THE GRAND EXPERIMENT

By Emily Manthei

China's radical Social Credit System promotes financial discipline and moral social behaviour among its citizens. Could it equally affect foreign investors?

A teacher uses a machine which employs both fingerprint and facial recognition technology to check the identification of a student before a simulated college entrance exam

How trustworthy are you? For individuals, businesses and governments alike, trustworthiness has become the primary concern in our increasingly interconnected, globalized world; and thanks to digital technologies and data collection, measurements of trustworthiness are inextricably linked with privacy – or the lack thereof.

In our personal lives, we often exchange private details about ourselves to "buy" trust from our intimate circle. In the business world, sharing details of a company's financial history and assets allows it to sell its private profile in exchange for more capital investment, a form of trust. So when a government holds a vault of private information belonging to businesses and individuals, from bank loans to unpaid parking tickets, what do they want in return?

ENGINEERING TRUST

In many countries, banks or private financial institutions collect data to determine a financial trust score. The information they collect includes debt and repayment trends for credit cards, auto loans, utility bills and housing; public records issued by courts; even one's voter registration status.

The Fair Isaac Corporation in the United States, or the recently-implemented Al Etihad Credit Bureau in UAE, are just two examples of credit report entities that operate on a national level. International institutions, like Equifax, offer personal and business credit reports for customers in 24 countries, facilitating trade and trustworthiness for investors across the globe. China's tech giant Alibaba launched its own credit scoring system, Sesame Credit, in 2015.

But China's evolving Social Credit System takes a step beyond these internationally-known financial tools. "China has a low-trust problem," says journalist Kaiser Kuo. He hosts the Sinica podcast, a weekly discussion on current affairs in China. In theory, the Chinese Communist Party has laid claim to moral authority, but in practice, he says, it's merely a paper tiger. Enforcement of financial judgements, or even keeping people in the correct seat they've booked on a train, is problematic.

In 2014, the Chinese government announced a plan to roll out a Social Credit System by 2020 that would track financial as well as social-behavioural data, in an effort to nudge citizens towards ethical behaviour. As a corollary, "blacklists" would ban low-scoring individuals from certain social benefits, while "redlists" reward credit-worthy citizens with advantages.

Currently, the "system" is a patchwork of local public initiatives and private business data and loyalty programmes, none of them working in concert or on the same scoring system, so it's a little hard to predict what a national system will look like.

"Some municipalities take the approach that all governmental Social Credit Systems are based on existing laws and regulations, and you have to see it as an amplification device for these existing laws," said Rogier Creemers, a China-watcher at the University of Leiden in the Netherlands, speaking to the Asian Society in Switzerland. For example, a collection of unpaid loans might make high-speed rail travel or luxury hotels impossible to book for a debtor on the travel blacklist.

Other local governments, Creemers says, start citizens with a set number of points; breaking regulations will cost points and therefore benefits, like access to subsidies or government jobs. The system of cost/reward, or "carrot-and-stick," is key, with the variety of blacklists ensuring that the punishment fits the offence.

TRUST BEYOND BORDERS

In June 2018, China's National Development and Reform Commission updated its "negative list," or the list of industries and sectors of the economy that are off-limits for foreign investment. The restricted list has shrunk from 63 sectors in 2017, to now just 48. It's part of a plan to open more of China's economic sectors to international investment, starting with removing ownership caps on banks and financial institutions. In some industries, investors are no longer required to partner with a national firm in order to invest, either. More access into China's economy means that foreign companies and investors will fall under the jurisdiction of the Social Credit System, too. In January 2018, foreign companies were required to renew their business licenses to include a "unified social credit code" that would measure business interactions and report infractions to the National Enterprise Credit Information Publicity System.

Above: A display shows a facial recognition system during the first Digital China Summit at Strait International Conference and Exhibition Center in Fuzhou

"At the heart of the Social Credit System lies massive data collection on company activities by government agencies and authorized rating entities," Mirjam Meissner stated in a report for the Mercator Institute for China Studies, a think tank based in Berlin. Meissner's conclusions in the Institute's China Monitor predict that the system has "the potential to strengthen transparency and trustworthiness in market exchanges," but could very easily fall prey to technical failures and data manipulation as well. The risks to the privacy and protection of proprietary company information are as big as the benefits.

Another benefit to the integration, says Meissner, is that it "could actually create a more level playing field between international companies and their Chinese competitors, since both are subject to the same social credit rating mechanisms influencing their business opportunities." A positive rating will reduce regulatory hurdles; the public nature of ratings could help investors choose trustworthy partner companies, whether foreign or domestic.

Yet there is also a downside, warns Meissner: "While public access to information creates transparency, the algorithms of the various credit rating services in calculating credit scores remain opaque. Their increasing importance can make business activities in China highly unpredictable."

In fact, the self-regulation that is inherent in the system may make foreign companies more beholden to the CPP's political opinions. An article in *The Guardian* last June reported that US and Australian airlines were forced to adopt China's official language when referring to Hong Kong and Taiwan in brochures and printed materials; in addition, a Japanese company was fined for selling items in China with packaging that referred to Taiwan as a separate country.

Moral and political battles are bound to interface with the economic and social realities of the system, whether one is an individual or a corporate entity.

DYSTOPIAN PROGNOSIS: HYPERBOLE OR HYPOCRISY?

Critics in the United States and Europe have created an Orwellian narrative around the system. An episode of the dystopian British sci-fi series *Black Mirror* features a woman in a world of "personality scores" who finds her own destroyed when she has a bad day and makes a few anti-social decisions. "Black Mirror" is now a common search term in European and US media when referencing China's Social Credit System.

Within China, however, the response to limited pilot programmes has been mostly positive. Another China researcher, Manya Koetse, tracks public opinion on China's biggest social network, Weibo, where she says users find the Social Credit System less worthy of conversation than do their foreign counterparts on Twitter. In fact, many Chinese citizens are grateful that rule-breakers will finally be held accountable. For foreigners, she says, "the lens is so political, but there are more ways to look at this system, other than political."

Creemers takes a view based on China's political and moral philosophy: "In Chinese history, you've never had a separate organisation like the church that parallels government, that determines what is the good life, what is the moral way. The Chinese Communist Party, which promotes an idea of the malleable human being, offers an idea of how people can live virtuously," he explains. Manifesting that idea in social credit may seem like a logical step in an era of big data, across a population of nearly 1.4 billion. An economic lens is another obvious way to see the programme. "The core motivation behind the Social Credit System is to more effectively steer the behaviour of market participants," wrote Meissner, continuing that the system aims to stimulate corporate self-compliance with environmental, tax and safety regulations by delivering punishments or incentives for breaking or following the rules. Compliance will result in subsidies, access to government land distribution and investment opportunities, and favourable credit conditions, among other things.

That concept isn't starkly different than the behavioural economics approach in the West, promoted in books like Nobel-winning Daniel Kahneman's *Thinking Fast and Slow* and Richard Thaler and Cass Sunstein's *Nudge*. The authors suggest that incentive-based behaviour nudges can improve an individual's rational economic and healthcare decision-making. And it has, in fact, inspired some government regulators in the US and Europe to phrase a question slightly differently, or change a default setting so that citizens can "opt-out" rather than "opt-in." These subversive measures subtly influence citizens to act in, as the researchers claim, their own rational self-interest.

It may not employ the same blunt-force, intrusive carrot-and-stick that the Chinese Social Credit System attempts, yet one could argue it delivers similar results.

Left: Posters of 'model citizens' are put up in Rongcheng. The East Chinese coast city is a pioneer of some dozen pilot projects with which a nationwide point system of social trustworthiness is to be introduced in 2020

Photos: Getty Images