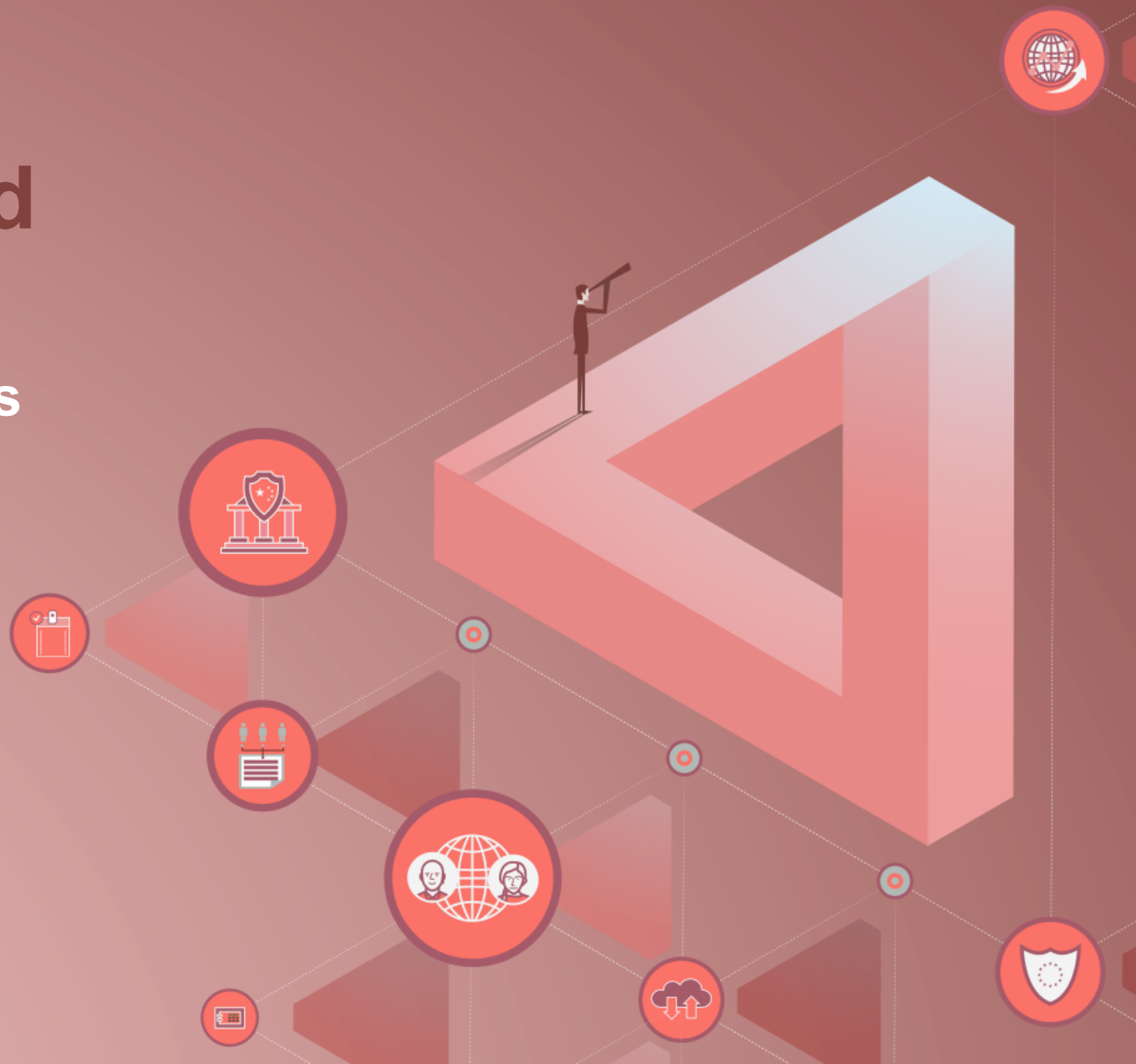


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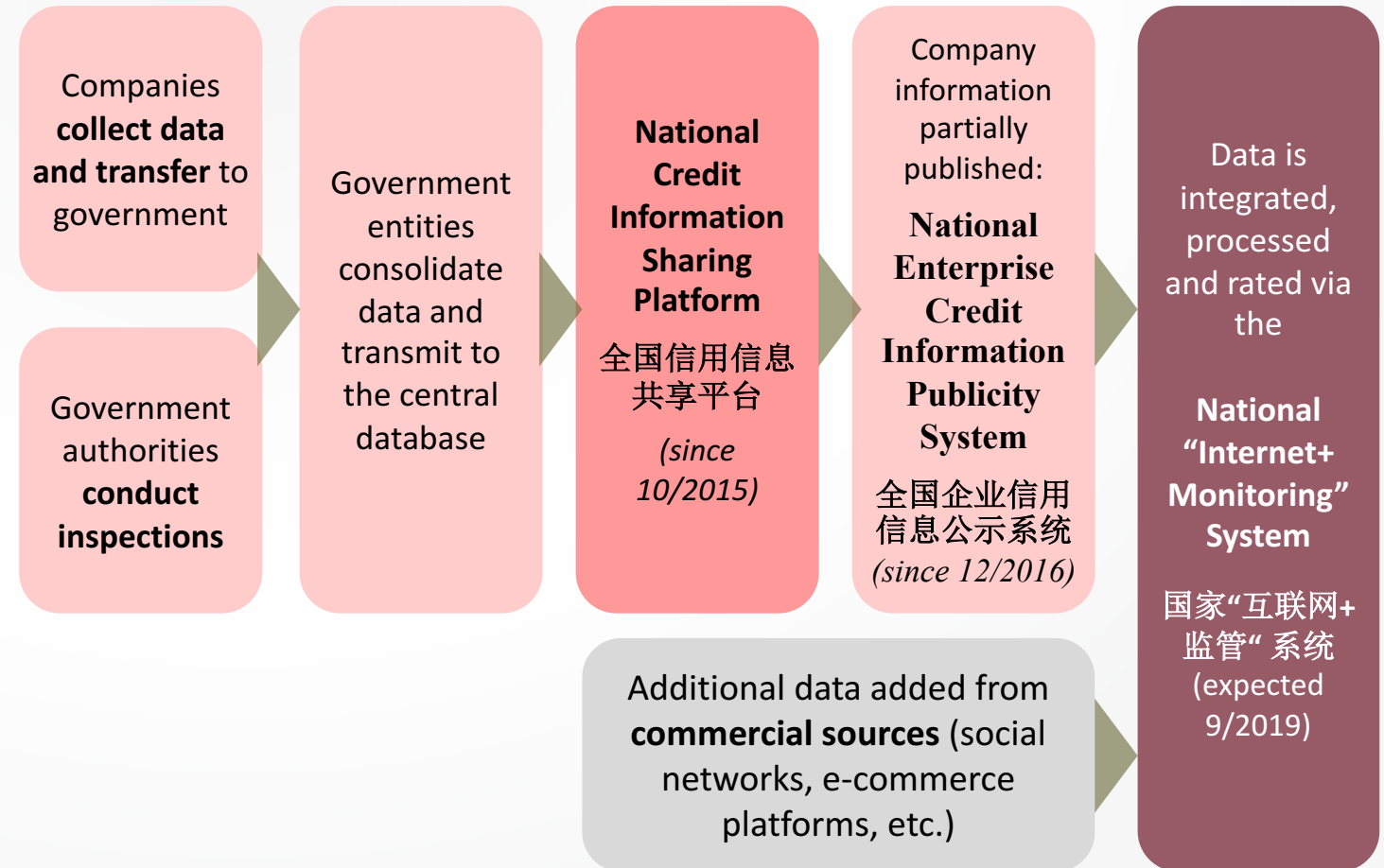
How China's Corporate Social Credit System Conditions Market Actors

21st October 2019 | Guangzhou, China



It is already happening

- International companies in China are **subject to >25 ratings** and compliance records right now, many already implemented
- **Hundreds of rating requirements** have already been published in >1500 government documents since 2013
- The **data infrastructure** is largely operational and lots of company information is publicly available



It is challenging

- **Intensified regulatory scrutiny:** Quicker detection of non-compliance and more rigorous enforcement of sanctions
- Sanctions can be severe, **impacting vital parts of companies' business operations** in China
- **Comprehensiveness, intricacy and interlinkages** of the Corporate SCS makes compliance difficult

• Average inspection rate (进出口平均检查率) for an AEO certified enterprise in 2018: **0.54%**
• Average inspection rate for a distrusted customs enterprise in 2018: **96.29%**
Source: CreditChina

EXAMPLE:
Customs Authentication Rating

Rating as a distrusted customs authentication enterprise

INSPECTIONS: Higher rates of inspections for import/export cargo

AUDITS: Increased, strict audits of documentation, export tax rebates

GOVERNMENT PROCUREMENT: Restriction from participation

APPROVALS: Financial/credit affairs, certificates, foreign exchange quotas

LEGAL REPRESENTATIVE: Restrictions of travel, real estate/land purchases, etc.

PUBLIC BLAMING: Public disclosure of untrustworthiness information

IMPACT ON OTHER RATINGS: Cannot be rated Class A by SAFE

It is different

- Automatization of ratings **decreases leeway for case-by-case solutions** of regulatory issues; increases challenges to data integrity
- Creates **self-enforcing regulation** by shifting responsibilities to the companies (for business partners, personnel)
- Shift from tight **market access** regulation to continuous monitoring and control of **market participation**

Requirement for achieving a good customs authentication rating (AEO certificate - 认证企业)

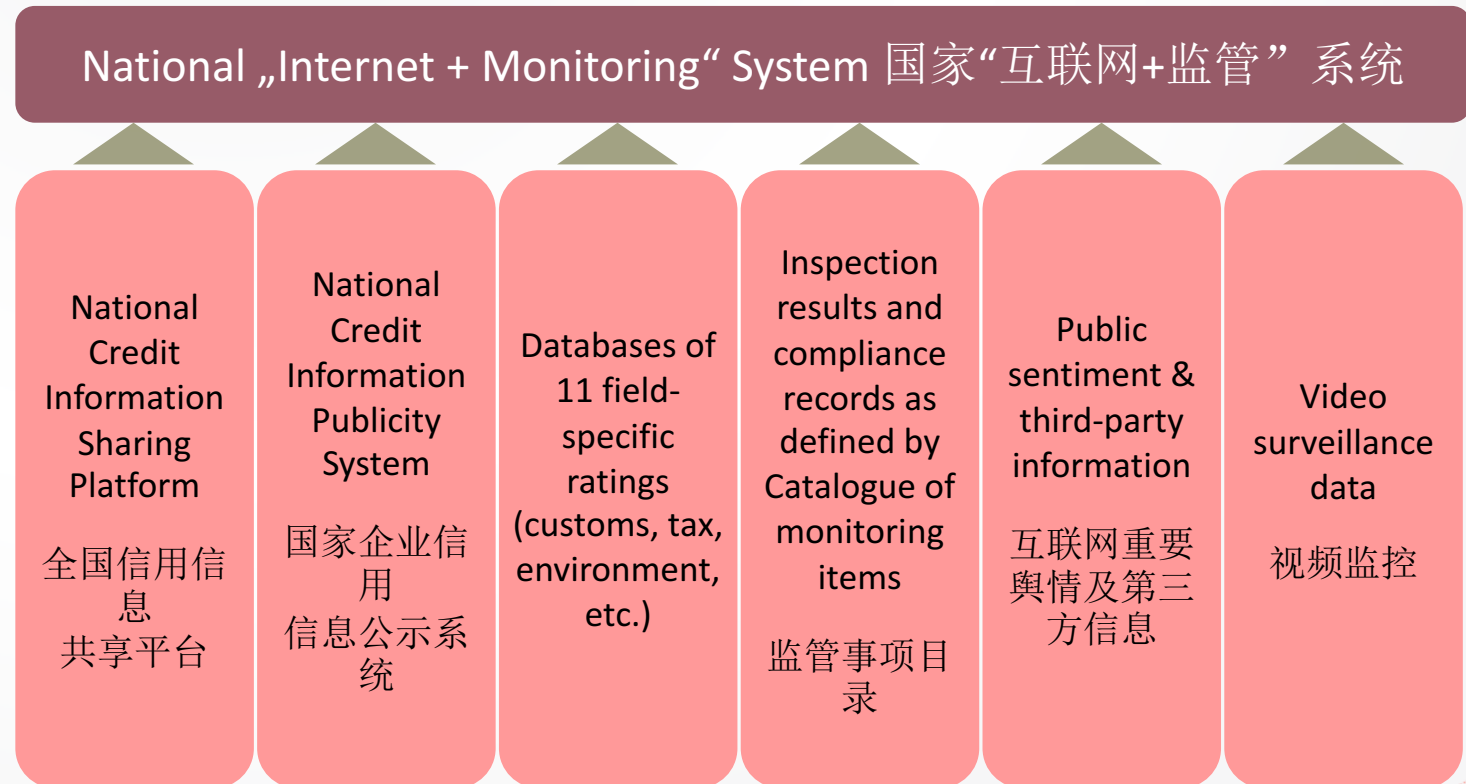
Supervision and control of business partners:
The company should effectively implement a management system for evaluating and checking the safety of supply chains and business partners.

商业伙伴安全控制措施:
建立评估、检查商业伙伴供应链安全的管理制度并有效落实



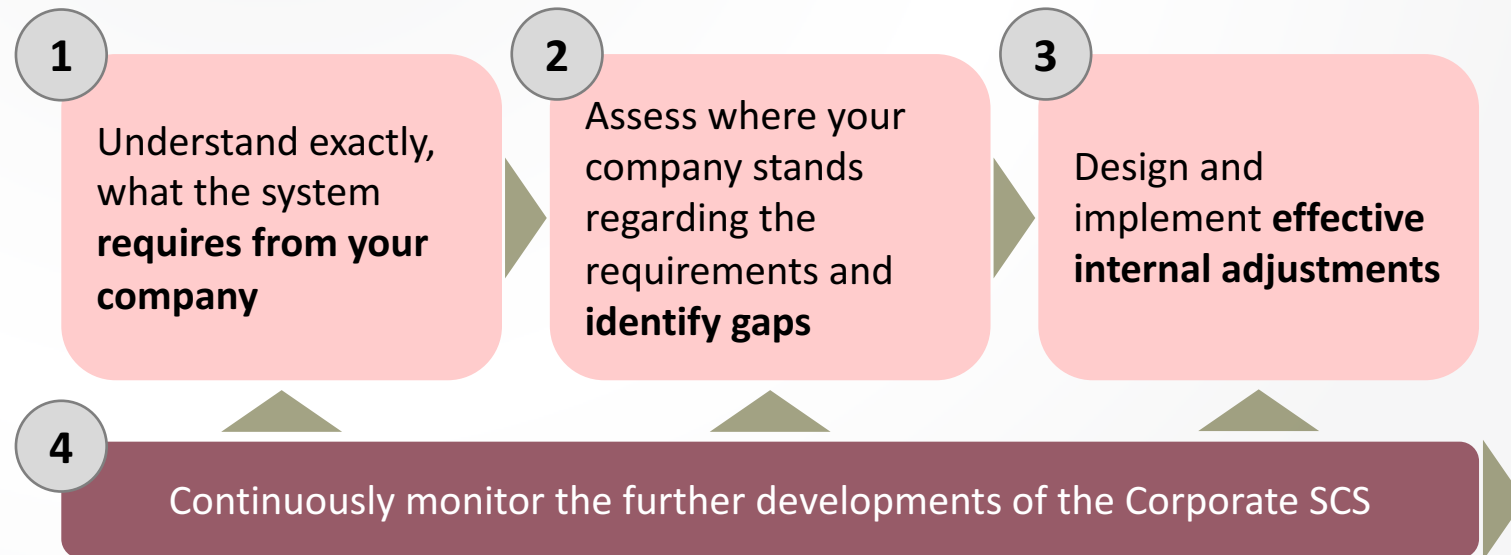
It is heating up

- With **Foreign Investment Law** coming into effect on 1 Jan 2020, China's government needs to ensure that the corporate ratings are ready in time
- Test-version of the **National 'Internet+ Monitoring' System** about to be launched, integrating the complete set of monitoring data on companies
- SAMR '**heavily distrusted entities list**' pushes full integration of compliance records into sanctioning mechanism



It is not too late to prepare

- Implementation gaps provide “**window of opportunity**”
- Companies need to use the time to make **necessary internal adjustments** to effectively and efficiently manage regulatory ratings
- Now is the time to **exchange with government authorities** on concerns; inquiries need to be detailed, concrete and technically precise



Thank you.



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European Chamber Media Roundtable
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