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Dear Policy+ Subscribers,

We hope you had a relaxing holiday! Last Monday we had a dinner with the Hon. Kevin Rudd. If you missed our meeting highlights, his full remarks are available for download here.

Last Thursday, we hosted a lunch with Kendra Schaefer and Andrew Polk of Trivium China, who recently launched a report on China's social credit system.

If there was only one takeaway from the Policy+ exclusive briefing, it would be that the Chinese social credit system is not as scary as you think, but you must act early to prepare for its impact on your business operations in China.

For those of you who could not make it to the event, please see some of the highlights below:

The Chinese Definition of "Social Credit"

- The Chinese government hopes to use social credit as a mechanism to **restore trust** within the market.
- Here is **how** they plan to do it: 1) gather data on individuals and businesses to identify who is trustworthy and who is not; 2) inform the government and public so that they can take action; 3) restrict and improve market access accordingly.

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- But the problem lies in the government's **insufficient capacity to carry out all three tasks** stated above on its own. Therefore, the social credit system has been created to allow all state agencies to share data and collaborate on restricting market access to rule-breakers.

How does the Social Credit System work?

- The National Credit Information Sharing Platform (NCISP, 全国信用信息共享平台) allows regulators across different functions to **share credit records** on a centralized platform. There are currently about 400 data sets and about 80% of them are related to corporates, rather than individuals.
- Corporate social credit is calculated based on **three types of data sources**: 1) operation records (e.g., customs, tax and utilities); 2) inspection records; 3) self-submitted data (e.g., annual reports and personnel details).
- Additionally, there are hundreds of blacklists managed by different agencies from state-level (e.g., Court Defaulter Blacklist by the Supreme People's Court) to local-level (e.g., Major Safety Incident Blacklist by Haikou Property Management Department). Once a government agency decides that a company is non-compliant, the company will be placed on a blacklist, which will be included in the company's social credit file on NCISP. Other agencies can access the information and decide if they want to **step in** with their own punitive measures.
- On the other hand, if a company gets on a redlist (the "good list"), it receives a lot of perks including fast-tracked bureaucratic procedures and a lower frequency of inspections.

What does this mean for foreign businesses in China?

- If a company violates certain rules, it is at risk of receiving an **avalanche of penalties** that snowball across all areas of operations. Since there are no case studies publicly available, it is unknown how much risk businesses will be exposed to in this regard.
- Corporate credit records are tied to the credit records of key personnel, particularly the legal representative. This means that credit records might be factored into future recruitment.

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- The speakers had five recommendations for companies: 1) be proactive with your credit records and get ready to take control of your data; 2) do not get wrapped up in credit scores--as long as you follow the rules, you will most likely be fine; 3) consider the implications of the social credit system for your HR processes; 4) knock out regulatory gray areas and get ready for the social credit system to be fully implemented; 5) explain to your global team that the system itself is not too scary if one understands the intent behind it.

That is all for today! The slides that the speakers used are available for download here. If you have questions or comments, please be sure to let us know by replying to this email. See you soon!

Best,
AmCham China Government Affairs and Policy Team

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