Lin and Milhaupt, 'China's Corporate Social Credit System and
the Dawn of Surveillance State Capitalism'

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Subject: China's social credit system

'… the social credit system, of which the CSCS is a central but relatively understudied component, is an attempt to create a new operating system for society underpinned by notions of socialist legality rooted in compliance with state-led norms, detached from Western rule of law ideologies and practices. Viewed in a darker light, it is one of the key mechanisms by which the Chinese Communist Party (CCP) seeks to achieve its objective of "leverag[ing] big data analytic capabilities to strictly and comprehensively monitor and control China's population"'

The SCS's main aim is to improve the enforcement of legal and administrative rules. Food safety scandals are a recurring problem in China, as are workplace safety issues, wage arrears, and noncompliance with contracts and court orders. When it came to tackling these problems, there were laws in place, but enforcement was lackluster, and anyone who did get caught could simply go to the next province and reoffend. The SCS was meant to help by enabling data sharing between agencies and introducing nationwide blacklists to coerce offenders into compliance. Surveillance and repression of political dissidents or minorities were left to other, more invasive initiatives…" (FOREIGN POLICY 2021)

"The SoCS itself is not tasked with conducting political surveillance of individual behaviour. Its role is more clearly limited in recent party and policy documents…. the Social Credit System's main purpose has turned to enforcement of existing laws and regulations… the main target group has been companies, in line with the overall policy goal of increasing public trust in commercial products and services and in China's market economy" (Drinhausen and Brussee, MERICS, 2022).

Research question(s)

Starting point: the CSCS is *at least conceptually* "much more than a robo-version of a credit-rating agency such as Moody's or S&P"

- 'Beijing has long pursued the goal of assembling a vast, sophisticated network of interrelated technologies to predict, identify and neutralize perceived threats to the regime before they materialise'

- the CSCS is an opportunity for data on behaviour to be 'amassed and analyzed in service of the party state's interests'

What does analysis of the roll-out of the CSCS in Zheijiang Province reveal about the system's potential to operate as a vehicle for 'party-state-orchestrated economic management'?
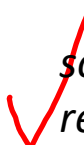
Methodology

- Focus on the public credit score component of the CSCS in ZP, which has five components

- Data: ratings of 531 A-listed companies headquartered in ZP, 88% of which are non-state firms (selection? Paper suggests 3,000,000 business enterprises have been scored by ZP)
  - 90% are rated "excellent" or "good" overall
  - largest variation in social responsibility category (greatest 'future payoff opportunity'?)

- Empirical strategy: identify (using "previous literature (not focused on the CSCS) *and* "the structure of the CSCS scoring system itself") factors which might be predicted to influence a corporate's social credit score, and then seek to relate these to the data
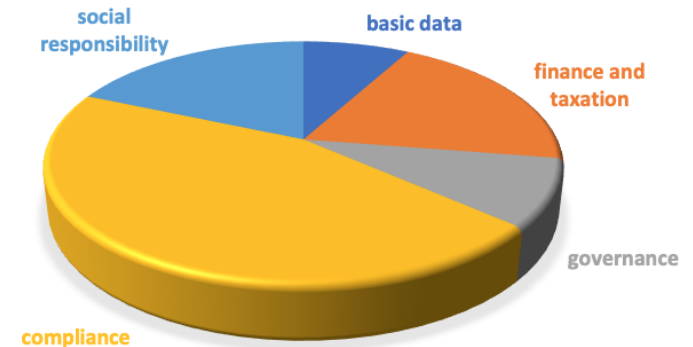
Methodology + results

The four factors:

1. Corporate governance (proxied by % independent directors)
    *   "firms with better CG may be expected to have cleaner compliance profiles and better track records of market conduct"
2. Financial condition (leverage ratio + ROA)
    *   "all else being equal, more highly leveraged and less profitable firms have a higher probability of defaulting on debts…"
3. "State ownership and party fealty" (SOE, state equity, charter amends)
    *   "it is plausible that direct connections to the party-state in the form of state equity ownership and overt signals of fealty to the CCP would be associated with higher social credit scores"
4. Political connections (executives hold government positions)
    *   "politically connected firms may obtain higher social credit scores"

compliance

basic data finance and taxation compliance

social responsibility

"our findings indicate that politically connected firms receive higher total CSCS scores by accumulating soft merits from party-state organs; we find no evidence that such firms have better compliance records or other indications of superior 'trustworthiness' as market actors"

Some questions

- ## MERICS 2022:
  - Companies have been main target of SCS roll-out to date
  - There is significant variation in the design of the CSCS evaluation system across provinces, and
  - The most economically developed regions have been particularly focused on CSCS roll-out

The development of the Social Credit System is marked by regional differences
Economically developed regions publish the majority of documents

Number of documents:
0–10 10–20 20–30 30–40 >40

Sources: MERICS SoCS database containing national and provincial documents from State Council and Credit China document depositories. Analysis of documents issued at provincial level, calculation by authors.

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Some questions

- Looking at ZP's present system, the focus seems to be on fraud / dishonesty, and default in legal obligations
  - basic data + finance and taxation + compliance = 72.5% of overall score (social responsibility = 18.5%)

- The CSCS might *conceptually* be more than a credit-rating agency, but is ZP's more than this right now?
  - Lin and Milhaupt's analysis suggests firms with more politically connected executives score higher in the 'social responsibility' indicator, but (i) is this surprising (note sub-indicators), and (ii) to whom does this matter?

- How might inter-province competition affect the evolution of the CSCS?

Basic Data	80	Data on Key Personnel	40	Serious Dishonest Key Personnel	20	Legal representatives, directors, supervisors, or actual controllers are included in the list of persons with serious dishonest acts	Relevant Departments, Courts
				Key Personnel Failed to Satisfy a Court Judgment	20	Legal representatives, directors, supervisors, or actual controllers have failed to satisfy a court judgment	Relevant Departments, Courts
		Business Operation	40	Abnormal Operations	20	Inclusion in the list of abnormal operations	Market Supervision Administration
				Abnormal Taxpayer	20	Identified as an abnormal taxpayer	Tax Department

Finance and Taxation	195	Financial Condition	135	Failure to Satisfy a Court Judgment Relating to Financing	50	Non-performance of a court judgment relating to financing or loans	Relevant Departments, Courts
				Criminal Liability Relating to Financing	60	Record of criminal liability relating to financing or loans	Relevant Departments, Courts
				Debt Evasion	15	Debt evasion records	Financial Department
				Registration of Equity	10	Failure to register equity in overseas direct investment	People's Bank of China
		Tax	60	Social Insurance Payment	30	Failure to pay social insurance fees	Tax Department
				Tax payment	30	Failure to pay taxes	Tax Department

Compliance	450	Administrative Management	200	Administrative Penalty	90	Results on administrative penalty	Relevant Departments
				Administrative Enforcement	60	Administrative enforcement actions	Relevant Departments
				Administrative Commitment	20	Failure to perform administrative commitment	Relevant Departments
				Other Non-compliance Records	30	Records on other non-compliance behaviors other than those resulted in administrative penalties	Relevant Departments
		Judicial Records	130	Failure to Satisfy a Court Judgment	50	Failure to satisfy a court judgment in cases other than dishonest persons subject to enforcement or relating to financing	Courts, Relevant Departments
				Other Criminal Records	60	Violation of criminal law in cases not relating to financing	Courts, Relevant Departments
				Frivolous Litigation	20	Court-sanctioned records on frivolous litigation (not constituting a criminal offense)	Courts
		Serious Dishonest Acts	120	List of Enterprises with Serious Dishonest Acts	120	Inclusion in the list of enterprises with serious dishonest acts (including dishonest persons subject to enforcement)	Relevant Departments, Courts

Social Responsibility	185	Charity	65	Volunteer Service	30	Records on volunteer service	Provincial Party Committee Propaganda Department (Provincial Civilization Office), Provincial Youth League Committee
				Donations	35	Donation records	Provincial Red Cross, Civil Affairs Department
Indicator		**Indicator**					
		Honesty Records	120	Red-list	60	Inclusion in red-list	Relevant Departments
				Honors and Awards	60	Honors and awards issued by county-level or above governmental departments	Relevant Departments