

How Does the Chinese Government Promote the Development of the Social Credit System?

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ABSTRACT

This paper introduces the four stages of the construction of China's social credit system. In combination with the characteristics of the institutional system, this paper describes the specific practices adopted by the Chinese government to promote the construction of the social credit system from six aspects, namely, governing government integrity, business and social ethics and judicial integrity, building the credit information platform, developing third-party credit service institutions and credit service markets, and constructing the social credit system demonstration cities. It argues that the construction of China's credit system has the problems of insufficient rule of law, imperfect credit platform construction, and difficult credit repair. These problems will be gradually solved in the new phase of the social credit system's construction starting from 2021, and China will continue to develop and improve its social credit system in the process of solving problems.

Keywords: Credit System; Government; Chinese Characteristics

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Как правительство Китая способствует развитию системы социального кредита?

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РЕФЕРАТ

В данной статье представлены четыре стадии становления системы социального кредита Китая. В сочетании с характеристиками институциональной системы в статье описываются конкретные методы, принятые правительством Китая для содействия построению системы социального кредита по шести направлениям, а именно, обеспечению добросовестности правительства, деловой и социальной этики и неподкупностью судебных органов, созданию платформы кредитной информации, развитию сторонних организаций, предоставляющих кредитную информацию, а также созданию образцовых городов системы социального кредита. Утверждается, что в процессе становления системы социального кредита Китая возникают следующие проблемы: недостаток специальных законов, несовершенная платформа кредитной информации и сложность восстановления кредитной репутации. Начиная с 2021 года, на новом этапе строительства системы социального кредита эти проблемы будут постепенно решаться, и по мере их решения Китай продолжит развивать и совершенствовать систему социального кредита.

Ключевые слова: система социального кредита, правительство, китайская специфика

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Development process of social credit system in China

The development of China's social credit system is closely related to the market-oriented economic reform. From the founding of the People's Republic of China in 1949 to 1978, China implemented a planned economic system in which enterprises could only receive loans from banks according to the plan, and the banks should also allocate funds to enterprises and make settlements as scheduled, acting as the cashier of the state. A few unplanned loans were only provided to enterprises to meet their needs for short-term liquidity. Since the Reform and Opening-up in 1978, China initiated the market-oriented reform, and a social credit system emerged along with the development of market-based lending.

From the Reform and Opening-up in 1978 to 2020, China's social credit system has gone through four stages of development.

The first stage was from 1978 to 1999, which was the initial period of the social credit system. At this stage, there was no definite concept of social credit in China and the so-called social credit was actually creditworthiness. The development of the credit system mainly dealt with the loan problems faced by banks and enterprises in the transition from a planned economy to a market economy. After the shift to a market economy, the funds required by enterprises shifted from bank allocations to market financing. In order to adapt to this change, the Chinese government amended some regulations, allowing enterprises to openly issue bonds, and set up a number of state-owned credit rating agencies to rate bonds. In addition, only after credit assessment could the bonds go public. These credit-rating agencies were mostly subsidiaries of the branches of the central bank, the People's Bank of China. Meanwhile, banks shifted their business from allocating funds to granting loans on the basis of the credit ratings provided by the credit rating agencies.

The second stage was from 2000 to 2006, which was the preliminary period of the social credit system. With the development of the market economy, integrity became an increasingly serious social problem. In this case, the government recognized the importance of social credit to the market economy and proposed to establish a sound social credit system for the modern market economy. The specific measures include establishing the Office of National Leading Group for Rectifying and Standardizing Market Economic Order; issuing *Interim Measures for the Administration of the Basic Data of Individual Credit Information*, *Guiding Opinions on the Credit System Development for Chambers of Commerce and Industrial Associations* and other regulations; starting to establish the basic database of individual credit information; and launching industrial credit rating. At this stage, each government department began to establish their own credit information system and collect industrial credit information. Local governments also began to develop their social credit system, gradually forming a credit information disclosure system with government departments as the main body and a joint credit reporting system with market credit service agencies as the main body.

The third stage was from 2007 to 2013, which was the systematic development period of the social credit system. In March 2007, the General Office of the State Council issued *Opinions of the General Office of the State Council concerning the Building of a Social Credit System*¹, and established the inter-ministerial joint meeting system to promote the overall and coordinated development of the social credit system in multiple departments and fields. At this stage, the legal framework and the overall promotion mechanism for the social credit system were initially established, and a sound credit reporting system

¹ Please refer to the website of the State Council of the People's Republic of China, http://www.gov.cn/zhuanti/2015-06/13/content_2879028.htm

covering the whole society was gradually built up. Credit records began to exert extensive influence on the behaviors of organizations and the public.

The fourth stage was from 2014 to 2020, which was the all-round development period of the social credit system. In June 2014, the State Council issued the *Planning Outline for the Construction of a Social Credit System (2014-2020)*, making comprehensive arrangements for government, enterprise and individual credit development¹. In addition to the planning outline, China has formulated a series of documents and legal systems, which required the government departments and judicial departments to take joint measures to reward creditworthy behaviors and punish untrustworthy behaviors. A credit-centered market supervision system was built, and the development of a credit system concerning people's livelihoods was promoted. At the same time, the government also guided social forces to participate in credit system building and developed third-party credit reporting services. After six years of continuous efforts, a social credit system with government agencies as the mainstay and commercial agencies as the supplement was basically established, which realized the efficient operation based on information technology. The social environment of "one failure to keep promise leading to restrictions everywhere" has been formed, and the level of social integrity has been greatly improved.

Methods applied by the Chinese government to promote the social credit system

Organizational methods

The Communist Party of China (CPC) is the sole governing political party of the People's Republic of China and is responsible for decision-making and supervision. Other political institutions, including the government departments, the judicial departments and the people's congresses, all work under the leadership of the CPC and do their jobs in accordance with their respective responsibilities. After the Central Committee of the CPC makes decisions, other political institutions shall coordinate their actions in accordance with the unified plan of the Central Committee. Local party organizations shall also implement the decisions of the Central Committee. Local government departments, judicial departments and people's congresses shall work under the leadership of local party organizations. In addition to formulating policies in accordance with their functions, central government departments, judicial departments and people's congress shall investigate and supervise the implementation of their local counterpart agencies, collect problems in the process of decision implementation and put forward policy recommendations, which shall be sent to the Central Committee. When the problems are submitted, the Central Committee shall make unified decisions and solve the problems. Local problems are left to local party organizations.

In the 16th National Congress of the CPC in 2002, it is proposed to establish a sound social credit system for the modern market economy. Later in the Third Plenary Session of the 16th CPC Central Committee in 2003, it's further proposed to form a social credit system supported by morality, based on property rights and guaranteed by law. Accordingly, in 2007, the State Council published *Several Opinions on the Development of Social Credit System*, and began to promote the development of social credit system on a large scale. In 2014, according to the development progress of social credit system, the State Council issued the *Planning Outline for the Development of Social Credit System (2014-2020)* so as to further promote the development of social credit system. The Central Committee formulated documents of top-level design on social credit sys-

¹ Please refer to the website of the State Council of the People's Republic of China, http://www.gov.cn/xinwen/2014-06/27/content_2708964.htm.

tem construction. The people's congresses, government departments and judicial departments launched corresponding laws and regulations at the national level. And local departments were responsible for implementing the laws and regulations legislated by the Central Committee and central agencies as well as formulating local regulations and management systems to facilitate the implementation of decisions made by the Central Committee.

Major practices of the government in promoting the development of social credit system

1. Governance of government integrity

Government integrity is the foundation of social integrity. There are three main measures to govern government integrity in China. The first is to regulate government behaviors and implement "two-way random inspection, timely disclosure" and "dual public disclosure". In other word, in the process of administrative supervision, the inspected entities are randomly selected and the inspectors are also randomly assigned. The results of random inspections and investigations shall be promptly disclosed to the public, while the information about administrative permits and administrative penalties shall be published online within seven working days from the date of the administrative decision. The National Development and Reform Commission shall conduct quarterly assessments of the implementation of the "dual public disclosure" by government departments. The second is to give special treatment to the dishonest behaviors of government. Special treatment would be carried out by the National Development and Reform Commission and the Supreme Court to deal with government agencies' dishonest behaviors. For government agencies which fail to fulfil their legal obligations within the prescribed time limit, disciplinary measures will be taken, such as interviewing the person in charge, restricting the issuance of loans, lowering the credit rating of the city, and incorporating into the government dishonesty record. And the liabilities of the main person in charge and those who are directly responsible for serious dishonest behaviors shall be investigated. The rectification rate of local governments at each level listed as dishonest entities subject to enforcement reached 99.68%¹. The third is to set up the government service hotline. Local party committees shall supervise the resolution of complaints from the public and hold the government departments and lower-level governments accountable for their poor ranking.

2. Governance of judicial integrity

Judicial integrity is the guarantee of social credit. In order to govern judicial integrity, the Central Party Committee and local Party committees have taken the following measures. The first is to strengthen the integrity of the judicial authority. This includes the full implementation of open government affairs, with all types of government information made public in accordance with the law, except for those involving classified information; the implementation of government affair commitment system as well as the implementation of first-inquired person in charge system, service commitment system, time-limited processing and accountability for failure to perform, and the establishment of a disciplinary system for judges and prosecutors. The second is to govern judicial intervention. The Central Committee has introduced three systems to clearly stipulate the intervention by leaders and cadres in judicial activities, the accountability of people

¹The National Development and Reform Commission: the special treatment for the breach of trust in government services is basically concluded. Please refer to the website of Credit Henan, <https://www.xyhn.gov.cn/ar/20171206006814.htm>.

within the judiciary for interfering in cases, and the contact and interaction between judicial officers and litigants, lawyers, special related persons, and intermediary agencies. The third is to conduct special treatment of law enforcement and judicial agencies. On a pilot basis, a campaign regarding law enforcement and judicial agencies will be conducted across the country in 2021 to educate the personnel and rectify existing problems, which is expected to be completed by the first quarter of 2022. The task of the campaign is to remove the black sheep, investigate the “protective umbrellas” of criminal syndicates as well as corruption in law enforcement and judiciary agencies so as to improve their qualities and capabilities. The fourth is to establish credit records for public security, judicial administration and other staff at all levels, incorporating their bad behaviors into records in accordance with the law, such as favouritism and inaction. The records will be used as a basis for assessment, evaluation, rewards and punishments.

3. Governance of social integrity

The government adopted the red and black lists as well as joint rewards and punishments system to govern social integrity. The first is to establish a joint rewards and punishments supervision system. The central government formulated documents of top-level design to clarify the determination of red and black lists, the implementation of joint rewards and punishments system and the handling of enforcement opposition as well as credit repair, the opt out mechanism of the red and black lists and other principles. A total of 44 national departments signed a memorandum of cooperation on implementing joint rewards and punishments, including punitive measures, shared content and implementation units. And the content will be updated dynamically according to social development. Each local association (group, organization) shall formulate specific rules for joint rewards and punishments. Each region shall initiate ministry and province collaborative and cross-regional joint incentives and punishments, allowing credit information sharing and mutual recognition of credit assessment results for the typical and serious bad-faith acts identified within the administrative region. The second is to establish credit reports and the red and black lists. This includes generating a national unified social credit code for legal persons as well as other organizations and using the ID cards as the credit codes for natural persons to set up the integrity file for each organization and individual. Exemplary organizations and individuals of good faith will be included in the red list, and those with serious breach of trust in key areas will be included in the black list. The third is to implement joint rewards and punishments for those on the red and black lists. Government departments shall match the administrative approvals with the red and black lists and implement mandatory checks and inspections on the credit information of declared units and individuals on approval matters. The units and individuals on the red list will be given rewards such as being listed as an exemplary model of integrity, enjoying green channels for administrative approval, receiving public service facilities on a priority basis, getting reduction in the proportion and frequency of regulatory spot checks, obtaining preferential loans on a priority basis, and vigorous promotion and recommendation. Joint disciplinary actions will be taken for units and individuals on the black list. The dishonest units will be subject to strict examination and approval of administrative licensing projects, strict control on the issuance of production licenses, restrictions on the issuance of stocks for listing and financing or the issuance of bonds, restrictions on the application for fiscal funding projects, restrictions on participation in relevant public resource trading activities, and restrictions on participation in franchise of infrastructure and public utilities. The dishonest individuals will be prevented from leaving the country and purchasing real estate, travelling by air, travelling on high-class trains and seats, travelling on holiday, staying in star-rated hotels and other high consumption behaviors. They will not be allowed to

take out loans or apply for credit cards in financial institutions, nor to serve as legal representatives, directors, supervisors and senior managers of enterprises, etc. The fourth is to conduct special treatment to some key areas with serious social integrity problems. Since 2018, altogether 19 areas with serious integrity problems involving finance, e-commerce, migrant workers' wages and intellectual property rights have been subject to special treatment for breach of trust. Information about breach of trust is collected centrally and the dishonest entities are blacklisted and disciplined, which has led to a significant drop in the incidence of breach of trust cases. The fifth is to open up the access to the red and black lists and mobilize social forces to participate in joint rewards and punishments. The government has opened up the information in national database of the list of targets for joint rewards and punishments to the society, encouraging all kinds of social institutions to inquire about the red and black lists, and provide feedback to the departments (units) identifying the red and black lists for rewards and punishments, so as to build a joint reward and punishment mechanism with wide participation of the whole society.

4. Establishment of the credit information platforms

In 2015, China established a national credit information sharing platform based on the national e-government network. The platform is operated by the State Information Center, a specialized agency which is responsible for collecting public credit information from relevant departments, regions and industries, providing operational guidance and technical support for the development and match of credit information systems of relevant departments, local agencies and industrial organizations, coordinating the development of credit information systems and information sharing of departments, local agencies and industrial organizations, as well as operating and maintaining the "Credit China" website (<https://www.creditchina.gov.cn/>). The "Credit China" website provides the public with one-stop access to the credit information of various organizations nationwide, and publishes red and black lists. Personal credit information can be accessed through the associated website. This website is linked to the credit websites of national departments and local agencies. Various national departments and local governments have built credit information platforms for their own departments and regions. For example, the Credit Reference Center of the People's Bank of China (<https://ipcrs.pbccrc.org.cn/>) provides personal credit information and the Information Disclosure Website of the Enforcement Process of People's Courts (<http://zxgk.court.gov.cn/>) provides information on dishonest persons subject to enforcement. And there is also National Enterprise Credit Information Publicity System (<http://www.gsxt.gov.cn/>) under the State Administration for Market Regulation, and National Social Organization Credit Information Publicity Platform (<https://datasearch.chinanpo.gov.cn/gsxtdhycmlList>) under the Ministry of Civil Affairs of the People's Republic of China, etc. The public can navigate to the relevant credit information platforms through Credit China website to check specific information. In addition, a number of third-party credit service providers have also established information platforms to provide credit information inquiries.

5. Development of the third-party credit service providers and credit service markets

With the rapid development of the Internet, some giant private platform enterprises emerged in China. These enterprises have accumulated a large amount of customer credit data in the course of their development and have established their own independent credit assessment systems, such as Ant Group's Zhima Credit and Jingdong Finance's Xiaobai Credit. China encourages the development of third-party credit service providers and requires government departments to give full play to the role of credit service providers, including sharing credit information with credit service providers, in-

roducing credit service providers to participate in the collection of credit records in key areas, participating in the identification of red and black lists, participating in joint rewards and punishments system and special treatment of credit failure, and assisting relevant government functional departments to strengthen the supervision of market entities. Under the leadership of the People's Bank of China, 8 private companies which have personal credit assessment systems and the National Internet Finance Association of China jointly launched China's first licensed personal credit reference agency, Baihang Credit. In addition, the People's Bank of China has approved a market-based personal credit reference company, Pudaao Credit, which is controlled by state-owned capital. Moreover, there are also companies offering credit services by integrating credit information, such as Qi Cha Cha and Tian Yan Cha. Various APPs for credit report inquires have provided the public with convenient access to credit information.

6. *Development of demonstration cities for social credit system*

In order to summarize the experience of social credit management and continuously improve the level of social credit development, China has been carrying out the development of demonstration cities for social credit systems since 2017. Till now, there are a total of 28 cities in two batches which have been listed as demonstration cities for the development of social credit systems. These cities have undertaken the key tasks of social credit system development, and have actively carried out early and pilot implementation under the mandate of the State. Some advanced experience and practices have been further promoted in other cities across the country. Cities that have been awarded the title of Model Cities for Social Credit System Development will receive credit-related national policy incentives.

Problems in the development of China's social credit system

With the strong promotion of the government, China's social credit system has witnessed fast development, but there are still some problems in practice.

Firstly, the level of rule of law in credit system development needs to be improved. At present, China's social credit system development is based on central documents and departmental regulations, and there has been no special law for the credit field till now. Apart from the national administrative regulation — *Regulation on the Administration of Credit Investigation Industry*, only a few local governments have formulated local regulations. The lack of rigorous and detailed rules in the implementation of central documents has led to a lack of uniform standards in information collection, credit assessment and the determination of breach of trust in local areas. Local governments usually use credit management as a means of local governance and define breach of trust by local management requirements, resulting in a wide variation in the determination of breach of trust at different places. The same behaviour that is defined as a general breach of trust in one place may be defined as a serious breach of trust in another. This has led to confusion in the public perception of breach of trust and resulted in a decline in the trustworthiness of credit record. In a social environment where "one failure to keep promise leading to restrictions everywhere", the lack of uniform standards for credit assessment will undermine the basic rights of citizens.

Secondly, the credit platforms haven't been well-prepared. Although a national credit information sharing platform has been set up, the development of local credit information platforms varies greatly from place to place. Some local governments have yet to establish credit information platforms, or lack effective data collection with only a framework not to be used. Among the systems that have been built, the quality of credit information collection and application varies greatly from region to region due to local departments' limited capability of applying information technology and the different

standards of information collection and exchange caused by the barriers between higher and lower levels or between different departments and regions. What's more, there are problems of untimely and incoherent data sharing. In addition, there are some difficulties in sharing information with private credit service organizations. At present, information sharing mainly relies on pushing from government departments, and market credit service organizations cannot obtain data directly from credit information sharing platforms. Some private enterprises with credit information advantages are also reluctant to share data.

Thirdly, it's difficult to repair the credit record. The focus of China's social credit system at present is on the punishment of breach of trust, with insufficient attention paid to credit repair. Once the organizations or individuals are blacklisted or have bad records, it is difficult to repair. Although the central government has mentioned credit repair several times in many documents related to credit system development, the relevant management methods and rules have never been issued. It was only in May 2021 that the National Development and Reform Commission drafted the *Administrative Measures for Credit Repair* (for Trial Implementation) (Draft for Comment), which was made available to the public for comments¹. And the State Administration for Market Supervision did not issue the *Measures for Credit Repair by the State Administration for Market Supervision* until August 2021².

Future development of China's social credit system

With the conclusion of the *Planning Outline for the Development of a Social Credit System (2014–2020)* in 2020, the development of China's social credit system entered a new phase. In December 2020, China released the *Guiding Opinions of the General Office of the State Council on Further Improving the System for Deterring Bad-faith Acts and Building a Long-term Mechanism for Promoting Good Faith*³. As a guide for the development of China's social credit system in the new phase, it's proposed in the document to build a long-term mechanism for promoting good faith. It puts forward clear requirements and specific opinions on improving the credit repair mechanism for individuals and entities in bad faith, and promoting the establishment of a law-based and standardized social credit system. Next, various state departments will develop specific implementation measures on the basis of this document. The development of China's social credit system will shift from problem-oriented to system-building. By accelerating the improvement of the legal and regulatory system, a law-based efficient social credit system which has high level application of information technology will be built.

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¹Please refer to the website of Credit China, https://www.creditchina.gov.cn/zhengcefagui/redian/zhengcefagui/202105/t20210513_234524.html

²Please refer to the website of the State Administration for Market Supervision, http://www.samr.gov.cn/samrgkml/nsjg/xyjgs/202108/t20210801_333258.html

³Please refer to the website of the State Council of the People's Republic of China, http://www.gov.cn/zhengce/content/2020-12/18/content_5570954.htm.