

“Social Responsibility” and “Social Credit” – Reflections on Chinese Companies and their Role in the Governance of China

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Abstract

The concepts of “social responsibility” (社会责任) and “social credit” (社会信用) stand exemplarily for two different modes of societal governance and participation by Chinese companies vis-à-vis the State. While the former’s nature is bottom-up and suggests that companies have an autonomous role in shaping civil society, social credit stands for China’s new system of centrally monitoring companies’ financial, ethical, legal and political credibility using an integrated digital rating system. The “social credit system” (社会信用体系), which has been set up in pilots since 2014, will be rolled out nation-wide in 2020. The rise of China’s “digital economy” came with a dramatic re-strengthening of the all-guiding role of the Chinese party state and a closer integration of Chinese entrepreneurs into the agenda of the State, with “credit” being given in return for loyalty to China’s political system. This transition dramatically increased the Chinese Communist Party’s (CCP) capacity to control and lead all aspects of State and society, and has a profound impact on the role and agency of Chinese companies. This article will engage in depth with the two concepts of social responsibility and social credit, and delve into the central role of China’s private companies in the rise of China’s digital economy, as well as try to explain their changing position in the governance of China today.

Keywords: Social responsibility, social credit system, China, governance, society, State

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This article is going to critically examine the changing position of Chinese companies in China’s fast-paced socio-economic and political environment, with a focus on developments after China’s most recent leadership change in 2012. Of central importance for this purpose are the following two concepts, “social responsibility” (社会责任) and “social credit” (社会信用), which stand exemplarily for two different ideas about the responsibility and role of companies in the country’s governance. The former is bottom-up and suggests that companies have an active and autonomous role in shaping China’s civil society. Social credit instead stands for a comprehensive vision of using digital technology to monitor and rate Chinese companies in terms of their financial, legal, societal and political trustworthiness. For this purpose, the system depends on the effective integration of large amounts of data collected by both government authorities and private companies.¹

China announced its *Plan for Establishing a Social Credit System* (国务院关于印发社会信用体系建设规划纲要) back in 2014², opening a new chapter in state-society relations. It marks the transition to a new guiding vision about the role of Chinese companies - from “social responsibility”, which encouraged Chinese companies to become responsible stakeholders in society out of their own initiative, to “social credit”, under which societal engagement of non-state actors is more narrowly confined into the domains set by the State. The social credit system is being rolled out in 2020 on a nation-wide basis and assigns credit scores according to an array of separate indicators to all Chinese companies and individuals, rewarding desirable and sanctioning unsocial behavior.

The time after 2012 marks an important turning point, in which the digital economy came together with a dramatic re-strengthening of the all-guiding role of the Chinese party state. However, contrary to comments about a diminishing role of private companies under the “New Normal” (新常态³, China needs their skills and innovative capacity more than ever. The transformation into a digital society and the State’s focus on “indigenous innovation”⁴(自主创新) and technological self-reliance requires entrepreneurs with the organizational and technical knowledge to put these ideas into action. However, the strengthening of the Party’s ideological work across all sectors of Chinese society went along with a narrowing of autonomous operating space that Chinese companies enjoyed. This led to a process of cooptation among entrepreneurs by the State, with “political credit” being exchanged for loyalty to China’s political system. This sort of political responsibility has become more important for Chinese companies under President Xi Jinping.

¹ For a definition of China’s “Corporate Social Credit System” see European Union Chamber of Commerce in China and Sinolytics, *The Digital Hand: How China’s Corporate Social Credit System Conditions Market Actors*, (Beijing: European Union Chamber of Commerce in China, 2019), 6. Available at: https://www.europeanchamber.com.cn/en/publications-archive/709/The_Digital_Hand_How_China_s_Corporate_Social_Credit_System_Conditions_Market_Actors (accessed at 20/01/2020).

² “Guowuyuan guanyu yinfa shehuixinyongtixi jianshe guihua gangyao de tongzhi” (国务院关于印发社会信用体系建设规划纲要的通知) [Plan for Establishing a Social Credit System (2014–2020)], State Council of the People’s Republic of China, June 27, 2014. Available at: http://www.gov.cn/zhengce/content/2014-06/27/content_8913.htm (accessed at 20/01/2020).

³ The New Normal refers in China to the era after the global financial meltdown and its aftermath (2008-2012), which reduced China’s economic growth from double-digit rates to around 7 % after 2012. In 2014, China’s President Xi Jinping announced that China was entering the “New Normal” with lower but more sustainable economic growth.

⁴ Boosting indigenous innovation was mentioned in China’s 13th Five-Year Plan (2016-2020) as one the key objectives. The term stands for strengthening China’s domestic capacity for innovation and the innovative capacity of Chinese companies.

China's 'Corporate social responsibility' (CSR) discourse and the cooptation of business by the State

CSR – or Corporate Social Responsibility (企业社会责任) first became a topic of public interest in China in the early 2000s when the social and environmental costs associated with rapid economic growth became visible throughout the country. The Chinese government for the first time officially mentioned CSR in the country's new *Company Law* (公司法) 2006. Therein, it stated in article 5:

corporations in their business operations must abide by the law(s), regulations, social and business morality and good faith rules, must accept supervision by government and the public, and must undertake *social responsibilities*.⁵

Also China's 11th Five Year Plan (2006-2011) with its focus on building a "harmonious society" (和谐社会) paved the way for a stronger prioritization of social equality and common prosperity, instead of growth at all costs. But where did China's CSR discourse originate, and how did it impact on the role of Chinese companies and entrepreneurs vis-à-vis society and the State?

Back in 2001, China just joined the WTO and enjoyed an era of double-digit economic growth. At the same time, however, it saw itself confronted with an array of problems that surpassed the Chinese State's resources and capacity. China's fast integration into the world market led to excessive environmental pollution, insufficient safety standards, rising inequality and uprooted rural communities. Also commercial fraud and corruption were on the rise as some Chinese had to "get rich first", to quote former leader Deng Xiaoping - the father of China's "Economic Reform and Opening" (改革开放)⁶, with business groups and government officials forming alliances to serve their personal interests.

The economic freedom that people enjoyed could do little to stop the concomitant erosion of social trust (社会信任) that came with China's modernization and the transition to a market economy. Being aware that its own resources were limited, the Chinese government was looking for ways to encourage participatory action from society to help address these issues. Chinese companies were the main target group for this - the idea was to gain their support and have them provide financial and organizational resources directed at education, fighting poverty, disaster relief, healthcare, etc.

It sounds reasonable that business, as a big winner of China's Economic Reform and Opening, have a certain obligation to give back to society. That is particularly true if it is considered that the trust of many Chinese into the social responsibility of their companies has been shaken to the core by a multitude of scandals such as the 2005 Songhua river pollution caused by chemical plant explosions or the 2008 tainted milk scandal. The idea of

⁵ “公司从事经营活动，必须遵守法律、行政法规，遵守社会公德、商业道德，诚实守信，接受政府和社会公众的监督，承担社会责任”，available at “*Zhonghua renmin gongheguo gongsifa*” (中华人民共和国公司法) [Company Law of the People's Republic of China], Ministry of Commerce of the People's Republic of China, January 1, 2006. Available at: <http://tfs.mofcom.gov.cn/article/ba/bl/201101/20110107349089.shtml> (accessed at 20/01/2020).

⁶ Economic Reform and Opening (改革开放) was introduced by China's leader Deng Xiaoping in 1978/1979 after the end of the Cultural Revolution (1966-1976), and marks the beginning of the successive introduction of market-oriented reforms in China and the country's economic integration with the rest of the world.

Corporate Social Responsibility (CSR)⁷ was therefore continually gaining traction as a way to demand responsible behavior from Chinese entrepreneurs. It was clear, however, that it would not be straightforward to galvanize support from Chinese companies without a fitting policy environment to support such action.

Chinese entrepreneurs have themselves had a difficult standing in Chinese history. According to traditional Confucian ethics, the profit motive inherent in business was seen as a form of moral debasement. In ancient China, as was the case in Europe, merchants or peddlers, with the usual exceptions, were held in low regard in the social hierarchy compared to the land-owning gentry, farmers or officialdom.⁸ When Chairman Mao proclaimed the People’s Republic of China on 1 October 1949⁹, things did not change for the better for entrepreneurs. After the Chinese Communist Party (CCP) enforced collectivization of their property, private companies all but ceased to exist. Entrepreneurship had to wait until the late 1970s to start again from scratch after the end of the Cultural Revolution. But not before 2001 did the Chinese Communist Party, then led by President Jiang Zemin, allow private entrepreneurs to join the ranks of the Chinese Communist Party, when the theory of the “Three represents” (三个代表) finally made it possible for business people to apply for membership into the CCP.

In a time when private companies started to account for most of China’s economic growth and new employment, and with the societal influence of entrepreneurs rising, it was certainly smart to allow them join the Party in a move that favored cooptation of the group over alienation. Another step in favor of cooptation was to explicitly highlight the social responsibility that businesses have towards society in China’s *Company Law 2006*. This struck a chord with people who demanded greater responsibility from entrepreneurs other than profit.

In an economically and socially unequal China it might seem easy to lay blame on greedy companies for all sorts of problems from environmental pollution and inequality to the public crisis of health and safety. Generally speaking, however, the image of entrepreneurs and companies has made a positive turn over the last decades. Successful Chinese companies and their entrepreneurs enjoy a high level of respect and recognition among the Chinese people. Entrepreneurs such as e-commerce czar Jack Ma or real estate moghuls Zhang Xin and Pan Shiyi have reached the status of cultural icons and are venerated as symbols of China’s progress and innovation potential, not different from Steve Jobs in the United States.

A real game changer for CSR in China was the experience of the Wenchuan earthquake (汶川地震) in Sichuan province in 2008, which had a strong galvanizing effect on the Chinese public to make donations and give support. Over 50000 people lost their life and more than 5 million houses were destroyed due to the earthquake. Many Chinese companies actively responded and gave donations for the victims in the disaster area. The Wenchuan earthquake helped promote the ideas of Corporate Social Responsibility and charity donations among the general public. In the aftermath of the catastrophe, an increasing number of NGOs¹⁰ and charity foundations (基金会) was setup with the support of Chinese companies, addressing the multitude of China’s societal problems. Examples for such foundations by Chinese entrepreneurs are the Alashan SEE Foundation (阿拉善 SEE

⁷ Corporate Social Responsibility (CSR) stands for the idea that companies have certain obligations to society other than generating profit or paying taxes. It can refer to employee welfare, charity donations, reducing the ecological footprint in production, etc.

⁸ Lixing Tang, *Merchants and Society in Modern China: Rise of Merchant Groups* (London: Routledge, 2016), vii, 31, 61.

⁹ Mao Zedong or Chairman Mao is the founding father of the People’s Republic of China (PRC), which was proclaimed by him after victory in the Chinese Civil War in 1949.

¹⁰ The Chinese government prefers to use the name social organizations (社会组织).

基金会), the Mengniu Foundation (老牛基金会) or the Alibaba Foundation (阿里巴巴公益基金会). An important source of inspiration for many Chinese entrepreneurs has been the social engagement of Western entrepreneurs such as Bill Gates and Warren Buffett over the Bill & Melinda Gates Foundation. Entrepreneurs came to realize that the CSR discourse presents an opportunity for them that can help them gain public recognition and present themselves as responsible and active citizens.

This was also of political importance. In the first decade of the 2000s, while the Chinese State successfully co-opted Chinese companies to have a part in China's governance, it also strengthened China's civil society as an autonomous space as partnerships between companies and social organizations were becoming more common. Chinese entrepreneurs, inspired by role models at home and abroad, developed a sense of shared identity and in some instances also political agency. Many became known as public intellectuals with millions of social media followers on Sina Weibo or Wechat and commented on events in China and abroad. Before 2013, the State did neither have the capabilities nor the will to exert more stringent control and encouraged a certain degree of pluralism.

A different kind of Corporate Social Responsibility – Sinifying Carroll's pyramid

Upon examining what is understood by CSR in the Chinese context, it has to be admitted that social responsibility, as with many other things in China, comes along “with Chinese characteristics”¹¹. These characteristics become clear if we look at the most important theoretical model on CSR – Archie Carroll's CSR pyramid (see graph 1). According to Carroll's pyramid the different social responsibilities of a company can be split into economic, legal, ethical and philanthropic responsibilities. Out of these, economic responsibilities are seen as the most fundamental ones, as neglecting them means a company would sooner or later face bankruptcy.

Archie Carroll's model is a great theoretical starting point, but how useful is it in explaining the situation in China? Many of the problems related to low CSR in China such as low-quality building materials for housing, poor food safety or excessive environmental pollution can be attributed a mixture of competitive pressure and lax regulation by the authorities. This would only change after 2013 when the Chinese State, at least in theory, successively built up the capacity to use big data-assisted monitoring and started to enforce industry standards more vigorously. But the really interesting thing about CSR with Chinese characteristics is the existence of an additional level, which is not part of Archie Carroll's original pyramid – that is “political responsibility”.¹²

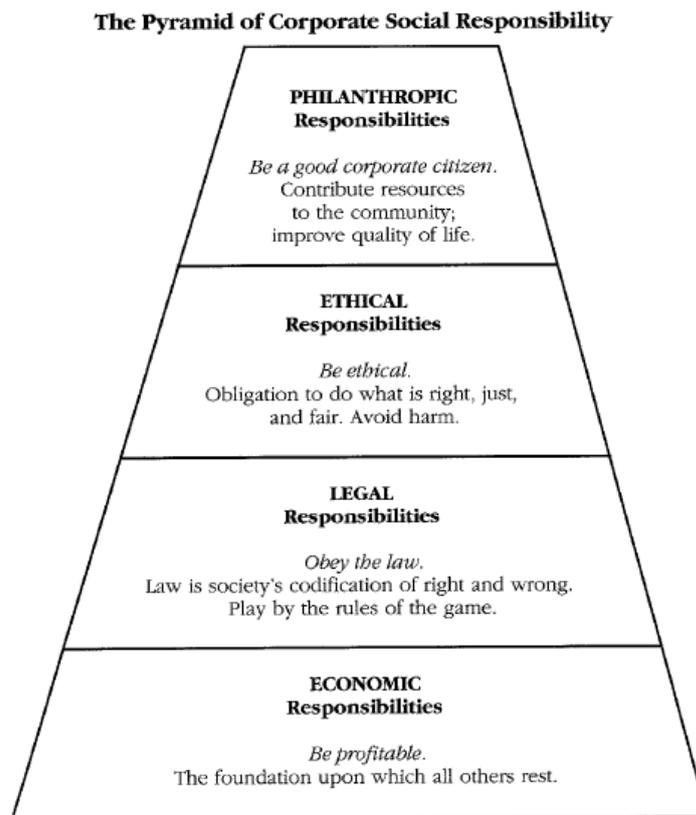
Several Chinese scholars claim that in China there is also political responsibility for Chinese companies. More explicitly this can refer to participating in a government-led environmental protection campaign, establish a party-cell (党支部) in the company or help

¹¹ A reference to the official name of China's political model “Socialism with Chinese characteristics”.

¹² Political responsibility can be understood as an intricate part in Leninist States as it conforms to the principle of “democratic centralism”, which does not allow for autonomous spaces in civil society apart from that created by the party state itself. For a note on political responsibility by the party leadership see Ye Qing, “Xin shidai, zhongguo qiyejia yao kangqi ‘wu ge zeren’” (中国企业家要扛起‘五个责任’) [In the new era, Chinese companies have to bear 5 kinds of responsibilities], *Zhengxie Shibao*, January 8, 2019. Available at: http://cppcc.china.com.cn/2019-01/08/content_74351315.htm (accessed at 20/01/2020); Xi Jinping, “Xi Jinping: Haobu dongyao jianchi woguo jiben jingji zhidu tuidong gezhong suoyou zhi jingji jiankang fazhan” (习近平: 毫不动摇坚持我国基本经济制度推动各种所有制经济健康发展) [Unwavering support for the foundations our country's economic system – promoting the healthy development of all kinds of ownership], *Xinhua News Agency*, March 4, 2016. Available at: http://www.xinhuanet.com/politics/2016lh/2016-03/09/c_1118271629.htm (accessed at 20/01/2020).

the State to “maintain stability” (维稳)¹³. Under the presidency of Hu Jintao, the State’s capacity to enforce political responsibility was limited by a lack of bureaucratic integration. It is only under president Xi Jinping after 2012, through the close cooperation with Chinese tech companies in the area of digitalization and the strengthening of ideological work that the government developed both the technological capabilities and the political resolve to enforce this agenda. Since the Chinese government promoted the further integration of China’s digital economy after 2014, social credit has become the way forward to promote the comprehensive monitoring of corporate social responsibility – including political.

Graph 1: Archie Carroll’s (1991) Pyramid of Corporate Social Responsibility¹⁴



From social responsibility to social credit – the liaison of Chinese tech and the State

China’s last decade has been marked by the strengthening of a newfound strategic alliance between Chinese tech companies and the Chinese State in the area of digitalization. The most notorious and ambitious undertaking in this field is the construction of the nation-wide social credit system that is going to cover all of China’s citizens and companies by 2020. Work on the social credit system has been under way since 2015 in several national and provincial pilot areas.¹⁵ The aim of the system is to collect and integrate data in order to monitor, reward

¹³ A euphemism for helping secure China’s political system under the stable leadership of the Chinese Communist Party as a guarantor of economic growth and prosperity.

¹⁴ Archie B. Carroll, “The pyramid of corporate social responsibility: Toward the moral management of organizational stakeholders”, *Business horizons* 34.4 (1991): 42.

¹⁵ Mareike Ohlberg, Ahmed Shazeda, and Bertram Lang, “Central Planning, Local Experiments: The Complex Implementation of China’s Social Credit System”, *Merics China Monitor* 43 (2017): 3. Available at: https://www.merics.org/sites/default/files/2017-12/171212_China_Monitor_43_Social_Credit_System_Implementation.pdf (accessed at 20/01/2020).

and punish companies' and individuals' behavior with a carrot and stick approach. The initial intention behind social credit, same as with social responsibility explained before, is to address China's crisis of social trust and the numerous social and environmental problems that came as a companion of economic reform. Where the social credit system differs from social responsibility is in its ability to enforce financial, regulatory but also political compliance. The social credit system therefore supports the Chinese State's capacity to control, rate and mobilise the general public as well as the entirety of China's economic and social resources in the name of national interest.

The transition from social responsibility to social credit does not mean that civil society does no longer have any kind of agency. An impressive example of how also the larger public can participate in credit ratings is China's Beijing-based Institute of Public and Environmental Affairs (IPE – 公众环境研究中心), which together with the Alibaba Foundation and the Alashan SEE Foundation developed China's "Blue App" (蔚蓝地图) in 2013, allowing the general public to monitor in real time the polluting behavior of registered companies.¹⁶¹⁷ What has been changing under social credit is the combination of a strengthening of ideological grassroot party-work together with digitalization of society, helping secure the unchallenged dominance of the Party under President Xi Jinping. Communist party cells were revived in companies and civil society organizations¹⁸, and campaigns to strengthen ideology have been launched across all parts of Chinese society, including among CCP cadres, universities and the education sector, the military, business and social work. The app "Learn from Xi and Strengthen the Nation" (学习强国), developed by the Alibaba Group became a main tool for supervising the ideological progress of mainly party members. In Hangzhou, the centre of digital China, the Party has posted party secretaries to more than 100 companies. Their task is to act as counsellors in political questions and link to the state bureaucracy. Companies such as Bytedance, parent company of TikTok and Douyin (抖音), have to allocate a substantial part of their financial and other resources to the "content harmonization"¹⁹²⁰.

Along with the successive introduction of relevant laws and regulations during the 13th Five-year plan (2016-2020), the Chinese government successfully created the legal operating space needed to secure its monopoly on the data of Chinese companies and citizens. Over the last 10 years, Chinese tech companies have superseded real estate and traditional SOEs²¹ in traditional industries such as mining, energy, steel, etc. as the most profitable and significant business entities for the nation's growth and development. This dovetails with the reality of lower growth under the 13th Five-Year plan and the New Normal, which identified technological innovation as the key aspect to secure China's growth and uphold the Party's legitimacy into the future. For this reason, Chinese tech companies became one of the country's most precious resources in the strive towards technological leadership. At China's

¹⁶ Institute of Public and Environmental Affairs (IPE). Available at: <http://wwwen.ipe.org.cn/> (accessed at 20/01/2020).

¹⁷ Their other flagship project is on supply chain monitoring, where companies are rated according to IPE's own indicator system – the Corporate Information Transparency Index (CITI).

¹⁸ Zhang Lin, "Chinese Communist Party needs to curtail its presence in private businesses", *South China Morning Post*, November 25, 2018. Available at: <https://www.scmp.com/economy/china-economy/article/2174811/chinese-communist-party-needs-curtail-its-presence-private> (accessed at 20/01/2020).

¹⁹ Harmonisation is used in China's political jargon as a euphemism for censorship. It is a reference to former President Hu Jintao's catchphrase "building of a harmonious society" (构建和谐社会).

²⁰ Nis Grünberg, "Die Ideologen sind zurück (The ideologues have returned)", *Die Zeit*, December 14, 2019. Available at: <https://www.zeit.de/politik/ausland/2019-12/china-kommunistische-partei-kp-xi-jinping/seite-2> (accessed at 20/01/2020).

²¹ State-Owned Enterprises.

latest “Two Sessions” of the National People’s Congress (人民代表大会) and the People’s Political Consultative Conference (政协) to be held every March in Beijing, there were for the first time more delegates from Chinese tech companies than from real estate groups, marking a decisive change in representation at China’s legislative assembly and main supervisory body.²² The vanguard of China’s tech companies such as Alibaba, Tencent, Huawei or Xiaomi became the centre of attention of the Party and the country, superseding a previous generation of entrepreneurs that made their riches in real estate and the construction industry.²³

Under President Xi Jinping, China’s path towards “national rejuvenation” is nothing the individual or company can opt out of at will. The Party’s understanding is that being part of the Chinese nation, every entity or individual is a resource that the State has a right to draw on in order to fulfill the national interest of becoming a prosperous and strong nation (富强). The liaison of ideology and big tech has also allowed China’s Communist Party to neutralize the threat of uncertainty brought about by the uncontrolled spread of information via the internet more than a decade earlier, and helped it regain control over all aspects of Chinese society. In government, the Party has been eating away the State, media and art must obey the party line and Chinese companies are expected to show patriotism and political awareness.

Ironically, China’s national tech champions that were instrumental in setting up the social credit system, despite close ties to the government, are still private companies and not SOEs. A stronger alliance between the Chinese tech companies and the Chinese State became foreseeable due to the strategic importance of technological innovation and data for maintaining both economic growth and national security. Being at the forefront of collecting and evaluating data of hundreds of million of Chinese consumers - a resource too precious to be left untapped and too dangerous not to regulate - the new level of cooptation of tech companies by the Party seems natural and almost unavoidable.

On the ground, a unique party-state-private nexus in the ICT sector underpins China’s digital policies. The CCP has nurtured the home-grown IT champions Baidu, Alibaba and Tencent (known as “BAT”) by blocking foreign competitors from the domestic market. The party state also allowed BAT to expand internationally and to access foreign capital with listings on overseas stock markets. In the case of ZTE and Huawei, the two major Chinese telecommunication equipment manufacturing companies, party-state cooptation in the form of government funding and preferential procurement has been particularly evident.²⁴

From the very beginning, the nurturing of China’s tech-champions betrayed a strategic alliance between government and business in the name of “infant industry” protection to increase national competitiveness. Already since the early 2000s, the Chinese government strategically shielded their homegrown tech companies from foreign

²² Chen Qingqing, “Rising tech entrepreneurs at two sessions”, *The Global Times*, March 10, 2018. Available at: <http://www.globaltimes.cn/content/1092432.shtml> (accessed at 20/01/2020).

²³ This was also intended to send a message to the Chinese people that technological innovation is from now on regarded as China’s biggest capital, and that the purpose of housing should be for living and not for financial speculation.

²⁴ Kristin Shi-Kupfer, and Mareike Ohlberg, “China’s Digital Rise. Challenges for Europe”, *MERICs Papers on China*, no. 7 (2019): 9. Available at: https://www.merics.org/sites/default/files/2019-04/MPOC_No.7_ChinasDigitalRise_web_4.pdf (accessed at 20/01/2020).

competition in the Chinese market to nurture their own innovative capacities. Behind China's "great digital firewall" giving their own industry time to grow did work and by 2012, China had created its own digital ecosystem and apps, and advanced to become the world's leader in e-commerce and online payment. While still being dependent on foreign technology in certain aspects of key components like chip technology, China became one of the only countries to be independent from the Silicon valley tech giants Alphabet and Facebook.

With the help of its private tech champions, China is also working hard to remove one of the biggest obstacles for the functioning of its social credit system – a lack of data integration.

... a consortium led by Taiji Computer Corporation in cooperation with Huawei, Alibaba, Tencent and video surveillance provider Vision Vera is setting up a new meta-database. The so-called National 'Internet+ Monitoring' System (国家“互联网+监管”系统) aims to fully integrate the complete set of monitoring and credit information data on companies. This includes all government-monitored data and rating results, data from selected commercial rating agencies and e-commerce platforms, as well as video surveillance systems. If successfully implemented, this will remove one of the crucial barriers preventing the Corporate Social Credit System from becoming fully operational²⁵

Social credit for conditioning market actors

The European Chamber of Commerce in China (ECCC) noted in its report on China's Corporate Social Credit System:

(by 2020) all companies in China, whether Chinese or foreign, state- or privately-owned, are already being rated under the Corporate Social Credit System, with several having already felt the impact of negative rating results.²⁶

China's unique level of digitalization allows for a level of conditioning of companies and market players in general that greatly exceeds the ambit of corporate social responsibility. CSR was a lot about encouraging companies to monitor themselves in a time when the State lacked comprehensive monitoring and enforcement capabilities. CSR reporting, even though it became more widespread in China after 2006, was on a voluntary basis and has only recently been made mandatory for listed companies. Under China's social credit system instead, every entity is theoretically subject to rating and public scrutiny for their financial, ethical, social or political behavior. Compared with CSR, social credit also distinguishes itself in several key dimensions as can be seen in Table 1.

Table 1: Dimensions and functions of China's social credit system

²⁵Ibidem: 5.

²⁶European Union Chamber of Commerce in China, in cooperation with Sinolytics, *The Digital Hand: How China's Corporate Social Credit System Conditions Market Actors*, 7.

| | CSR | Corporate Social Credit |
|-----------------------------|---|--|
| Theoretical | the term originally came to China from abroad and conveys that entrepreneurs have a role of bottom-up agency in society | an approach to sinify Corporate Social Responsibility or create CSR with Chinese Characteristics through mandatory data transfer and ratings. |
| Social and practical | encourages entrepreneurs to voluntarily devote a part of their resources to the greater good | tries to solve China’s crisis of social trust through credit ratings, nudging people into good behavior and sanctioning ‘a social’ behavior. ²⁷ |
| Transparency | self-monitoring, voluntary reporting through annual reports | mandatory monitoring and public scrutiny, creating a rule-based level playing field for business and society |
| Power | sees entrepreneurs as an autonomous group that can advocate its interests vis-à-vis the State. | helps increase oversight and control of the State and CCP over companies and society |

As to the indicators and their weighing, regulatory compliance is seen by experts as the most important element for companies. The Chinese government also works towards greater data integration and immediate publication of data that is fit for publishing and sharing among all relevant entities, including the public. Companies and individuals can be blacklisted and have to deal with sanctions for non-compliance or if their ratings drop under a threshold score. China’s weighing system is likely to come along with Chinese characteristics as well, like points for being a loyal son or daughter, or deductions for spending too much time playing computer games and neglecting one’s parents. Current sanctions put in place under the system can include bans on luxury consumption and mobility, such as the use of public transport, being barred from leaving the country, restricted or no access to financial credit, employment bans for government positions, etc.²⁸

Regulatory tightening under the 13th Five-year plan

Setting up the social credit system would not have been possible without concomitant developments in the political and legal sphere that set in after 2013 and would slowly redefine the roles and responsibilities of companies vis-à-vis the State, as well as limit their autonomous operating space in areas outside of state policy. China’s 13th Five-year plan (2016-2020) with its focus on innovation served as master narrative in that regard. On a nation-wide level there have been over a thousand documents published in relation to the social credit system alone.²⁹ But

²⁷ Some experts have pointed out that social credit, in addition to the functions mentioned above also has a legal dimension. It can be seen as a substitute for an insufficiently functioning Chinese civil court system where it is difficult for plaintiffs to sue for damages. See for example Primavera de Filippi, “The Social Credit System as a new regulatory approach: from code-based to market-based regulation,” *Verfassungsblog (On matters constitutional)*, June 24, 2019. Available at: <https://verfassungsblog.de/the-social-credit-system-as-a-new-regulatory-approach-from-code-based-to-market-based-regulation/> (accessed at 20/01/2020).

²⁸ Mareike Ohlberg, Ahmed Shazeda, and Bertram Lang, “Central Planning, Local Experiments: The Complex Implementation of China’s Social Credit System”, 10, 12.

²⁹ “Since 2013, China’s government authorities have published approximately 350 regulations, laws and policies at the central level and more than 1,000 documents at the local level defining the Corporate SCS (Social

beyond that there were other important regulatory developments that paved the way for China's digitalization, cemented the position of the CPC as the exclusive power base in China, and contributed to a smooth implementation of the social credit system.

For maintaining "political stability" and ensuring government access to the digital economy *China's National Security Law 2015* (国家安全法), the *Anti-terrorism Law 2016* (反恐怖主义法), and the *Cyber security Law 2017* (网络安全法) are of crucial importance. The *Environmental Protection Law 2016* (环境保护法) and the *Food Safety Law 2018* (食品安全法) belong to the most relevant civil, issue-based areas where Chinese companies are having and are continuing to have significant agency. Both areas, pollution control and food safety monitoring will rely massively on big data to assign individual responsibility for production processes. The *Charity Law 2016* (慈善法) is of special importance in relation to corporate social responsibility. It helped streamline charitable activities of companies and make it easier for Chinese foundations to claim tax benefits for donations and raise money. It also defined the operating ambit of Chinese companies, making explicit which areas are encouraged and flagged for charitable engagement, and which are discouraged. Together with the *Foreign NGO Management Law 2016* (境外非政府组织管理法) did it squeeze on the autonomous operating space that companies previously enjoyed and ensured the social domain returns under the strong supervision of the party state.

A real game changer happened in 2017 when the Chinese government introduced "real name identity registration" (实名制) on online social media platforms and for mobile phone and internet usage. This means that every online activity in China's cyberspace can now theoretically be assigned to an individual or entity – a necessary precondition for setting up the social credit system.³⁰ For companies and their legal representatives the Chinese government created already in 2015 the *Unified social credit identifier* (统一社会信用代码), a number which makes it possible to instantly retrieve information on an individual or entity's credibility.³¹

The rise of patriotic entrepreneurs and Chinese companies' position in the governance of China

As we have seen from the above analysis, under President Xi Jinping the Chinese State is again in a position to mobilize and control all aspects of Chinese society in the name of national interest, with a concentration of power unseen since the era of chairman Mao. This form of streamlining of societal groups according to the party line has been possible due to the government's alliance with Chinese tech companies. The social credit system is part and

Credit System)". See European Union Chamber of Commerce in China, in cooperation with Sinolytics, *The Digital Hand: How China's Corporate Social Credit System Conditions Market Actors*, 3.

³⁰ also nation-wide facial recognition scans were rolled out in China since 2017 and have been made mandatory for obtaining new mobile phone sim cards the end of 2019. For more information see Echo Xie, "China launches facial recognition for mobile phone users", *South China Morning Post*, December 1, 2019. Available at: <https://www.scmp.com/news/china/politics/article/3040134/china-launches-facial-recognition-mobile-phone-users> (accessed at 20/01/2020).

³¹ "Guowuyuan guanyu pifa fazhangaigewei deng bumen faren he qita zuzhi tongyi shehuixinyongdaima zhidu jianshe zongti fangan de tongzhi" (国务院关于批转发展改革委等部门法人和其他组织统一社会信用代码制度建设总体方案的通知) [Notice of the State Council on Approving and Forwarding the General Plan of the National Development and Reform Commission and Other Departments on the Development of a Unified Social Credit Code System for Legal Persons and Other Organizations], State Council of the People's Republic of China, June 17, 2015. Available at: http://www.gov.cn/zhengce/content/2015-06/17/content_9858.htm (accessed at 20/01/2020).

parcel of the ultimate fruit of this alliance, a model referred to by Sebastian Heilmann as “digital Leninism”.³²

This observation, however, leaves many questions unanswered: How will scholars interpret the era Xi Jinping? Will it be seen as a significant inflection in China’s development away from market-oriented reform and societal pluralism, or only a bump on the way? Was China’s relative openness in the decades of reform and opening only a brief *conjecture* in the *longue durée* of State-led centralised rule?

One explanation can be found in the theory of *fang* (放) and *shou* (收) cycles, an alternating pattern of reform and retrenchment³³ that came to prominence as a general characterization of China’s reform process under Deng Xiaoping. Could Xi’s policies after 2012 be just a sign of a new perhaps longer but temporary *shou* cycle compounded by internal and external threats, or is it rather a qualitative change in China’s mode of governance? It seems the latter is the case. In the 1980s, the Party had to agree to a compromise with society as condition for the further development of China’s productive forces and in order to achieve modernization. The flow of information and the rise of civil society did chip away at some aspects of governance in which the Party enjoyed a monopoly before that. After 2012 under President Xi Jinping, the State was in a position to turn back the tide with the help of increased digitalization and the monopolization of power by the CCP.

How did this development affect the role of Chinese companies? It has already been commented in Chinese State media that the development of productive forces over private enterprise might be a mere footnote in Chinese history and that its main task has already been fulfilled as the economy became again more State-centered after the economic crisis and the New Normal.³⁴ Could this be China’s own version of the “end of history narrative”³⁵, an end of history with Chinese characteristics? Apart from China’s tech giants, who have monopolized the Chinese market, Chinese private companies have been severely hit by the crisis and have not done well over the past years.³⁶ As Chinese SOEs retook control of the economy (国进民退) and private investments faltered after the financial crisis, will the role of Chinese private companies continuously become smaller? Will autonomous civil society cease to exist? Will the transparency created by the social credit system annihilate the principal-agent dichotomy that existed between business and government and secure total ideological alignment by societal actors like companies?

With China’s transition to a technological superpower, Chinese entrepreneurs changed from a buffer group between State and society that even dared to challenge the Chinese government based on a perceived sense of legitimacy they learned from the role of entrepreneurs in Western democracies, to a group that is closer in line with Chinese politics. The explicit rejection of Western “universality of values” (普世价值) by the Chinese leadership after 2012 makes an open flirtation with democratic pluralism or rights advocacy

³² Sebastian Heilmann, “Leninism upgraded: Xi Jinping’s authoritarian innovations”, *China Economic Quarterly* 20.4 (2016): 17.

³³ Richard Bau, *Burying Mao: Chinese politics in the age of Deng Xiaoping* (Princeton University Press, 1996), 5.

³⁴ Li Yuan, “Private businesses built modern China. Now the government is pushing back”, *The New York Times*, October 3, 2018. Available at: <https://www.nytimes.com/2018/10/03/business/china-economy-private-enterprise.html> (accessed at 20/01/2020).

³⁵ The “end of history” is used here as a metaphor for a historic end point, beyond which no substantial evolution of the political model is going to occur. It is a reference to Francis Fukuyama, *The end of history and the last man* (Simon and Schuster, 2006).

³⁶ Jack Ma confirmed that 2019 was an exceptionally hard year for China’s private sector that left many companies struggling. See Nicole Hao, “Beijing announces new measures as to boost private industry as businesses take hit”, *The Epoch Times*, December 26, 2019. Available at: https://www.theepochtimes.com/beijing-announces-new-measures-to-boost-private-industry-as-businesses-take-hit_3182998.html (accessed at 20/01/2020).

nowadays seem politically disloyal. Therefore, being patriotic became part of the social responsibilities of Chinese companies. The patriotic entrepreneur gives loyalty to the Party in exchange for recognition and represents a new level of successful cooptation of business by the State. The social credit system is one way to monitor and enforce this responsibility.

While cooptation has brought China's successful tech entrepreneurs a certain level of protection from political fiat, the situation is again different for the many smaller Chinese private entrepreneurs facing a difficult business environment and having trouble getting access to loans from Chinese banks. The Chinese government highlighted that the increased transparency created by the social credit system will benefit some private entrepreneurs for whom it was not possible to access loans previously due to the high degree of risk and uncertainty for banks. The data transparency under the social credit system is going to make it possible for them to prove their honorable credit status and get access to bank loans in return.

To sum up, digitalization and big data have massively enhanced the State's capacity to rule and regulate. It took the Party State only a short time to reinvent itself, while many western observers have massively underestimated the adaptive capabilities of the Chinese political system. We can also see that even under tight State control, Chinese companies do have a certain degree of agency, like in the areas of environmental protection, education, etc, as long as they act within the boundaries, and keep their distance from Western-style rights activism and not challenge State power.

Due to the *Charity Law (2016)* and the *Foreign NGO Management Law (2016)*, many Chinese entrepreneurs will find it politically safer and more worthwhile, however, to donate money to State flagship initiatives rather than to grassroots NGOs.

In a more systematic way than in previous decades, both SOEs and private companies are being signed up to provide funding for key projects. The targeted anti-poverty measures are a case in point. With the "Ten thousand companies helping ten thousand villages" project (万企帮万村), coordinated by the All-China Federation of Industry and Commerce, or initiatives by private companies such as Alibaba, large funds are accumulated to support the key CCP initiative of eradicating poverty.³⁷

Notwithstanding, the successful example of the previously mentioned Institute of Public and Environmental Affairs (IPE), China's most prolific environmental NGO, which is funded by companies such as Alibaba and the entrepreneurs of Alashan SEE, shows that civil society actors can still drive forward societal change in areas such as transparency and consumer information, if they are able to build to a *united front* with other social organisations and the government.

Conclusion

China's CSR discourse was introduced in the early 2000s to encourage companies to pursue socially responsible behavior beyond profit. The recent launch of the social credit system is symptomatic of China engaging its full technological and political muscle to transition

³⁷Stepan, Matthias, and Jane Duckett, "Serve the People: Innovation and IT in China's Social Development Agenda", *Merics Papers on China*, no. 6 (October 2018), 15. Available at: https://www.merics.org/sites/default/files/2018-10/MPOC_06_Serve_the_People_0.pdf (accessed at 20/01/2020).

towards a digital society. Socially responsible behavior is no longer only encouraged, but the financial, legal, moral and political credibility of individuals and businesses is guaranteed by constant monitoring and rating, with rewards and punishments as intricate part of the system. All individuals and entities are identifiable and can be rated through the integration of previously disconnected databases, where exceeding pollution limits, a late payment of a business partner, together with donations made to a large-scale government-sponsored poverty alleviation projector promoting Communist party-work at the local level can all have a bearing on the overall credit score. This score will determine access to public tenders, loans, the frequency of government inspections, and much more.

It seems that by 2020, under the leadership of Xi Jinping, the Chinese Communist Party has retaken full control of all aspects of the State, the economy and society, and has successfully replaced the autonomous space of civil society with the Marxist-Leninist concept of the *mass line* (群众路线). President Xi’s call to *not forget the beginnings and think about the mission* (不忘初心, 牢记使命) is a reminder that the Party as a centralist Leninist organisation is not something that is going to change in the near future. Under such as system the role of civil society is to function as a *transmission belt* between the Party and the people, not as an autonomous actor. That is also true for Chinese companies.

China’s strong tradition of centralist leadership and its uneasiness about sharing power can also be understood from the deep-seated distinction between officialdom (官 *guan*), representatives of power, and the ordinary people (民 *min*) in Chinese history. Entrepreneurs and companies, even though coopted by the political establishment and allowed to join the Communist Party after 2002, are not at the centre of power and can not look back on a strong tradition of being part of China’s ruling officialdom.

Wang Zhenyao, Dean of the China Philanthropy Research Institute and a former Ministry of Civil Affairs official, pointed out that increased cooptation by the State would lead to an enlargement of political functions³⁸, and summarized the new role of non-state actors in the country’s governance as follows:

the role of “social organizations lies in building “social governance” and “socialist consultative democracy.” These concepts call for civil society to play a consultative role in strengthening community self-governance and mechanisms for resolving social tensions—with the precondition that this consultation happens under the Party’s leadership.³⁹

A final point of reflection is whether the social credit system might at one point in the future be conducive to more open participation of society in governance. An entry point for this could be a stronger privacy protection for citizens such as is the case with the GDPR⁴⁰ in the European Union. There are signs that the Chinese government could eventually take private data protection more seriously as well. Also, the social credit system does not in itself necessarily have to be an obstacle to political reform in China, if this reform is desired by a large enough coalition within the leadership apparatus. On the contrary, the social credit system’s ability to create a level playing field of transparency among societal actors may

³⁸ “Wang Zhenyao’s analysis of the Congress report”, interview by Xiaoyi Liu, *China Development Brief*, October 27, 2017. Available at: <http://www.chinadevelopmentbrief.cn/news/wang-zhenyaos-analysis-of-the-congress-report/> (accessed at 20/01/2020).

³⁹ Shawn Shieh, “Remaking China’s Civil Society in the Xi Jinping era”, *China File*, August 2, 2018. Available at: <http://www.chinafile.com/reporting-opinion/viewpoint/remaking-chinas-civil-society-xi-jinping-era> (accessed at 20/01/2020).

⁴⁰ General Data Protection Regulation (GDPR), implemented by the EU in May 2018.

well be a way to allow the Party, once it feels ready, to promote further political reform in the future.

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