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Selling Canadian Books and Translation Rights in China

A Guide for Canadian Publishers

3rd Edition

**Selling Canadian Books and Translation Rights in China:
A Guide for Canadian Publishers, third edition.**

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Country Overview

It is difficult to capture in words what dramatic changes have taken place in the largest country in the world over the past 10 years. China has become a majority urban nation with more than 55% of the population now residing in cities, many of which have been constructed only in the past 10 years.

There are four major drivers of change that have taken place in China recently: urbanization, demographics, mobility, and connectedness. Over the past 10 years, there has been a rapid transformation from a rural population to an urban population, which continues to this day. By 2020, China will have 23 cities with a population of more than 5 million people, 22 cities with more than 10 million people, and 15 cities with more than 25 million people.¹

Demographics are influenced by a rapid increase in the number of university graduates, including an ever-increasing number who study abroad. Since 2000, the number of Chinese students studying in the United States has increased fivefold, reaching a total of 274,000 for the 2013–14 academic year.² Although there is concern about a slow-down in the economy, there continues to be a basic solid growth of 6%, which provides a broad base of consumer purchasing power. The combination of a growing, educated, urban population with increasing average income has resulted in an ever-expanding and affluent population.

The third major driver of change is the mobility of the population. By 2020, China will hold 29% of the world's population of people aged 25–34 years with a tertiary education. This is interesting when compared with the United States, which is expected to have an equivalent population of 11%, and Canada, which is expected to have only 2%.³ In addition to a growing population of young educated professionals, currently, China's middle-class urban households are mostly located along the eastern coast in the country's 10 major cities. By 2020, there will be a migration toward cities within the interior of the country, reflecting the growing urbanization of the country.⁴

The fourth factor is the growth of new technologies and mobile phones. In recent years, mobile phones have created a technological tsunami in China. In 2014, the total number of mobile users reached 519.7 million, which grew to 574.2 million only one year later.⁵ There are 659 million active social media users, and 668 million Internet users.⁶ The many different ways for individuals to connect, share, and socialize has resulted in a major shift for the local book and magazine publishing industries. It has also meant

¹ McKinsey Global Institute, "Preparing for China's Urban Billion," June 2015. www.mckinsey.com/insights/china

² Sarah Svoboda, "Why Do So Many Chinese Students Study Outside of Their Country?" BBC News Business, June 2, 2015.

³ "The Great Sprawl of China," *Economist*, January 24, 2015. <http://www.economist.com/news/china/21640396-how-fix-chinese-cities-great-sprawl-china>

⁴ M. Weber, *China Report*, Center for Consumer and Customer Insight, Boston Consulting Group, April 18, 2013. www.bbc.com/news/business-16753902.

⁵ See eMarketer, December 2014, www.eMarketer.com.

⁶ We Are Social, "World Population Clock," CNNIC, Tencent, Sina, *Wikipedia*, August 2015. <http://www.slideshare.net/wearesocials/digital-social-mobile-in-china-in-2015>.

that the government has had to adapt to new ways of monitoring and controlling this rapid development of access to the world of online information. Comparative data for the four largest global markets is captured in the following data.

Country	Population	GDP (US\$ trillions)	GDP per capita
China	1,367,485,388	11.23	\$13,200
India	1,251,695,584	2.05	\$5,800
Brazil	204,259,812	2.34	\$16,200
Russia	142,423,773	1.86	\$8,670

Source: *Economist*, "The World in 2016," January 24, 2015. London, pp. 122-123, 132-133, 156-157, 204-205.

China has been and continues to be in the news, but it is important to review the country as a whole. Accordingly, here are the main data points:

Population	1,367,485,388 (July 2015 estimate)
Population growth rate	0.45 %
GDP (purchasing power parity)	US\$18.09 trillion (2014)
GDP – real growth rate	7.3 % (2010)
GDP – per capita (PPP)	US\$13,200.00 (2014)
	US\$12,200.00 (2013)
	US\$11,400.00 (2012)
GDP - composition by sector	
Agriculture	9.2%
Industry	42.7%
Services	48.1%
Labour force	804.2 million (largest in the world)
Current account balance	US\$219.7 billion (2014)
	US\$148.2 billion (2013)
Exports	US\$2.343 trillion (2014)
	US\$2.209 trillion (2013)
Imports	US\$1.96 trillion (2014)
	US\$1.95 trillion (2013)

Source: "The World Factbook," CIA (Central Intelligence Agency), November 19, 2015, <https://www.cia.gov/library/publications/the-world-factbook/>.

Demographics

As noted, China's population is the largest in the world and is growing at a rate of 0.45% annually. The total population needs to be seen in relation to the following demographic composition by age group:

Population: People's Republic of China				
Age Group	Total	Male	Female	Proportion
0–14	233,556,402	126,146,137	107,410,265	17.1%
15–24	188,996,002	100,380,703	88,615,299	13.8%
25–54	655,658,096	334,240,795	321,417,301	47.9%
55–64	152,385,155	77,098,602	75,286,553	11.4%
65 and over	130,748,905	62,646,075	68,102,830	9.6%

Source: Ministry of Information, *The People's Republic of China Yearbook 2014* (Beijing: China Press, 2014).

It is important to note that the literacy rate for 18–70-year-olds who can read and write was 79.1% in 2013 and further improved to 95.4% by the end of 2014. In comparison, the literacy rate for this same size population in the second largest market, India, grew from 63% in 2005 to 74% percent in 2011.⁷ The dramatic difference between these two countries is China's state requirement that its citizens must attend school for a minimum of nine years. According to China's Ministry of Education, China has achieved a 96% attendance rate for primary schools.

To increase literacy rates, the Communist Party switched from “traditional” Chinese characters to a “simplified” form of writing, using fewer strokes. Traditional or complex characters are still used in Hong Kong and Taiwan. The distinction between traditional and simplified characters is an important factor for publishers that sell translation rights for the Chinese language. It is imperative to designate the rights for either the simplified or complex form of the language or specifically for both forms.

The interesting factor from a cultural perspective is that China has one official language (Mandarin) and one alphabet. This stands in contrast to India, which has several hundred languages—of which the government has recognized 26 as official—with 14 related and different alphabets. Therefore, India really represents a number of market segments for publishers, while China has become the single largest potential national market.

In 2005, China's General Administration of Press and Publication (GAPP) was responsible for organizing the Rural Book Room program, which maintains 505,000 small reading rooms in 84% of the administrative villages across the huge country. The total number of participants has exceeded 700 million people in the various national reading activities subsidized by this nationwide reading project.

⁷ Chinese Academy of Press and Publication, “Overall Improvement of National Reading Rate in China,” in *China Publishers (Special Report)*, Publishing Perspectives Inc., New York, 2015, 8-9.

The role of media and related Internet access is reflected by the following statistics:

Movie attendance per year	780,000,000
Television receivers	418,000,000
Television broadcast stations	3,300
Newspapers (number of titles)	1,910
Mobile phone subscribers	1,078,500,000
Number of Computers	195,100,000
Broadband access	363,810,000
Internet users	674,000,000

Source: PwC, "China Entertainment and Media Outlook," www.pwccn.com.

When looking at languages used online, the Chinese language ranks second with 704.6 million users on the Internet, preceded only by the English language with 851.6 million users.⁸

Economics

The threshold year was 1978, when the country moved from a centrally planned and controlled economy to a market-oriented economy. Under the leadership of Deng Xiaoping, China was able to develop a compound economic growth rate of 9.4% over the 20-year period, from 1978 to 1998. Since then, there has been growth at an average rate of 8.2% each year, although the government is planning to slow the pace down to 6.5% for the fourth quarter of 2016.

Economic Growth Rates

	January 2013	July 2013	January 2014	July 2014	January 2015	July 2015
China	7.8%	7.5%	7.3%	7.2%	7.0%	6.9%

Source: "China GDP: Real Growth Rate," Index Mundi, http://www.indexmundi.com/china/gdp_real_growth_rate.html.

China's GDP growth experienced a five-year low in the third quarter of 2015, slumping to 6.9%. The slowdown was driven by lower property investment, dwindling credit growth, and weakening industrial production.

In 2010 China became the world's largest exporter. Reforms began with the phasing out of collectivized agriculture and expanded to include the gradual liberalization of fiscal policy, increased autonomy for state enterprises, creation of a diversified banking system, and development of stock markets. These measures allowed for a rapid growth of the private sector and an opening of the economy to foreign trade and investment. China's government has implemented these reforms in a gradual and transitional

⁸ Miniwatts Marketing Group, "Internet Statistics," October 1, 2015. <http://www.internetworldstats.com/stats3.htm>.

process. In recent years, China has renewed its support for state-owned enterprises in sectors it considers important to “economic security,” with the goal of fostering globally competitive national priorities. In 2010, China attracted US\$105.7 billion—crossing the US\$100 billion mark for the first time.⁹ The government has committed to the 12th five-year plan, which was adopted in March 2011 to continue reforming the economy. The reforms emphasize the need to increase domestic consumption in order to make the economy less dependent on exports for GDP growth in the future. However, China will likely make only marginal progress toward these rebalancing goals in the immediate time frame. China currently faces four major new economic problems. The first is inflation, which late in 2010 surpassed the government’s target of 3%. The second is local government debt, which grew as a result of stimulus policies and is largely comprised of off-the-books loans. Third is the overall economic slowdown in manufacturing and home construction, with the result that the economy will not grow at the projected rate of 6.1% in 2015–2016. The final problem is the declining value of the stock market, which the government tried to support on a short-term “correction” basis in the fall of 2015.¹⁰ These are important elements to be aware of but not cause for postponing entry into this huge market with a growing economy and student population.

Currency Exchange Rates

In 2005, after keeping its currency tightly linked to the US dollar for many years, China revalued it by 2.1% against the US dollar and moved to an exchange rate system that references a basket of currencies. From mid-2005 to late 2008, cumulative appreciation of the Chinese yuan against the US dollar was more than 20%. But the exchange rate remained virtually pegged to the dollar from the onset of the global financial crisis until June 2010, when Beijing allowed resumption of a gradual appreciation.

Exchange Rates for Canadian Dollar (CAD) and US Dollar (USD) with Chinese Yuan Renminbi (CNY), 2012–2015

	2012	2013	2014	2015
1 CAD	6.27	5.73	5.39	4.79
1 USD	6.25	6.19	6.12	6.38

Source: See “CNY: Chinese Yuan Renminbi,” XE, <http://www.xe.com/currency/cny-chinese-yuan-renminbi>.

⁹ Reuters, “China FDI Rises Strongly in January, Outlook Bright,” February 17, 2011.

¹⁰ “A Slower Slowdown for China’s Economy,” *Economist*, March 11, 2015. <http://www.economist.com/blogs/freeexchange/2015/05/chinas-economy>.

Education

A large infrastructure for schools has been established in China over the past 20 years to comply with the government's policy that all children must complete nine years of elementary and secondary school education. The latest statistics for the number of students and educational institutions present the following data:

	Kindergarten/ Pre-School	Primary Schools	Secondary Schools	Universities and Colleges
Number of institutions	138,209	280,184	87,665	2,845
Number of students	15.5 million	99.41 million	99.38 million	23.91 million

Source: See National Bureau of Statistics of the People's Republic of China, <http://www.stats.gov.cn>.

After considerable transitions and changes over the years, there are now 2,845 universities and colleges and 866 other private institutions of higher education.¹¹ The information available from the most recently released *China Statistical Yearbook* provides the following data:

	New Enrolment	Total Enrolment
Postgraduate students	332,641	1,158,623
Higher education students	564,069	23,913,155

Source: NBSC, *China Statistical Yearbook* (Beijing: National Bureau of Statistics of China, 2014).

These university enrolments are provided in order to present a basis for the number of books published in China and the number of books and journals imported by universities and libraries.

The following are pertinent statistics that document the dynamics of higher education to summarize the multitude of tables and charts available for measuring the size and growth of higher education in China.

- More than 60% of high school graduates in China now attend a university, up from 20% in the 1980s.
- The number of students in China enrolled in degree courses has risen from 1.2 million in 1997 to 21.4 million today.
- The number of higher-education institutions in China has more than doubled in the past decade, from 1,022 to 2,845. It is not only a factor of growth in numbers but also a measure of improvements in the quality of higher education.
- The government established the 2011 Higher Education Development Project to focus on the development of about 100 higher education institutions in order to rank among the top 10 universities in the world. University presses are a major source of textbooks for higher education and, therefore, this sector of publishing has experienced special growth. The Higher Education Press is the only national source for an increased number of textbook titles.

¹¹ Uwe Brandeburg and Jiani Zhu, *Higher Education in China* (Gütersloh: CHE, 2008), 18–19.

The government's focus on higher education differentiates China from other countries that are at similar stages of development stressed primary and secondary education rather than higher education. The number of undergraduate and graduate students in China has been growing at a rate of approximately 30% per year since 1999, and the number of graduates at all levels of higher education in China continues to grow. Over the last five years, the number of Chinese graduates has continued to increase dramatically, with almost 7.5 million new graduates entering into the job market in 2015. Investment in education accounts for about 4% of total GDP in China in 2015. The Chinese government is more focused on education, particularly on higher education, although they are now facing the issue of finding jobs for all the recent graduates in the challenging circumstances following the economic slowdown of 2015.

Libraries

The library markets in China consist of the following key segments: public libraries, university libraries, and special research libraries. The number of institutions in each segment, in 2015, are as follows:

Public libraries	2,925
University libraries	1,891
Special research libraries	1,185

Source: "Libraries in China," *Wikipedia*, https://en.wikipedia.org/wiki/Libraries_in_China.

English-Language Learning

English has become a second language in China because every student must study it beginning in elementary school and continuing through vocational college or university education. University students are required to pass the National ESL Standard Test to graduate. China has an estimated 30,000 organizations or companies offering private English classes. Between 2005 and 2010, the English-language market nearly doubled in size to a worth of around US\$3.1 billion.¹²

Over 57,000 Chinese university students have achieved a sufficient knowledge of the English language and are now the largest group of foreign students attending universities in America each year.¹³ Their skills may not reflect the ability to speak or write English fluently, but Chinese students have learned to read the language. The result is that the largest English-language market segment in China today includes university libraries, research centres, and university textbooks published as low-cost paperback student editions. Government-approved import–export agencies are the primary sales channel for English-language books to the library market segments.

¹² Open Book, *China Book Retail Market Annual Report 2014* (Beijing: Beijing OpenBook Co., 2014) 43-44.

¹³ "Studying the Superpower," *Economist*, January 18, 2011. www.economist.com/blogs/.../2011/01/china_and_america.

Technology: Digital Transformation

China's Internet usage is huge, with 659.1 million people or 46% of the population having Internet access at the end of 2014.¹⁴ By the end of 2016, it is estimated that the majority of China's population will be Internet users. In contrast, China has the largest mobile phone audience in the world, with an installed base of 675.6 million mobile phones, which represents penetration nearing 49% of the population.¹⁵ Mobile phones and smartphones have been quick to establish themselves in the Chinese market and are the primary source of Internet connectivity. Personal computers or tablets are much less common.

According to the McKinsey report "China's Rising Internet Wave: Wired Companies," there are five major factors driving the rapid development of digital media: a new expansion of digitally driven productivity; greater access to financing and lower risk; a growing base of consumer interaction; a lower barrier to innovation; and new competition as the Internet empowers entrepreneurs and small businesses.

Many publishers are pursuing new opportunities offered by digital publishing, although there is comparatively small market penetration by various e-readers. Unique to China, wireless service providers are involved in content development and distribution specifically designed for the mobile channel. China Telecom's Tianyi Reading and China Unicom's Leonvo's Readto developed strategic distribution agreements with publishers in 2011. Of the total number of 255,890 new books published in China in 2014, only 2.7% were e-books. In April 2015, the State Administration of Press, Publication, Radio, Film and Television (SAPPRFT) of the People's Republic of China released a document that recommended and supported the book publishing industry's development of digital publishing, including the formation of several digital publishing groups.

At the end of 2014, China had a social networking population of 659.1 million. This was expected to grow to more than 700 million by the end of 2015, although no new reports are currently available. If that is the case, then China would represent more than 48% of the world's Internet users.¹⁶ According to WeAreSocial, the four social network leaders in China are TencentQZone, Tencent Weibo, Sina Weibo, and Renren.¹⁷ There are four major areas that demonstrate the growth of digital technology in China:

- Active Internet users: 668 million, accounting for 49% penetration
- Active social media users: 659 million, accounting for 48% penetration
- Active mobile social users: 574 million, accounting for 42% penetration
- Active unique mobile users: 675 million, accounting for 49% penetration

E-books as we know them in the North American market (based on the Kindle, Nook, iPad, and many other platforms) have not really made a major entry in China. A survey conducted in April 2011 by the Chinese Academy of Press and Publications reported that people between the ages of 18 and 60 have read 613 million books in 2010. Of

¹⁴ See eMarketer, "China's Massive Web Audience Turns to Social, Mobile, Video," www.eMarketer.com/Articles/Print.aspx?R=1008882.

¹⁵ See Internet World Stats, "Internet Penetration in Asia," June 30, 2015. <http://www.internetworldstats.com/stats3.htm>.

¹⁶ "Internet and Mobile Market 2015," iResearch Half Year Report, China National Net Information Center, June 2015.

¹⁷ "Digital, Social & Mobile in China in 2015," We Are Social, August 18, 2015. www.slideshare.net/wearesocialsg/digital-social-mobile-in-china-in-2015.

this group, 33% read e-books via their mobile phones, 28% read books on the Internet, and only 3.9% read books on actual e-readers. The study also reported that the average “acceptable” price for an e-book downloaded from the Internet is 1.33 yuan (US\$0.25). Nearly 54% of digital readers say they would pay up to 3.45 yuan to download books.¹⁸ Most of the digital content available is downloaded online in html format and paid for per chapter or by a monthly subscription fee. Content is purchased on phones or on tablet services from the e-bookstores of China’s three cellular service providers.

The combined revenues from e-books, online periodicals, and digital newspapers was US\$1 billion in 2014. Between 2006 and 2013, revenues generated by digital publications increased an average of 78% annually.¹⁹ A survey conducted in the fall of 2015 reported that 50% of Chinese consumers prefer reading in a digital format on their phones. The survey also reported that 53% of Chinese readers born after 1990 are active online or read on their mobile phones.²⁰ Interestingly, Chinese readers have not accepted the e-books or e-readers such as the Kindle or Nook of the Western world, but have gone directly to the mobile and smartphone as their primary digital reading device.

China also faces challenges in the realm of self-publishing, referred to in this market as “online literature.” The self-publishing sector is not yet controlled by the SAPPRFT and does not require ISBN registration. There were 1.76 million self-published titles available in 2013 and 2.1 million titles available online in 2014. It is likely that this form of self-publishing will become increasingly monitored by the SAPPRFT.

E-books and digital publishing were a major topic during the meeting of the Beijing Book Expo Committee in January 2015 and were also discussed at length during the IDPF@BIBF conference on August 28, 2015 in Beijing. The resulting conclusion was that digital publishing in the form of e-books and e-readers in China has not yet been established as an effective business model. With the popularity of mobiles and smartphones, the public does not feel the need to purchase a separate device to access and read books.

While mobile phones are the most popular device for e-books in China, the Internet provides access to such a huge amount of entertainment that publishers are still faced with the challenge of competing for consumers’ time. With so many people spending an increasing and disproportionate amount of time on their phones, the risk is that they are spending less time reading overall, whether print or digital editions. Internet companies have created unique business models for China that provide consumers with access to social platforms, games, video entertainment, music sites, and various e-commerce outlets. The three largest social media platforms are Weibo, WeChat, and Douban. These platforms provide instant messaging services, giving users access to free texting, voice messages, and video calls. In the last few years, their popularity has grown tremendously. In 2015, Weibo had 61.4 million daily active users, while 55.2%

¹⁸ “Internet and Mobile Market 2015,” iResearch Half Year Report, China National Net Information Center, June 2015.

¹⁹ *Annual Report for Publishing Industry*, (Beijing: China Publishers, 2016).

²⁰ “Enter the Chinese Market with CNPIED,” Beijing International Book Fair Report, August 2015. www.bibf.net.

of WeChat users open the social media platform more than 10 times a day.²¹ Douban is a more culturally focused platform, providing its users with a targeted community for online discussions about films, music, and books.

The rapid transformation of Chinese consumers' shift to digital media over the last five years is demonstrated by the following data from eMarketer:

Share of Average Time Spent Per Day on Major Media by Adults in China, 2011–2015

	2011	2012	2013	2014	2015
Digital	35.8%	40.5%	45.4%	48.5%	50.4%
Mobile	15.4%	21.0%	26.9%	30.7%	32.9%
Smartphone	7.3%	12.5%	16.3%	18.8%	20.3%
Laptop	20.4%	19.4%	18.6%	17.8%	17.4%
TV	55.5%	51.8%	47.6%	45.1%	43.6%
Radio	3.7%	3.6%	3.4%	3.2%	3.1%
Print	4.9%	4.3%	3.6%	3.2%	3.1%
Newspapers	4.4%	3.9%	3.2%	2.8%	2.6%
Magazines	0.5%	0.5%	0.4%	0.4%	0.3%

Source: www.eMarketer.com, December 20, 2015.

²¹ "2015 Chinese Social Media Statistics and Trends Infographic," Make a Website Hub.com, <http://makeawebsitehub.com/chinese-social-media-statistics/>.