



Economic Research Division

# A New Credit Paradigm in China

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# Abstract

From the birth of state monetary systems in the Axial Age to the feudalism and mercantilism of the Middle Ages, up through free market capitalism and state socialism of modern times, history serves as a highly informative tool for understanding the non-linear development of economic ideologies and systems and their lasting impact on the economic institutions and cultural attitudes that guide our world today. As David Graeber, professor of anthropology at the London School of Economics, points out, there existed a great deal of disparity between the regions of Western Europe and East Asia in the way that economic systems and their defining characteristics were designed, perceived, and managed over the last 5,000 years of human civilization.

As markets have flourished in China as a result of economic reforms undertaken by Deng Xiaoping beginning in 1978, cultural attitudes that have long regarded borrowing and debt with suspicion and shame have rapidly shifted to encourage consumer spending. These shifts in cultural attitudes have driven demand for consumer credit, and the tech sector has been quick to develop credit scoring and lending solutions to meet this new and ever-growing demand. Chinese consumers now have access to a wide array of financial services, many of which didn't exist a decade ago.

With the ascension of Xi Jinping to the Secretary General of the Communist Party in 2012, the government has moved to further cement its control over its citizens political, social, and economic activity with the development and implementation of a Social Credit System, while signaling that the socialist market system, "Socialism with Chinese Characteristics", is here to stay. As the party has looked to exploit the technological advances of the new millennium, the private sector continues full-steam ahead on integrating Big Data, Artificial Intelligence, and Facial Recognition technologies into consumer credit scoring systems that track and analyze the consumer behavior of hundreds of millions of Chinese citizens.

Close collaboration between the government and the private tech sector will drive further entrenchment of public-private partnerships, and with the help

of new digital technologies may at long last help the state effectively implement its long hoped for ideological vision of top-down social coordination. Meanwhile, these same technological advances are also providing new possibilities and opportunities for Chinese citizens. Mobile payment platforms have quickly become ubiquitous in China and rapid economic growth has brought forth an ever-growing middle class with newfound disposable income and the desire for increased access to digital technologies. How consumers respond to these competing realities will determine the economic future of the country.

## A Brief History

China has always been seen as an enigma in the West, a source of endless fascination and speculation as the face of the “Far East” - the center of transcendental spirituality, dynastic governance, and stagnant economies. This archaic, and often misleading, perception has continued through modern times, distorting the common understanding of the Chinese economy and the cultural attitudes that shaped it.

Placing China’s recent economic policies in historical context helps bring coherence to seemingly paradoxical attitudes towards free markets and capitalism. China’s political economic history set the stage for the establishment of the People’s Republic of China in 1949 and the economic policies at the close of the twentieth century that brought forth its socialist market system, the primary phase in its evolution toward a technologically advanced and fully planned socialist state. Reforms that led to explosive economic growth unparalleled on the global stage, which have, in turn, led to a new desire, and in many ways a need, for capital investment and consumer financial services.

Under Mao Zedong’s heavy-handed economic command-and-control policies of the mid-twentieth century, debt and interest were viewed with a great deal of suspicion by the vast majority of the Chinese populace. Saving was seen as a point of pride, borrowing a source of great shame; a perception that lingered until the 1978 liberalization of the Chinese economy that began in

earnest at the behest of Deng Xiaoping. Debt, interest, and credit were, after all, capitalistic tools of greed, power, and avarice <sup>1</sup>. This philosophy, and its critiques of capitalism and consumerism, can be traced back to cultural attitudes that developed as early as 800 BC in response to the new economic mechanisms of the Axial Age <sup>2</sup>.

China played such a pivotal role in the Axial Age that Karl Jaspers, the German philosopher who coined the term to cover the period that stretched from 800 BC to 600 AD, wrote in his seminal work *Way to Wisdom*, “Extraordinary events are crowded into this period. In China lived Confucius and Lao Tse, all the trends in Chinese philosophy arose...including skepticism and materialism, sophistry and nihilism” <sup>3</sup>. A historic philosophical development that had its economic corollary in the military-coinage complex that sprang up during this period in support of the great Warring States of China.

The Axial Age was a period defined by materialism, war, and inequality. Inherently unsustainable, this dynamic of constant war and economic turmoil led to the eventual collapse of the Han dynasty in 220 AD and left a gaping chasm that Confucianism and Buddhism would quickly come to fill. During the Middle Ages, the communistic life of ascetic austerity found in Buddhism began to flourish and anti-materialist attitudes took root. This great shift in philosophical attitudes and behavioral reward structures occurred in direct opposition to the conspicuous consumption, self-interested behavior, and financial oppression that preceded it <sup>4</sup>.

These spiritual philosophies focused on transcendence beyond worldly concerns and the moral imperative of cooperative pro-social behavior, notions that continue to be championed in modern anti-capitalist movements. In many ways, the primacy of the ascetic ideals of self-discipline and material abstention found in the great spiritual traditions of Buddhism, Taoism, and

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<sup>1</sup> [Debt: The First 5,000 Years, David Graeber](#)

<sup>2</sup> [The Two Axial Ages of Economic History Carl Mosk, February 2014, SSRN](#)

<sup>3</sup> [Way to Wisdom, Karl Jaspers](#)

<sup>4</sup> [What Changed During the Axial Age: Cognitive Styles or Reward Systems? Nicolas Baumard, Alexandre Hyafil, and Pascal Boyer, Communicative & Integrative Biology, Vol. 8, No. 5](#)

Confucianism can be seen as a reaction to the self-interested economic systems that gave rise to private property, land ownership, wealth accumulation, and monetary systems, as well as the resultant debt peonage, slave trading, and militarism that flourished during the Axial Age <sup>5</sup>.

In concert with the ever-increasing relevance of Buddhism, Confucian ideology became the official orthodoxy of the ruling dynasties of the Middle Ages. A doctrine that came to explicitly address the particularly salient concerns of the citizenry in regard to an economic system that exploited the lower classes by way of predatory lending with its usurious and unpayable rates of interest, insidious debt traps that led to the enslavement of debtors and their family members, and exorbitant effective tax rates that stifled agricultural trade and placed an overwhelming burden on farmers.

Reforms were put in place to nationalize land ownership, agricultural production, and credit lending. Widespread debt relief brought forth on behalf of the ruling class to quell dissent was a recurring theme of the time, one often defined by an ever-constant cycle of rapidly rising wealth inequality followed by sweeping proclamations of debt forgiveness. This common doctrine of the Confucian dynasties was a precursor to the doctrine of the Communist state that would emerge centuries later.

Even more striking though was the existence of a dynamic that many modern economists no doubt find paradoxical, official Confucian orthodoxy was inherently pro-market and anti-capitalist in nature. A philosophical attitude that is deeply woven into the economic fabric of the modern-day People's Republic of China, and very much an explicit feature of the official economic decision making and planning of the Communist Party of China's socialist market system.

However, in direct contrast to the prevailing logic of economic thought held by many in the West, this economic system of robust markets operating under the forceful guidance of the state free of traditional forms of private capital accumulation and dispersal resulted in outcomes of relative economic

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<sup>5</sup> [Buddhism in the Axial Age, Ulrich Duchrow and Franz J. Hinkelammert, \*Transcending Greedy Money\*, pp. 73-83](#)

prosperity and material well-being. As Graeber notes, “For most of its history, China maintained the highest standard of living in the world – even England only really overtook it in perhaps the 1820s, well past the time of the Industrial Revolution,” a fact that is routinely overlooked or dismissed as a mere historical curiosity by economists in the West.

Prosperity did not last forever. As the Qing dynasty began to languish economically near the end of the nineteenth century, Western nations began to materially flourish during the Industrial Revolution and the Gilded Age that followed. A new world order of European and American preeminence emerged, a reality made possible by Adam Smith’s development of classical economic theory and the introduction of laissez-faire economic policies a century earlier. It wouldn’t be until the end of World War II, with the Communist Party of Mao Zedong in the middle of the twentieth century, that China reemerged from the dissolution of the Qing dynasty and the regressive era of warlords that followed.

Communism presented China with an opportunity to hold fast to old notions of collective well-being and face down the oppression of self-interested capitalist enterprises operating in the name of profit maximization and private capital accumulation. Land reforms were of utmost priority to Mao, policies that the Communist Party was quick to undertake with renewed vigor. For all the talk of Marxist revolution, these reforms most closely mirrored those implemented by the Confucian dynasties.

In hindsight, the liberalization of the Chinese system into one predicated on a market economy functioning under the auspices of the state seems to have been predestined by the social, political, and economic history of China in the Middle Ages. As the twentieth century came to a close, Deng Xiaoping, whose ascension in all but title came in the wake of Mao Zedong’s death in 1976, signaled his intention to establish a socialist market system, the first phase in the economic shift towards the party’s long-term vision of a fully planned socialist state.

In 1978, Xiaoping announced China’s integration into the global market economy and the state began groundbreaking reforms, opening up the

country to foreign investment for the first time in close to a century. Over the course of the next three decades China underwent explosive economic growth, at a rate unrivaled in modern history. The West was left with no choice but to acknowledge the reemergence of China on the world stage. Of course, as China gained access to global consumer goods and financial markets there grew an increasing desire for access to capital, a desire that prior to Xiaoping ran contrary to centuries of economic and social orthodoxy.

As growth continued unabated, Xiaoping navigated the state through uncharted waters up until his retirement in 1989, further integrating China into the global economy and continuing to implement policies that would help the state achieve the developmental and technological advancement necessary for a fully planned society. By 1992, following the collapse of the Soviet Union, many economists and policy makers in the West believed the Communist Party was fated to further take on political economic policies that would lead to a much hoped for ideological break from its past, ushering in a more liberal democratic order in line with the prevailing ideology of the West.

However, by the early 2000s, it was clear that China's state-sanctioned markets had succeeded where the Soviet Union had failed. Whether its economic system be best described as state socialism or state capitalism is beside the point, the political and social doctrine of the Communist Party is here to stay.

## The Social Credit System

With Xi Jinping's ascension to General Secretary of the Communist Party in 2012, a new era of Chinese thought emerged, one that has officially come to be known as "Socialism with Chinese Characteristics"<sup>6</sup>. Jinping's new political doctrine, one predicated on the further entrenchment of the socialist market system, marked a significant break from his predecessors and decades of established party ideology. Jinping's new order hinges on the increased ubiquity of the state in both social and personal affairs and the further

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<sup>6</sup> [Xi Jinping Thought Explained: A New Ideology for a New Era, The New York Times](#)

elevation of the state on the global stage, using the market as one of the primary mechanisms by which to accomplish its goals. As such, markets, existing under the watchful eye of the state and ultimately operating at its behest, are fundamental to the continued growth and prosperity of the nation.

In support of Jinping's doctrine, the State Council announced plans in 2014 for a Social Credit System. The State Council's report, which laid out the foundation of the system and its development through 2020, clearly states the programs' integral place in the new political, social, and economic order, "The social credit system is an important part of the socialist market economic system and social governance system...it establishes a culture of integrity and promotes a tradition of integrity. Virtue is an intrinsic requirement" <sup>7</sup>.

Adam Greenfield, writing in *The Atlantic*, notes that "this framing connects the system to a long Confucian tradition of attempts to bolster public rectitude" <sup>8</sup>. Thus, the system looks to quantify virtue and engender social harmony by implementing "a rewards and punishments mechanism based on trustworthy incentives and untrustworthy restraints...the purpose is to improve the integrity and credit level of the whole society."

To do so the state has begun sucking up all of the data it can get its hands on, surveilling and cataloging consumer behavior, social media activity, legal infractions, interpersonal relationships, and business activity. In principle, the eye of the state should see all. Jinping sees the system as the fundamental cornerstone of the consolidation of all arenas of life under the auspices of the state. As such, Chinese officials from practically all corners of the government have expressed support for the system.

Precious little information has been released as to the variables that will go into the credit score, and its development, as well as its implementation, will more than likely be opaque. Credit scores, of course, have always been a measure of trust. Traditionally, in the capitalist nation-states of the West, this has taken the form of financial creditworthiness. Credit scores attempt to

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<sup>7</sup> [Notice of the State Council on Printing and Distributing the Outline of the Construction of the Social Credit System \(2014-2020\)](#), The State Council of the People's Republic of China

<sup>8</sup> [China's Dystopian Tech Could Be Contagious](#), *The Atlantic*



assess the risk in extending financial resources to individuals and then gauge the certainty, or rather uncertainty, with which they will repay.

Social credit scoring takes this concept to a new level, gauging not only an individual's financial trustworthiness but also the degree to which they observe and obey the rules of the state in both their social and political behavior. For the noncompliant, there will be punishment. For those who show obedience and deference, there will be reward. And the edict handed down from up high is final, as Jinping himself says, "once untrustworthy, always restricted."

Of course, it hasn't taken long for the system to be put to draconian use. Reuters reports that China has begun barring individuals with below-average social credit scores from boarding, and thus traveling on, both planes and trains <sup>9</sup>. The State Council's travel blacklist already numbers in the millions and it is unclear if individuals who make it on the list have any means of legal recourse to appeal their standing.

Meanwhile, according to Foreign Policy, individuals in good social and financial standing are "rewarded with perks such as being able to rent public bikes without paying a deposit, riding them for free for an hour and a half, receiving a \$50 heating discount every winter, and obtaining more advantageous terms on bank loans" <sup>10</sup>. These are first steps, trial runs for what promise to be far more nefarious impositions in the future.

It doesn't require much of an imagination to see how this could quickly spiral into a system that simply locks individuals into their existing socioeconomic class, further widening the gap between the haves and the have-nots and removing upward mobility from the equation altogether. There is serious concern among Western academics, and the media, that the social credit system will exacerbate the plight of the poor and disproportionately favor the rich.

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<sup>9</sup> [China to Bar People with Bad Credit from Planes, Trains, Reuters](#)

<sup>10</sup> [Life Inside China's Social Credit Laboratory, Foreign Policy](#)

One of the key pieces of the social credit system is the “judgment defaulter’s list.” A list that contains the information of any and all individuals who have defaulted on payments for court judgements. As the Economist reports, “People on the list can be prevented from...buying or building a house; or enrolling their children in expensive fee-paying schools. There are restrictions on offenders joining or being promoted in the party and army, and on receiving honours and titles” <sup>11</sup>. Not only does placement on the judgement defaulter’s list ding one’s social credit score, bringing forth all that a low score entails, but then adding insult to injury the list is displayed outside of courthouses, publicly shaming over 3.1 million citizens and counting.

One of the most worrisome features of the social credit system is its use of technological advances to further the state’s control, power, and influence over its citizens. Jinping’s social system is a masterclass in using technology, specifically the application of big data, to track, monitor, and influence over a billion individuals on an ongoing basis. The NSA’s mass surveillance program pales in comparison. For Chinese policy makers, technology-enabled state surveillance brings not to mind Orwellian fears of totalitarian rule but rather Maoist aspirations of top-down economic coordination, for technological advancement may yet bear solutions to the problems that central planning has been plagued by for decades.

Of course, all of this would not be possible without recent advances in data collection, digital surveillance, and internet connectivity. As Sebastian Heilmann, President of the Mercator Institute for China Studies in Berlin, writes in the Financial Times, “With the help of Big Data and Artificial Intelligence, the Chinese leadership is thoroughly reshaping its approach to economic and social governance. China’s determined pursuit of the digital transformation presents a fundamental challenge to democratic political systems” <sup>12</sup>.

One need not look any further than the West to see the provocations digital technology has brought forth for liberal democracy, as well as the slumbering

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<sup>11</sup> [China Invents the Digital Totalitarian State, The Economist](#)

<sup>12</sup> [Big Data Reshapes China’s Approach to Governance, Financial Times](#)

antagonisms it has woken, whether that be the dialectics of privacy and security, free speech and social justice, or market and state. Debates that serve as proxy wars for the grander ones: capitalism versus socialism; liberalism versus illiberalism; democracy versus totalitarianism. While China's baseline differs dramatically from that of the West, its own battles are in essence analogous to those being fought in the West, ones rooted in deep economic discontent and political unrest.

For China, control has really always been the name of the game, and it is not unfair nor alarmist to characterize its Social Credit System as a full-throttle attempt by the party to cement total authoritarian governance of the country. The system is, in a sense, the concept of “nudging”, which has gained widespread prominence in behavioral economics, taken to its logical extreme. First proposed by University of Chicago professor Richard H. Thaler and Harvard Law School professor Cass R. Sunstein, they define nudging as follows, “A nudge, as we will use the term, is any aspect of the choice architecture that alters people’s behavior in a predictable way without forbidding any options or significantly changing their economic incentives”<sup>13</sup>.

Nudges are attempts to influence behavior in a pro-social manner using insights from behavioral science. Sunstein and Thaler have described their approach as “libertarian paternalism.” However, instead of trying to “influence choices in a way that will make choosers better off, as judged by themselves,” the social credit system attempts to influence choices in a way that makes the state better off, as judged by the party, while very much forbidding a whole host of undesired behavior<sup>14</sup>. The Chinese approach could best be described as authoritarian paternalism. Thaler would no doubt call this “sludge.” China is presenting hard nudges towards rule-abiding behavior that favors the further entrenchment of the party and its leaders, while attempting to make their citizens paragons of virtue.

Which begs the question, will the system be able to effectively incentivize rule-abiding behaviors as the party hopes? It is hard to tell. As many in the

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<sup>13</sup> [Nudge: Improving Decisions About Health, Wealth, and Happiness, Cass R. Sunstein and Richard H. Thaler](#)

<sup>14</sup> [Libertarian Paternalism Is Not an Oxymoron, Cass R. Sunstein and Richard H. Thaler, The University of Chicago Law Review, Vol. 70, No. 4 \(Autumn, 2003\), pp. 1159-1202](#)

United States have seen, algorithmic credit scoring often leaves much to be desired, and that's when it is simply used to gauge financial creditworthiness. There is also debate as to what degree extrinsic reward seeking crowds out intrinsic motivations, and it has yet to be seen what behaviors will emerge out of a culture predicated on an explicit, and all-inclusive, socioeconomic status indicator in the long term.

Ultimately, algorithms are designed by humans and subject to both the parameters and inputs that are required for them to function accurately and effectively. Statistical analysis is only as good as the methodology used and the efficacy of the factors used to predict the desired outcome. In many cases, this also means that the model used for analysis must rely on historical data and the assumption that past behavior is predictive of future behavior.

If the Communist Party hopes to effectively implement their system on a nationwide scale, its efficacy will be determined by the quality and quantity of data they are able to collect and parse <sup>15</sup>. Research by Edward Schwarck, a research fellow at the Japan Institute of International Affairs, shows that China's Ministry of Public Security has been working since the early 2000s on state surveillance capabilities as they relate to data collection, analysis, and dissemination <sup>16</sup>. According to Schwarck, "Today's public security intelligence system (gong'an gingbao tixi) ensures that the Chinese security state is able to effectively utilize the oceanic volumes of data entering government systems to better surveil and control society."

No matter how much one speaks to the ideal objectivity of a data-centric approach, biases will no doubt find their way in. And in the case of China, they could very well be deliberately integrated into the system as a desired feature. More than likely, the system will serve to simply engender further socioeconomic inequality and repress individual expression. Libertarians and civil rights activists have naturally expressed their fears of the system, but they are not the only ones with grave concerns as to the potential

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<sup>15</sup> [What Could China's Social Credit System Mean for its Citizens?, Foreign Policy](#)

<sup>16</sup> [Intelligence and Informatization: The Rise of the Ministry of Public Security in Intelligence Work in China, Edward Schwarck, The China Journal](#)

ramifications on free speech and political dissent, both of which are already in short supply.

## A New Paradigm

As the government begins development of its social credit system and plans its roll-out, cultural attitudes in China towards borrowing are starting to shift. What was once seen as shameful is now being encouraged, as consumer spending is picking up the slack in the growth of the economy on the whole. Until recently, the vast majority of Chinese consumers had never used a credit card and lacked traditional credit scores <sup>17</sup>. Rapid economic growth has led to the emergence of a new middle-class with disposable income and consumers are beginning to come around to the financial possibilities that access to credit enables.

Meanwhile, mobile payment platforms have become the de facto payment method for hundreds of millions of Chinese citizens <sup>18</sup>. Many individuals have jumped the gap directly from cash to mobile payments, leaping over credit and debit cards in the process, no doubt a result of citizens electing to bypass the inefficient and inadequate consumer credit services of the People's Bank of China. AliPay, an Alibaba affiliate, and WeChat Pay, a Tencent affiliate, have over 1.2 billion active monthly users. Along with Baidu, the three main tech firms, known collectively as BAT, effectively operate as an oligopolistic market.

Mobile payments are a ubiquitous feature of the country and the amount of data collected by the payment services is breathtaking. Consumer behavior can be tracked and analyzed like never before. Both AliPay and WeChat are linked directly with individual's social profiles, continuously pulling in personal information, friends, and interactions. These tech giants are also making rapid inroads in the development of artificial intelligence. According

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<sup>17</sup> [Just Spend – Credit in China, The Economist](#)

<sup>18</sup> [Inside China's Vast New Experiment in Social Ranking, Wired](#)

to Wired, China hopes to level the playing field with America in artificial intelligence technology by 2020 <sup>19</sup>.

As to be expected, China's national social credit system has begun to be incorporated into the tech sector. Zhima Credit, the consumer credit scoring system of Ant Financial, which is integrated into both the Alipay mobile payment platform and Alibaba ecommerce platform, adheres to the government's social credit blacklist. A reality that is made all the more worrisome by the fact that Ant Financial currently holds the position as the world's highest-valued fintech company and is an affiliate of Alibaba, which lays claim to the largest ecommerce platform in the world. This arrangement gives Zhima Credit unparalleled access to consumer data.

Zhima's credit scoring system takes into account a variety of factors, including purchase history, consumer behavior, and social network activity. Zhima Credit currently has over 190 million users. Meanwhile, Tencent has partnered with a competitor of Zhima Credit, working with China Rapid Finance to build out their credit rating system. China Rapid Finance places a premium on social network activity and actively tracks behavior on Tencent's social media platforms, even pulling in contact lists from user's phones.

Collaboration between the state and the private tech sector only looks to strengthen in the coming years, as corporations are ultimately at the mercy of the state and continue to operate at its behest. Digital platforms are banking on big data in the same way that the Communist Party is, and it is likely that the government will protect this relationship. As Pamela Kyle Crossley, Professor of History at Dartmouth College, notes, "China uses its commercial law (and particularly investment thresholds) to exclude tiny tech start-ups from competing with the larger, fully tamed corporations."

This relationship has begun to be formalized, with Ant Financial having signed memorandums of understanding with a myriad of Chinese cities and provinces who have taken part in pilot programs for the national social credit system. As such, it is becoming progressively harder to tease out the lines

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<sup>19</sup> [Tencent Software Beats Go Champ, Showing China's AI Gains. Wired](#)

between public and private as large digital conglomerates consolidate their markets and partner with the government to provide fintech services to an ever-growing swath of the country.

Speaking directly to this development, Greenfield writes, “The Chinese genius, if you can call it that, was to take credit scoring as a tool of social discipline to its logical conclusion, building a formal public-private partnership around it. This move extends dominion across the entire range of interactions any member of a modern society is more or less compelled to pursue by the very style and structure of contemporary life.” Of course, this is not new, the NSA has been siphoning off data from private tech and communication conglomerates for well over a decade. What is new is the overt nature of these partnerships, with the state announcing them with great exuberance.

In order to effectively manage and analyze all of this consumer data, the government has turned to biometric identity verification techniques that have seen rapid advances in recent years. When wedded with biometric identification technologies the possibility of omnipotent state surveillance capabilities quickly becomes far more probable. Rapid progress in facial recognition technologies will speed this development. These measures will further bring citizens under the omniscient eye of the state and further turn the digital ecosystems against the Chinese citizens who so dearly rely on them.

Showing just how close the collaboration has become, Tencent was named to China’s AI national team by the Ministry of Science and Technology last November and Alibaba is following close behind with their recent \$600 million investment in SenseTime, a facial recognition startup that has been working directly with government agencies to provide cameras and other surveillance technology <sup>20</sup>. SenseTime is being integrated into peer-to-peer lending platforms and will provide biometric identification for Alibaba’s platforms. SenseTime is now one of the world’s highest-valued AI firms.

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<sup>20</sup> [The Billion-Dollar, Alibaba-backed AI Company That’s Quietly Watching People in China, Quartz](#)

In reality, the state is simply formalizing and codifying the social game that everyone is already playing, a complex game of social signaling that pervades most societies albeit in a less explicit manner. Chinese tech firms are directly marketing this as “innovation,” as many social platforms now encourage users to prominently display their credit score on their profiles to help them increase their job and dating prospects. The Communist Party is partaking in the public status game as well, with photos of high-ranking citizens, according to their social credit score, being displayed outside of government buildings, making it clear that the Black Mirror techno-dystopia of the future is already here.

## Closing Comments

As a result of all these credit scoring and lending developments, total credit extended to households in China has exploded. According to The Economist, the “credit gap” in China, a measure of the short-term difference between consumer credit expressed as a percentage of GDP and its long-term trend, reached a startling 16.7 percent in the fourth quarter of 2017 <sup>21</sup>. Currently the largest in the world, China’s credit gap is beginning to concern economists, as a credit gap of 9 percent or higher has preceded 80 percent of financial crises since the 1980s.

China’s household debt has also risen significantly over the past few years, reaching 40.7 percent of GDP as of 2017. A ratio no doubt brought forth by the change in cultural attitudes towards consumption and saving. As the Economist Intelligence Unit points out, households are beginning to take on short-term consumer loans to help meet mortgage payments and finance increased consumption <sup>22</sup>. As credit penetration is predicted to grow from 16 percent in 2014 to 44 percent in 2025, consumer spending will become an increasingly important part of sustaining continued economic growth.

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<sup>21</sup> [Do credit booms foretell emerging-market crises?, The Economist](#)

<sup>22</sup> [China’s Banks Step Up Credit Issuance, The Economist Intelligence Unit](#)



The new credit paradigm in China, from the social credit system of the Communist Party to the invasive and all-inclusive credit scoring systems of tech firms, will have profound implications for the direction of the economy over the coming years. While it is unclear what impact the ever-present omniscient state surveillance apparatus will have on the thoughts and behaviors of the Chinese populace and the degree to which they will conform to the party's political and social doctrine, it will more than likely become a ubiquitous feature of Chinese society, one that relies heavily on collaboration with, and exploitation of, the digital ecosystems that will continue to become more ingrained in the day to day lives of Chinese citizens.

While the party will continue to pursue a top-down approach to economic planning and social governance, it is possible that further access to global markets and newfound sources of knowledge will undercut their efficacy and lead to further economic and social liberalization of which the party will be unable to hold back. On the other hand, this new paradigm predicated on authoritarian paternalism and its use of pervasive digital surveillance technology in both public and private spheres has the potential to flatten and quell the imagination and hopes of hundreds of millions of Chinese citizens, reducing the vibrant and often contradictory activities of society to one determined by algorithms and big data. How consumers respond to these competing realities will determine the future of the country and China's place in the global order.