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China's social credit system is coming for businesses too

The personal social credit system in China has already stopped the sale of roughly 26 million train and plane tickets. Soon, businesses will have to follow a stringent list of 300 requirements or also risk being blacklisted

By **BARCLAY SHOEMAKER**
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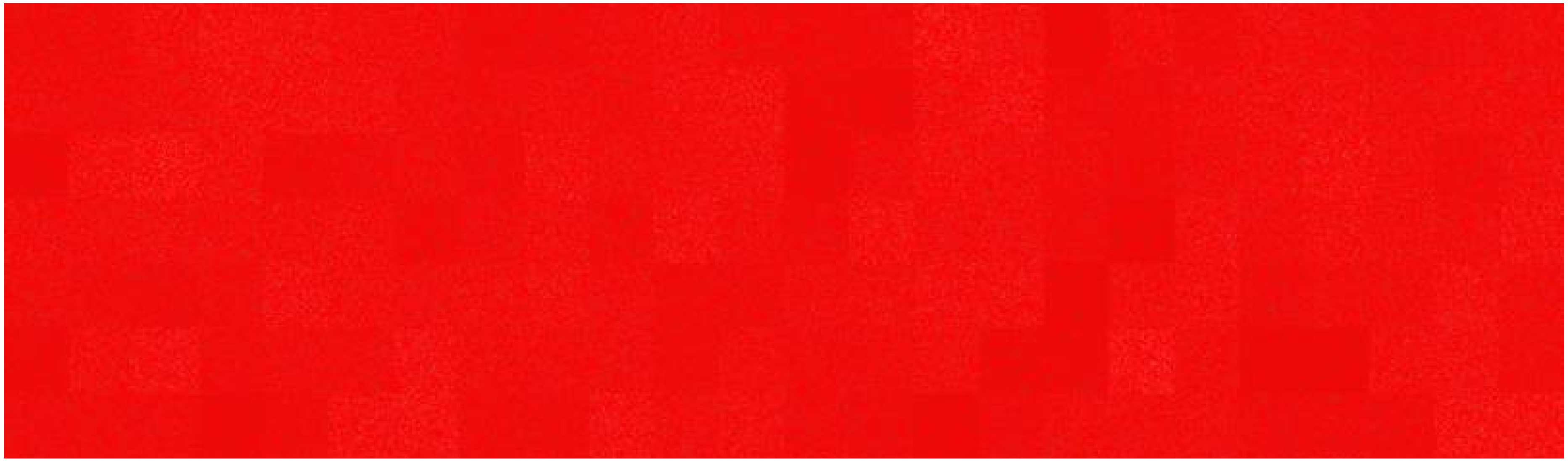

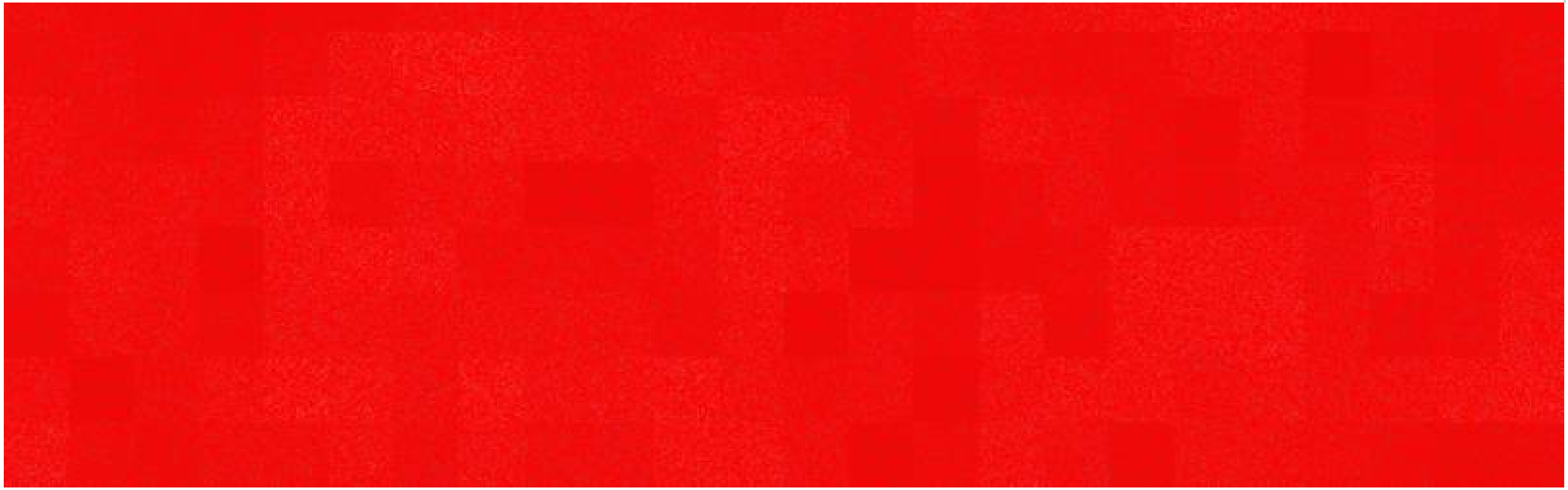

Credit **WIRED**

Corporate social credit "could mean life or death" for foreign companies in China, says Jörg Wuttke, president of the European Union Chamber of Commerce in China in a report released in August. The report, compiled on behalf of the Chamber of Commerce by Sinolytics, a China focused European consultancy firm, makes for sombre reading.

Companies will have to deal with about 30 different ratings categorised according to their performance in sectors like environmental protection, tax and quality controls, which in total will be drawn from compliance records based on roughly 300 requirements. These ratings will cover areas such as tax, customs authentication, environmental protection, product quality, work safety, e-commerce and cybersecurity.

While the report states that "the requirements and rating mechanisms are, in large part, clearly defined and can be assessed through detailed analysis", the bad news for companies is that the standard of what constitutes all relevant documents at provincial and local levels.

But if companies want to do business in China – and keep access to its huge domestic market of over 1.4 billion consumers – it's clear they are going to have a lot of work on their hands. As Jeffrey Towson, professor of investment at Beijing University, cautions "both foreign and domestic companies absolutely need to be in compliance with reporting and other regulations in China, especially in terms of taxes and employment. Don't mess around in this. Dot your Is and cross your Ts."

Social credit has been a hot topic in western media reports about China ever since early 2014 when the State Council first touted its plans in the rather austere sounding "Planning Outline for the Construction of a Social Credit System". This plan, which is set to rate all individuals in China by 2020, is analogous to the one that is being rolled out for corporations.

Ever since then social credit has been much discussed, both in China and abroad. Western accounts tend to view it as either Orwellian or as a live episode of Black Mirror. Chinese accounts see it differently – arguing tha the scheme is not all that different from a regular credit system, such as the ones a bank would use to assess your likelihood to payback a mortgage, anywhere else in the world. They also argue that China badly needs it. "Given the speed of the digital economy it's crucial that people can quickly verify each other's credit worthiness," Professor Wang Shuqin, who had recently started consulting with the government on the project, told *WIRED* back in 2017.

But recent reports from China have shown that the system, which is supposed to be rolled out for all individuals in 2020, is patchy. Chinese citizens are a long way from having a single ever-changing number that ticks up and down as an algorithm rates their every financial transaction, social interaction and political correctness. Instead, as scholars have started to argue, the system should be thought of less as a dynamic number and more as an agglomeration of 'blacklists' that a person can fall into.

As Shazeda Ahmed, a PhD candidate at Berkeley's School of Information who researches the social credit system has written, blacklists have existed for a long time in China already. What the social credit system is really designed to do is "to give blacklists *teeth*." This is what the famous line in the State Council's 2014

The system has already stopped the sale of roughly 26 million train and plane tickets, as over 13 million people deemed 'untrustworthy' according to a growing blacklist compiled by China's courts have been prevented from flying or using high-speed rail.

This is important to remember as the system gets rolled out to include corporations. While the level of compliance required is certainly daunting, the most important thing for any company to keep aware of is avoiding finding itself on a blacklist.

The EU Chamber of Commerce report suggests that corporate social credit could actually benefit some foreign companies. In the case of pollution for example, where there are blanket closures of factories on certain days of the year, the system could allow for compliant factories to keep operating while only closing those that had failed to meet standards. European firms tend to have much stronger environmental protections than their domestic competitors so this could play to their advantage.

Domestic companies have already been given credit scores for a number of years. "The corporate social credit plan is a lot about giving the current reporting system a digital upgrade," notes Towson. There are allegedly already 400,000 companies on the system, according to an official at the National Development and Reform Commission, China's state planner, who was quoted in the *Financial Times*. By extending this system to all companies, domestic and foreign, and then applying big data and algorithms, market access could improve.

The system is intended to be impartial as to whether or not a company is foreign owned. This would prevent local competitors from using personal connections or bribes to get preferable market access. As the report says, "this could lead to a scenario in which the Corporate SCS creates a more level playing field in China – though with a downside: the game played on that field will be more difficult and controlled than before."

The news of corporate social credit should be contextualised against two events that have been capturing the headlines in recent months. The first is the Trump administration's trade war with its rapidly escalating tensions and tariffs. The second is the ongoing unrest in Hong Kong. These two issues dovetail neatly with the corporate SCS.

China from 1978 after Mao's death, foreign firms were sequestered in Free Trade Zones, had limited market access and in most cases had to be joint ventures with local partners. There were draconian regulations that mandated technology transfers – which the White house claims costs US firms over $50bn a year as companies are forced to share key technologies with local partners. Many foreign firms found that after a few years their local partner would scarper with trade secrets, an issue that has seen protracted legal battles in the country such as Dupont's $400m case against their local partner Zhangjiagang Glory who they accuse of stealing chemical technologies.

In recent years under the rule of Premier Xi Jinping there has been a huge anti-corruption drive and an attempt to regularize the Chinese economy. There are now moves to remove some of the barriers that Trump's trade team have repeatedly pointed to, in an attempt to signal to the world that China is open for business.

At the same time that this has been happening, China has been rocked by protests in Hong Kong. Millions of people have taken to the streets to protest an extradition bill that activists argue would have been the de-facto end of the One Country Two Systems policy that guarantees Hong Kong's political autonomy until 2047.

In the middle of the protests Hong Kong based businesses found themselves under intense pressure from the mainland to keep their staff from protesting. This was clear in the case of Cathay Pacific, the iconic Hong Kong airline, which saw its Chief Executive resign and a number of staff fired after refusing to back down over their right to protest.

China has penalised airlines before; in 2018 three of the US's biggest airlines complied with Chinese demands to refer to Taiwan not as a nation but as a Chinese territory. The government and the propaganda apparatus also attacked the Marriot hotel group over listing Tibet as a nation on an online form – blocking its booking website from the Chinese internet for over a week and forcing the company to issue a grovelling apology. Versace also had to apologise last month for releasing a T-shirt that suggested Hong Kong and Macau were separate nations.

China is extremely sensitive to questions of its territorial integrity. Considering this year has seen arms sales to Taiwan, the exposure of the mass incarceration of millions of Chinese Muslims in Xinjiang and the ongoing violent protests in Hong Kong, the situation at China's periphery is more delicate than it's ever been.

government to appear to be creating a system open for foreign competition and investment, while not relinquishing the tools it uses to enforce ideological control in the country.

That is, of course, assuming that the system comes into effect as it is imagined that it will. As with any massive government project with this many moving parts – including integrating AI and big data – it could take a lot longer to implement and be less comprehensive than advertised when it does finally arrive.

For now, companies are starting to take notice. Angelito Tan, head of RTG Consulting Group, a large international consultancy in Shanghai, said it was hard to quantify exactly what the effect of the Corporate SCS would have. “Either way, I can tell you that it is being talked about at the highest levels within foreign multinationals,” he said.

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