



**BUSINESS SWEDEN**

# **MARKET INSIGHT CHINA**

**CORPORATE SOCIAL CREDIT SYSTEM**

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**KNOWN FACTS.** China is in the process of rolling out its so-called “social credit system”, a big data-enabled set of mechanisms for overseeing, rating, and controlling the behaviour of market participants more comprehensively than credit rating tools that exist today.

The social credit score for enterprises will, in part, be based on fairly straightforward parameters like compliance with environmental standards, employee treatment, and taxation. However, it is also likely to draw from industrial policy priorities. Companies with weak social credit scores will be disadvantaged, e.g. by being subject to less favourable borrowing terms, more stringent administrative requirements, more frequent inspections, etc. There is a link between corporate scores and the personal score of “key personnel”. A weak score might for instance mean that senior managers are denied buying air or train tickets.

A key consideration is also that the score is influenced by the scores of suppliers and service providers, thus becoming a factor in buying decisions.

**IMPLICATIONS FOR SWEDISH FIRMS.** To Swedish firms and other international stakeholders, the social credit system is accompanied by significant challenges. One concomitant from introducing the system is that it will incentivise firms to comply with, not only Chinese rules and legislation, but also with the industrial policy targets set out by the government. Concerns have been raised that there is a risk of the system being used as a political instrument.

Nevertheless, the programme may come with significant benefits: it could help level the playing-field for foreign firms vis-à-vis their Chinese counterparts, decrease compliance and fraud risk in supply chains and reward international firms with strong internal governance and compliance mechanisms.

Currently the Chinese government and a consortium of large tech companies are implementing the meta-databases and nationwide scoring that Swedish companies need to understand and plan for in their business processes and decisions.

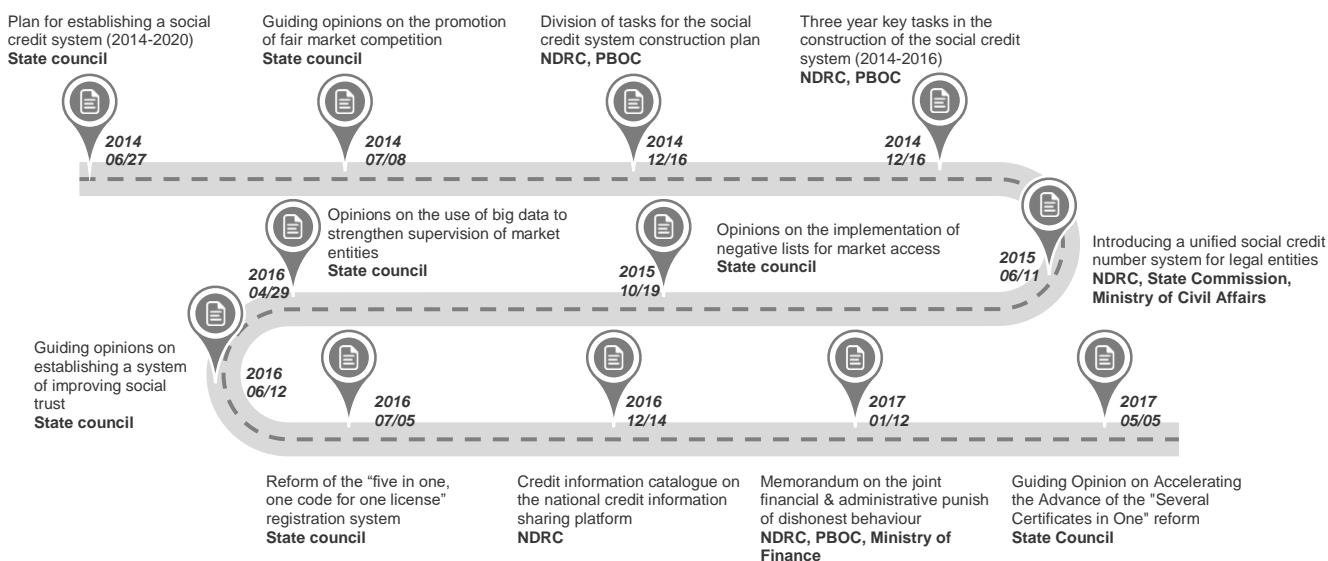
## KEY MESSAGES

The corporate social credit system is partly implemented already and is planned to be fully operational during 2020, with comprehensive scoring on regulatory compliance and business conduct that will be linked to punishments and rewards

The lack of insight about the extent of data collection, transparency and oversight of the system make up main concerns at this point in time

The system can strengthen competitiveness and supply chain transparency for foreign companies with good regulatory compliance, but there are significant risks that make it imperative for companies to already now review their processes, business partners and government relations

## KEY GUIDANCE AND POLICY DOCUMENTS PUBLISHED SO FAR



Sources: Business Sweden research & European Chamber report: “The Digital Hand: How China’s Corporate Social credit system conditions market actors

# KEY AREAS OF CONCERN

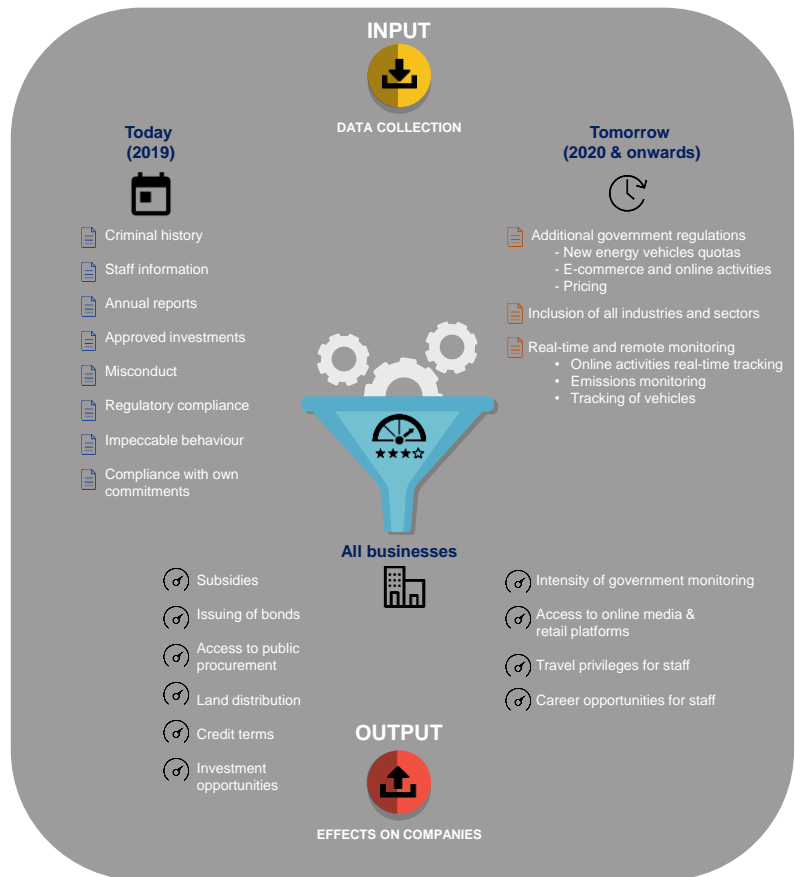
## I. EXTENT AND FORM OF DATA COLLECTION.

The majority of data collected is not very sensitive and would not be surprising to managers used to normal administrative data collection by Swedish government agencies. There are however a number of data points that are sensitive and poses risks when collected. There is also a constant evolution and expansion of the data sources integrated, and this will give a comprehensive picture of companies, which poses risk for abuse of the system by users or data leaks to external parties.

## II. TRANSPARENCY & GOVERNANCE.

A key concern is how transparent the system will be and how the announced mechanisms for restoring wrongful negative credit will work in practice. If the system is opaque, legitimate suspicion will remain over data manipulation and politically induced unequal treatment. Algorithmic scoring adds further complexity.

From a business point of view, the long-term impacts of the rating system are likely to be significant and the stakes are high as the scores and black listing, such as “Heavily distrusted entities”, will influence government and corporate decision making on a scale from slight nudges to very serious economic consequences.



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## KEY RECOMMENDATIONS

Swedish companies which operate on the Chinese market should consider the swift introduction of the social credit system carefully as the outcome will affect their business in and with China. There is a prompt need for all businesses that deal with China to deepen their understanding of the system and its mechanisms to avoid expensive surprises during deployment of the system.

### Concrete actions recommended are:

- Develop an understanding of the system among both the China organisation and the corporate head-quarters
- Assess current status for own organisation and partners
- Implement actions to close any gaps and ensure compliance with good credit norms
- Deploy governance for continuous tracking and follow-up

**For help with assessing your readiness level and defining required measures, do not hesitate to contact us!**



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