



The Impact of Market-oriented Transformation of Local Government Platforms on Platform Performance in Eastern China - Artificial Intelligence Perspective

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Abstract. This paper focuses on the effectiveness of market-oriented transformation of local government financing platforms as a core issue in local debt governance. From an AI perspective, it constructs a multivariable statistical model and uses SPSS to analyze the roles of governance mechanism and fiscal dependency as mediating variables, and AI and policy environment as moderating variables. Results indicate that transformation negatively affects asset returns in the short term due to costs from business adjustment, governance improvement and financing marketization. AI investment can lower fiscal dependency and strengthen independent operation for long-term development. Substantive transformation demands differentiated paths, clearer government-enterprise boundaries by resolving principal-agent conflicts and soft budget constraints, and stronger sustainable market-oriented operation via independent audits and third-party performance contracts.

Keywords: Financing platform companies; Market-oriented transformation; Local governments; Artificial intelligence

1 Introduction

In recent years, the development of platform economy develops very fast. With the help of information technology and computer technology, many platforms have gathered a large number of users, built communication platforms for different entities, and promoted business growth. In financial area, 60 percent of financing platforms face challenges such as poor self-sustaining capacity, continuous tightening of financing, weakened government support, and transformation of new and old businesses. It is necessary to explore deeply the performance of the market-oriented transformation of local financing platforms, and distill the main factors, and then provide references for the transformation of platforms.

Relative scholars formed a mature theoretical framework around fiscal decentralization and the regulation of the municipal bond market. In terms of multi-dimensional

effects and institutional compatibility of fiscal decentralization, Tunio (2024) optimized the structure of fiscal decentralization by adjusting fiscal policies and coordinating fiscal relations among the governments [1]; Huynh (2023) pointed out that there were significant differences in fiscal decentralization, and tax decentralization exacerbates income inequality [2]; Digidowiseiso (2022) found high debt weakened the effect of fiscal decentralization on growth [3]. In terms of risk management and the boundary between government and enterprises, Rejeb (2025) pointed out that the government should lead the top-level design such as risk blueprint formulation and risk assessment [4]; Kukah (2024) found that the transmission effect of legal guarantee risk-financial cost risk was significant, the government should lead legal policy risks, and enterprises bear operational financial risks [5]. In terms of information disclosure and regulatory optimization in the municipal debt market, Cebula (2020) revealed significant impact of federal statutory policies and fiscal conditions on local debt costs [6]; Zambrano-Gut (2022) suggested that local fiscal rules should adapt the administrative structure to avoid the implicit accumulation of debt risk due to a one-size-fits-all approach [7].

The other scholars focused on the core issues and institutional roots of the transformation. Wang (2024) pointed out that platforms had a lack of clear strategic planning for transformation, unclear business models and inaccurate market positioning [8]; Zhou (2023) argued that lacking of distinction between government and enterprises made local government financing platforms be difficult to marketize [9]; Wang (2023) pointed out that the financing scale of local government financing platforms did not match their strength, and their cash flow and asset quality were poor [10]; Ji (2023) argued that the uncertainty in land sales led to a high binding of government debt and real estate risks [11]; Cao (2023) pointed out that financing platforms undergoing market-oriented transformation should integrate and restructure their main businesses and classify and optimize their businesses in a timely manner [12].

Existing research generally regards clarifying government-enterprise boundaries as the prerequisite, risk control as the bottom line, and market-oriented mechanisms as the core of platform transformation, yet ignores practical institutional barriers including principal-agent conflicts, soft budget constraints, and local official promotion incentives that hinder boundary definition. Taking Jiangsu Province—a highly marketized eastern coastal province with large-scale financing platforms—as a typical case, this paper employs panel data of 30 local government financing platforms from 2018 to 2024, constructs a "transformation degree-mediating variable-performance" framework, and forms a systematic analytical paradigm for related studies. It offers meaningful implications for transformation mechanisms under regional heterogeneity and empirical references for provincial-level platform transformation and local implicit debt resolution in eastern China.

2 The Intelligent Transformation of Financing Platforms

To classify and advance the market-oriented transformation of financing platforms, we need to establish a modern enterprise system, conduct market-based operations,

properly dispose of platform debts and assets, divest government financing functions, strengthen corporate governance, and form a sound government-enterprise mechanism with clear boundaries, responsibilities and risk control.

Most financing platforms play a key role in regional strategies, industrial development and key projects, engaging in infrastructure investment, financing, construction and operation. Central and provincial state-owned capital investment and operation companies have been restructured, and some local financing platforms have taken the lead in such transformation with valuable experience. To prevent and resolve local government debt risks, expand effective investment, stabilize industrial and supply chains, and support the real economy, local financing platforms should position themselves as comprehensive regional resource service operators and accelerate market-oriented transformation.

Market-oriented diversified financing is at the core of platform transformation. Platforms should utilize corporate bonds, medium-term notes, project income bonds, asset securitization and financial leasing, explore equity financing tools like debt-to-equity swaps, set up government-guided funds and industry investment funds, and attract social capital for urban construction.

Currently, artificial intelligence is widely applied in financial services and can improve the transformation performance of local financing platforms.

(1) Implement digital operations. Platforms can apply fintech to digital marketing, management and risk control. Big data, deep learning and natural language processing can innovate customer services, support classified management of heterogeneous clients, enable intelligent responses, analyze customer demands and improve satisfaction. AI can also optimize internal processes in financial management, investment and fund allocation, reduce human interference and enhance efficiency.

(2) Strengthen external information analysis. Platforms should leverage their advantages in regional planning, industry design, fund coordination and project operation to conduct policy analysis. Natural language processing can help interpret central and local policies, identify priority support areas and continuously strengthen core competitiveness.

Although the artificial intelligence technology or big data technology applied in many areas, how they play a role become a critical problem. To research the impact of artificial Intelligence Local Government Financing platforms on Platform Performance incorporating intelligence technology, we make the intelligence technology to be mediating role, and conduct the following hypothesis.

(1) The market-oriented transformation of the platform improves the efficiency of resource allocation by optimizing business operations, governance structure, and financing capabilities, integrating policy-based resources and operational capabilities. Based on the resource-based view of corporate governance (Barney, 1991)[13], H1: After controlling for other variables, the higher the degree of marketization transformation of the platform, the better its overall performance (ROA).

(2) The mediating role of the governance mechanism

Based on principal-agent theory (Jensen & Meckling, 1976)[14], optimizing governance mechanisms can reduce government intervention and improve decision-making efficiency by mitigating information asymmetry and moral hazard between government

principals and platform agents. H2: Asset turnover plays a mediating role between platform marketization transformation and performance. The transformation first optimizes the governance mechanism, which in turn improves the asset turnover rate, and then indirectly promotes performance. Rooted in fiscal federalism theory (Oates, 1972)[15], the fiscal self-sufficiency rate (fsfr) reflects the degree of fiscal dependency, and the transformation promotes resources allocation to high-yield areas by reducing reliance on fiscal subsidies and clarifying debt responsibilities between central and local governments. H3: Fiscal dependency plays a mediating role between platform marketization transformation and performance, and transformation indirectly promotes performance by reducing fiscal dependency. From the perspective of innovation capacity and corporate innovation governance theory (Teece, 2007)[16], the practice of artificial intelligence can balance the public attributes and profitability of the platform by enhancing technological innovation capacity and resource allocation efficiency. H4: artificial intelligence technology plays a moderating role between the marketization transformation of the platform and performance, with its moderating effect micro-founded on the synergy between technological innovation input and market-oriented operational capabilities. Regional GDP growth rate (GDPG) reflects the strength of regional economic support. Combined with regional political economy theory (Stiglitz, 1999) [17], the higher the growth rate is, the more the platform's transformation can rely on better market demand and policy support, thereby enhance the positive effect of transformation on performance. H5: GDP growth rate plays a positive moderating role between the market-oriented transformation of platforms and performance. The higher the growth rate, the more significant the positive impact of transformation on performance.

To check the above hypothesis, we define the following variables.

(1) Platform performance (dependent variable). With return on assets (ROA) as the core measure, it assesses the platform's efficiency in generating profits from its total assets, comprehensively reflects its overall operational capacity, and serves as the key basis for judging its financial sustainability. Calculate the ratio of net profit for current period to average total assets for current period.

(2) Degree of marketization transformation (independent variable). Operational indicators (Oper) reflect the degree of marketization of business operations, including the proportion of operating income and the business diversification index; the government-enterprise isolation indicator measures the degree of isolation between governance structure and government administrative intervention, including board independence and the proportion of market-based selection of senior executives; The financing marketization indicator (Fin) reflects the marketization level of financing models, including the bond issuance rate and the proportion of direct financing. The three indicators can be synthesized using the entropy weight method.

(3) Mediating variables. Asset turnover rate (tatr): As a core indicator reflecting the operational efficiency of the platform's assets, its value directly reflects the platform's ability to revitalize existing assets and the level of resource allocation, and indirectly reflects the optimization effect of the governance mechanism. The investment amount of artificial intelligence (ia), it includes the total investment of local financing platforms in artificial intelligence hardware and software, measures the application status of their artificial intelligence technology.

(4) Control variables. Enterprise size: Platforms of different asset sizes have significant differences in resource integration capabilities, credit rating levels, and operational management costs, which may have an independent impact on performance. GDP growth rate (GDPG): Reflects the macroeconomic environment of the region where the platform is located. The higher the regional economic growth rate, the stronger the market demand and the more complete the industrial support, which may provide better external conditions for the platform's transformation and thereby affect performance.

As shown in Fig. 1, this paper constructs an analytical framework of market-oriented transformation impact on platform performance.

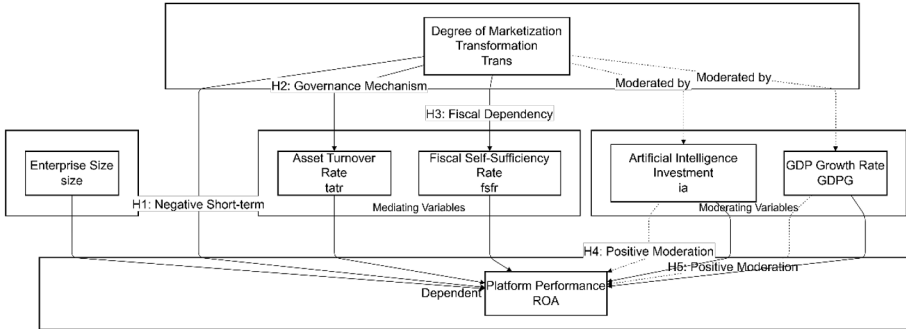


Fig. 1. Analytical Framework of Market-oriented Transformation Impact on Platform Performance

3 The Statistical Model and its Analysis

To test the above hypothesis, the degree of marketization transformation (Trans) needs to be quantified. A comprehensive evaluation index system was developed from the following three dimensions: business operation (Oper), governance structure (Gov), and financing capacity (Fin), and the entropy weight method was used to determine the weights of each index. The following comprehensive measurement model was constructed:

$$Trans_{i,t} = \omega_1 \times Oper_{i,t} + \omega_2 \times Gov_{i,t} + \omega_3 \times Fin_{i,t}$$

$Trans_{i,t}$ is the degree of transformation of platform i in period t , $Oper_{i,t}$ represents operational indicators such as the proportion of operating income and the index of business diversification; $Gov_{i,t}$ reflects indicators such as the independence of the board of directors and the proportion of market-based selection of senior executives; $Fin_{i,t}$ covers financing marketization indicators such as bond issuance rates and the proportion of direct financing. ω_1, ω_2 and ω_3 are the weights for each dimension. $\omega_1=0.3$, $\omega_2=0.3$, $\omega_3=0.4$.

The data used in this study are panel data covering 30 local government financing platforms (LGFPs) in Jiangsu Province over the period 2018–2024. The 30 sample platforms were selected by using strict statistical sampling methods to ensure scientific representativeness and robustness. Rigorous sample screening criteria were applied to guarantee sample diversity and typicality: the selected platforms vary in asset size (large, medium, and small), administrative hierarchy (provincial, municipal, and county-level), and business scope, including comprehensive urban construction platforms as well as specialized platforms for transportation, cultural tourism, industrial investment, and other sectors. Collectively, these 30 platforms cover all 13 prefecture-level cities in Jiangsu Province and represent the major types of local government financing platforms in eastern China. Descriptive statistics for the final 136 valid observations are presented in Table 1.

Table 1. Descriptive statistics of Key variables

Variable	N	SD	Mean	Min	p50	Max
ROA	136	0.4398	0.7296	0.0758	0.6107	2.1353
Trans	136	9.6283	13.2799	0.9880	11.8100	45.9470
GDPG	136	0.0210	0.0605	0.0210	0.0664	0.1010
ia	136	0.2072	0.7565	0.3970	0.8394	1.0857
size	136	0.7698	24.7630	22.6031	24.8496	26.3655

Data source: Calculated based on collected and collated data. The Variable Correlation Matrix is as follows.

The adjusted R^2 of the three models were 0.6732, 0.6725, and 0.6692 respectively. From Model 1 to Model 3, control variables GDPG, ia, and size is gradually incorporated. According to the variable correlation pattern in Fig. 2 and the regression results in Table 2, the coefficient of the degree of marketization transformation (Trans) was significantly negative at 1% level, and Trans had a significant negative impact on ROA regardless of whether other control variables were included. In terms of control variables, the GDPG coefficient is positive, and the ia coefficient was positive with ROA, Trans and GDPG.

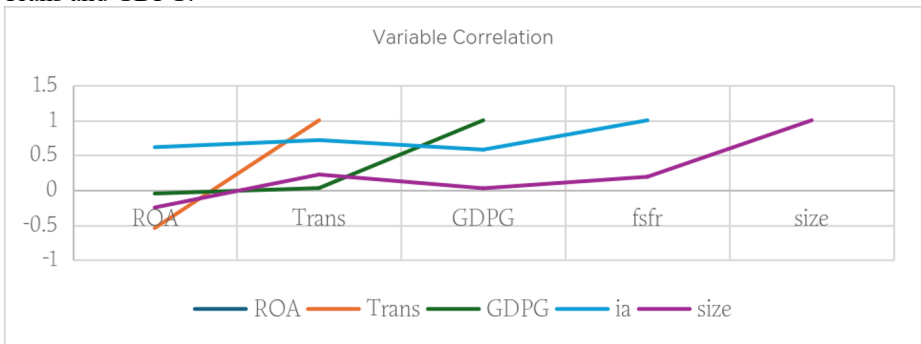


Fig. 2. The figure of variable correlation

Table 2. Benchmark Regression Results: The impact of marketization transformation on Platform Performance1

	ROA	ROA	ROA
Trans	-0.0277 *** (-6.0673)	-0.0289 *** (-5.7402)	-0.0286 *** (-5.6152)
GDPG	1.001 -0.4894	0.756 -0.3817	0.77 -0.3858
ia		-1.079 (-1.0929)	-1.091 (-1.0967)
size			-0.0362 (-0.2949)
_cons	1.037 *** -7.289	1.883 ** -2.4994	2.785 -0.8806
adj. R-sq	0.6732	0.6725	0.6692

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; The t-statistic is in parentheses.

4 Endogeneity Treatment

To address potential endogeneity issues between the degree of marketization transformation and platform performance, a two-stage least squares regression (2SLS) was performed by using the degree of transformation lag by one period (L. trans) as an instrumental variable. In the first stage of regression, the coefficient of L.Trans is significantly positive at 1% level (coefficient = 0.883, $t = (16.7078)$), the previous degree of transformation has a significant positive impact on current degree of transformation, and the instrumental variable has strong explanatory power. In the second phase of the regression, the coefficient of Trans was still significantly negative at 1% level (coefficient = -0.0218, $t = (-4.9934)$), but the absolute value of the coefficient was reduced compared to the baseline regression, but the negative influence was still significant; The coefficient of ia turned to a significantly positive correlation at the 10% level (coefficient = 0.329, $t = (-1.8588)$); The size coefficient is significantly negative at 5% level (coefficient = -0.111, $t = (-2.2286)$); The GDPG coefficient was negative but not significant ($p > 0.05$). The R^2 adjusted for Phase 2 was 0.3131, in line with the statistical characteristics of instrumental variable regression (2SLS).

To test the moderating effect of artificial intelligence (ia) on the relationship between the degree of marketization transformation and platform performance, a regression model with interaction terms was constructed. Model 1 is the benchmark regression, and model 2 incorporates ia and Trans \times ia interaction terms, with the Trans coefficient still significantly negative at the 1% level (coefficient = -0.0295, $t = (-5.5525)$); The coefficient of ia was significantly positive at the 5% level (coefficient = 0.579, $t = (2.4329)$); The coefficient of the Trans \times ia interaction term was significantly negative at the 1% level (coefficient = -0.0404, $t = (-3.0845)$). The coefficient signs of the control variables GDPG, ia, and size were consistent with the baseline regression and were not

significant ($p > 0.05$). The adjusted R^2 of Model 2 was 0.6642, it indicates that the moderating effect model was reasonably set. Moderating effect regression results are shown in Table 3.

Table 3. Regression Results of moderating effects: The Role of patent quantity

	ROA	ROA
Trans×Ia		-0.0404 * * * (-3.0845)
Trans	-0.0286 * * * (-5.6152)	-0.0295 * * * (-5.5525)
Ia		0.579 * * (-2.4329)
GDPG	0.77	0.728
size	-0.3858	-0.3621
_cons	-0.0362 (-0.2949)	-0.0374 (-0.3047)
	2.785	2.876
	-0.8806	-0.9121
N	136	136
adj.R-sq	0.6692	0.6642

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; The t-statistic is in parentheses.

Model 1 was the benchmark regression, and the coefficient of Trans to ROA was significantly negative at the 1% level (coefficient = -0.0286, $t = (-5.6152)$). Model 2 examines the effect of Trans on tatr, and the coefficient of Trans is significantly negative at the 10% level (coefficient = -0.00165, $t = (-1.9662)$), the increase in the degree of transition reduces the asset turnover rate in the short term. Model 3 included both Trans, tatr and Trans×tatr interaction terms, and the coefficient of tatr was significantly negative at the 10% level (coefficient = -2.638, $t = (-1.7075)$); The coefficient of the Trans×tatr interaction was significantly negative at the 1% level (coefficient = -0.593, $t = (-2.9731)$); The Trans coefficient was significantly negative at the 1% level (coefficient = -0.0530, $t = (-3.8775)$), and the absolute value increased compared to Model 1. The adjusted R^2 for the three models was 0.6692, 0.8555, and 0.7107 respectively, satisfying the basic conditions for the mediating effect test. Mediating effect regression results are listed in Table 4.

Table 4. Results of mediating effect regression: The Role of asset turnover rate

	ROA	tatr	ROA
Trans	-0.0286 * * * (-5.6152)	-0.00165 * (-1.9662)	-0.0530 * * * (-3.8775)
Trans×tatr			-0.593 * * * (-2.9731)

tatr			-2.638 *
			(-1.7075)
GDPG	0.77	0.158	0.986
	-0.3858	-0.5921	-0.5436
Ia	-1.091	-0.114	-1.269
	(-1.0967)	(-1.1857)	(-1.4986)
size	-0.0362	-0.0423	-0.0363
	(-0.2949)	(-0.9350)	(-0.3019)
_cons	2.785	1.235	3.283
	-0.8806	-1.097	-1.0852
N	136	136	136
adj.R-sq	0.6692	0.8555	0.7107

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$; The t-statistic is in parentheses.

5 Conclusion

The current market-oriented transformation of local government financing platforms presents a phased feature of "explicit short-term costs and implicit accumulation of long-term value", forming a corresponding relationship of "deviation between short-term performance and expectations and gradual alignment of long-term logic".

H1 believes that the increase in the proportion of operating income at the business operation level requires the platform to actively divest low-benefit public welfare projects and cultivate new market-oriented businesses, and the investment in early market research, project incubation. directly pushes up operating costs; In terms of governance structure, the optimization of the independence of the board of directors and the market-oriented selection of senior executives broken the original administrative management model, and the integration of the new and old decision-making mechanisms has led to fluctuations in short-term decision-making efficiency. In terms of financing capacity, the marketization of bond issuance rates and the increase in the proportion of direct financing require the platform to build an autonomous credit system, and additional costs will be borne for the cultivation of trust among initial investors, the maintenance of credit ratings, and the expansion of financing channels. The combined short-term cost pressure has yet to manifest the positive performance empowerment effect of the transformation, but the long-term value of the transformation will be gradually released as the new business gradually generates revenue, the governance mechanism matures and the autonomous credit system takes shape.

H2 holds that the asset turnover rate (tatr) plays a mediating role between the marketization transformation of the platform and performance, but in the mediating effect test, the coefficient of Trans to tatr is significantly negative at the 10% level. This result reflects that in the current transformation process, the efficiency of resource allocation lags behind the pace of transformation advancement, the progress of divesting public welfare assets is slow; some assets used for traditional infrastructure are still idle or

operating at low efficiency due to long project cycles and unclear return mechanisms, and the newly added operating assets have not achieved full-load operation due to insufficient market development and limited customer accumulation.

H3 believes that fiscal dependency plays a mediating role between platform marketization transformation and performance. It indicates that the transformation has begun to drive the platform to reduce its reliance on policy support such as government subsidies, land allocation, and fiscal bottom-line support, and gradually build self-sustaining capabilities by optimizing business structure and improving operational efficiency. Although this mediating effect did not show a significant positive correlation in the benchmark regression, the structural value has emerged, that is, the increase in the fiscal self-sufficiency rate means that the platform's reliance on government credit has weakened and a market-oriented credit foundation has been gradually established; The platform's resource allocation has shifted from "meeting government policy goals" to "meeting market demands", with funds and assets concentrating in high-yield area. As the platform's self-sustaining ability continues to grow, the positive mediating effect of fiscal dependence will become more pronounced.

H4 hypothesized that artificial intelligence plays a positive moderating role, the ia coefficient is significantly positive at the 5% level, and the $\text{Trans} \times \text{ia}$ interaction term coefficient is significantly positive at the 1% level, it shows the expected positive moderating effect. This phenomenon stems from the current "input-transformation-return" gap in platform. From the perspective of artificial intelligence direction, it is mostly concentrated in the upgrading of traditional infrastructure technology, which is combined with emerging fields with strong market demand, resulting in a relatively low matching degree between innovation achievements and market demand; As the transformation deepens, if it can adjust the direction of artificial intelligence and improve the transformation mechanism, then ia plays a positive moderating role in amplifying the impact of transformation on performance.

H5 assumes that GDP growth rate (GDPG) plays a positive moderating role between platform marketization transformation and performance, that is, the higher the regional economic growth rate, the more significant the positive impact of transformation on performance. However, the coefficient of GDPG was not significant in either benchmark regression, endogeneity treatment or moderating effect test, and the moderating effect was not verified. The core reason lies in the insufficient synergy between the platform business and the regional economy, that is, the platform business is still dominated by traditional infrastructure, with a low degree of integration with regional strategic emerging industries and characteristic industries, and fails to expand the profit space based on the market demand brought by regional economic growth; There is a lack of synergy between regional economic policies and platform transformation policies. Local governments have not fully guided platforms to participate in industrial chain division of labor and undertake market-oriented projects, resulting in regional economic dividends not effectively alleviating the short-term pressure of platform transformation. If business synergy and policy linkage can be strengthened, the moderating effect of GDP growth is expected to be gradually unleashed.

The endogeneity processing results also show that the coefficient of enterprise size to ROA is significantly negative at the 5% level, reflecting that the larger the platform,

the more difficult it is to adjust existing business and optimize personnel structure, and the greater the short-term cost pressure of transformation. Overall, the negative impact of the current transformation on performance is a short-term phenomenon during the tough period, while the positive effect of fiscal self-sufficiency is emerging and the continuity of the transformation is being verified. The platform is gradually moving away from government credit dependence and towards market-oriented operation, and is in a critical turning point of "from negative to positive".

To ensure the enforcement of separating government and enterprise functions and advancing market-oriented transformation, targeted mechanisms should be established: adopt third-party audits and performance contracts to clarify boundaries and restrain non-market intervention, optimize official incentives by emphasizing debt risk and transformation performance. These measures break soft budget constraints, resolve principal-agent problems, and support the substantive transformation of financing platforms.

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