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A cunning State control – an unprecedented regulatory challenge brought forward by the Chinese social media giant “WeChat”

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Introduction

China is the largest country by smart phone user and Internet user. By 2017, China has over 1 billion smart phone users and over 70% of its entire population having access to the Internet.¹ With severe State censorship and the Great Firewall of China, the worldwide social-media platforms such as Facebook and Tweeter are not accessible in China. This situation has created great opportunities for Chinese companies to generate China’s own version of its social media platforms – WeChat, a mobile based, all-purpose social media application has become the answer.

Developed by Chinese multinational investment holding conglomerate Tencent, WeChat originally started in 2010 with a Chinese name “Weixin” (literally meaning “micro-message”)². WeChat quickly rose in popularity and the number of active users has reached over one billion in March 2018,³ which means almost every single smart phone user in China would had WeChat installed in their device.

Unlike its Western counterparts, Facebook Messenger and WhatsApp, WeChat’s features were not only limited to Internet messaging. Apart from messaging, voice and video calls, WeChat also offered services such as digital wallet payments, booking doctor appointments, booking taxi and paying electricity bills under the WeChat City Services⁴, crowd density map used by the government⁵, reading news, play games, and many more. As WeChat has developed into the China’s all-in-one app, dominate proportion of Chinese smartphone users are now less likely dependent on any other apps and solely rely on WeChat for everything.

¹ (2017). "China: number of internet users ". Retrieved 2 Jan 2018, from <https://www.statista.com/statistics/278417/number-of-internet-users-in-china/>.

² Mozur, L. (2013). "The innovative leader: father of WeChat, Xiaolong Zhang." *The Wall Street Journal* (4).

³(2018). "WeChat has reached over 10 billion international users for the first time in its history during the international month promotion." Retrieved 1 May, 2018, from http://www.xinhuanet.com/2018-03/05/c_1122488991.htm.

⁴ Horwitz, J. (2015). "WeChat’s new heat map feature lets users—and Chinese authorities—see where crowds are forming ". from <https://qz.com/518908/wechats-new-heat-map-feature-lets-users-and-chinese-authorities-see-where-crowds-are-forming/>.

⁵ "China targets mobile payments oligopoly with clearing mandate." *Financial Times* from <https://www.ft.com/content/3bcb5150-7cce-11e7-9108-eda0bcb928>.

No doubt, in the past eight years, the expansion of WeChat has brought forward many unprecedented regulatory challenges, as well as opportunities, in China. Significant challenges occurred to China's banking regulations, challenges to the traditional telco regulations and OTT regulations. Opportunities also rose to shift some of the core governmental roles onto this platform, such as taxation, credit system and the citizen identification system. This research focuses the challenges to the banking system in China and the recent regulatory changes. This paper observes that the new regulatory changes brought forward are more than the State measures to combat the challenges for the financial environment in the country. These measures represent a close partnership between the company and the Chinese government. More importantly, these measures are carried out as a crucial component of the overall State planning to establish the so-called "social credit system", which by itself, might be a quick measure to solve some immediate social problems in China, however, in the long run, companies such as WeChat will need to face the allegation of being the government's spy agency and the government social credit system will lead to a highly engineered society with a cunning but tighter State control.

WeChat and WeChat Pay

WeChat Pay is the most important function of WeChat Finance, which allows users to send and receive money to contacts they have added within the app internationally. The traditional Chinese concept of "red envelop" was adopted by WeChat to develop its one-to-one payment method in 2014. The red envelop payment was introduced to WeChat users in Jan 2015. At that time, WeChat collaborated with the Chinese Central Television Network (CCTV) and promoted its red envelop payment during the CCTV's annual Gala night. This annual Gala night promotion brought WeChat Pay a massive success. Reading the statistics, the total number of red envelop used during the CCTV gala night reached 11 billion times. The peak time was within 2 minutes after 12am on the Lunar New Year's day, during which, more than 500 million red envelops transactions were made in each single minute.⁶ WeChat has gained its real popularity since. To date, uses of WeChat Pay include retail purchases, ecommerce, in-app purchases and multiple services such as paying for taxi, making an appointment to see the doctor, paying energy or water bill, or even filing taxes.

The past few years has witnessed a sharp rise of the WeChat Pay development together with a few other third party payment platforms. The total number of mobile payment transaction in China has increased at an annual rate of more than 100 per cent since 2015. WeChat Pay, along with Alipay, has formed the oligopoly of third-party mobile payment platforms in China⁷. The volume of the transactions has also reached to more than US\$16.7 trillion in 2017.⁸

⁶ (2015). "The New Red Envelop Tradition During the Chinese Lunar New Year." Retrieved 2 Feb, 2018, from <http://news.gxnews.com.cn/staticpages/20150224/newgx54ebe66d-12264979.shtml>.

⁷ Chan, C. (2015). "When One App Rules Them All: The Case of WeChat and Mobile in China." Retrieved 10 Dec, 2017, from <https://a16z.com/2015/08/06/wechat-china-mobile-first/>.

⁸ (2018). "China's mobile payment volume surges in 2017 to S\$16.7 trillion by October." Retrieved 7 May, 2018, from <https://www.straitstimes.com/asia/east-asia/chinas-mobile-payment-volume-is-worlds-largest-at-s167-trillion>.

China is now the leading country in mobile payment development. A large-scale cashless economy is current evolving as the result. Nowadays, mobile payment is not only available at almost all the major shopping centres and public facilities, such as train stations and airports, it is also widely available at the small street markets, corner stores and even growers who sell fresh vegetables on their tricycles.

There were issues with this scale of operation and development. When Wechat Pay was introduced, transactions via this platform did not provide the Chinese government with any transaction data. This was a common situation for all other third party payment platforms at that time, including the largest platform Alipay. However, transactions on the third party payment platforms bypassed China's central bank clearing system, and the missing payment details such as the merchant name and location are omitted via the bank-to-bank transaction, which can serve as loopholes for money laundering, illegal transactions and theft as claimed by the Chinese government⁹.

To address this concern, in August 2017, the Chinese central bank introduced a new policy regarding third-party processing platforms. This regulation requires all transactions to go through a clearing system run by the People's Bank of China (PBC), the Central bank¹⁰. This new policy was designed to combat the aforementioned issues with unregulated third-party transaction. After the launch of the Online Settlement Platform for Non-Bank Payment Institutions, all of the country's payment companies will work with a standard set of clearing protocols and rules. The regulator launched it with the aim of tightening supervision of the country's fast-growing online payment market. According to the PBC, all banks and online payment systems must connect to the new platform by 15th October 2017 and be ready to route transactions through it starting 30th June 2018.¹¹

The centralized clearinghouse is operated over an Internet Payment System, named Wanglian¹², similar to an Internet version of UnionPay's clearing service for bank-to-bank transactions. Putting an end to the direct connection model, Wanglian allows the central bank to track and monitor all capital flow of third-party payment providers, leaving fewer loopholes for money-laundering, bribery, tax evasion and other irregularities. This, however, disrupts WeChat Pay's self-built payment infrastructure and meant a drastic reduction in net profits as transaction fees are now in play. Same situation would apply to all other third party payment platforms.

Nonetheless, the compulsory regulation for all online transactions through Wanglian is setting a more regulated financial environment in China. This will also enable a few major companies, including WeChat and its parent company Tencent, together with the State to collect

⁹ "China targets mobile payments oligopoly with clearing mandate." Retrieved 6 June, 2018, from <https://www.ft.com/content/3bcb5150-7cce-11e7-9108-eda0bcb928>.

¹⁰ Yoo, E. (2017). "China's central bank takes more control over mobile transactions." Retrieved 6 June, 2018, from <http://technode.com/2017/08/09/chinas-central-bank-takes-more-control-over-mobile-transactions-wanglian/>.

¹¹ Bank of China, (2018). "The Notice Regarding the Development of the Third Party Payment Platforms to Connect with Wanglian." Retrieved 1 June, 2018, from http://www.cac.gov.cn/2017-08/08/c_1121450862.htm

¹² *Ibid.*

unprecedented amount of personal fiscal data once Wanglian commences its formal operation in June 2018.

This situation does present a major privacy concern on the access to and the potential misuse of the personal information in China. Although privacy concern on personal data in the digital age has been discussed extensively throughout the world, China's case is still unique. This is because of the amount of data is now being collected, the different style of State regulation as well as different relationship between the companies and the State. At this point, it is not surprising to read concerns pointing out that the establishment of the Wanglian platform not only indicate the Chinese government's plan to tighten oversight of the financial environment, more importantly, the government's plan to use it in the construction its new social credit system.

The new social credit system in China

In most countries, the existence of a credit system is not controversial. Past financial information is used to predict whether individuals will pay their credit card bill in the future, but China is taking the whole concept a few steps further.

In June 14, 2014, the State Council of China published a document titled "Planning for the Construction of a Social Credit System" (the Planning). The Planning contained a radical idea, which is to construct a national trust score system that rates individuals based on data collected from every component of people's daily life. This plan specifies that this credit system is to form an important component of the socialist market economy and the social governance system. According to this plan, by 2020, all citizens in China will be enrolled in a vast national database that compiles private and government information. The information will cover citizens' individual activities, online behaviours, day-to-day purchases, minor traffic violations and much more. All this information will be distilled it into a single number ranking for each citizen.¹³

The Planning gives six years to build this massive database. The deadline will be in 2020. A series of new public and private initiatives took place immediately after the announcement of the Planning. State investment on this project has been made continuously and generously. For example, the Chinese government has spent more than 1.5 billion Yuan on this project just during 2016-2017.¹⁴

The involvement of WeChat and its parent company Tencent

¹³ (2014). Planning for the Construction of a Social Credit System. Chinese State Council. China: document No. 21.

¹⁴ (2017). "The active five years development of the social credit system ". Retrieved 1 June, 2018, from https://www.creditchina.gov.cn/xinyongyanjiu/xinyongyanjiuhuicui/201712/t20171201_98144.html.

To implement this plan, the Chinese central government started a credit-sharing platform with 38 key government service offices including the taxation office, industry and businesses regulatory bureau and the policy bureau in 2015.¹⁵ In the same year, the People's Bank of China (PBC) identified eight private companies and gave them a six-month period for them to prepare to become the first group of licensed private credit collection agents to collect all the information from their users.¹⁶ Tencent, the parent company of WeChat, was no doubt one of these eight entrusted companies. WeChat Pay, together with seven other online payment platforms at that time, was encouraged to collect the data from their users, analyse the data and develop their own red-list and blacklist to rate all the users.¹⁷ Tencent Credit was consequently developed.

As the all-in-one multi-purpose app, users of WeChat and Tencent started to give credit rating by using their mobile phones in a massive way since the Tencent Credit became available. Users started to rate for taxi services, banking services, online purchases and relevant individuals all within the app. All personal data from individual WeChat users were also being recorded and analysed to use in the credit rating algorithm, but the algorithm and standard of rating have been never officially disclosed.

PBC initially set trial for a six months period starting from Jan 2015.¹⁸ Unfortunately, none of the eight entrusted companies could eventually receive the foreshadowed license due to their under-performance. On 21 April, 2017, at the International Conference on Personal Data Protection and Credit Collection Management, Mr. Cun Wan, director of the credit collection management Bureau in PBC, revealed that none of these eight companies has done well enough to receive the anticipated credit collection licence, amongst which, included the Tencent Credit.¹⁹

PBC eventually revealed its new solution in 2018, which is already a two and a half years' delay from its original plan in Jan 2015. On the 4th Jan 2018, PBC granted its first private credit collection

¹⁵ (2015). Notice of the National Development and Reform Commission, the State Administration of Industry and Commerce, the Office of the Spiritual Civilization Development Steering Commission of the CPC and Other Departments on Issuing the Cooperation Memorandum on the Coordinated Supervision of and Joint Discipline and Penalty against Discredited Enterprises. National Development and Reform Commission. China.

¹⁶ (2015). "The Notice regarding to the preparation of private credit collection." Bank of China. from http://www.gov.cn/xinwen/2015-01/05/content_2800381.htm.

¹⁷ Section 18-19, part 6 and section 21 in part 7. (2016). "Guiding Opinions of the National Development and Reform Commission, the People's Bank of China, the Office of the Central Leading Group for Cyberspace Affairs and Other Departments on Strengthening Honesty Construction in the E-commerce Field ". from http://www.pkulaw.cn/fulltext_form.aspx?Db=chl&Gid=289170.

¹⁸(2015). "The Notice regarding to the preparation of private credit collection." Bank of China. from http://www.gov.cn/xinwen/2015-01/05/content_2800381.htm.

¹⁹ Cun, W. (2017). Few Questions regarding Private Credit Collection Management. International Conference on Personal Data Protection and Credit Collection Management. Beijing, Bank of China. <http://www.pbc.gov.cn/zhengxinguanliju/128332/128342/128350/3306389/index.html>

licence to the Baihang Credit Collection Pty. Ltd. (Baihang).²⁰ Baihang was a newly established company registered in Guangdong and headquartered in Beijing. Baihang has a registered capital of one billion Yuan and it has nine shareholders, which include all eight private companies who were originally entrusted by the PBC in 2015 to collect fiscal data from their users and the National Internet Finance Association of China (NIFA). As the major shareholder, the NIFA is holding 36% of Baihang and all other eight companies hold 8% of Baihang each, which counts to a total of 64% of Baihang.²¹ NIFA was a new government agent jointly established in March 2016 by 10 different Chinese government Departments and Bureaus, industry regulators and policy makers.²² The prototype for the financial credit collection in China is officially emerged as a close partnership between the State government and the eight key Chinese private companies with the first PBC's credit collection license granted to Baihang.

The implications

There are growing numbers of people across the world who are trading in their privacy to use services and apps such as Facebook or Instagram, despite the recent Facebook backlash for privacy and data breaches.²³ People in China are not very different in this regard although Chinese people seem to be more willing to trade in their personal information to gain the convenience of using WeChat services.

Living in a highly populated society without any credit system for decades, Chinese people largely welcomed such a system where people can obtain more information on the counterparts that people are dealing with, either it is a taxi service that people called for or an online shop that people like to buy household stuff from. Trustworthiness has not been highly honored in Chinese society in the past two decades when the economy development was the key goal of the country, which has caused many social problems including corruption, expired vaccines, toxic milk product, commercial fraud, tax dodging and academic cheating from time to time. Take the arson case in Hangzhou last year. A nanny started a fire that killed a mother and her three children when the nanny was in huge debt and starving for more money from her wealthy employer. It was a tragedy caused by the lack of a credit ranking system.²⁴

²⁰(2018). "Public Notice of the Information regarding Baihang Credit Collection Pty. Ltd.". Retrieved 1 June, 2018, from <http://www.pbc.gov.cn/rmyh/105208/3456248/index.html>.

²¹(2018). "Public Notice of the Information regarding Baihang Credit Collection Pty. Ltd.". Retrieved 1 June, 2018, from <http://www.pbc.gov.cn/rmyh/105208/3456248/index.html>.

²²(2015). "Introduction of NIFAC." Retrieved 6 June, 2018, from <http://www.nifa.org.cn/nifa/2955644/2955646/index.html>.

²³ CNN (2018). Facebook is making changes to your News Feed after the Cambridge Analytica 'breach'. CEO of Facebook Mark Zuckerberg, ABC News

²⁴ Jun, A. (2018). "Social credit system China's answer to credit crisis ". Retrieved 5 June, 2018, from <http://www.globaltimes.cn/content/1101544.shtml>.

Against this backdrop, the current move to the social credit system can link trustworthiness to people's future interests and risks, rewards and punishments. It is a sharp response to Chinese social credit crisis and an innovative measure to govern a changing society. The rapid development of internet technologies has provided the nation with more technical support and opportunities to realise this.²⁵ It is fair to anticipate that many social problems can receive a quick fix once the system is fully in place, as the system will be used to provide punitive measures such as public shame, prohibition from purchasing air tickets and prohibition from staying in good hotels and so many more punishment to the low credit score holders.²⁶ By using non-performance or delayed performance of court orders as an example, in the new system, this situation is expected to be improved by imposing penalty measures as these measures will increase the cost of none performance of delayed performance of the court orders. The measures can even be extended to the family members, such as not allowing the child or children of the offender to attend a good school.²⁷ It is therefore that despite the drawbacks of unknowingly handing over massive amounts of personal information, apps like WeChat have still become the Chinese go-to for everything — paying the bills, ordering food and buying movie tickets.

Nonetheless, building such a comprehensive monitoring system in China still attracted controversies. Robin Li, the chief executive of Baidu, China's Google, stated publically "*it doesn't matter if the user is willing, it matters that people don't have the right to defend their privacy in this social environment*".²⁸ This statement has triggered enormous backlash from Chinese netizens and it has revealed another side of this social set up - in a tightly controlled environment, especially after 2020, where everything is monitored and rated with an undisclosed algorithm, implications can be far-reaching and pervasive. The following part of this paper analyses this plan from four major contentious aspects.

Risk for political manipulation

It might not be a terrible concern to live in a world where people's daily activities were constantly monitored and evaluated. Activities such as where people are at any given time; what people buy at the shops and online; who people are friends with and how they interact; how many hours that people spend online either watching videos or playing games; and what bills and taxes people paid

²⁵ *Ibid.*

²⁶ Xu, V. X. and B. Xiao (2018). "Chinese authorities use facial recognition, public shaming to crack down on jaywalking, criminals." Retrieved 6 June, 2018, from <http://www.abc.net.au/news/2018-03-20/china-deploys-ai-cameras-to-tackle-jaywalkers-in-shenzhen/9567430>.

²⁷ Zeng, M. J. (2018). "China's Social Credit System puts its people under pressure to be model citizens." Retrieved 24 Jan, 2018, from <https://theconversation.com/chinas-social-credit-system-puts-its-people-under-pressure-to-be-model-citizens-89963>.

²⁸ (2018). "Baidu CEO Robin Li's remarks about Chinese people's attitude towards privacy received backlash." Retrieved 6 June, 2018, from <http://www.abc.net.au/news/2018-04-08/baidu-chief-executive-robin-li/9623130>.

or not. This is because many of these activities are already been tracked by companies such as Google, Facebook and Instagram etc. Even the health tracking Apps such as Fitbit is collecting how many steps its users make. However, situation can become a bit more alarming when there is a system where all these behaviours are rated as either positive or negative and distilled into a single number. That would create the citizen score and the score would tell the rest of the world the level of trustworthiness of the score holder. It can become more alarming that the score would be publicly ranked against that of the entire population in the country and used to determine the eligibility for things are important to people's life, such as job seeking, travelling and schooling of the children, or even just the chances of getting a date.²⁹ This is, indeed, the social credit system that is now being constructed in China, which "will forge a public opinion environment where keeping trust is glorious...it will strengthen sincerity in government affairs, commercial sincerity, social sincerity and the construction of judicial credibility", as the policy states.³⁰

Collecting personal data is undoubtedly a vital part of this entire plan and the collection has already getting underway in China through the partnership model as seen in Baihang. Controversies rose fiercely at the international level since State released the Planning in 2014. "It is very ambitious in both depth and scope, including scrutinising individual behaviour and what books people are reading. It's Amazon's consumer tracking with an Orwellian political twist," is how Johan Lagerkvist, a Chinese internet specialist at the Swedish Institute of International Affairs, described the social credit system.³¹ Rogier Creemers, a scholar specialising in Chinese law and governance at the Van Vollenhoven Institute at Leiden University, who published a comprehensive translation of the plan, compared it to "Yelp reviews with the nanny state watching over your shoulder".³²

Collaborating with the State in the government prototype, the eight private companies, including WeChat and Tencent, certainly play an important role here. Their role is to collect personal data from their own users on its platform, collaborate with other commercial companies to share the information and collaborate with the State to feed the data into the algorithm and eventually for the State to distil the individual scores. Before this compulsory system starts, private networks have been trialling their systems since 2014 and the networks are already sizeable today. For example, the two largest private data collection companies are China Rapid Finance run by WeChat and its parent company Tencent; and Sesame Credit as an affiliate company of Alipay and its parent company Alibaba. These two credit collection companies have all teamed up with

²⁹Botsman, R. (2017). *Who Can You Trust? How Technology Brought Us Together and Why It Might Drive Us Apart*, Penguin Portfolio.

³⁰ (2014). Announcement of the State Administration of Taxation on Issuing the Measures for the Disclosure of the Information on Cases of Major Violations of Tax Laws (for Trial Implementation). *State Administration of Taxation*. China.

³¹ Lagerkvist, J. (2015). "Wrong values? No money: On China's new "social credit system"." Retrieved 20 May, 2018, from <https://www.dissidentblog.org/en/articles/wrong-values-no-money-chinas-new-social-credit-system>.

³² Lewis, D. (2017). "Interview with Dr. Rogier Creemers: AI + Social Credit + Algorithmic Governance + Cybersecurity + VPNs." Retrieved 23 April, 2018, from <https://www.digitasiahub.org/2017/08/14/interview-with-dr-rogie-creemers-ai-social-credit-algorithmic-governance-cybersecurity-vpns-cross-border-dataflows/>.

other data-generating platforms, such as Didi Chuxing, the taxi service company that was Uber's main competitor in China before it acquired the Uber's Chinese operations in 2016, and Baihe, the country's largest online matchmaking service.

The fact that all the eight companies are the shareholders of Baihang and Baihang is entrusted to run the credit system for the State indicates that all the eight companies will be ultimately responsible for running the government's own system. It is hard to believe that the government will not want to extract the maximum amount of data from it. If that happens, and continues as the new normal under the government's own credit system after 2020, it will result in private platforms acting essentially as spy agencies for the government. At that time, the companies may have no choice to say no, nor would the companies have willingness to say no to the government given the massive benefits that companies would all receive in this partnership. Nonetheless, once the government rating system is in place, the risk of moving towards an engineered society would become more appealing.

The concerning algorithm

The current ways that people are being rated remains largely undisclosed and the scores are largely unstandardized from the different platforms. According to Sesame Credit, "a complex algorithm" is being used to measure individuals by a score between 350 and 950 points. Five factors that the company is taken into account to rate their users are published, which include the credit history, a user's ability to fulfil his/her contract obligations, personal characteristics such as someone's mobile phone number and address, behaviour and preference, and lastly interpersonal relationships.³³

Under this system, "someone who plays video games for ten hours a day, for example, would be considered a lazy person," says Li Yingyun, Sesame's Technology Director. "Someone who frequently buys diapers would be considered as probably a parent, who on balance is more likely to have a sense of responsibility."³⁴ Also under this system, interpersonal relationships are important, which means people need to be careful of what they friend with and what their friends are doing publically either in real life or online.

One thing is rather clear at this stage though, which is that the rating system not only records behaviour, it shapes it. It pushes citizens away from purchases and behaviours the rating agent does not like or value and it "encourages" citizens to behave the ways that are deemed as

³³ Zhima Credit, Sesame Credit (2017), Frequently Asked Questions, Retrieved 4 Feb, 2018, from <http://www.xin.xin/#/detail/1-3>.

³⁴ Pineros, B. (2018). "Chinese government continues to mould citizen behaviour with a Social Credit System." Retrieved 4 Feb, 2018, from <https://www.techly.com.au/2018/04/03/chinese-government-continues-mould-citizen-behaviour-social-credit-system/>.

responsible and correct by the rating agent. Therefore, the actual algorithm literally shapes behaviours of the society in a rating system like this.

As currently, there are multiple platforms used as rating agencies for people to sign up voluntarily. Algorithms amongst different platforms are different and the individual scores are recorded with different standard too. For example, rating run by local council in some cities rate people based on 100 points to start with and Sesame credit rates people with 350 points to start with. So people are now being given different scores by different rating agencies. This situation is confusing and can, also be misleading.

Nevertheless, the problem of having different algorithms and standards will probably be solved naturally as there will be a single rating agency after 2020 when the government steps in, but more important problem will need to be considered before the government platform rolls out, which is again, the algorithm. This paper argues that the government algorithm should be a settled algorithm amongst the majority of the people who are in the system, or at least a general methodology or value system publically agreed by people who will be rated by it. Deciding the algorithm is a significant step of the entire set up, which is also the most difficult task as people would naturally have different opinions on what is right and what is wrong and what is acceptable or not. Unfortunately, that how this might play out when the government's own citizen score system officially launches is still largely an unknown.

Potential abuses of power

As currently, the credit score system is still in its trial stage where the system is like a piecemeal with some rating systems run by city councils, some run by provincial offices, and some are scored by private platforms. However, the actual individual credit scores are now being used massively in China already, even by the country's judicial system.

For example, the low score can already lead to many undesirable consequences, including the court banning order from flying or getting the train³⁵; purposely slow down the internet speeds for individuals³⁶; banning from attending the good schools³⁷; not able to stay in the good hotels³⁸; and being publicly shamed as bad citizens³⁹.

³⁵ (2018). "Millions in China with bad 'social credit' barred from buying plane, train tickets." Retrieved 8 June, 2018, from <https://www.channelnewsasia.com/news/asia/china-bad-social-credit-barred-from-buying-train-plane-tickets-10050390>.

³⁶ Mistereanu, S. (2018). "Life Inside China's Social Credit Laboratory: The party's massive experiment in ranking and monitoring Chinese citizens has already started. ." Retrieved 3 April, 2018, from <http://foreignpolicy.com/2018/04/03/life-inside-chinas-social-credit-laboratory/>

³⁷ (2018). "Refuse to Serve for Military Services many have been put on the Blacklist." Retrieved 5 April, 2018, from <http://www.bjnews.com.cn/news/2018/03/19/479533.html>

³⁸ Hatton, C. (2015). "China 'social credit': Beijing sets up huge system." Retrieved 23 April, 2018, from <http://www.bbc.com/news/world-asia-china-34592186>

³⁹ (2016). "Opinions concerning Accelerating the Construction of Credit Supervision, Warning and Punishment Mechanisms for Persons Subject to Enforcement for Trust-Breaking by the Chinese State Council General Office." Retrieved 1 June, 2018, from

Liu Hu, a vocal journalist who has criticised government officials on social media, was accused of spreading rumour and defamation. While seeking legal redress in early 2017, he realised that he was blacklisted as “untrustworthy” and prohibited from purchasing air tickets.⁴⁰ Similar case occurred to Xiaolin Li, a lawyer who was placed on the blacklist in 2015, found himself unable to purchase air ticket home while on a work trip. He also could not apply for credit cards.⁴¹

These stories may be isolated incidents, but it does demonstrate how the system could potentially be used to push the government’s agenda and to crack down on dissent.⁴² It is important for a country to be able to enforce court orders, but when the judicial and legislative systems sometimes malfunction, as they do in China, it raises questions about whether the ability to expose and punish without due process can lead to concealed abuses of power.

Conceivable conflict of interest

Despite that all the platforms are at the trialing stage, millions of Chinese already signed up to them. Rating platforms are putting out lure, in the form of rewards and "special privileges" for those citizens who prove themselves to be "trustworthy" on their platforms. For example, people who reach 650 points on Sesame Credit may rent a car without leaving a deposit. Higher scores have already become a status symbol, with almost 100,000 people bragging about their scores on Weibo (the Chinese equivalent of Twitter) within months of launch. A citizen's score can even affect their chances of getting a date, because the higher their rating, the more prominent their dating profile is on Baihe, the Country’s largest matchmaking site.

This is however not all what is happening. In fact, some of the service platforms already offered tips help individuals to improve their scores, including warning about the downsides of being friend with someone who has a low score.⁴³ This has led to the rise of score advisers, who will share tips on how to gain points, or reputation consultants willing to offer expert advice on how to strategically improve a ranking or get off the trust-breaking blacklist. Not long to go, people might

<https://chinacopyrightandmedia.wordpress.com/2016/09/25/opinions-concerning-accelerating-the-construction-of-credit-supervision-warning-and-punishment-mechanisms-for-persons-subject-to-enforcement-for-trust-breaking/>.

⁴⁰ Tracy, B. (2018). "China Assigns Every Citizen A ‘Social Credit Score’ To Identify Who Is And Isn’t Trustworthy - Country Determines Your Standing Through Use Of Surveillance Video, Plans To Have 600 Million Cameras By 2020." Retrieved 4 June, 2018, from <http://newyork.cbslocal.com/2018/04/24/china-assigns-every-citizen-a-social-credit-score-to-identify-who-is-and-isnt-trustworthy/>.

⁴¹ Wang, M. (2017). "China’s Chilling ‘Social Credit’ Blacklist - A lawyer is barred from buying a plane ticket because a court found his apology ‘insincere.’." Retrieved 16 May, 2018, from <https://www.wsj.com/articles/chinas-chilling-social-credit-blacklist-1513036054>.

⁴²Zeng, M. J. (2018). "China’s Social Credit System puts its people under pressure to be model citizens." Retrieved 24 Jan, 2018, from <https://theconversation.com/chinas-social-credit-system-puts-its-people-under-pressure-to-be-model-citizens-89963>.

⁴³ (2016). "Four Ways to Improve Your Personal Credit Score." Retrieved 6 June, 2018, from <https://www.rong360.com/gl/2016/10/20/117494.html>.

start to consider reporting the undesirable behaviours of their own friends or even the family members to gain a better score!

This might not be a huge concern if the rating agencies are not offering services like this as they are the only person who know the detailed algorithm, but there has been no public policy to prohibit this from happening. Considering the algorithm is kind of “secret” that is owned by the rating agencies only, one would naturally believe the help from the rating agencies to improve the score would be the most effective way, which creates an immense business opportunity for those eight companies in China. Without a timely response on this issue, conflict of interest situations are likely to occur from these platforms in the coming months.

The other layer of this problem is the definition of the undesirable behaviours which normally drag the score down in the rating platforms. What is right and what is wrong, what is undesirable and what is desirable are huge questions that human races have been searching the answers for hundreds of years. In the current system, it is totally up to the eight companies to use their own judgement to rate the individuals and the consequence of the rating is getting more and more impactful to people’s daily life. As this system develops, it is bound to see the birth of reputation black markets selling under-the-counter ways to boost trustworthiness. In the same way that Facebook Likes and Twitter followers can be bought, individuals will pay to manipulate their score. Is this a fair game?

Conclusion

The social credit system is being constructed in a speedy way in China to meet the deadline of the government, 2020. At this stage, this far reaching system is designed to be a close collaboration between the State and the eight key Chinese companies.

The current private platforms are more effective to lock people in with treats for good behaviour, but Hu Tao, Sesame Credit's chief manager, already warned people that the system is designed so that "*untrustworthy people can't rent a car, can't borrow money or even can't find a job*". She has even disclosed that her company has approached China's Education Bureau about sharing a list of its students who cheated on national examinations, in order to make them pay into the future for their dishonesty.⁴⁴ At the same time, fragmentary government rating systems in cities, agencies, courts and even schools are also been used to discipline the undesirable behaviours. For example, in February 2017, the Supreme People's Court announced that 6.15 million of its citizens had been banned from taking flights over the past four years for social misdeeds. The ban is being pointed

⁴⁴ (2017). "Manageing director, Tao Hu, Trying to remove deposite in the coming years." Retrieved 6 June, 2018, from <http://people.techweb.com.cn/2017-11-22/2609583.shtml>.

to as a step toward blacklisting. "We have signed a memorandum... [with over] 44 government departments in order to limit 'discredited' people on multiple levels," says Meng Xiang, head of the executive department of the Supreme Court. Another 1.65 million blacklisted people cannot take trains.⁴⁵ Penalties are set to change dramatically when the government system becomes mandatory in 2020. The overriding principle is clearly stated in a State Council General Office policy entitled "Warning and Punishment Mechanisms for Persons Subject to Enforcement for Trust-Breaking" as: "*If trust is broken in one place, restrictions are imposed everywhere*".⁴⁶

WeChat, as one of the eight entrusted Chinese companies, will certainly be further entrenched in everyday life in China under this new credit prototype. Started in December 2017, new programmes on WeChat's platforms were tested to trial it as a user's electronic social security card. A small scale trial run in Guangzhou creates a virtual ID card, which serves the same purpose as the traditional state-issued ID cards, through the WeChat accounts of registered users in the city's Nansha district. The WeChat ID programme was co-developed by the research institute of the Ministry of Public Security and Tencent's WeChat team, and supported by various banks and several other government departments. This small scale trial was said to be successful.⁴⁷ More recently in 2018, China's Ministry of Human Resources and Social Security have jointly started a wider trial for an online identification system to connect citizens' ID with their WeChat accounts. The government is now trialling in 26 cities to have WeChat replace traditional state-issued social security cards with digital version tied to users' accounts.⁴⁸ The chance that WeChat is used as the Chinese virtual ID card is reasonably high once this wider scale trial completes. Imagine a private company holds all the personal information of the citizens, including social security number, date of birth, medical history, daily activities, friends, hobbies and much more. When all these government functions are being transferred onto a private platform, laws and regulations to make sure this entrusted company will not breach privacy of citizens and will not abuse of information should be well thought-out before the roll-out, regrettably that there has been no public information regarding this matter to date.

The trust between the State and the companies might have long been established prior to the establishment of Baihang, unfortunately that the trust has not been established between Baihang and the individual citizens. This paper argues that the credit system needs to gain trustworthily from

⁴⁵ (2016). "The response from the Chinese Supreme Court to Lao Lai." Retrieved 6 June, 2018, from <https://www.chinacourt.org/article/detail/2016/01/id/1779861.shtml>.

⁴⁶ (2016). "Opinions concerning Accelerating the Construction of Credit Supervision, Warning and Punishment Mechanisms for Persons Subject to Enforcement for Trust-Breaking by the Chinese State Council General Office." Retrieved 1 June, 2018, from <https://chinacopyrightandmedia.wordpress.com/2016/09/25/opinions-concerning-accelerating-the-construction-of-credit-supervision-warning-and-punishment-mechanisms-for-persons-subject-to-enforcement-for-trust-breaking/>.

⁴⁷ Tao, L. (2017). "WeChat poised to become China's official electronic ID system." Retrieved 4 March, 2018, from <http://www.scmp.com/tech/social-gadgets/article/2125736/wechat-poised-become-chinas-official-electronic-id-system>.

⁴⁸ Chen, C. (2018). "China's social security system turns to WeChat for electronic ID." Retrieved 5 March, 2018, from <http://www.scmp.com/tech/china-tech/article/2127010/chinas-social-security-system-turns-wechat-electronic-id>

the citizens and for citizens to trust the system, one key is to reduce the unknowns. That means taking steps to reduce the opacity of the algorithms. That also means more laws and regulations on privacy protection which can prohibit potential information misuse from both the State and the entrusted companies. The argument against mandatory disclosures is that if you know what happens under the hood, the system could become rigged or hacked. But if humans are being reduced to a score that could significantly impact their lives, there must be transparency in how the scoring works.

Just as Botsman stated *“if we are not vigilant, distributed trust could become networked shame. Life will become an endless popularity contest, with us all vying for the highest rating that only a few can attain”*.⁴⁹

⁴⁹ Botsman, R. (2017). Who Can You Trust? How Technology Brought Us Together and Why It Might Drive Us Apart, Penguin Portfolio.