



[TRIVIUM PRIMER]

Understanding China's Social Credit System

A big-picture look at social credit as it applies to citizens, businesses and government

Read it online at: socialcredit.triviumchina.com/what-is-social-credit

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THE QUICK VERSION

Executive summary

No time? No problem. We've distilled this report down to a few critical takeaways.

- China's social credit system is primarily a tool for regulating corporate behavior in the Chinese market.
- It consists of three main components: a master database, a blacklisting system, and a mechanism for punishing bad credit and rewarding good credit.
- The master database is called the National Credit Information Sharing Platform. It's controlled by the central government, and it stores hundreds of datasets on companies and individuals. About 75% of the data in this database will be open to the public.
- Companies and their legal representatives, as well as individual citizens, can be blacklisted for severely violating any number of existing operational regulations.
- The key violations that result in blacklisting are:
 - Not honoring legal obligations
 - Failing to pay employees (especially migrant workers)
 - Fraudulent financial activity
 - Tax evasion
 - Import-export offenses
 - Violations of cyberspace laws
 - Violations of environmental laws / excess energy consumption
 - Endangering public health and safety
- The blacklisting system is complicated. There are hundreds of different blacklists controlled by different state agencies. Each agency has the power to blacklist companies and individuals that fall under their own jurisdiction. For example, the Ministry of Ecology and Environment can blacklist companies for environmental violations. The Cyberspace Affairs Commission can blacklist companies for violations of cyberspace law. The tax bureau can blacklist tax evaders.
- Under the "Unified Rewards and Punishments" framework, being blacklisted by one state agency means being subject to punishments and restrictions by all state agencies. For example, companies that violate import-export laws and are subsequently blacklisted by Customs will be penalized by the courts, the banks, environmental regulators, market regulators, and several dozen other bodies.
- Companies that have an exemplary credit records will be "redlisted". Companies redlisted by one state agency will be rewarded by all state agencies. Rewards include lower taxes, fast-tracked bureaucratic procedures, preferential consideration during government procurement bidding, and other perks.
- A company's social credit records, including blacklist and redlist information, qualifications and permits, and safety / production inspection results, are openly published on a new website, called the National Enterprise Credit Information Publicity System.
- The social credit of a company is directly tied to the personal credit of its key personnel. If a company violates regulations, the personal credit of senior management may be affected. Conversely, if key personnel have poor personal credit, this may impact the company's success in government procurement bidding.
- Companies should prepare by:
 - Not getting hung up on scores
 - Keeping a close eye on credit records
 - Actively managing credit data
- Determining which social credit regulations apply to them
- Reassessing HR and vendor vetting processes
- Looking for advantages
- The SCS has a secondary use: incentivizing good financial and civic behavior among citizens.
- There is no such thing as a national social credit score for individuals. The central government doesn't issue credit scores. It does, however, keep a master database of personal credit files, to which various state agencies, banks, and other groups are given access.
- Social credit data on citizens is primarily gathered by the government departments in each person's city of residence. The local police, courts, tax bureau, citizen affairs office, health and family planning bureau, and many other bodies submit records on local residents to the master database. These records are then included in each citizen's social credit file.
- Citizens can be blacklisted for failing to comply with court-ordered judgments, behaving badly on planes and trains, engaging in fraud, and other violations. Blacklisted citizens are publicly named and shamed.
- The central government is also using the social credit system to ensure lower levels of government are compliant with national directives, are paying their bills, and are meeting their policy targets.

[INTRO: MEET THE SCS]

In 2014, China's State Council released a landmark policy announcing the establishment of a national social credit system (SCS).

The initiative was designed to “promote the traditional value of integrity” and increase the negative consequences of dishonest behavior. While the international community is fixated on the SCS as it relates to citizens, in actuality, the system isn't just directed at individuals, but rather has three distinct and equally-important targets: **citizens**, **businesses**, and the Chinese **government** itself.

Many have voiced concern about the system's potential to evolve into an Orwellian panopticon of social control. While that's a valid worry, it's also a skewed and incomplete picture of what the SCS is designed to do.

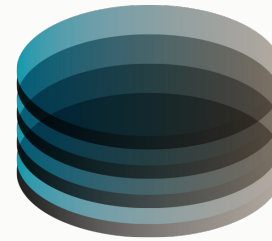
As we'll see over the following pages, the SCS was created first and foremost as a tool for controlling corporate behavior

(both for domestic companies and foreign companies doing business in China), second as a mechanism for evaluating the “creditworthiness” of individuals from both a financial and behavioral perspective, and third for solidifying Party control over the State.

The SCS, which is slated to be fully operational by the end of 2020, is made up of three interconnected components:

1. *A master database*
2. *The blacklisting system*
3. *A punishment and rewards mechanism*

The central government hopes to use these three components in tandem to guide China through its next phase of development. Of course, in order to achieve such a sweeping goal, the government needs data. Lots and lots of data.



The master database

The national database consolidates social credit data and facilitates data sharing between government agencies.

MORE ON PAGE 9



The blacklisting system

Blacklists (for bad behavior) and redlists (for good behavior) add an extra layer of enforcement to existing laws and regulations.

MORE ON PAGE 12



Rewards and punishments

Government bodies join forces to penalize those with bad credit records, and reward those with good credit records.

MORE ON PAGE 17

BEFORE WE GET STARTED...

What social credit isn't

There's a whole lot of misinformation floating around about social credit, and that misinformation has given rise to two fundamental misunderstandings about what the system is and how it works. These have been repeated so often that they've been widely accepted as fact. So before we talk about what social credit actually is, we're going to take a minute to clear the air.

MYTH 1

Everyone in China has a social credit score

Typical story goes like this: Chinese citizens are all issued a numerical social credit score by the central government, and this dictates their place in society. Those whose scores fall to a certain number are ostracized or blacklisted.

But there's one big problem with this story: **there is no national scoring system** (yet). That's right: the central government has not issued a single social credit score to anyone.

There are, however, national social credit records on everybody, which the central government maintains in a master database. Though the database contains lots of information, it doesn't issue scores.

That being said, scoring is happening in some places. That's because many different entities are using the central government's social credit records to test out and implement their own scoring systems. There are three main types of scoring systems based on social credit data.

1. Citizen credit scores

A few city governments are independently piloting programs that use the central social credit database to give city residents a social credit score that's only applicable locally.

Not all cities in China are running these scoring programs. And to make matters more confusing, in the places that do have scoring systems, scoring scales differ widely from city to city. Some cities rate on a 0-200 scale, some on a 0-1000 scale, so there's no unified scoring mechanism, and scores can't really be compared between people from different localities.

This throws a wrench in the "Black Mirror" scenario in which everyone in China judges each other's human worth based on a point value. If a citizen of Suzhou has a credit score of 175, that would be considered excellent credit under the local system; but under the Hangzhou system, 175 would be considered horrible credit. So, unless the national government decides to start issuing unified scores – and at this point, there's little indication that's going to happen – that particular nightmare won't come to fruition.

It remains to be seen if every city will eventually have a scoring system, and if those systems will eventually be standardized nationwide. We cover all this in more detail in our [section on citizen social credit](#). But as of September 2019, what's important for Chinese citizens isn't their city credit score, but the contents of their national credit file.

2. Corporate credit grades

Companies will also get a series of scores based on the central government's data. These scores will be issued by credit state agencies, industry associations, and the government itself. These scores will rate the company's service quality, legal compliance, and level of corporate social responsibility. You can read more about this in our [section on the SCS for enterprises](#).

3. Financial credit scores

Banks will also be incorporating some social credit data into their financial credit records. In the near future, those records will be used by credit rating agencies to issue a variety of scores, both to individuals and to companies, primarily for lending purposes.

MYTH 2

There's only one social credit system

The second pervasive myth going around is that there's only one social credit system in China. There are actually many social credit systems, and those fall into two main categories:

1. Private social credit systems

2. The national social credit system

These two things get mixed up all the time, but they're actually super different.

Private social credit systems are run by private companies. There are dozens of them currently operating in China. These systems are kind of like loyalty rewards programs: they assign scores to the company's customers, rewarding high scores with perks and discounts. There are no penalties for low scores. They're also optional: if you don't want to participate, you don't have to. These private systems are classified as "social" credit because they base some of their scoring on the consumer's behavior.

The national social credit system is something else entirely. It's run by the government. It isn't fully operational yet, and it's supposed to officially launch at the end of 2020. The national SCS is not so much a nationwide scoring system as it is a ginormous, centralized database of credit files on people, companies, and organizations. Credit files include both financial data, like debt repayment history, and behavioral data, like court records and civic acts. There are penalties for poor credit and rewards for good credit. And the system isn't optional: everyone will have a credit record, whether they like it or not.

This report will focus almost exclusively on the nationwide public social credit system, but if you're interested, we do include a little info about private SCS in our [section on tech platforms](#).

	The national SCS	Private SCS
Who runs it	Run by the Chinese government	Run by private companies
Implementation status	Running, but not at full speed yet, still in pre-beta pilot mode	Dozens are already operational
Scoring systems	No nationwide scoring system – no one has been assigned a national social credit score (yet)	Assigns scores to customers and users
Participation	Non-optional: everyone must participate	Optional: if you don't like it, you can take your business elsewhere
Targets	Includes files on people, companies, organizations, and government departments	Only the company's customers or users are rated
Punishments & rewards	There are penalties for bad credit and rewards for good credit	There are only rewards for good credit

Social Credit: The big picture

SECTION 1.1

The thinking behind the SCS

Though the landmark policy that kicked off the construction of the national SCS was released in 2014¹, the concept of social credit has actually been bouncing around the top echelons of the Chinese government since the late 90s, with the release of a seminal paper from the Chinese Academy of Social Sciences.

At the time, China had only really just begun to open up and integrate into international markets. The growing pains of this massive social shift gave rise to widespread fraud, patent and copyright infringement, consumer safety scandals, and a general disregard for contractual terms and legal agreements. All of this led to a low-trust environment in which consumers, businesses, and other market actors treated each other with suspicion.

Trust between the people and the state was in equally poor straits. The ravages

of the Cultural Revolution, the effects of a weak legal system, and rampant corruption decimated public faith in the rule of law.

Many of these problems persist today, and as China has increasingly plugged in to the global economy, these trust issues, as well as issues surrounding corporate debt, credit, and accountability, have consistently created stumbling blocks that policymakers believe have stunted the growth of the socialist market economy.

In his seminal 1999 paper on social credit, sociologist Lin Junyue, who returned to China after studying data collection at Penn State, lamented the lack of “integrity” in the marketplace, an issue he proposed to

solve through the creation of a nationwide credit system modeled on Western credit reporting frameworks, but expanded and adjusted for the Chinese context. He suggested a data-driven platform which would collect financial and behavioral data on companies and individuals, and which would be underpinned by a rewards and punishments mechanism to enforce accountability.

Though Lin had a lot to say about credit as it relates to individuals, he wasn’t so much focused on moral and civic “uprightness” as he was on honesty as the underpinning of a healthy market environment. Interestingly enough, the SCS as it exists today is almost identical to the one Lin proposed almost 20 years ago.

In 2017, Wu Weihai, a key member of a think tank affiliated with the NDRC (the state ministry responsible for the implementation of the SCS), released a white paper called “Credit of a Great Nation” (大国信用).² In it, he breaks down the central government’s thinking on social credit, and dives deep into the reasoning that inspired the system’s construction.

Like Lin Junyue before him, Wu stresses that markets are made up of individuals. And a person’s willingness to fulfill their financial obligations can’t be divorced from their willingness to fulfill their personal obligations. Likewise, the trustworthiness of an individual can’t be divorced from the trustworthiness of society as a whole. Wu quotes a whole lot of Confucius in the course of explaining all this, specifically: “人而不信，不知其可也”，or:

“There’s no path forward for those who don’t keep their word.”

We’re paraphrasing here, but basically, he goes on to say that untrustworthy societies give rise to unstable markets and corrupt governments, corrupt governments function inefficiently and breed more distrust, unstable markets undermine social harmony, on and on in a vicious cycle. Since all three of these factors are interconnected and must influence each other, Chinese researchers like Wu believe they must be tackled with a common, holistic solution.

And that, in essence, is how Chinese policymakers have conceptualized the national social credit system: as an attempt to harness technology to effect that solution.

As we touched on in the introduction, the social credit system is comprised of three interconnected components:

1. *A master database*
2. *The blacklisting system*
3. *A punishment and rewards mechanism*

Over the next several sections, we’ll dig into those components in depth, and outline how they all fit together.

SECTION 1.2

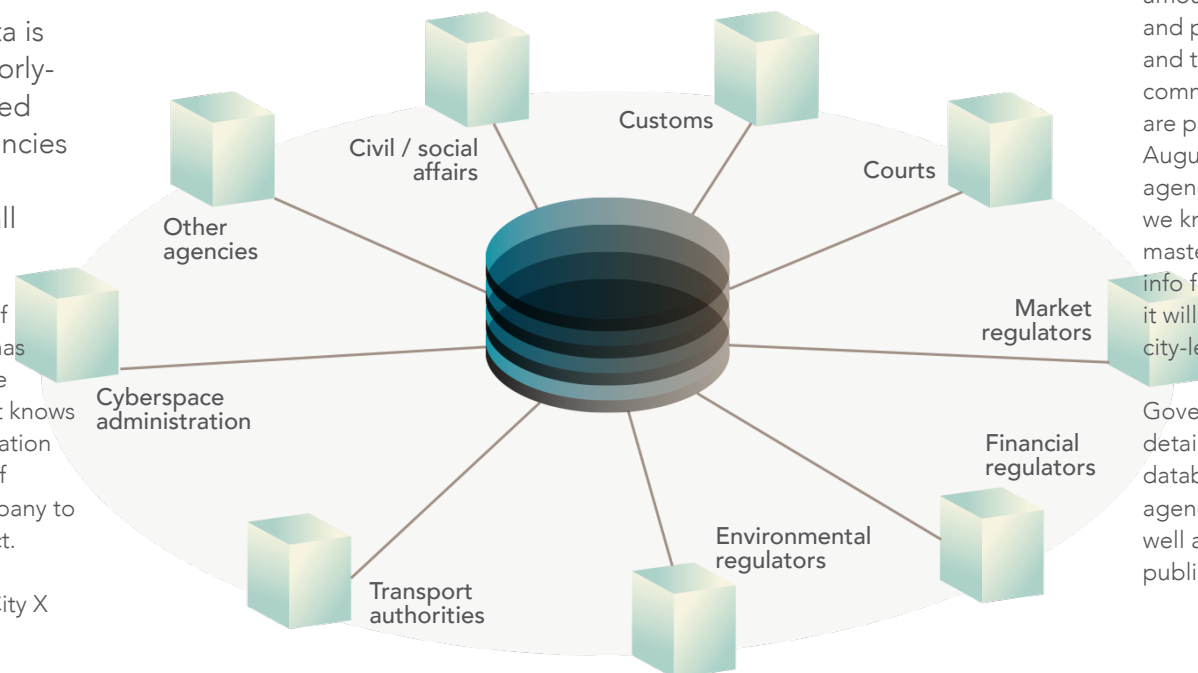
Component 1: The master database

In order to realize its ambitious plans for market regulation, the Chinese government needs lots of data. Thing is, the government already has lots of data. It has identity records, financial records, tax records, safety inspection records, traffic violation records, police reports, court records, and on and on.

But there's a problem: this data is spread across hundreds of poorly-connected databases controlled by dozens of government agencies that don't talk to each other, creating what policymakers call "data islands".

Maybe the General Administration of Customs knows that Corporation X has a history of import violations, and the Ministry of Ecology and Environment knows they're big polluters, but that information is unknown to the city government of Shanghai, who selects this risky company to build a big local infrastructure project.

Or maybe the local government of City X



is often irresponsible with budget money and doesn't meet its policy targets, but this information gets lost in a sea of records, or hidden by corruption and nepotism, and the central government can't pinpoint the source of local woes.

Or perhaps shady Travel Agent X bounces from city to city, selling shoddy, dangerous tours and counterfeit tickets, but has only ever been reprimanded by local travel bureaus, and never taken to court. Without a central record of the violations, it's all too easy for this person to continue running scams.

So from the Chinese government's point of view, the first step of regulating the market (and the individuals within it) is to get all this data collected in one central place

where everyone who needs access to the information can get it.

That, essentially, is what the current incarnation of the social credit system is: a massive push to get all existing data flowing into one database.

That database has already been created. It's called the National Credit Information Sharing Platform, 全国信用信息共享平台 (NCISP).³ NCISP is controlled by the central government, and it's the primary clearinghouse for social credit files on individuals and corporations.

The National Credit Information Sharing Platform

The NCISP already contains a staggering amount of information, submitted by city and provincial governments, state agencies, and the central bank. There's a national committee of government departments that are participating in the SCS buildout. As of August 1, 2019, there are 46 government agencies on the committee, many of whom we know will add their data sets to the master credit files.⁴ The NCISP will collect info from agencies on a national level, and it will also suck up data from provincial- and city-level government departments.

Government documents lay out in great detail exactly which records the central database will contain, which government agency will contribute which datasets, as well as which records will be open to the public and which won't.

The most recent document about the datasets that each government agency will contribute to the central database was released in 2016.⁵ The document outlines 400 different categories of datasets that will be included in the master database.

We've also seen some documentation from a few different provinces and cities outlining exactly what will be in their databases, and these documents are even more wide-ranging. The Hubei provincial database, for example, will contain nearly 8000 data points.⁶ The Suzhou city database will contain 130 datasets.⁷

Data on enterprises

One of the more interesting points uncovered through looking at the 2016 central government document (and related sources) is that around 80% of the datasets in the national database relate to companies, rather than individuals, and 75% of that is earmarked as "open to the public".⁸ This will include data on both domestic corporations, and foreign companies doing business in China.⁹

A newer document from 2019 spells out the types of records each corporate social credit file will contain.¹⁰ [FIG 1.2-B]

Data on individuals

A selection of different documents also give us a look into what kind of information is generally being compiled on individuals. [FIG 1.2-C]

We also know what isn't being gathered on individuals. There are specific prohibitions on the inclusion of data about the following things in social credit records:

- Religious beliefs
- Fingerprints
- Genes
- Medical history
- Blood type

Contrary to what has been reported, there is also no evidence to support the claim that items purchased online through ecommerce shopping platforms are currently being recorded in the national SCS database. We dig a little deeper into this in our [section on tech platforms](#).

How data will be used

The central government is offering up different levels of access to SCS data to different public and private sector entities, to conduct different types of credit assessments. Remember, the Chinese definition of "credit" here extends beyond the financial sphere, and means both one's ability to repay debts, as well as one's trustworthiness, or sense of civic responsibility.

State agencies will use the data to assess the compliance of people, companies, and organizations within their jurisdiction.

Local governments will use it to assess the legal, civic, and professional conduct of citizens and businesses in their areas.

FIG 1.2-B: What's in a corporate social credit record?

14 BASIC RECORD TYPES

- Basic company registration data
- Equity structure (shareholders, legal representative, stock info)
- Branches / subsidiaries
- Executive-level personnel
- Annual reports
- Tax information (taxes paid and owed, tax rate, tax period, etc.)
- Social insurance payment history
- Provident fund deposit history
- Administrative licenses
- Administrative penalties received
- Inspection records
- Awards and honors
- Utility payment history
- Red and blacklist records

Financial institutions will use it to find out whether or not a person or company poses a lending risk.

The central government will use the data to assess how well local governments are complying with national directives and how well they're servicing local populations.

Tech platforms will assist the government in punishing and rewarding credit offenders, assess lenders on fintech platforms, and offer preferential services to those with good credit.

Industry associations will use it to

assess the service quality, solvency, and corporate responsibility of companies and professionals in their sector.

We'll cover all of these use cases in depth in later sections.

Risk prediction

There are also hopes that social credit data can be used as a risk prediction tool, rather than just a mechanism for reactive punishment. In other words, instead of just issuing punishments for bad credit after violations happen, they want to use

FIG 1.2-C: Data collected on individuals

BASIC IDENTITY INFORMATION

- Name
- ID number
- Gender
- Other basic identifying data

EMPLOYMENT INFORMATION

- Professional qualifications
- Registration as legal representative of any company

FINANCIAL INFORMATION

- Tax payment history
- Bank loan repayment record
- Social security payment
- Utility and telecom bill payment history
- Child support payment history

LEGAL HISTORY

- Civil and criminal court records
- Failure to carry out court-ordered judgements
- Incarceration
- Recidivism

POLITICAL DATA

- Communist Party membership and status

REGULATORY AND LEGAL VIOLATIONS

- Traffic violations
- Violations of professional ethics
- Evasion of military duty
- Academic fraud
- Patent or copyright fraud
- Telecom scamming
- Insurance fraud
- Lying or cheating on examinations
- Serving as the legal representative of a company found in violation of regulations

CIVIC BEHAVIOR

- City volunteering
- Blood and bone marrow donation
- Charitable contributions
- Timely return of library books
- "Good deeds"

OUTSTANDING ACHIEVEMENT RECORDS

- Awards and recognition received for innovation, patents and inventions
- Literary awards
- Heroism awards
- Various "good citizen" awards

computational tools to determine targets for inspections or take proactive action before problems (like public safety incidents or tainted food scandals) actually occur.

This idea applies more to companies than individuals. A 2017 policy states that those companies whose records have been flagged in three areas will be placed on a "Big Data Alert List", and an "early

warning" will be issued publicly.¹¹

Final thoughts

The data contained in the database comes from three major sources:

1. Records generated by the government in the normal course

- of administration
2. Inspection records
3. Self-submitted data

With that in mind, it bears pointing out:

- **This data isn't high-tech.** Though there's a lot of hype surrounding Beijing's plans to use next-generation technologies like remote sensing, AI and facial recognition to gather and process social credit data, as it stands, this information is being gathered by human beings and entered manually via Excel spreadsheet. While high-tech pilots are being carried out in some sectors, the system is still a far cry from an all-seeing, all-knowing digital panopticon.
- **This data isn't new.** Most of records contained in the master database are records the government was already generating in the course of its daily operations. There's only one new major type of data record that was created specifically for use with the social credit system, and that is blacklist and redlist records.

In the next section, we'll explore the blacklisting system, and how this new type of government record is being used.

SECTION 1.3

Component 2: The blacklisting system

The blacklisting system is the second piece of the SCS puzzle. While blacklisting has attracted a good deal of attention, it's poorly understood. But there's a good reason for that: the system is complicated, and the Chinese government hasn't provided a clear, concise explanation of what it actually is.

When we hear the word "blacklist", it's easy to imagine a single master file of bad actors stored in some secret lockbox.

Thing is, there is no master blacklist. On the contrary, the word "blacklist" is a catchall term for the many hundreds of different lists authorities use to penalize those who are in violation of various regulations.

A few of these blacklists target **individuals**: There are blacklists for people that default on court-ordered judgements, blacklists for tax evaders, and blacklists for phone scammers, among other things.

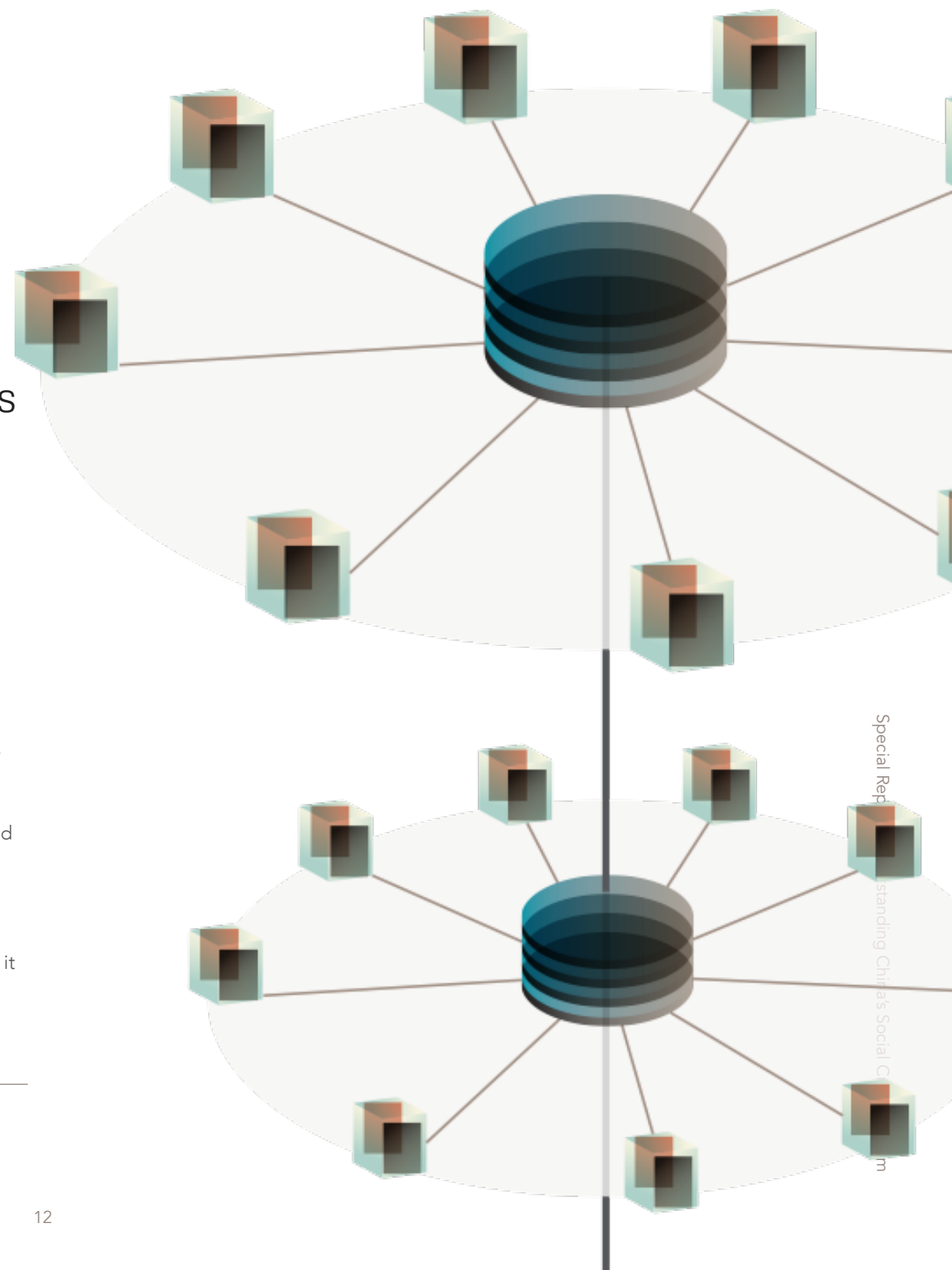
The majority of them, however, target

companies and organizations. There are hundreds, if not thousands, of corporate blacklists, and more are announced every day. There are blacklists for polluters, blacklists for companies that fail to pay wages, blacklists for disseminating banned content online, for overloaded transport vehicles, for social insurance fraud, and many more.^{12, 13}

The system is, frankly, a bit of a mess. But it didn't start out that way.

The first blacklist

The first blacklist arrived on the scene in 2013. It was created by the Supreme



People's Court to crack the whip on people and companies who failed to follow through on court-ordered judgements. In other words, you get sued, you're ordered to pay RMB 1 million in damages, you don't pay (despite having the ability to do so), and on the blacklist you go. You might also get backlisted for things like failing to make court-ordered child support payments. The people and companies that end up on this list are called "court defaulters" (失信被执行人), more popularly referred to as laolai (老赖).

The court defaulter blacklist still exists today. It's the biggest and most well-established blacklist in the country, and there's [a public website](#) where you can search through it.

The courts also created a complementary punitive blacklist for those who were barred from luxury consumption of any kind (限制消费人员). Inclusion on this list means you can't buy plane tickets or high-speed rail tickets, you can't renovate your house, stay in high-end hotels or send your kids to swanky private schools. It too has a [searchable website](#).

The blacklist system grows

In recent years, an increasing number of state bodies created blacklists of their own, some of which also have their own public search portals. [FIG 1.3-B]

There's a lot of overlap between these lists, and inclusion on one can also mean inclusion on another. If you're on the court defaulter blacklist, for example, there's

FIG 1.3-B: Major national blacklists

Agency that owns it	What it is	Link
Supreme People's Court	Court defaulter blacklist 失信被执行人	Search the list
Supreme People's Court	For those banned from non-essential consumption 限制消费人员	Search the list
NDRC	Targets seriously untrustworthy entities involved in the financial sector 涉金融严重失信人	See an example
State Taxation Administration	Targets tax evasion and fraud 重大税收违法案件当事人	Search the list
Customs	For untrustworthy importers and exporters, smugglers, etc. 海关失信企业	Search the list
State Administration of Market Regulation (probably)	For acts of serious dishonesty in food and drug production and marketing (this list is still under development) 食品药品生产经营严重失信者	Policy source doc
Ministry of Human Resources and Social Security	For companies that owe unpaid wages to migrant workers 严重拖欠农民工工资用人单位及其有关人员	See an example
China Aviation Administration	The no-fly list	Policy source doc
China Railway	The no-ride list	Policy source doc

a good chance you're on the luxury-consumption blacklist; and inclusion on the luxury-consumption blacklist automatically gets you added to the no-fly list and the no-high-speed-rail list as well.

Blacklist party!

These blacklists were implemented around the same time that the social credit system was getting off the ground (2013-2014). As social credit policy has developed, the NDRC (the state body responsible for the implementation of the SCS) has called for the expansion of the blacklist system into other areas of market regulation, urging government agencies to identify more use cases for blacklists and to create more of them: ¹⁴

[We urge] various units such as trade associations and chambers of commerce, big data enterprises, financial institutions, news media, social organizations and individual citizens to provide information on the trustworthiness and dishonesty of relevant subjects to the appropriate government departments, [who should] explore and study them as an important reference for the identification of [new] blacklists and redlists.

And boy did they ever. State entities at all levels of government began churning out

ever-more-specific blacklists applicable to the businesses and individuals within their own jurisdictions. Some of these newer blacklists only target a certain geographical area, others are national, but only target a certain industry. You can see a small sample in [FIG 1.3-C].

You’ll notice that the primary focus of most of these blacklists is on the regulation of malpractice in the business environment, rather than on making sure everyone is a good communist, or some other overtly Orwellian goal.

Blacklists enforce existing laws

It bears pointing out that the blacklisting system doesn’t (usually) create new set of offenses. Blacklisting happens due to violating existing regulations or breaking the law. In other words, it adds an extra layer of enforcement to rules already in place, rather than create a new set of rules.

Getting on a blacklist

Companies and individuals get blacklisted

for different reasons. Major blacklist-worthy offenses for companies include:

- Not honoring legal obligations
- Failing to pay employees (especially migrant workers)
- Fraudulent financial activity
- Tax evasion
- Import-export offenses
- Endangering public health and safety

But this list is set to get much longer as regulators in the fields of medicine, travel, education, sports, agriculture, e-commerce, energy, and others start to create and hone their own lists to discourage behavior like:

- Excess energy consumption
- Polluting the environment or endangering ecology
- Operating without the right licenses
- Safety violations and accidents
- Counterfeiting, fraud, and IP violations
- Poor production quality

Generally speaking, individuals are typically blacklisted for a different set of issues.

- Failure to pay court-ordered fines or carry out court-ordered judgements
- Behaving badly on planes and trains
- Tax evasion
- Engaging in scamming

The link between personal and corporate blacklisting

The credit records of a company are tied to the credit records of its key personnel, specifically its registered legal representative. If a company is blacklisted, its senior management may see their personal credit take a hit, and they may be blacklisted as well, or penalized in a

FIG 1.3-C: Examples of existing or announced enterprise blacklists			
Who owns it	Industry affected	Location	Notes
Ministry of Natural Resources ¹⁵	Natural resource survey units (esp. at county level)	National	The announced blacklist will target natural resource survey teams that falsify results.
Haikou property management department ¹⁶	Property management service companies	Haikou, Hainan	Will target property management service companies responsible for “major safety incidents” or other “large-scale incidents”.
National Postal Service ¹⁷	Express delivery providers	National	Will target “untrustworthy” delivery companies.
Fire department ¹⁸	All industries	Weifang, Shandong	Enterprises will be blacklisted for serious fire safety incidents that result in loss of life, repeated minor fire safety incidents, refusal to comply with fire safety regulations, fraudulent activities related to fire safety.
Nanning bureau of education ¹⁹	Extra-curricular education institutions	Qingxu District, Nanning, Guangxi	Training schools will be blacklisted for failing to legally register, operating in unsafe locations, employing uncertified or unqualified teachers, and other violations.
Cyberspace Administration of China ²⁰	All industries	National	Companies and individuals will be blacklisted for “disseminating information that violate social morality, business ethics, honesty, or integrity online” or “intentionally providing technology, equipment, or information services for the same purpose.”

way that causes lifelong career setbacks.²¹ Blacklisted individuals can be barred from holding leadership positions at, or founding, other companies, particularly companies operating in the same industry as the one that was blacklisted.

Low credit score = blacklisting, or blacklisting = lower credit scores?

Another big area of confusion is whether or not being blacklisted is tied to some kind of point system. In other words, are companies or people assigned a score or grade, and if the score drops below a certain minimum threshold, they are blacklisted?

In most cases, no. As a rule, blacklisting does not happen as a direct result of any kind of score dropping too low.

For example, landing on the court defaulter blacklist is a straightforward affair: failure to follow through on a court-ordered judgement results directly in blacklisting, not in a deduction of points that then results in blacklisting.

Actually, it tends to work the other way around: getting blacklisted may directly result in a lower grade or reduction of points, in situations where points and grades are assigned.

For example, if a company has been blacklisted, credit rating agencies would take this into account when assigning them a financial credit score, and the tax bureau would take this into account when deciding whether or not to award them “Grade A” taxpayer status.

There’s one other area of possible interplay between scoring and blacklisting: companies that consistently have a low grade from various agencies (a low emissions rating from the Ministry of Ecology and Environment, for example) may be more rigorously inspected and would be more likely to be considered as prime candidates for blacklisting.

Getting off a blacklist

Chinese regulators are aware that unless there’s an obvious path through which bad credit can be fixed, the whole idea of the SCS falls apart, so recent policies have placed more focus on standardizing the credit repair process, and clarifying rectification procedures.^{22 23}

That said, these procedures are new, and there’s anecdotal evidence to suggest that correcting credit is easier said than done.

The amount of time that one stays on a blacklist depends on the severity of the violation, and the steps that the person or enterprise takes to rectify the underlying issues. In some cases, blacklisting lasts for six months to a year. In other cases, up to five years. And for corporations, in cases where there has been severe endangerment of public health or safety, blacklisting may be permanent.

Corporate credit rectification

The procedures for fixing bad credit differ depending on the nature and severity of the violation. Uncreditworthy corporate

behavior is classified under one of the following categories:

- Standard uncreditworthy behavior (一般失信行为) – stays on record for 3 months to 1 year
- Serious uncreditworthy behavior (严重失信行为) – stays on record for 6 months to 3 years
- Extremely serious uncreditworthy behavior (特定严重失信行为) – depends

For the first two, rectification involves a bunch of paperwork, proof that the violation has been corrected, proof that key personnel have completed creditworthiness training courses, and promising not to offend again.

Offenses that fall in the “extremely serious” category may be irreparable, and may lead to permanent revocation of business licenses and operational permits.

Individual credit rectification

For individuals, rectifying credit tends to involve providing proof that you’ve rectified whatever situation got you in trouble in the first place (paying off a debt, for example), and undertaking community service, like volunteering, giving charitable donations, or donating blood or bone marrow.

How do you know you’ve been blacklisted?

Herein lies one of the major problems with the current state of SCS implementation: there’s a lot of anecdotal evidence

suggesting that notification systems are weak, and that companies and individuals are often unaware there’s a problem until they say, go to apply for an operational license or book travel and get denied.

That’s what happened to Zhang Yingjie, the Rongcheng citizen profiled by Vice News whose social credit record was damaged when he co-signed a loan on which the other signer skipped out, and was subsequently blacklisted without his knowledge.²⁴ Zhang eventually dug himself out of the hole by fulfilling the terms of the loan, and doing good deeds as stipulated by the government.

Something similar happened to ad agency owner Xie Wen, who only realized he’d been blacklisted when he tried to buy a plane ticket online and was blocked by the system.²⁵

In Xie’s case, his advertising company was sued by another firm over a contract dispute and lost. The judge ordered Xie to pay \$127,000, which he didn’t. Seven months later, without notice, Xie’s name was added to the [court defaulter] blacklist – one that companies are encouraged to check before entering deals.

There are also several examples of companies unaware of their blacklisted status until they were hit with the repercussions.

It’s not that notification never happens

(Chinese MMA fighter Xu Xiaodong, who was blacklisted over failure to carry out the court-ordered reparations in a defamation case, did receive an official letter from authorities), but it is clear that notification is not well-executed, and that the onus is on the blacklisted party to stay informed.

Redlists

Where the stick exists, so exists the carrot. Blacklists have a pretty sibling, called redlists. Redlists are kind of like honor rolls. Model citizens and companies with excellent credit records get added to these, and publicly applauded as credit exemplars.

Redlists are structured along similar lines as blacklists: there are a few big major redlists at the national level, and then a whole series of local redlists at the city and provincial levels. As with blacklists, market regulators are releasing a flurry of redlists that incentivize:

- Maintaining “harmonious” labor relations
- Good social insurance payment records
- Good financial credit
- Product or service innovation
- Active participation in social charities
- Environmental protection and resource conservation

Blacklists and redlists are

public

Blacklists and redlists are a matter of (very) public record. Chinese policy clearly encourages state agencies, media outlets, and anyone else who cares to do so, to publicize blacklist data, both for the purpose of warning the public not to engage with bad actors, and to name and shame offenders in a bid to force them to undertake credit rectification measures.

Both national and local governments maintain a series of websites where blacklist information is published, and blacklists are also often pushed out on the social media channels of regulating agencies and law enforcement.

Further reading

If you’d like to dig into blacklisting in serious academic depth, there are two primary resources on the topic:

China Law Translate

chinalawtranslate.com

SCS expert Jeremy Daum maintains a crowdsourced, crowd-funded portal of Chinese legal documents with a section dedicated to information about the SCS and the blacklisting system.

Rogier Creemers

Mr. Creemers’ piece [China’s Social Credit System: An Evolving Practice of Control](#), is an excellent work on the topic, and is available for free online.

SECTION 1.4

Component 3: Rewards & punishments

What happens if you get blacklisted? Or redlisted?
The answer lies in the third and final component of the national SCS, a framework that regulators call “Unified Rewards and Punishments” 联合奖惩.

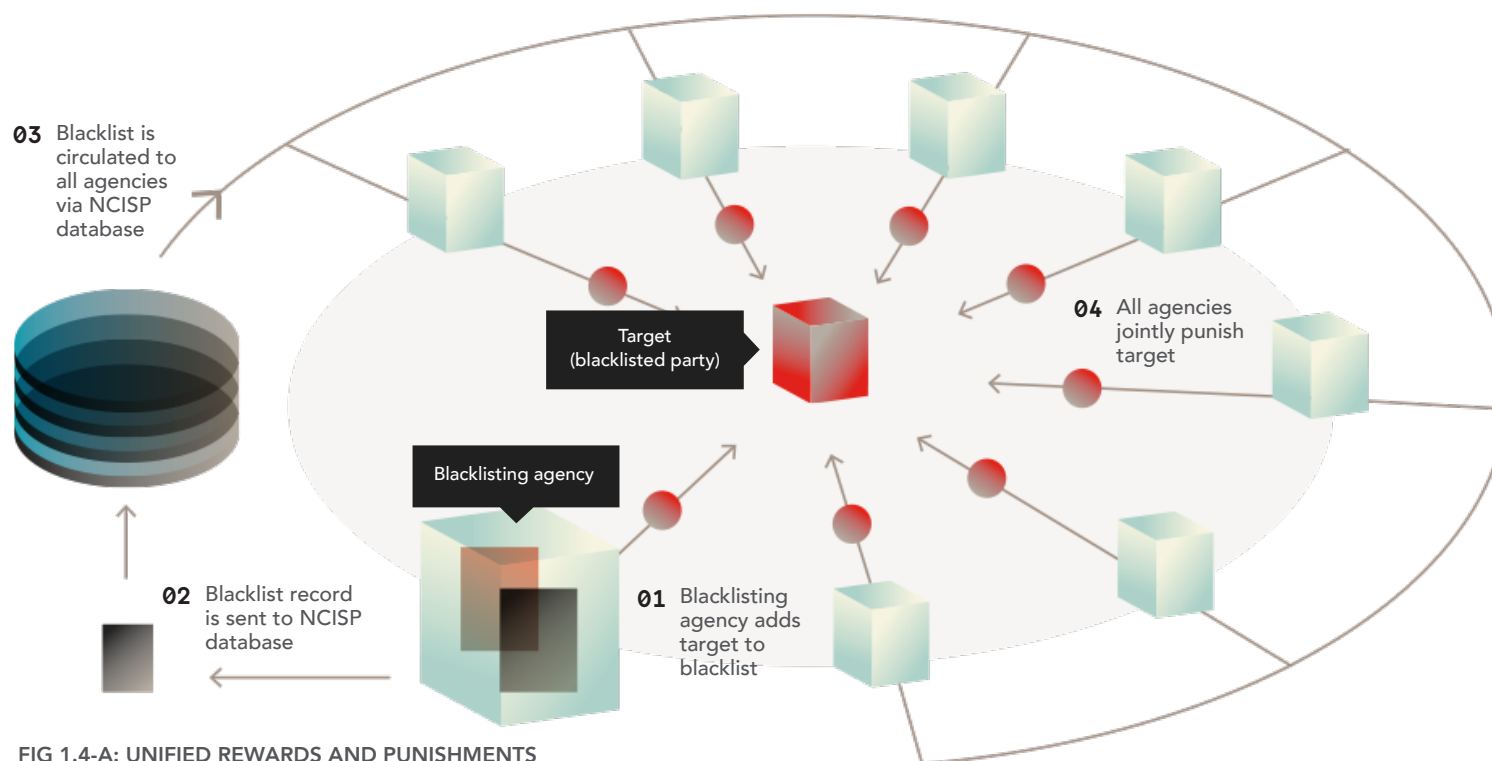


FIG 1.4-A: UNIFIED REWARDS AND PUNISHMENTS

The framework is basically a series of legal agreements in which government agencies promise to enforce each other's blacklists and redlists.

Here's how it works [FIG 1.4-A]:

1. Government agencies sign MOUs (Memorandums of Understanding) with each other, agreeing to honor each others' blacklists and redlists.
2. When one of those government bodies includes someone on a blacklist (or redlist), a record of that is made in the target's social credit file.

3. That credit file is available to all other government agencies via the National Credit Information Sharing Platform.

4. The blacklist target is then not only penalized by the agency who blacklisted them, but by all the other agencies, who each use their own powers to punish (or reward) the blacklisted party.

The goal here is to create an inescapable net through which, as President Xi Jinping put it, “everything is convenient for the trustworthy, and the untrustworthy are unable to move a single step”.

Put more simply, if a person or business has a bad credit record, they'll be peppered with inconveniences and barriers at every turn. If they have a good credit record, everything gets a little easier for them.

Even more simply, get in trouble with one institution, and you get in trouble with all institutions.

Chinese regulators see this dragnet approach to regulatory enforcement as a strong deterrent to rule-breaking, and an equally strong incentive to stay compliant.

Practical Examples

This is probably best illustrated through example, so in this section, we'll lay out how Unified Reward and Punishment plays out through the lens of a four key state agencies.

Example 1: Customs

One of the best-documented examples of Unified Rewards and Punishments in action comes from the General Administration of Customs (GAC), the state body responsible for regulating imports and exports. In mid-2018, several dozen state agencies signed on to help GAC punish:²⁶

...enterprises and their legal representatives (responsible persons), directors, supervisors and senior managers recognized by GAC as untrustworthy entities.

That would include smugglers, import tax evaders, and others who violate customs regulations.

According to policy, GAC itself would punish offenders by:

- Applying more frequent inspections of import and export goods
- Undertaking examinations and verifications of import and export cargo documents
- Strictly supervising over the import and processing of raw materials (which are then exported again after processing)
- Raising import/export taxes
- Other measures

Other agencies would then step in with their own punitive measures:

- The Ministry of Public Security

would not allow the legal representative of the offending company to leave the country.

- The Supreme People's Court would restrict the enterprise and its legal representative from purchasing real estate or land, and add them to the blacklist of those restricted from luxury consumption, which means they can't purchase second-class or higher tickets on planes, trains, and boats.
- The State Administration of Foreign Exchange would restrict the company's foreign exchange quotas.
- The company's legal representatives, directors, supervisors, and senior managers would not be allowed to serve in leadership roles at either private or state-owned companies. If that person is already holding a leadership post at a state-owned company, they would be recommended for dismissal.
- The company would be banned or restricted from participating in government procurement bids.
- The company would be banned or restricted from issuing stocks and bonds.
- The company would be banned or restricted from access to loans and financing.
- The company would be ineligible to receive social security financing.
- The company and its legal

representative would be banned or restricted from the use of state-owned forest land, including forestry-related construction projects or grassland development projects.

- The company would have a difficult time getting approval for science and tech projects.
- The company would be banned or restricted from participating in state-owned property rights transactions, such as state-owned enterprise assets and state assets.
- The company would be banned or restricted from establishing insurance companies or other finance-related entities.
- The company would be ineligible to become the recipient of equity incentive plans.
- The company would be the target of increased inspections or restricted approvals in the food and drug industry.
- The company would be banned or restricted from the production, operation and storage of dangerous chemicals, production and operation of fireworks and firecrackers, mine production, safety evaluation, and other industries where public safety is a concern.

Ouch.

These penalties don't last forever, but they would be in effect as long as the enterprise

remained in Customs' bad graces. The policy does indicate that a timeframe should be set for lifting restrictions, but that timeframe isn't specified.

It also works the other way around. For those companies that land on the GAC redlist (海关高级认证企业), GAC issues its own rewards, including:

- Fast-tracked bureaucratic procedures, like classification, valuation, and origin verification of goods
- Lower frequency of inspections
- Simplified verification of import and export cargo documents
- Priority customs clearance
- Access to a dedicated customs coordinator
- Self-certification of origin

Other state bodies then step in to offer a whole lot of other perks. [FIG 1.4-B]

Example 2: Ministry of Ecology and Environment (MEE)

As you might have guessed, the MEE is responsible for overseeing environmental issues. That includes conducting inspections on emissions and pollution. Like other agencies, the MEE keeps its own blacklists on those who violate environmental regulations or endanger ecology.

Through the Unified Rewards and Punishments framework, getting blacklisted by the MEE triggers a similar set of

FIG 1.4-B: Examples of “unified rewards” for being redlisted by Customs

Rewarding agencies	Faster procedural processing	Priority consideration for beneficial policies	Financial benefits	Reduced inspection rates	Advice and support
National Development and Reform Commission	Fast-tracked administrative examinations and approvals More rapid processing of overseas bond issuance	Priority consideration for special funds allocated for government infrastructure projects	Better import and export quotas	Lowered inspection rates for major investment projects	
People's Bank of China, China Banking and Insurance Regulatory Commission	Fast-tracked access to credit and financing		Customs redlisting to be considered an important metric in determining loan conditions		
China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission	Fast-tracked consideration for the establishment of enterprises in the securities, fund management, and futures space				
Ministry of Finance		Preferential consideration in government procurement bidding	Export rebate at certain ports of loading Preferential access to government financial support		
Ministry of Industry and Information Technology		Preferential consideration for value-added telecom services			
Ministry of Natural Resources	Preferential access to land supply				
Ministry of Ecology and Environment	Priority environmental licensing issuance			Reduced environmental inspections	
State Taxation Administration	Fast track approval of export rebates			Exemption from certain tax inspections	Dedicated help for handling tax-related matters
State Administration for Market Regulation	Fast-tracked processing of bureaucratic procedures Priority release of goods			Reduced inspections frequency or inspection exemption for domestic product samples	Consultations on contract law, staff training, and publicity
Ministry of Emergency Management					On-site policy and legal advisory support
Central Civilization Office, All-China Women's Federation, All-China Federation of Trade Unions		Priority selection for awards and honors			
China Council for the Promotion of International Trade	Priority handling of IP services such as patent application and trademark registration	Priority participation in economic and trade fairs and international conferences			Personalized advice and support for commercial mediation, trade, and maritime arbitration

restrictions as getting in trouble with GAC does, but regional MEE branch offices are toying with other mechanisms to punish polluters.

For example, in Jiangsu province, the MEE is working with State Grid to increase electricity rates for enterprises whose credit files contain records of environmental protection violations:²⁷

- Violators are segmented into two categories by severity: fairly serious (red-level) violations and very serious (black-level) violations
- Electricity rates for red-level violators increase by RMB 0.05 / kWh
- Electricity rates for black-level violators increase by RMB 0.10 / kWh

Example 3: Civil Aviation Administration of China (CAAC)

Much ado has been made about China's no-fly list. The list is managed by the CAAC, which has the power to add passengers who do dangerous or illegal things in airports or on planes. According to policy, behaviors that might land you on the list include:²⁸

- Fabricating or intentionally disseminating false terrorist information concerning civil aviation defense safety
- Using forged, altered, or fraudulent identification or other documents
- Blocking, forcibly occupying, or

striking the check-in counter, security channels, or boarding gate

- Carrying dangerous goods, contraband goods, or controlled articles; deliberately hiding restricted goods in carry-on or checked baggage
- Forcibly occupying or interfering with aircraft, forcibly entering or striking the cockpit or runway
- Obstructing or inciting others to obstruct aircrew, security inspectors, check-in personnel, and other civil aviation personnel from performing their duties, or committing or threatening to carry out personal attacks
- Occupying seats and baggage racks [beyond one's own], fighting, provoking trouble, deliberately damaging equipment, stealing from the aircraft, unlawfully opening aircraft doors, or otherwise disturbing order in the cabin
- Using open fire, smoking, and illegally using electronic equipment despite being warned
- Stealing other people's property onboard an aircraft

But through the Unified Rewards and Punishments framework, the CAAC also honors the blacklists of seven other state agencies:

- Ministry of Public Security
- National Development and Reform Commission

- Supreme People's Court
- Ministry of Finance
- Ministry of Human Resources and Social Security
- State Taxation Administration
- China Securities Regulatory Commission

At the recommendation of those agencies, the CAAC will place citizens on the no-fly list for offenses unrelated to air travel. People eligible for the list include:

- Anyone who is in serious violation of tax regulations, and refuses to perform tax obligations despite having the ability to do so
- Those responsible for acts of serious dishonesty in the field of financial fund management
- Those responsible for serious acts of dishonesty in the field of social security
- Those responsible for illegal acts in the securities and futures spaces
- Anyone placed on the Supreme People's Court restricted luxury consumption blacklist
- "Other offenses"

There's a similar agreement in place for China Railway, the state-owned enterprise that controls China's high-speed rail network: it has its own no-ride list, and also honors the no-ride requests from other state bodies.

The interplay between the no-fly list, the no-ride list, and other agency blacklists is the mechanism through which blacklisted individuals are restricted from travel.

Example 4: Cyberspace Administration of China (CAC)

The CAC is the ministry responsible for managing internet-related affairs and for implementing China's controversial online censorship policies.

A July 2019 policy released by the CAC states that individuals and companies whose online behavior is in violation of existing cyberspace laws will be placed on a blacklist for a period of three years. Individuals and companies will be blacklisted if:²⁹

- They own a website that has been shut down or have had their internet operation license revoked due to violation of internet content laws
- They've been otherwise penalized [by internet authorities] but failed to perform the penalty
- They disseminated information that violates "social morality, business ethics, honesty, and integrity", or if they intentionally provided technology, equipment, or information services for the same purpose

As with the other examples, inclusion on the CAC blacklist has the potential to impact business operations and personal freedom in a wide variety of ways.

SECTION 1.5

More SCS components for companies

There are five ancillary aspects of the SCS that only apply to companies and organizations, not individuals. These are a little boring and technical, so unless you're doing business in China, you can safely skip this bit.

This section will cover:

1. The National Credit Information Publicity System
2. Unified social credit numbers
3. Company grading systems
4. The new random inspection system
5. Credit commitment letters

1. The National Credit Information Sharing Platform

Corporate social credit records are available to the public via the [National Enterprise Credit Information Publicity System](http://www.gsxt.gov.cn) (NECIPS) 国家企业信用信息公示系统, a website which contains compliance data on any company with a license to operate in

China, including local subsidiaries of foreign companies. [FIG 1.5-A]

NECIPS's public records include information on key shareholders and personnel, operational licenses and permits, inspection results, notices of company dissolutions, notices of frozen assets, operational irregularities, and any past violations.

NECIPS is set to become ground zero for corporate due-dillence, and will be a key resource for companies to monitor the state of their own credit records.

But the site is more than just a clearinghouse for data discovery, it's also a data management portal. Company representatives can sign up for an account and upload basic company data and annual reports.

2. Unified social credit numbers

In 2015, as a preliminary stepping stone to implementing the enterprise social credit system, the central government began assigning a new code – the Unified Social Credit Number (统一社会信用代码) – to each domestic company and organization.

This new 18-digit identifier is a combination of three ID numbers that used to be issued separately:

1. business license number
2. tax registration number
3. organizational code

The USCN has now replaced traditional business license numbers on business

registration certificates as the primary code by which an enterprise is identified. A USCN can be used to search for information on any China-registered company the National Enterprise Credit Information Publicity System.

3. Corporate grading systems

As we've seen in previous sections, under the SCS, market regulators will treat companies differently depending on their social credit record. Companies with good social credit will enjoy simpler bureaucratic processes, decreased inspection rates, and other perks. Companies with poor social credit may have higher taxes, be subject to more frequent inspections, be barred from participating in government procurement, and other repercussions.



FIG 1.5-A: NECIPS PORTAL - [HTTP://WWW.GSXT.GOV.CN](http://www.gsxt.gov.cn)

The determination of who has good credit and who has bad credit will largely be based on four different types of grades that companies will receive.

1. Comprehensive Public Credit Rating

The Comprehensive Public Credit Rating (公共信用综合评价) will be based on the data contained in the National Enterprise Credit Information Publicity System, and will score companies based on judicial complaints, breaches of contract, regulatory violations, qualifications honors and rewards, and corporate social responsibility.

Companies will receive one of four grades:³⁰

1. Excellent (优)
2. Good (良)
3. Medium (中)
4. Poor (差)

Companies whose evaluation results are “excellent” and “good” will be told to keep up the good work. For those whose evaluation results are “medium”, the government will organize briefings and special training sessions to stress the importance of credit management. But:

For market entities whose evaluation results are “poor” ... the leading department of the city or county social credit system will cooperate with the appropriate industry regulator to conduct an in-

person warning interview with the person in charge to inform them of the evaluation results and [the specific acts of dishonesty that resulted in this score]. [The interviewer should clarify] credit repair channels and urge [responsible personnel] to immediately rectify their credit. At the same time, the interview should be recorded (including refusals to participate in an interview or non-compliant interviewees), and incorporated into [the company’s] social credit record and pushed out to the National Credit Information Sharing Platform.

2. Operational grades

These are typically letter grades (A-D) issued by state agencies, and will assess a company’s level of regulatory compliance in various areas. For example, if a company has a history of rigorously honoring import-export regulations, you may receive an “AA” grade from Customs. If you always pay your taxes, the tax bureau may assign you Grade A taxpayer status.

3. Industry association grades

Industry associations are also creating grading systems that primarily look at the service quality and operational soundness of companies within their sector.

Industry associations and chambers of

commerce play a vital role in the Chinese market. Though these bodies aren’t technically government entities, state agencies often ask their advice when creating new policies relevant to the industry.

Industry associations decide which data points to look at when issuing grades, and what the evaluation criteria will be. Mostly, they’ll gather data via voluntary submissions by member companies, without relying on the central SCS database, but a few of those metrics would depend on blacklist data and other information available through the National Enterprise Credit Information Publicity System.

4. Financial credit scores

As of June 2019, over 130 agencies had received approval to issue credit scores to enterprises (more on this in the section on [Financial Applications](#) for social credit).

Which score matters most?

This is unclear. Though regulators have stated that all four of these scores will be taken into account when deciding how companies are treated, they haven’t specified which will be the most important.

4. The new random inspection system

In 2015, Chinese regulators took a step towards cracking down on corruption by implementing a new safety and production inspection system called “Double Random,

One Open” (双随机, 一公开), wherein both the company to be inspected and the inspector are randomly selected (hence “double random”), and the inspection results are openly published (“one open”).³¹

The government’s goal here was to standardize the timing of inspections so that inspectors can’t excessively target one company while ignoring another, and to standardize the inspection process so that inspectors don’t have as much discretionary decision-making power.

While random inspections aren’t a core component of the SCS *per se*, the results of these inspections are publicized on the National Enterprise Credit Information Publicity System website, and are included in a company’s social credit file.

5. Credit commitment letters

One of the most recent additions to the SCS is something called the “credit commitment system”, which was introduced in a national policy released in July, 2019.³² The system encourages companies to sign standardized letters promising to operate in good faith and to honor social credit regulations.

Signed credit commitment letters are openly published on the National Enterprise Credit Information Publicity System website and are included in the company’s social credit file. Companies with good credit who have signed credit commitment letters may have various bureaucratic applications pre-approved on the strength of their promise.

Citizen social credit

Social credit and individuals

SECTION 2.1

The SCS in daily life

So far, we’ve taken the macro view on social credit, and examined the SCS primarily as it relates to businesses. Now, we’ll zoom in a little bit, and take a closer look at how the system will integrate into daily life.

Though the primary aim of the social credit system is to create a culture of legal compliance in the business community, there are similar hopes that it will create a culture of rule-following between individuals in a day-to-day context.

On a national scale, the SCS is being used to punish serious legal violations. People can get placed on the national court defaulter blacklist for failing to carry out court-ordered judgements, for example, or placed on the national no-fly list for tax evasion.

But the SCS is also being used on a smaller, more local scale to discourage bad behavior (like jaywalking, failure to properly garbage, smoking in non-smoking areas, and not leashing your dog in public) and encourage good behavior (like donating blood, doing volunteer work, and giving to charity).

City governments are the key players for individual social credit. A person’s city and province of residence are responsible for collecting and managing most of the information about them.

Within cities, data collection, blacklisting, and punishment and reward mechanisms happen just like they do at the national level, but on a smaller scale.

Each city bureau is responsible for gathering and logging data that relates to its administrative area, then submitting that info to the city’s SCS database. The records that are being submitted to the SCS database are the same records that were already being collected by government departments. For example, if you get caught drunk driving, the city police would keep their own record of the traffic violation as usual, and also add that violation to the city credit database. If you’re caught teaching under false credentials at the local

school, the municipal bureau of education would submit that information to your city credit record. If you don’t pay your property management fees, the city housing authority will submit that to your credit report.

Good deeds get reported too: if you volunteer for community service, the related department will submit that info. If you donate blood or bone marrow, the local health planning commission will log your donation.

Though this data collection happens at the city level, it also ends up in your national credit record, since the city passes the data up the chain through the National Credit Information Sharing Platform (NCISP) to the provincial and national databases.

Scoring systems

Using their own data, and the data from NCISP, some cities are independently creating citizen ranking systems that assign citizens a numerical credit score.

These city-level scoring systems are what often get cited in media reports on the SCS, and are sometimes confused for national scores.

The scoring pilots are completely different from city to city. Some cities have decided on a 0-200 scoring scale, some on a 0-1000 scale, and this discrepancy is evidence that the central government didn’t dictate how citizens should be scored, but left it up to the municipalities to come up with their own programs. [FIG 2.1-A]

FIG 2.1-A: Examples of city-level citizen social scoring systems

Location	Scoring system	Point scale
Suzhou ³³	Osmanthus Points	0-200
Suqian ³⁴	Xichu Points	Scores start at 1000, with AAA-D grades assigned based on score range.
Rongcheng ³⁵	Rongcheng Points	Scores start at 1000, with AAA-D grades assigned based on score range.
Weihai ³⁶	Haibei Points	Scores start at 1000, with AAA-D grades assigned based on score range.
Fuzhou ³⁷	Yuming Points	0-1000
Wuhu ³⁸	Lehui Points	350-1200
Hangzhou ³⁹	Qianjiang Points	From 750+ (excellent) to 550- (poor)
Xiamen ⁴⁰	Heron Points	Five levels from “excellent” to “needs improvement”

But though the scores differ from city to city, the underlying data set those scores are based on are the same. The police department in Suzhou will gather the same set of records as the police department in Chongqing. The housing authority in Jinan will have basically the same files as the housing authority in Shenzhen.

[FIG 2.1-B] and [FIG 2.1-C] show a complete example of a city scoring system. This comes from a draft policy released in August 2018 by the government of Fuzhou (抚州), home of Yuming Points (scale ranges from 0-1000).⁴¹ The policy outlines which behaviors will result in a point deduction, which behaviors will result in an increase, and which departments are responsible for logging and submitting that data.

We think this table is fascinating, not because of the number of points assigned or deducted, but rather because it paints a clear picture of which behavioral data is being gathered and evaluated, and how much importance is attached to various behaviors.

Problems

Looking at point systems like the outline in [FIG 2.1-B] and [FIG 2.1-C], a few problems jump out right away:

The point system isn't very egalitarian

There are a lot of ways for anyone to lose points, but not as many ways for anyone to gain them. That's because most of the ways

FIG 2.1-B: Fuzhou draft policy – Social Credit Points Subtracted for Dishonest Behavior (Individuals)

Responsible city dept.	Behavior penalized	Points subtracted
Municipal Discipline and Inspection commission	Disciplinary action	20: Warning or demerit 30: Serious warning, major demerit, or demotion 50: Dismissal, probation 80: Expulsion
Department of the People's Armed Forces	Evading or refusing to perform military duty	80
Court	Failure to carry out a court-ordered sentence or judgement	Points reduced to 0, placement on defaulter blacklist
	Carrying out a court-ordered sentence after failing to do so after the first order	20
	Fraudulent litigation infringing on the legitimate rights and interests of others and failing to cooperate with judicial organs in the fulfillment of their duties	50
	Citizen was found guilty by is exempt from criminal penalty	30
	Incarceration for 3 years or less	50
	Incarceration for more than 3 years or recidivism	80
Procuratorate	Minor crime for which no prosecution is brought	30
	Implicated in Civil public interest litigation	50
Bureau of Education	Teaching under false credentials, bad conduct, insulting students	30
	Taking payment for make-up / remedial classes	30
	Illegally running schools or educational institutions	30
Bureau of Science and Technology	Encroaching on others' scientific and technological achievements and seeking illegal interests in technology transactions.	30
Public Security Bureau	Receiving administrative punishment by the Public Security Bureau	30
	Being detained by the Public Security Bureau	50
	Standard traffic violations, including parking violations by law enforcement	30: More than 5 traffic violations such as running a red light or other one-time violations worth 6 driving penalty points 50: More than 10 violations
	Drinking and driving, hit and run, covering license plates and other traffic violations worth 12 driving penalty points	30
	Driving while severely intoxicated	50
	Driving on drugs	50
	Lifetime driving suspensions	50
	Cheating on driver's license exams or sending others to take exam in your place	50
	Buying or selling drivers license points	30: Buying drivers license points Blacklisting: Selling drivers license points
	Being in arrears on payment of goods	50
	Serious criminal activity relating to public welfare	50

to increase points are things over which people have very little control, or else they are awards which many people aren't in a position to receive, particularly those in low-income brackets.

Being rewarded for providing important clues in a criminal case requires that you happen to have knowledge of that crime – a matter of circumstance and luck. Technological entrepreneurship awards, innovation awards, and literary awards generally favor the highly-educated.

According to these point scales, the only ways that anyone, at any stratum of society, can raise their points at will and by choice are by:

- Doing volunteer work
- Donating blood or bone marrow
- Giving charitable donations
- Performing “good deeds”

Violations are easier to record than acts of charity

Human bureaucracies weren't set up to record acts of kindness. While there are already well-established collection mechanisms in place for most offenses, there aren't established collection mechanisms for “positive” behaviors. The police know you ran a red light because there are traffic cameras designed to catch those violations. But how does the government find out you gave someone back their wallet?

FIG 2.1-B: Fuzhou draft policy – Social Credit Points Subtracted for Dishonest Behavior (Individuals)

Responsible city dept.	Behavior penalized	Points subtracted
Bureau of Civil Affairs	Changing the stated use of charitable donations without notifying givers	30
	Providing fraudulent information to receive subsidies in elderly care or public aid	50
Justice Bureau	Illegal behaviors by law practitioners	30
	Rule breaking during judicial examinations	50
	Non-compliance with community correction	30
Bureau of Finance	Failure to declare and pay relevant local taxes and fees, withholding of tax arrears such as non-deductible personal income tax, etc.	30: Will be based on public announcements made by the Tax Bureau, those in serious arrears will be blacklisted.
	Tax inspection infractions	50
Bureau of Human Resources and Social Security	Illegal use of child labour, social security and medical insurance benefit fraud, and refusal to correct dishonest acts as ordered	30
	Unreasonably withholding or owing wages to more than 10 people, failure to pay wages in amounts over RMB 500,000, and causing group petitions, strikes and other public incidents	50
	Rule breaking that results in inclusion in the Civil Servant Exam [Violators] Database or the Technical Expert Exam [Violators] Database	50
	Absconding while owing wages	100
Housing Authority	Bad behavior, administrative punishments	30
	Being in arrears on property management fees	15: Each payment past due by over 5 months. Max of 30 points
	Being in arrears on rental payments for low-income housing and public housing	15: Each payment past due by over 5 months. Max of 30 points
Bureau of Transportation	Passenger and freight vehicles loaded over the legal limit	30
	Taxi drivers who have been flagged by the Bureau of Transportation	30
Forestry Bureau	Destroying trees, indiscriminate deforestation, changing the use of forest land without authorization, reclaiming forest land without authorization, causing forest fires through negligence, and use of veterinary drugs without a license	30
Culture, Radio, Television, Tourism and Sports Bureau	Operating an entertainment business without permission, or engaging in publishing without permission	30
Health and Family Planning Commission	Standard administrative punishments	30
	Violations related to health professional technical qualification examinations	30
	Medical practitioners who conduct fetal gender identification for non-medical needs or who termination of pregnancy on the basis of the baby's gender	30
	Failure to pay the fines for child born in violation of the Two-Child Policy	30
	Birth certificate fraud	50
	Practicing medicine illegally, creating disturbances in a hospital, obstructing law enforcement and other medical-related violations	50

A recent Vice News documentary⁴² on the scoring pilot in Rongcheng features a profile of a local “information collector”, a sweet retired woman whose job is to walk the city searching out good and bad deeds, which she records in a notebook and reports to the local credit bureau office. That kind of thing might work in some small towns where everyone knows each other, but it’s definitely not nationally-scalable, nor is it objective.

The concept of “good deeds” is ill-defined

What constitutes a “good deed”, and who decides? The nebulousness of this wording leaves it too open to interpretation.

SCS localization

Though the Fuzhou system is fairly representative of what we’ve seen from other scoring pilots, in some places, local governments have expanded the “no-no” list to address localized problems.

Shanghai, for example, recently launched a garbage-sorting scheme, and is penalizing non-compliant companies and individuals through the SCS.⁴³ In Jinan, a citizen’s score can be impacted by not leashing their dog in a public place.⁴⁴ In Anqing, jaywalking has the potential to affect your credit.⁴⁵

Are point systems going national?

It’s unclear whether or not every city will

FIG 2.1-B: Fuzhou draft policy – Social Credit Points Subtracted for Dishonest Behavior (Individuals)

Responsible city dept.	Behavior penalized	Points subtracted
Bureau of Civil Affairs	Changing the stated use of charitable donations without notifying givers	30
	Providing fraudulent information to receive subsidies in elderly care or public aid	50
Justice Bureau	Illegal behaviors by law practitioners	30
	Rule breaking during judicial examinations	50
	Non-compliance with community correction	30
Bureau of Finance	Failure to declare and pay relevant local taxes and fees, withholding of tax arrears such as non-deductible personal income tax, etc.	30: Will be based on public announcements made by the Tax Bureau, those in serious arrears will be blacklisted.
	Tax inspection infractions	50
Bureau of Human Resources and Social Security	Illegal use of child labour, social security and medical insurance benefit fraud, and refusal to correct dishonest acts as ordered	30
	Unreasonably withholding or owing wages to more than 10 people, failure to pay wages in amounts over RMB 500,000, and causing group petitions, strikes and other public incidents	50
	Rule breaking that results in inclusion in the Civil Servant Exam [Violators] Database or the Technical Expert Exam [Violators] Database	50
	Absconding while owing wages	100
Housing Authority	Bad behavior, administrative punishments	30
	Being in arrears on property management fees	15: Each payment past due by over 5 months. Max of 30 points
	Being in arrears on rental payments for low-income housing and public housing	15: Each payment past due by over 5 months. Max of 30 points
Bureau of Transportation	Passenger and freight vehicles loaded over the legal limit	30
	Taxi drivers who have been flagged by the Bureau of Transportation	30
Forestry Bureau	Destroying trees, indiscriminate deforestation, changing the use of forest land without authorization, reclaiming forest land without authorization, causing forest fires through negligence, and use of veterinary drugs without a license	30
Culture, Radio, Television, Tourism and Sports Bureau	Operating an entertainment business without permission, or engaging in publishing without permission	30
Health and Family Planning Commission	Standard administrative punishments	30
	Violations related to health professional technical qualification examinations	30
	Medical practitioners who conduct fetal gender identification for non-medical needs or who termination of pregnancy on the basis of the baby's gender	30
	Failure to pay the fines for child born in violation of the Two-Child Policy	30
	Birth certificate fraud	50
	Practicing medicine illegally, creating disturbances in a hospital, obstructing law enforcement and other medical-related violations	50

eventually have a citizen scoring system, but things look to be moving in that direction. It's also unclear whether or not the central government will wait to see which city scoring system is most successful, and then swoop in and order all cities to adopt it.

A central government document released in September 2019 outlines all of the data fields that will be included in individual social credit records.⁴⁶ There's a data field set aside in the master database for recording citizen social credit scores as issued by cities.

In other words, it doesn't look like the central government has immediate plans to issue scores to citizens itself, but it does plan to keep a record of city scores.

Based on this, we do expect that most cities will eventually develop some kind of scoring system.

Citizen rewards and punishments

Cities are also playing with their own localized versions of the Unified Rewards and Punishments system. But at the city level, these programs are typically almost entirely carrot, and very little stick. Perks are offered to those with high scores, and punishments for low scores are light or non-existent.

Incentive systems

Though the central government didn't dictate exactly which rewards a city should

FIG 2.1-B: Fuzhou draft policy – Social Credit Points Subtracted for Dishonest Behavior (Individuals)

Responsible city dept.	Behavior penalized	Points subtracted
Bureau for Market Regulation	Violations in the field of market regulation	30
Urban Administration and Law Enforcement Bureau	Standard violations in city management and related administrative fields	20
	Serious violations in city management and related administrative fields	50
Work Safety Bureau	Holding a post without proper license qualifications and other standard violations	30
	Serious violations such as operating with hazardous materials without a permit	50
Tourism Development Commission	Illegal activities such as operating a tour company, travel guide, or transport service without a license, deception, and forcing tourists to make purchases during tours	50
People's Bank of China Fuzhou City Branch	Being in arrears on bank loans	50
	Untrustworthy acts by a business, second class	Legal rep: 50 point deduction
	Untrustworthy acts by a business, third class	Legal rep: 80 point deduction
Management Center of the Housing Provident Fund	Being in arrears on personal housing loans from the housing provident fund	30
	Fraudulent in withdrawal from or taking fraudulent loans from housing provident fund	50
Customs	Violations of customs inspection and quarantine laws and regulations	30
Tax Bureau	Failure to declare and pay relevant local taxes and fees, withholding of tax arrears such as non-deductible personal income tax, etc.	30: Those in serious arrears will be blacklisted.
	[Negative] tax inspection data	50
Bureau of Land Resources	Illegal occupation of land for housing development, destruction of farmland	30
	Providing falsified materials during real estate registration or transaction	30
Various administrative organs	Refusal to comply with effective administrative penalties	50
Electricity Suppliers	Being in arrears on electricity payments	10: Each payment past due for over five months, or payments past due for over 2 months that are in excess of RMB 10,000. Maximum deduction of 30 points
	Stealing electricity or damaging public electrical facilities	50
Mobile and Telecom Suppliers	Being in arrears on mobile and telecom bills	10: Each payment past due for over five months, or payments past due for over 2 months that are in excess of 2,000. Maximum total deduction of 20 points
Bureau of Tobacco	Mailing of tobacco products over the legal amount, transport tobacco without a licence, illegal sales or production of tobacco	30
Water supply companies	Being in arrears on water payments	2: Each payment past due for over five months, or payments past due for over 2 months that are in excess of 2,000. Maximum total deduction of 20 points
	Stealing water or damaging public water facilities	50
Insurance companies	Code of conduct violations by insurance practitioners	30
	Insurance fraud	50

FIG 2.1-C: Fuzhou draft policy – Social Credit Points Added for Trustworthy Behavior (Individuals)

Responsible city department	Incentivized behavior	Points added
Organization Department	Officials who perform outstanding work during the course of a year	50
	Being an exemplary Communist Party member	50
	Civil servants who perform meritorious service	80: meritorious service first class 50: Meritorious service second class 30: Meritorious service third class
Municipal Commission for Guiding Cultural and Ethical Progress	Recipients of national “good citizen” award	80
	Recipients of Jiangsu province “good citizen” award	50
	Recipients of Fuzhou city “good citizen” award	30
	City volunteers	10: service up to 50 hours 20: 50-100 hours 30: more than 100 hours
	Taking joy in helping others, returning found money, acts of honesty and trustworthiness, devoting oneself to one’s work, filial piety, care of one’s family, and other good acts.	50
Political and Legal Affairs Commission	Acts of heroism and courage	80: bravery first-class (provincial level) 50: bravery second-class (prefecture / city level) 30: bravery third-class (county level) 30: bravery
	Recipients of legal and political rewards of merit	50: national level 30: provincial level 20: city level
Department of the People’s Armed Forces	Recipients of various merit awards	80: merit award first-class 50: merit award second-class 30: merit award third-class
Federation of Trade Unions	Recipients of labor and entrepreneurship awards	50: national level 30: provincial level 20: city level
Municipal Communist Youth League Committee	Recipients of various youth awards	50: national level 30: provincial level 20: city level
	Recipients of various volunteer awards	50: national level 20: provincial level 10: city level
Women’s Federation	Recipients of various women’s awards	50: national level 20: provincial level 10: city level
China Charity Federation	Charitable donations	10: RMB 10,000 and below Additional 5 points for every 10,000 above the first 10,000, max of 20 points. Points will be counted together with the Red Cross and will not double.
	Charitable awards	50: national level 20: provincial level 10: city level 5: county level

FIG 2.1-C: Fuzhou draft policy – Social Credit Points Added for Trustworthy Behavior (Individuals)

Responsible city department	Incentivized behavior	Points added
Red Cross	Charitable donations	10: RMB 10,000 and below Additional 5 points for every 10,000 above the first 10,000, max of 20 points
	Red Cross volunteer	50: national level 20: provincial level 20: city level Points will be counted together with the Civilization Office and will not double.
	Bone marrow donation	50
Bureau of Education	Recipients of awards in the field of education	50: national level 30: provincial level 20: city level
Bureau of Science and Technology	Recipients of science and technology awards	80: first class national level 50: second class provincial level, first class provincial level 30: third class national level; second class provincial level 20: third class provincial level, first class city level 10: Second class city level 5: third class city level
	Technological entrepreneurship and innovation experts, individual patent awards	20
	Innovative Design Competition winners	50: national level 30: provincial level 20: city level
Public Security Bureau	Recipients of various merit awards	80: merit award first-class 50: merit award second-class 30: merit award third class
	Providing important clues	30
	Assisting public security organs in dealing with unusual cases	20
Procuratorate	Recipients of various merit awards	80: merit award first-class 50: merit award second-class 30: merit award third class
	Providing important clues	30
	Assisting in dealing with cases	20
Justice Bureau	Recipients of awards for excellence in the practice of law	50: national level 30: provincial level 10: city level 5: county level
Bureau of Transportation	Recipients of awards in the field of transportation	50: national level 30: provincial level 20: city level

FIG 2.1-C: Fuzhou draft policy – Social Credit Points Added for Trustworthy Behavior (Individuals)

Responsible city department	Incentivized behavior	Points added
Culture, Radio, Television, Tourism and Sports Bureau	Recipients of cultural and sportsman's awards	50: national level 30: provincial level 20: city level
Health and Family Planning Commission	Recipients of the "Most Beautiful Angel" award	30
	Recipients of the "Happy Family" award	50: national level 30: provincial level 20: city level 10: county level
	Donating blood or blood platelets without compensation	10: Blood donation below 400 ml Additional 5 points for every 200 ml beyond the first 400ml, max of 30 points. 10ML of platelets is equal to a blood donation of 200 ML.
Tourism Development Commission	Recipients of various travel industry awards	50: national level 30: provincial level 20: city level
Forestry Bureau	Saving wildlife, reporting illegal hunting, killing, transportation, sale, purchase and use of wildlife and its products; Reporting damage to wildlife habitats	40: Ecological preservation on the national level 20-30: Other

offer citizens with good credit, they did provide some general direction. In June 2019, the central government released a policy draft that urges regional governments to incentivize good credit behavior by offering preferential treatment in public services such as settlement, education, travel, housing, employment, medical care and administrative matters.⁴⁷

While perks related to "medical care" and "education" sound like they could become a matter of life and death (will people be refused admission to a school or hospital if their social credit is too low?) the current reality is less interesting: Some cities are offering to allow residents with excellent social credit scores to waive a portion of their medical treatment deposit or tuition payment deposit until after admission. This

money still needs to be paid, but the payee has a little bit of extra time to pony up.

Point is, at the moment, these incentive programs are just getting off the ground, and the types of perks being offered aren't life-changing. Most of the benefits involve not having to pay a deposits for various city services, like bike rental and library books.

[FIG 2.1-D] outlines a few of the reward schemes that are being implemented in pilot zones across China. Though these minor advantages are not particularly impactful now, if the central government gets its way, cities will continue to expand their list of perks, the concept of credit will become more integral to processes like hiring and licensing, and the cumulative advantages will stack up into something

very powerful indeed.

Citizen blacklists: naming and shaming

The treatment of blacklisted individuals is where the ethics of the SCS get extremely fuzzy, and its applications become the most Orwellian. Most citizen blacklists are a matter of public record, and are treated kind of like the sex offender registry in the United States.

In addition to its own massive network of websites and social media accounts where blacklists are published, the government also actively seeks to maximize the social embarrassment brought on by blacklist inclusion.

A few examples:⁴⁸

In Beijing, the Supreme People's Court is working with tech giant Qihoo 360 to embarrass those included on the defaulter blacklist. "The hundreds of millions of people who have the Qihoo 360 app installed on their phones will soon receive notifications on their screens whenever they call or are called by a person on the Chaoyang District court's blacklist. Calls with people who have outstanding debts, with divorced parents who don't comply with child support or honor visitation rights, or with employers

FIG 2.1-D: Examples of benefits of Good Social Credit at the Municipal Level (Individuals)

City	Benefits
Fuzhou ⁴⁹	<ul style="list-style-type: none"> Discounts on road tolls and public parking “Green channel” services at hospitals and during annual vehicle inspections Preferential treatment in areas of education, employment, housing, elder care and social aid Priority submission of loan applications Simplified application procedures at government bureaus, high social credit scores will stand in for background checks When applying for Party promotions or civil service positions, all else being equal, priority will be given to those with higher social credit scores
Shandong ⁵⁰	<ul style="list-style-type: none"> Ride city shared bikes without a deposit, and ride for 2 hours for free.
Suqian ⁵¹	<ul style="list-style-type: none"> Individuals with high social credit rankings enjoy a 6% discount when recharging city transportation cards.
Weihai	<ul style="list-style-type: none"> Favorable loan conditions 5-9% discounts on tickets to local tourist attractions. Exemption from paying hospital deposits. Excellent credit exempted up to RMB 50,000, good credit exempted up to 20,000. Exempted from paying wheelchair deposits at hospitals Fast-tracked discharge at hospitals Deposit-free borrowing up to 8 library books Free installation and exemption from paying equipment deposits for HDTV and broadband services Free water meter calibration and VIP service from water utility Free quarterly home safety inspections from electrical utility supplier Fast-tracked administrative services Priority treatment in various selection processes
Wuhu ⁵²	<ul style="list-style-type: none"> Free use of badminton and basketball courts Monday-Friday mornings Free bottles of water and free souvenirs at local scenic spots
Xiamen ⁵³	<ul style="list-style-type: none"> Deposit-free borrowing of up to 40 library books

who refuse to pay their staff will prompt a message that reads: “Included on the list of dishonest individuals.”

The government of Sichuan Province undertook a similar initiative:⁵⁴

When someone rings a defaulter, [instead of a ring tone], this message plays: “The person you are calling has been put on a blacklist by the courts for failing to repay their debts. Please urge this person to honour their legal obligations.”

And from Anhui:⁵⁵

Local courts in eastern China’s Anhui province took advantage of heavy traffic during the May 1 holiday to shame debtors by displaying their faces and personal information on billboards and televisions in public areas. The Shushan District Court in Hefei broadcast the photograph, name, identity number, amount owed and other information for each culprit on giant screens for 11 hours a day at public squares during peak travel times, Hefei Evening News reported on Wednesday.

Developers are even creating apps where users can see who in their area is on the

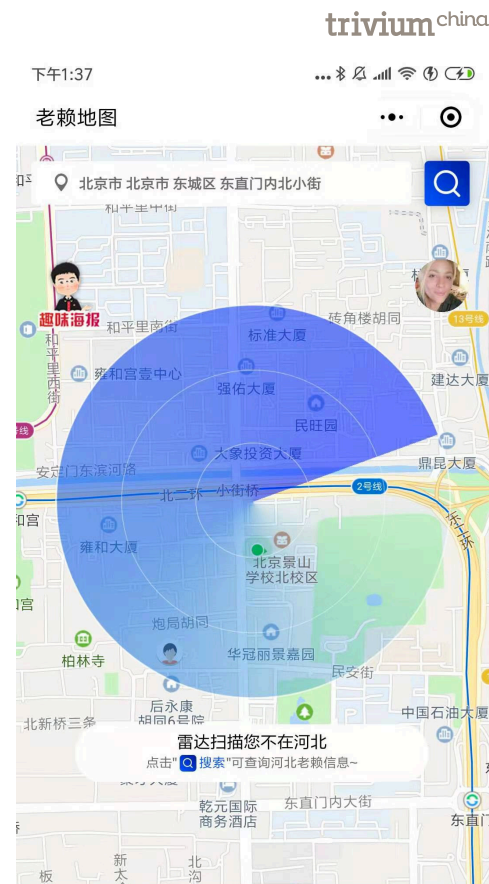


FIG 2.1-E: COURT DEFAULTER SEARCH APP

court defaulter blacklist. [FIG 2.1-E]

This kind of stuff is happening because, as we’ll see in later sections, Unified Rewards and Punishments doesn’t just connect government agencies to each other, it also encourages private companies, media, industry associations and financial institutions to cooperate in the shaming and punishment of blacklisted people, thus making the dragnet ever tighter.

Equally concerning is the fact that policymakers have paid too little attention

SECTION 2.2

Adoption and public opinion

In June 2019, Bloomberg published an article calling out Suzhou's point pilot for low adoption rates and poor implementation. The opening paragraph reads, "What if you built a terrifying 21st century surveillance-and-control system and no one cared?" The credit bureau offices are empty, says the article, and man-on-the-street interviews reveal a public ignorant of, and apathetic about, social credit.

A piece by the Economist had a similar takeaway: that the system is being shrugged off by the majority of citizens in pilot areas.⁵⁶

A 2018 study on the topic gives us some actual numbers in terms of awareness and penetration: for those citizens who live in areas with a local SCS, only 11% are aware of being part of a government pilot.⁵⁷

Trivium researchers visited several cities where point pilots are being implemented, and found similar anecdotal evidence of this lack of awareness: even in cities where

local points systems are technically running, they're very much still in beta, and most people remain unaware of, and unaffected by, their existence.

But still, it's misleading to say that the system has no teeth. A more accurate take, in our view, is that it's still early days. There hasn't been a concerted propaganda push to raise public awareness, and it's much too soon to say what full-scale adoption will look like.

Even if the point systems themselves remain ignored, the underlying social credit data they're based on will play a major role in

people's lives.

As Marianne Von Blomberg puts it in her paper "Social Credit and China's Rule of Law":⁵⁸

As one's credit status is, according to the plan, to become a central criterion for decisions on recruitment, grants of financial support for a project, and others, such rules will inevitably gain substantial importance.

Public opinion

The very notion of a social credit system is enough to give many western observers the heebie-jeebies. But, from within China, the concept of social credit is viewed in a generally positive light.

In 2018, Free University of Berlin researcher Genia Kostka published a study called *China's Social Credit Systems and Public Opinion: Explaining High Levels of Approval*, which investigated Chinese citizen's response to both the national SCS and private social credit systems.⁵⁹ During the study, 2,209 surveys were collected from Chinese citizens, and these results were bolstered by in-person interviews conducted in Shanghai and Beijing.

As you might expect, the paper found that attitudes towards social credit varied with socio-demographic factors, online habits, and political stance, but on the whole, results were overwhelmingly in favor of

Overall, respondents report a high degree of approval of SCSs, with 80% of respondents either somewhat approving or strongly approving SCSs. Only 19% of respondents perceive the SCS in value neutral terms (neither disapprove nor approve) while just 1% reported either strong or somewhat disapproval.

Kostka goes on to address the possibility that results may be skewed due to a fear of consequences for expressing dissent:

To some extent the high degree of approval of SCSs and the almost nonexistent disapproval we found might reflect the nature of conducting a survey in an authoritarian setting – while respondents were clearly informed that the data was anonymized and to be used for research purposes only, some more cautious respondents may have falsified their preferences to a degree due to concerns about expressions of disapproval resulting in reprisals from the state. Yet, we are confident that such an effect would be marginal not least since half of respondents (49%) indicated strong approval of SCSs, suggesting that overall public support is quite robust. Lending support for this view

is the fact that only 1% of respondents expressed the view that a nationwide SCS should not be implemented. Our semi-structured interviews with citizens of various ages further confirmed these high approval levels. That said, the significant number of value-neutral respondents (neither approve nor disapprove) might suggest the existence of a group of ‘doubters’ — 1 in 5 Chinese—who maintain a circumspect attitude about SCSs.

Like Kostka, we don't really buy the notion that Chinese citizens feign approval of the SCS out of fear, especially since, in the recent past, the general public has shown no compunction about vocally expressing disapproval for similar projects.

In 2010, Suining county, Jiangsu launched a social-credit-esque program for local citizens, complete with a heavy-handed rewards and punishments system. As Foreign Policy reports:⁶⁰

The scheme was a disaster. Both residents and state media blasted it for its seemingly unfair and arbitrary criteria, with one state-run newspaper comparing the system to the “good citizen” certificates issued by Japan during its wartime occupation of China. The Suining pilot was canceled but not before

teaching the government some lessons about what is palatable to the public.

So, we don't think that Chinese citizens are afraid to express their opinions. But we do think that the extremely high levels of approval may, in part, be due to the fact that the SCS doesn't really do much yet. For most people, even those who are participating in a local SCS pilot, the system has yet to really begin impacting their lives in a meaningful way.

We should be able to get a clearer read on public opinion in a couple of years, once the system has had some time to ramp up to full speed.

3 Financial applications

SECTION 3.1

Financial credit

With all the focus placed on the behavioral aspects of social credit, it can be easy to forget that the system was originally designed primarily as a tool to better assess bread-and-butter credit risk. Given the lack of a credit history for the majority of companies and individuals in China, a basic system to assess creditworthiness is a tool that China's financial institutions desperately need.

China's banking system doesn't allocate loans very efficiently. That's partially because banks lack the credit records they need to reliably determine creditworthiness, especially for small and medium enterprises. The practical outcome of that deficiency is that bank loans perpetually get funnelled to inefficient state-owned enterprises (SOEs), since they're able to provide an abundance of collateral in the form of land and big buildings.

In contrast, SMEs rarely have many hard assets that they can offer to banks in order to secure loans, and since the banks are not

good at assessing credit risk on the basis of revenues, profits, business outlook, and credit history, those SMEs are hard pressed to get financing.

Similar dynamics make it difficult for individual households, and the family micro-businesses they operate, to obtain loans: though the People's Bank of China has been collecting credit data on individuals for nearly a decade, only 35% of Chinese citizens have a credit record.⁶¹ That stands in stark contrast to countries like the USA, where about 80% of citizens have a trackable credit history.⁶²

This inability to obtain bank loans leads to a vicious cycle: individuals borrow from friends

and relatives instead of banks, those loans don't show up on any credit record, and no credit history is built, leaving everyone right where they started. So how do banks get the seed data they need to make informed lending decisions in the absence of collateral or credit history?

The think pieces from the early days of social credit show us that when China's thought leaders sat down to tackle this issue, they came to a few basic conclusions:

- Financial credit is a measure of both the practical ability to repay loans (i.e. having enough money), and a desire and willingness to do so (i.e. having a sense of responsibility).
- You can get a partial picture of both of these by looking at loan repayment history.
- But you can get a much more complete picture, particularly of the second element, by gathering data from a broader set of sources.
- Where there isn't enough financial data to make an assessment due to a lack of borrowing history, this supplementary data can stand in as a risk assessment, providing a wider pool of information from which to build credit reports on the 65% of the population who are still "credit invisible".

So, in this sense, social credit and financial credit are two halves of the same coin.

Chinese regulators hope that

supplementing financial data with behavioral data might one day serve yet another purpose: combined with predictive algorithms, this behavioral info may allow lenders to not only get a solid picture of how one has paid their bills in the past, but to have an early warning system that signals when they might be at risk for not doing so in the future.

Of course, China's a long way from achieving that goal, but the work on it got started in earnest around 2016, when major state-owned banks, like ICBC, China Construction Bank, and National Development Bank, as well as titans of fintech and credit reporting agencies, began to sign credit data-sharing agreements with the central government.^{63 64 65}

The exact details of these agreements are a little murky. But it looks like financial institutions are participating in the SCS by:

- Using social credit data as a key metric in lending and credit assessment. In other words, if a person or company has been blacklisted by the State, banks and lenders may refuse to issue loans or credit cards, or they may offer unfavorable loan conditions⁶⁶
- Freezing accounts or restricting access to service: Banks may agree to freeze assets of Unified Punishment targets.
- Passing financial information, such as user repayment history, back to the social credit system.

- Including blacklist and other social credit information on credit reports.

Credit reporting

Since the early 2000's, the PBoC has issued China's most authoritative financial credit reports on individuals and enterprises. Credit reports are issued through the bank's Credit Reference Center, and they're based on information stored in the PBoC's own National Financial Credit Information Foundational Database (金融信用信息基础数据库), which consolidates data submitted by financial institutions and other parties.

Up until now, individual credit reports primarily contain financial data, but in May 2019, the PBoC announced the impending release of a second-generation personal credit report, which will close certain loopholes which had previously allowed borrowers to manipulate lending outcomes, and help lenders paint a better picture of a borrower's financial situation. The biggest changes in the new report are:⁶⁷

- Longer record of mobile phone number history: New reports will display the person's last 5 registered phone numbers, the idea being that someone who often changes their primary mobile number may be in a potentially unstable living situation, or may be committing fraud.
- Spousal credit is more interconnected: This is likely intended to clamp down on

couples who get fake divorces in order to take out more loans, then remarry.

- Non-payment records stick around longer: A history of unpaid debts used to stay on credit reports for two years after the debt is cleared, now they stick around for five.

Most interestingly for our purposes here, though, is that the expanded report will also include some new data on individuals:

- Detailed history of telecom and utility payment arrears
- Unpaid taxes
- Civil and criminal case records
- Administrative punishments (which might include being blacklisted by a state agency)
- Welfare history
- Professional qualifications
- Awards & honors

Where will the PBoC suddenly get all that new data? Well, we don't know for sure, but we do know that's exactly the type of information stored in the central social credit database. So while we don't have a definitive source connecting personal credit records to the National Credit Information Sharing Platform (if you do, by all means get in touch), we strongly suspect a link.

We also don't know if the new PBoC credit reports will include credit scores or grades.

According to an August 1, 2019 circular issued by the State Council, all of these questions should be answered by the end 2020, when the credit reporting mechanism is scheduled to be standardized.⁶⁸

New credit rating agencies

The fintech explosion has changed the world of finance. Chinese regulators have recognized the need for new credit reporting mechanisms to serve online micro-lenders, P2P finance platforms, and other lending innovators.

After a few abortive fits and starts, in 2018, the PBoC oversaw the formation of a new credit rating bureau called Baihang Credit.⁶⁹ Baihang is the only commercial credit rating agency licensed to issue credit reports on individuals, and its shareholders primarily consist of China's online lending giants.

Baihang will operate in parallel with the PBoC's Credit Reference Center. While this is a vast oversimplification, it basically looks like the PBoC will handle credit reports for traditional loans (mortgages, auto loans, and business loans), while Baihang will tackle non-traditional lending.

The company is off to a rolling start. After its formation, Baihang began signing data-sharing agreements with a whole host of consumer financial service providers, who will access Baihang data to make credit checks. Recent counts put the number of signers at over 700.⁷⁰

The PBoC has been less restrictive issuing licenses to enterprise credit agencies. As of June 2019, over 130 agencies had received approval to operate.⁷¹ It remains to be seen if one of more of these agencies will come to dominate this space, like Equifax and TransUnion have done in the West.

FIG 3.1-A: Baihang Credit shareholders

Shareholder	Stake	Notes
National Internet Finance Association (NIFA)	36%	Controlled by PBoC
Tencent Credit	8%	One of China's big internet giants
Sesame Credit	8%	Owned by Alibaba
Qianhai Credit	8%	
Pengyuan Credit	8%	
Huadiao Credit	8%	
Zhongzhicheng Credit	8%	
Zhongcheng Credit	8%	
Kaola Credit	8%	

Political applications

SECTION 4.1

Social credit and internal affairs: some background

“The mountains are high, and the emperor is far away.”
– Chinese proverb

If you’ll forgive us for stating the blindingly obvious: China’s a big place, and a lot of people live there.

The headaches arising from attempting to enforce policy across such a massive geography and population have plagued its officials since dynastic times. The historical record is full of officials in far-flung provinces who, knowing themselves to be safely beyond the reach of Beijing’s power, ignored or flouted imperial directives, forming pockets of lawlessness, corruption, and outright opposition.

Modern technologies (and a ton of infrastructure) have made China more closely knit than in the past, but many of the old problems still persist, and Beijing still struggles to keep regional governments on a tight leash.

Xi Jinping has prioritized the consolidation of top-down control since his first days on the job. He has overseen the longest-running, widest-ranging anti-corruption campaign in Party history. He has also championed a rule by law platform, and has often expressed that “power should be restricted by the cage of regulations”.⁷²

How much of that is authentic sentiment on Xi’s part and how much is a convenient scaffold on which to hang political rivals is up for debate; since assuming the presidency, Xi has certainly done his fair share of stringing up the opposition in the name of anti-corruption efforts. But most signs indicate that Xi genuinely believes China’s development, and specifically the development of the socialist market economy, has been stunted by widespread bureaucratic dishonesty.

And that’s where the final pillar of the SCS comes in. The government is aiming the social credit cannon not only at individuals and enterprises, but also at itself. It views the SCS as a political tool designed to extend Beijing’s power over officials, clamp down on corruption, tighten internal supervision, and increase policy enforcement in regional governments.

Key problems

SCS policy and think pieces specifically outline a few common phenomena that officials believe point to a general lack of “integrity in government affairs” (政务诚信).

New officials don’t deliver on old contracts⁷³

When a new official takes office, promises made by their predecessors have a tendency to fall by the wayside as budgets are reallocated and priorities are adjusted, leading to a lack of continuity and stability in governance.

Half-hearted implementation of policy

Though some local officials may pay lip service to supporting central government policies, in practice, implementation is met with equivocation, subtle resistance, or responsibility-shifting, rather than concrete follow-through.

Racking up debt

Regional governments often abuse their privileged position to take out loans which remain unpaid, or engage contractors who remain uncompensated.

Lack of transparency⁷⁴

Regional governments often fail to publicize information that should be open to all, fail to open channels for the public to submit feedback, and otherwise operate opaquely.

Procurement corruption

Local officials use procurement decisions as a tool to line their own pockets, or parcel out projects to contractors with whom they are personally close.

Such issues have led to a series of problems affecting the business environment, namely:

Bad PR: When things get bad enough, local citizens protest or lodge complaints with the national government, which can lead to bad publicity and PR incidents.

Inability to attract investment:

International companies and companies from other parts of China are unwilling to participate in an unstable business environment.⁷⁵

Lack of public trust: Those living in corrupt areas lose faith in the rule of law and in the ability of their leaders to govern.

Local companies don’t take risks: Fear that the rules will suddenly change leads local companies to exercise extreme caution when making business decisions, which in turn hampers economic growth.

These issues are what China’s leadership is aiming to solve via the SCS by using big data to track and measure the behavior of city governments, state agencies, and civil servants.

SECTION 4.2

Collecting data on government

Businesses and citizens aren’t the only targets of the social credit system: government agents and bodies are on the evaluation block, too.

The landmark 2014 policy on social credit touched briefly on what data would be included in social credit records of government entities and officials:

Bad behavior such as favoritism, perverting the law and [lying by] omission should be included in these records according to law and regulations, and used as the basis for assessment, reward and punishment.

Mention was also made of setting up special archives to collect data on lawyers, judges, public security personnel, notaries and other legal professionals.⁷⁶

Beyond that, there are few specifics on exactly how government data will be

gathered at the national level. But we do have one source that clearly maps out how this information is gathered in Shanghai.⁷⁷ Since the lower-level social credit systems typically mirror the national level system, a look at the Shanghai model gives us the clearest picture of how government integrity data is likely to be gathered nationwide.^{78 79}

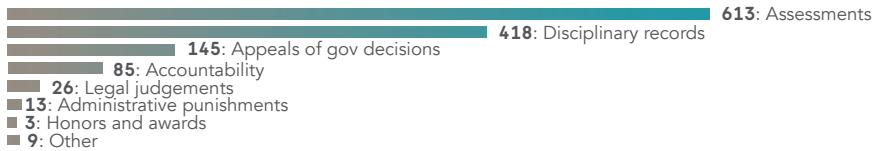
Shanghai is creating a government integrity database that’s based on the structure of the SCS for citizens and businesses, in the sense that it consolidates information from numerous state bodies. But instead of gathering information on people and enterprises, it gathers information on government employees and state bodies. And instead of gathering information from agencies involved in market regulation, it gathers information from agencies involved in internal affairs.

While we know which agencies the data

FIG 4.2-A: Who’s contributing to the Shanghai government social credit database

Data source	What it is	What they might contribute
City courts	Shanghai’s local legal system	Records on government departments and personnel that have had legal action taken against them
National Supervisory Commission	Manages internal affairs	Records of disciplinary actions or awards meted out to government employees
State Administration of Civil Service	Oversees civil servants	Personnel files on government employees
Legal affairs office	Provides legal advice and helps craft administrative laws that govern the behavior of government bodies	Would have records of any time a member of the public had submitted an appeal against a government body’s decision
12345 Hotline	Takes public complaints on government affairs	Public feedback and criticism
Other ministries and district gov’s	Misc.	Misc.

FIG 4.2-B: NUMBER OF DATASETS IN SHANGHAI GOVERNMENT INTEGRITY DATABASE BY CATEGORY



comes from, we do not know what data they are submitting, and can only make educated guesses about exactly which records each agency might contribute. [FIG 4.2-A]

We also know generally what categories of data the Shanghai database will store. [FIG 4.2-B]

Assessments

Considering that “assessments” make up the majority of the datasets on government integrity, we wanted to get a clearer understanding of who is conducting those assessments, and what metrics they’re evaluating.

Social credit policies on government integrity indicate that two types of assessments will be conducted: “self-assessment”, wherein higher levels of government audit lower levels of government, and “third-party assessments”, where outside sources are called in to do research and reporting.^{80 81}

In the 2016 policy “Guiding Opinions on Strengthening Integrity in Government Affairs”, the State Council expresses an intention to:

Support third-party institutions, such as credit evaluation services, universities, and scientific research institutes to carry out assessments and rate government integrity across various regions and departments.

Some of those third-party appraisals have already taken place. In June 2019, Zhongding Credit Rating Service — in cooperation with some of China’s top universities — released its second annual report evaluating 2,794 county-level governments across 30 provinces.⁸²

Regional governments were assessed along five primary metrics:

1. Transparency

- Diligence in constructing and launching county level government websites to push out public information

2. Utilizing new media resources

- Usability and efficiency of government channels for collecting and responding to public feedback and complaints

3. Compliance

- Supervision of law enforcement
- The gradual formation of a “social consensus towards legal administration”
- Taking the initiative to publicize administrative data

4. Honoring agreements

- Keeping promises to the public
- Keeping promises to higher-ups in terms of implementing policies
- Internal focus on government integrity
- Whether or not the government is taking the initiative to foster administrative integrity internally

5. Public opinion

- General positive vs. negative public opinion on government activities
- Incidents involving government dishonesty that attract media attention

Of course, for these types of reports to carry real weight, the third-party evaluator would have to be completely impartial, and that’s where things get murky: Zhongding Credit

is owned by a couple of holding companies, one of which is owned by a man with close ties to government (a member of the Guizhou municipal CPPCC).⁸³

Perhaps even more interesting is the case of Zhongdaxin Credit, another approved third-party government credit evaluation company, which was founded by Lin Junyue, who you may remember is the man credited with the invention of social credit theory. Zhongdaxin has been involved in assessing regional government compliance in getting new data transparency systems and procedures up and running, and setting up internal evaluation mechanisms.⁸⁴

The point here is that the people in charge of these assessments can hardly be considered impartial observers. Their close relationship with the government is not particularly incriminating, nor does it completely nullify the validity of the reports, but it is a reminder that there’s very little separation between the public sector and the private sector in China, and truly objective “third-party” evaluations of government are unlikely.

Other metrics

Equally interesting is the inclusion of public opinion data as an evaluation metric. Public feedback on government behavior is gathered through a dedicated complaint hotline, and also assessed by looking at formal protests lodged against government decisions.

Government grading systems

There have been a few hints dropped that government bodies might receive letter-based integrity grades (potentially ranging from AAA-D), just like the compliance grades given to companies by some state agencies, but we haven’t yet seen this confirmed in policy documents, so whether or not this will happen is still up in the air.⁸⁵

SECTION 4.3

Rewards and punishments for government

Surprising as it may sound, local governments and government officials can get blacklisted, named, shamed, and investigated just like everyone else.

Sixth Tone profiled one such incident in back in 2017:⁸⁶

Two alleged court documents circulating online claim that a county government in eastern China has been blacklisted as “dishonest” because it owes a company more than 300 million yuan (\$43.5 million) in unpaid debts.

... [One] document, dated March 21, is allegedly a court’s decision to add the Fengxin County government to a list of “dishonest” debtors — which means that the county head and other high-level government officials will face restrictions when they book star-rated hotels or trips by train or plane.

And that wasn’t an isolated occasion:⁸⁷

According to Sixth Tone’s sister publication, The Paper, more than 20 county-level governments have been blacklisted as “dishonest” for various reasons, including refusing to pay compensations and defaulting on construction projects.

Other penalties, as laid out in various policy documents, are equally similar to the penalties applied to businesses and individual citizens:

- “When dishonest acts are committed by the government at any level, the incident shall be explained in writing, and quickly rectified according to the amount of financial loss and damage caused. The involved government departments may also be barred from receiving awards and honors, and required to provide public (self-)criticism. The principal person responsible for the act of

government dishonesty shall be investigated in accordance with the law.”

- Breaches of trust by the government or its personnel will be publicized on the regional credit website.
- Officials with a record of dishonesty will not be considered for promotion.

5 Big tech

SECTION 5.1

Tech platforms and social credit

One of the most fascinating issues surrounding social credit is whether or not user data from private companies – especially tech platforms – will be incorporated into the social credit system.

The fear is that online marketplaces like Taobao and TMall might provide the government with customers' shopping histories, and citizens will be judged according to what they buy. Or maybe chat records on social media will be assessed by an algorithm which flags banned words, connects those words to the user's social credit file, and they are automatically punished.

Ironically, that might be the only way that big tech *isn't* involved in social credit.

That is to say: We haven't found any evidence to suggest that behavioral shopping data (like what items people

purchase online), and social media data (like what people say in chat rooms), will feed directly into the national social credit database. You won't get a black mark on your record for buying cigarettes. However, private tech platforms are participating in the social credit system, particularly in the areas of fintech and ecommerce.

It's a little difficult to tease the concepts of fintech and ecommerce apart, because many of China's major ecommerce players are also China's biggest online lenders, and they operate financial services platforms in tandem with their online marketplaces.

Alibaba is a key example: it runs China's biggest shopping portals, Taobao and TMall, as well as one of China's most popular digital wallets, Alipay, which in turn

offers onboard micro-lending services and investment accounts. Jingdong is both an ecommerce platform specializing in electronics, and it also operates a financial services wing through Jingdong Finance.

Leveraging these interconnected channels, these platforms are signing two-way data-sharing agreements with the central government, promising to restrict services to users that have been blacklisted by the state, and preventing them from making certain purchases or taking out certain kinds of loans.

Alibaba, who signed an agreement with the Supreme People's Court in 2015, is one such company. It restricts users who appear on the court defaulter blacklist from engaging in luxury consumption via its ecommerce platforms:⁸⁸

As of December 17, 2015, through its credit platform, [Alibaba] has restricted more than 130,000 people from buying air tickets, renting cars, taking out loans and so on.

Other big tech companies participating in "Unified Rewards and Punishments" include Suning Electronics, Jingdong Finance, network security giant Qihoo 360, Tencent's WeBank, bike sharing platform Mobike (recently acquired by Meituan Dianping), and many others.^{89 90 91 92 93}

As we mentioned a little earlier, Qihoo 360's involvement has extended to assisting the government in naming and shaming Beijing residents on the court defaulter blacklist:⁹⁴

The hundreds of millions of people who have the Qihoo 360 app installed on their phones will soon receive notifications on their screens whenever they call or are called by a person on the Chaoyang District court's blacklist. Calls with people who have outstanding debts, with divorced parents who don't comply with child support or honor visitation rights, or with employers who refuse to pay their staff will prompt a message that reads: "Included on the list of dishonest individuals."

CTrip, China's premier online travel portal (kind of like Expedia), also signed a cooperative agreement with the NDRC, agreeing to encourage the travel service providers on its platform to issue public "credit promise letters" promising to act in good faith and in the public's best interest. These letters would then be published on various government-run social credit-focused websites.⁹⁵

Sesame Credit

In our section on [What Social Credit Isn't](#), we spent a little time talking about the difference between the national SCS and private social credit systems. We mentioned that there are dozens of private SCS in China. One of these in particular deserves a closer look.

The most well-known and widely-adopted private SCS is owned by Alibaba's financial services subsidiary, Ant Financial. It's called "Sesame Credit", and it assigns scores to everyone who uses Alibaba's digital wallet, Alipay. A high Sesame Credit score doesn't dictate your place in society, or net you any benefits from the city government. But it does mean you get access to perks and preferential treatment on the apps in Alibaba's ecosystem.

For example, users with a Sesame Credit



score of over 650 can pay by installment for some items on Alibaba's shopping platforms, or rent Alibaba-owned shared bicycles without paying a deposit.

The whole system is kind of like a feedback loop: using Alibaba products and behaving well on Alibaba platforms raises your Sesame Credit score, which gets you more perks, so you want to use Alibaba products more, and using Ali products raises your Sesame Credit score some more, so you get more perks... you get the idea. Ali can use this feedback loop to influence consumer purchasing decisions, making Sesame Credit a weapon of market competition.

Though some might disagree with our use of the term here, we call this a "social" credit system because it takes some social metrics into account, like how many connections you have in the Alibaba network, and if you make charitable donations through Alipay.

While Sesame Credit, like all private SCS, is technically optional to use, Alipay is one of the most popular apps in China — there are currently over 1 billion users — and there aren't many alternatives.⁹⁶ Choosing not to use Alipay is kind of like opting out of Facebook. Sure, you can. Some people do. But doing so makes it harder to shop online, pay rent and utility bills, and transfer money.

Because Alipay is so ubiquitous, many Chinese people already have a Sesame Credit score. And Alibaba has begun to leverage the app's popularity to try to solve a national conundrum: namely, the lack of trust between buyers and sellers online.

Fraud and counterfeiting is so rampant in China that consumers are very wary of being scammed, especially in P2P marketplaces. Because Ali already has so much data on its own users, including financial information and shopping behavior, it has offered up the Sesame Credit scoring system up as a solution to these consumer trust issues. That's why some Chinese apps — like second-hand markets, home sharing and even some dating apps — display users' Sesame Credit scores publicly as part of their user profiles.

Because Sesame Credit is so visible and widely-adopted, many reports have confused Sesame Credit with the national SCS. The two things are very different. But there are some weird areas of overlap.

For example, Alibaba cooperated in the Unified Rewards and Punishments system by agreed to lower Sesame Credit scores for those users who appeared on the court defaulter blacklist, a move which they claim spurred these users to pay up.⁹⁷

According to Sesame Credit statistics, court defaulters open Sesame Credit 12 times more often than other users, which indicates that they place great importance on punishments delivered via the platform.

More than 5,300 [of these] court defaulters have paid off their debts. Among them, more than 1500 were those who had been evading payment for

three or four years.

In 2016, Alibaba signed another data-sharing MOU with the central government, promising to expand its involvement in meting out penalties and perks:⁹⁸

Through the use of different application scenarios such as consumer finance, financial leasing and public utilities services, Ant Financial will offer market-oriented incentives for the trustworthy as well as differential restrictions for the untrustworthy. In this way, the convenience of for trustworthy individuals is continuously improved, the coverage of punishment for breach of trust is expanded, and the role of big data platforms is brought into play. Together, we will [create an environment in which] "one act of dishonesty will lead to restrictions from all sides".

These types of agreements, we believe, are only the beginning of a slow integration between the SCS and the world of ecommerce and digital payment.

Data Privacy

At the moment, China's data privacy laws are rather weak. And though the policies on social credit have paid significant lip service to the concept of protecting personal

information, corporate trade secrets and state secrets, the language isn't very specific.

A 2017 policy urges regulators to:⁹⁹

Protect personal privacy. Clarify the rights and procedures for the querying of personal information, protect database security, establish and improve the registration and review system for the use of personal information, and to prevent information leaks. For those who intentionally or mistakenly disclose personal privacy information, the relevant units and personnel shall be strictly investigated and held responsible according to law.

These vaguely-worded policies are more focused on protecting data from corporate misuse, unauthorized disclosure and scammers, and not so much on protecting citizens from the prying eyes of the state.

One central government document from 2016 outlines exactly which data in the national social credit database is classified as "publicly available", which data is classified as "restricted" and which is "for government sharing only".¹⁰⁰

As we mentioned in our intro, of the 400 data categories listed in the document, about 75% of are classified as open to the public.

Almost all of this relates to corporations, rather than citizens. From what we can tell, the only time an individual's personal social credit information is made public is when they've been placed on a red or blacklist, in which case their name, part of their national ID number, and in some cases, details of their offense, are shown.

6 Analysis

SECTION 6.1

Problems

Our goal throughout this report has been to present a factual and even-handed view of China's foray into the world of social credit, but we'd like to take a moment to explore the system's more obvious flaws.

The issues

The potential for human rights abuse exists

Let's dive right in and address the elephant in the room.

In the course of our research, we have found no credible evidence that the SCS is aimed directly at mandating political conformity or silencing dissent. However, at its most fundamental level, the SCS is an extremely powerful extra-legal enforcement tool in the hands of the Chinese state, and we would be remiss not to mention that it very easily could be put to more sinister uses in the future.

Fully realized, the social credit system will provide the government with vast amounts of systematized data, allowing the Party to put together detailed personal profiles of more than 1 billion Chinese citizens.

Coopting technology to enforce political orthodoxy would also not be out of character for the Chinese Communist Party. Beijing has shut off access to huge swaths of the internet and replaced it with a homegrown information ecosystem that allows it to monitor its citizens and control online political discourse. The techno-surveillance state that has been created in Xinjiang, complete with the collection of biometric data from its residents, is a particularly chilling warning.

With all this in mind, it's not at all difficult to envision a future where ordinary people receive black marks on their credit record for sending a sensitive text message or communicating with "politically unreliable persons" or conversely, get a bump for sharing an article from state media.

But at the moment, that is not happening, nor does it appear to be a key element of the SCS political agenda.

Artificial creation of "trust"

From the earliest think pieces on social credit to the most recent social credit regulations, Chinese sources express the Party's hope that the SCS will create a sort of scaffold on which a genuine culture of trust can grow. But none of those sources do a particularly good job of defining what "trust" actually means.

There are as many definitions of trust as there are psychologists and sociologists, but for our purposes here, we think security technologist Bruce Snieder has a good take on the topic in his book [Liars and Outliers](#). Snieder breaks trust down into two distinct types:

When we trust people, we can either trust their intentions or their actions. The first is more intimate. When we say we trust a friend, that trust isn't tied to any particular thing he's doing. It's a general reliance that, whatever the situation, he'll do the right thing: that he's trustworthy. We trust the friend's intentions, and know that his actions will be informed by those intentions.

The second is less intimate, what sociologist Susan Shapiro calls impersonal trust. When we don't know someone, we don't know enough about her, or her underlying motivations, to

trust her based on character alone. But we can trust her future actions. We can trust that she won't run red lights, or steal from us, or cheat on tests. We don't know if she has a secret desire to run red lights or take our money, and we really don't care if she does. Rather, we know that she is likely to follow most social norms of acceptable behavior because the consequences of breaking these norms are high. You can think of this kind of trust— that people will behave in a trustworthy manner even if they are not inherently trustworthy— more as confidence, and the corresponding trustworthiness as compliance.

In another sense, we're reducing trust to consistency or predictability.

On the one hand, the idea that the social credit system would artificially increase levels of "intentional trust" comes across as the same kind of naive paternalism that ushered in the Cultural Revolution.

On the other hand, while the SCS may not address the actual underlying social issues, it does have the potential to create a higher level of consistency and predictability in the business environment. In other words, market actors may not have more faith in each other's intentions, but they can have

confidence that others are incentivized to behave honestly.

The integration of future tech is still in the future

Much has been said about social credit's potential to leverage next-generation technologies to collect and analyse SCS data. But for all China's lofty ambitions in this area, as it stands, the SCS is actually pretty low-tech. The master database is not yet being populated by a sophisticated network of facial recognition-enabled cameras and data scraping bots, but through plain old database consolidation techniques. Much of the new information is being gathered not by a cutting-edge, could-based AI, but is entered manually or via Excel spreadsheets. Several of the public-facing SCS websites and search tools are buggy and difficult to use.

That's not to say the system will stay janky forever. There's plenty of time for upgrading and the integration of fancy technology after all the basic components come online, and there is every indication that the government intends to do so.

In 2015, the State Council released a policy outlining their intentions to use big data and cloud computing in the areas of information gathering and sharing, statistical monitoring, risk forecasting, reporting and complaint mechanisms, corporate solvency projections, tax payments, social security management, traffic management, production safety, quality supervision, product traceability, credit analysis, ecommerce, online fraud, judicial services,

natural resources, environmental protection, government staff training, agriculture, health care ... the list of where they don't plan to use it might be shorter.¹⁰¹

But before we get carried away with visions of facial recognition systems ruining people's lives for chewing gum on the subway, let's bear in mind that the people building this thing are bureaucrats. Anyone who's ever worked on a technical infrastructure project for any government or MNC knows what a catastrophic mess they tend to be. Painting the national SCS as a flawlessly functioning weapon of technocratic state control is, at this stage, giving the project too much credit.

There are a whole lot of blacklists

Not everyone's happy about the way the blacklist system is shaking out. Chinese academics and journalists have voiced concerns that too many blacklists are being created willy-nilly by too many different organizations, that they're not appropriately standardized or regulated, and that some of the blacklists are penalizing behavior that isn't illegal.^{102 103}

An interesting example of this happened at a public symposium in April 2019, when Ge Ping'an, deputy director of the Department of Human Resources and Social Security in Zhejiang Province announced plans to use the SCS to punish "malicious, frequent job-hoppers."¹⁰⁴ The suggestion was widely condemned online, with netizens pointing out that workers' right to terminate labor contracts are protected by law.

Another possible problem with the sheer volume of blacklists being produced is that it opens the door for too much blacklist overlap, and the possibility of a "pile on" effect where being placed on one blacklist results in a cascade of blacklisting from which it's difficult or tedious to extract oneself.

If things continue in this vein, the central government will need to step in and better regulate the development of blacklists to ensure they don't proliferate to an out-of-control extent, and that they are not used to enforce arbitrary rules.

The good news is that the central government is very aware of the potential pitfall here. In an August 2019 interview, NDRC spokesperson Meng Wei outlined the government's focus on preventing the over-expansion of:¹⁰⁵

- Blacklist-worthy behaviors
- The blacklisting and punishments system
- The use of social credit scoring mechanisms

Blacklisting is extra-legal

Other academics have raised issues with the blacklisting system's relationship to the law.

Some have argued that blacklisting itself is unfair in that it creates a state of double jeopardy, where the violator is penalized legally, and then penalized again for the same offense via the blacklist system.¹⁰⁶

Others have pointed out that the SCS is extra-legal, operating in parallel with (but separately from) the justice system, and so unfair blacklisting can't really be redressed through the court system.

We are not lawyers, so we're not particularly qualified to give a lengthy discourse on the ins and outs of blacklist legality. But if you're interested in exploring this further, Mariane Von Blomberg's [Social Credit and the Rule of Law](#) is an excellent piece on the topic, and is available for free online.

The system focuses on punishments, rather than rewards

The SCS is a very big stick attached to a very small carrot. This is partially because, as we touched on in earlier sections, bureaucracies are optimized to gather data about our violations, not about our good deeds. It's also partly because the incentives to do exceptionally well are far outweighed by the incentives to simply not screw up too badly. This means that even if the SCS achieves maximum effectiveness as a market regulatory tool, it's still unlikely to inspire an organic culture of excellence.

There's always a way to game the system

China has elevated the gaming of government systems into the realm of high art, and it's unlikely that the SCS will be an exception. If the SCS becomes deeply embedded in society, this very well may give rise to a cottage industry dedicated to the false improvement of credit records. And if the system is built in such a way that

it is open to abuse, allowing fraudulent companies to come away with good credit records, it will call into question the entire system's validity.

The system is designed to stamp out (unsanctioned) corruption...

... but it still leaves plenty of room for corruption. Social credit data is still being entered into the system by human beings. The awards that improve credit records are still meted out by human beings. Safety inspections are still carried out by human beings. At the city level, data on "good deeds" is collected by human beings. The judges that issue legal penalties that get recorded in social credit files are human beings. This is hardly a tamper-proof setup, and there are plenty of places where corruption can creep into the mix.

Where is the SCS going?

What's the Chinese government's end game, and where is the SCS going? Well, there's a light timeline scenario, and a dark timeline scenario.

In the dark timeline, the SCS would be used to browbeat foreign companies in China into unfair legal, ethical or financial positions.

Instead of clamping down on corruption, the SCS would institutionalize it by giving officials a powerful weapon that would allow them to bring the wrath of the state down on anyone simply by making an entry in a database.

Instead of helping companies become more confident and willing to take risks, the excessive consequences of a misstep would make companies more cautious.

The list of disallowed behaviors would grow longer and longer, encompassing not just to criminal behavior, but would also be used to influence religious beliefs, political views, and consumer choices.

It would give rise to a tattletale culture, where finger-pointing, witch hunts and moral grandstanding were encouraged.

The system would discriminate against individuals based on ethnicity, education or wealth, and a hundred other scary possibilities.

In the light timeline, the system primarily helps shore up the severe ramifications for violating regulations leads to a major reduction in fraud, trafficking, tainted food scandals, industrial emissions and pollution, and other activities that pose a danger to society.

The SCS is applied equally to domestic and foreign companies, leveling the market playing field.

Blacklisting is used sparingly and only in cases of severe violations where the legal system failed.

Companies operating in China can use the public record databases to verify that their Chinese partners are legally licensed and operationally compliant.

The improved interconnection between government departments results in increased efficiency and less bureaucratic mess.

Individual borrowers can use their scores to get easier access to bank loans, and lenders can feel confident that their lending risk is mitigated.

So the real question is, which timeline is coming? The answer, of course, probably lies somewhere in the middle.

We can't say that no aspect of the dark timeline will come to fruition. But we do know that Chinese regulators aren't trying to steer the car down that road.

The SCS is attempting to solve legitimate problems

While criticism of the SCS is warranted, we should also remember that there are legitimate problems that this system is attempting to solve.

China has been raked over the coals for rampant corruption in government, rampant counterfeiting and IP violations, lack of accountability in the business environment, and flagrant disregard for the rule of law for decades. The lack of adherence to regulations and weak enforcement have frustrated the foreign business community as long as they have been operating in the Chinese market. But some of these behaviors are so deeply ingrained in the fabric of society, and are such a "normal" part of business culture, that nothing short of a complete restructuring of social and

market values would make a significant difference in the short term.

Well, here it is: the SCS is the Chinese government's attempt to restructure social and market values in the shortest possible time. And all too often, this effort is being heavily criticized through knee-jerk reactions on the basis of erroneous or misconstrued information.

Perhaps a more productive conversation to have is how China can improve its business environment without simultaneously infringing on the rights and privacy of its citizens.

SECTION 6.2

Takeaways for corporates

What does the SCS mean for companies operating in China, and how should you prepare?

The good, the bad, the ugly

Biggest concern: the snowball effect

The biggest potential problem with the SCS is the potential for a minor violation in one area to trigger a cascade of penalties that echo. The fact is, this danger is still largely theoretical. As of September 2019, there aren't enough case studies to give us a real read on how this will play out.

The system has a lot of potential upsides for due-diligence

Through the National Enterprise Credit Information Publicity System (NECIPS), foreign corporations will be able to verify that suppliers, contractors and potential JV partners are appropriately licensed and have not been involved in fraudulent activity.

It also has some potential upsides for administration

Better connectivity between various Chinese government databases should hopefully mean more convenient bureaucratic procedures.

Stricter enforcement: yay?

Businesses operating in China have long demanded more consistent regulatory enforcement, but that sword cuts both ways.

In theory, better enforcement should create a more predictable business environment.

But it also creates a stricter business environment, which not only raises the cost of ensuring compliance, but also raises costs associated with penalties for non-compliance.

How to prepare for the SCS

1. Don't get hung up on scores

Though companies will be issued a series of scores by various credit rating bodies, ultimately, those scores are all based on social credit records. Focus on keeping your records in good shape, and good scores should follow.

2. Keep a close eye on credit records

Because of weak credit notification systems, you may not know there's a problem until it's too late. Companies operating in China will need to allocate resources to credit data monitoring.

3. Actively manage credit data

The National Enterprise Credit Information Publicity System is one of the few channels through which companies can maintain some measure of control over their own credit information. Allocate resources to ensuring self-submitted credit data is accurate and current.

4. Determine which social credit regulations apply to you

Identify which blacklists and grading systems are applicable to your sector. Understand the criteria for compliance and

grading so that you can stay ahead of the game.

5. Reassess your HR and vendor vetting processes

The personal credit records of senior personnel and vendors can impact your growth potential. Prepare to take this into account when hiring for key positions on China-based projects and when choosing suppliers.

6. Look for advantages

Redlisting may give you a leg up on the competition. Make the SCS work for you by determining your eligibility for awards, redlists and incentive programs.

Like it or not, the SCS is coming

Whatever your feelings about the SCS, its implementation is no longer in the realm of theory. It's here, it's happening, and it's likely to have a huge impact on China's business environment. Any company whose operations extend into the China market must invest in understanding the SCS and its potential to impact on their operations, as well as how to engage with it to minimize risk.

SHAMELESS PLUG

Trivium helps companies prepare for the social credit system

Get your team up to speed on corporate social credit: what it is, how it works, and how to get prepared.

Briefings & Workshops

Trivium researchers walk your team through the basics of corporate social credit via in-person or phone briefing.

We'll cover:

- Basic social credit theory and background
- What problems the government is trying to solve
- How Beijing envisions the future market environment
- Blacklists and redlists
- Penalties and incentives
- Credit data management
- Implications for corporates

Social Credit Readiness Plan

Make sure you've got all your bases covered with a tailored-made preparedness strategy.

Risk identification and compliance

An outline of which blacklists, grading systems, and other social credit policies apply to your sector at the municipal, provincial and national level, and what those policies say about staying compliant.

Potential competitive advantages

See how to make the social credit system work for you by identifying which incentive programs apply to your operations at the municipal, provincial and national level, how to take advantage of them.

Your public credit profile

Find out how your social credit stands and how much data is already out there on your subsidiaries

Partner credit profiles

We'll review the public credit profiles of up to 10 potential JV partners, vendors and suppliers.

Corporate credit data management and monitoring plan

A tailor-made cheat sheet for credit data management, with a brief on how to stay on top of your credit data moving forward.

Credit rectification cheat sheet

Understand how social credit is repaired, and what to do if something goes wrong.

Custom policy monitoring

A monthly report, specially formatted for reading on mobile devices, on the latest developments in the SCS space relevant to your sector.

Policy updates

The latest social credit policy developments on both the national and local levels, including new blacklists, redlists and scoring systems in your operational localities.

Case studies

Exploring examples of social credit's real-world effects on both Chinese and foreign companies as they arise.

SCS news

Chinese media coverage of the SCS, including official statements, regulatory meetings, and debates.

Key sources & experts

This report was heavily informed by the work of western researchers and Chinese social credit theorists. Below, we list and link to the key experts and sources that underpin this piece.

Daithi Mac Sithigh and Mathias Siems:

In their January 2019 work, “The Chinese social credit system: A model for other countries?” these researchers from the European University Institute Department of Law juxtapose China’s social credit systems against similar systems outside of China.

Genia Kostka: Genia Kostka is a researcher at the Free University of Berlin. Her piece, “China’s Social Credit Systems and Public Opinion: Explaining High Levels of Approval”, is a fascinating exploration of the Chinese public’s reaction to the SCS, and includes detailed results of on-the-ground public opinion surveys conducted on over 2,000 SCS participants.

Jeremy Daum: Jeremy Daum is a fellow at Yale Law School’s Paul Tsai China Center and the brains behind China Law Translate. Mr. Daum is a leading voice on the social credit system, and was the first Western scholar to dig into the policies behind the blacklisting system in any real depth.

Lin Junyue 林钧跃: Hailed as “the father of social credit theory”, sociologist Lin Junyue first outlined the structure of a social credit system in his seminal 1999 work, “The National Credit Management System” (国家信用管理体系). His subsequent work, “Social Credit System Theory” (社会信用体系原理), released in 2003, further cemented the

SCS mechanism. The SCS as it exists today largely mirrors the one Lin and his colleagues proposed almost 20 years ago.

Marianne Von Blomberg: Marianne Von Blomberg’s piece, “The Social Credit System and China’s Rule of Law”, is a deep dive into the SCS’s relationship to the Chinese legal system.

Mirjam Meissner: Mirjam Meissner is a senior analyst at Sinolytics, and has been instrumental in exploring the ramifications of the social credit system in the enterprise context. Her related work for Merics included “China’s Social Credit System: A big-data enabled approach to market regulation with broad implications for doing business in China”, and Social Credit System Implementation.

Rogier Creemers: University of Leiden scholar Rogier Creemers’ work, “China’s Social Credit System: An Evolving Practice of Control”, is an excellent overview of the SCS as a whole.

Samantha Hoffman: Dr. Hoffman is a research consultant at the International Institute for Strategic Studies specializing in the fields of “Cyber, Space and Future Conflict and Defense, and Military Analysis”. She has written extensively on social credit, including a piece for the Australian Strategic

Policy Institute, “Social Credit: Technology-Enhanced Authoritarian Control with Global Consequences”.

Shazeda Ahmed: Shazeda Ahmed’s piece, Cashless Society, Cached Data Security Considerations for a Chinese Social Credit System, examines private SCS Sesame Credit and its relationship to the national SCS.

Wu Weihai 吴维海: Wu Weihai is an academic and member of NDRC-affiliated think tank. His book, “Credit of a Great Nation” (大国信用), explores the social credit system through the eyes of Chinese regulators, and presents the SCS as a holistic mechanism directed at individuals, companies, and the government itself.

Credits

Project Leads



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Kendra began designing websites in the mid-1990s, when Geocities was still a thing, and has been skulking around China's tech scene since 2004.

She has designed and consulted on over 150 digital projects for both private investors, SMEs and multinationals. Her clients have included Google, Envato, and the Eezy network. She specializes in social credit, Chinese interface design and usability.



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Ether was previously with BowerGroupAsia, a US government affairs and public policy consulting firm. Prior to that, he was a senior consultant at North Head, a Beijing-based public affairs and government relations consultancy.

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