

**FROM SURVIVAL TO PROFIT:  
A CANADIAN BOOK PUBLISHERS' GUIDE TO  
CHINA, THE WORLD'S LARGEST MARKET**

by

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## **Abstract**

The Canadian book business is fraught with difficulties and struggles. Canadian publishers have long been trying to establish and reinforce their images and sales internationally.

Meanwhile, suffering a long-time isolation from the rest of the world's publishing industries, Chinese publishers are urgently looking for international cooperation opportunities to modernize and improve the domestic book industry.

Based on a discussion of the importance of foreign sales for Canadian publishers, this report focuses on presenting essential information regarding the Chinese book business. It documents China's unique publishing environment, the structure of the industry and its operational modes. It then discusses the boom in foreign cooperation in China's book trade, as well as the ways to cooperate with Chinese publishers. Finally, a Canadian success story, Toronto's Lingo Media, is presented as an example of the possibilities available in China.

The intent of this paper is to aid Canadian publishers to enter the Chinese market.

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# 1. Introduction

The book, as a kind of cultural product, may be seen to bear the following characteristics:

- The essential nature of a book is for communicating ideas, for information, enlightenment or entertainment.
- A book's essential value is its intellectual property. Publishers' revenue comes from being able to exploit its monopoly over copyrights and to further subdivide them.
- The expense of producing a single copy of a book is relatively insignificant. However the investment in acquiring a copyright and developing a manuscript into a publishable book may be astonishingly high.
- Each title is an innovative product. It is very difficult to predict the market performance for a particular title, although the difficulty varies with the genre.
- Every book is targeted at two groups of people: the "gatekeepers" (book buyers and booksellers) and the consumer/reader. If the product cannot meet the demands of either group, it will be a financial failure.
- A book is usually sold on a "consignment" basis. Distributors and retailers may return all unsold copies to the publishing houses.

For most consumer products, such as automobiles or clothing, it is easy to trace previous sales records and estimate the potential demand for a new product. For books, though, it is

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very difficult to predict the sales potential of any new title because each title is unique. This makes the book business exceptionally unpredictable and risky.

One effective solution for diluting the risk entailed with the introduction of a new title is to enlarge its potential market. Once the initial production costs have been covered, the cost of producing additional copies is relatively insignificant and the revenue from the sale of additional copies or subsidiary rights can yield higher profit.

Generally, books that are produced for readers in a larger market face a much lower risk and a greater potential reward than those produced for a smaller market. Within a larger market, there are many more potential customers and hence, the ability to amortize the fixed costs of the first copy is much greater. These initial costs include the price of copyright acquisition, editing, designing, production and so forth. The following copies of the product will then produce profits.

Canada, with a population of about 30 million, is a very small book market. This already small market is further divided by the fact that it has two distinct official languages, English and French. For English-language publishers, competition in the marketplace is high because there is no language barrier to the world's two largest publishing countries — the United States and Great Britain. Thus vast numbers of books produced in these two countries, particularly products from the U.S., ceaselessly flow into the Canadian market. These imported books can be lavishly promoted and sell relatively inexpensively in Canada. The lower pricing is due to the fact that there is already a large international readership for the material and the initial costs of production have been covered. In order to compete with

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foreign publications, Canadian publishers must price competitively, at a level that allows for very little profit.

The size of the market and its openness to books from the U.S. and the U.K. make Canada one of the world's most competitive book markets and create enormous challenges for the Canadian indigenous book publishing industry.

With the competition in domestic market and the major international markets becoming fiercer and fiercer, more and more Canadian publishers intend to develop new international markets. Among prospective markets, China, with the fastest growing book business in the world currently, attracted the attentions of some far-sighted Canadian publishers.

As a condition of joining the World Trade Organization (WTO), China is committed to reducing tariffs in many sectors of its economy and to opening its markets to foreign investment. According to the General Administration of Press and Publications (GAPP) and the Ministry of Foreign Trade and Economic Cooperation (MFTEC) jointly issued *Management Regulations for Foreign Investment in Distributing Books, Newspapers and Periodicals* on March 17, 2003, as of May 2003, international investors were allowed to share the profit of China's print media retail market throughout the country with state- and privately owned distributors and retailers and as of December 1, 2004, foreign-invested wholesale enterprises were permitted to set up.

Of major concern to Chinese publishers, though, is their current inability to match their international counterparts in fields such as market competition, capital management, the application of new technologies, and human resources.

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Despite facing enormous challenges, Canadian publishing houses have remained vital and independent and hold great promise in the international book market. With their relatively small size, flexibility and constant focus, Canadian publishers show an advantage over global conglomerates in the pursuit of China's growing market in transition, especially in the English-language educational book market.

One Canadian success story is that of Lingo Media in Toronto. Working with several Chinese joint venture partners, Lingo has, since 2001, sold more than 30 million copies of English textbooks for use in China's classrooms.

Although English publications are not very popular in China at present, English Language is a mandatory course for 230 million Chinese students, from primary school to college (as of the end of 2003)<sup>1</sup>. Since the end of 1970s, with the expansion of industrialization and globalization, Chinese people have increasingly realized the importance of learning English in locating a better job and developing a better lifestyle. At the same time, as a new member of the international trade family, and soon-to-be host of the 2008 Olympic Games, the Chinese government encourages the learning of English and other foreign languages in preparation for playing a greater role in international affairs.

To cater to this trend, the Export Committee of the Association of Canadian Publishers (ACP) has set up an "exploratory" long-term project to help Canadian publishers to meet with their Chinese counterparts to promote better relations between the two parties. The committee's plan for 2005 is "China Trade Mission 2005", which will organize some

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1. From the speech of Zhou Ji, minister of the Ministry of Education of P.R.C., on August 24, 2004.

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Canadian publishers, mainly nonfiction, educational, and children's publishers, to visit China in June 2005.

For Canadian publishers interested in entering the Chinese book market, the importance of researching China's unique publishing environment and governmental policy measures, as well as locating suitable cooperation partners cannot be overstressed.

This report is intended as a guide for Canadian book publishers to breaking into the publishing business in China.

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## 2. The importance of foreign sales for Canadian book publishers

### 2.1 Challenges facing the Canadian book business

Book publishing is an extremely tough business and the situation is even more difficult for Canadian publishers. Trade publishing is a break-even operation even in the largest market. In the U.S. book market, the average marginal net profit rate is about 4-5 percent<sup>2</sup>; while in Canada, even after taking into account of government funding support, the average profit margin is a mere 2 percent<sup>3</sup>.

Although Canada has a small population, it is a vast country. While the nation's small population determines its consumer base in terms of book selling, the enormous distances across the country make the distribution of books more difficult and costly.

Canada's book market is constantly overstocked with foreign titles. The major international publishers release in Canada the vast majority of the titles they publish in the U.S., the U.K. and other English-speaking countries. To compete with foreign publications for shelf space, Canadian publishers have no choice but to match the price of foreign books, resulting in a very narrow profit margin.

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2. *The Business of Books: How the International Conglomerates Took Over Publishing and Changed the Way We Read* by Andre Schiffrin. Verso. 2001.

3. Page 391. *The Perilous Trade* by Roy Macskimming. McClelland & Stewart. 2003.

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Most major international publishing houses have branch offices located in Canada, such as Random/Knopf, Penguin, HarperCollins, and Scholastic. The major business of these foreign-owned houses is distributing titles published by their enterprises in New York or London. Supported by the abundant financial resources and international reputations of their parent companies, these branches can and do focus publishing functions on acquiring big name Canadian authors.

In contrast, Canadian-owned firms — largely comprised of small, independent houses — are dedicated to nurturing new Canadian writers; giving them their first opportunity to develop their talent. Once these authors have built a name and reputation, the foreign-owned houses can easily outbid local publishers for the rights to any forthcoming books. In effect, local publishers operate as farm teams to the big internationals. They find and develop the talent but are forced to give up the much greater profits that flow from the author's mature works and established reputation.

The chronic shortage of working capital is another severe disadvantage for Canadian-owned publishers. This shortage limits not only their ability to bid against multinationals for the best manuscripts, but also their capacity to exploit those promising books that do fall into their hands.

The astronomical \$12 million U.S. dollars advance paid by the U.S. publisher Alfred A. Knopf, a division of Random House, to former U.S. President Bill Clinton for the worldwide

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rights of his presidential memoir sets a new record of book advance for nonfiction books<sup>4</sup>. As huge advance figures like this take hold in the industry, there will surely be less and less room for small publishers.

While the various governmental bodies in Canada still provide funding for the domestic publishing industry, on the demand side, spending on book purchasing for public libraries, universities and research institutions is not expanding. In fact, purchasing for these institutions seems to be contracting<sup>5</sup>.

The book retail channels have evolved dramatically beginning in 1994<sup>6</sup>. The big-box retailing model has become commonplace and online bookstores make the competition for consumers' attention even more intense. These changes translate into new challenges for the Canadian book industry. Demands for a wider range of products, more informed service and quicker request fulfillment are changing the relationships between publishers, distributors and booksellers.

As the dominant player in Canadian book retailing, the bookselling chain Chapters/Indigo has become the bane of many Canadian publishers and booksellers. The estimated combined retail store sales of Chapters/Indigo were \$681.6 million in 1999<sup>7</sup>. Together they have an estimated 68.8 percent share of the total retail book market in Canada; if Internet sales are included, the figure rises to approximately 75 percent<sup>8</sup>. Dominating

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4. *Bill Clinton: What Bill Did Next?* By Andrew Walker. BBC News. October 4, 2002.

5. Page 390. *The Perilous Trade* by Roy Macskimming. McClelland & Stewart. 2003.

6. Page 360. *The Perilous Trade* by Roy Macskimming. McClelland & Stewart. 2003.

7. Note: In this paper, all amounts are in Canadian dollars unless otherwise specified.

8. Page 5. *A Review of the Canadian Book Industry* prepared for Association of Canadian Publishers by Evans and Company. February 2001.



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market shares of between 70 percent and 83 percent in the four major cities (Toronto, Ottawa, Calgary and Vancouver), Chapters/Indigo is the only major client for most Canadian trade publishers<sup>9</sup>. The company quickly drove most small independent booksellers out of business and then began to wield its near monopoly power to the detriment of Canadian publishers and distributors by failing to pay its bills within the industry standard time period of 90 days.

Strapped with cash flow difficulties caused by Chapters' slow payment, publishers have also had to face an average of more than 40 percent of returns from the same firm. To squeeze the last penny from publishers, Chapters/Indigo charges an added-on display fee for prominent product placements in its big box stores. Products from small to medium-sized publishers, unable to afford this display tax, are placed outside the high-selling area, regardless of how good they may be.

To make the situation even worse, Chapters/Indigo announced in 2004 that it would continue to cut book display sections and expand the stationery and gift sections in its chain stores. It is said that Canada's largest bookstore chain is rapidly turning itself into a department store, with books being a less and less important product in its line.

These challenges translate into formidable obstacles for the flourishing of Canadian publishing in the domestic market; while at the same time, they transfer into strong motivation for Canadian publishers to enter the non-English and French-speaking international marketplace.

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9. Page 11. *A Review of the Canadian Book Industry* prepared for Association of Canadian Publishers by Evans and Company. February 2001.

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## 2.2 The international book market for Canadian publishers

There are six basic ways for a publisher to sell books overseas:

- Sell books directly to foreign bookstores or end-consumers. The cost of shipping here is the biggest concern.
- Contract a commissioned sales representative who will visit foreign bookstores on the publisher's behalf. This is suitable for small publishers.
- Designate a stock-holding overseas distributor. This exclusive distributor may buy books from the original publisher at a relatively deep discount and becomes the owner of these books. Also, the agent may buy on "consignment", which means that the distributor does not own the books and can return any unsold copies to the publisher. In both cases the distributor organizes promotion and publicity, though the costs are sometimes shared with the original publisher.
- Sell the copyright to foreign publishers for a foreign-language edition. The original publisher consults foreign publishers and sells the rights to publish a particular language edition in the designated country or region.
- Co-publishing with foreign publishers. Prior to printing a book, selling regional rights to foreign publishers in different markets will enlarge the initial print run of the book. Co-publishing is particularly prevalent for highly illustrated books, where the increased print run helps defray unit costs.

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- For multinational publishers, overseas subsidiaries are the distributors of books produced in other countries.

The federal government of Canada has encouraged an international outlook in the book industry for the past three decades. Canadians began to participate at the Frankfurt International Book Fair in 1962 and the Bologna Children's Book Fair in the 1970s<sup>10</sup>. The federally funded Association for the Export of Canadian Books (AECB) underwrites export activities and operates the Canadian kiosk at major international book fairs.

Export sales of Canadian books have experienced their strongest growth over the last decade. It is believed that the main reasons leading to this success include:

- Highly supportive government policies toward the indigenous book publishing industry.
- Efficient promotion by the AECB of Canadian books at international book fairs.
- The high quality of Canadian books.
- The reputation of well-established Canadian authors in the international book market.
- The competitive pricing of Canadian books.

For Canadian publishers, playing a role in the international marketplace has some significant meaning beyond economic gains. Some of the benefit may be articulated as:

- Continuing to build and enhance the Canadian international presence to ensure the health of the national book publishing industry.

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10. *The Perilous Trade* by Roy Macskimming. McClelland & Stewart, 2003.

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- Reducing the risk of being strangled economically due to Chapters' exclusive dominant position of the domestic retail market.
  - Helping publishers to amortize risks by exposing their titles to a much larger audience.
  - Promoting the unique value of Canadian culture and making Canadian voices heard in other parts of the world.
  - Introducing outstanding Canadian authors on the international stage<sup>11</sup>.

Although Canadian literary fiction has a more prestigious reputation overseas than other genres, it is not the only successful international seller. Canadian publishers are known as strong exporters in other areas such as children's illustration books, juvenile titles, environmental books, Native American studies, and gay and lesbian books<sup>12</sup>.

Traditionally, the United States and Western Europe have been the two largest international markets for Canadian books. Physically and culturally accessible, with an English-speaking population about twelve times larger than Canada, the U.S. is a natural extension of Canada's domestic publishing market. This accessibility represents a hugely lucrative opportunity for Canadian publishers. Whereas Canadian publishers once sold publishing rights to Americans, many now sell their own editions directly into the U.S. via their distributing network.

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11. Source: AECB's website at [http://aecb.org/About/about\\_5\\_e.asp?a\\_id=1](http://aecb.org/About/about_5_e.asp?a_id=1).

12. Lectures of PUB 600 "Topics in Publishing Management" by Craig Riggs.

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Western European countries are the second largest market for Canadian book exporters, with France, the U.K., and Germany ranking as the three largest markets. France continues to be the most important trading partner for Francophone publishers in Canada, while the U.K. and Germany are the major export markets for English-language Canadian books.

In recent years, many Canadian publishers have begun to seek markets beyond these traditional export countries. The Asian-Pacific region represents the third largest import market for Canadian books. Although Japan and Australia are the two largest cooperation partners at present, China is showing the strongest increase in this area.

### **2.3 Government support and international programs**

The Publishing Policy and Programs Branch of the Department of Canadian Heritage administers funding programs and other policy instruments in support of the Canadian book publishing industries. The agency performs research and analysis functions, and provides industry-related advice and recommendations to the Minister of Canadian Heritage. In addition to the funding programs, the Branch is responsible for other policy measures. These include foreign investment policies regarding book publishing and distribution and parallel importation regulations with regard to the Copyright Act.

The main tool under the Branch is the Book Publishing Industry Development Program (BPIDP), which provides \$39 million to support the Canadian book industry. BPIDP has four components<sup>13</sup>:

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13. Source: BPIDP's web page at [http://www.pch.gc.ca/progs/ac-ca/progs/padie-bpidp/index\\_e.cfm](http://www.pch.gc.ca/progs/ac-ca/progs/padie-bpidp/index_e.cfm).

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- Aid to Publishers
  - Supply Chain Initiative
  - Aid to Industry and Associations
  - International Marketing Assistance

Among the four, International Marketing Assistance is responsible for promoting Canadian books in the global marketplace. It is administered by the Association for the Export of Canadian Books (AECB) on behalf of Canadian Heritage. Founded in 1972, AECB is a non-profit organization which helps Canadian book publishers develop foreign markets and promote export sales of their books. It provides market “intelligence” to publishers as well as direct financial assistance.

BPIDP’s 2004-2005 Contribution Agreement will enable the AECB to distribute a total of \$4.24 million under the International Marketing Assistance Programs as follows<sup>14</sup>:

- \$2.6 million to eligible publishers and national associations under the Export Marketing Assistance Program (EMAP). This funding is to assist Canadian publishers in their efforts to develop and strengthen their sales of both rights and finished books, to foreign markets.
- \$0.94 million to eligible publishers under the New Market Development Fund (NMDF). This is to assist Canadian publishers in undertaking an export market launch, to test new export market initiatives within a publisher’s existing export

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14. Source: AECB’s website at [http://aecb.org/home/default\\_e.asp](http://aecb.org/home/default_e.asp).

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market or to consolidate their presence in an export market by allocating an incremental budget to an eligible activity under EMAP.

- \$0.1 million to eligible publishers under the Export Expertise Development Fund (EEDF), to assist Canadian publishers entering or expanding their activities in a key export market. Funds provided under EEDF are to be used to commission consultants who will conduct research tailored to their companies' specific export needs. These may include market identification studies or the development of a marketing plan for entry into the market of a foreign country.
- \$0.6 million to eligible publishers under the Foreign Rights Marketing Assistance Program (FRMAP). The intent of this fund is to foster Canadian publishers' export sales by providing money for export sales trips and participation in international trade events.

Managed by International Trade Canada, and administered through the regional International Trade Centers, the goal of the federal government's Program for Export Market Development (PEMD) is to increase export sales of Canadian goods and services by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing risks involved in entering a foreign market<sup>15</sup>.

The PEMD partnership with Canadian business is an investment in a company's commitment to develop international export markets. The program encourages a long-term focus on target markets with built-in flexibility to respond to changing market conditions. It

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15. Source: PEMD's web page at [http://www.dfait-maeci.gc.ca/pemd/hndbk\\_section01-en.asp](http://www.dfait-maeci.gc.ca/pemd/hndbk_section01-en.asp).

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is not a grant, loan or entitlement, but rather a repayable contribution. Repayment of the contribution is based on incremental sales made by the recipient company or contracts obtained.

Under the Department of Foreign Affairs and International Trade, administered by the Arts and Cultural Industries Promotion Division, there is an Art Promotion program. Writers published by a recognized Canadian publisher or Canadian literary agents who sell publishing rights to foreign publishers may request financial assistance from the program for promotional projects. These may include reading tours, media events, and participation in important book fairs. This aid to writers and agents benefits publishers indirectly by promoting Canadian literature abroad<sup>16</sup>.

The Cultural Industries Development Fund (CIDF) targets entrepreneurs working in book and magazine publishing and other cultural sectors. Its objective is to support Canadian cultural production by providing a range of financial services, particularly term loans. The Fund was created through capital from the Department of Canadian Heritage and is administered by the Business Development Bank of Canada. Access to the Fund is limited to the production sector of the cultural industries<sup>17</sup>.

The Canada Council's Translation Grants and International Translation Grants programs relate indirectly to Canadian publishers. The former provides assistance for the translation of Canadian literary works from one official language into the other or into a

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16. Source: Art Promotion Program Web page at <http://www.dfait-maeci.gc.ca/arts/literat-en.asp>.

17. Source: CIDF Web page at [http://www.pch.gc.ca/progs/ac-ca/progs/fdc-cidf/index\\_e.cfm](http://www.pch.gc.ca/progs/ac-ca/progs/fdc-cidf/index_e.cfm).



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native language<sup>18</sup>. The second program provides assistance to foreign publishers for the translation of literary works by Canadian authors<sup>19</sup>.

The International Translation Grant program has become very popular for those foreign publishers who wish to acquire copyright sales from Canadian publishers. It has, therefore, proven important for the dissemination of Canadian literature. Grants cover up to 50 percent of the translation costs, with the balance covered by the foreign publishers. Eligible categories include: poetry, fiction, drama, children's literature and literary nonfiction.

Canadian publishers who have an intention of entering foreign markets may find other federal and provincial grants available that may help them to actualize their adventures.

Understanding the vital importance of the book business for building Canadians' images, nationally and internationally, for more than a century the Government of Canada has supported the Canadian publishing business strongly. Today's global economy further stimulates Canadian governments to keep searching innovative ways to help Canadian publishers to build a healthy publishing industry domestically and to expand their business to more foreign markets internationally.

While struggling to find more foreign markets, some Canadian publishers have realized the great potential of China, which accounts for the world's largest consumer market. At the same time, Chinese publishers, who are eagerly seeking advanced business models in the

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18. Source: Translation Grants Web page at <http://www.canadacouncil.ca/grants/writing/ex127227344686875000.htm>.

19. Source: International Translation Grants Web page at <http://www.canadacouncil.ca/grants/writing/wr127227348212968750.htm>.

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West, may benefit from Canadian publishers' advanced management methods. Cooperation between Canadian and Chinese publishers is a win-win strategy.

Strictly controlled by the Chinese Communist Party and featuring a totally different cultural background, the Chinese book trade has many distinct characteristics from its counterparts in the West. Before entering the Chinese book market, Canadian publishers should undertake comprehensive and in-depth research. The next section of this paper presents a beginning overview of essential information of the Chinese book business for Canadian publishers.

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### 3. Book trade in China and opportunities in the Chinese book market

#### 3.1 A brief overview of the Chinese book business

The Chinese book publishing industry generates the largest number of titles in the world. In 2003, 190,391 titles were published. Benefiting from a state-run monopoly, the entire industry maintains an average profit margin of 20 percent with the publishing sector enjoying an overwhelmingly higher margin than the distribution, retailing and printing sectors<sup>20</sup>. This well-established monopoly has resulted in book publishing, especially textbook publishing, being identified as one of the ten most lucrative industries in China<sup>21</sup>.

Chinese book publishing accounts for little in the global publishing business currently. However, with annual sales increases averaging \$300 million (USD) for several years, China has demonstrated that it is a booming book market with the potential to be a major player in the global marketplace in the near future<sup>22</sup>.

The philosophy and mechanisms of publishing in China differ greatly from those of the West. To emphasize its importance, the press and publications have always been compared to the throat and tongue of the Communist Party. While in the West publishing, as an industry,

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20. *Publishing Industry in China 2003*. China Industry Development Report of 2003.

21. *The Unreasonably High-Profit Industries in China in 2003* by Yahua Wei. *Resonance Magazine*. Jan. 2004.

22. Excerpt of *Publishing In China* by Guangwei Xin at <http://link.clubol.com/link/res/other/xinguangwei.htm>. Jan. 1, 2005.

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may exist to provide entertainment or information, its major role in China is in functioning as a propaganda tool for the Party to impose moral guidelines and to govern the people.

In the publishing sector, the Communist Party maintains strict control on the entry of any non-state publishers and forbids firmly any direct investment in this sector.

While the size and scale of the vast majority of the Chinese publishing houses are relatively small, several publishing groups that have been founded in recent years show great potential. Generally speaking, presses involved in textbooks and educational supplementary books publishing enjoy the highest economic advantage. This does not mean that these presses are more capable than other publishing houses. Rather their success can be attributed to their dominant position in the marketplace.

Among the 568 state-own presses, around 70 achieve annual sales revenue of more than RMB 100 million yuan (\$14.9 million) and another 70 have the revenue of between RMB 50 to 100 million yuan (\$7.46- 14.9 million). The annual sales revenue for the majority 280 presses is between RMB10 to 50 million yuan (\$1.49-7.46 million); for the remaindering some 140 presses, the annual sales revenue is less than RMB10 million yuan (\$1.49 million)<sup>23</sup>.

Although officially prohibited, attracted by the high profit margins, private and some foreign publishers have been trying to acquire a share of the lucrative publishing business in a roundabout way. These include forming companies engaging in title selection, marketing planning, and acting as copyright agents for state-owned houses, or setting up joint-venture editorial departments with official publishers, and so forth.

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23. Excerpt of *Publishing In China* by Guangwei Xin at <http://link.clubol.com/link/res/other/xinguangwei.htm>. Jan. 1, 2005.

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In the distribution and retailing sector, as the only authorized party, Xinhua Bookstore system monopolizes the distribution and selling of primary and secondary school textbooks as well as teachers' guides. These two categories, along with educational supplementary books (which are not monopolized by Xinhua), account for approximately 70 percent of the Chinese book market. During the past two decades non-state owned book distribution and retailing enterprises have been growing quickly. In the trade book sector, they have already taken up more than 50 percent of the market share.

Statistics show that in 2003, Chinese people spent an average of \$5 (USD) on book purchasing, each of them purchased 5 titles.

### **3.2 A publishing-related overview of China**

On September 17, 2001, the World Trade Organization agreed to the final terms for the People's Republic of China (P.R.C.) to join the international trade body. China, the most populous nation in the world, officially began trading with the rest of the world in accordance with the guidelines of WTO.

China has the fastest economic growth rate in the world currently. Its real GDP growth rate has been steadily increasing at approximately 9 percent per annum since the beginning of economic reform (1978) and 7.9 percent over the past five years. Between 1979 and 2003, Chinese real GDP grew from \$177 billion to \$1.41 trillion (USD) and became the sixth largest GDP in the world<sup>24</sup>.

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24. Page 4. *China in the Global Economy* by Lawrence J. Lau. Stanford University. September 22, 2003.

Currently, China is the world's fourth largest exporting country (behind Germany, Japan and the U.S.), and the third largest importing country (following the U.S. and Germany). China exported \$438.4 billion (USD) of goods in 2003, an increase of 34.6 percent over 2002, and imported \$412.8 billion (USD) of goods, an increase of 39.9 percent over 2002<sup>25</sup>.

### 3.2.1 Demographics

*The Statistical Bulletin on National Economy and Social Development of P.R.C. in 2003* issued by the National Bureau of Statistics of China on February 26, 2004 provided a description of the demographic composition of the Chinese population by the end of 2003 (see table 1).

**Table 1: Demographic composition of the Chinese population by 2003**

Categories	Population (million)	Percentage of Pop. (%)
City-dwellers	523.76	40.53
Rural-dwellers	768.51	59.47
Male	665.56	51.50
Female	626.71	48.50
0-14 years old	285.59	22.10
15-64 years old	909.76	70.40
65 years old and above	96.92	7.50
Total Population	1292.27	100

With only 7.5 percent of population over 65 years old, China is a very young country in terms of demographic composition. This may allow for enormous opportunities for publishers, especially for those in the educational and children's book market.

25. *Making Overall plans for both National Development and International Open Up* by Guangzhou Yu, the deputy minister of the Department of Commerce of P.R.C.

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### 3.2.2 Administrative division

The government of the People's Republic of China has identified the country as composed of 23 provinces (this includes Taiwan Province), 5 autonomous regions, 4 independent municipalities (Beijing, Tianjin, Shanghai, and Chongqing), as well as 2 special administrative regions (Hong Kong and Macao).

Although the ruling Communist Party's recent reforms and more open economic policies have greatly improved many Chinese people's living standards, they have also caused uneven economic development among the different regions. Currently most of the eastern and southeastern provinces such as Zhejiang, Guangdong, Jiangsu, and Shandong; as well as some major cities, such as Beijing, Shanghai, Guangzhou, and Shenzhen, have higher GDPs and leading economic positions.

In contrast, people living in the outback or mountainous regions bear a disproportionately lower average personal income. For example, Shanghai maintained a per capita GDP of \$4503.9 (USD) in 2001. This was almost 13 times that of Guizhou, a mountainous province with a per capita GDP of only \$348.8 (USD). Income differences between different regions as well as between urban and rural areas are now a major issue. The government is making efforts to increase the financial resources of farmers and lower income residents living in small towns. Publications targeted at the vast numbers of China's peasants have the greatest potential for sales.

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### 3.2.3 Education

China has enforced a nine-year compulsory education policy since 1949 and currently has a literacy rate of perhaps three-quarters of the population. According to statistics from the Ministry of Education of China, by the end of 2002, the summary numbers of education were as shown in table 2.

**Table 2: Educational composition of China in 2003**

Categories	Number of Students (million)
Kindergarten & Preschool	20.04
Primary School	116.897
Junior High School	66.906
Senior High School	19.648
Vocational Education	12.402
Special Education	0.365
Universities & Colleges	11.806
Post Baccalaureate	0.651

“Learning is the noblest of human pursuits” is a famous saying in China. Traditionally, Chinese people see enrolling in college and receiving some form of higher education as the optimal or perhaps the only way to achieve better social status and a wealthier life. Most Chinese parents are willing to do all they can do to help their children to have a better education. This makes students, especially those in the primary and secondary schools, the “busiest” people in the country. Aside from full-time schooling (maintaining a schedule of study from 7:30 am to 12:00 pm and from 2:00pm to 5:00 pm), they must study, on average, at least four hours at home each day and take additional tutorial classes during weekends. This results in a huge demand for educational books but, due to the extreme lack of leisure time, a negligible demand for “non-essential” reading materials.



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Prior to the 1990s, university education was provided free and graduates were assigned jobs by the state. In 1989, with the implementation of the new policy of “industrializing and capitalizing higher education”, universities began to exact tuition fees from students. Higher education, as an industry, has developed quickly since these changes were implemented.

Because of education’s high social image and the vast numbers of on-campus students across the country, the publishing of textbooks and supplementary educational books have an overwhelming privilege in China. Astoundingly but not surprisingly, approximately 70 percent of the total copies of books sold annually in China fall into this category<sup>26</sup>.

The responsibility for the publishing of textbooks is primarily within the administration of the government in both the national and regional markets. There are few opportunities for translation or adaptation rights for textbooks except in the area of foreign languages.

In the adult market, the demands for publications in the continuing education sector are increasing rapidly as well. With competition for jobs becoming more and more intense, enhancing and diversifying working skills has become a necessity for Chinese people for securing a position or finding a better one. In the meantime, with the expansion of industrialization and urbanization, the share of agriculture in employment has declined from almost 70 percent to 50 percent<sup>27</sup>. Millions of young farmers, and millions to come, have left their hometowns and flowed into the new industrial centers and large cities. There is an urgent and increasing demand for textbooks and materials to train these young adults.

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26. *Publishing Industry in China 2003*. China Industry Development Report of 2003.

27. *The Analysis of the Development of High-Tech Industries* by Songde Ma, deputy minister of the Department of Science and Technology. Dec. 2004.

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### 3.2.4 Public and school library systems

The public library system is relatively undeveloped in China. In 2002, there were only 2,805 public libraries throughout the nation. Among these, 733 (or 1/3) were reported have no budgets for purchasing new books<sup>28</sup>.

The entire collection of books in all public libraries comprises a mere 0.4 billion volumes. This averages out to 0.3 volumes per person, which is far below the international standard of two volumes per person set by International Federation of Library Associations and Institutions (IFLAI). The average budget for public libraries per year is only RMB 0.3 yuan (\$0.045) per person. In China, averagely, one public library serves 459,000 people, while the international standard is one library for 20,000 people<sup>29</sup>.

By the end of 2002, there were 1.17 million schools and educational institutions in China. Among them, 456,900 were primary schools; 114,300 were secondary schools, including junior high schools, senior high schools and vocational schools; and 2003 were universities and colleges<sup>30</sup>. Each of these schools and institutions have school libraries or “reading rooms”, but the majority of them, except university and college libraries, face the challenge of the shortage of money for the purchase of new books, updating technologies, and providing more efficient services. Some of these institutions must rely on donations from students or other patrons to enhance and update their collections.

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28. Press conference held by Heping Zhou, deputy minister of the Ministry of Culture of P.R.C. March 23, 2004.

29. Press conference held by Heping Zhou, deputy minister of the Ministry of Culture of P.R.C. March 23, 2004.

30. *The Reform and Development of Chinese Education*. The Ministry of Education of P.R.C. January 6, 2004.

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### 3.2.5 Technology

The Chinese Communist Party sees the modernization of science and technology as the key element for economic progress and establishes “to greatly promote the development of modern science and technology” as a national policy. In the past three decades, China has not faltered in its steps in an effort to catch up with the rest of the world in the development of science and technology.

By the end of 2004, cell phone users totaled over 0.3 billion and made China the world’s number one mobile phone market. By the end of 2003, the number of Internet users was over 78 million and it was also estimated that in 2004, the number of personal computers would surpass Japan and make China the world’s second largest consumer market of PCs, after the United States. These developments have greatly stimulated the growth and expansion of STM (Science, Technology and Medicine) publishing in China.

Although modern technology has greatly improved the standard of living of Chinese people, especially city dwellers, foreign publishers should not overestimate its impact in China. Statistics from the Ministry of Education of P.R.C. demonstrate that the proliferation of computers in primary schools and high schools across the country is still very low and regional disparities are obvious. By the end of 2001, the average numbers of students that shared one computer at school were as follows: 14.87 students share one computer in Beijing; 16.7 students in Shanghai; 93 students in Gansu Province; and 186 students in Yunnan Province. In the rural areas of some western provinces, there is often no computer available for teachers and students at schools.

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### **3.2.6 Foreign direct investment**

Foreign direct investment (FDI) has played a significant role in China's modernization drive and its rapid economic growth in the 1990s. In 2003, China maintained its position as the number one recipient of foreign direct investment and received \$5.35 billion (USD) in new money<sup>31</sup>. The FDI is mainly used for development infrastructure, high technology, export-oriented industries, and assistance to less developed parts of the country.

While the FDI brings financial support into China, more importantly it makes available advanced technology, marketing concepts and modern management methods to the Chinese people. The nature of the FDI has changed gradually from being export oriented to domestic oriented, taking advantage of the enormous domestic market. Foreign direct investors are now changing their view of China. While formerly the country was seen only as an export base by international businesspersons, the realization has dawned that it is also a huge consumer market for their finished products. China has now begun to successfully exploit its dual roles as the world's largest factory as well as one of the world's largest markets.

### **3.3 The key government agency: GAPP and its roles**

The General Administration of Press and Publications (GAPP) of the People's Republic of China is responsible for and directs all activities of the 568 state-owned book publishing houses in China<sup>32</sup>. The main office of GAPP is located in Beijing and it directly administers

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31. *Statistical Bulletin on National Economy and Social Development of P.R.C. in 2003*. National Bureau of Statistics of China. February 26, 2004.

32. GAPP press release in spring 2004.

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219 central publishing houses in the city. Regional GAPP offices in major cities are responsible for the administering of the other 349 local presses.

GAPP functions under the State Council of P.R.C. although it reports to the Propaganda Ministry. The primary responsibility of GAPP is to administer the political propagandist system and to prevent the deviation of publishers from serving the agenda of the Chinese communist party. GAPP also regulates Xinhua Bookstore system and over 10,000 state-owned book retail outlets.

In practice, GAPP controls many of China's publishing organizations, such as the Publishers Association, the Copyright Agency, and the National Copyright Administration.

GAPP consists of the following nine departments:

- The Administrative Office
- The Department of Foreign Exchange and Cooperation
- The Department of Publication Distribution Administration
- The Department of Copyright Administration
- The Department of Human Resource and Training
- The Department of Printing Industry Administration
- The Department of Newspaper and Periodical Publication Administration
- The Department of Book Publication Administration
- The Department of Audio & Video and Electronic Publication Administration

The Department of Book Publication Administration under GAPP operates one of the most important instruments of government control in the book publishing industry, which is

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responsible for allocating ISBNs to state publishers. Whereas in the West the ISBN is used for bibliographical and marketing convenience, in China the ISBN is imbued with significant meaning and has become a pre-requisite indication of legal publication.

State-owned publishing organizations are assigned a given number of ISBNs each year based on the publishers' administrative levels and the sizes of the presses. Books published without an assigned ISBN is deemed to be an illegal publication. It is also an illegal activity for private or foreign publishers to publish books in China without ISBNs.

The other two departments under GAPP, the Department of Foreign Exchange and Cooperation (DFEC) and the Department of Copyright Administration (DCA) preside over most of the foreign-related publishing activities in China.

The DFEC is responsible for international activities and the regulating of publishing activities. Responsibilities include evaluating and approving publishing joint ventures and cooperative projects, authorizing publication import and export companies and their offshore subsidiaries, and administering and coordinating publication exhibits and trading inside and outside of China. The Beijing International Book Fair and combined Chinese publishers' exhibits in major international book fairs fall under the guidance of the DFEC.

The DCA is in charge of drafting copyright laws and regulations for national adherence. Approval for representative offices set up by foreign and international copyright and literary rights organizations and agencies must come from the DCA. The office also supervises foreign rights trading and contract registration.

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On the local level, the GAPP maintains provincial or municipal bureaus to serve as press and publication authorities under the provincial or municipal governments. The primary responsibilities of these branch GAPP offices include media supervising, rights contract registration and the allocation of ISBNs to local publishers.

In the 1990s, several very fundamental laws and regulations were enacted with regard to China's press, publications and copyright administration. These included: *The Copyright Law of the People's Republic of China*, *Administrative Regulations on Publication*, *Administrative Regulations on the Printing Industry*, and *Administrative Regulations on Electronic Publication*. In December 2001, the State Council issued a new *Administrative Regulations on Publication* to replace the 1997 one. In 2003, GAPP issued *The Administrative Regulations on Publication Market*. These laws and regulations govern the Chinese publishing industry and stipulate that only government-designated organizations have the authority to engage in publishing.

In January 2004, China announced its latest version of *The Professional Ethics Rules for Chinese Publishers*. This document stipulates that to serve the Chinese people and the Communist Party, publishers should insist on the guidance of Marxism, Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the "Three Represent's" Thought. The latter instruction means that the Party must always represent the development trend of China's advanced productive forces, the orientation of China's advanced culture and the fundamental interests of the overwhelming majority. These new professional ethics rules are to better implement the courses, guidelines and policies of the Chinese Communist Party and the laws

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and regulations of the country with the goal of reaching an optimal combination of the best economic profits and the best social benefits.

In China's state-controlled publishing system, "social responsibility" is of paramount importance. With the ultimate goal of building socialism with the Chinese characteristics, publishers are obliged to persist in guiding the Chinese people forward by expressing the Party's opinion. Publishing houses are pressed to advocate for a healthy, lofty ideology and a culture in which public opinion supports the modernization drive. Publishers are hence prohibited from publishing books that disseminate negative ideological influence, and, violators of this tenet would risk imprisonment.

### **3.4 Book publishing sector: structure and related policies**

The majority of the publishing houses in China were established by the government after 1949.

Although all book presses in China are state-owned, their proprietorship resides in various government ministries and organizations. This results in publishing houses being broadly divided into several categories including those of the military, the universities, corporate or organizational presses, and city presses, etc. GAPP and its regional offices guide the professional operation of these presses. At the same time the host ministries or organizations have direct leadership over their daily operations.

Hence besides presses directly under GAPP, most publishing houses have a dual reporting relationship to GAPP and to a specific central government ministry or national



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association or organization. For example, The China Agricultural Publishing House reports both to GAPP and The Ministry of Agriculture of People's Republic of China.

Approximately 40 percent of book presses in China, which are constituted mostly by central presses, are concentrated in Beijing, the political, economic and cultural center of China. Shanghai, the current financial and commercial center of China, with 40 publishing houses, is the country's second largest publishing center. For the other provinces or regions, there are some 20 presses in each area, which are usually centralized in the capital cities of the provinces such as Xi'an in Shaanxi Province, or in independent municipalities such as Chongqing.

The structure of the publishing industry in all the provinces, autonomous regions and independent municipalities is deliberately designed toward "homogeneity" and compatibility. Each press is assigned a specific subject line or market segment at its inception. Both in the central and the regional level, there are People's Publishing Houses, science and technology presses, children's presses, arts and literature presses and so forth. This structure is meant to prescribe specific publishing limits to individual presses, to allocate scarce resources, and to prevent the publishing of unauthorized content. But it does not work well.

The structure causes heavy overlapping in the Chinese book publishing industry. This leads to regionalism driven by the local government's desire to protect businesses in its own territory. Hence, the cooperation opportunities among different presses are slim: even less likely are the chances of combining and balancing publishing resources throughout the

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country. This compartmentalization and regionalization block the smooth flow of the publishing resources nationwide and limit the competitive abilities of all the presses.

In addition to the People's Publishing House in Beijing there is a People's Publishing House in each province and autonomous region. These houses have more administrative authority than other publishing houses in the same region and have a direct reporting relationship with the local Propaganda Ministry. As a so-called comprehensive trade house, an individual People's Publishing House can publish books over a wide subject area.

Other local houses are designated a specific field in which to publish, such as a science and technology press can only publish contents in these fields while a children's press may publish books only for children, parents and teachers. University presses are the only parties that function outside of these guidelines in that they may publish academic research and reference books. These presses may also publish journals as well as textbooks across a wide range of subject matter.

Traditionally, Chinese publishing houses are heavily subsidized in the provision of capital assets and operating funds with employees in the industry being provided with housing and other benefits by the government. In the 30-year period following the Communist takeover in 1949, Chinese publishers had no financial need to look beyond their boundaries and no immediate incentive to take initiatives beyond the government's expectations. However, due to the impact of the national economic reforms of the mid-1980s, this situation has changed.

In 1978, prior to the political and economic reforms, there were only 105 publishing houses in China. In the first several years following the reform, the number of publishing

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houses increased dramatically. By the end of 1985 there were already 416 state-owned presses in China<sup>33</sup>.

As the political and economic reforms solidified, although the structure of the industry remained the same, the government began to gradually withdraw subsidies to the publishing industry and to encourage publishers to put more emphasis on economic planning and returns on investment. The need to generate more income has led to the blurring of definitions of the designated subject lists as publishers saw opportunities to produce titles with more market potential.

Since the mid-1980s, many editors were allocated certain profit targets each year with promises of extra bonuses if the targets were met. This stimulated financial interest and competition among editors and further activated the whole book industry, but it also caused some unforeseen side effects in challenges to the authority of the Communist Party.

Since 1986, when the existence of non-state owned bookstores was officially approved, collectively owned and privately owned bookstores flourished all over the country. A group of so-called “second-channel” entrepreneurs began to emerge in the Chinese book market.

Working directly in the front lines of the business, these bookstore owners soon realized publishing was a lucrative business in China and became dissatisfied with merely distributing and selling books. Some of these bookstore owners began to produce books themselves. As

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33. *An Overview of the Chinese Publishing Industry*. Administration of Press and Publication (Copyright Bureau) of Guangdong Province.

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the only real obstacle for these private publishers to legally publish a book was an officially assigned ISBN, some of them began to buy ISBNs from state-owned publishers.

Although the selling and buying ISBNs are illegal activities in China, the trade has become a common practice and an open secret in the industry. The Propaganda Ministry and GAPP have made lots of strenuous, but unsuccessful efforts to prohibit the phenomena. Many private publishers and a few foreign companies have been engaging in book publishing through the purchase of ISBNs from state-run houses.

According to a report compiled by the Department of Publication Distribution Administration and the Department of Book Publication Administration of GAPP, by the end of 2003 more than 2000 cultural companies were providing content development, editorial and publishing consulting, and other services to the Chinese publishing industry. These services often operated through various forms of cooperation, such as a cultural company purportedly being a department of a state-owned publisher and then publish books under the name of the press. Or a cultural company may package a book, purchase an ISBN from a state-owned house and then sign a contract with the press to work as the book's exclusive distributor.

These “cultural companies”—“private” Chinese publishers—along with international publishers' representative offices in China, compete with state-run houses in a more flexible and market-driven way and have shown great potential, despite being outside the “official” government sanctioned publishing industry.

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Challenged by national private publishers and large international publishing corporations, the competition ability of state-owned presses is strained and needs to be improved. In January 1998, a GAPP ten-year plan suggested that China should establish five to ten major publishing groups and a similar number of distribution groups. It was believed that this would be a way of restructuring the industry to meet forthcoming challenges from abroad after entering the WTO.

By the end of 2003, 15 publishing groups and 7 distributing groups had been created, but most of these are simple combinations of major publishing houses and the head offices of Xinhua Bookstores in the same province or independent municipality<sup>34</sup>. They are currently incapable of taking on the competitive position the government demands of them. Realizing this, the central government decided to speed up systemic reforms to China's publishing industry.

In April 2004, the Chinese State Council approved China Publishing Group's transformation into The China Publishing Corporation. China Publishing Group had been a public institution prior to this and the changeover was a pilot experiment for units of China's cultural system. The new cooperation is composed of 12 publishing and distribution organizations<sup>35</sup>. These include The People's Literature Publishing House, The Commercial Press, Chung Hwa Book Co., Encyclopedia Publishing House, the Xinhua Bookstore Head Office, etc. When the transformation is completed, the corporation will perform assets or

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34. *The Shuffling begins in the Chinese Publishing Industry* by Lezhen Huang. Chinese Economic Weekly. April 27, 2004.

35. *The China Publishing Cooperation is formed*. Xinhua News Agency. April 4, 2004.

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equity management for its affiliates. Modern corporate governance is expected to be established under the principle of “clarified ownership, identified rights and obligations, separate functions of government from enterprises, and scientific management”, in accordance with government policies.

Also in April 2004, the State Council announced that in three to five years all publishing houses in China will be transformed into more efficient revenue-driven enterprises. The exceptions to this stricture are People’s Publishing House in Beijing and all regional People’s Publishing Houses. The People’s Publishing Houses will continue to serve as a state organ within the socialist propagandistic system. Their main line of publishing will be books, journals and tracts on Marxism, Leninism, and Mao Zedong Thought. They will also produce political propagandistic materials and other fundamental theoretical research books.

The other some 540 presses will gradually transform themselves into self-sustaining enterprises. These more independent houses are permitted, in fact encouraged, to absorb domestic investments from various channels.

This new orientation is a milestone in the reform of the Chinese publishing industry and serves the overall object of breaking the long-existing regional monopolization. Also affected are the many basic methods by which the publishing industry has operated. These changes are an effort toward establishing an open, unified, and competitive national book market by stimulating Chinese publishers’ abilities to compete with foreign publishers in the international market.

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### **3.5 Book distribution and retailing sector: structure and related policies**

After more than twenty years' development under the reform policies of the mid-1980s, the pattern of the Chinese book distribution system has changed dramatically. There are "class one" and "class two" wholesalers as well as "primary" and "secondary" channels of distributors. The Xinhua Bookstore Head Office, the State Post Bureau, and several other government-designated provincial state organs are considered to be "class one" wholesalers. Bookseller who gets regional distribution rights from a wholesaler is "class two" distributor. The "primary channel" describes state-run distribution networks of the Xinhua Bookstores and the State Post Bureaus, while "secondary channels" refer to private distributors.

Due to the long-term government monopoly in the publishing industry, "primary channels" have been plagued by high costs, low efficiency and poor service. Meanwhile, "secondary channels" find it difficult to expand as a result of capital shortage, low media recognition, localization, and problems associated with small-scale operations.

In order to prepare the entire industry for the new competitive atmosphere, a new enterprise has been developed nationwide in the form of book distribution groups. A distribution group is defined as an independent decision-making economic entity with all members closely integrated in terms of financial control and business operations. Seven distribution groups had been set up by the end of 2003.

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The objective of these enterprises is to transform the traditional distribution systems and operational modes extent under the old centrally planned economy. It is hoped that these changes will create a more efficient and effective modern distribution system, which will function smoothly within the emerging market system. The development of various distribution groups has contributed greatly to the strengthening of the reforms imposed by the national government and has stimulated the market-oriented development of the publishing industry in China.

In May 2003, GAPP and the former Ministry of Foreign Trade and Economic Cooperation of People's Republic of China issued the *Administrative Measures on Foreign Investment for Distributing Books, Newspapers and Periodicals*, which officially announced that the Chinese publication distribution market would open up to international investors beginning December 1, 2004. Overseas businesspersons would be allowed to form wholesale enterprises pertaining to the book, newspaper and periodical markets. This includes Sino-overseas joint ventures, Sino-overseas cooperative or solely overseas-funded ventures. With the advent of new challenges from foreign distributors, the building of a healthy and strong national book distribution and retail system became an urgent issue in China.

From the latter half of 2003 through to May 2004, the Chinese government issued several important regulations aimed at the publication distribution industry. In September 2003, GAPP released the *Administrative Regulations on Publication Market*, which empowered non-state owned bookstores the authority to pursue business in the wholesaling of



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publications providing they meet certain qualifications. GAPP also appealed for the abandonment of the “secondary channel” and for the equal treatment of both state owned and non-state owned booksellers.

In January 2004, private booksellers within China were for the first time officially invited to participate in the annual Beijing Book Procurement Fair. In February, the largest privately run book retail chain in China, Xishu Bookstores, was granted permission to be a national bookstore chain. In April of the same year the Shandong Shiji Tianhong Book Co. became the first privately run national book wholesaler in China. All these measures, along with some others, have announced the end of the long-time domination of the state-owned Xinhua Bookstores in the Chinese publications distribution and retail industry, and have shown the government’s keen desire to stimulate the vigor of the industry, and to strengthen the national book distribution system before the entering of foreign capital.

Although many of the new policies have been to the benefit of privately run bookstores, the government still wishes to protect some aspects of the state-owned book distribution and retailing system. Xinhua Bookstores remain the only party with the authority to engage in the distribution and sale of school textbooks, particularly those for elementary, junior and senior secondary schools.

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While there are five times as many non-state owned book outlets as Xinhua's, these must face unfair market competition and they're left with but one-third of the total market share. This is represented by gross sales of RMB30 Billion yuan (\$ 4.27 billion) in 2003<sup>36</sup>.

For foreign distributors and retailers who wish to reduce risks and make an early entry into the burgeoning Chinese market, the best route is in finding an established, reliable Chinese partner with good contacts nationwide. Many forward-looking companies are already exploring this avenue. One example is the Bertelsmann Group of Germany.

Bertelsmann has quietly run its publications distribution business in China for nearly 10 years. It has been operating through indirect channels and owns a readers' club of 1.5 million members. At the end of 2003, in partnership with Beijing's 21st Century Jinxu Chain Bookstore Ltd. and Jingwen Records, Bertelsmann sets up the Beijing Bertelsmann Readers' Centre. The purpose of the Centre is to consolidate and develop its current business in China as well as to prepare for the development of printing and CD manufacturing facilities. Its end goal is to expand into China's publications market<sup>37</sup>.

In August 19, 2004, Amazon.com Inc. announced that it had finalized a deal to buy Joyo.com for \$75 million (USD). Joyo.com is China's largest online retailer of books, music CDs and videos. This purchase allows Amazon.com access to the world's second-largest Internet market with the possibility of grabbing a share of the estimated 27.7 million online

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36. *The 17th Beijing Book Procurement Fair* by Xiang Chen. China Reading Weekly. Jan. 17, 2004.

37. *Bertelsmann's first step in Shanghai* By Yuan Hu at <http://www.21china.com/article.php/279>. Jan. 3, 2005.

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shoppers in China. According to International Data Corp., Internet retailing in China for 2004 are estimated at \$8.59 billion (USD)<sup>38</sup>.

There are currently approximately 60 online bookstores in China. Among them, only six provide more than 90,000 titles. Compared to the traditional book retail outlets, online bookstores account for only a small portion of the market share at present. While in the traditional book retail sector, Book City in Shanghai is the largest bookstore that exhibits some 160,000 titles with an average of 9,800 visitors per day. Clearly there is an enormous, lucrative future in the development of online booksellers in the Chinese book market<sup>39</sup>.

Among various book exhibitions held in China every year, two national book fairs are the most important arenas for publishers, distributors and booksellers to show their books and innovative promotion campaigns to the whole industry and the public. One is called National Book Fair, which is held annually in major cities, usually in September or October. It is the largest book industry festival in China. The 14th National Book Fair was held in Guilin in 2004. Nearly 160,000 titles were on display in 1,173 exhibit booths in the fair. An estimated 100,000 national and international publishers or booksellers attended the fair.

The other is called Beijing Book Procurement Fair and is held every January in Beijing. This fair is considered to be the weather vane for the whole book industry in the New Year. If the National Book Fair is seen as a book show, this fair is the battlefield for publishers and

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38. *Amazon to Buy Joyo for Access to China. China Daily. August 21, 2004.*

39. *The Study of Online Bookstores in China by Naipeng Chao. ICXO. Nov. 29, 2004.*

booksellers to compete for real money. In 2004, for four days' trading of the 17<sup>th</sup> Beijing Book Procurement Fair, the total gross sales reached RMB2.59 billion yuan (\$0.39 billion).

### 3.6 The current status of the Chinese book industry

To help Canadian publishers better understand the current status of the Chinese book trade, this section features a close examination of the Chinese book publishing industry in 2003<sup>40</sup>.

#### 3.6.1 Book publishing

In 2003, 190,391 new titles were published in China, with totally 6.67 billion copies and a total list price of RMB56.182 billion yuan (\$8.381 billion). This total includes 110,812 titles published for the first time. Compared to 2002, they showed an 11.4 percent increase in titles, a 10 percent increase in first time-released titles, and a 5 percent increase in total list prices.

In China, GAPP usually broadly categorizes books into three large groups. Table 3 shows the number of books published in the three categories in 2003.

**Table 3: Trade books, textbooks and pictures published in 2003**

Categories	Titles Published		Copies Released		Total List Prices (RMB yuan/CDN\$)	
	Titles	% of All Titles	Copies (billion)	% of All Copies	Prices (billion)	% of All List Prices
Trade books	159,716	84	3.375	50.6	36.15/5.39	64.35
Textbooks	28,789	15	3.254	48.8	19.61/2.92	34.89
Pictures	1,886	1	0.042	0.6	0.42/0.063	0.76

40. Note: Data and information in this section are mainly drawn from *The Chinese Publishing and Distribution Industry in 2003* compiled by GAPP.

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Among the 190,391 titles published, 159,716 were trade books, totaling 3.375 billion copies, with the total sales being \$5.39 billion. Another 28,789 titles were textbooks, including 9,106 first time releases and 19,683 reprints. Approximately 3.254 billion copies were sold with total sales being \$2.92 billion in this category.

Although they represented only 15 percent of all titles published in 2003, textbooks, with the total print run of 3.254 billion copies, were almost half of all books published in 2003. Trade book titles published in 2003 were 5.6 times of that of textbooks, but total copies released were just 1.8 percent higher than textbooks. This did not take into account the fact that educational supplementary books are also categorized as trade books.

Textbooks are generally subdivided into seven groups: those for postsecondary schools, technical secondary schools, high schools, elementary schools, spare-time education schools, schools devoted to eradicating illiteracy, and teachers' guides.

The subject categories GAPP issued for the Chinese publishing industry are different from those common in the West. Table 4 shows books published in 2003 in the standard 22 categories. It also shows changes in percentages of titles published, total copies released and total list prices in different categories between 2002 and 2003.

**Table 4: Year 2003 books in different categories and changes between 2002 and 2003**

Categories	Year 2003 Books			Percentages in Total Year 2003 Books			Percentages of Increase (+) or Decrease (-) Compared to Year 2002		
	Titles	Total Copies (thousand)	List Prices (thousand in RMB)	Titles (%)	Copies (%)	List Prices (%)	Titles (%)	Copies (%)	List Prices (%)
Marxism, Leninism, Mao Zedong Thought	496	9210	158950	0.26	0.14	0.29	+53.1	+35.4	+69.1
Philosophy	2523	20610	404720	1.34	0.31	0.73	+22.9	+14.6	+21.9
General Social Science	2097	17860	335580	1.11	0.27	0.61	+5.6	+16.6	-5.2
Politics and Jurisprudence	8665	100390	1896080	4.6	1.51	3.42	+22	-10.1	+7.2
Military Affairs	597	4740	111560	0.32	0.07	0.2	+21.1	+16.7	+2.2
Economics	14397	107760	3019980	7.64	1.63	5.45	+14.3	+6.7	+11.7
Culture, Science, Education and Sport	77185	5350550	31605380	40.95	80.72	57.01	+11.1	-5	+3.1
Linguistics and Characters	8600	136920	2687950	4.56	2.07	4.85	+4.2	-2	+4.9
Literature	11771	147310	2558290	6.24	2.22	4.61	+5.1	+20.8	+8.8
Arts	10655	248560	2492270	5.65	3.75	4.5	+5.6	-7.3	-0.5
History and Geography	6046	98990	1681780	3.21	1.49	3.03	+15.3	+45.9	+9.5
General Natural Science	921	35900	247480	0.49	0.54	0.45	+8	-1.1	-0.7
Mathematics, Physics and Chemistry	3703	40190	694230	1.96	0.61	1.25	+20.3	+7.4	+17.8

Categories	Year 2003 Books			Percentages in Total Year 2003 Books			Percentages of Increase (+) or Decrease (-) Compared to Year 2002		
Astronomy and Geoscience	678	2070	60790	0.36	0.03	0.11	+13.6	+12.5	+26
Bioscience	800	6300	146180	0.42	0.1	0.26	+16.8	+46.2	+38.7
Medicine and Hygienics	8472	74270	1518970	4.49	1.12	2.74	+19.2	+28.6	-1.2
Agricultural Science	3219	23300	360660	1.71	0.35	0.65	+9.6	+19.2	+20.7
Technologies	22508	158180	4428860	11.9	2.39	7.99	+15.3	+15.2	+16.9
Traffic and Transportation	1615	13350	284130	0.86	0.2	0.51	-1.9	-9.7	-4.8
Aviation and Space Science	179	820	30440	0.09	0.01	0.05	+46.7	+141.2	+144.3
Environmental Science	747	5080	111820	0.4	0.08	0.2	+16.7	+10.2	+13.8
General Interest	2631	26070	604840	1.4	0.39	1.09	+4.7	-9.2	-14.2

Below are some explanatory notes related to table 4.

- Other than categorizing books for retail and marketing convenience, GAPP categorizes books to reflect the structure of the Chinese book business. Most categories in table 4, such as environmental science, traffic and transportation, and aviation and space science, correspond to relevant government ministries or national organizations that have direct supervising authority over publishers in these fields.
- The largest category of books is titles of culture, science, education and sports. This category represents 40.95 percent of all titles published, 80.72 percent of all copies released and 57.01 percent of the total list prices. Textbooks and educational supplementary books for primary and high school students fall into this group.

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- With a 53.2 percent increase, Marxism, Leninism, and Mao Zedong Thought works make up the largest category in terms of title increase between 2002 and 2003. After years of decline in books of this category, the recent rebound shows the Communist Party's intention to re-address the importance of political propagandistic publications.
  - The category of literature books represents only 6.24 percent of all titles published, 2.22 percent of all copies released and 4.61 percent of the total list prices. It is a fairly small category and demonstrates the minority status of literary books in the Chinese book market.
  - The category of aviation and space-science books enjoyed a huge boom in 2003, with an increase of 46.7 percent in titles published, an increase of 141.2 percent in total copies released, and an increase of 144.3 percent in total list prices. This may be attributed to the October 15, 2004 space launch in which China demonstrated its ability of sending a human being off the planet. Aviation and space science became the hottest topic the year and stimulated the publishing of books in this category.

### **3.6.2 Book distribution and retailing**

In the distribution and retailing section, there were 67,356 book distribution and retailing outlets in China in 2003. Among them 2,785 were Xinhua Bookstores and 10,082 were other state-owned book retail outlets. The other 54,489 non-state-owned outlets have a variety of ownership arrangements. These include 7,731 Supply Stores (Gongxiaoshe) in the



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countryside, 599 self-sponsored publishers' distribution or retailing outlets and 34,384 collectively owned or privately owned bookstores or bookstalls.

A total of 16.241 billion copies of books were purchased by the industry in 2003, with a total value of RMB114.633 billion yuan (\$17.08 billion). Of these, 12.148 billion copies were purchased by the Xinhua Bookstore system, with a total value of RMB72.57 billion yuan (\$10.81 billion). Approximately 15.754 billion copies of books were sold in 2003, generating a total value of RMB107.02 billion yuan (\$15.95 billion). Xinhua Bookstores were responsible for selling 11.934 billion copies with gross sales of RMB69.595 billion yuan (\$10.37 billion). The Xinhua system accounted for 75.75 percent of the whole industry in terms of total volumes of books sold and 65.03 percent in terms of gross sales. Net sales of the entire industry in 2003 were 6.796 billion copies, with a total value of RMB46.164 billion yuan (\$6.89 billion).

Overstocking is an urgent issue in the Chinese book business. At the end of 2003, the whole industry had 3.854 billion unsold books in warehouses, worth a total value of RMB40.138 billion yuan (\$5.98 billion). Compared to the previous year, this was an increase of 4.45 percent in numbers of copies, and an increase in the value of the stock of 16.86 percent. Publishing houses' average value of overstocked books is RMB10.2 to 30 million yuan (\$1.52-4.47 million), with the highest press reaching RMB102 million yuan (\$15.19 million). It is estimated that 90 percent of these books would end up discarded as waste.

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### **3.7 An illustration of the book publishing process in China**

The Chinese book business, though currently undergoing a great transition, displays unique characteristics of both a socialistic and a developing country. To help Canadian publishers fully understand the concrete operation of the Chinese publishing industry, this section illustrates the process of a book being published in China.

Although the scale and structure are various, basically, all publishing houses in China are composed of at least four functional departments: editorial, sales and distribution, production, and the office of editor-in-chief.

Most often a publishing house has more than one editorial department, and each department has a subject specialty. These might include the editorial department of economics, that of politics, or history and geography etc. Staff members in these departments are editors and play the same roles as their Western counterparts except that the editorial role looms much larger in the typical pecking order and staffing structure than in the West.

The editorial role in China is mainly concerned with content sifting, checking, refining, and vetting. Editors, even if they are well-experienced senior editors, usually have no rights to make final decisions on a manuscript. An editor must report interested titles or manuscripts to the director of his or her editorial department; the director then consults with editor-in-chief of the house to decide whether the house will publish the book or not.

The sales and distribution department is in charge of the soliciting of orders and the selling of books. Because most publishing houses in China don't have independent marketing

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or publicity department, staff in a sales and distribution department take on the marketing and publicity responsibilities at certain levels. A sales and distribution department of a publishing house also takes charge of the management of its own warehouse; filling orders and distributing books to wholesalers, distributors and retailers nationwide. For publishers who have their own bookstores, the responsibility of managing the daily operation of the store generally defaults to the sales and distribution department.

The production department is responsible for the printing and production of books and related promotional materials as well as pricing the books published by the house.

The office of the editor-in-chief presides over the declaration of titles to be published to the regional Press and Publication Office, which in turn, provides ISBNs for them. This department is also responsible for supervising editors who sign contracts with authors, as well as responsible for the maintaining and updating of all contracts signed by the house. Besides these, the office is usually in charge of managing the in-house flow of manuscripts among various departments.

As mentioned in previous sections, the publishing industry in China is expected to serve the Communist Party and is regulated by officially sanctioned editorial policies. In order to strictly control the contents of publications, the government deprives publishers of the decision-making authority for titles to be published.

Whether an un-solicited author approaches a publisher or a publisher commissions an author to write a book, the title must be presented to the regional GAPP office. The government office will then decide if the title should be published. Books that are deemed to

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have negative political influence will not be published. A title outside the designated editorial area of the house would not be published either. At the end of each year, the office of editor-in-chief sends a requisition for ISBNs to the GAPP regional office. This document includes a list of prospective titles to be published in the following year.

Before presenting a title to the GAPP office, a house should strictly prohibit any of the following contents from appearing in a manuscript: contents that deny the guiding status of Marxism, Mao Zedong Thought, or Deng Xiaoping Theory; contents that break the Party line, guiding principles, or policies; contents that violate the propagandistic discipline of the Party or national publishing administration regulations.

Publishers must also be wary of books containing information about China's foreign diplomacy, national security, military affairs, national defense construction or religious policies. The publishing of pornography is strictly prohibited and punished harshly in China.

If a title is permitted to be published, a contract will be signed before the in-house flow of the manuscript begins. A contract is an agreement between a copyright holder and a publisher with regard to the obligations and responsibilities of both parties.

A copyright contract in China usually includes the copyright holder's commitment to the manuscript wherein he or she has the full authority to the work, is responsible for the quality demanded by the publisher and will be responsible for any plagiarism or libel issues relating to this particular work. Also clearly stated are the publisher's responsibilities for the work. These include ensuring that the book is published by a certain date, in specified print runs

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and with particular qualities spelled out in the agreement. The timely payment of royalties to authors is also an important responsibility. Usually these contracts tilt more toward the benefit of publishers and are relatively simple and crude compared to standard contracts agreed to in the West.

According to the *Regulations on Remunerations of Publishing Literal Works* issued by the National Copyright Administration in April 1999, there are three basic ways to pay a copyright holder. In a copyright contract, the copyright holder should declare clearly to the publisher which kind of method he or she wants to use.

- Basic payment plus print run reward. Following this method the publisher counts the number of characters used in the published work and pays the copyright holder RMB30-100 yuan (\$4.46-14.88) per thousand words as the basic payment. Total payment is then computed as the basic payment plus a print run “reward” of 1 percent of the basic payment per one thousand copies printed. Usually the publisher pays an advance of 30-50 percent of the total expected remunerations. The publisher should make the final payment within six months of the publication date. A copyright holder must understand that if this method of payment is chosen, only the print run reward will be paid for any later reprinting.
- Royalties. In this way, Chinese publishers calculate royalties in the same manner as Western publishers. The formula here is: list price times print run times royalty rate. The current average royalty rate ranges from 3 to 10 percent. In this way, the advance is usually calculated based on a minimum print run that both the publisher

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and the copyright holder believe to be reasonable. After a work is published, the publisher should pay newly generated royalties to the copyright holder once a year.

- Pay in one lump sum. With this method, the publisher pays the copyright holder a sum of money based on an evaluation of the quality, quantity and likely economic value of the work.

The use of digital and web technology has transformed the traditionally labor-intensive publishing industry into a highly efficient and effective modern process. This is especially true in the production, distribution, fulfillment and retail stages. However, the Chinese publishing industry is falling far behind the advanced international level in its use of high technology and in the development of multi-media publications.

Although computers have been installed in publishing houses for some time, a significant number of managers, directors, editorial and marketing personnel are not skilled at operating word processing programs and desktop publishing systems. This is also true in relation to the use of effective management information systems to the publishing process.

To ensure that content is politically correct, each manuscript must go through a three-level editing and auditing process. As discussed at the beginning of this section, the material is read by the editor of the book, the director of the editorial department and the editor-in-chief of the house. After the editorial work is done, in-house designers become responsible for page layout and cover design.

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After a manuscript is edited and designed, the production department will send it to a printing company. Then, in-house experts will proofread it. In the final stage the office of the editor-in-chief will assign an ISBN to the book. Also at this stage the staff of the production department will assign a price to the book.

Currently, besides the stipulation that primary and secondary school textbooks should be priced uniformly according to the relevant government regulation, individual publishers have the authority to price their books within certain price-ceiling limitations. A book is usually priced based on the number of its printed sheets. One printed sheet has 32 pages with an average printing cost of some four Canadian cents. Most publishers price their books based on some 29 Canadian cents per printed sheet. For hardcover books, a printed sheet could be 37 to 45 Canadian cents<sup>41</sup>.

The finished books are sent to the publisher's warehouse and are then distributed to booksellers. Electronic data interchange (EDI) is in its incubation period and the usage of modern technologies and information systems is poor within the book distribution and retailing system. Distribution channels are inefficient, particularly in terms of reaching the growing book market in the vast rural areas of the country.

With competition in the Chinese book publishing industry becoming more and more intense, the issue of book returns has become more problematical. In the 1980s the average rate of return remained at roughly 6 percent. This increased to 10 percent in the 1990s. Since

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41. Note: This is a rough average. The amount differs in various regions. Information here is based on the production department of Shaanxi People's Publishing House as of year 2004.

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2000 the rate of return in literature and arts books has increased to more than 20 percent. The highest rate of book returns is found in educational supplementary books. While these books are believed to have the highest profit margin of any categories, returns are currently running at an average rate of 35 percent. The Chinese book business, like its Western counterparts, is eagerly seeking ways to reduce book returns and to maintain a healthier book industry<sup>42</sup>.

The preceding information provides a sense of the structure of the book industry in China and relevant government policies. As China moves to make good on its promise to the WTO to open up its book market, opportunities are awaiting for Canadian publishers.

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42. *Prescriptions for the Book Trade* by Yuan Li, China Reading Business. Dec. 17, 2004.



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## 4. Exporting books and selling rights to China

### 4.1 A brief introduction of trade cooperation between China and Canada

The two-way trade between China and Canada has risen tremendously since the establishment of diplomatic relations between the two countries in 1970. The last decade, in particular, has witnessed a rapid expansion of the flow of goods and services between the two countries. Canada has cutting-edge technology in many fields, while China, the largest developing country in the world, is in need of capital, advanced technology and management expertise to speed up its modernization drive.

China is Canada's third largest national trading partner, after the United States and Japan, and Canada's fourth largest export market after the U.S., Japan and the United Kingdom. Trade between Canada and China increased 17.9 percent from \$16.9 billion in 2001 to \$19.9 billion in 2002<sup>43</sup>. The same year, China became Canada's second largest import market; displacing Japan's long held position. Imports from China were valued at \$15.98 billion, an increase of 25.6 percent over 2001 and representing 4.6 percent of Canada's total imports.

By the end of 2003, Canadian direct investment in China amounted to \$3.9 billion (USD)<sup>44</sup>. This covered over 6,941 projects in a broad range of key sectors including aerospace,

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43. Source: Canada-China Trade and Investment at <http://www.beijing.gc.ca/beijing/en/navmain/canada/602/index.htm>.

44. *Two-way trade between China and Canada* at <http://toronto.china-consulate.org/eng/Com/t40605.htm>. February 19, 2004.

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biotechnology, education, finance, information technology, manufacturing, and natural resources. The greatest share of this investment was concentrated in the coastal regions. Direct investment by China in Canada amounted to \$444 million (USD) covering over 155 Projects in 2003<sup>45</sup>.

Canadian trade policy and export promotion activities are conducted through four regional missions in China. These include the Canadian embassy in Beijing, the Consulates General in Guangzhou and Shanghai, and the Consulate in Chongqing. The Consulate General located in the Special Administrative Region of Hong Kong is closely aligned with Canadian trade promotion activities in Mainland China.

The Canada China Business Council (CCBC) is an integral part of efforts to expand Canada-China trade and investment ties. The council is a private sector, non-profit membership organization that was incorporated in 1978 to facilitate and promote trade and investment between Canada and the People's Republic of China. It provides practical assistance to business and represents the voice of the Canadian business community on matters of Canada-China relations<sup>46</sup>.

The CCBC currently has over 300 corporate members that collectively account for the majority of trade and investment between Canada and China. In an effort to offer trade development assistance in regions where there is currently no Government of Canada presence, export-ready Canadian companies can seek assistance through four pilot offices

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45. *Two-way trade between China and Canada* at <http://toronto.china-consulate.org/eng/Com/t40605.htm>. February 19, 2004.

46. Source: Canada China Business Council at <http://www.ccbc.com>.

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operated by the council and the Canadian Department of Foreign Affairs and International Trade. These offices are located in Qingdao (in Shandong Province), Chengdu (in Sichuan Province), Shenzhen (in Guangdong Province), and Shenyang (in Liaoning Province).

The Canadian Education Center Network, aiming at promoting Canadian educational and training activities in China, is a wholly owned subsidiary of the Asia-Pacific Foundation of Canada<sup>47</sup>. The Association for Canadian Studies in China is another important Canadian-funded initiative aiming at developing Canadian studies in China<sup>48</sup>. It promotes cultural and academic exchanges to increase awareness of Canada in China.

Canada was a strong supporter of China's membership in the WTO. Canada signed the market-access agreement with China in 1999 and it took effect in December 2001 when China officially joined the WTO. The agreement commits to lower tariffs for Canadian goods and increased access to Canadian service providers. Several projects sponsored by the Canadian International Development Agency (CIDA) are providing Chinese policy-makers with advice on managing the transition to an open, rules-based economic system.

## **4.2 The boom in foreign cooperation in the Chinese book industry**

The Chinese government acknowledges the importance of exchange and cooperation between Chinese publishing industry and that of other countries. The government

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47. Source: The Canadian Education Center Beijing at <http://www.studycanada.ca/chinese>.

48. Source: Canadian Studies in China at [http://www.dfait-maeci.gc.ca/china\\_mainland/beijing/canada/centers-en.asp](http://www.dfait-maeci.gc.ca/china_mainland/beijing/canada/centers-en.asp).

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encourages Chinese publishers to actively introduce foreign works into China, and at the same time advocates the introduction of Chinese works to foreign readers.

China entered the Berne Convention for the Protection of Literary and Artistic Works and Universal Copyright Convention in 1992. Since then it has joined a variety of other international publishing organizations, including the International Booksellers Federation (IBF), the International Standard Book Number (ISBN), the Asia-Pacific Publishers Association (APPA), etc. The active participation in these organizations creates increased opportunities for Chinese publishers to communicate with their foreign counterparts. This in turn leads to learning advanced expertise from foreign experts and gives the opportunity to present any new achievements of the Chinese book business to the world.

Although foreign individuals or companies are not allowed to invest directly in the book publishing business in China, they are encouraged to cooperate with Chinese publishers. This is particularly true in the areas of copyright trade and co-publishing, notably in subject categories such as natural science, engineering, technology and social science.

The copyright trade has been brisk in China over the past few years. According to statistics from GAPP, 90 percent of state-run Chinese publishing houses are engaged in the copyright trade. Publishers from Beijing, Shanghai, Guangdong, Guangxi and Jiangsu are the most active players in the rights market<sup>49</sup>. In 2003 alone, China imported 12,516 new

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49. *An analysis of the Current Book Copyright Trade in China* compiled by National Copyright Administration of the P.R.C. October 3, 2004.

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copyrights. Based on evaluations on the market performance, single title revenue of foreign copyrighted books is much better than local titles<sup>50</sup>.

English as a second language (ESL), autobiographies or biographies of Western politicians, celebrities, and industry leaders are most welcome categories of copyright-imported books. Also very popular are self-help and how-to titles as well as business, marketing and finance books. These types of books sold hundreds of thousands, even millions of copies in China. Top sellers include: *Rich Dad, Poor Dad: What the Rich Teach Their Kids about Money — That the Poor and Middle Class Do Not!* (2 million copies sold in China), as well as Hillary Clinton's *Living History* and Jack Welch's *Jack: Straight from the Gut* (both 600,000 copies sold). With a combined total of 5.6 million authorized Chinese copies in circulation, the Harry Potter series is the biggest winner of all foreign titles in China<sup>51</sup>.

Due to its important position in the Chinese book business, a section of this report will be dedicated to “selling rights to the Chinese book market”. There, detailed information about the copyright trade in China will be discussed. However, first we will look at the issues surrounding co-publishing.

Foreigners are permitted to co-publish books with Chinese publishers. To co-publish a book, foreign publishers must sign licensing agreements (cooperation arrangements) with Chinese houses to license and supply copyrighted works to Chinese publishers. The local publisher will then translate the materials and publish them. Under the cooperation

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50. *The Statistical Analysis of Copyright Trade in 2003* by Xin Ye. A Vast View on Publishing. Sep. 22, 2004.

51. *World Bestsellers Boom in China*. China Daily. Nov. 10, 2003.

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arrangement, the Chinese publishing house controls the content of the book and performs all of the editing, content selection, and publishing functions. The foreign publisher is not allowed to participate in any of these processes.

On July 27, 2004, GAPP issued its outline regarding the approval of cooperation arrangements between Chinese and foreign publishers. Under the outline, the Chinese publisher is the applicant, who files the application along with the listed supporting documentation, such as copies of the cooperation agreement, a sample issue of the proposed publication and a description of the foreign publisher. This description must demonstrate that the foreign publisher is of good reputation, is “friendly to China” and has not committed any violations of Chinese law.

GAPP is required to approve or deny the application within 20 days from the date the completed application is filed. The outline also contains some restrictions on the look and content of the publication, and the terms of the cooperation arrangement. For example, the term of the cooperation arrangement may not exceed five years and the contractual terms must be approved by GAPP.

The key elements in successfully finalizing a co-publishing deal in China are to be found in investing time and money to research the unique Chinese book market, choosing a suitable Chinese partner, and in patiently fostering a long-term cooperation relationship. It is important to have a flexible agenda and to be prepared to adjust publishing strategies whenever needed. Foreign publishers usually cooperate with Chinese publishers in the following ways:

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- To build long-term strategic partnerships, some leading Chinese publishers and international publishing giants have signed contracts to co-found editorial departments and to cooperate in various ways. Agreements have been signed between Tsinghua University Press and Thomson International, the Commercial Press and the Harvard Business School Press, Higher Education Press and McGraw-Hill, Beijing University Press and Reed Elsevier, etc. The cooperation relationship benefits both parties in combining and employing each other's resources to select better titles, approach authors worldwide, and to distribute co-published books internationally.
  - Another method of co-publishing may be found in big projects that are usually supported by the Chinese government. These are usually efforts to promote Chinese culture in other countries. For example, the China Foreign Languages Bureau and Yale University Press in the U.S. plan to corporately publish *Chinese Culture and Civilization*, a series of more than 20 books, of which two have been published so far. This is a co-publishing project and the Chinese and English versions will be respectively published in China and the United States.
  - In the publishing industry worldwide, four-color quality art books and illustrated children's books are prime candidates for co-publishing. The strategy is to sell as many foreign rights as possible and then print all international editions together to reduce the unit costs. During printing, only the black plate has to be changed to accommodate the different texts specified in a co-publishing deal.

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One of the most successful stories of cooperation with Chinese partners is Lingo Media, a small to medium-sized Canadian publishing house. The company has achieved tremendous success in China through cooperation with Chinese partners. Lingo's story is thought provoking and deserves a study as a fine example of how to successfully enter the huge Chinese book market. The last section of this chapter will present an examination of the Lingo story.

International publishing giants have gradually entered the Chinese book market within the parameters permitted by existing policies. International corporations such as Bertelsmann, Disney, Hearst, McGraw-Hill, Pearson and Time Warner have solid footprints in the Chinese book market.

These major players opened offices in China and gradually became active players in China's publishing market. Although these offices are not legally permitted to generate actual sales and handle any monetary transactions, through cooperation agreements with Chinese partners, they organize readers' clubs, run editorial content development companies and pursue the acquisition and sales of rights. They also distribute catalogues and promote books published by their parent companies.

As happens anywhere in the world, there are always many stories of failure told alongside the stories of success. Harlequin Publishing Co., Ltd., the world's largest paperback publishing company, provides foreign publishers a few lessons to examine before plunging into the Chinese book market.



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As the world's largest publisher of women's series romance fiction, Harlequin books sell in more than 100 international markets in more than 23 languages around the world. The company has an estimated 20 million readers in North America and 50 million readers around the world<sup>52</sup>.

Harlequin entered China in 1995 and was the first overseas publisher authorized by GAPP to set up offices in China. However, it was unable to make any profit from its Chinese operation over seven years and had to drop out of the market in September 2001, just prior to China's official entry into the WTO.

Harlequin's failure in China can be attributed to three factors: unsuitable marketing strategy in the Chinese book market, cultural difference of fiction in the West and China, and unsuitable operational mode in China's book trade<sup>53</sup>.

The main reason of Harlequin's success worldwide is credited to its unique marketing strategy. Revolutionizing the traditional book publishing approach, Harlequin adopted a packaged, consumer-goods strategy to enable each book to be a part of an identifiable product line. The content, length, artwork size, basic formats, and print are all well defined to ensure a consistent product. To achieve the consistency of the products, each element of Harlequin books, such as plot, story line, main character(s), setting, percentage of romance or sensuality in the plot are well assessed and guided by the company based on regular surveys among readers.

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52. *They Seek It Here, They Seek It There, They Seek It Everywhere: Looking for the "Global" Book* by Eva Hemmungs. *Canadian Journal of Communications*. Vol. 23. No. 2.1998.

53. *Why Harlequin Publishing Dropped Out*. *Asian/Pacific Publishing Scenes*. ABD 2002. Vol. 32. No.4.

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Produced in such a customized way, the Harlequin book caters to the taste of its core readership, which is mainly comprised by middle class women in North America and Europe. Although this strategy works well in the West, when facing a new readership with different cultural background and reading taste, the previous well-worked strategy lost its effectiveness with the changing of the characteristics of the readers.

Harlequin has invested a lot in building readers' recognition, trust and relationship. Its romance series readers in the West, with a median age of 41, are likely to be married, well educated middle class women who work outside the home<sup>54</sup>. Such a core readership barely exists in China.

Although exact number of readership of Chinese women around 40 years old is not available, it is safe to say that in China, only a small fraction of women between 35 and 45 years old have regular reading habit and most of them never bought books except for their children. This factor immediately robbed Harlequin of its usual target readership.

Harlequin's operational mode is well designed and is based on the highly efficient consumer market in the West. There are two primary retail outlets for Harlequin books. One is supermarkets, drug stores, discount department stores, and mass merchandisers, which accounts for the majority of its retail sales; another is its "reader service" book club, which accounts for six out of ten books sold in the U.S. market<sup>55</sup>. Traditional bookstores account for only a small fraction of its sales.

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54. *Harlequin Enterprises: The Mira Decision* by Ken Mark at <http://www.ivey.uwo.ca/faculty/rewrite/docs/9b03M007w.pdf>.

55. *Harlequin Enterprises: The Mira Decision* by Ken Mark at <http://www.ivey.uwo.ca/faculty/rewrite/docs/9b03M007w.pdf>.

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Harlequin spent decades to cultivate and mature these two outlets in the Western countries, but selling through non-traditional book outlets and book clubs is new to Chinese readers, at least they were at the time when Harlequin entered China. Harlequin books had to rely mainly on the Xinhua Bookstore distribution system and the existing retail outlets to sell its books. This way of operating does not fit in with Harlequin's operational modes. In addition, the selling cycle of Harlequin's fiction is usually two months, while Xinhua Bookstore's is usually six months.

Although the company made some efforts to appeal to the Chinese market, such as using oriental-style cover design and promoting their books in innovative ways, it kept losing money in China and withdrew ultimately from that market. The Harlequin story indicates the importance of earnest and meticulous marketing research and analysis, of getting to know the Chinese book market better, and of evaluating a products' suitability for the proposed Chinese market.

### **4.3 Selling rights to the Chinese book market**

There are 28 state-run rights agencies in China, of which 23 mainly focus on book copyrights trade. Most of these government agencies have developed from the regional copyright administrative organs of GAPP. The majority of them are short of experienced staff and their business dealings tend to be somewhat inefficient. The role of these agencies is generally limited to regulatory and legal advisory services, though they also collect and transfer license fees and royalty income for publishers and authors.

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With the boost of rights business in recent years, some far-sighted publishing houses have set up departments specialize in rights trading and co-publishing. In the private sector, some independent agents and cultural companies also provide copyright related services.

Both the public and private sectors exemplify, at certain levels, the urgent shortage of professionals within the book copyright business in China. Most Chinese rights practitioners can negotiate deals directly with foreign publishers in English. They are very knowledgeable about the book markets in China and the West and regularly visit Beijing International Book Fair and other international book fairs. However, only a few could be considered experts.

As noted previously, some international publishing companies have set up representative offices in China. These representatives are also active in the rights business and play more and more important roles in the Chinese book market. Still, they are limited by the government policies to handle only correspondence and to negotiate terms for rights deals. They are not allowed to function officially as rights agents in China.

In the past, Chinese publishers have preferred to import the rights to classic works, but recently they have begun to show much more interest in works that have achieved phenomenal success in the West. The transition point happened in 1995 when the People's Literature Press, the first Chinese press to import rights of contemporary Western best selling fiction, bought the copyright to *The Bridges of Madison County*, which was written by Robert James Waller and published by Warner Books. The book sold 600,000 copies in China. Since then, Western bestsellers, such as *The Horse Whisperer* by Nicholas Evans; *Tuesdays with Morrie: An Old Man, A Young Man, and Life's Greatest Lesson* by Mitch Albom; *A Brief History of Time*

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by Stephen Hawking; *Rich Dad, Poor Dad: What the Rich Teach Their Kids about Money—That the Poor and Middle Class Do Not!* by Robert T. Kiyosaki and Sharon L. Lechter; *Sophie's World: A Novel About the History of Philosophy* by Jostein Gaarder; *Who Moved My Cheese? An Amazing Way to Deal with Change in Your Work and in Your Life* by Spencer Johnson and Kenneth H. Blanchard, have all topped the Chinese bestsellers lists.

Several years ago, it might take a year or longer for an international bestseller to be introduced to Chinese readers. But today many Chinese publishers keep their eyes on foreign titles that are yet to be published but may have the potential to be a big hit. Many now purchase the publishing rights even before the titles are officially released.

The international bestseller of David Beckham's autobiography, *My Side*, is a good example. The Chinese edition came out less than two months after the release of its English version. The book's Chinese publisher, China City Press, began to negotiate with its original publisher, HarperCollins, long before its official release. Similarly, *Harry Potter and the Order of the Phoenix* hit the Chinese bookstores only three months after the international bestseller was published.

The leading Chinese publishers in the rights trade have shown astounding purchasing power in recent years. In 2003, CITIC Publishing House ranked number one in purchasing rights from overseas publishers, which finalized 996 rights deals. The following publishers ranked number two to five in rights deals include: Tsinghua University Press, with 845; China

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Machine Press, with 621; Foreign Language Teaching and Research Press (FLTRP), with 576, and China Renmin University Press, with 421<sup>56</sup>.

Statistics show that China has imported 58,077 copyrights from overseas between 1995 and 2003. In contrast, the export of China's copyrights is only one tenth of the imports, which totaled 5,362 deals over the past nine years. In 2003, the gap between imported rights and exported rights became even wider, with a ratio of 15 to 1<sup>57</sup>.

The high proportion of rights imports means that China is increasingly opening its market to foreign publishers and has gradually become an important member of the international book business. The poor export figures reveal that books published in China are still found to be uncompetitive and unattractive in the world book market.

Another concern of the Chinese government in the rights trade is the cultural invasion by Western countries, especially concerning rights imported from the U.S. and the U.K. In 2003, China imported a combined total of 8,811 rights from the U.S. and U.K., while only seven Chinese copyrights were exported to these two countries<sup>58</sup>. Some scholars are appealing to the publishing industry to reduce the import of foreign titles and to increase exports. It is said that if the current situation continues, foreign books, especially books from the U.S. and the U.K. will flood into the Chinese book market and the indigenous publishing industry will be seriously and perhaps irreparably damaged.

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56. *An Analysis of the Current Book Copyright Trade in China* compiled by GAPP.

57. *An Analysis of the Current Book Copyright Trade in China* compiled by GAPP.

58. *The Statistical Analysis of Copyright Trade in 2003* by Xin Ye. *A Vast View on Publishing*. Sep. 22, 2004.

The government administrators have realized the seriousness of the situation and are actively seeking ways to promote copyright exports, such as controlling the scale of import and training copyright practitioners. They also encourage publishers to participate in more international book fairs by way of strengthening exchange with their foreign counterparts, and to set up special grants to reward those doing well in the copyright export trade.

**Table 5: Numbers of Book Copyrights Imported into China between 1995 and 2003<sup>59</sup>**

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Number	1664	2915	3224	5469	6461	7343	8250	10235	12516	58077

**Table 6: Numbers of Book Copyrights Exported from China between 1995 and 2003**

Year	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
Number	354	250	353	588	418	638	653	1297	811	5362

The export destinations of books published in China are usually Asian areas, among which Taiwan, Hong Kong and South Korea are the biggest buyers. In 2003, these three countries imported 739 rights from Mainland China. This represented 91.12 percent of all rights exported to overseas publishers that year.

One of the biggest challenges foreign and local publishers facing in China is the issue of copyright infringement and piracy. The entire industry — authors, publishers, booksellers, copyright agents and printers — has been plagued by unauthorized printings and publications.

<sup>59</sup>. Resource of table 5 and 6: *An Analysis of the Current Book Copyright Trade in China* compiled by GAPP.

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Statistics from GAPP show that the industry as a whole loses RMB300 million yuan (\$44.62 million) each year due to copyright infringement, pirated books and other illegal activities.

It is estimated that for some bestsellers, sales of pirated copies are almost equal to the authentic ones. The Chinese government has long been committed to increase penalties for Intellectual Property Rights violations. The government has applied criminal sanctions to the import, export, storage and distribution of pirated and counterfeit publications, and has striven to improve foreign cooperators' confidence in the Chinese market. Although some efforts have been made and the situation is getting better, piracy will likely remain a serious problem for quite a while in the Chinese book market.

Lacking confidence in the effective control of copyright protection in China, some foreign publishers tend to request higher advances, impose more demanding terms and place extra financial pressures on Chinese publishers when selling rights.

The average royalty rate for imported rights is 7 percent for academic books, with an average advance of \$800-1,000 (USD). Literary works are pegged at 7-8 percent, with an average advance of \$1,500 (USD). Bestsellers run a rate of 7-9 percent, with an average advance of \$10,000-50,000 (USD). In China bestseller status means that the first print run of a Chinese edition is more than 20,000 copies<sup>60</sup>.

Foreign publishers should know that there are two systems of Chinese characters: complex characters, which are widely used in Taiwan, Hong Kong and most overseas

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60. *Selling Canadian Books and Translation Rights in China: A Guide for Canadian Publishers*. Association for the Export of Canadian Books. 2004.



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Chinese communities; and simplified characters, which are used in Mainland China. Since China joined the WTO and along with more and more people from Mainland China studying or migrating overseas, the simplified characters are becoming increasingly popular worldwide. Because each book has potential to be sold both in simplified and complex character rights, when selling Chinese-language rights, a clear clause should be included in the contract to clarify which version of the Chinese language right has been sold in the deal.

#### **4.4 Selling books to China**

In accordance with the *Regulations on Publication Management*, only the 38 state-designated import and export companies have the sole authority to import publications from overseas markets. No other organizations or individuals may manage the publication import business.

These 38 companies should also be responsible for content censorship of all books they import. Of these companies, the China National Publications Import and Export Corporation (CNPIEC) is the largest book importer, processing 50 percent of all the books imported into China every year. The China International Book Trading Corporation (CIBTC) and the China Educational Publications Import & Export Corporation (CEPIEC) are the other two most important book importers.

Under the central government's macro-adjustment policy, most books China imported in recent years were publications that cater to the demand of the state's development and modernization drive. Fields prevalent are sciences and technologies as well as finance and business management. For example, among 2.85 million copies of books imported in 2003,

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books of natural science and technologies accounted for 690,000 copies and represented 37 percent of the total book importation<sup>61</sup>.

The same subject category represented, respectively, 39 percent of the total sum of books imported both in 2002 and 2001, and 44 percent in 2000. In addition, literature, arts, philosophy and social science books also account for high proportions in book importation<sup>62</sup>.

The biggest clients for imported books in China are public and school libraries. Most of them select books from lists provided by authorized import and export companies and local foreign bookstores. Institutions or organizations wanting to purchase imported books forward their orders to the authorized companies and these companies have the authority to decide if the book should be imported. Major buyers of imported books include scholars, foreign employees working in China, foreign tourists, international students and various Chinese professionals<sup>63</sup>.

Statistics from Shanghai Book Traders (SBT), the largest book importer in Shanghai, show that customers such as libraries, colleges and universities have the most buying power of imported books. The first five large categories of importations include: library collections, college textbooks, college reference books, dictionaries as well as arts, history and philosophy titles<sup>64</sup>.

To export books to China, foreign publishers may contact the 38 import and export companies directly, particularly the leading ones. Publishers can visit these companies'

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61. *External Policies and Foreign Cooperation in the Chinese Publishing Industry*. Speech of Yongzhan Yu, Deputy Administer of GAPP on Aug. 2004.

62. *External Policies and Foreign Cooperation in the Chinese Publishing Industry*. Speech of Yongzhan Yu, Deputy Administer of GAPP on Aug. 2004.

63. *Selling Canadian Books and Translation Rights in China: A Guide for Canadian Publishers*. Association for the Export of Canadian Books. 2004.

64. *Selling Canadian Books and Translation Rights in China: A Guide for Canadian Publishers*. Association for the Export of Canadian Books. 2004.

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websites and contact them by email. Another more effective way to build relationships with Chinese book importers is to participate in book fairs. There are three important international book fairs in China.

The Beijing International Book Fair (BIBF) is organized by the China National Publications Import & Export Corporation. It is held annually and is the largest international book fair held in China. It is also one of the most important Chinese book fairs worldwide. In 2004, at the 11 BIBF, more than 10,000 titles of books and nearly 1,000 titles of audio-visual products were displayed during the five-day exhibition. Nearly a thousand publishers from 42 countries participated in the show<sup>65</sup>.

The BIBF is the best show for foreign publishers to present their publications to Chinese publishers and readers and to promote their books. It offers an excellent opportunity to get to know Chinese publishers, booksellers and to build relationships with Chinese book practitioners, including book importers.

The Shanghai Book Copyright Exchange Salon is organized by the Shanghai Administration of Press and Publication and Shanghai Copyright Bureau. It is held biennially in Shanghai, which is a similar fair to that of BIBF but on a smaller scale.

The annual Shanghai International Children's Book Exhibition is organized by the China National Publications Import & Export Corporation and is held in July. The goal of this exhibition is to promote the sale of reprint, translation, and co-publishing rights as well as the import and export of children's books.

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65. Source: Beijing International Book Fair at <http://www.bibf.net>.

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Aside from these, there are more specialized book exhibitions held irregularly in China. These book fairs exhibit imported professional books and textbooks targeted to customers at research institutions and universities. Foreign publishers can contact GAPP or book import and export companies, such as CNPIEC, CEPIECB, CNEPIEC or SBT for information regarding any upcoming specific book fair.

Although many foreign publishers and booksellers have begun to participate in the two largest national book fairs in recent years, they are not yet as popular as their potential demonstrates.

#### **4.5 A Canadian success story: Lingo Media<sup>66</sup>**

At this time Canadian publishers are not active players in the Chinese book market. In 2002, of 10,235 copyrights imported to China, Canadian publications accounted for only nine<sup>67</sup>. Most Canadian publishers tend to think that China is too far away, that book prices there are too low, and that piracy in the Chinese market is an enormous and insurmountable issue.

Although most Canadian publishers do not see the Chinese book market as lucrative and worthy of taking a chance on, there have been a few who have found a niche and made considerable progress. Lingo Media Inc. is an excellent example of one of these risk takers.

Lingo Media is a publisher of English language learning materials geared for international markets. It publishes a variety of media: books, compact discs, and cassettes, etc. Knowing

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66. Note: Information in this section is partially drawn from Lingo Media's website at <http://www.lingomedia.com>.

67. Statistics from GAPP.

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that China is the world's largest ESL (English as the Second Language) market and that there are more than 250 million students and adults engaging in English language studies<sup>68</sup>, Lingo Media saw this market as the perfect target for its products.

Since 1998, with the backing of the Canadian International Development Agency's Industrial Co-operation Program (CIDA-INC), Lingo has focused its efforts on China and has set up long-term strategic plans to exploit the country's vast English educational market. Lingo has signed co-publishing agreements with four China's leading publishers, including:

- The People's Education Press (PEP) — the largest educational publisher in China
- China International Publishing Group — the country's largest trade publisher
- The Foreign Language Teaching and Research Press — China's leading university textbooks and reference books publisher
- Renzhen Group — one of China's leading privately owned language learning publishers

To date, Lingo Media has accomplished what very few Western companies, large or small, has been able to achieve in terms of breaking into the Chinese book market. The company has established itself as one of the leading brands in China within the English language publishing and education sectors.

Formerly, China relied exclusively on British English textbooks, but as the Chinese government developed closer ties with the United States, Chinese educational authorities

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68. *Foreign Entities Compete in the English Learning Market* by Xiaoqing Xu at <http://learning.sohu.com/2004/04/29/83/article219998338.shtml>. April 29, 2004.

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began to give preference to North American English texts. Because of the apprehension about U.S. cultural invasion, the Chinese government views Canadian educators and authors as better models for the nation's students. Lingo Media seized this opportunity and has played a key role in developing elementary English textbooks to replace British-based texts.

Lingo Media's most important cooperation partner in China is the People's Education Press (PEP), a division of China's State Ministry of Education. The PEP publishes 80 percent of educational materials for students ranging from Kindergarten to Grade 12 (K-12). This is a market of about 150 million students scattered throughout China.

Lingo Media currently has four programs in development with the PEP. Three series target the elementary school market: *PEP Primary English* (for Grades 3-6), *Starting Line* (Grades 1-6), and *Beginning English for Young Learners* (Grades 1 and 2). *The Junior Reading Comprehension series* is in use for junior middle school students. All series include textbooks, activity books, audiocassettes, teacher resource books, and other supplementary materials. Lingo is also a distributor of the PEP's *Standard Chinese* program, a comprehensive set of textbooks, exercise books, and teacher's guides spanning elementary to junior high levels.

*PEP Primary English* is now the leading English-language learning program in primary schools across China. This encompasses approximately 60 percent of the country's total primary English-learning market share. Thirty million *PEP Primary English* components have been published and sold to over 20 million students since the program was launched in late

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2001. More than 13 million students used *PEP Primary English* in 2004. By the end of 2003 the title has generated more than one million Canadian dollars in royalties for Lingo Media.

The editorial committee of *PEP Primary English* is composed of experts on children's education as well as EFL (English as a Foreign Language) educational practitioners from both China and Canada. Lingo took on the majority of the work in building content for the books. It also was responsible for organizing and presenting the contents in a fresh and interesting way.

Challenging the traditional style of Chinese textbooks, this series emphasizes the goal of learning English is not only for the mastery of the English language itself, but also using English as a tool to develop other forms of knowledge. From methodology to content, design and illustration, the textbook stimulates students' motivation and interest to be a self-motivated learner.

The content of the texts is closely related to the daily lives of students and pays particular attention to the introduction of both Chinese and Western cultures. Hence, aspects of Canadian culture and geography can be found throughout the textbooks. Chinese students learn about Canadian holidays, the national flag, the urban landscape of Toronto and the Canadian love of hockey. Canadian spellings, such as "favourite" and "colour" are given preference over U.S. spelling of the same words. It is said that this is probably the largest form of cultural influence that Canada has achieved in China to date.

While cooperating with state-owned publishers, Lingo media has also realized the amazing potential of linking with private publishers in China. At the end of 2000, Lingo

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Media signed a co-publishing agreement for two English language-learning programs with Guangzhou Renzhen English Production Group, a privately owned language-learning publisher. The agreement includes the co-development, publishing and distribution of *English in Business Communication*, a series of 6 self-study books and 12 audiocassettes. Also a part of this contract is *Out Loud*, a multimedia English-learning program, which is composed of 94 books and audiocassettes. All these programs were written by Canadian EFL experts.

The synergy between the two companies benefits both parties. Partnering with Lingo Media provides Renzhen Group with access to new and original English language learning content written by leading Western authors. The arrangement also offers Renzhen an easy avenue into the international marketplace. For Lingo, Renzhen's strength lies in providing illustration, page design and layout, pre-production as well as manufacturing in China, to reduce costs and ensure competitive prices. As a local company, Renzhen understands the Chinese market in terms of developing products that will sell. Renzhen also has long established channels into domestic bookstores, newsstands and to mail order clients across China. The cooperation between the two companies enables the fluid distribution of their programs both to the Chinese and the international English language learning markets.

Lingo Media's success in China can be credited to two main factors:

First, it received strong financial and consultative support from Canadian government agencies. CIDA-INC provided generous financial support to help Lingo media to start up its operation in China. Vital initial support was also provided by Industry Canada's Program for Export Market Development, Canadian Heritage's Book Publishing and Industry



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Development Program for marketing and promotion, and by the Association for the Export of Canadian Books for international market penetration.

Lingo Media also participated in the DFAIT (Department of Foreign Affairs and International Trade)-sponsored Canada booth at World Education Markets, an annual educational industry conference. Canadian expertise on the Chinese market was a major key to success. This was found in the Ottawa market development firm DAI Inc., and through the Canadian Embassy and consulates in China.

Second, Lingo selected Chinese co-publishing partners carefully and maintained an open and trusting relationship with them. Lingo media executives invested a great deal of time and energy in developing strong Chinese corporate partners. They were able to attract seasoned Chinese experts in marketing, publishing and finance to get first-hand expertise from them.

The Lingo Media team also demonstrates great respect for the cultural differences between Canada and China and constantly adapts its way of doing business with Chinese partners. The team also understands that personal connections and relationships are often key factors in deciding the success or failure of a deal in China. Through their Chinese partners, especially the PEP, Lingo Media got access to distribution channels in the primary English textbook market.

Lingo Media set up a representative's office in Beijing several years ago. The company's presence in China is significant for its maintaining close relationships with all established Chinese partners. This also makes it easier to manage and enable the exchange of authors, content developers, and editors between continents.

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The Beijing office is also responsible for marketing Western intellectual property that has been licensed to Lingo Media for publication and distribution in China. Staff members in this branch are also able to work far more efficiently in terms of acquiring Chinese intellectual property for publishing and distribution in Canada and other international markets.

While Lingo Media will continue to focus on its core business of publishing, it has also initiated an expansion of its established brand by developing an educational product distribution company. Lingo's intention is to distribute finished products directly to the education market in China by the end of 2004. This will provide it with an opportunity to capture a much larger market share and greater economic rewards.

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## 5. Conclusion

In comparison to the nine titles Canadian publishers exported to China in 2002, the U.S., as the number one rights exporters to China in the same year, sold 4,542 copyrights to the Chinese book market<sup>69</sup>. Statistics demonstrate that between 2002 and 2003, U.S. book exports to China increased 32 percent, making China the fastest growing country for U.S. book exports<sup>70</sup>.

Some Canadian publishers seem to have become comfortable with complaining about the disadvantages they face in the domestic market while becoming more and more dependent on structural and financial support from the various government organizations. Meanwhile they have neglected the fascinating structural transitions happening in the international book market. While it is a relatively small press, Lingo Media seized the opportunity and earned an appreciable share of the vast Chinese market much earlier than other Canadian publishers.

Although Canadian publishers will certainly face many challenges in trying to enter the Chinese book market, to ignore the potential for growth and profits will leave these publishers in the survival mode they continue to complain about.

Success in China entails taking advantage of eligible financial programs and industry consultation through relevant Canadian government agencies. Publishers must understand

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69. Statistics from National Copyright Administration of China.

70. *Trends in the U.S. Book Publishing Industry* by Lee Thompson. Association of Canadian Publishers. June 11, 2004.

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the unique publishing environment and public policy measures regarding book publishing in China and become familiar with the operational modes of the Chinese book business. Clearly of paramount importance is finding suitable Chinese cooperation partners with which to develop a niche in the marketplace.

As Chinese children begin to learn English, they begin to come into close contact with Canadian culture. Lingo media's success in China has paved the way for other Canadian publishers to enter the Chinese market.

Although the prestigious Canadian literary works are unlikely to attract a large readership in China currently, Canadian English learning books, children's books, dictionaries, business and finance books promise a strong showing in the Chinese market.

In 2003, the People's Republic of China retained, for the sixth year, its position as the country with the largest group of people immigrating to Canada. It is estimated that more than one million Canadian residents use Chinese (either Mandarin or Cantonese) as their language of daily communication in the home. Clearly the ties between Canada and China, through increased immigration to the former and the opening up of new markets in the latter, is growing more and more extensive. The door to a huge new market has been opened to Canadian publishers who wish to seize this opportunity to move beyond subsistence and dependence to a stronger position in the international marketplace and a greater profitability.

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## Appendices<sup>71</sup>

### Appendix 1: A list of leading official rights agencies in China

#### **Copyright Agency of China (CAC)**

5F Wuhua Building

4A Chegongzhuang Dajie

Beijing 100044, China

Tel.: 86 (10) 6800-3908

Fax: 86 (10) 6800-3908

Email: [cac@public.bta.net.cn](mailto:cac@public.bta.net.cn)

[www.ccopyright.com.cn](http://www.ccopyright.com.cn)

The first official rights agency in China and the only national one.

#### **Vantage Copyright Agency**

53 Jinhua Road

Nanning

Guangxi 530021, China

Tel.: 86 (771) 551-6040

Fax: 86 (771) 551-6041

Email: [vantage@263.net](mailto:vantage@263.net)

It represents publishers from the U.S., the U.K., Germany, France, Japan, and other countries.

#### **Shanghai Copyright Agency (SCA)**

5 Shaoxing Road

Shanghai 200020, China

Tel.: 86 (21) 6437-0148, ext. 8305

Fax: 86 (21) 6433-2452

Email: [awing@shcopyright.com](mailto:awing@shcopyright.com)

[www.shcopyright.com](http://www.shcopyright.com)

The sole agent of Penguin in China. It also represents publishers from Europe, the U.S., Japan and Taiwan.

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71. Note: Information in this section is mainly drawn from *Selling Canadian Books and Translation Rights in China*. Association for the Export of Canadian Books, 2004.

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**Beijing International Rights Agency (BIRA)**

23 Zhichun Road

Liangzi Yinzuo Building, Rm. 1401

Beijing 100083, China

Tel.: 86 (10) 8235-7056

Fax: 86 (10) 8235-7055

[www.bookb2b.com](http://www.bookb2b.com)

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## Appendix 2: A list of leading international rights agents'

### representative offices in China

#### **Andrew Nurnberg Associates (ANA) International Ltd.**

Beijing Representative Office

FLTRP building, Room 3404

Xi San Huan Beilu

Beijing 100089, China

Tel.: 86 (10) 6842-0958

Fax: 86 (10) 6891-7896

Email: [info@nurnberg.com.cn](mailto:info@nurnberg.com.cn)

[www.nurnberg.com.cn](http://www.nurnberg.com.cn)

It focuses on representing world English-language rights and related global translation rights for authors worldwide. Beijing office was set up in 2002 to introduce foreign literature works to Chinese readers.

#### **Arts & Licensing International Inc.**

55 Pineapple Street

Brooklyn Heights

New York 11202, USA

Tel.: (718) 522- 3306

Fax: (718) 522- 3308

Email: [info@advancelit.com](mailto:info@advancelit.com)

[www.advancelit.com](http://www.advancelit.com)

It sells Chinese translation rights of English-language works to publishers in Mainland China, Taiwan and Hong Kong with a wide range of genres, such as fiction, nonfiction, young adults, illustrated books, etc.

#### **BARDON-Chinese Media Agency**

No. 230, Sec 2, Hsin-Yi Rd., 4F-1

Taipei, Taiwan 106

Tel.: 886 (2) 3393- 2585

Fax: 886 (2) 2392- 9577

Email: [yiwen@bardon.com.tw](mailto:yiwen@bardon.com.tw)

[www.bardonchinese.com](http://www.bardonchinese.com)

It specializes in Chinese language rights, in both complex characters and simplified Characters. It represents publishers, literary agencies and authors from many countries.

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**Big Apple Tuttle-Mori Agency**

Shanghai Main Office

Suites A-B, 4F, 55 Ziyun Road

Lane 800, Zhongshan W. Road

Shanghai 200051, China

Tel.: 86 (21) 6273- 4184

Fax: 86 (21) 5253- 0284

Email: [bigapple1@bigapple.info](mailto:bigapple1@bigapple.info)

[www.bigapple.info](http://www.bigapple.info)

It focuses on acquiring Chinese-language rights from foreign publishers, rights agencies and authors. It also represents Chinese authors worldwide, both for Chinese-language and foreign markets.

**Joanne Wang Agency**

2156 Steinway Street

Astoria, NY 11105, USA

Tel.: (718) 721- 4945

Fax: (718) 721- 4073

Email: [queries@joannewangagency.com](mailto:queries@joannewangagency.com)

[www.joannewangagency.com](http://www.joannewangagency.com)

It represents about 100 U.S. and U.K. titles and licenses per year in China. It also represents Chinese authors and publishers in the English-speaking markets.



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### **Appendix 3: A list of the most active Chinese publishers in the copyright market**

#### **CITIC Publishing House**

Department of International Rights

14 Dongwai Dajie Nanlu

Tayuan Diplomatic Office Building

Beijing 100060, China

Tel.: 86 (10) 8532- 8021

Fax: 86 (10) 8532- 2505

Email: liyinghong@citicpub.com

www.publish.citic.com.cn

It specializes in business, finance and management, social science, higher education, professional literature, as well as history and culture titles.

#### **Foreign Language Teaching and Research Press (FLTRP)**

International Department

FLTRP Building

19 Xisanhuan Beilu

Beijing 100089, China

Tel.: 86 (10) 6891- 7515

Fax: 86 (10) 6891- 0257

www.fltrp.com.cn

It is a leading publisher of foreign language textbooks, reference books and foreign literatures.

#### **Jieli Publishing House**

Office of the Editor-in-Chief

9 South Yanhu Road

Nanning

Guangxi 530023, China

Tel.: 86 (771) 5866- 644

Fax: 86 (771) 5850- 435

Email: jielipub@public.nn.gx.cn

It is one of the leading publishers of children's books in China.

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**People's Literature Publishing House**

Office of the Editor-in-Chief

166 Chaonei Dajie

Beijing 100705, China

Tel.: 86 (10) 6525- 2965

[www.rw-cn.com](http://www.rw-cn.com)

It is the leading publisher of literary works in china and the most prestigious one in this field.

**China Machine Press**

Office of Editor-in-Chief

22 Baiwanzhuang Dajie

Beijing 100037, China

Tel.: 86 (10) 8837- 9998

Email: [edit@mail.machineinfo.gov.cn](mailto:edit@mail.machineinfo.gov.cn)

[www.cmpbook.com](http://www.cmpbook.com)

It is one of the leading publishers of professional titles such as machinery, mechanical and electronic engineering, automobile science books, as well as business books.

**Yilin Press**

Rights Department

47 Hunan Lu

Nanjing

Jiangsu 210009, China

Tel.: 86 (25) 324- 2700, ext. 915

Fax: 86 (25) 324- 2328

Email: [yilin@yilin.com](mailto:yilin@yilin.com)

[www.yilin.com.cn](http://www.yilin.com.cn)

It specializes in translating and publishing foreign language literary works and biographies in addition to their core program of local authors. "Yilin" means "forest of translations".

**Zhejiang Juvenile and Children's Publishing House**

Office of the Editor-in-Chief

347 Tiyuchang Lu

Hangzhou 310006, China

Tel.: 86 (571) 8517- 2910

Fax: 86 (571) 8506-3676

[www.ses.zjcb.com](http://www.ses.zjcb.com)

It is one of the leading publishers for children and young adults.

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#### **Appendix 4: A list of the most important book importers in China**

##### **China National Publications Import & Export Corporation (CNPIEC)**

For book export from Canada to China

16 Gongti Donglu, Chaoyang Dist.

Beijing 100020, China

Tel. & Fax: 86 (10) 6506- 3075

<http://book.cnpeak.com>

##### **China International Book Trading Corporation (CIBTC)**

35 Chenggongzhuang Xilu

Beijing 100044, China

Tel.: 86 (10) 6841- 2045

Fax: 86 (10) 6841- 2023

Email: [cibtc@mail.cibtc.com.cn](mailto:cibtc@mail.cibtc.com.cn)

[www.cibtc.com.cn](http://www.cibtc.com.cn)

##### **China Educational Publications Import & Export Corporation (CEPIEC)**

44 Beisanhuan Zhonglu, Haidian Dist.

Beijing 100088, China

Tel.: 86 (10) 6251- 4073

Fax: 86 (10) 6251- 4065

Email: [book.import@cepiec.com.cn](mailto:book.import@cepiec.com.cn)

[www.cepiec.com.cn](http://www.cepiec.com.cn)

##### **China National Sci-Tech Information Import & Export Corporation**

16 Dong Huangchenggen

Beijing 100717, China

Tel.: 86 (10) 6401- 0642

Fax: 86 (10) 8403- 8208

##### **Beijing Publications Import & Export Corporation (BPIEC)**

235 Wangfujing Dajie, 6th Floor

Beijing 100006, China

Tel.: 86 (10) 6512- 6911

Fax: 86 (10) 6512- 6930

Email: [bpiec@public3.bta.net.cn](mailto:bpiec@public3.bta.net.cn)

[www.bpiec.com.cn](http://www.bpiec.com.cn)

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**China National Economic Publications Import & Export Corporation  
(CNEPIEC)**

504 Anwai Anhuali  
Beijing 100011, China  
Tel.: 86 (10) 6241- 0403

**Shanghai Book Traders (SBT)**

390 Fuzhou Rd.  
SHanghai 200001, China  
Tel.: 86 (21) 6322- 3200  
Fax: 86 (21) 6351- 6864  
Email: cnsbtb@online.sh.cn  
www.sbt.com.cn

**Shanghai Hong Kong Joint Publishing Co. Ltd.**

624 Huaihai Zhonglu.  
SHanghai 200020, China  
Tel.: 86 (21) 5306- 4393 ext.30  
Fax: 86 (21) 5306- 0848  
Email: jointjck@stn.sh.cn

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Canadian Embassy Beijing website.

<http://www.beijing.gc.ca/beijing/en/navmain/canada/602/index.htm>

Beijing International Book Fair website.

<http://www.bibf.net/>

Lingo Media website.

<http://www.lingomedia.com/>

The General Administration of Press and Publications website.

<http://www.bb.ah.cn/bwb/xwcb.htm>

The Association for the Export of Canadian Books (AECB) website.

[http://aecb.org/home/default\\_e.asp](http://aecb.org/home/default_e.asp)

The Canada Council for the Arts website.

<http://www.canadacouncil.ca/>