial expertise push negotiations towards market expectations (Munoz Martinez 2016, Waldron 2019). Local actors can also lead negotiations with political and social resources and tactics (Robinson and Attuyer 2021). Theurillat *et al.* (2016) propose 'financialized city', 'entrepreneurial city', and 'negotiated city' to show the context specificities of financial intermediation and describe the extent to which the city is 'subject to the visions of trading rooms'.

The framework of actor-network theory (ANT)

The existing perspectives in the previous section could be enriched. First, the seemingly binary categorisation of local and financial actors may not reflect all the situations. The broader financialisation literature suggests that the local state could be a financial investor through government investments or state-owned enterprises (Mertens *et al.* 2021). Similarly, the local state could be a financial intermediary. For example, it is common for US local governments to conduct in-house cost-benefit analyses to issue municipal bonds for infrastructure projects (Elmer 2014). The local government is an asset manager because the analysis makes the infrastructure an investable financial asset.

Second, and relatedly, the new role of the local state fosters the context for new power dynamics between the local state and financial intermediaries and within the state. The state is comprised of many parts, which may have complex power relations, given that sometimes there are contradictory interests (Jessop 2016). Compared to the local state, the central state gets little attention but could play an important role by interacting with the local state. In the broader financialisation literature, the local government follows, circumvents, or defies central government policies (Lagna 2016, Zhang 2020). In financial intermediation, there could also be central-local power dynamics worth investigating, especially with the new role of the local state.

Third, how financial intermediaries use their tools to facilitate deals needs much more attention, including how they use calculative devices that produce financial assets (Poovey 2015). It is marginalised because most studies are interested in negotiations and power dynamics rather than the technical details of making financial assets. However, these details enrich the understanding of power dynamics. The ways to use calculative devices reflect the interests of financial intermediaries and affect their power relations with others. These are particularly important when the local state acts

as a financial intermediary because its interests are likely different from those of a private one, and new power dynamics are likely to be produced.

Finally, the understanding of spatiality could be enriched. The literature regards spatiality as a condition for context-specific processes and emphasises the multi-scalar characteristics since the process usually involves actors from multiple scales. Alternatively, spatiality could be seen as the spatial manifestation of power dynamics. Financial intermediaries have their own space-times, and who can be gathered at a deal depends on their interactions with the employer or those within themselves, reflecting power dynamics. In other words, the spatiality of financial intermediation is power spatiality and can be described to highlight relational dynamics.

Introduction to ANT

This paper believes ANT provides analytical tools to extend the understanding. ANT is a post-structuralist framework from science and technology studies, claiming that the social is constructed by associations of heterogeneous actors (Callon 1987, Latour 1996, 2005). Its main objective is to 'follow the actors' to see how actor-networks are made and maintained for a common purpose (Law 1992). Under this objective, ANT discusses actors, power, and space, which are useful to address the aspects above.

The role of actors is defined by their actions and interactions with others in the actor-network. They do not have any inherent properties that pre-exist the formation of the actor-network (Latour 2005). In this way, ANT hardly recognises preexisting contexts. It believes everything is constructed in the actor-network. Nothing is outside actor-networks.

Power is constructed by the interactions in the actor-network (Law 1992). No one is more or less powerful than others before the interactions. Power asymmetry is likely to arise during the interactions. Actors tend to have different or contradictory interests, and their capabilities to pursue their interests are disproportionate. Latour (1996) calls the powerful ones 'well-placed actors'. They 'hook up' others to work with a single will that aligns with the interests of these well-placed ones. Others may have to compromise. Meanwhile, power relations are dynamic. The less powerful ones try to challenge the power asymmetry and become well-placed. The well-placed ones also attempt to maintain or reinforce their power. These interactions could maintain the status quo, strengthen the power asymmetry, or reverse the power relations.

During interactions, human and nonhuman actors are crucial to power dynamics (Callon 1987, Latour 2005). These nonhumans include non-human life forms, objects, rules/laws, technologies, etc. ANT highlights their importance, as on the one hand, humans can hardly act alone. They need nonhumans, like technologies, to interact with others. Actors are 'human-nonhuman hybrids', or 'actants'. On the other hand, these nonhumans affect human actions, exemplified by rules/laws made by humans or nature that humans follow. ANT proposes a 'generalised symmetry' of humans and nonhumans, meaning they exert equal influence on the actor-network (Latour 1996, 2005).

Space is the spatiality of relations and is better measured by relations. Any predefined measurements, like physical distance, administrative boundaries, and spatial scales, should be discarded. Latour (1996) feels that he is closer to his mother, 6000 miles away, than a stranger beside him. Then, space is topological as closeness is defined through relations. Actors have their own space-times and do not have to be physically together to form actor-networks (Law and Mol 2001). Well-placed actors could govern at-a-distance (Latour 1994). The spatiality is pliable and open to manipulation by well-placed actors for their interests (Allen 2016). As Murdoch (1998) puts it, the spatiality of an actor-network is the spatiality of power in the network.

Allen (2016) believes ANT's topological perspective is still limited because power is described as extensive and exercised through well-defined proximities. Actors must have some connection before establishing the actor-network, limiting the imagination of power spatiality. He tries to transcend the proximities by proposing 'intensive modes of power'. Intensity emphasises the influence of well-placed actors 'felt by' others. It could be spread through any channels (word of mouth, media,

etc.) to any actors, without restricting well-defined proximities. 'Folding in' is a type of intensive power spatiality exemplified in Allen (2016) that highlights simultaneity. Using real-time technologies, well-placed actors fold others elsewhere into the arrangement by immediate negotiations. They make their presence felt by others through constant communication and co-working, ensuring that others align with their (well-placed actors') interests.

ANT in a modified modality

ANT's discussions about actors, power, and space (including Allen (2016)'s intensive power spatiality) are useful because, first, the local state could be a financial intermediary if it performs intermediary functions. Its role is defined by its actions and interactions in the actor-network of financial intermediation. Second, the new role of the local state could foster the construction of new power dynamics due to its new relationships with the central state and other financial intermediaries. Especially, the dynamics are realised through the use of nonhumans, mainly calculative devices and other things and technologies, by the local state and other financial intermediaries. Third, the topological perspective of space enables a new way to understand and describe the power spatiality of financial intermediation.

However, some perspectives should be adapted to explain financial intermediation properly. ANT highlights that the role of actors, power, and power spatiality are constructed during interactions. It rejects the view that these subjects exist beforehand or outside the construction. This is hardly true in financial intermediation, given that the preexisting political-economic structures beyond the process certainly influence these subjects. For example, the state continues to experience fiscal shortages and lacks financial expertise in the era of city financialisation (Weber 2010, Aalbers 2020). This forces the state to rely on private finance for its capital, instruments, and expertise to develop the built environment, giving the latter 'structural power', 'instrumental power', and 'infrastructural power' (Golka *et al.* 2024). The local state could be less powerful than financial intermediaries in the first place, even if it is the employer, although the power asymmetry could be challenged during interactions.

In economic geography research beyond financialisation, some scholars have tried to adapt some views of ANT to better acknowledge the political-economic context for an accurate explanation (Müller 2015). An influential example is Castree's (2002) 'weak version of ANT' to understand the nature-capital nexus. He advocates that, rather than discarding spatial scales, we need to acknowledge their influence, which reflects the distinctive characteristics of global capital and local ecologies and bodies in the first place. In addition, he believes that capital accumulation through nature is shaped by capital (human) and natural (nonhuman) actors, but the two are not equally important. Human agency is more important than nonhuman agency, as humans dominate the process for their interests.

Other examples include global production networks (Yeung and Coe 2015) and global financial networks (Coe *et al.* 2014). They are inspired by ANT to highlight interactions between heterogeneous actors in the networks, the role of key nonhumans like technologies and infrastructure, and relational space. However, they are built on cross-scalar political-economic structures, in which production/financial activities are embedded, and attach more importance to humans than nonhumans.

These examples reflect Law (1999)'s call for appreciating the complexity and transformation of ANT. He argues that ANT is an evolving framework that always transforms to explain social complexities. He criticises that scholars from different backgrounds reduce and oversimplify ANT to several general epistemological or methodological claims so that they could easily (but superficially) use it. These overly reductionist actions lead to a rigid interpretation of ANT and limit its ability to explain. The understanding and use of ANT need to appreciate the complexity and propose more nuanced and in-between solutions that are not too reductionist nor too plural.

Then, this paper proposes a way to modify some ANT claims to explain financial intermediation. First, this paper acknowledges the influence of political-economic structures on power dynamics and

spatiality. Power dynamics are affected by the interactions between actors and the political-economic context in which the actor-network of financial intermediation is embedded. The context is outside the actor-network and is not subject to the interactions within. Such a context echoes what Christophers (2019) calls the 'financial context' where financialisation unfolds.

Power spatiality is subject to a similar dual influence, and therefore, this paper secondly acknowledges the role of spatial scales in explaining the spatiality. The scales closely relate to the administrative boundaries defined by political-economic structures and could reflect the influence.

Third, this paper acknowledges that human agencies are more important than nonhuman agencies. In financial intermediation, key nonhumans, including calculative devices, digital technologies, and other things and skills, are used by humans for their interests.

Methods

This paper uses a case study approach to demonstrate how to adapt ANT to examine financial intermediation in city financialisation. The case is local government bonds (LGBs) in China. We investigate the financial intermediation facilitating the issuance, which is selected because it is an ideal case for the dual influence of interactions between actors and political-economic structures on power and its spatiality. The local government was an asset manager by performing cost-benefit analysis. The centralised political regime and the strong financial ability of the state, backed by powerful state-owned commercial banks, produced a context for interactions among the central and local governments and financial intermediaries, adding to existing perspectives (Wu 2018, Li *et al.* 2023).

LGBs are a case that reflects the strength of ANT as an approach to financial intermediation. The approach is not exclusively for China but could be applied in different contexts because the dual influence exists worldwide, although the empirical manifestations could be different.

This paper mainly performs thematic analysis to analyse the document and semi-structured interview data. There were three stages of data collection and analysis. First, we collected government reports, policy documents, and over 20,000 disclosed reports on financial intermediation in LGBs on the China Central Depository & Clearing Platform from 2015 to 2020. The disclosed reports included implementation plans and financial and legal opinions of infrastructure projects and credit rating reports of LGBs in over 2000 counties. They showed how financial intermediation was conducted nationwide and contained financial intermediaries' business and geographical information.

We coded and labelled these data by key actors (the local government, the central government, and financial intermediaries) using tags like 'use of calculative devices', 'ways to interact', and 'geographical locations'. These codes were grouped into themes (the role of actors, power dynamics, and power spatiality) to derive preliminary findings.

Second, 15 semi-structured interviews were conducted with local officials and staff in project consulting firms, accounting firms, law firms, and credit rating agencies in 2021 in Beijing, Lianyungang, and Chengde. We selected these cities because they could, to some extent, reflect a general situation in China with salient regional disparity, so the interview data matched the data in the first stage in terms of scope. Credit rating agencies mostly had their headquarters in Beijing or Shanghai and local offices in provincial capital cities. Employees in headquarters knew more about the business across the country and, therefore, the general situation in China. Lianyungang and Chengde reflected different government and financial market situations and contexts for power and power spatiality. Lianyungang was more developed, with a local government that was fiscally powerful and a livelier market of multiple financial intermediaries. Chengde was less developed. The local government was usually short of cash, and there were fewer financial intermediaries. We asked the same questions to the interviewees in the two cities, and the responses reflected highly similar power dynamics and spatiality, which meant that the findings and arguments could be representative.

The questions were based on the codes and themes in the first stage. We did similar coding and grouping procedures and expanded and checked the preliminary findings to get refined findings.

Finally, we collected audit reports by local governments nationwide. These reports evaluated financial intermediation, for example, whether data fabrication or over-optimistic assessments occurred. We performed the same coding and grouping procedures, further refined the findings, and obtained the final findings.

We triangulated the data in different stages to cross-check the authenticity and further support the generalisation. As our interviews were from only three cities, we used examples in disclosed and audit reports in these three cities, where possible, and other cities that reflected the same situation as from the interviews.

The financialisation of the city in China

This section introduces the financialisation of the city in China to set up the political-economic context. The central and local governments lead the process through state-owned enterprises and financial instruments (Wu 2023). It boomed nationally after the global financial crisis broke out in 2008 for crisis management. However, the rationale has been rooted in the political economy of the Chinese state since the economic reform in 1978. The reform made the top domestic policy objective economic development (Wu and Zhang 2024). It still holds. Although the ways to grow have become more sustainable, and more importance has been attached to extra-economic objectives, these changes reflect that the state promotes long-term and stable growth more strategically (Wu 2018). Growth is crucial to the political legitimacy of the Chinese state and the governing Communist Party of China because improved living conditions based on growth are one of the primary concerns of Chinese people, and other key aspects of legitimacy, including state accountabilities and geopolitical ambitions, are based on a strong economy (Zhu 2011, Yang and Zhao 2018).

Growth imperative is set by the party-state on the central/national level, while it needs to figure out how to motivate the local state to prioritise this national mandate. The solution is commonly understood as the ‘political tournament model’ (Li and Zhou 2005) under the ‘regionally decentralized authoritarian system’ (Xu 2011). The central government controls the political hierarchy by deciding to appoint local officials. Under political centralisation, the central government entitles the local government to run the bulk of the economy, enabling regional (mainly economic) decentralisation. It is widely acknowledged that economic performance is the most crucial criterion for assessing top local officials. Officials outperforming their peers, especially in comparable and neighbouring regions, are likelier to be promoted (Li and Zhou 2005), leading to fierce inter-jurisdictional competition (Xu 2011).

The Chinese state has been leading development using the built environment. Land has played a crucial role in realising growth (Hsing 2010). The local government transferred land use rights at a low price to domestic and foreign-owned factories to support industrial production, building China as the world’s factory. With industrial development that improved people’s living standards and promoted urbanisation, the local government started to transfer land use rights to commercial real estate developers at a high price (Lin 2014). This promoted growth through property development and substantially increased local fiscal income through land transfer income.

The global financial crisis in 2008 changed the situation. The growth engines above could not handle the shock quickly and effectively. The central government initiated a four-trillion-Yuan stimulus package to maintain growth, marking the start of nationwide city financialisation. The local government should invest more than two trillion in infrastructure construction before 2011. It established local government financing platforms to raise money (Pan *et al.* 2017). The platforms used the land use rights as collateral for borrowing through financial tools, including loans, corporate bonds, structured notes, financial leases, etc. Sometimes, they borrowed without land collateral by the anticipated infrastructure income and payment guarantees from the local government, which promised investors it would pay the debt if the platforms could not. The platforms mainly borrowed from state-owned commercial banks.

The platforms helped with the stimulus package but resulted in financial risk (Feng *et al.* 2022). They were severely indebted. Due to the payment guarantees, their debt mostly became local

government debt, while the local government could not afford the repayment, given the sheer amount. The platforms could only borrow more as repayment, and local government debt surged in the early 2010s.

The central government promoted LGBs in 2015 to replace the platforms as the main source of infrastructure finance (Li *et al.* 2024). The central government, mainly the Ministry of Finance (MOF), made LGB policies. For different local government levels, the provincial government issued bonds for itself and the lower-level governments. MOF set an annual bond quota for every province. Local governments at different levels applied for quotas before bond issuance. After approval, the provincial government issued LGBs and transferred money downwards. Whoever used the money paid the debt through the provincial government. The investors were still mainly state-owned commercial banks.

The main principle of calculating quotas was matching local government debt and local fiscal income. Places with limited fiscal income would get smaller quotas. In 2014, the central government banned the local government from payment guarantees and separated local government debt from the debt of the platforms (Feng *et al.* 2022). The central government tried to manage financial risk using the quota system. After the stimulus package was fulfilled and the economy was generally back on track, the central government moved its attention from fast recovery to stable growth. Meanwhile, given the enduring impacts of the crisis on export and consumption, infrastructure investment through LGBs has become one of the most critical growth engines (Li *et al.* 2024).

Two points could be summarised for the influence of the political-economic context. First, the local government aligned with the interests of the central government due to the latter's control of official appointments. The local government needed to promote growth and control financial risk, as stipulated by the central government. The central government's influence was more substantial after President Xi Jinping came to power in the early 2010s. Policy formulation and agenda setting were increasingly streamlined to the central government, and the central government more directly intervened in local policy implementation (Schubert and Alpermann 2019). LGBs are a typical example of top-down policy design and central government intervention in policy implementation. Second, state-owned commercial banks provided the most funding support to the platforms and LGBs, particularly LGBs. They hold 85 per cent of the LGBs issued by 2020. They were very supportive because they were state-owned and could benefit from acquiring other government-related businesses by purchasing LGBs (Li *et al.* 2023). Then, the government could be deemed more powerful than financial investors in LGBs. They decided on the attributes and use of LGBs, as the banks would mostly buy the bonds anyway.

The context fostered power dynamics in the first place, while the interactions during financial intermediation could enrich or challenge these dynamics. The following examines the interactions to support the argument that the context and the interactions shape power dynamics and power spatiality.

The actor-network of financial intermediation in LGBs

The process performed by the actors with calculative devices

LGBs had a main category named income–expenditure balanced special bonds. This category required that the established infrastructure generate enough income to pay investors within a specific time frame. This paper examines financial intermediation in this category because other categories did not have such requirements or need financial intermediation.

This paper focuses on the financial intermediation facilitating bond issuance, i.e. the procedures for quota applications. MOF required project implementation plans, financial and legal opinions on projects, and credit rating reports for quota applications. The local government here means the government departments at the county, city, and provincial levels that intend to use the money. They hired project consulting, accounting, and law firms and submitted the application materials to the finance department for initial reviews. The provincial finance department is highlighted because it hired credit rating agencies. Figure 1 demonstrates the actor-network.

The local government was an asset manager because it produced project implementation plans making infrastructure financial assets. It primarily relied on staff with statistical skills. Sometimes, they hired project consulting firms. The main task of a plan was to conduct cost–benefit analysis. The total costs were the sum of those in different aspects of the construction period. For example, the costs of a square of a high-speed railway station in Shaanxi Province in 2020 included hiring construction companies, buying materials and equipment, collecting land, and compensation for demolition (ChinaBond 2020). The amount of every aspect was mainly given without explanation or references.

Then, the plan predicted the income of the infrastructure established in different aspects and years. In the example above, the main income included parking fees, commercial leases, and advertising fees (ChinaBond 2020). All the fees were proposed to increase every several years, but the growth rates were seldom explained.

The obscurity in explanations indicated problems. Audit reports revealed data fabrication. In many cases, income was exaggerated, and costs were downplayed. The local government also proposed unrealistically close start dates. Table 1 shows the evidence in different provinces.

Accounting firms produced financial reports to verify the cost–income analysis. However, they usually repeated what was done in the plans rather than verifying with further investigation. An example is a sewage treatment project in Guangdong–Hong Kong–Macao Greater Bay Area in 2019 (ChinaBond 2019). The plan proposed that the annual growth rate of sewage treatment fees equalled the average annual local GDP growth rate from 2016 to 2018, without explaining why the two rates were related or listing any references to support the forecast. The financial report referred to the figures without justification. An employee in an accounting firm in Lianyungang

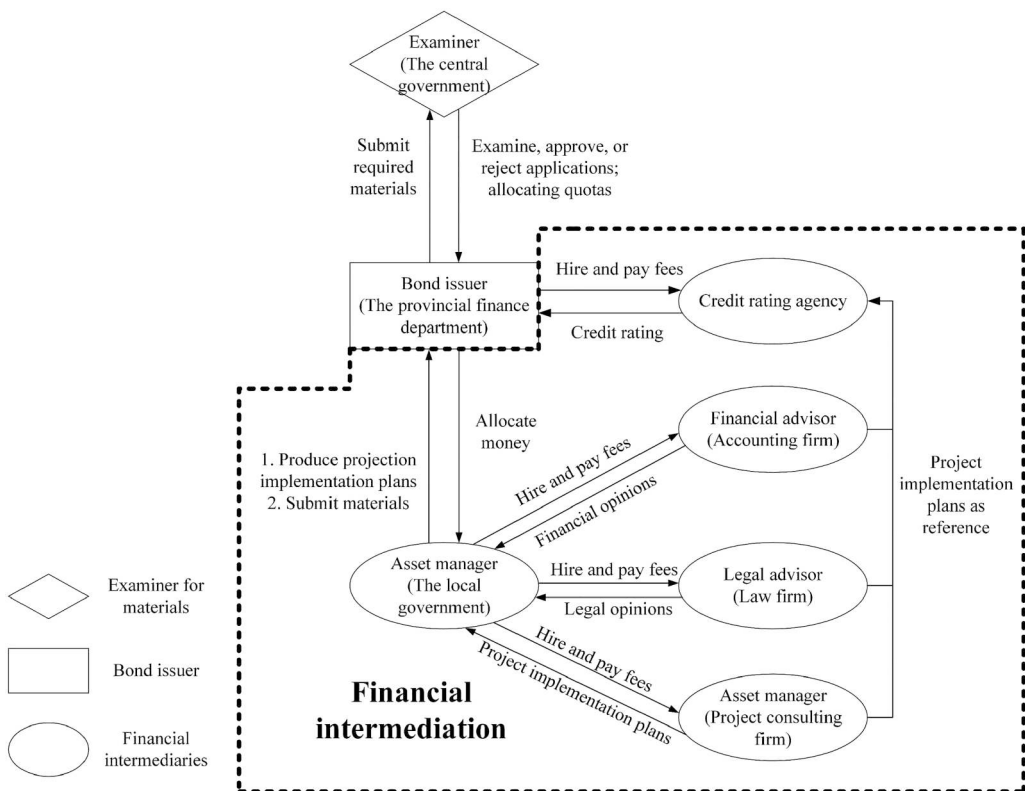


Figure 1. Financial intermediation in LGBs. *Source:* disclosed reports, drawn by the authors.

Table 1. Data fabrication in project implementation plans.

Audit reports	Data fabrication
Government of Shanghai in 2022 (Shanghai Statistical Bureau 2023).	14.5 billion Yuan could not be used as the projects could not start, taking up 47% of the total money raised.
Government of Gansu in 2022 (Gansu Statistical Bureau 2023).	Eight projects in eight cities fabricated income, worth 1.3 billion Yuan.
Government of Jiangsu in 2022 (Jiangsu Statistical Bureau 2023).	A random check on 346 projects since 2019 showed that 275 projects could not realise the income proposed, worth 50.8 billion Yuan.
Government of Lianyungang in 2021 (Lianyungang Statistical Bureau 2022).	39 projects could not start as proposed. 12 projects could not start over six months after the money arrived.
Government of Hebei in 2022 (Hebei Statistical Bureau 2023).	31 projects could not start as proposed, worth 5.5 billion Yuan.
The State Council in 2022 (National Statistical Bureau 2023).	20 provinces and cities underestimated costs and fabricated income, worth 19.82 billion Yuan.

said: ‘We use the same data and method and calculate again in Excel, in case they “press the wrong button or something.”’

Law firms provided legal reports to show evidence that the project was approved by authorities, complied with regulations, and that the construction companies were qualified and operated legally, based on policy and law documents and business registration information. Nevertheless, they did not thoroughly check the legal status of construction companies. These companies were mostly local government financing platforms. They were often indebted, and the situation worsened after the ban on payment guarantees from the local government. In 2018, the State Council asked state-owned enterprises that could not pay off debt to seek bankruptcy and set specific debt-to-asset thresholds as instructions (State Council 2018). By searching for debt situations of the companies in legal reports in different cities, we found that some should go bankrupt by the thresholds, particularly in less-developed cities and counties. But the reports rarely mentioned the situation.

They did not carefully check compliance with regulations, either. Sometimes, they ignored that the project lacked or failed necessary evaluations, such as environmental evaluations regarding construction venues and materials. This was one of the most important reasons that projects could not start as planned: passing such evaluations took a long time.

These actions of accounting and law firms showed that they were over-optimistic by ignoring some significant problems. Table 2 demonstrates the nationwide evidence of this over-optimism.

LGBs were issued several times a year. Every issue was a collection of bonds for different projects and was associated with one credit rating report. The report introduced the provincial government in detail regarding economic strength, fiscal capacity, debt situations, resilience, etc. The description of projects and the local government was brief. Apart from a glance at local GDP, project information was only about sectors and the quantity of LGBs applied. Every issue of LGBs nationwide received an AAA rating without exception.

Table 2. Over-optimism shown by accounting and law firms.

	Government/audit reports	Over-optimistic assessments
Accounting firms	Xiamen Branch of MOF in 2022 (Xiamen Branch of MOF 2022).	Revenue streams were fabricated by accounting firms.
	Government of Chongzuo in 2022 (Chongzuo Statistical Bureau 2023).	Financial opinions for many projects in a county from 2018 to 2022 were inaccurate and violated the regulations.
	Government of Hengyang from 2018 to 2020 (Hengyang Financial Bureau 2022).	Some financial opinions were inaccurate.
Law firms	Government of Inner Mongolia in 2022 (Inner Mongolia Statistical Bureau 2023).	27 projects lacked official documents of viability evaluation, environmental evaluation, planning permission, etc.
	Government of Jilin in 2022 (Jilin Statistical Bureau 2023).	22 projects got approved without planning permission.
	Government of Hunan in 2022 (Hunan Statistical Bureau 2023).	Projects without construction permission were prioritised.

Therefore, credit rating agencies could also be deemed over-optimistic. Though the provincial government was liable to investors, the repayment came from lower-level governments. The analysis of local fiscal/debt situations was hardly seen in the report. MOF acknowledged this and published a notice for LGBs in 2017, announcing that it would produce a blacklist of credit rating agencies which 'do not assess professionally' (MOF 2017). In 2021, MOF published a notice especially for the credit rating of LGBs, requiring agencies to focus more on the fiscal situations of lower-level governments and cost-benefit analysis. Ratings should reflect project-level differences (MOF 2021). These two notices could be regarded as evidence of over-optimism by credit rating agencies.

Power dynamics

How the local government and other financial intermediaries calculated reveals power dynamics. The local government could be deemed more powerful than the central government because its pursuit of short-term growth was prioritised over the central government's goal of restricting financial risk. Data fabrication made LGBs finance more unqualified projects but promoted short-term growth. The local government needed to pay for these unqualified projects, increasing local government debt and financial risk.

This finding seems to contradict the earlier claim that the local government aligned with the interests of the central government. However, it is more complex than the binary of alignment and contradiction. Constraining financial risk and maintaining growth were both objectives that the central government emphasised. However, for local officials, they cared more about growth. The negative impacts of financing unqualified projects would only appear several years later, while top local officials at different levels usually have a short tenure of five years. The debt would be a trouble for their successors. Everything would be fine if they were not caught in audits.

Such power dynamics constructed during central-local interactions in financial intermediation challenged the preexisting power asymmetry formed on broader levels of city financialisation and the political-economic hierarchy of the state, reflecting the value of ANT's power construction from interactions. This finding echoes the view that although power has been increasingly centralised in the Chinese state since President Xi, the local government's discretionary power to some extent remains and enables it to deviate from central priorities (Jaros and Tan 2020).

The central government was aware of data fabrication. Nevertheless, it could not eliminate the situation because it was not as familiar with local situations as the local government. Given the large number of applications, the central government hardly had enough resources to supervise the process, let alone identify unqualified projects. This view was partly supported by a government official in Chengde:

Departments usually deliberately propose more projects so that when some are rejected, they may still meet the investment target.

It was likely that MOF could not reject all the unqualified ones.

The local government could be deemed more powerful than other financial intermediaries, as over-optimistic assessments aligned with the interests of the local government. Such power dynamics were constructed during interactions and were affected by the broader political-economic context.

On the one hand, the local government used several techniques (nonhumans) to make other financial intermediaries align with its interests. First was the partnership. Professionals preferred the local government as a reliable hirer. The local government used this preference to make them act as expected. Project consulting firms sometimes also manipulated data. One manager of a project consulting firm in Chengde said:

If we think a project is unqualified, we tell them. However, if they want a particular project qualified, we will try our best and be flexible. We do not want to lose them as business partners. They are reliable. Those private companies usually defer or deny the fees.

Accounting firms had similar concerns. An employee in an accounting firm in Lianyungang argued:

We do not have much time. MOF tells them to prepare materials and submit them in a month. They take two weeks to produce implementation plans and leave us less than two weeks. How can we perform a thorough evaluation? ... MOF is no fool and does not expect a detailed report. Everything will be fine if we do not make obvious mistakes. ... They have many other choices if we do not finish on time. The competition is fierce as the task is 'quick and easy'.

Second, the local government mostly issued short-term contracts and used real-time technologies for communication. By reviewing disclosed reports, a government department usually hired a professional for one or several projects and frequently changed partners. [Figure 2](#) shows an example of the pattern in different cities in Anhui Province in 2019. On average, one financial intermediary took a small proportion of the projects in every city for the year. The situation was different for credit rating agencies. The provincial financial department hired them, and one agency usually signed a contract for two to three years and rated all the issues in the province.

An employee in a project consulting firm in Lianyungang argued:

There is always someone, especially those new and smaller local firms who want more business and more people to know them, who is willing to take the job. So, they are open to anyone and sign short-term contracts.

Short-term contracts constantly reminded professionals that they needed to produce favourable reports. During a contract, the local government used real-time technologies, mainly emails, cloud drives, and phone and video calls, to supervise the process, imposing its will on and constantly making its presence felt by the professionals (Allen [2016](#)).

On the other hand, financial intermediaries acted based on their understanding of the political-economic context. During the decade-long financialisation of the city, the local government could keep borrowing because of support from state-owned commercial banks. Financial intermediaries thus had confidence that the (multi-scalar) government would not default on LGBs given its close relations with the banks and its abundant fiscal resources backed by other state-owned enterprises. An employee in a credit rating agency in Beijing argued:

The credit rating of LGBs is tricky. We examine the issuer because the rating relies on its capacity. Provincial governments, even the least developed ones, have substantial resources. Compared with a single issue of LGBs, their capacity is at a whole other level. Even if we investigate debt situations, the data are impeccable. Cities and counties may be severely indebted, not the province. ... To say the least, the province will not sit there and do nothing if anything goes wrong. It is its credit that is damaged instead of some unknown cities and counties. ... It is not strange at all that all LGBs get AAA ratings.

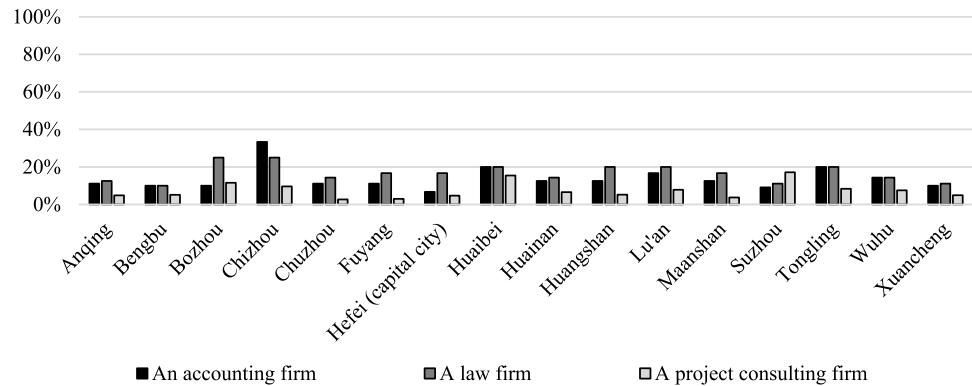


Figure 2. The average proportion of projects taken by one financial intermediary in Anhui in 2019. *Source:* disclosed reports, drawn by the authors.

A manager in a law firm in Chengde explained why they did not question construction companies much:

They are mostly local government financing platforms. Perhaps some should be shut down, but they still operate anyway. Something needs time to happen, and no one would take projects except them, particularly in small counties. This is the reality the government at different levels acknowledges, but we insist on questioning whether they should exist? That makes no sense.

Then, we could infer that this manager believed that even if a company had to be shut down during project construction, the local government would resume the work quickly and pay investors on schedule.

The political-economic context contributed to the local government's power by affecting credit rating agencies and law firms to calculate according to the local government's interests. In practice, since 2015, there have been no reports or news about default, deferred payment, or construction interruption due to construction companies' problems. LGBs were practically worth the confidence.

Power spatiality

Financial intermediaries had their geography before they were hired to form the actor-network. Only around ten credit rating agencies were widely acknowledged in China. They mostly had headquarters in Beijing or Shanghai and opened offices in some provincial capital cities for local business. Project consulting, accounting, and law firms were more geographically accessible, consisting of local offices of a national chain business or locally (provincial, city-level, or county-level) based firms. National chain businesses had a similar distribution to credit rating agencies. Big locally based firms opened offices in the provincial capital city first and then diffused into other cities in the province or beyond. Small, locally based firms operated in the host city or county.

Related to Figure 2, Figure 3 shows the spatiality of financial intermediaries hired for LGBs in Anhui Province in 2019. It calculates the proportion of the total number of accounting firms, law firms, and project consulting firms hired in the city, the provincial capital city, Beijing or Shanghai, and other cities.

The figure shows that the local government hired financial intermediaries under all four circumstances. Echoing that the local government was 'open to anyone', the spatiality was affected by power dynamics between the local government and financial intermediaries. It was topological, depending on which intermediary could impress the local government, instead of physical distance or administrative boundaries.

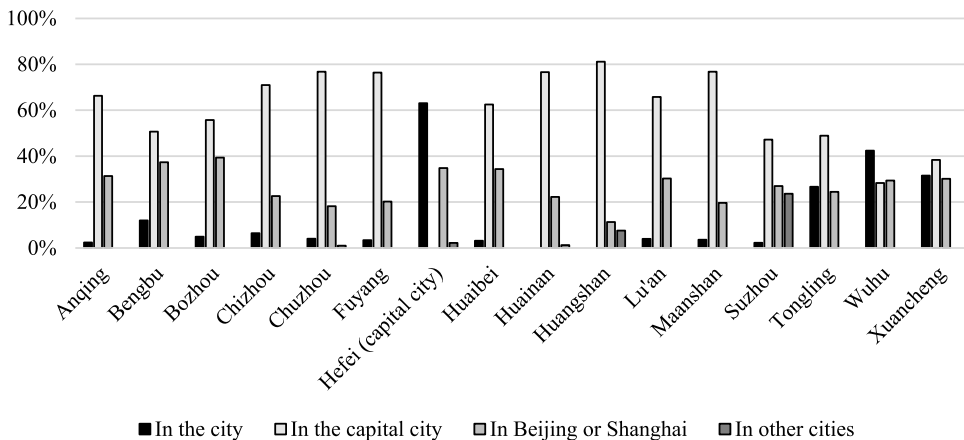


Figure 3. The spatiality of financial intermediaries in Anhui in 2019. *Source:* disclosed reports, drawn by the authors.

For the spatiality of the financial intermediation process, the literature emphasises onsite work and negotiations with local actors. But these hardly happened in LGBs because, in many cases, there was no need for them. First, many projects proposed were unprepared and onsite work could not be done. Second, the local government did not require time-consuming fieldwork but asked for quick reports. As several interviewees described, they completed their work without leaving the office because they could get the data through email or cloud drive. Third, the local government, being the asset manager, significantly reduced the necessity of negotiations with local actors. Then, this spatiality is relational and topological. The well-placed local government left out local visits and negotiations and enabled the process to be conducted remotely. This spatiality was essentially the same as that of financial intermediaries.

Therefore, the power spatiality reflects ANT's topological perspective on space and Allen's (2016) 'folding in' type of spatiality. The local government used real-time technology to fold in other financial intermediaries with little consideration for well-defined proximities, making its presence felt by them. The professionals might have no previous connections to the local government, which was 'open to everyone'. Short-term contracts kept changing the spatiality and opened it to manipulation by the local government. This challenges the 'entrenched small network' (Weber 2010, Volkova 2021). Figure 4 summarises the power spatiality.

However, the power spatiality was not exclusively subject to the interactions. The political-economic context, reflected through the preexisting geography of financial intermediaries, also had a notable influence. Figure 3 shows that the local government mainly hired professionals in the provincial capital city, Beijing, or Shanghai. It might intend to hire a small, locally based professional at the doorstep, who was probably easier to manipulate. However, in many cases, there were none in the counties and ordinary cities. It had to find someone elsewhere. A manager in a project consulting firm in Chengde said that the company undertook many jobs from different counties in the city because 'There are very few companies, and we are mostly based in city districts.'

Real-time technologies could help the local government overcome physical distance, but they could not change the situation that there were no choices nearby. Small local financial markets were not active enough to foster financial intermediaries, while the existing intermediaries would not prioritise these markets during expansion. This geography of financial intermediaries was fostered by the administrative levels and boundaries set in the political-economic structures.

Conclusions

Using ANT after adapting some insights, this paper examines financial intermediation in LGBs in China in terms of the role of the local government, power dynamics, and power spatiality. The local government acted as an asset manager, leading in building, maintaining, and changing the actor-network through tools, including calculative devices, real-time technologies, and hiring contracts. The ways financial intermediaries used tools reflected power asymmetry. The local government was more powerful than the central government and other financial professionals in financial intermediation. Its power was constructed during interactions, in which it fabricated data and manipulated contracts and communication technologies, and was fostered by the political-economic context, which made financial intermediaries believe it would not default on LGBs. Power spatiality was relational and topological, depending on how the local government hired financial intermediaries, while the preexisting geography of financial intermediaries also exerted significant influence.

This paper introduces ANT as an approach to financial intermediation. Beyond this specific process, ANT has much potential for economic geography research on city financialisation. As Law (1999) suggests, ANT is open and evolving and could be applied to various social enquiries. Nonetheless, such plasticity and complexity make the application of ANT case-specific. The general principles of acknowledging the influences of construction and structures could be similar, but the ways to adapt specific claims are likely different for different enquiries. This also echoes a broader trend of dialoguing political economy and post-structuralist approaches, such

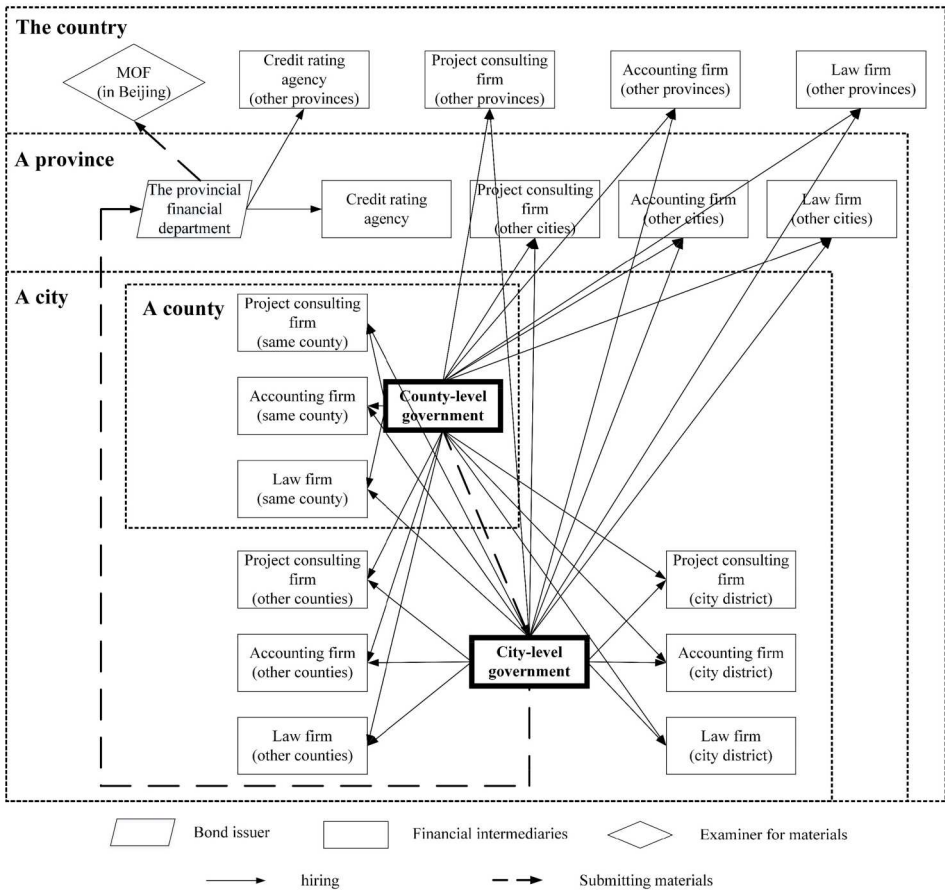


Figure 4. The spatiality of financial intermediation in LGBs.

Note: The provincial level financial intermediation is the same, but few projects were for provinces. Source: disclosed reports, drawn by the authors.

as assemblage, performativity, ANT, and others in and beyond economic geography (Braun 2016, Yeung 2024). This paper believes that the dialogue based on concrete research topics and empirical cases is a promising research agenda.

This paper contributes to the financialisation of Chinese cities, which could be described as ‘financialisation under state entrepreneurialism’, meaning that the state uses financial market instruments for policy objectives (Wu *et al.* 2022). Studies mainly focus on state-owned instruments, including local government financing platforms and state-owned commercial banks implementing policy objectives (Feng *et al.* 2022, Li *et al.* 2023). This paper finds that although most professionals were private, the local government could still utilise them as instruments. The relational dynamics were more complex than direct government commands, confirming the state’s profound influence on different market actors.

Acknowledgments

We would like to thank the editor Colin Hay and the reviewers for their constructive comments that helped to improve the early versions of this paper. All remaining errors are ours.

Disclosure statement

No potential conflict of interest was reported by the authors.

Funding

The paper is supported by the European Research Council (ERC) Advanced Grant 'ChinaUrban' [grant number 832845] and the China Scholarship Council.

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Data availability statement

Data sharing not applicable to this article as no datasets were generated or analysed during the current study.

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