

STACEY VANEK SMITH, HOST:

Over the last couple of decades, China's economy has exploded. China has become one of the wealthiest countries in the world in a very short time, and it's experienced some growing pains.

CARDIFF GARCIA, HOST:

Yeah, like trust issues.

VANEK SMITH: Like trust issues, right? I mean, you might not think about it, but our day-to-day interactions, our economic interactions are all built on a foundation of trust.

RACHEL BOTSMAN: And so there is, for lack of a better word, a trust deficit in China that is impacting economic activity.

VANEK SMITH: Rachel Botsman teaches trust and technology and is the author of "Who Can You Trust?" She says a lack of trust in people and businesses has held China's economy back. China's economy has seen amazing growth, but that growth could be much stronger without the trust issues.

Now, in the U.S., a lot of the way we determine whether someone is creditworthy is by using their credit score. This number is basically an indicator of trust. Should the bank trust you with a certain loan? Should a landlord trust you to rent an apartment? It's a really important economic tool. But creating a credit score in China is a little tricky because a big chunk of the population doesn't really have a credit history. There's a large unbanked population.

BOTSMAN: The government's idea was, well, why don't we bypass this system in the West of using credit history and that they would have what they called a social citizen score that would track and assess them in all different areas of their lives to really determine whether someone was trustworthy or whether they weren't.

GARCIA: By 2020, the government said every person in China would have one of these scores. This is THE INDICATOR FROM PLANET MONEY. I'm Cardiff Garcia.

VANEK SMITH: And I'm Stacey Vanek Smith. Today on the show - China's social credit score, how the country is building a system to measure a citizen's trustworthiness and what that might mean for China's economy and culture.

(SOUNDBITE OF MUSIC)

VANEK SMITH: Xing Zhao Huang (ph) is a lawyer in Beijing, and we spoke with him through our producer Echo Wang.

XING ZHAO HUANG: (Foreign language spoken).

ECHO WANG, BYLINE: (Foreign language spoken).

GARCIA: Xing Zhao was seeing these trust issues firsthand. Banks and lenders would come to him wanting him to defend them in court. And they would tell him, hey, I lent this person money and they won't pay it back. So Xing Zhao would represent them and would take the borrower to court. He would win the case and nothing, crickets. The person still wouldn't pay even after Xing Zhao and his clients had won the case.

XING: (Through interpreter) The whole system was like - we call a tiger without teeth.

VANEK SMITH: There was no enforcement. Even people who could afford to pay back loans just wouldn't, and they were getting away with it.

GARCIA: And there was no centralized database. So the debtor in question could often just go to another lender and take out a new loan even though he or she had not paid back the earlier loan. And as a result, companies and individuals were often wary to lend.

VANEK SMITH: What China needed was a centralized database - a credit score. So China was facing this challenge. How do you create a credit score when a lot of people don't have much credit history? Well, you can find records of people's other behaviors and extrapolate trustworthiness from that. And, you know, Cardiff, who has lots and lots and lots of data on how people behave? Big companies, of course...

GARCIA: Yeah, big companies.

VANEK SMITH: ...Small companies - all the company - companies (laughter).

GARCIA: Yeah. And in China, the big companies are really big. Alibaba is like China's version of Amazon. It has more than 500 million customers. That is tons of data on what these customers buy. And Alibaba also owns one of the largest online payment systems in the country and has its own credit scoring system called Sesame Credit. Alibaba knows a lot about how people spend and borrow and how much money they likely have. The government partnered with Alibaba to use some of the company's data to help formulate people's social credit score.

BOTSMAN: The way people are scored is not simply whether they miss a bill. It could be what they buy online. It could be what they...

VANEK SMITH: Like if you buy, like, a low-cut dress or something?

(LAUGHTER)

BOTSMAN: Well, it's not far from that. I mean, I think the example that the head of Sesame Credit - the example she publicly gave the press was, you know, if you buy nappies, you're responsible so your score will go up. But if you're buying video games, you're lazy so your score will go down.

VANEK SMITH: So if you buy diapers, you're seen as responsible and your credit score could go up. If you buy video games, you might be seen as irresponsible and your credit score could drop.

GARCIA: Of course this data collection and the weird assumptions that companies make based on our actions happens in the U.S. and everywhere else. Rachel says that what's different in China is how severe and comprehensive the consequences can be. Also, she says, it's really unclear how much data or what data Chinese companies are sharing with the government and how the data is getting used. We reached out to the Chinese government by the way, but they did not respond to requests for comment.

VANEK SMITH: But the social credit score will not be all about what you buy. The government is also collecting data of its own, and that data will factor into people's social credit scores, too. If you speed or get a DUI, your score might get dinged. If you donate to charity, you might get a boost.

The government is also piloting neighborhood watch programs in cities across China where a designated watcher will watch you, record your behavior and then factor that into your score.

GARCIA: OK, so the first thing China is doing to solve its trust problem is cobbling together a kind of credit score for people, using data from some big companies as well as data that it is collecting itself.

VANEK SMITH: China is expected to roll out these scores nationwide by 2020. There are many pilot cities throughout China, though, where people already have them. And there, the effect these scores can have on people's lives has become evident.

GARCIA: If you have a high credit score, you can get a promotion at work. If you have a high credit score, you can also put that on a dating site and get better matches.

VANEK SMITH: And if your social credit score is low or if you're one of the people who doesn't pay back a debt ordered by the court, you could end up on something called the list of untrustworthy people. Right now, the blacklist is in effect nationwide, but it just applies to people who haven't paid back their loans.

GARCIA: Xing Zhao, the lawyer, says he thinks the blacklist has done wonders for China's trust problem.

XING: (Through interpreter) It was like the tiger was entirely equipped.

GARCIA: The blacklist is a national database. People on the blacklist can't get a credit card or take out a loan.

VANEK SMITH: Not to mention a whole other raft of restrictions and humiliations. For instance, in some parts of China, if you're on the blacklist and someone calls your phone, they will hear this.

(SOUNDBITE OF SIREN WAILING)

UNIDENTIFIED PERSON: (Foreign language spoken).

GARCIA: That is a recording basically saying, warning, this person is on the blacklist. Be careful in your dealings with them, and please urge them to pay back their debts.

VANEK SMITH: Last year, the government got really serious about the blacklist and started enforcing all of these new social consequences. And there'll be many more social consequences to come as the full social credit score gets rolled out over the next couple of years.

XING: (Through interpreter) There's a saying in China that if you want to correct some wrongdoings, it's very likely you have to cross a line first. It's a little bit like if you want to, you know...

VANEK SMITH: Make an omelet, you have to break some eggs.

XING: (Through interpreter) Exactly. It's - as a conclusion...

VANEK SMITH: Yeah.

XING: (Through interpreter) ...The - we think the positive side is larger than the negative side of this new policy.

GARCIA: The positive side. Rachel Botsman says most Chinese citizens she's spoken with, like Xing Zhao, support the social credit score. She says most Chinese citizens don't have the same expectation of privacy that U.S. and European citizens do. Also, she says, they understand the importance of the trust problem. The social credit score will apply to companies, too. And Rachel says that could be a real game-changer.

BOTSMAN: So it's very easy to look at this from the West and say this is completely Orwellian. It's totally Big Brother. But we have to remember that when we hear about a milk scandal in China or some counterfeit goods scandal, that is one of millions that happen every single day.

VANEK SMITH: The milk scandal happened about 10 years ago. Some Chinese baby formula-makers had put melamine in their baby formula. More than 50,000 babies were hospitalized, and several died. Subsequent investigations found contamination in many different food products in China. And some countries stopped accepting food exports from the country because they didn't trust the quality. And recent surveys have found that the majority of Chinese

parents still buy foreign-made formula because they don't trust the Chinese brands. Rachel says a social credit score might help consumers feel like people and companies in China will start to be held accountable for their actions, and it could repair the trust from incidents like the milk scandal.

BOTSMAN: I mean, maybe that's the way they're thinking about it. Like, you can place your faith in me, or you can have confidence in me. Or you can marry me or date me or give me my job or give me a loan. Whatever it is, you can trust me.

(SOUNDBITE OF MUSIC)

VANEK SMITH: Tomorrow on the show, we talk with someone who is on the list of untrustworthy people about what life is like on China's social credit score blacklist.