MASTER THESIS

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„China's Emerging Social Credit System: Facilitation of the PRC's international supremacy through enhancement of the CCP's domestic legitimacy"

verfasst von / submitted by

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Pledge of Honesty

On my honor as a student of the Diplomatische Akademie Wien, I submit this work in good faith and pledge that I have neither given, or received unauthorized assistance on it.

Liza Rebeka Geréb

Abstract

The economic ascendance of the People's Republic of China over the past 30 years has not only transformed the country domestically but has had multi-level implications on the global landscape as well. The PRC's alternative, non-democratic style of governance has been eyed with great suspicion by the West ever since the country turned on a path of reform and opening-up in order to facilitate economic development. At the beginning of this path, expectations were high that following the footsteps of the economic development, the political system would inevitably transform towards conformity with Western values, governance styles and democratic institutions. These expectations have not been fulfilled – on the contrary: the economic significance of the PRC has reached an extent which gives cause for concerns about its transformative power on these exact Western-style institutions. It is for this reason that upon news of its creation, the emerging Social Credit System has triggered fearful sentiments and has been largely portrayed as the beginning of some blatant dystopian nightmare soon turning into our everyday realities. With the aim to understand the SCS's implications for our international system, present thesis takes a more distinct look at this central-governmental initiative. It does so, because fearful associations with the PRC are not conducive to peaceful and mutually beneficial international cooperation, all of which will be more and more necessary as the PRC continues to gain on importance. This thesis is largely built on the analysis of primary literature in the form of central government notices and white papers, as well as on secondary literature which deal with the issue from a Western perspective. With the help of a theoretical framework created from theories of international relations and behavioral economics and guided by a total of five sub research-questions, this thesis aims at providing a more informed understanding of the PRC's central government's Social Credit System. It is ultimately built around the hypothesis that the central government's major underlying incentive for the creation of the Social Credit System lies in the necessity of securing its political legitimacy in the upcoming era characterized by slower economic growth and ever-increasing domestic challenges. It does so through the creation of a system of economic and social management, which, if implemented successfully will not only have domestic, but also international implications. This main hypothesis is complimented by seven propositions that constitute the cornerstones of the discussion. Even though there are numerous technical hurdles and confronting interests that

the implementation of this complicated system will need to overcome, it bears serious potential to aid the central government's quest of creating a stable and sustainable domestic environment, which is in turn likely to facilitate an expansion of the PRC's influence internationally.

Abstrakt

Die vorliegende Masterarbeit beschäftigt sich mit dem Thema des Sozialbonitätssystems der Zentralregierung der Volksrepublik China mit der Zielsetzung, dessen Auswirkungen auf das internationale System zu ermessen. Der Grund dafür ist die Überlegung, dass ein verängstigter und übertreibend pessimistischer Zugang, der die derzeitige Berichterstattung der westlichen Medien von Anfang an prägt, zu keiner friedlichen und gegenseitig förderlichen Kooperation zwischen der Volksrepublik China und der westlichen Welt beiträgt. Die Recherche beruht sich auf der Analyse sowohl von Primärliteratur – Regierungsankündigungen und Gesetzesvorlagen als auch von sekundären Quellen – wissenschaftlichen Artikeln und Medienberichterstattungen, die hauptsächlich die westliche Perspektive darstellen. Mit Hilfe von theoretischen Ansätzen aus der Politikwissenschaft und der Verhaltensökonomik begleitet von insgesamt fünf untergeordneten Forschungsfragen, versucht diese Arbeit, ein gut informiertes Verständnis über das Sozialbonitätssystem der chinesischen Zentralregierung zu verschaffen. Die vorübergehende Hypothese, die den Kern dieser Arbeit bildet, ist, dass der grundlegende Anreiz der Zentralregierung für das Erschaffen des Systems ist, ihre politische Legitimität für die kommende Ära nachhaltig zu sichern, die diese von einem deutlich langsameren Wirtschaftswachstum und zahlreichen internen Herausforderungen geprägt wird. Dies wird durch Maßnahmen der wirtschaftlichen und gesellschaftlichen Steuerung versucht. Wenn das System erfolgreich umgesetzt wird, und damit dazu beiträgt, dass die Herrschaft der Zentralregierung stabil aufrechterhalten werden kann, wird es auf den internationalen Status der Volksrepublik China auch positive Auswirkungen haben. Diese Hypothese wird während der Diskussion in ihrer Aussagekraft von sieben weiteren Lehrsätzen unterstützt.

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List of abbreviations

BRI	Belt and Road Initiative
CCP	Chinese Communist Party
FDI	Foreign Direct Investment
ICC	International Cooperation Center
MoU	Memorandum of Understanding
NPC	National People’s Congress
OBOR	One Belt One Road
OGAS	All-State Automated System for the Management of the Economy
PRC	People’s Republic of China
SCS	Social Credit System
USSR	Union of Soviet Socialist Republics

Glossary of foreign terms

chengxin	诚信	honesty, integrity, trustworthiness
danwei	单位	work unit
dangan	档案	file, record
fazhi	法治	legal system and institutions, ‘rule by law’
yichu shuxin chuchu shouxian 一处失信，处处受限		“losing trust in one respect, facing limitations everywhere”
yide zhiguo	以德治国	governing the country by virtue
yifa zhiguo	依法治国	governing the country by law
shehui xinyong xiti	社会信用系体	Social Credit System
tianming	天命	mandate of heaven
xingyong	信用	trust, credit, trust-, creditworthiness

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Introduction

Present thesis deals with the topic of the emerging Social Credit System in the People's Republic of China (PRC) under President Xi Jinping.[1] The Social Credit System, in the followings also being referred to as the SCS, is an all-encompassing project first laid out and communicated to the public by the State Council, the chief administrative organ of the People's Republic of China, in 2014.[2] At the core of the plan lies the strengthening of governmental, commercial, social and judicial credibility. From a Western perspective it is the easiest to understand the project as an extension of financial credit scoring systems such as the SCHUFA[3] in Germany or FICO[4] in the US, to a total of four main content areas: the government, the economy, the society and the judiciary. Taking the sheer scope of the project into account, the SCS is regarded by many as the most ambitious attempt by a single government in recent history to fundamentally change the way it governs by building on modern technological capabilities: in a nutshell, the SCS is planned to be a technology-enhanced governmental tool for social and economic control.

Ever since news about the SCS first reached the public discourse, massive misconceptions about its scope and nature have been constructed in a way which can be described as fear-mongering at best, and as fake news or intentional misleading of the Western public at worst. Given the PRC's omnipresent nature and ever-growing significance in today's globalized world, it is

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[1] Xi Jinping has three official titles that he is commonly referred to by the public, media and the academic scholarship: General Secretary of the Chinese Communist Party, State President of the People's Republic of China and Chairman of the Central Military Commission. For the purposes of this thesis, I will refer to him in the followings either as General Secretary or State President/President.

[2] State Council of the PRC, "关于印发《社会信用体系建设规划纲要（2014—2020 年）任务分工》和《社会信用体系建设三年重点工作任务（2014—2016）》的通知(发改财金[2014]2850 号) [Planning Outline for the Construction of a Social Credit System (2014-2020)]." translated by Rogier Creemers: State Council of the PRC, "Planning Outline for the Construction of a Social Credit System (2014-2020)."

[3] "Schutzgemeinschaft für allgemeine Kreditsicherung" – a credit system in Germany.

[4] "Fair Isaac Corporation" – a credit system in the U.S.

essential to see the developments that are fueling this trend for what they really are. Stripping off the layers of superficial information, fear and confusion about this ambitious plan will open the door to a better understanding of the People's Republic of China, one of the most significant forces to reckon with in the 21st century.

Part I – Research Background

1. Research questions and the main hypothesis

Present thesis lays its focus on the transformative power of the emerging Social Credit System on two different levels of analysis. First it examines the SCS's impact on the Chinese domestic economy and society, and secondly it does so on global power-relations within the international system by formulating the following overarching research question:
How does the emerging Chinese Social Credit System impact the international significance of the People's Republic of China?

The preliminary hypothesis below serves to outline the direction in which I started my research and seeks to provide an early answer to the research question.
If the Chinese Communist Party (CCP) manages to stay in power in a sustainable way by creating and maintaining a stable domestic situation, the ascendance of the People's Republic of China is going to continue until it reaches a significant position on the global stage, where it is not only going to dictate the pace and direction of economic development but is also going to become a main force in the establishment of parallel political and social institutions. Present thesis is going to show in which ways the emerging Social Credit System constitutes one of the main pillars of establishing this sustainable legitimacy.
The following sub-research-questions are going to guide the discussion and aid the task of answering the main research question:

RQ1. *How does the Social Credit System enhance the Chinese Communist Party's resilience in preserving its political legitimacy?*

RQ2. *How does the SCS support the PRC's economic transformation and the CCP's social management aspirations?*

RQ3. Why is the emerging system widely perceived as threatening by the Western media?

RQ4. What kind of competitive advantage does the CCP's authoritarian type of regime secure for the creation of the emerging SCS?

RQ5. What are the implications of the SCS on the international stage?

2. Theoretical frameworks

Both the economy and the societal structure of the People's Republic of China have recently been undergoing substantial changes. The export- and investment-driven growth, which was so characteristic of the Chinese economic development after the reforms of Deng Xiaoping had been initiated, has become sluggish. This change in the economic realities has forced China to rethink its model for continued economic growth. Therefore, "economic restructuring" has become an often-heard phrase in China-related economic dialogues and implies the ever-increasing importance of domestic demand as the new driving force of the Chinese economy. Present thesis divides the reasons for the change of direction of both the Chinese economic development and the country's international participation into two groups: external and internal factors.

2.1 Institutional Liberalism

Looking at China's rapid economic development after the reforms of the late 1970s reveals the detrimental effects that it very often inflicted upon other participants of the international system. Forces that had contributed to the astonishing results China was able to achieve within a couple of decades had at the same time destabilizing consequences on the domestic realities of countries that had been part of the international system long before China became a power to count with. It was the case, because in its initial phase of economic ascendance, coming from a very different historical and normative background, China did not consider abiding by international norms as bindingly necessary. Dumping manifested both in product and labor-force pricing, non-adherence to environmental regulations, food- and drug-safety standards and so on, had all become issues that granted China considerable competitive advantages on the international economic stage. The adverse effects of these advantages very quickly became perceptible to other international players. Instead of referring to violent methods, as it was for example the case during the Opium Wars in the mid-19th century, the international community this time reacted in a way which is best-described by the theoretical framework of *institutional* *liberalism*. By letting China participate in international institutions that have evolved over the last couple of decades between players of the global economic and the existing political order, the international community aimed at internalizing the challenges posed by China's economic rise.

China itself has been striving for participation in existing international organizations as well, and thus has felt the necessity to adapt and reconsider its path of development accordingly. At the same time China is very much interested in creating its own parallel system of international institutions and is working on the integration of its own norms as complementary to the existing ones.

In this sense, present thesis sees the implications of the theory of institutional liberalism as one of the main driving forces behind the necessity of the change of direction of the Chinese economic development and international participation, as it presses China to adapt to the norms and realities of the international stage.

2.2 Authoritarian Resilience

On the other hand, internal forces within the People's Republic of China play a determining role in the necessity of finding new paths of economic development as well. The revelation that Chinese domestic demand will need to overtake export and foreign investment as the main engine of growth has serious implications for the Chinese political leadership. A change of direction is needed, and it is apparent that to this end societal support is indispensable. The dilemma is, however, that an authoritarian leadership in the traditional sense is inherently not able to and directed at assessing, understanding and serving the needs of the individuals that it rules over. Given the fact that domestic demand, which is increasingly being put into the focus of future Chinese economic growth, is based on the needs of individual customers as economic actors, the question arises whether the authoritarian regime can rely on those individuals for support without catering for their needs and necessities.

The Chinese Communist Party's unwillingness to forgo its political power, and resilience to maintain its grip over China were vividly illustrated in the aftermath of the events of Tiananmen Square in 1989. Subsequently, most outside observers were united in their conviction that after such a violent manifestation of authoritarian oppression, the Chinese Communist Party would not be able to last long, and that democratization would soon be inevitable.

Today, however, more than 35 years have passed by and democratization in the Western sense has not yet occurred. It is therefore apparent that the political elite of the Chinese Communist Party is not willing to resign its power in favor of Western-style political establishments that would automatically enable an increased consideration of societal needs and demands. Andrew J. Nathan, in his theory of *authoritarian resilience,* creates a model around the development path the Chinese leadership has opted to take and explains why this has succeeded to maintain and reinforce the legitimacy of the CCP over and over again without the pressure of transforming it into a Western-style democratic establishment.[5] According to Nathan the leadership of the Chinese Communist Party had realized the necessity and has managed the implementation of 4 crucial measures that have enabled it to maintain its authoritarian power against the odds of historical precedents. These measures are as follows: 1. “the norm-bound nature of its succession policy”, 2. “the increase in meritocratic as opposed to factional considerations in the promotion of political elites”, 3. “the differentiation and functional specialization of institutions within the regime” and 4. “the establishment of institutions for political participation and appeal that strengthen the CCP’s legitimacy among the public at large”.[6] The theory was predominantly meant to be descriptive of techniques that have secured political legitimacy for the Chinese Communist Party over the years. The issue of political legitimacy, especially after the transition from a socialist economy to a quasi-market economy is, however, very closely tied to the question of economic performance. This had been no secret to the Chinese leadership, neither had it constituted a considerable challenge to it, since as already mentioned, the previous export- and investment-driven growth had done a great service for the CCP in this regard. Therefore, the relevance of the slow-down of this economic model and the consequent need for finding a new one cannot be overemphasized. For the purposes of this thesis the 4th measure listed by Nathan is of particular relevance – the development of input institutions that allow individual actors to believe they have some influence on policy decisions and personal choices at the local level.

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[5] Nathan, “Authoritarian Resilience.” This theory is largely based on the concept of institutionalization as one of the main elements of the theory of the reputational state.

[6] Ibid.7.

For the optimal functioning of such a system, inputs from the economic reality are needed that cannot be generated by central planners.

2.3 Nudging

Owning to the advanced stand of technological development, obtaining real-time, accurate inputs from individuals and other economic actors is nowadays realistically feasible. Present thesis is going to show how this opportunity is being grasped by the Chinese leadership in order to implement a responsive economic model in the sense of the above-mentioned 4th tenet of authoritarian resilience. The revelation that individual needs, bias, and preferences have a substantial influence on aggregate economic outcomes has been conceptualized by the relatively new economic stream of behavioral economics. One of its main areas deals with the phenomena of nudging.[7] The central tenet of this theoretical framework is that individuals are not rational, therefore their biased needs and reactions need to be considered and sometimes corrected by a higher authority in order to achieve outcomes that make the affected parties better off. Thaler and Sunstein emphasize the possibility that in some cases individuals make inferior choices that they would not make in the first place if they had complete information, unlimited cognitive bias and no lack of willpower. I hypothesize that the idea of the Social Credit System is partially rooted in this framework.

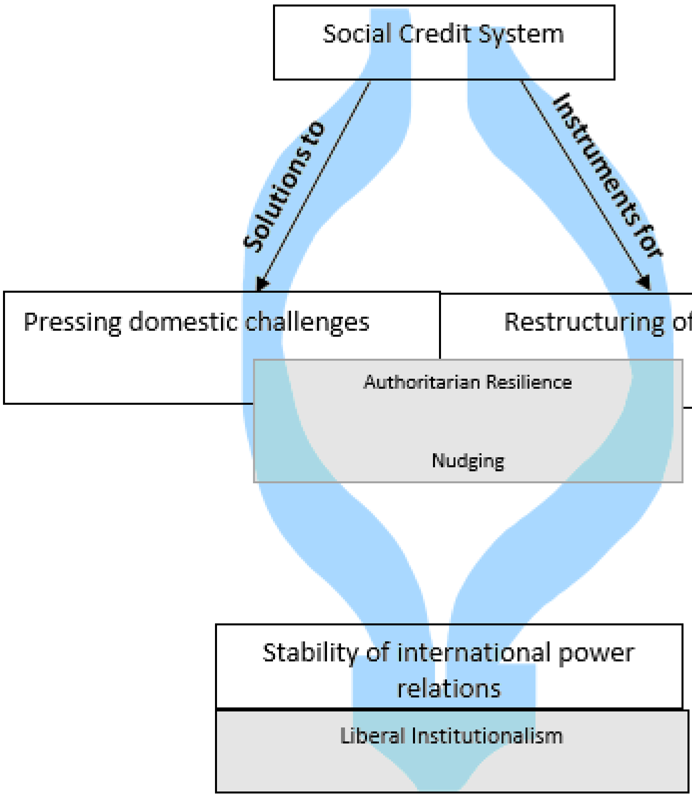
To sum up the explanation of the theoretical framework, this thesis aims at showing that in its practical implementation China's emerging Social Credit System is a partial combination of Nathan's authoritarian resilience and the behavioral economics theory of nudging, and if implemented successfully and efficiently, it carries significant implications to the theory and practice of institutional liberalism.

[7] Thaler and Sunstein, *Nudge : Improving Decisions about Health, Wealth, and Happiness*.

3. Methodology

Present thesis uses a deductive methodological approach. It looks at China's emerging Social Credit System through the lenses of the three above-mentioned theoretical frameworks. While doing so it aims at constructing linkages between these theories and the Chinese reality in a meaningful and logical way.

As explained above, it is preliminarily based on the discipline of international relations, while at the same time in its argumentation it significantly draws on the discipline of economics.



Consequently, as the figure shows above, the Social Credit System is going to be depicted as a practical illustration of blending these theoretical frameworks and different disciplines.

For this purpose, primary and secondary literature in the form of government notices, books, articles, research papers etc. on both the theories and on the Social Credit System will be exploited.

4. Relevance of the topic

The Social Credit System is one of those Chinese undertakings that can be very easily misunderstood by the way it is presented by the Western narrative, which predominantly puts its emphasis on the SCS potential to infringe on individual human rights and to endanger the freedom of choice and right for equal opportunities. While these factors should not be completely disregarded as irrelevant fear-mongering, since the system does shelter some potential for them, solemnly focusing on them embodies a rather superficial approach. Looking at it as some state leader's individual, slightly obsessive desire to control its population in every possible aspect of life also fails to expose the deeper motivations underlying this initiative. Although it is inherently political, it is a concept that is designed to support both economic development and social management[8], so understanding it simply as a tool of state surveillance only leads to misunderstanding the diversity of the system. Present thesis thus seeks to dissolve the simplistic picture and misleading interpretations that surround this complex undertaking in order to show that the emerging Social Credit System is to serve as an important component for the solution of a multiplicity of challenges that China and the world are facing today.
In that sense present thesis will show that the SCS is a big-data and artificial intelligence (AI) enabled approach to market regulation, social management and trust-building, with broad implications to the economy as well as to the society, both domestically and in the international stage.

4.1 International context

There is much academic and public debate as well as speculation going on about the composition of future international power relations. Although it has been no hegemonic power, the United States has been widely seen during the last seven decades as provider of global security and compelling ideological thought that the international community largely wished to identify with. However, the survival of the liberal world order that had been created in the process has recently been increasingly questioned. While the continuation of US global dominance both economically and militarily is argued to be a certainty at least in the short- to

[8] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security."

medium-run, as Nye puts it, “leadership is not the same as domination”.[9] It is the responsible international leadership that is questioned by many of the Trump administration’s most recent statements and actions. Prime examples are its trademark protectionist stance with its loud rhetoric about the importance of pursuing US self-interest first and foremost, a prerequisite for which seems to be a retreat from safeguarding the international stage and from cooperating with the rest of its players.

The unilateral US withdrawal from the Joint Comprehensive Plan of Action provides us with a glimpse in a future in which the US does not feel to be bound by international agreements and treaties. In light of the widely-known difficulties of enforcement of international law, this kind of developments are legitimate reasons for concern. If the US does not feel the necessity to abide by its self-negotiated commitments, who can be expected to provide others with an example to follow?

At this point it is usually China that is being brought into the equation of power.

Although economic development is traditionally seen as being linked to liberal democratic establishments, China has so far proven to be a counter-example. This, on the one hand, provides grounds for debate whether democratization is inevitable if China is about to continue its path of development and emergence as a global power?

On the other hand, China’s emergence as an economic power without apparent political liberalization gives rise to fears about the potential threat China can pose to the liberal order. Some of the most intricate questions to ask today are thus ones such as “Does China want to maintain our current international order?” or “Does it want to integrate into the existing system, or would she rather choose an alternative path?”. To put it differently, the extent and exact nature of commitment China feels itself bound to in terms of global responsibility defined from a Western point of view is hard to assess. This further adds to feelings of insecurity about the future global composition and distribution of power and the consequences thereof for the international community.

[9] Nye Jr., “Will the Liberal Order Survive?”

5. What is the Social Credit System?

> "A social credit system is an important component part of the Socialist market economy system and the social governance system. It is founded on laws, regulations, standards and charters, it is based on a complete network covering the credit records of members of society and credit infrastructure, it is supported by the lawful application of credit information and a credit services system, its inherent requirements are establishing the idea of a sincerity culture, and carrying forward sincerity and traditional virtues, it uses encouragement to keep trust and constraints against breaking trust as incentive mechanisms, and its objective is raising the honest mentality and credit levels of the entire society."[10]

The above quote is directly taken from the most-widely accepted English translation of the State Council Outline from 2014 formulating the official objective of the project.

Additional secondary sources about the Social Credit System are abundant, which makes it difficult to easily grasp its essence – even if having succeeded to look behind the veil of tabloid media coverage, the impression of a "hodgepodge of public administration and legal reform initiatives"[11] is rather inevitable at the beginning of the examination of the topic. In order to establish a deeper understanding of the real nature of the initiative it is thus important to have a well-structured overview about what it is all about.

5.1 The core idea

Jeremy Daum, senior research scholar at Yale Law School's Paul Tsai China Center, and the founder and chief editor of China Law Translate, a crowd-translation website that aims at enabling English speakers to understand Chinese law, gives an accurate hint about the essence of the SCS by defining it as „a lot of ideas linked by the concept *of centralizing data to assess creditworthiness* [emphasis added]."[12] He hereby equates *creditworthiness* with *compliance*

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[10] State Council of the PRC "Planning Outline for the Construction of a Social Credit System (2014-2020)." Translated by Rogier Creemers. China Copyright Media: 2014. Originally published as 关于印发《社会信用体系建设规划纲要（2014—2020 年)" (Beijing: 2014)

[11] Dai, "Toward a Reputation State: The Social Credit System Project of China." p.15.

[12] Lynch, "What's the T on China's Social Credit System - Jeremy Daum Explains - Part 1 of 2."

with the law,[13] whereby compliance is a *function of observation* by the authorities and the population's *knowledge of being observed*.[14] For Daum the SCS is therefore largely, if not exclusively about the institutionalization of trust, or as Knight puts it, the codification of *chengxin* [诚信][15], which represents a binding together of law and morality.[16]

Furthermore, Daum identifies three major components of the system: the financial credit, the administrative regulatory system and the educational components.[17]
Ohlberg, Lang and Ahmed in a MERICS report take a further step by adding the component of altering behaviors and actions of credit subjects by the state by defining the SCS as „an ambitious, information-technology driven initiative through which the state seeks to create a central repository of data on natural and legal persons that can be used to monitor, assess, and *change their actions through incentives of punishment and reward* [emphasis added]."[18]
Present thesis considers the above definitions as indicative and objective depictions of the notion of the social credit and sees them as underlying ideas of the emerging system.

5.2 Trust with Chinese characteristics

As already outlined in the preliminary hypothesis, the overarching goal of the Chinese Communist Party's SCS is to improve market security and public safety in order to ensure social and economic stability and with that to establish sustainable legitimacy. That being said, the primary objective of all social credit and rating systems is control. Control that is grounded in assessment, incentive and compliance.[19] This is what the core objective is built around, and the point at which the Chinese characteristic of the system must be accentuated. In the emerging

[13] China Law Translate, "Giving Credit 3: Inputs and Outputs."

[14] Backer, "Measurement, Assessment and Reward: The Challenges of Building Institutionalized Social Credit and Rating Systems in China and in the West."

[15] Honesty, integrity or trustworthiness

[16] Knight, "Credit: The God of China's Big Data Era."

[17] Lynch, "What's the T on China's Social Credit System - Jeremy Daum Explains - Part 1 of 2."

[18] Ohlberg, Lang, and Ahmed, "Central Planning, Local Experiments: The Complex Implementation Of China'S Social Credit System."

[19] Backer, "Measurement, Assessment and Reward: The Challenges of Building Institutionalized Social Credit and Rating Systems in China and in the West."

Chinese SCS the fabric of control is trust, it is an omnipresent component, playing a very important role in the ideological foundation of the idea.

In Chinese the Social Credit System is called *shehui xinyong xiti* [社会信用系体], a phrase in which '*xinyong*' [信用] stands for what has been translated as 'credit'. The Chinese word carries a wider meaning than the English counterpart, for '*xinyong*' is strongly associated with the word 'trust', so credit in this context must be understood as sincerity, credibility, creditworthiness or trustworthiness *that can be assessed and the compliance with which can be incentivized.* It also cognates with the term integrity, which often appears in the English translations of the official Chinese policy documents.[20]

5.3 Gradual implementation

The creation of trust, to be understood in the above-explained sense, is envisioned to be implemented in four major areas of life: in government affairs, in commercial affairs, in social organizations and welfare and in the judicial sector. The first idea that might come into one's mind when reading these goals is that they are rather all-encompassing.

This is certainly true, therefore the State Council's notice from 2014 envisages gradual, step-by-step implementation for each of these sectors, based on four basic principles. Firstly, the aggregation and integration of information within and across geographic regions and professional fields that can be used to assess credit is one of the most important building blocks of the emerging system. This is to ensure the reduction of individual data-islands which represent a big problem in any area of big data collection and application. Secondly, the creation of measures that incentivize 'trustworthy' conduct on the one hand, and punish 'untrustworthy' conduct on the other, is one of the inherent features of the system. This is where the concept of nudging and libertarian paternalism come into life in the Chinese context. Already existing applications and possible future implications are going to be discussed later in this thesis.

Thirdly, building on the previous two elements, a subsequently increased reliance on credit evaluations in all the original four major fields is planned. Transactions, be it in the economic,

[20] For translations of all relevant Chinese policy documents see: https://www.chinalawtranslate.com/en/

social, governmental and or the judicial field are planned to be supported by applicable credit evaluations of the respective participants.

Finally, moral education, as the fourth factor, should ensure the sustainability of the system by planting the core ideas of morality, trustworthiness and credibility in the minds of the population as the most important cornerstones of a trusting and stable social and economic environment.

Part II – Systemic Analysis

The upcoming chapter forms the central piece of this thesis, with the goal of providing answers for the proposed research questions. While it builds on the core literature introduced in the previous section, it also draws on additional sources to support the line of argumentation.

6. Maintaining legitimacy through economic and social management

The purpose of the following section is to explain the proposition below, which is formulated as an answer to the first sub-research-question:

Proposition I.: One of the major raison d'états of the emerging Social Credit System is securing sustainable political legitimacy for the CCP through economic and social management.

6.1 Traditional notion of legitimacy

Understanding the significance of legitimacy of rulers is one of the most intriguing and fundamental factors that are indispensable for a proper understanding of the dynamics of China today. The concept of legitimacy is built on the *mandate of heaven* or *tianming* [天命]. It is the traditional, divine source of authority providing the mandate to rule. This mandate, however, does not only come with the right of being the only legitimate ruler at a time, but it does so with the tremendous moral obligation to use this great power for the good of the people. If the ruler fails to do so, his state would suffer terrible disasters and he would lose the right to govern.[21] Unsurprisingly, as in the case of any other ruler, the CCP's highest priority is to uphold its power, to maintain its legitimacy. The following sections first deal with the

[21] Cartwright, "Mandate of Heaven."

question of why this objective has become especially relevant over the recent years, and secondly, how the CCP plans to go about reaching it.

6.2 Is the CCP's Mandate of Heaven under risk?

Due to the country's transition from a state-run, centrally-planned and controlled economy to one that is increasingly driven by market principles - a quasi-market economy, triggered by the reforms of Deng Xiaoping in the late 1970s, China has undergone an unprecedented economic development. Driven by the overarching pragmatic recognition that the Chinese agriculture can only develop if farmers are able to make their own individual economic decisions, the liberalization of the agricultural sector constituted the first phase. This consequently served as a sound basis for further reforms in the manufacturing and service industries.[22] The result was, on the one hand a tremendous economic growth, raising hundreds of millions of peasants out of poverty. On the other hand, however, economic growth has not equally benefited the whole population. Although the urban-rural divide contracted in the initial 10 years after the reforms between 1978 and 1988, inequality is omnipresent today.[23] In 1990 the Gini coefficient, measuring the extent of inequality on a scale from 0 to 100, was 15 in China. By 2018 it has climbed up to 50, which has prompted the International Monetary Fund to declare China to be one of the most unequal countries in the world.[24]

Out of this constellation one of the gravest challenges has emerged that the Chinese Communist Party is facing today. Against the background of the rising divide between the rich and the poor it is plausible how its socialist ideological foundation based on social justice and equality has become unsteady. As mentioned before, in the initial years after Deng's Reform and Opening policy the inequality even decreased, and in the decades to come economic growth simply outbalanced the once-again increasing inequalities on an aggregate level – the loss of the ideological basis of the CCP was compensated by the legitimacy granted to it by the positive impacts of the rapid economic development that the country as a whole had been

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[22] Strittmatter, *Die Neuerfindung Der Diktatur: Wie China Den Digitalen Überwachungsstaat Aufbaut Und Uns Damit Herausfordert*.

[23] Heilig et al., "Poverty Alleviation in China: A Lesson for the Developing World?"

[24] Jain-Chandra, "Chart of the Week: Inequality in China."

experiencing. Because economic growth became the norm, even those who were "momentarily" left behind had reason to believe that eventually they will get on the high-speed train of economic growth as well. If not this year, maybe the next one.

Against this background, the "occasional" social injustices and apparent inequalities found little resonance in public outcry in the subsequent decades. To put it simply, the rate of economic growth had secured benefits that in the short to medium run outweighed the negative side effects. Even the most brutal manifestations of totalitarian oppression were condoned, such as the 1989 Tiananmen Massacre.[25]

So, what is the problem that the CCP is facing now? The answer is inherent in the economic growth itself, ironically it is an inevitable consequence of the exact benefits that had for a while secured the CCP's legitimacy. Parallel to becoming more affluent over the past decades, the social, legal and environmental awareness, expectations and demands of the Chinese people heightened accordingly. As Kerry Brown illustratively puts it, "since the mid-1990s, the middle class […] had moved from dreaming about having a freezer, a small scooter, a television and a phone to now wanting new, good-quality housing, a clean living-environment, a car (usually imported, despite the huge tariffs), and the latest mobiles and electronic gadgets.[26] The prospective of having a better life "next year" is not enough anymore for this younger generation, as Brown again pointedly formulates, "they wanted to *have* the good life – not simply the promise of one, as their parents and grandparents had had."[27]

The list above could go on with aspects such as safe food, clean drinking-water, uncorrupt government officials, reliability of the judiciary system etc. For as it happens, in many areas that the government had been entrusted with, such as environmental protection, food safety and consumer protection, fault lines did appear over the last decades. This has led to a significant

[25] In mainland China this term does not exist. If at all, the events are referred to as the Tiananmen incident. Economic growth is alone of course no answer to the complicated question of how the CCP managed to remain in power after such a blunt totalitarian escapade, but it certainly played a role. Andrew Nathan's theory of authoritarian resilience attempts to provide an all-encompassing explanation for this. See later parts of this thesis.

[26] Brown, *The World According to Xi : Everything You Need to Know about New China*, 26.

[27] Ibid. 48.

erosion of trust between the Chinese people and the government. The people's trust in the government and the party (in institutions as such) as reflected in their reputation are essential elements of political legitimacy. Nowadays China is faced with sluggish growth: for the first time in the lifetime of the younger Chinese generations they experience single-digit growth rates. This eventually leaves room for attention to the ever-increasing problems mentioned above. Summing up, the CCP now must defend its legitimacy in the eyes of a Chinese population that, because of having become wealthier, has also become more aware of injustices, insufficiencies and inequalities around and among themselves. Not only did it become more aware, it also became more demanding, driven by a feeling of entitlement. On top of all, this population might soon start suffering from the consequences of a retrenching economy, as the growth model of the post-Deng Chinese economy is not sustainable anymore.

Xi Jinping was very well-aware of these issues when coming into power in late 2012. Moreover, he has understood one key aspect that links the two above-mentioned issues: apart from the potential to directly undermine the CCP's legitimacy, society's loss of trust towards the government also threatens to impede further contractual development of the market and with that it endangers the continuity of economic development.[28]

The CCP has, under his guidance, come to realize that current government tools are insufficient to solve the PRC's greatest challenges, which, if left unresolved, will inevitably lead to a major legitimacy crisis for the Party.

7. Solutions: economic restructuring and social management

So nowadays, as economic growth is supposed to become more consumption driven, it is only logical to assume that consumer needs, concerns and preferences are more likely to become pressing matters both from the point of view of the government and of economic actors. Therefore, as China enters the stage of consumer-driven patterns of economic development, the domestic challenges briefly highlighted above are expected to become more accentuated and thus move to the fore. While doing so, they have started to cast a shadow over the

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[28] Strittmatter, *Die Neuerfindung Der Diktatur: Wie China Den Digitalen Überwachungsstaat Aufbaut Und Uns Damit Herausfordert*.

legitimacy of the Party which has so far been based on unrestricted economic growth. In this sense, however, this unrestricted economic growth is ironically a two-sided sword. A break-even point has been reached in the economic development, beyond which, in the face of the numerous social injustices and environmental problems the Chinese middle class is empowered and feels entitled to question this legitimacy. The CCP, especially under the leadership of Xi Jinping has clearly realized this and is rather blunt about explaining how it sees innovating social management as its blueprint for maintaining power.[29]

In the followings, the restructuring of the economy and the implementation of social management tools should be regarded as pertaining to the goal of preserving political legitimacy.

7.1 Economic restructuring

In the context of the SCS, 'credit' was first conceptualized as financial credit, as "an important structural arrangement in the market economic system".[30] The purpose of the following section is to shed light on the reasons that necessitated the Chinese government's focus on the financial aspects of credit during the earliest phase of the emerging Social Credit System.

The notion of state control of the economy is not an unfamiliar one in the context of socialist regimes. Although the PRC has undergone tremendous economic developments and liberalization during the past decades, yet there is absolutely no question about the socialist nature of its regime. While there is no doubt about the benefits this economic development has brought about both domestically and globally either, the externalities that have been created in the process constitute some of the most severe challenges today.

The transition that has been witnessed during the last decades was one from low-income to middle-income status. This part of the development process of a country is, as experience shows, relatively easy if compared to the one towards reaching a high-income status. Numbers

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[29] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security."

[30] State Council General Office, "Some Opinions Concerning the Construction of a Social Credit System « China Copyright and Media." translated by Creemers, quoted in Liang et al., "Constructing a Data-Driven Society: China's Social Credit System as a State Surveillance Infrastructure, 424."

indicate that China's development stage has at least partially arrived at the latter chunk of the process: as more than 800 million people have been lifted out of poverty – which amounts to more than 60% of the current population of 1.3 billion, the transition towards a high-income status is looming on the horizon.

One of the issues in this regard is the nature of growth which is driving the economy. Not only was the economic development, as mentioned above, characterized by a transition from a low-income status to a middle-income one, it had also been predominantly driven by investment and export. The reform policy of Deng Xiaoping is best known for opening-up the Chinese domestic market for foreign investment after almost a century of total isolation. The sudden inflow of foreign capital had been the fuel of the country's economic growth in the three decades following the introduction of the reforms in the late 1970's.

Recently, however, with private consumption amounting to 39.1% of the nominal GDP, the Chinese economy is said to have arrived at a stage at which its further development is going to be more reliant on consumption rather than on investment.

7.1.1 China's unbanked population

In addition to further advancing the general argument of securing political legitimacy through economic restructuring, the following section is meant to explain the proposition below, which is formulated as an answer to the second sub-research-question:

Proposition II. a.: The emerging Social Credit System significantly contributes to the creation of a stable consumer-driven model of economic growth via incentivizing commercial actors to create their own subsystems and experiment with extending the scope of traditional ways of assessing creditworthiness and thus enhancing the consumption capabilities of the Chinese domestic market.

The SCS was originally conceived as a narrowly defined governmental project to solve a problem that the bank and financing sector found themselves to be facing: a large chunk of the Chinese population above the age of 15 had no bank accounts, and thus no official credit records either. To be specific, the percentage was as high as 36.2% in 2011 and 21.1% in 2014. In the United States the respective numbers were 12% and 6.4%, whereas in Austria 2.9% and

1.8%.[31] This percentage represented a serious restriction in terms of consumption capacity and consumer spending. From the point of view of the previously mentioned pursuit of economic restructuring, which is hoped to be built on domestic consumption as the new engine of the economy, this is highly problematic. One of the most important prerequisites of domestic consumption is a population with access to sufficient means and tools of spending. Owning a bank account has been found to increase the chances of accessing credits[32], while being able to borrow money indisputably influences consumer spending in a positive way. On that note, let's look at another type of „unbanked" population, which includes, but is not restricted to those without a financial institution or mobile money account: people with very limited, or no credit history. The same World Bank database reveals that in 2014 only approximately 21% of the Chinese population above the age 15 borrowed any money from a financial institution or used a credit card. Again, for reference, this value was 65% in the United States, and 42% in Austria in the same year.[33]

Against this background the SCS was originally aimed at finding a way to assess the financial creditworthiness of individuals without bank accounts by creating modern credit reporting and

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[31] The World Bank, "Global Financial Inclusion | DataBank." Applied variables: Country – China, US, Austria; Series - Account (% age 15+); Time – 2011, 2014

Note I.: The year 2014 is relevant, because the first official outline of the Social Credit System was issued by the State Council that year. The year 2011 is given as a reference point from a year in which the State Council outline was already in the making. alternative expl: Ramadan, "The Gamification of Trust: The Case of China's 'Social Credit.'"p.98

Note II.: The exact definition that serves as the basis for the World Bank percentage is as follows: „The percentage of respondents who report having an account (by themselves or together with someone else) at a bank or another type of financial institution (see definition for financial institution account) or report personally using a mobile money service in the past 12 months (see definition for mobile money account)."

[32] Fitzpatrick, "The Effect of Bank Account Ownership on Credit, Consumption, and Savings: Evidence from the United Kingdom."

[33] The World Bank, "Global Financial Inclusion | DataBank." Applied variables: Country – China, US, Austria; Series - Borrowed from a financial institution or used a credit card (% age 15+); Time – 2014 (no data for this series for the year 2011)

rating practices.[34] By today it has developed into a plan which is to go far beyond merely financial matters to include anything that might be indicative of a person's trustworthiness. It is therefore essential to remember that the term 'credit' is to be understood in the wide sense of credibility, which is not restricted to the financial aspect of the word, including a broader notion of trust and honest conduct in the marketplace.[35] This earns the Chinese government the title of being the most ambitious of all in modern history with regards to harnessing the power of data and information technology for governance purposes. [36] It is presented by the Chinese government as a solution covering the full spectrum of problems that the Chinese society and economy face.[37]

After tracing the origins of the SCS back to China's market economic reforms and showing how it was meant to provide a potential solution to the perceived lack of trustworthy and moral conduct which resulted in a wide range of abuses within the economic realm, it is time to look at how the CCP expanded the idea into other areas of governance as well.[38]

7.2 Social management

To further explain RQ2, this section is centered around the following proposition.

Proposition II. b.: By creating processes that change behaviors and optimize governance performance, the SCS leads to the mitigation of existing problems and prevents them from exacerbating into larger threats.

Given the size, recent historical and economic developments and ethnic diversity of the country, it is not surprising that China has been facing daunting domestic challenges of increasing severity over the last decades. One of these challenges – rising economic inequalities, has already been extensively discussed above, while another one, China's ever-

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[34] Dai, "Toward a Reputation State: The Social Credit System Project of China."

[35] Creemers, "China's Social Credit System: An Evolving Practice of Control."

[36] Chorzempa, Triolo, and Sacks, "China's Social Credit System: A Mark of Progress or a Threat to Privacy? | PIIE.", However, it will be briefly discussed in a later part of this thesis that similar ambitions, although failed to have been implemented, were not entirely unprecedented in modern history.

[37] Ohlberg, Lang, and Ahmed, "Central Planning, Local Experiments: The Complex Implementation Of China'S Social Credit System."

[38] Creemers, "China's Social Credit System: An Evolving Practice of Control."

growing demographic imbalance, is out of the scope of present thesis. It is, however, time to turn our attention to some of the remaining issues, such as abuses of power including fraudulent practices such as large-scale corruption, foul or non-existent environmental-protection standards and the alternative concept of rule *by* law – all of them are prevalent and increasingly destabilizing forces in today's China. However pressing they have become by now, these issues are, no recent developments. Some of the fault lines are historically or culturally rooted and have been present all along the way of China's path towards modernization, while others, on the other hand, as previously discussed were triggered precisely by the rapid ascendance of the Chinese economy. In the followings a detailed account of these challenges is going to be taken through the lenses of the social-management function of the SCS.
In a nutshell, with regards to its social management function, the SCS is designed to incorporate a set of mechanisms providing rewards and punishments as feedback to actors on their social and political behavior, not only based on their lawfulness but also on their moral quality in terms of sincerity, integrity and adhering to traditional values. All these criteria are united under the often-mentioned term of trustworthiness. Just like it was the case with the economic management function, the main objective of the social management function of the SCS is to encourage trustworthiness and discourage untrustworthiness by applying incentives and constraints. The ultimate goal is to increase the trustworthiness of the entire society.[39]
Social management has always been part of controlling society, this is not what the SCS could call its innovation. Its fundamental innovation is "instituting *cybernetic mechanisms* [emphasis added] for behavioral control, where individuals and organizations are monitored in order to automatically confront them with the consequences of their actions".[40] The automation of social management has been the explicit objective of the CCP leadership for many years[41], and as it will be explained in some more detail in a later section addressing RQ3, it is not even the first government to experiment with such cybernetic means to automate its model of authoritarianism. It is, however, the first that now has the necessary technology to succeed

[39] Creemers.

[40] Ibid. pp.3-4.

[41] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security."

with it. For most recent technology is what makes it possible for the CCP to realize its vision: the SCS is meant to use big-data collection, aggregation and analysis to monitor, share and assess the behavior of both legal entities and natural persons. In this sense, it is thus the broader political control process, harnessing the opportunities created by the advances of artificial intelligence (AI) and methods of a surveillance state that constitute the social management approach of the CCP.[42]

Directly addressing RQ1, the SCS as an essential part of the CPP's social management tool, enhances the Party's legitimacy in two distinct, but interconnected ways. Firstly, by optimizing its performance in the troubled areas listed above by creating processes for changing behaviors that lead to the mitigation of existing problems and preemption of threats with a potential to exacerbate into larger problems.[43] The latter issue is further addressed by the standardization of thinking and behavior of Chinese citizens, a notion which is argued to be one of the most sophisticated ways of *creating* a society which automatically censors itself.[44] In this sense, the social management is not just the top-down management of society, it also requires proactive participation from within the society. It is hereby important to emphasize, that „participation dos not describe a form of liberalization, but rather a more flexible form of complete control that incorporates both positive and negative reinforcement."[45] This notion of *shared responsibility* is a truly brilliant feature created by the CCP: through this it has managed to task every single Chinese citizen with fulfilling the responsibility to uphold the CPP's leadership and it aims at using modern technology to automate that responsibility.[46] The creation of the shared burden of upholding the Party's legitimacy, via "a marriage of individual responsibility

[42] Hoffman, "Managing the State: Social Credit, Surveillance and the CCP's Plan for China."

[43] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security."

[44] Strittmatter, *Die Neuerfindung Der Diktatur: Wie China Den Digitalen Überwachungsstaat Aufbaut Und Uns Damit Herausfordert*.

[45] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security," 46.

[46] Ibid.

and social control mechanisms”[47], is what makes the SCS essentially significant in preserving the Party’s power.

7.2.1 Nudging to the extreme

What the above discussed phrase however does imply is that preserving one’s trustworthiness is likely to become the key to mobility in China under the SCS, and that in every possible meaning of the word – literal, societal, and economic. Knowing this, citizens are incentivized to self-impose restrains on their behaviors, as the 2014 State Council Notice stipulates, „the construction of sincerity education and a sincerity culture are major channels to lead the sincerity and *self-discipline members of society* [emphasis added], and *enhance the moral cultivation of the members of society* [emphasis added], and is an important content of the construction of the Socialist core value system.”[48] This is what Hoffman describes as „nudging to the extreme”.[49] The notion itself carries an obvious connotation to the second tenet of former President Ju Jintao’s ‘Three Supremes’[50], formulated as the “Supremacy of the interests of the people” and sheds light on an essential issue: since this aspect of the SCS aims at setting “an important tone for society and push everyone to pay attention to their own behavior"[51], the question as to who determines what is in the interest of the people is important to be critically asked in our above context.

Summing up, driven by the objective to further elaborate on RQ1 and answer RQ2, Chapter 7 has so far shown that the elemental reason behind the creation of the SCS context is the PRC’s aspiration to exercise control over the development of its overall productive forces. By fusing technology with behavioral control China is setting the foundation of a new kind of authoritarianism that has people’s digital existence as its most important asset, using it to judge

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[47] Hoffman. 8.

[48] State Council of the PRC, “Planning Outline for the Construction of a Social Credit System (2014-2020).”

[49] Hoffman, “Programming China - The Communist Party’s Autonomic Approach to Managing State Security.”

[50] Bandurski, “Three Supremes [三个至上].”

[51] Vanderklippe, “Chinese Blacklist an Early Glimpse of Sweeping New Social-Credit Control.”

and categorize them according to the state's standard of reliability.[52] In this sense the development of the SCS should be seen as an attempt of the CCP to regain the control it once wielded over the country's economy through work units[53] and the state economy before the economic reforms took place and the rise of private enterprise replaced the role of the state economy. A somewhat more amicable formulation of exercising control is management, which also resonates with the third pillar of the theoretical toolkit of this thesis, the behavioral economic theory of nudging. This management must be understood in the broadest possible sense, for the SCS is a tool developed to manage compliance with the economic, social, cultural and political norms that are defined by the CCP. These norms are manifested in laws and regulations – this is how Daum's definition of creditworthiness in terms of compliance with the law makes sense. Creditworthiness that is planned to be managed by the Social Credit System. Apart from being a more amicable formulation, the term 'management' is also meant to imply that "*how* [emphasis added] one obeys the law becomes as important as the mere act of obedience".[54]

7.2.2 Are universal values indeed universal?

While the SCS offers a powerful corrective for the shortcomings of both the current, mixed economy and governance practices on the one hand, it also gives extraordinary *new power* to those who design and maintain the system's algorithm.[55] Why is that? Although it has been pointed out how the central government is incentivizing commercial actors to participate in this undertaking, there is no doubt that the chief designer of the system is the central government itself. Granted that credit subjects – natural persons as well as legal entities, are planned to be nudged by the system to act in certain ways that are deemed to project trustworthiness and

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[52] Vanderklippe.

[53] The concept of work units, or *danwei [单位]* offers a further insight into the historical predecessors of the of the commercial versions of the SCS and is explained in Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security," 5.: „Work unit members were allocated public goods and were classified based on their „good" or „bad" political standing."

[54] Backer, "Measurement, Assessment and Reward: The Challenges of Building Institutionalized Social Credit and Rating Systems in China and in the West."

[55] Vanderklippe, "Chinese Blacklist an Early Glimpse of Sweeping New Social-Credit Control."

sincerity, the standard-setting role of the CCP's central leadership in terms of honesty, morality and trustworthiness legitimately raises some concerns. Maya Wang, a China researcher for Human Rights Watch, cited by Vanderklippe, is certainly not alone with her fear of "a perfect storm of human-rights abuses" that could be unleashed by the CCP's unrestrained, self-imposed mandate to determine one's level of honesty based on their own definition of morality and trustworthiness. Vanderklippe goes on with supporting this argument by citing Lin Junyue expressing his rather low opinion about the importance of valuing human rights granted that this could lead to an impediment of economic development. His message is straightforward: "China has chosen a different course: pursuing the well-being of the country as a priority above all others". [56]

There is indeed some legit ground for concerns from a Western perspective. Considering the fact, that Lin is the ideological founder of the SCS, it should come as no surprise that his view is reflected in official Party documents as well. In 2013 the central government issued what has become known as Document 9, a communiqué containing warnings about "the seven political perils", including "constitutionalism, civil society, "nihilistic" views of history, "universal values," and the promotion of "the West's view of media."[57] The very *universality* of values that in the West are considered to be part of a world-wide social contract, is thus questioned, or outright "frontally attacked". In the Party's narrative these are Western values that it feels to be threatened by and thus calls party members to actively fight against them. [58] The significance of this should not be underestimated, for the phrases „wrong" and „desirable" behavior are exactly what trigger the processes of the social management mechanism. If the CCP leadership has a fundamentally different stance on what is right and what is wrong when designing the rules for the SCS, we in the West definitely need to put on a new pair of lenses when trying to understand and assess it.

The subsequent parts of this thesis are all in a way connected to the economic and social management strategies explained above and are gathered under the two established

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[56] Vanderklippe.

[57] ChinaFile, "Document 9: A ChinaFile Translation."

[58] Strittmatter, *Die Neuerfindung Der Diktatur: Wie China Den Digitalen Überwachungsstaat Aufbaut Und Uns Damit Herausfordert*, 125.

categories: "Optimizing the party-state's performance in troubled areas" and "Changing behaviors to preempt the exacerbation of existing problems".

Part III – Policy Implications

8. Implementation

The overarching goal of this section is to analyze the processes that are responsible for the practical implementation of the central government's Social Credit System. The analysis pertains to description of these processes in the first place, while on the other hand directly addressing RQ3, it discusses and aims to correct the most wide-spread misconceptions that surround the Western perception of the system. Hereby the following proposition is formulated.

Proposition III: Apart from the CCP's centrally planned SCS there are numerous subsystems in operation. These are either pilot projects run by provincial- or city-level governments, or financial products of commercial enterprises without government licenses. Owing to the multiplicity of uncertainties that surround the evolving implementation of the CCP's SCS, and the fact that Western media coverage often fails to clearly distinguish between these three distinct types, the Western perception of the CCP's SCS is overwhelmingly negative.

Creemers summarizes some of the surrounding misunderstandings in one pointed formulation: "This *score* would be based on data points including online purchases, posted content on social media, and the sort of friends one has. In turn, the score would have a wide-ranging impact on people's lives, influencing their ability to get jobs, loans and mortgages, their relationships with friends and family, and even *their ability to travel*."[59]

This portrayal of "an omnipotent behemoth relentlessly carrying out a long-prepared scheme for complete control"[60], which is based on the assumption of the unrestricted sharing of personalized data among all participating actors, is going to be taken as a leitmotif in first discussing what the misconceptions can be accounted to, followed by an explanation what the

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[59] Creemers, "China's Social Credit System: An Evolving Practice of Control," 3.

[60] Ibid. 3.

respective part of the SCS really is about, and finally contemplating what the real risks surrounding the issue could be.

8.1 The role of information

Apart from contributing to the quest of addressing RQ2, the additional role of this section is to tackle RQ4, the answer to which is built around the following propositions.

Proposition IV. a.: Due to the increasingly totalitarian character of the authoritarian regime of the PRC, the Chinese state instrumentalizes big-data-enabled technologies much more effectively to monitor, predict and govern each actor in its political, economic and social domains than Western-style liberal democracies justifiably could do so. Since it is not restricted by compulsory consent of individuals as it is the case under strong data-protection regimes in the West, it can much more easily harness the opportunities that the aggregation and consequent analysis of vast amounts of data render possible.

Propositions IV. b.: The numerous parallel experimental projects conducted by private companies but incentivized and supported by the central government provide invaluable testing grounds that are not given in smaller countries with less centralized control.

In the "The use of knowledge in society" F.A. Hayek launches his argumentation by identifying the economic problem that should be solved for the construction of a rational economic order.[61] Present thesis does not aim at discussing economic theory, nor does it wish to find answers to said problem. What rather aimed to be shown is that Hayek`s arguments about the *availability of knowledge* reverberate in the concept of China`s Social Credit System.
For him it is the availability and, derivatively, the utilization of knowledge instead of the optimal use of available means that is central for the quest for the rational economic order. He argues that the optimal utilization of knowledge *which is not given to anyone in its totality* is the key component of solving what he defines as *the* economic problem which society faces. Ultimately, he puts this question into the context of economic planning versus decentralization.

[61] Hayek, "The Use of Knowledge in Society."

Should decisions be taken centrally or locally? Who can make better use of the available information?
As data collection is one of the fundamental elements of the SCS, it appears relevant for the subject matter of this thesis to examine the importance of availability of information in the context of economic efficiency. I argue that grasping Hayek’s conclusion about the inadequacy of the question about the optimal use of available means for the success of the fundamental search for a rational economic order is essential for a better understanding of the immense significance of the SCS. For this reason, let us look at Hayek’s arguments.

“The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.*”*

This is the description of what has consequently become known as the “knowledge problem”, which the economy, as well as the society uniformly faces. Hayek points out the impossibility of perfect knowledge of all market participants which is often established as a fundamental assumption as the basis of many economic theories. He explains this impossibility with the lack of a "single mind" to which all the information about “the society as a whole” could be given as follows: *“*The reason for this is that the "data" from which the economic calculus starts are never for the whole society “given” to a single mind which could work out the implications and can never be so given.*”*[62]

Looking at Hayek`s knowledge problem through the lens of China`s evolving Social Credit System a question inevitably arises: are we today, during the turbulent times of technological development and ever-increasing AI capabilities, still restricted by the knowledge problem? Can a "single mind" really never be given all the data for the whole society so that it can work out the implications that we are in search of? With China`s Social Credit System in the making, this sounds less and less far-fetched.

[62] Hayek.

Although the Chinese government's plan and vision is the most ambitious ever in terms of scope and applicability, it is not the only one that has tried to construct a similar system. In 1962 the outlines of a project that became known as OGAS or All-State Automated System for the Management of the Economy were started to be formulated in the USSR under the rule of Nikita Khrushchev. The project's masterminds were scientists, more precisely cyberneticists led by Viktor Glushkov, who believed that *„the infrastructure of the command economy had to be upgraded before the entrenched coordination problems that led to the county's economic woes could be resolved."* As Benjamin Peters, who has extensively dealt with the Russian forerunner of China's SCS, quotes Glushkov, *„in the era of economic management cybernetics fits our socialist planned economy like a glove."*[63]

The formulations and underlying ideas that surround the planned economy sound distinctly familiar against a background of raison d'être of the emerging Social Credit System. Although the economy of the People's Republic of China has indisputably shifted from being centrally planned towards decentralized planning since the 1970s, the implications of Hayek's argumentation and the goals formulated by the ambitious Soviet cyberneticists are very much applicable within the context of the Social Credit System.

As the SCS was shown to be a fundamental element in not just fueling the PRC's economic growth, but also in constructing a social management system, the line of thought above shall as well be scrutinized from a point of view which is outside of the economic sphere. For this reason, I argue that the reason for its applicability has less to do with a planned *economy*, but it very much evolves around the first part of the term, namely around planning.

Hayek explains that „the word "planning" [is] the complex of interrelated decisions about the allocation of our available resources". Furthermore, this planning, no matter who it is conducted by, must be „based on knowledge which, in the first instance, is not given to the planner but to somebody else, which somehow will have to be conveyed to the planner."

State control and central planning are closely associated terms. Hayek equates the contemporary use of planning with central planning, defined as the „direction of the whole economic system according to one unified plan." There is in this sense not much difference between economic and social planning. More than that, this definition is, with a slight

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[63] Peters, *How Not to Network a Nation : The Uneasy History of the Soviet Internet*.

moderation, fully pertinent to the present case, since it perfectly depicts what the Chinese government aims to achieve by constructing the SCS as a social management tool: the direction of the whole society according to one unified plan.[64] Hence, Hayek's line of logic is relevant in the context of social management as well.

The type of data which is collected, the composition of its sources, as well as that of the agents responsible for the collection are highly indicative of the true nature of the SCS. Taking a detailed account of these factors is thus going to show how SCS is at its core an economic undertaking, primarily aiming at tackling financial and commercial issues.

The two primary types of collected data are financial and nonfinancial coming from public as well as private sources. The players involved in the collection of the data are both governmental agencies and private-sector actors.

The main message is here that although these goals cannot be looked at from a perspective that is completely free of any political zeal, the main foci of the SCS are clearly the commercial and financial sectors.[65] The fact that the central government excludes itself from any restrictions applicable for other entities with regards to data protection largely enhances the scope and effectiveness of harnessing big data. This is clearly against the Western trend of state infrastructures of data being replaced by privatized and independent platforms, which inevitable leads to the creation of separated data islands. This is not to say that data platforms that form the foundation of the SCS in China are not individual ones – what decisive are, however, the concentrated and open efforts of the Chinese government to share and integrate this data to facilitate smoother and more effective analytics.[66] This is what has been named as "infrastructurization of platforms".[67]

[64] Hoffman, "Programming China - The Communist Party's Autonomic Approach to Managing State Security."

[65] Liang et al., "Constructing a Data-Driven Society: China's Social Credit System as a State Surveillance Infrastructure."

[66] Ibid. 430.

[67] Plantin et al., "Infrastructure Studies Meet Platform Studies in the Age of Google and Facebook."

8.2 The "score"

The most crucial misunderstanding that has surfaced in recent years is around the question of a nation-wide, unified score that is allegedly going to be applied to each and every individual by 2020 on a compulsory basis. First and foremost, it is important to clearly state that at this point, no unified *score* is about to be implemented nationwide. The confusion arises from several factors that individually all are (more or less) legitimate but fitted together they create an unnecessarily threatening and fake prospect.

First of all, fact is that the State Council Notice from 2014 states the central government's aim with regards to planning and constructing a nation-wide Social Credit System by 2020.[68] In this regard there are two points to be made clear. Firstly, as of 2018 there were local-governmental level, mandatory and non-mandatory pilot programs already running in 42 Chinese cities, such as in Rongcheng[69], Shanghai or Xiamen. These pilots, in addition to have clearly been created in response to the 2014 State Council Outline, are all based on further, provincial-level policy papers. Since the 2014 Notice does not indicate firm guidelines of implementation, it is left to local governments to set up their own systems. As a result, some of these local-governments have teamed up with technology firms and have developed digitalized applications which produce and display quantitative ratings in the form of scores.[70] In addition to these Apps not being central-government directives, they are mostly not even mentioned in the provincial-level regulation, just like in the case of Shanghai – participation with the App is therefore not mandatory.[71] Moreover, these scores, even if they happen to be bad, as opposed to what Western media reports repeatedly claim[72], *do not result in negative consequences*. Indeed, quite the opposite is true: those voluntarily engaging in gamified social credit programs only

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[68] State Council of the PRC "Planning Outline for the Construction of a Social Credit System (2014-2020)." Translated by Rogier Creemers. China Copyright Media: 2014. Originally published as 关于印发《社会信用体系建设规划纲要（2014—2020 年)" (Beijing: 2014)

[69] China Law Translate, "The Rongcheng Experience [BETA]."

[70] Udemans, "Blacklists and Redlists: How China's Social Credit System Actually Works."

[71] Daum, "Giving Credit 3: Inputs and Outputs."

[72] Some of which have been corrected ex-post, i.e.: Liao, "China Banned Millions of People with Poor Social Credit from Transportation in 2018."

experience positive effects of their good scores – this is why these sub-systems constitute what Daum calls the “educational component” of the SCS.[73]

Secondly, parallel to the government’s endeavor, there are numerous “private” (in a commercial sense) pilot projects originally run by eight financial actors, two of which are well known outside of China as well: the e-commerce giant Alibaba and the internet-based technology enterprise Tencent. These pilots were incentivized by the People’s Bank of China (PBOC) in 2015[74] to try to find alternative ways of establishing the creditworthiness of individuals other than using their past financial credit history for consumer credit purposes. Just like the pilot city projects, all these platforms operate according to their own logic, their assessing and scoring mechanisms[75] should therefore not be taken as indicative of the central government’s official plan. All the more so, as of the eight commercial pilot projects, none of them were given official central-governmental licenses at the end of the trial period. Although even before that revelation it had been established that government’s system would not be the same as the commercial pilot projects,[76] their failure to obtain licenses from the government to create a personal credit reporting system further stresses how their methods and vision cannot be equated with that of the central government, which ultimately stands at the focus of this thesis. These companies may proceed with their scoring systems as part of their regular commercial activities (meaning that their produced score is essentially just like any other *financial product* that they offer, no citizenship score as the popular media likes to refer to it) while they share their data with the government[77], which indicates the central government’s

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[73] Lynch, “What’s the T on China’s Social Credit System - Jeremy Daum Explains - Part 1 of 2.”

[74] People’s Bank of China, “关于做好个人征信业务准备工作的通知 [Notice Concerning Accomplishing Preparatory Work for Personal Credit Reporting Business Activities].”

[75] Even though the scoring algorithms are not very transparent, there has been some detailed accounts on Sesame Credit, for example by Creemers (2018).

[76] Hatton, “China ‘Social Credit’: Beijing Sets up Huge System - BBC News.”

[77] Sesame Credit’s General Manager insisted they didn’t share any data with the government without user’s prior consent: “Zhima Credit does not share user scores or data”. *Financial Times.* 15 November 2017. Online: https://www.ft.com/content/ec4a2a46-c577-11e7-a1d2-6786f39ef675.

efforts to aggregate and centralize the data collected by various sources.[78] There is, however, no official indication that the central government is going to use this data the same way some of the pilot projects do – by creating a unified score.[79] Apart from immense technical difficulties[80] there is also one substantial intuitive argument against such a central-governmental-level unified score: it would not be useful for anyone. [81]

Why is that? Simply put, an aggregate score is too general. Letting all the collectable data about an individual being pooled into one single score would diffuse its informative value. As explained earlier, the SCS is designed to enhance trust and indicate creditworthiness in four major areas – one aggregate score would fail to provide equally relevant information for all these areas.

What has additionally further fueled the confusion is the unified credit *code*, which is an 18-digit number planned to be assigned to each individual and legal entity. As of April 2018, more than 30 million of the identification codes had been issued to businesses. According to the government, the primary purpose of this unified code is to eliminate a large number of lengthy and inefficient bureaucratic procedures by collecting all the relevant information about the respective business or individual in an online "file" which will then be accessible to various entities via this identification number.[82] This notion bears striking resemblance to a decades-old social-management tool of the CCP, the *dangan* [档案] system of maintaining detailed personal files on citizens about their performance and attitude. [83] The ramifications of the digitally-boosted identification system are far reaching, as it goes hand in hand with what Daum identifies as one of the basic pillars of the emerging SCS: the real name registration system.[84] As

[78] Backer, "Measurement, Assessment and Reward: The Challenges of Building Institutionalized Social Credit and Rating Systems in China and in the West."

[79] Creemers, "China's Social Credit System: An Evolving Practice of Control."

[80] Backer, "Measurement, Assessment and Reward: The Challenges of Building Institutionalized Social Credit and Rating Systems in China and in the West."

[81] China Law Translate, "Giving Credit 3: Inputs and Outputs."

[82] Tadanori, "China Pivots to Unprecedented Full-Surveillance Society."

[83] Goh, "China to Bar People with Bad 'social Credit' from Planes, Trains."

[84] Lynch, "What's the T on China's Social Credit System - Jeremy Daum Explains - Part 1 of 2."

mentioned above, the first step in the creation of the SCS is the aggregation of data from different sources. For this purpose, real-name registration is becoming compulsory in most online platforms, completely eliminating online anonymity. On the one hand the CCP is not the first government contemplating such a measure: the "*digitales Vermummungsgesetz*" is being heavily discussed within the Austrian federal government at the time of writing this thesis.[85] In the context of the Chinese political regime, which is on top of being authoritarian, increasingly getting totalitarian[86], such measures inevitably trigger fearful sentiments. Loosing online anonymity can become very risky for certain population groups in the sense of threatening their freedom from discrimination and freedom of persecution. Be it a group characterized by an alternative sexual orientation, by a certain religious belief, or not to mention, dissenting political opinions, it is easy to see why the government's access to their aggregated personal information a very troubling thought is.[87] Again, it must be emphasized that the notion itself is not new – it is the enhanced scope facilitated by big-data technologies and the planned interconnectedness of different databases which makes a huge difference in the context of the Social Credit System.

Building on this very thought, there is an interesting aspect of the system which is worth mentioning. It has been commented on many accounts that the Chinese population appears to be significantly less concerned about the emerging system, than people hearing about it in the West are. Based on the concept of "strangely familiarity" explained by Rachel Botsman in her book about the effect digitalization has on interpersonal trust, the success of every innovation is not the creation of something truly new – it is rather wrapping the new idea into something that is *familiar* to us, ultimately triggering a feeling that the innovation is "strangely familiar".[88] Although this concept is but a puzzle-piece in finding answers to why the SCS is largely

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[85] Das Gupta, "Österreich Bekommt 'Digitales Vermummungsverbot.'"

[86] Strittmatter, *Die Neuerfindung Der Diktatur: Wie China Den Digitalen Überwachungsstaat Aufbaut Und Uns Damit Herausfordert*.

[87] Daum, "China through a Glass, Darkly a Popular Overview and Discussion of the Most Common Misconceptions :"

[88] Botsman, *Who Can You Trust? : How Technology Brought Us Together and Why It Might Drive Us Apart*.

welcomed by the Chinese public[89], it might be one of the central pieces. The fact that it builds on intellectual, ideological and structural forerunners that are already part of China's governance architecture[90] has eased the SCS's way of societal acceptance.
Botsman presents another, highly relevant argument. In the digitalized era institutional trust is breaking down, that is, people's trust in institutions is declining and instead what she calls „distributed trust" appears.[91] This is to my understanding in accordance with the CCP's realization about the lack of trust within the Chinese society. This idea, the loss of institutional trust is what has, at least partly, triggered the CCP's search for new ways of assessing and projecting credibility.
Botsman argues that the distinction between institutional and distributed trust is that the latter „flows through networks, marketplaces and platforms" instead of flowing in a bottom-up manner towards institutions.[92] This notion makes sense in the context of the SCS as well, in which trust should evolve out of an interplay of several sources, platforms and actors, as unconditional trust is not given anymore, neither on an interpersonal level among the members of the society, nor collectively towards institutions. Botsman's distributed trust, however, also „also takes the power away from a single source and shares that responsibility across a wide range of sources".[93] This is where the *xinyong* of the SCS differs from distributed trust, since the CCP's main agenda is to maintain centralized control over this trust. In that sense, the CCP is utilizing distributed trust which seems to be an inevitable replacement of institutionalized trust in our digitalized age, but then, instead of letting it slip out of its control, is building a new array of social management tools to maintain its grip over it. It is, to my understanding, in a way „re-centralizing" distributed trust. This is an iterative learning process[94] so typical of Chinese policy

[89]For a breakdown of additional explanations based on in-depth interviews see: Kostka, "What Do People in China Think about 'Social Credit' Monitoring?"

[90] Creemers, "China's Social Credit System: An Evolving Practice of Control."

[91] Botsman, *Who Can You Trust? : How Technology Brought Us Together and Why It Might Drive Us Apart*.

[92] Marshall, "The Rise of Distributed Trust."

[93] Ibid.

[94] Creemers, "China's Social Credit System: An Evolving Practice of Control."

making, one that is an essential part of the Party's instrument of authoritarian resilience conceptualized by Nathan. In the course of utilizing the information provided by individual actors on their preferences and behavior, they are allowed to believe they have some influence on subsequent policy decisions and personal choices at the local level. This continous feedback-loop, together with new technological possibilities and shifting governance priorities fuel the ongoing development and improvement of the SCS.

8.3 Blacklisting

The final component addressed in the quote by Creemers at the beginning of Chapter 8 is the blacklisting of „untrustworthy" people, who are often being falsely defined as those with a score below a certain treshhold. This has been briefly touched upon while trying to clarify the question around the „unified score" as such, it is, however, worth further examination on its own.

As previously mentioned, Daum identifies reforms of the administrative regulatory system as one of the major components of the central governments Social Credit System. Indeed, it is considered to be the currently most active part of the system. The creation of blacklists was called for by the National Reform and Development Commission, which set standards to all administrative agencies as to who and how should get on, as well as off of a certain blacklist. These standards, as hinted upon earlier, are not based on a certain score, but on the digitalized *dangan* system of personal records discussed earlier. To be precise, it is the record of fraudalent activities which is relevan: punishments and permits are linked to corporations as well as to the executives of the corporations by the unique 18-digit ID number – this is where the information is drawn from. Based on this information the so-called Joint Enforcement Punishments for Joint Offenses have been introduced that result in two distinct types of blacklists (industry specific and the court judgement defaulting lists), both enhanced by memorandums of understandings (MoUs) between different agencies, different regulatory areas and different ministries. Even Alibaba is collaborating with the government on the blacklist scheme.[95] These MoUs potentially have wide-reaching consequences. As Daum puts it on the example of the court judgement defaulting list, the problem is that „any administrative

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[95] Creemers.

agency is seeking enforcement on its administrative penalty can go to a court to get an enforcement judgement."[96]

8.3.1 On the rule of/by law

When assessing Western scholarly coverage of the issue it quickly becomes apparent that the majority of concerns are centered around the issue of weak or simply lacking judicial independence in the PRC, which is relevant in the context of possible appeal mechanisms and effective opposition against one's social score.[97]

Indeed, judicial independence is not a valid term in the context of Chinese law not since former State President Hu Jintao introduced the notion of the „Three Supremes" in 2007 during a session on national politics and law. Ever since, this term has completely replaced the objective of judicial independence as it is known in the West. Instead, it defines the „Supremacy of the business of the CCP", the „Supremacy of the interest of the people" and the „Supremacy of constitutional law" as the guiding principles of Chinese judicial policies.[98] Even if one considers this list to be non-hierarchic, it is hard to overlook that the supremacy of the CCP is the overarching one. Who defines the interest of the people at the end of the day, if not the CCP itself? More importantly, does the constitutional law put any constraint on the CCP?

Since the 4th Plenum of the National People's Congress (NPC) in 2014 the latest, the answer to the second question is a definite no. The most significant outcome of the 4th Plenum was a communique, presenting a general overview of the reforms to China's legal system.[99] At the core of the reforms is a concept, which needs to be handled with care in the Chinese concept. The reforms presented and passed during the Plenum were centered around what could be easily interpreted as the 'rule of law' – an interpretation which is appealingly misleading.[100] A

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[96] Lynch, "What's the T on China's Social Credit System - Jeremy Daum Explains - Part 1 of 2."

[97] Mac Sithigh and Siems, "The Chinese Social Credit System: A Model for Other Countries?"; Larson, "Who Needs Democracy When You Have Data?"; Vanderklippe, "Chinese Blacklist an Early Glimpse of Sweeping New Social-Credit Control."

[98] Bandurski, "Three Supremes [三个至上]."

[99] Tiezzi, "4 Things We Learned from China's 4th Plenum."

[100] Van Nieuwenhuizen, "China's 'Rule of Law in International Relations.'"

more accurate, analogous translation of the Chinese term *fazhi* [法治], is 'rule by law', which, however, has a very different connotation. While 'rule of law' implies a constraint on the power of political leaders by laws and regulation, the term 'rule by law' implicates a reversed subordination – exerting power by using the law, but it by no means suggests the primacy of law over the ruler. Victor Mair, professor at the University of Pennsylvania rightly notes in a Wall Street Journal article that "'rule of law' implies fairness and predictable application. 'Rule by law' would include, for example, rule under Hitler's Nuremberg Laws (Nürnberger Gesetze), which were neither fair nor predictably applied." [101] Creemers explicitly states that there is no rule of law in China as it is understood in the West, for „legal and moral authority are fused, […] lawful and morally just conduct are coterminous." He highlighted that the 4th Plenum denoted „governing the country by virtue" - *yide zhiguo* [以德治国] as equal to „governing the country by the law - *yifa zhiguo* [依法治国]. The latter is the longer version of the above-mentioned term *fazhi* and thus a more explicit formulation for rule by law. He concludes that this notion is the closest what the CCP understands under what it likes to communicate as the rule of law.[102] Another hands-on translation of the longer Chinese term is provided by Brown: 'rule of law under the rule of the Party'.[103]

This distinction is highly notable, because it not only pinpoints but also *justifies* how the CCP controls courts, police and prosecutors – institutions whose independence is the focal point of the Western's perception of rule of law.

It also shows how the 1982 State Constitution, which was allegedly nicknamed "Sleeping Beauty" because of its lack of power in defending anyone in court[104], is amendable literally at the whim of the CCP – a phenomenon that was perfectly illustrated only a little over a year ago. In March 2018 at the 3rd plenary session, the NPC removed presidential term limits from its constitution, allowing Xi Jinping to stay in his current position indefinitely. The amendment was proposed by the CCP a month prior to the Plenum, and according to Reuters "there was never any doubt it would pass as parliament is packed with loyal party members who would not have

[101] Chin, "'Rule of Law' or 'Rule by Law'? In China, a Preposition Makes All the Difference."

[102] Creemers, "China's Social Credit System: An Evolving Practice of Control."

[103] Brown, *The World According to Xi : Everything You Need to Know about New China*.

[104] Ibid. 57.

opposed the proposal".[105] Consequently, it can be safely concluded that Party leadership is clearly affirmed over the judicial system as the judiciary is required to first and foremost secure the supremacy of the Party's cause.[106]

An argument for increased judicial independence has been made based on the institution of circuit appeals courts, outcomes of the 4th Plenary session in 2014 as well, which were designed to reduce the dependence of the judiciary on local governments.[107] These, however, only restrict the ability of local, low-level officials to interfere with proceedings, they do not inflict any restriction on the power of the central government.[108] That a court would ever be able to challenge the Party state on any important issue is highly unlikely to happen.[109]

A final important thought on the Chinese notion of *fazhi* concerns its origin, which provides us with an interesting insight applicable to the context of the SCS. The phrase comes from the 2nd or 3rd century BC, from the Legalist school of political thinkers who believed in an authoritarian system, "where everyone has to obey draconian laws and *where people are motivated by reward and punishment* [emphasis added]."[110] Very interestingly both components of this statement are actually present in the substantial discussion of the SCS. While the adjective 'draconian' has been used by Western observers to describe its application by the Chinese state[111], the notion of 'reward and punishment' is part of the CCP's very own rhetoric about the SCS.[112]

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105 Blanchard and Christian, "China Allows Xi to Remain President Indefinitely, Tightening His Grip on Power."

106 Creemers, "China's Social Credit System: An Evolving Practice of Control."

107 Zhao, "The Courts Active Role in Striving for Judicial Independence in China."

108 Tiezzi, "4 Things We Learned from China's 4th Plenum."

109 Brown, *The World According to Xi : Everything You Need to Know about New China*.

110 Chin, "'Rule of Law' or 'Rule by Law'? In China, a Preposition Makes All the Difference."

111 Hays, "A New Credit Paradigm in China Economic Research Division."

112 State Council of the PRC, "Planning Outline for the Construction of a Social Credit System (2014-2020)."

8.3.2 Once untrustworthy, always restricted?

The lack of judicial independence based on the unique Chinese perception of rule of/by law open further concerns. There is substantial media coverage on the lack of means of appeal mechanisms that seems to originate from a translation of a statement of President Xi Jinping during the 25th meeting of the Leading Group for the Comprehensive Deepening of the Central Committee in June 2016.[113] His statement – *yichu shixin, chuchu shouxian* [一处失信，处处受限], the literal translation of which „loosing trust in one respect, facing limitations everywhere"[114] has been picked up by the Western media under a *seemingly* marginally different translation „once trustworthy, always restricted".[115] In the Chinese phrase there is certainly no mention of an unlimited time period as implied by the English word 'always'. Vanderklippe takes note of a case in which a person who was put on the blacklist after a corporate dispute, was consequently removed from it after having paid a fine ordered by the court.[116] In Chinese, the term *chuchu* [处处], meaning 'everywhere', rather refers to the spill-over effects of breaking trust in one area, let's say failure to repay a due debt, to other areas of one's life, for example access to high-speed-train tickets.

If one takes a careful look at the first State Council Notice from 2014, an early reference to the same issue can already be found there. According to Creemers' translation „those keeping trust receive benefit in all respect, and those breaking trust meet with difficulty at every step."[117] The implications are still vast, but as a matter of fact, neither of the 2014 State Council notice and President Xi's statement are to imply a timelessness as suggested by many Western articles. Contrary to that, the same State Council Notice even stipulates the establishment of „systems to process objections, handle complaints and punish liability for infringement" and

[113] Xinhua, "习近平：推进社会诚信体系建设 让失信者寸步难行 - [Xi Jinping: Promoting the Construction of a Social Credit System, Making It Difficult for Untrustworthy People to Move]."

[114] Own translation; another non-official, but also accurate translation is „once untrustworthy, restricted everywhere" https://news.ycombinator.com/item?id=16602920

[115] For example: Goh, "China to Bar People with Bad 'social Credit' from Planes, Trains."

[116] Vanderklippe, "Chinese Blacklist an Early Glimpse of Sweeping New Social-Credit Control."

[117] State Council of the PRC, "Planning Outline for the Construction of a Social Credit System (2014-2020)."

the provision of “appropriate protection to members of society who *regret and have corrected past light acts of trust-breaking* [emphasis added]”.[118] The latter is extremely important to take note of, because, even though the formulation of ‘light acts of trust-breaking’ is vague and the question of judging the degree of trust-breaking arises here as well, the official outline for the construction of the SCS does provisions for the protection of credit information subjects.

8.4 The examples of corruption and state surveillance

“From the very beginning the compliance problem that the SCS is intended to solve has been framed in moralistic terms. SCS policy documents claim its objective is to stimulate sincerity (chengxin) and trustworthiness (yongxin). The Joint Punishment System explicitly targets acts of “untrustworthiness” (shixin).”[119]

The anti-corruption campaign is one of the most strikingly characteristic features of the current Chinese political reality under the leadership of Xi Jinping. While targeting the highest levels of political elite sends powerful messages about Xi’s impenetrable power, it brings about little relief from corrupt practices on the local levels of government, on which rampant corruption renders the everyday lives of millions of people close to insufferable.

The CCP, in line with previous generations of Chinese leadership realizes the danger that lies in leaving that kind of discontent unaccounted for. The central state would traditionally portray itself as morally superior to its local agents, there has been therefore a very clear distinction between the central and the local governments which remains valid even today. Criticism against the party is not forbidden, as long as it is directed against the local levels thereof. Oftentimes, political conflicts would be redefined as moral failings, the correction of which is an ‘obligation’ of the highest central authority. Driven by the justification of enforcing moral standards the party state extended its capacity to monitor and discipline the conduct of local officials, and to penetrate grass-root society.[120] A showcase example of the above-described dynamism is the fall of Bo Xilai, former party chief of the city of Chongqing. His ousting, which

[118] State Council of the PRC.

[119] Creemers, “China’s Social Credit System: An Evolving Practice of Control.”

[120] Chen, “‘Supervision by Public Opinion’ or by Government Officials? Media Criticism and Central-Local Government Relations in China.”

happened just before Xi's official coming into power in 2012, evolved into one of the most prominent political scandals of the last years, and has been widely assessed as a prime manifestation of CCP power-games.[121]

Untrustworthiness, however, can only be defined against trustworthy conduct. While there is fundamentally nothing bad about aiming at the eradication of unmoral and untrustworthy behavior in a society, there is no need for much explanation why the idea is an unpleasantly utopian one. The concern here is not about if it is desirable to live in a world where morality and trust serve as the main guiding principles of each and every individual, there is no question about that. However, the difficulties start as soon as one tries to find a common understanding of "moral behavior". To dig deep into the question of what moral behavior is, lies well outside of the scope of this paper – I feel yet comfortable with the assumption that agreeing on an all-encompassing definition constitutes one of the first hurdles here.

There is no doubt that the central leadership of the CCP has an absolute monopoly over the definition of trustworthiness.

Although it is not considered to be an explicit objective of the emerging Social Credit System by Western experts[122], Lin Junyue, the already-cited ideological mastermind of the SCS does believe "it could serve as a "fantastic" counterterrorism tool, promoting social stability and peaceful co-existence."[123] Fact is, that the creation of a powerful security state is undoubtedly enhanced by the processes that are being established for the implementation of the SCS. Surveillance and monitoring have become increasingly omnipresent in China, and in politically sensitive areas such as Tibet and Xinjiang their extent is becoming alarmingly pervasive.[124]

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[121] FlorCruz and Mullen Jethro, "China Axes Bo Xilai from Chongqing Post after Scandal."

[122] Lynch, "What's the T on China's Social Credit System - Jeremy Daum Explains - Part 1 of 2."

[123] Vanderklippe, "Chinese Blacklist an Early Glimpse of Sweeping New Social-Credit Control."

[124] Creemers, "China's Social Credit System: An Evolving Practice of Control."

9. The Belt and Road Social Credit System

Now, after a comprehensive depiction of what the SCS is hoped to become and what functions it should serve domestically, it is time to turn our attention to answering RQ5 by examining the international implications of the emerging system.

For this reason, the last chapter of this thesis is going to examine whether the tools and functions of Social Credit System could turn into norm-setting practices that surpass Chinese borders. In this sense the following proposition is formulated as an answer to the fifth sub-research question:

Proposition V.: The successful domestic implementation of the SCS would serve the PRC's further global ascendance in two ways. First by providing a platform for Chinese companies to display a strong indication of trustworthiness and reliability resulting in their greater integration into the international economy as well as in the reduction of major inefficiencies. Secondly, through the construction of a BRI Social Credit System, the CCP's domestic version can be exported to companies alongside the physical routes of the BRI, serving as a regulatory tool and thus creating a new kind of, China-centered international institution.

The Belt and Road Initiative (BRI), first translated into English as the One Belt One Road initiative (OBOR) is potentially the most defining economic, infrastructural and political construct of the first half of the 21st century initiated by a single government.[125] It is a striking manifestation of the change of direction of Chinese foreign policy from Deng Xiaoping's strategy of "hide your strength and bide your time" by the much more proactive and, in terms of international power-relations, much more ambitious Xi Jinping.[126] The reason behind Deng's emphasis on keeping a low profile, which has constituted the official foreign political strategy of the PRC for the past three decades, had been to avoid any kinds of conflicts or confrontations on the international stage that would impede the inflow of (predominantly Western) foreign direct investment (FDI). Xi's departure from this path is therefore once again indicative of the previously discussed shift of economic orientation: the CCP leadership under Xi now apparently believes that for a continued economic growth it is not necessary anymore to stay away from the international stage only to avoid confrontations by all means necessary to ensure the

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[125] Rolland, "China's 'Belt and Road Initiative': Underwhelming or Game-Changer?"

[126] Clover, "Xi Jinping Signals Departure from Low-Profile Policy."

undisrupted inflow of foreign investment. This implies a strong degree of confidence on the one hand in the potential that the domestic market harbors for further economic growth – present thesis has extensively argued that the creation of the SCS significantly contributes to the optimization of this potential. On the other hand, it shows the CCP's confidence in the transformative power of the BRI on Eurasia's geopolitical landscape by dramatically enhancing regional and global interconnectivity through the integration of world's largest landmass from Vladivostok to Lisbon and from Moscow to Singapore, on terms defined by the PRC.[127]

Apart from the two most well-known components of the BRI, the "Silk Road Economic Belt" and the "21st Century Maritime Silk Road", both of which were announced in 2013 on two different platforms[128] and are centered around boosting connectivity in the form of physical infrastructure projects, there is an additional, physically less visible part, which is only starting to get increased attention.

The Digital Silk Road was first announced in a jointly-issued white paper in March 2015[129] under the translation "Information Silk Road" with the objectives of strengthening internet infrastructure, deepening space cooperation, developing common technology standards, and improving the efficiency of policing systems among the Belt and Road countries.[130]

It is within the framework of this digitalized component where the SCS international significance becomes apparent. Although the March 2015 white paper is its first detailed account, the international implications of the SCS were already addressed in the original State Council Notice of 2014, which states that "perfecting the social credit system is a necessary condition to deepen international cooperation and exchange, establishing international brands and reputations, reducing foreign-related transaction costs, and improving the country's soft

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[127] Rolland, "China's 'Belt and Road Initiative': Underwhelming or Game-Changer?"

[128] Ministry of Foreign Affairs of the People's Republic of China, "President Xi Jinping Delivers Important Speech and Proposes to Build a Silk Road Economic Belt with Central Asian Countries"; ASEAN-China Centre, "Speech by Chinese President Xi Jinping to Indonesian Parliament."

[129] National Development and Reform Commission of the Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China, Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road.

[130] Chan, "China's Digital Silk Road: A Game Changer for Asian Economies."

power and international influence, and is an urgent requirement to promote the establishment of an objective, fair, reasonable and balanced international credit rating system, to adapt to the new circumstances of globalization, and master new globalized structures." [131] The message is crystal clear: the SCS is seen as a necessary tool for the success and efficacy of future international integration and cooperation. [132] According to one of the official newspapers, People's Daily, the establishment of a strong social credit system is necessary to support of such a scale of construction projects.[133] The internationalization process that is connected to the BRI as well as to the internationalization of the Renminbi gives the SCS an "international context", in which the promotion of new type of interstate relations gets particular priority.[134] The platform for this supportive function is provided by the comprehensive Digital Silk Road. The International Cooperation Center (ICC), an agency of the National Development and Reform Commission, which is one of the issuing bodies of the 2015 white paper and one of the implementing arms of the system, further stresses the importance of internationalization by stating that the "ICC has been promoting the establishment of social credit system and developing the 'foreign investor credit identification system', 'national credit identification service system' and the credit silk road comprehensive service platform. In the future, ICC will work in line with the four work dimensions including 'innovation, applicability, socialization and internationalization', actively advance 'social management credit' as well as 'the informatization of credit management' and achieve 'the internationalization of credit' and 'internationalized credit'."[135]

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[131] State Council of the PRC, "Planning Outline for the Construction of a Social Credit System (2014-2020)."

[132] Yu, *China's Belt and Road : The Initiative and Its Financial Focus*.

[133] 阎, "加强'一带一路'信用体系建设 打造区域经济合作架构 [Strengthening the Construction of the ' Belt and Road' Credit System and Building a Regional Economic Cooperation Framework]."

[134] 胡, "当前我国社会信用体系建设的新思考 [New Thoughts on the Construction of China's Social Credit System]."

[135] International Cooperation Center, "Vice Chairman Lian Weiliang Visits ICC and Inspects the Establishment of the Social Credit System."

In an analysis of the European Institute for Asian studies three main areas are identified in which the international reach of the SCS provided by the Digital Silk Road becomes apparent: e-commerce and customs automation, the creation of telecommunication infrastructure and ensuring the sustainability of the physical infrastructure. The following brief assessment of each of these areas is based on the EIAS study and serves to illustrate the SCS's supporting function towards the BRI. [136]

9.4.1 Reducing bureaucratic hurdles

Firstly, one of the major challenges to the physical infrastructure of the BRI are posed by bureaucratic hurdles and inefficiencies. By utilizing integrated information platforms containing all the relevant information on participating companies, bureaucratic processes, such as custom procedures or due diligence checks could be significantly optimized. The digital provision of proof of trustworthiness and reliability of companies would significantly reduce transaction costs alongside the BRI, as "this electronic world trade platform aims to assist small and medium-sized companies to find trading partners, managing cargo authorization and smoothly navigate the customs process."

9.4.2 Chinese telecommunication companies

Secondly, the distinct role of Chinese telecommunication companies needs to be accentuated in enabling previously disconnected areas to access and participate in online trading platforms and telecommunication networks. Apart from the state-owned companies such as China Telecom, China Unicom and China Mobile, other corporations that are officially not part of the party-state infrastructure are playing a decisive role in the creation of a modern digital landscape worldwide. Huawei and ZTE, both Chinese multinational companies with strong unofficial ties to the CCP are competing for market shares in telecommunication market space in Africa, and the whole of Eurasia. The recent technological development of 5G networks and the question of which companies should be entrusted with constructing them in Europe and

[136] European Institute for Asian Studies, "The Invisible Silk Road – Enter the Digital Dragon."

the American continent was one of the most vividly-discussed topics of digital development at the end of last year.[137]

As mentioned briefly in Section 8.4, although not considered to be a direct objective of the SCS, the construction of a strong state-surveillance infrastructure is significantly enhanced by the possibilities that large-scale data-sharing and the creation of integrated information platforms coupled with AI-supported surveillance techniques opens the way to. With the increasing success of a China-lead BRI, this surveillance architecture is inevitably going to have significant spill-over effects on other international actors as well.

Thirdly, connected to the same telecommunication companies, the development and application of smart grids largely enhances the sustainability of the infrastructural projects by for example better matching of supply and demand in projects connected to the BRI. In this aspect the function of correcting information failures and asymmetries discussed in a previous part of this thesis becomes clearly visible.

In summary, the SCS-enhanced Digital Silk Road offers opportunities to make the Belt and Road Initiative as a whole, more efficient and sustainable. While doing so it further advances the PRC's already significant economic position on the international stage and facilitates the spread of governance tools that have their origins in the special Chinese model. As Hoffman puts it, "the CCP's development of the 'social credit' system is, in this sense, another step in the Party's long exploration of ways to fuse political control and economic prosperity. The expanding global reach of China's economy means that social credit's fusion of social and political control will also be used to bend entities outside China's borders towards the Party's political objectives."[138]

Summary and Conclusion

Present thesis was aimed at discussing the potential carried by the People's Republic of China's emerging Social Credit System to provide solutions for several domestic challenges that have

[137] Hála and Lulu, "Huawei's Christmas Battle for Central Europe."

[138] Hoffman, "Managing the State: Social Credit, Surveillance and the CCP's Plan for China."

been unfolding over the past decades since the implementation of Deng Xiaoping's reform policies at the end of the 1970s.

After introducing the research questions and the preliminary hypothesis, the first part of the thesis deals with the theoretical ramifications, through the lenses of which a better comprehension of the system is more easily achievable. Consequently, the question of how the emerging Social Credit System impacts the international significance of the People's Republic of China was examined from the theoretical perspectives of institutional liberalism, authoritarian resilience and the behavioral economics theory of nudging.

In this sense it was crucial to obtain an understanding of what the initial idea behind the Chinese central government's SCS is. Setting out to explain the core of the emerging system, present thesis explained the central terms, such as creditworthiness, trust and compliance, and mentioned the significant role that information-technology is designed to play in the implementation, while the aspect of altering behaviors through potential incentives of punishment and reward was also touched upon. Since the notion of trust is one of the central pillars of the system, the interconnectedness of the Chinese terms for 'credit' and 'trust' was elaborated in more detail.

To further grasp the extent as well as the limitations of the emerging system, the first part of this thesis finally set out to explain its stages of implementation. The aggregation and integration of information within and across geographic regions and professional fields that can be used to assess credit constitutes the first step of the process. In a second step the creation of measures for incentivizing trustworthy conduct and for discouraging untrustworthy behavior is foreseen. Thirdly, the overall objective is an increased reliance on credit evaluations in all the original four major fields. As it was pointed out, the end if the planning period is set out as 2020, by which time the system should be implemented. The implementation process is however not completely linear but is rather based on a continuous feedback loop – the final, moral-education component of the system is responsible for planting morality, trustworthiness and credibility as the most valuable ideas into the minds of the population and is aimed at ensuring the long-term sustainability of the emerging Social Credit System.

All in all, the above-mentioned frameworks and a thorough foundation for an understanding of the core idea of the emerging system built the backbone of the subsequent discussion, which was divided into two parts.

Part II contains the theoretical discussion of the following sub-research-questions:

RQ1. How does the Social Credit System enhance the Chinese Communist Party's resilience in preserving its political legitimacy?

RQ2. How does the SCS support the PRC's economic transformation and the CCP's social management aspirations?

In this sense, Part II was centered around three topics – maintaining political legitimacy, carrying out an economic restructuring to secure continued growth and designing tools for social management that target both the population and local-level government officials. These ideas form both the core of the following propositions and constitute the substance of the whole chapter.

Proposition I.: One of the major raison d'états of the emerging Social Credit System is securing sustainable political legitimacy for the CCP through economic and social management.

Proposition II. a.: The emerging Social Credit System significantly contributes to the creation of a stable consumer-driven model of economic growth via incentivizing commercial actors to create their own subsystems and experiment with extending the scope of traditional ways of assessing creditworthiness and thus enhancing the consumption capabilities of the Chinese domestic market.

Proposition II. b.: By creating processes that change behaviors and optimize governance performance, the SCS leads to the mitigation of existing problems and prevents them from exacerbating into larger threats.

In Part III present thesis continued to argument the SCS's potential aptitude to be instrumental in overcoming the by now often-mentioned challenges faced by the CCP by addressing the following sub-research-questions:

RQ3. Why is the emerging system widely perceived as threatening by the Western media?

RQ4. What kind of competitive advantage does the CCP's authoritarian type of regime secure for the creation of the emerging SCS?

In this part the emphasis was put on practical measures that have already been taken in the process of implementation. Not only did this thesis aim at uncovering what measures have already been implemented, but it also tried to demystify some of the major misconceptions that have emerged pertaining to measures taken by the central government under the umbrella of the SCS. On the one hand it was shown that it is not a completely new idea without any attachment to traditionally used practices, and on the other that a false picture is easily created if no careful differentiation is done between the three different types of social credit systems.

While *Proposition III* addressed the latter issue, *Propositions IV. a* and *IV. b* tried to understand in which ways the CCP's authoritarian type of governance is conducive of the measures that can be regarded as building blocks of the emerging system.

Proposition III: Apart from the CCP's centrally planned SCS there are numerous subsystems in operation. These are either pilot projects run by provincial- or city-level governments, or financial products of commercial enterprises without government licenses. Owing to the multiplicity of uncertainties that surround the evolving implementation of the CCP's SCS, and the fact that Western media coverage often fails to clearly distinguish between these three distinct types, the Western perception of the CCP's SCS is overwhelmingly negative.

Proposition IV. a.: Due to the increasingly totalitarian character of the authoritarian regime of the PRC, the Chinese state instrumentalizes big-data-enabled technologies much more effectively to monitor, predict and govern each actor in its political, economic and social domains than Western-style liberal democracies justifiably could do so. Since it is not restricted by compulsory consent of individuals as it is the case under strong data-protection regimes in the West, it can much more easily harness the opportunities that the aggregation and consequent analysis of vast amounts of data render possible.

Propositions IV. b.: The numerous parallel experimental projects conducted by private companies but incentivized and supported by the central government provide invaluable testing grounds that are not given in smaller countries with less centralized control.

Finally, Part III played an instrumental role in answering the main research question, by dealing with the following sub-research-question and consequently formulating the final proposition of this thesis.

RQ5. What are the implications of the SCS on the international stage?

Proposition V.: The successful domestic implementation of the SCS would serve the PRC's further global ascendance in two ways. First by providing a platform for Chinese companies to display a strong indication of trustworthiness and reliability resulting in their greater integration into the international economy as well as in the reduction of major inefficiencies. Secondly, through the construction of a BRI Social Credit System, the CCP's domestic version can be exported to companies alongside the physical routes of the BRI, serving as a regulatory tool and thus creating a new kind of, China-centered international institution.

All in all, the central message of this thesis is that the emerging SCS can be regarded as a sustainable means for the CCP to stay in power by helping it create and maintain a stable domestic environment through the following ways: strengthening the political legitimacy of the Party, enhancing domestic consumption capabilities and optimizing governance performance. Consequently, if the CCP is not distracted by major domestic turmoil, it will be able to focus on its economic development and foreign policy goals in a way which will further the ascendance of the PRC towards becoming one of the most significant players on the global stage. There it is not only going to dictate the pace and direction of economic development, but it is also going to act as a main force in the establishment of parallel political and social institutions. The SCS plays a significant role in that as well – firstly by allowing Chinese companies to display trustworthiness and reliability resulting in their greater integration into the international economy and secondly by exporting a new regulatory framework alongside the path of the Belt and Road Initiative.

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