

## JUDIT MERCÉDESZ KÁLMÁN

### **WATCH HOW YOU BEHAVE, OR THEY WILL... WILL THEY? – THE TRUE NATURE OF THE CHINESE SOCIAL CREDIT SYSTEM**

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MEGTESZIK? – A KÍNAI SZOCIÁLIS  
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# KKI POLICY BRIEF

**Abstract** This paper analyses the development of the Chinese social credit system (SCS) to examine some of the misconceptions surrounding it, particularly those that draw a parallel between the powers wielded by an Orwellian Big Brother and the power the Chinese Communist Party is said to be gaining through the use of the social credit system. The paper first explores the beginnings of the social credit system through a critical analysis of the existing literature on this project, paying special attention to pilot programmes. Then it examines how the emergency situation caused by the Covid-19 pandemic has changed the way the social credit system is used and what role it plays. The hypothesis the paper investigates is that on the one hand, the pandemic has contributed to the prolonged lack of nationwide application of the social credit system by becoming a much more urgent issue to be dealt with. On the other hand, it is assumed that the pandemic has assigned the existing system a greater role in public health protection and economic recovery through rapid retooling, ultimately and indirectly leading to its expansion and development, but not eliminating the challenges of its application at the national level. The findings show that the pandemic situation has marked a new era in the development of the social credit system, but Covid-19 has also delayed the emergence of a comprehensive scheme that could be applied nation-wide. Therefore, the main obstacles precluding the evolution of the SCS, including issues of interoperability, privacy, transparency, persist. This paper is by no means a complete evaluation of the social credit system, also meaning that it is not exhaustive in terms of the specific role assigned to the SCS in the broader context of digital invasive governance.

**Keywords:** China, social credit, social management, digital governance, Covid-19, pandemic

**Összefoglalás:** Az elemzés célja, hogy felderítse a kínai társadalmi kreditrendszer körül kialakult tévhitek – amelyek párhuzamot vonnak az orwelli Nagy Testvér ereje és azon hatalom között, amelyet a Kínai Kommunista Párt a rendszer használatával magáénak tudhat – mögött rejlő igazságot azáltal, hogy nyomon követi annak tényleges fejlődését. A releváns szakirodalom kritikus vizsgálatával bemutatásra kerülnek a rendszer kezdetei, amelyben kiemelt figyelmet kapnak a kísérleti programok. Ezt követően fény derül arra, hogyan változtatta meg a Covid-19 által előidézett vészhelyzet a társadalmi kreditrendszer funkcióját és szerepét. A kezdeti hipotéziseket alátámasztva kifejtésre kerül a pandémia hatása, amely hozzájárult az országos szinten alkalmazható rendszer hiányának meghosszabbításához azáltal, hogy egy sürgősebb ügyet jelentett; ugyanakkor a már létező rendszer egy gyors áthangolásnak köszönhetően nagyobb szerepet kapott a közegészségügy védelmében és a gazdasági helyreállításban – amely indirekt módon a projekt további terjedéséhez és fejlesztéséhez vezetett, azonban nem törölte el azokat az akadályokat, amelyek gátolják nemzeti szintű alkalmazását. A pandémia tehát egy új korszakot jelöl a rendszer



*evolúciójában, ugyanakkor a Covid-19 késleltette az átfogó, országszerte alkalmazható változat megszületését, amelynek fejlődésével szemben továbbra is fennállnak többek között az átjárhatóság, az adatvédelem, és az átláthatóság problémái. Az elemzés nem kíván teljeskörű értékelést nyújtani a társadalmi kreditrendszerről, így arról a kérdésről sem, hogy az milyen szerepet ölthet magára a digitális invazív kormányzás szélesebb kontextusában.*

**Kulcsszavak:** Kína, társadalmi kreditrendszer, társadalmi igazgatás, digitális kormányzás, Covid-19, pandémia

## Introduction

The discourse on China's social credit system (SCS) is filled with heated academic discussion, as well as numerous misconceptions. While a range of substantial pilot programmes are in place, the system is still far from fully integrated, and there is no [assigned social credit score at the national level](#). The most important document regarding the development of this social management project, the Planning Outline for the Construction of a Social Credit System, identified an ideal scenario of progress between 2014 and 2020. The year 2020, however, saw the outbreak of the Covid-19 pandemic, which has brought about many changes around the globe, including altering the scope, use, and future prospects of the SCS. Moreover, the virus-induced lockdowns hampered the opportunities to collect information on this instrument, making it even more difficult to assess the current state and future consequences of deploying this data-driven mechanism of [digital authoritarianism](#). The following sections review the development of the SCS concept and the emergence of pilot programmes, tracking their usage in China's pandemic response, and drawing conclusions regarding its current stage of development and its future role in Chinese governance.

## Tracing the origins of social credit

The concept of 'credit' is used in a broad sense in this paper, meaning that it does not only refer to the financial aspects of the system. From a historical perspective, credit has been a core concept of Chinese governance, although opinions differ regarding its origins. Some experts believe that they are to be found in [legalism](#), an ancient philosophical school of the Warring States period. In their endeavour to establish peace and stability, legalists advocated for near-totalitarian social control. Their three main principles – law (*fa*), management (*shu*), and power (*shi*) – together represented one pillar of their ideal order, while the other pillar was embodied by a system of extensive mutual surveillance among subjects. As further evidence regarding the similarity of the legalist ideal and the mechanisms linked to social credit, both schemes prefer to use a system of rewards and punishments in order to enforce universal (although arbitrary) rules on acceptable behaviour. In contrast, other scholars argue for a different philosophical background for social credit and highlight its similarities to the doctrines of [Confucianism](#), emphasizing the strong correlation between this concept and the Confucian notions of sincerity, ethics, and morality. This stance is also backed



up by the fact that Xi Jinping himself often evokes Confucian teachings, which have thus been reintroduced and [revitalised](#) under his rule, allowing them to serve as the basis for making progress on any project of the Chinese Communist Party (CCP).

Either way, these philosophical roots could only be cultivated because certain persistent problems provided them with fertile ground. The most important among the factors that represented the demand side was the desire to increase the level of trust among the different actors of society. This demand was largely evoked by a perceived [proliferation](#) of untrustworthy (*shixin*) conduct in the market economy. Because decision-makers knew that Chinese economic prosperity would remain limited as long as corruption scandals were commonplace, it seemed logical to turn to social ranking and rating, since mechanisms such as keeping [recordings](#) (*dang'an*) on individuals are centuries-old phenomena in China. However, difficulties did not only arise in the economic sector: ineffective implementation in legal and regulatory matters, as well as inadequate practices of law enforcement and compliance also represented long-standing [governance challenges](#), which consequently created the need for the SCS.

Taking a look at the supply side, it is also important to examine why the idea of a social credit system could take root in China. Other countries have also developed their own techniques for credit rating, in fact, part of the SCS is based on financial credit mechanisms [imported](#) from the United States, and China has been inspired by many existing schemes abroad. The PRC is also not the only country experimenting with ways to utilize big data or extensive surveillance systems, although its specific project remains unparalleled. On the other hand, no other country seems to collect data on such a scale, nor do they envision such a scope for their use. The case of China is also [special](#) because there is no comprehensive legal system that would protect personal data, even though there have been fragmented attempts at extending civil law protection to consumer data, for example. Given these legally ambiguous circumstances, China is the [ideal](#) laboratory for data experimentation, data intelligence, and mass surveillance, making it the perfect place for a system of social credit rating.

## Early developments: formulating the elements of a disjointed system

Having recognised the above-mentioned challenges, Chinese citizens saw the emergence of [efforts](#) aimed at developing personal banking and financial credit rating systems in the 1990s. It was also under the leadership of Jiang Zemin that the [idea](#) of the SCS was proposed by the sociologist Liu Junyue in order to incentivise trustworthy (*chengxin*) behaviour in society, which would lead to increased trust between different actors. The first blueprints, published in 2007, reflected this initial financial focus. By 2011, however, there had been a noticeable [shift](#) towards making SCS more like a “socio-political panacea” in the hope that it would alleviate the trust issues of Chinese society. The project is now also embedded in some of Xi Jinping’s top political priorities, namely in the realisation of comprehensive [law-based](#) governance and the [informatisation](#) of related procedures.



As many provinces seem eager to become pioneers in the grand project of the CCP, dozens of pilot projects have been formulated at the local level, most famously in [model cities](#) like Rongcheng or Wenzhou. The most important SCS-related document was issued by the State Council in 2014. The [Planning Outline for the Construction of a Social Credit System \(2014-2020\)](#) envisioned a nation-wide application by 2020. Since then, 43 pilot cities have [launched](#) their own SCS projects. Importantly, these pilot projects rank not only citizens but also numerous companies and party organs. Although they have been tailored to local priorities and practices, thereby contributing to the lack of a comprehensive national scheme and the highly fragmented nature of the existing system, these pilots share some common attributes. Their major [components](#) include government-held databases, a reward/punishment system that incorporates either binary blacklists, redlists, or complex scoring indices, and numerous public interfaces that provide ordinary citizens access to credit records, although only in a [limited](#) manner. Their shared [aim](#) is to serve as a general tool for social governance, but their functioning is hampered by [challenges](#) related to fragmentation and difficulties of interoperability between relevant agencies. Privacy concerns have also been frequently [voiced](#) in connection with the SCS. Not only is the legal framework insufficient for protecting subjects from being “robbed” of their sensitive data, which is also the case with many other surveillance devices of the CCP, but the exact mechanisms for collecting, aggregating, and evaluating data are also nowhere near transparency. However, there are certain [target fields](#) for SCS that these localized pilots also aim to prioritize, as they are believed to lead to further economic growth, thus they are closely related to state security and the enhanced legitimacy narrative of the party. There are four such fields: judicial credibility, commercial credibility, social sincerity, and sincerity in government affairs.

Importantly, pilots have not only been run under the leadership of local governments. In 2015, eight private tech giants were provided with [licenses](#) to conduct experiments with social credit mechanisms. The most well-known example, [Sesame Credit](#), can be linked to Ant Financial, a subsidiary company of Alibaba. They developed an application and assigned a score to each user, which was determined by a number of factors, for example, their credit history or their social network, their consumer behaviour, and overall preferences. However, participation in such company-led schemes has been optional, and they function more like [customer loyalty programs](#). In the end, the licenses of these private tech companies were not renewed, so their application was not expanded, and the private sector has been excluded from the formulation of the official SCS since then. Government-led measures, however, do not give a choice for opting in or out, and subjects do not even necessarily know that their behaviour is being tracked and monitored. Throughout the years, certain procedures have even been [realized nation-wide](#): some government agencies are running (national) blacklists and redlists on almost all legal and natural persons, functioning on the basis of [rules](#) set in different Memoranda of Understanding. Provinces are [entrusted](#) with implementing the blacklists and redlists, although of course, this does not *per se* assume that there is a centrally assigned score.

While these pilot projects have received considerable international [criticism](#) and met with nearly global resistance, Chinese people seem to approve of this project of the CCP. According to a [study](#) from 2019, it is especially older citizens and those with a higher social standing that think that its returns (generating benefits and



incentivising honesty in social and economic dealings) far outweigh the concerns related to privacy violation. It can also come as a surprise that those groups that are usually more inclined to have liberal beliefs, including the highly educated and the wealthier, are those among whom approval rates seem to be the [highest](#). Their opinion, of course, depends on a careful cost-benefit analysis in which the perceived (dis) advantages play a considerable role. What this finding further highlights is that non-Western viewpoints and narratives of the SCS should also be taken into consideration because they yield different interpretations and opinions.

However, because local pilots also received considerable [internal criticism](#), by 2019 central authorities also admitted that they were not happy with the trajectory the development of the SCS had taken. According to [formal clarifications](#), scores alone cannot be used to impose penalties on subjects, as these should always be formulated on the basis of official documents. This [step](#) not only prevents (or reverses) an unfair imbalance between punishments and rewards, it also provides the necessary legal background for penalizing someone legitimately. Therefore, many plans never even took shape, while others were curbed substantially. This change in the limits and regulations of the system was not the only thing that altered the development of the SCS: in 2020, an unprecedented crisis started to emerge as a consequence of the Covid-19 pandemic.

## The use of social credit during the pandemic and in the future

The next era in the development of the SCS is hallmarked by the Covid-19 virus and its consequences for everyday life. Xi Jinping's government decided early on to [incorporate](#) existing schemes in their fight against the pandemic, or as they call it, the "people's war" (*renmin zhangzheng*), which was largely an excuse for expanding these schemes. The [diversity and flexibility](#) of the system allowed for the quick formulation of the relevant norms and regulations, which were then added to the blacklists and redlists. Regulating social behaviour, of course, was aimed at both companies and natural persons. Violating quarantine regulations or falsely advertising products as having preventive health benefits could easily get one on the blacklists, while being a devoted professional or making donations counted as applaudable conduct and made one eligible for rewards.

Undeniably, the deployment of the SCS in China's pandemic response was not limited to the realm of public health, and it has shed light on just how efficient of a tool it can become for social management in times of need. Social credit was put in the service of both containing the virus and influencing society through its [broad application](#) in an economic, legal, and behavioural sense. First, some system checks were [relaxed](#) in order to bring about economic relief. For instance, they granted temporary grace for companies struggling financially, and others in trouble also did not have to fear any adverse effects on their business credit ratings. Second, the legal use of the social credit mechanisms largely meant that as new regulations came into force, the existing pilots were rapidly [adapted](#), functioning as a mechanism of enforcement when it came to acceptable behaviour. Lastly, the behavioural application of the SCS has highlighted the [propaganda role](#) of the SCS. Through



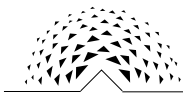
rewarding constructive behaviour in the fight against the pandemic, authorities hoped to successfully steer the moral attitude of the citizenry and incentivise obedience. Although the exact nature and execution of policies [varied](#) substantially in different provinces, local schemes were all repurposed and reconfigured in some way and to some extent.

The fragmented nature of the system, as well as its flexibility, has proved to be beneficial, as it has made rapid retooling possible, although it also constitutes its weakness. Because there was an urgent need to share medical data, some of the previous barriers were broken down by Covid-19, which in turn [accelerated](#) the process of the large-scale, trans-regional integration of the SCS, thereby contributing to its expansion. On the other hand, even though the most vital mechanisms and the general framework had been [established](#) by 2020, the emergency situation evoked by the virus also made it clear just how poorly digitalized the system is (even though this is embedded in the broader goal of the informatisation of governance). Moreover, the pandemic-related dangers and challenges proved to be so urgent that they indirectly [delayed](#) the nation-wide, full implementation of a proper and official SCS, hence it remains a “[system of systems](#)”.

As of December 2022, the days of Covid-19 are still far from over for Chinese citizens. In a sharp turn, the government has recently [eased up](#) some of its restrictions, partially abandoning their zero-Covid policy, but the pandemic is still very much a significant determinant of the limits of everyday economic and social actions in China – the people’s war is still not over. Nevertheless, scholars are already engaged in a lively academic discussion about the legacy of China’s pandemic response in relation to the use of social credit. Undoubtedly, the continued reform of the SCS has gained [new impetus](#), having entered a new phase in its development, in which big data might play a prominent role in the future also when it comes to the prevention and mitigation or control of viruses. In order to perform such tasks adequately, however, there is still a need to align standards, working out details and enacting them into law. This aspect is especially important, since it can be [linked](#) to one of Xi Jinping’s top political goals, which is establishing a Chinese version of the rule of law (which is not to be confused with the Western interpretation of the rule of law). Although the details are [included](#) in a five-year plan, in the long term, Xi envisions such a rule-of-law-based order to “basically take shape” only by 2035. Advanced technology will be given a prominent role in this system. In order to effectively (and less dubiously) exploit the assistance of information technology in governing over 1.4 billion people, more related pieces of legislation still need to be created. While the SCS has been repeatedly portrayed as a possible tool of [digital authoritarianism](#), with far-reaching consequences for everyday life and invasive governance in China, it should be noted that it is still only one element of the complex Chinese system of surveillance and monitoring, and that some other capabilities, mainly driven by references to public security, e.g. the millions of CCTV cameras installed nation-wide, might carry just as grave or even [broader implications](#) with regard to citizens’ privacy and rights.

The question of a further expansion of the SCS remains contested. As it has already been mentioned, its original designers have also expressed their dissatisfaction. Importantly, restrictions were [issued](#) in December 2021 regarding what type of behaviour can be included and thereby judged in the system. Other than mitigating some of the obvious concerns about an all-encompassing monitoring system, rolling out such clarifications also resolves some of the [tension](#) between a SCS stuck in a





regulatory jungle and parallelly aiming for increasingly law-based governance in the framework of a coherent legal system. For those who worry about the extent of digital invasive governance under Xi Jinping's rule and compare it to an Orwellian nightmare, it also came as a surprise when China backed up a United Nations initiative regarding restrictions on the use of artificial intelligence (AI) in mass surveillance, including a ban on the adoption of AI practices in systems designed for social scoring.

## Conclusion

In conclusion, the emergency situation triggered by the pandemic has been a major stress test for the SCS, during which it was rapidly retooled and assigned a greater role in public health protection and economic recovery. However, the virus has made existing schemes no less susceptible to the problems of interoperability or the risks of enforcing arbitrary rules in the absence of centralized standards. However, such dangers should not be overestimated precisely because the system remains fragmented and is primarily focused on the economic activities of the subjects it monitors. The pandemic has had a two-fold effect on the development of the SCS: it marks a new era in its evolution, as it has altered its use and scope regarding public health protection, but Covid-19 has also precluded the comprehensive nation-wide application of social credit rating schemes, and it has not resolved the main obstacles it is facing, either.

Drawing on the examined literature, the SCS is best explained as an “evolving series of localized trials”. As an area of policy experimentation, it is still under development, and it is wise to keep a close eye on how it evolves in the future, but we should also pay attention to other initiatives, as the consequences of these initiatives might be closer and more serious than we might think. While it is easy to fall into the pitfalls of myopia and prejudice, and there could arguably be some truth to the predictions of a dystopian perspective, we should not confuse myth and reality: the powers wielded by Big Brother and the power granted to the central government through the SCS are, as of today, not the same.

Due to its length, this paper is by no means a complete evaluation, and as such it leaves many interesting questions unanswered, including whether a national-level SCS will ever emerge in the future, what it would be used for, how the associated concerns of morality and privacy could be resolved, what position social credit will take in the establishment of a Chinese rule of law, and how big of a risk it would pose in terms of automated social management in comparison to the other monitoring and tracking capabilities of the state.





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