

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



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China's Social Credit System



- “A complex, sweeping, government-wide initiative that reaches into every sector of the economy and touches on issues such as data, corporate regulation, finance, consumer advocacy and geopolitics.” (Trivium, 2020)
- Create substitute for weak legal system; identify “trustworthy” market actors
- Alternative to western rule of law ideology and practices (Backer 2019)
- Central part of China’s “national big data strategy” (RAND 2020)
- Subjects
 - Individuals
 - Government agencies
 - Social organizations
 - Enterprises (corporations): every registered company, including foreign registered firms

Corporate Social Credit System

Social Credit Profile

Public Credit Information

Market Credit Information

Data generated by government agencies

Data generated by market participants

Blacklist

Redlist

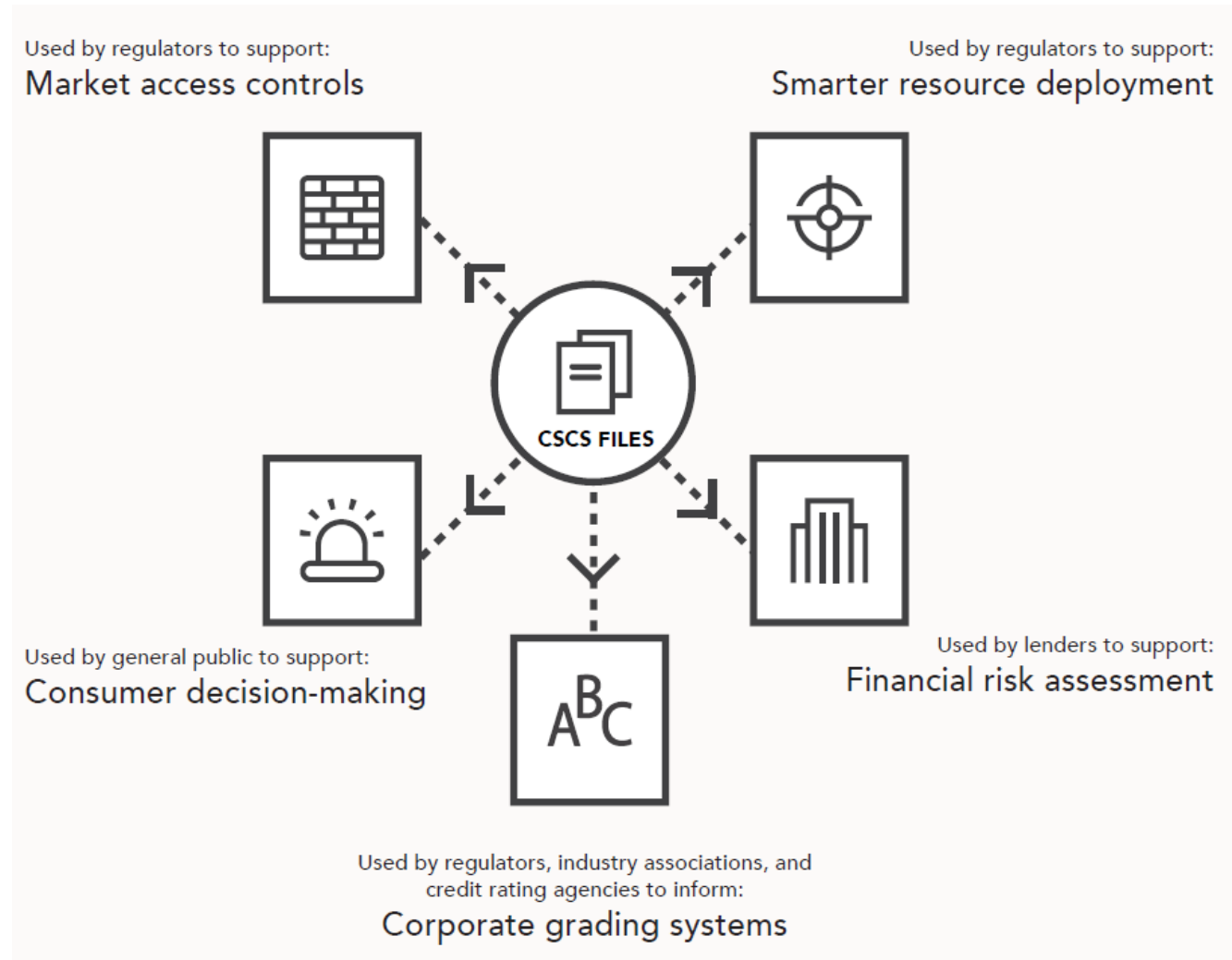
Judgments,
administrative
penalties, etc.

Consumer
complaints

Rating by
industry
associations

Rating by
credit rating
agencies

Key Uses of CSCS Files



Source: Trivium (2020)

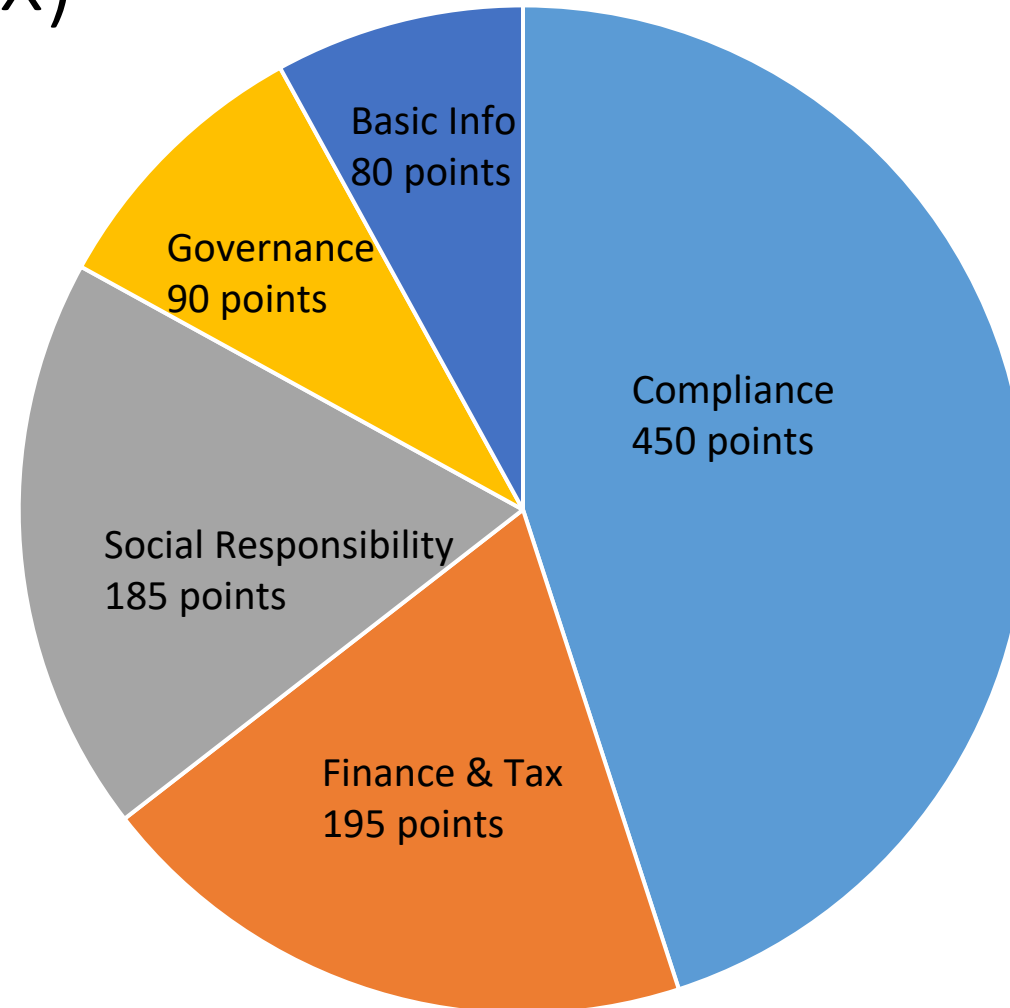
From State Capitalism to Surveillance State Capitalism?

- Chinese state capitalism
 - Blurred boundary between SOEs and POEs (Milhaupt & Zheng 2015)
 - political connections more significant than state ownership
 - Role of CCP in corporate governance (e.g., Lin & Milhaupt 2021)
 - “policy channeling”
- “Surveillance capitalism”: commodifying human behavior (“behavioral surplus”) for private profit, with aid of big data analytics (Zuboff 2019)
- CSCS as mechanism of “surveillance state capitalism”
 - Amass and analyze data on corporate behavior, not for profit, but in service of the party-state’s objectives:
 - modify market conduct, support industrial policy, and deepen party fealty.

Empirical Study of Zhejiang Province CSCS

- Source: Zhejiang provincial government website
- Date of Sample: July 1, 2021
- Sample Firms: 531 A-share listed firms headquartered in Zhejiang (414 for regression analysis due to data limitations)
- Scores: 0 - 1,000
- Ratings:
 - Excellent ($S \geq 850$)
 - Good ($800 \leq S < 850$)
 - Average ($750 \leq S < 800$)
 - Fair ($700 \leq S < 750$)
 - Poor ($S < 700$)

Public Credit Evaluation of Enterprises, Zhejiang (1000 pts max)



■ Compliance ■ Finance & Tax ■ Social Resp ■ Governance ■ Basic Info

Indicators for Public Credit Evaluation of Enterprises (Zhejiang)

First-level Indicator	Weight	Second-level Indicator	Weight	Third-level Indicator	Weight
1.Basic Data	80	Key Personnel Information	40	Serious Dishonest Key Personnel	20
				Key Personnel Failed to Satisfy Court Judgment	20
		Business Information	40	Abnormal Operations	20
				Abnormal Taxpayer	20
2.Finance and Taxation	195	Financial Information	135	Failure to Satisfy Court Judgment Relating to Financing	50
				Criminal Liability Relating to Financing	60
				Debt Evasion	15
				Registration of Equity	10
		Tax Information	60	Social Insurance Payment	30
				Tax payment	30
3.Governance	90	Product Quality Information	30	Supervision and Inspection Information	30
		Safety Production Information	30	Safety Production Accident and Potential Safety Production Hazard	30
		Environmental Protection Information	30	Environmental Accident	30

Indicators for Public Credit Evaluation of Enterprises (Zhejiang)

First-level Indicator	Weight	Second-level Indicator	Weight	Third-level Indicator	Weight
4.Compliance	450	Administrative Information	200	Administrative Penalty	90
				Administrative Enforcement	60
				Administrative Commitment	20
				Other Bad Administration Record	30
		Judicial Information	130	Failure to Perform Court Judgment	50
				Other Criminal Liability	60
				False Litigation	20
Serious Dishonest Information	120	Inclusion in List of Enterprises with Serious Dishonest Acts	120		
5.Social Responsibility	185	Charity Information	65	Volunteer Service	30
				Donations	35
		Honesty Information	120	Red-list	60
				Honors and Awards Information	60

Example: Alibaba (China) Limited



公共信用服务

信用修复 注册 登录

Unified Social
Credit Identifier

阿里巴巴（中国）有限公司

返回

统一社会信用代码：91330100799655058B

信用状况：优秀 信用排名：高于其他99.47%的信用主体

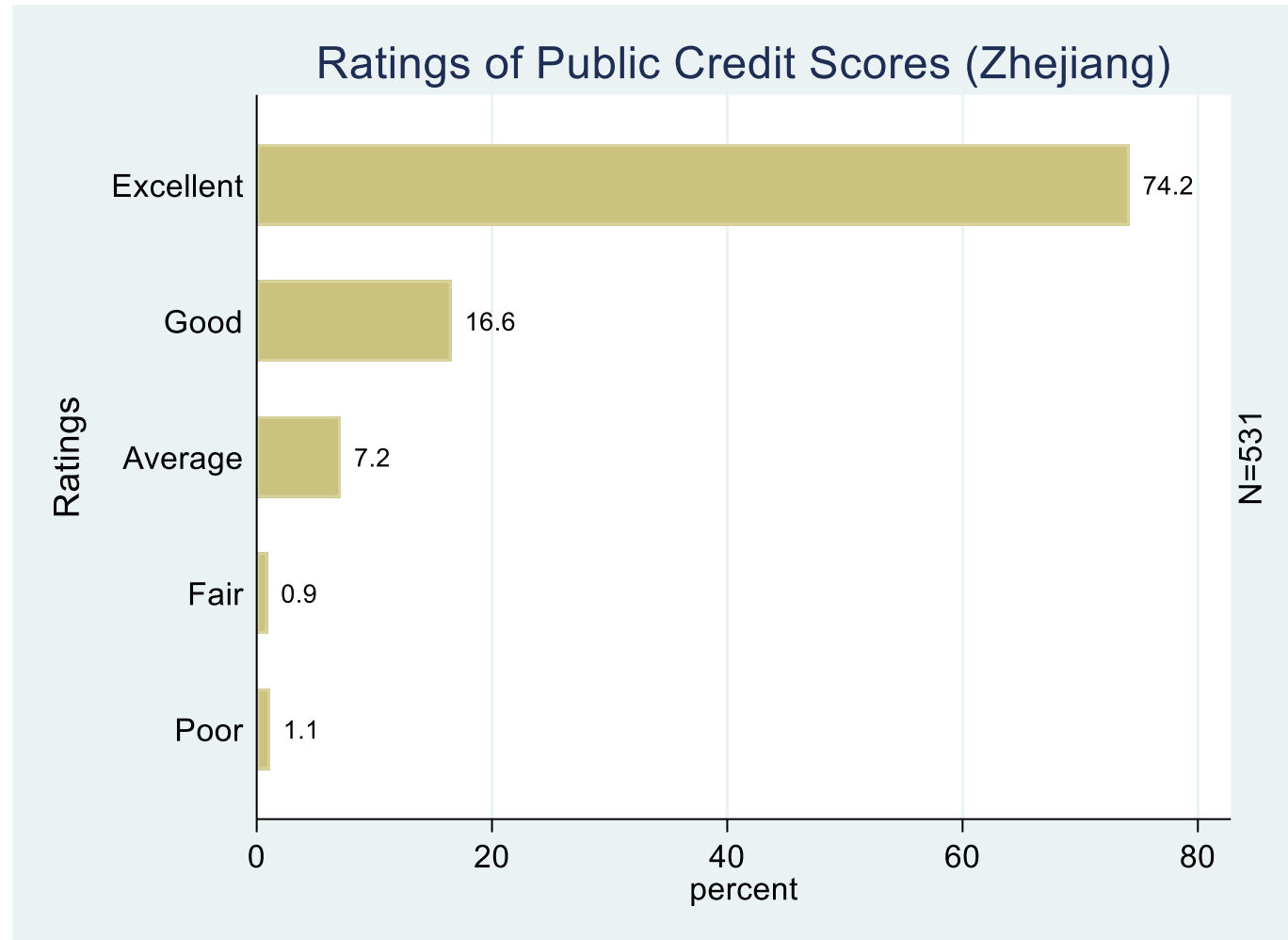
Rating: Excellent



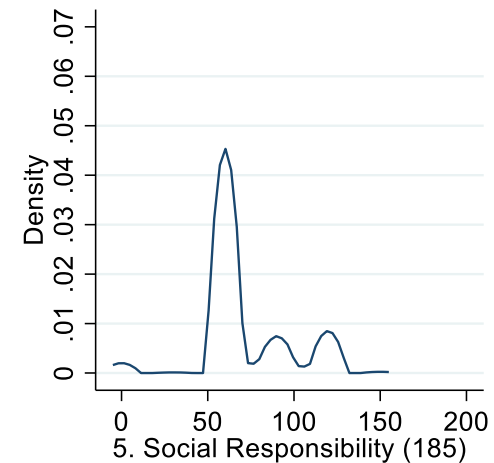
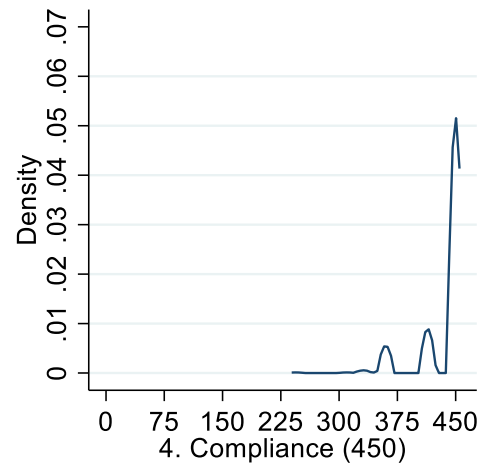
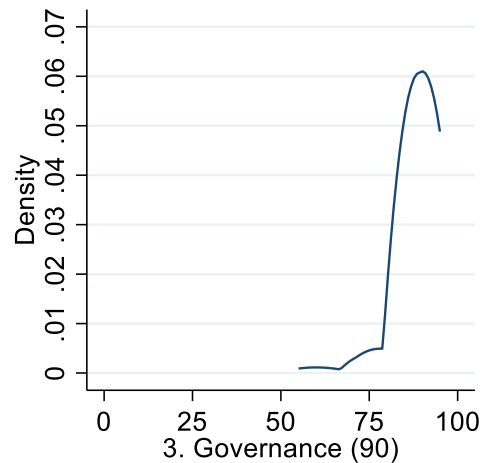
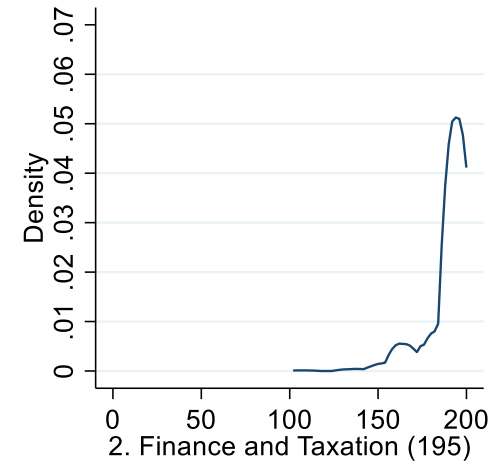
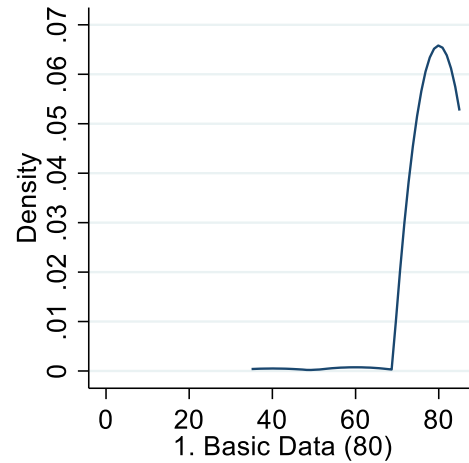
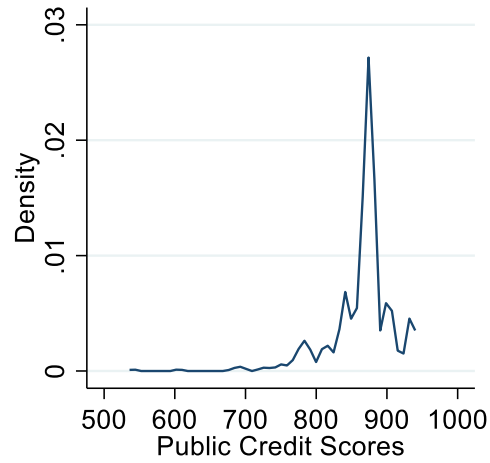
评估时间：2021-09-01

当前主体有3条守信激励名单（红名单）信息

Ratings of Public Credit Scores



Kernel Density Plot of Public Credit Scores



Determinants of Corporate Social Credit Scores

- Ordinary least squares (OLS) Regressions
- Dependent variables: total scores and sub-scores
- Independent variables
 - Corporate governance
 - Financial condition
 - State ownership and party fealty
 - Political connections
- Control variables
- Industry and city fixed effects

OLS Regression on Determinants of Corporate Social Credit Scores

	(1)	(2)	(3)	(4)	(5)
% Independent Director	52.584 (51.028)				54.039 (46.495)
Leverage		-51.494** (21.083)			-50.785** (20.922)
		10.477 (31.785)			8.845 (30.920)
ROA					
Party-Building Reform			-6.634 (7.311)		-7.621 (7.125)
SOE			12.855* (7.574)		11.011 (7.217)
% State Shareholding			44.362 (43.671)		56.309 (48.146)
Political Connection				9.625** (4.799)	10.515** (4.831)
Observations	414	414	414	414	414
R^2	0.117	0.160	0.122	0.123	0.178

- $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$
- Results include controls, industry and city fixed effects

OLS Regression on Determinants of First-Level Sub-scores

	(1) Business Data	(2) Finance and Taxation	(3) Governance	(4) Compliance	(5) Social Responsibility
%Independent Director	4.146 (4.536)	-1.335 (14.368)	-3.609 (4.855)	58.167** (29.201)	-3.331 (25.852)
Leverage	-4.217* (2.329)	-12.471*** (4.438)	-0.131 (1.264)	-29.492** (12.944)	-4.474 (8.550)
	ROA	1.281 (3.256)	2.974 (7.188)	2.554 (4.312)	-0.995 (19.273)
Party-Building Reform	-0.374 (0.658)	-3.784* (1.985)	0.175 (0.721)	-5.505 (5.101)	1.868 (3.745)
	SOE	0.740* (0.433)	2.086 (1.793)	-0.351 (1.166)	6.387 (5.203)
% State Shareholding	1.511 (2.166)	15.592 (18.630)	-8.599 (9.796)	53.073* (30.569)	-5.268 (18.975)
Political Connection	0.426 (0.469)	0.448 (1.229)	0.449 (0.559)	4.669 (3.156)	4.523* (2.661)
Observations	414	414	414	414	414
R ²	0.095	0.191	0.068	0.156	0.168

• $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

• Results include controls, industry and city fixed effects

Preliminary Findings from Zhejiang

- CSCS is ostensibly neutral (measures legal compliance and civic behavior).
 - Better governed firms score higher on compliance.
 - Highly leveraged firms, subject to higher default risks, are associated with lower total scores.
 - Formal connections to state and CCP apparently not necessary to obtain high total scores.
- But political connections matter: Politically connected firms best equipped to navigate system of rewards and punishments meted out by party-state.
- Behavior modification potential: “Social Responsibility” rewards adherence to CCP’s policy priorities and gaining merit with local governments. High payoff-to-effort potential to boost scores.
- Findings have clear limitations. But they provide an early window into the design characteristics, operation, and potential implications of the CSCS for the country as a whole.

CSCS and Surveillance State Capitalism

- Powerful tool for “nudging” corporate behavior alignment with party-state’s policy goals
 - Scoring criteria are subject to change by local governments in response to changes in national-level policy priorities
- Revival of central planning?
 - CSCS has potential to overcome information and incentive problems that doomed low-tech central planning
 - Risks:
 - Nudge Chinese firms into competitive dead ends?
 - Distraction for corporate managers?
 - Effects on foreign firms?
- Future research
 - Other local government scores
 - Response to blacklisting
 - CSCS scores and corporate outcomes (e.g., bankruptcy or scandal)