

Reform Impossible to Achieve: Study of China's Publishing Industry and Book Number System

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Abstract

This study explores the dual structure of China's publishing industry, focusing on the China Standard Book Number (中国标准书号) system. This system grants book number rights exclusively to state-owned entities linked to the Communist Party, who then sell these numbers to private publishers. The research examines how this licensing system influences party control and market dynamics within the industry.

The analysis investigates institutional arrangements using new institutional economics, emphasizing property rights, transaction costs, and governance structures. The study reveals that the book number system distorts property rights, imposes high transaction costs, and enforces bureaucratic governance, negatively impacting market vitality and competition.

Politically, the system functions as a censorship tool, ensuring the CCP's ideological control over publishing, limiting diversity, and restricting free speech. The research concludes that the book number system hampers the free development of China's publishing market and intellectual freedom. It also reflects broader issues in the dual-track system of state-owned and private enterprises, highlighting the need for institutional reform and balanced market development in China.

Keywords: China, Publishing, New Institutional Economics, Censorship, Book Number

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万山不许一溪奔，拦得溪声日夜喧。
到得前头山脚尽，堂堂溪水出前村。

This article is dedicated to all the nobly aspiring individuals in the Chinese publishing industry and to a future free China.

Since the reforms in China, the CCP has presented itself as a reformer, domestically portrayed as the savior that lifted billions out of poverty, and internationally as a major player in global trade adhering to international rules. If this were truly the case, they would not go to such lengths to conceal the true origins of the CCP, the realities of the war against Japan, and the history of violence against the Chinese people since 1949—from land reforms, Anti-Rightist Movements, the Great Leap Forward, the Great Famine, the Cultural Revolution, the suppression of Tibetans, to the Tiananmen Square Massacre, and more. Economic reform was merely a necessity for the CCP to continue its claim to legitimacy, especially since both the rural household contracted responsibility system and the township enterprises originated spontaneously from the people, with the former appearing first in areas most stricken by famine. These two pivotal reforms had already begun to take root even before the end of the Cultural Revolution. Deng Xiaoping's reforms merely legalized the household contracted responsibility system and township enterprises, easing the absolute prohibition on private property. The CCP simply returned a small portion of the economic freedom that the Chinese inherently possessed back to the people. Yet, the CCP still captures the vast majority of wealth for itself through incomplete property reforms and unchecked administrative power, making it incredibly difficult for ordinary Chinese to earn and save their hard-earned money. Coupled with high taxation and almost non-existent social security, plus over nine hundred million rural people entirely excluded from the scant welfare system, the CCP has imposed profound suffering on the Chinese people. Yet, the Chinese have never ceased to resist and move forward. This is why I must write on this topic.

Having worked in the publishing industry for many years, I have never been complacent or slack; preserving valuable works for the future of China has been my mission. It was not until I could no longer publish planning books and was lockdown in Shanghai that I chose to study in Europe. Yet, I have never forgotten my original intentions. Confucianism teaches, " To be worthy of the honor of 士 Shi, one should be broad- minded and unflinching, since his responsibilities are challenging

and his course is long. Is it not a demanding task to take as one's responsibility to realize true virtue, which only death can stop? Is it not a long course? (士不可以不弘毅，任重而道远。仁以为己任，不亦重乎？死而后已，不亦远乎？)" Confucianism also says, "A state can be destroyed, but not the world (国可亡天下不可亡)." This "world (天下)" signifies civilization—it is not the rulers' world but the people's. Everything I do relates to the land and people I care about. Confucianism advocates benevolent governance (仁政), Daoism speaks of governing by doing nothing that against the nature (无为而治), which coincides with Western civilization. Hannah Arendt expressed the meaning of politics: "The ultimate end of politics is to free man." As insignificant as I am, caring about politics and my homeland ultimately means caring for myself. My concern is also about what kind of nation we leave to the next generation.

This topic emerged from my extensive readings on China's economic reforms. I was deeply moved by the fervor and courage of Chinese economists such as Zhou Qiren, Wu Jinglian, Zhang Weiyang, and Yang Xiaokai, who boldly spoke the truth amid turbulent times, illuminating the essence of genuine reform from an economic standpoint. During my thesis writing, I read all books and articles by Zhou Qiren, an economist who has been involved in reform policy research since the 1980s. His main research areas are the property rights reforms in Chinese rural areas and enterprises. In his work *"The Logic of China's Reforms,"* Zhou discusses the essence of China's economic reforms as the redefinition of rights (primarily property rights): "The past system of total public ownership under the planned economy defined rights, which, being unsuitable for the development of productive forces, were redefined during the reforms and opening up." However, why has this reform of property rights taken four decades and still not found its path? The answer is crystal clear—it is the CCP itself, which has always been a Leninist Bolshevik party. Professor Xu Chenggang mentioned that Deng Xiaoping as early as 1982 likened China's reforms and opening-up to Lenin's New Economic Policy. The so-called Lenin's New Economic Policy was a response by the Bolsheviks after seizing power in the 1917 coup and encountering severe economic difficulties. To ensure the survival of the Soviet regime they had established, Lenin devised the New Economic Policy. On one hand, it is a Marxist-Leninist party, aiming to establish the dictatorship of the proletariat, pursue the socialist path, and maintain state ownership. On the other hand, for survival, it temporarily opened up to private ownership and the market economy. Everything was just to ensure the survival of the Soviet regime. Once the regime stabilized, they

would then confiscate these private properties and return to comprehensive state ownership—this was Lenin's New Economic Policy.

Understanding the nature of the CCP's reforms elucidates why private enterprises and entrepreneurs in China have always had such a difficult time. Domestic propaganda by the CCP has consistently portrayed private entrepreneurs as exploiters and capitalists; owning private enterprises is seen as a tactical necessity, while the elimination of the private sector remains a lofty ideal.

I chose this topic not only to provide the academic community with a genuine case study for understanding Chinese reforms but also to elucidate the dual structure of state-owned and private enterprises under CCP rule. The publishing industry is unique because it serves as the primary sector for ideological work. Over the decades, the thinking of the Chinese people has been completely transformed by Communism and Marxism, with the publishing industry being the main instrument. What books people can read and what knowledge they receive at school are determined by the controls imposed on the publishing industry. We need to uncover the CCP's strict mechanisms of censorship, ideological control, and propaganda from the source. He Qinglian, a renowned scholar, wrote a classic work on CCP media control titled "*The Fog of Censorship: Media Control in China*," which greatly inspired me.

This article is not just the culmination of my efforts and hopes but also those of old friends and new acquaintances who, at great risk, provided me with information. This was not an easy task for them, especially for a respected elder in the intellectual community and cultural industries who endured an entire afternoon's interview with me. In the end, he said, "Our generation has completed its mission, now it's your generation's turn." This deep sentiment cannot be taken lightly. I also owe a debt of gratitude to my supervisor, Stefan, who offered invaluable writing advice, patiently listened to this complex story, carefully read through my initial and subsequent drafts, and guided me on how to revise them.

I hope that those who read this article can feel that the hope and future of China lie in these humble, ordinary individuals. I have always believed that brightness is not something that one waits for; it gathers.

“Even in the darkest of times we have the right to expect some illumination, and that such illumination might well come less from theories and concepts than from the uncertain, flickering, and often weak light that some men and women, in their lives and their works, will kindle under almost all circumstances and shed over the time span that was given them on earth.” --Hannah Arendt

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1. Introduction

This research investigates the dual structure of China's publishing industry, providing a distinct analysis between state-owned and private publishers. Central to this examination is the China Standard Book Number (中国标准书号) licensing system. This unique system, where only state-owned entities linked to the Communist Party and government possess book numbers and sell some of them to private publishers, forms the backbone of the industry's operational framework. The study aims to dissect how this licensing system shapes the dynamics of party control and market operations within the publishing sector.

The Chinese publishing industry presents a unique landscape due to its dual structure, which is significantly influenced by the government's policies and the market forces. Understanding this duality is crucial for comprehending the broader media and information control mechanisms within China. This research aims to contribute significantly to this understanding, offering insights into the intersection of political control and market dynamics in the context of China's rapid economic advancements.

1.1. Background of book publishing industry in China

1.1.1. China's Publishing Industry before the 1978 Reform

China's publishing industry originated from the reforms of 1978. In the early years of the People's Republic of China, the Chinese Communist Party (CCP) eliminated the momentum of the private publishing market from the Republic of China period through swift and thorough measures (Yuan et al., 1999). During the Mao Zedong era, the publishing industry, like other media, became the mouthpiece of the CCP, and more importantly, it was used as a weapon of ideological propaganda and control (Keller, 2003). For the CCP, maintaining strict control over publications is crucial, as they are the main tools for disseminating ideas and discourse (Culp, 2019). This control has never been relaxed even after the reforms, and publications still need to pass a strict censorship system and align with the CCP's propaganda goals. Before the Reform and Opening Up, China experienced an extreme planned economy and decades of political turmoil. Almost all production activities were directly or indirectly controlled by the government, and book publishing, as part of public services, was also subject to strict political constraints (Xu & Albert, 2014).

1.1.2. Transformation of the Publishing Industry after Reform and Opening Up

As China opened up and adopted reform policies, market mechanisms gradually entered the publishing industry, and publishers transitioned from public service units (事业单位) in a planned economy to a market-driven industry. However, the influence of the CCP's ideology and market control has hardly weakened, leading to a clear tug-of-war between market forces and CCP control in this specific industry. In the 1980s and 1990s, the number of publishing houses gradually increased, and some private publishing companies emerged, marking the beginning of diversified institutional reform in the publishing field. Especially in the 1990s, the policy of "separating government and enterprise(政企分开)" guided all state-owned enterprises and institutions to reform, making them more market-oriented and commercialized (Hassard et al., 2007). During this period, the publishing industry began to seek commercial profitability and reduce the financial burden, and transforming publishing institutions into market-oriented enterprises gradually became a priority. However, the CCP's ideological control over the publishing industry did not relax. Although private publishing companies kept emerging, they still do not have full independent publishing rights.

1.1.3. Conglomeration of Publishing Houses

The reform of the publishing industry was guided by dual objectives: conglomeration aims to ensure the continuity of administrative management and the CCP's control over the media, while corporatization aims to achieve commercial profitability through corporate operations. The goal of conglomeration is to maintain the administrative management system of the publishing industry, which ensures the CCP's control over the publishing field (Yun, 2018). The early publishing groups were composed of provincial administrative units and were not formally recognized by the central government. It wasn't until 1998, when Guangdong Publishing Group and Shanghai Century Publishing Group were officially established as one of the pilot policies, that the status of publishing groups was recognized by the government.

1.1.4. Market-Oriented Reform of Publishing Houses

The corporatization of publishing houses occurred slightly later than conglomeration and was driven by enormous financial pressure and the CCP's recognition of the publishing industry's profitability. Corporatization aims to transform publishing houses from institutions into market-

oriented enterprises, initially driven by the policies of " separating government and enterprise(政企分开)" and "separating public service units from government(政事分开)." However, in the context of one-party dictatorship and centralized systems, policy implementation faced challenges at various levels. The corporatization reform of publishing institutions has taken more than ten years and is still not complete, which is a common obstacle faced by all countries transitioning from communism. The transformation of publishing houses from bureaucratic departments to corporatized enterprises means that employees within the system will lose various welfare protections, making the transformation full of resistance (Yun, 2018). After the reform, the CCP demanded that publishing houses pursue profits while also considering the effectiveness of ideological propaganda and censorship, placing publishing houses in a dilemma between being market-oriented enterprises and ideological institutions.

In 2002, the central government formally recognized the market presence of the cultural industry in the 16th National Congress report, marking the recognition of private publishers and independent bookstores.

1.1.5. Problems in the Publishing Industry

Whether conglomerated or corporatized, publishing institutions have not gained true autonomy under the party-state system. However, the party-state recognizes the commercial value of the publishing industry. The dual identity of publishing houses has given private publishing companies some room to survive but has also exposed the fragility of the market. It should be recognized that the market's emergence was not granted by the party-state but resulted from the Chinese people's seizing opportunities amid systemic relaxation. This slight relaxation has made market development the main driver of China's economic growth. The CCP's intervention and control over the publishing industry restrict market access, keeping the publishing market in a constantly unstable environment. In this context, private publishers still face many challenges in survival and development and need to find a balance between government regulation and market demand.

1.2. Research question and research value

Since the reform and opening-up policy, China has undergone profound transformations, gradually transitioning from a planned economy system to a market-based mechanism. However, reform

does not mean that the CCP's control over thought has relaxed. To this day, the CCP still systematically manipulates history, thought, and people's perception. There is abundant academic literature on censorship, propaganda, and media control.

This paper seeks to explore how this complex and systematic thought control operates institutionally. More precisely, in a socially complex China undergoing market-oriented transformation, what kind of market-oriented system of thought control has emerged in the publishing industry? What problems does this system bring? Why has it been established and maintained?

Exploring the value of China's book number system in the publishing industry is primarily reflected in several aspects. First, this study provides a unique window into how China has maintained control over thought during the marketization process after the reform. By conducting an in-depth analysis of the book number system, the CCP's utilization of the market-oriented publishing environment to achieve political goals and maintain influence over thought and ideology can be revealed. Second, this research can further reveal the interaction and relationship between state-owned and private entities during marketization. In a gradually opening market environment, the book number system may institutionally exploit and restrict private enterprises, leading to industry monopolies brought about by administrative power. Finally, this research can also reveal the potential problems brought by the book number system, including the impact on freedom of publishing, restrictions on cultural diversity, and the suppression of innovation and development in the publishing industry. These studies will help improve the understanding of how the Chinese government controls the dissemination of ideas through institutional design. They will also provide important references for scholars studying censorship and media control in China worldwide and provide an essential industry case study for scholars researching the state-private market structure in China since the reform.

1.3. Previous Research

1.3.1. Book and Publishing in China

There is no shortage of literature on China's book publishing market, with the focus primarily on areas such as digital publishing, globalization, and publishing history. However, there is relatively

little institutional research on book publishing in China, leaving many subjects to be explored in this field, such as the institutional framework, market access, and monopoly issues.

Yun (2018) provides a systematic account of various aspects of the publishing industry in the People's Republic of China (PRC), including the era of planned economy before 1978, the relationship between ideology and the publishing industry, and the reforms in the publishing sector since the economic reform, focusing primarily on corporatization and group formation, with a case study of electronic publishing by the Guangdong Publishing Group. The book offers a comprehensive historical panorama of China's publishing industry since the establishment of the PRC, citing a wealth of documentary materials, making it an important resource for studying the industry. It provides rich historical context and descriptions of policy changes within the publishing industry but lacks focus on the industry's structure, book number mechanisms, and censorship processes. In short, it studies the industry from a historical perspective, thus limiting the depth of industry analysis. Moreover, it focuses only on state-owned publishers, overlooking the critical role of private publishers in the industry and market, thus offering little analysis of market performance. Lastly, the choice of the Guangdong Publishing Group around 2008 as a case study does not reflect the changes in the industry and market, and given the rapid changes in China's publishing industry and market, this case appears quite outdated. Therefore, my research builds upon Yun's rich documentary and historical foundations, enabling more in-depth exploration of the book number system, market, market participants, and reflections on the reform process.

Song (2022) describes the basic structure of book censorship and administrative departments in China, listing directives from agencies like the National Press and Publication Administration (GAPP) and the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China (SAPPRFT) on which topics or content must be submitted for further review, and details incidents of notable books being censored and banned. This paper focuses on how book content is modified under censorship, comparing the same books published in Taiwan and mainland China, or how foreign books are translated with or without abridgments or modifications to highlight what Chinese censorship agencies focus on and distort. Although the article effectively reveals China's book censorship through comparisons of content modifications, it lacks a deeper exploration of censorship mechanisms, the operation of censorship systems, and

the interpretation of the book market, not delving further into how low-cost organizational censorship is possible.

Institutional research on China's book publishing market, due to the limitations of existing literature, will be expanded to include research from two fields: media control and the dual-track system of state-owned and private enterprises.

The media control field explores the ways in which the Chinese government controls the media, including policies and regulations, censorship systems, and ideological guidance. It focuses on how censorship mechanisms are specifically implemented and the strategies the state uses to control media content. The studies of this field focus on revealing how the government influences the content of news publications through censorship policies, thereby affecting the dissemination of public opinion and ideological propagation.

The dual-track system of state-owned and private enterprises analyzes the roles and positioning of state-owned and private enterprises in the Chinese market. It explores how the government manages them differently through policies and regulations and how this dual-track system affects competition in the whole market. The research has covered the unique role of state-owned publishing enterprises in the market and their advantages in resource allocation, market access, and government support. At the same time, the existed research has analyzed the coping strategies of private enterprises in the policy environment and how they seek to survive and develop under this dual-track system.

Incorporating research from these two fields allows for a more comprehensive understanding of the operating mechanisms and developmental characteristics of China's book publishing market. Research on media control helps understand the restrictions and guidance of publishing content, while research on the dual-track system will reveal the competitive and cooperative relationships between different types of publishing enterprises in the market.

1.3.2. Media Control in China

In the field of media control research in China, scholars have explored from multiple angles how the Chinese government uses a series of policies and measures to control the media and have analyzed the impact of these measures on information dissemination, public opinion, and political

control. This includes areas like the legislative framework, internet control, economic control, and self-censorship.

Keller (2003) was an early discussion on the control of Chinese media. This article systematically reviewed the history of the CCP's control from total control to commercialization and then to market regulation. It highlighted that while the Communist Party rewards journalists and publishers with relatively high social status and income for serving the Party, it also punishes those who defy its will through strictly laws and regulations. The article briefly describes how regulatory agencies control news and publishing processes through the book number system and notes how the Communist Party ensures that printing content meets regulations by controlling printing presses.

Winfield and Peng (2005) use ground theory to study changes in Chinese media control, transitioning from Party organizations to state enterprises. It identifies five aspects of government control: Political and ideological control evolving from censorship, punishment, fines, and imprisonment to self-censorship, access blocking, and government censorship; Economic control shifting from ownership and funding to state monopoly and conglomeration; Institutional control moving from party propaganda to bureaucratization of media regulation; Legal control evolving from constitutional and state law to the inclusion of civil laws; and Administrative control shifting from personnel appointments to certifications for journalists and guidelines for permissible content.

Brady (2009) focuses on the role of the Propaganda Department in the entire current Chinese system, emphasizing its dictatorial position in the market since 1989, even as cultural media markets began to appear. The department sets ideological goals and propaganda tactics, using its regulatory authority to demand that the cultural industry promotes the intentions of the Communist Party, controlling public opinion and thought. This book highlights the overwhelming influence of Communist Party's ideological institutions on the market, controlling businesses through various administrative regulations.

Zhao (2008) describes the political economy of China's communication system, explaining how state-owned media caters to the market while maintaining political alignment. The article details how news media under licensing conditions are dominated by the party-state system, the goals the Communist Party aims to achieve through media, and why media under this system cannot function as they do in democratic countries. Further, it discusses how, after media marketization,

conflicts arise with their regulatory authorities, and how journalists exert their agency, only to be controlled or expelled by authorities. The article places significant emphasis on the political-economic structure, analyzing how commercialized media are systematically tamed by authorities.

Although these articles provide systematic explanations of media control in China, they still have shortcomings. Since their publication, significant changes have occurred in China, such as institutional control returning to the Propaganda Department and the implementation of national security laws, which severely restrict speech and freedom and may lead to the withdrawal of funding.

Apart from that, research in this field mainly focuses on the news media. Since the news industry is entirely state-controlled, these studies can provide some insights for my research. However, the publishing industry involves private entities, state-owned entities, and censorship agencies, with a more complex and challenging system of institutions and controls. Therefore, the operational mechanisms studied in the news industry do not apply to the publishing industry.

1.3.3. Dual Economy of China: SOEs and POEs

As a socialist nation led by the Communist Party, China has a unique dual-track economy following its adoption of market economics, featuring both state-owned enterprises (SOEs) and private-owned enterprises (POEs) operating concurrently in the market.

SOEs, being closer to governmental power, possess advantages beyond the market compared to POEs. Fan and Hope (2013) discuss the crucial role of SOEs within the Chinese economy and recent reforms, from emphasizing major enterprises to enhancing corporate governance. They note that while the economic share of SOEs has been declining, these enterprises face substantial competition from POEs in competitive industries, though they still benefit from unfair market advantages due to government policies. From an economic and market perspective, the authors recommend fostering an environment of fair competition and deepening SOE reforms.

However, the performance of China's SOEs significantly lags behind that of its POEs. Jin, Wang and Xu (2014) extensively tested China and Eastern European transition economies using econometric models. They used the logarithm of sales to measure firm performance and found that most of the efficiency gap between Chinese and Central and Eastern European firms can be explained by ownership, with new Chinese POEs significantly outperforming those in Central and

Eastern Europe and Chinese SOEs. They argue that at the firm level, private ownership is the most critical factor in determining performance.

Given the higher efficiency of private ownership, why does this dual-track economy persist? Pearson (2015) focuses on China's stratified economic structure and corresponding regulatory systems. The article highlights that industries in China are broadly composed of strategically important industries like telecommunications, important but less regulated mid-tier industries, and lower-tier industries filled with small firms. While top-tier industries under strict regulation see pervasive control by the Chinese Communist Party, and regulatory bodies are deeply involved, major state enterprises dominate these industries. Yet, as the article points out, there are widespread private enterprises in leading industries, with state firms often subcontracting to private enterprises.

From this perspective, the existence of the dual-track system allows the CCP to effectively control society. This paper will analyze the strictly regulated publishing industry to study how strict regulations control every enterprise in the industry, enabling the CCP to deeply control society.

Overall, research on the Chinese publishing industry can provide a comprehensive background for this study, revealing the industry's history, structure, and issues. Research on media control in China can reveal the specific rules and impacts of publishing content and policy guidance, clarifying how media regulation shapes the content of publications and the space for expression. Research on the dual-track system of state-owned and private enterprises in China can reveal the operational logic, resource allocation, and competitive strategies of different types of enterprises in the market. This study builds on these foundations to further explore how institutional factors affect the operation of China's book publishing market and what problems exist within the book number system.

2. Theoretical Framework

Institutionalism is a theoretical framework for studying how organizations and institutions influence society, economics, and politics. It emphasizes the impact of institutional structures and rules on human behavior and outcomes. New institutionalism, which emerged in the 1970s and 1980s, highlights that institutions include not only formal laws and rules but also informal norms, customs, and culture (Lecours, 2005). This study primarily focuses on institutions, so new institutionalism was chosen as the theoretical framework. For the economic aspects of the book number system studied in this research, NIE will be used as the main tool to analyze institutional arrangements, property rights, transaction costs, and governance structures. For the political aspects, rational choice institutionalism will be used to explain why the book number system was chosen by the CCP. The following will explain which key concepts from new institutionalism are selected and why.

2.1. Institutional Arrangement

North (1990) proposed a foundational framework for analyzing institutional arrangements.

First, institutions are a framework for behavior, including formal and informal rules. Formal rules typically appear in the form of constitutions, laws, and regulations, clearly defining behavior standards and boundaries and providing some stability and predictability for social functions. Informal rules refer to behavior norms that are not formally recorded, such as social norms, values, cultural beliefs, and practices. Although these rules do not have legal effect, they deeply influence stakeholder behavior.

Furthermore, the study of institutional arrangements should focus on organizations. North (1990) believed that institutions and organizations construct each other. The institutional framework determines economic opportunities, and organizations are formed to seize profit opportunities. To maximize wealth, organizations adjust the institution.

In this research, I will divide the institutional arrangements into formal regulations, informal operations, and organizations. I will describe the current limited formal regulations and, through data analysis, outline the actual operation of the book number system. Then, I will shift the focus to the three types of organizations related to the institution: state-owned publishing houses, private

publishing companies, and the CCP. Through an in-depth analysis of these three types of organizations, this study will reveal how the book number system affects the overall ecosystem of China's publishing industry through its institutional arrangements and actual operations. These will be detailed in Chapter 4.

2.2. New Institutional Economics

New institutional economics (NIE) arose from criticism and supplementation of traditional neoclassical economics. Neoclassical economics typically assumes perfectly competitive markets, fully transparent information, and negligible transaction costs. Within this theoretical framework, markets always automatically achieve optimal resource allocation. However, in reality, markets are often imperfect: asymmetric information, high transaction costs, and opportunistic behavior by market participants, among others. NIE analyzes the role and impact of institutions in economic activities by examining these imperfect market phenomena. The theory's emergence and development benefited from the important contributions of scholars such as Ronald Coase, Douglass North, and Oliver Williamson.

New institutional economics is based on several core assumptions: First, individuals have limited rationality and an inclination toward opportunism. Limited rationality means people are constrained by incomplete information and limited cognitive ability when making decisions, while opportunism refers to the possibility of fraudulent or concealing behavior in transactions (Williamson, 1975). Second, there are transaction costs. NIE believes transaction costs include not only direct costs between buyers and sellers but also costs incurred during information acquisition, negotiation, and contract enforcement (Williamson, 1975). Third, institutions have a profound impact on economic behavior as constraints. Formal and informal institutions, such as laws and regulations, culture, and customs, all constrain individual behavior and affect economic activities.

2.2.1. Property Right

Property rights theory is an important part of NIE. Property rights are the rights to use, benefit from, and dispose of resources. Coase (1960) pointed out that clearly defined property rights help solve externalities and improve resource allocation efficiency. Demsetz (1974) further developed property rights theory, pointing out that the evolution of property rights is the result of economic

development. Clear property rights can motivate individuals to use resources effectively and allocate them to achieve Pareto optimality through transactions. However, resource allocation may fail when property rights are vaguely defined or enforcement costs are high. Property rights theory emphasizes the importance of designing and enforcing property rights systems for economic performance.

Applying property rights theory and examining property rights distortion provides a comprehensive analysis of China's book number system, uncovering its numerous adverse effects on the publishing market. From a property rights perspective, we can observe how this system increases the operational costs for private publishing companies, making market survival challenging. The distorted property rights structure alters the incentives for editors within state-owned publishing houses, impacting their decision-making processes and overall performance. Furthermore, utilizing property rights theory allows us to analyze the broader implications of this system on the entire book market, highlighting its restrictive impact on market supply and its role in stifling innovation and dynamism within the publishing industry.

2.2.2. Transaction Costs

Transaction cost theory is the cornerstone of NIE. Transaction costs include information acquisition costs, negotiation costs, and contract enforcement costs, all of which significantly affect economic behavior during transactions. Coase (1937) suggested that companies exist because there are transaction costs in the market. As an organizational form, companies can reduce transaction costs by internalizing transactions. Williamson further expanded transaction cost theory, emphasizing the impact of specific assets, environmental uncertainty, and transaction frequency on transaction costs (Williamson, 1985). Specific assets refer to assets that have special value in a specific transaction relationship, as these assets have lower value for other uses and easily lead to investment lock-in problems (Williamson, 1979). Environmental uncertainty increases the difficulty of negotiation and contract enforcement. Transaction frequency refers to how often transactions occur, with frequent transactions requiring more stable governance structures to reduce transaction costs (Williamson, 1991). Transaction cost theory believes that the form and size of economic organizations depend on transaction costs. The higher the transaction costs, the more the organization tends to adopt a more centralized form.

This study employs transaction cost theory to elucidate the inherent transaction costs and inefficiencies imposed by the book number system, providing a crucial analytical framework for understanding transactional behavior within the publishing market. By focusing on the regulatory uncertainty and delayed approval processes, the theory highlights how these factors escalate transaction costs, threatening the financial stability of publishing companies. The complexities of book number transactions, exacerbated by the lack of a formal market and legal recognition, are examined to reveal their role in increasing costs and burdens on private publishers. Additionally, the theory helps explain how extended regulatory procedures lengthen publishing timelines, further intensifying financial pressures on private entities. Through this lens, transaction cost theory effectively reveals how the book number system's inefficiencies suppress growth and innovation in the publishing industry, making it a critical tool for analyzing the survival challenges faced by private publishers in this regulatory environment.

2.2.3. Governance Structure

Williamson (1991) further introduced the concept of "governance structure," emphasizing that different organizational forms (such as markets, firms, governments, and hybrids) have different efficiencies in governing transactions. He believes that the market is an effective governance structure in cases of low transaction costs and low asset specificity, while firms or internalized organizations are suitable for situations with high transaction costs and high asset specificity. Hybrid forms, including long-term contracts, strategic alliances, and joint ventures, can also be effective governance structures under certain conditions. After analyzing institutional arrangements, this study will also conduct a detailed analysis of the governance structures of different institutions because the internal incentives and operation modes brought about by different governance structures will be entirely different, which is particularly evident in the publishing industry.

Williamson proposed three key transaction attributes to help explain the choice of different governance structures:

Asset Specificity: Specific assets have higher value in a particular transaction. If transactions require highly specific assets, internalized organizations or hybrid forms are generally more effective than markets, as they can better avoid investment lock-in problems.

Uncertainty: Highly uncertain environments increase the costs of negotiation and contract enforcement. In such cases, internalized organizations may be more advantageous than markets and hybrid forms because they can respond to changes through internal hierarchical systems and coordination mechanisms.

Transaction Frequency: High-frequency transactions typically require more stable and consistent governance structures, making internalized organizations and hybrid forms more suitable for frequent transaction relationships.

Based on these transaction attributes, governance structure theory allows us to further analyze how the book number system systematically impacts various organizations within this framework. This theory provides valuable insights into the challenges posed by the system, particularly by examining the conflicting roles and incentives imposed on publishing house editors. The bureaucratic incentive structure often overshadows market-driven motives, leading to significant inefficiencies. Furthermore, the hierarchical management and risk-averse tendencies inherent in these publishing houses exacerbate these issues, contributing to stagnation and inefficiency in industry practices. By applying governance structure theory, this study elucidates how the book number system not only increases transaction costs but also perpetuates inefficiencies through its rigid hierarchical and bureaucratic governance. This analytical approach helps to clarify the broader implications of the book number system on organizational behavior and industry dynamics, highlighting the systemic barriers to growth and innovation within the publishing sector.

By integrating these three aspects of NIE, NIE offers a systematic analytical tool for examining the complexities of the book number system, revealing its profound economic impact on the publishing market, particularly in terms of growth and innovation constraints.

2.3. Rational Choice Institutionalism

The book number system in China's publishing industry was designed and is supervised by the CCP. The other two parties in this system, state-owned publishers and private publishers, are entirely subject to the CCP's control. Therefore, this study considers analyzing the behavior of the CCP, an authoritarian government, an essential part of understanding this system. However,

governments and markets are entirely different organizations, and the behavior logic of a ruler cannot be analyzed using NIE. To effectively analyze the book number mechanism designed to ensure the publishing industry remains under the desired censorship after the CCP introduced market mechanisms (albeit limited ones), rational choice institutionalism (RCI) is well-suited.

In political science and public policy, understanding the motivations of political actors and how they make decisions in complex institutional environments is a central issue. Rational choice theory and RCI provide an effective framework for explaining individual behavior within institutions and how institutions are influenced by this behavior.

Rational choice theory originates from the microeconomic paradigm in economics, with its core being the assumption that individuals are rational and goal-oriented. They weigh the costs and benefits of different options to maximize their interests. The basic assumptions of rational choice theory include rational actors, clear preferences, constraints on resources and information, and choices based on cost-benefit analysis.

RCI applies the principles of rational choice theory to institutional analysis, emphasizing the role of institutions in regulating individual behavior and resolving collective action dilemmas. It believes that institutional design and adjustment are influenced by the strategic choices of rational actors who determine the structure and function of institutions based on preference and interest-maximizing goals.

Acemoglu and Robinson (2006) suggested that dictators build complex institutional structures to avoid potential threats while consolidating their rule. Dictators design institutions solely from their perspective of interest.

Based on this view, this study will analyze how the book number-centric censorship system maintains the CCP's interests. Specifically, this study first analyzes the inherent difficulties and complexities of censorship activities, arguing that such a complex mechanism cannot be reasonably operated by a bureaucratic governance structure. Therefore, the book number-centric censorship system shifts this organizational cost to the market, bringing both advantages and disadvantages to the CCP. This specific analysis can explain how the book number system aligns with the CCP's interests, leading to the CCP choosing this system.

3. Methodology

3.1. Research Design

This study primarily employs the framework of NIE and RCI for institutional analysis. Ideally, institutional research should integrate empirical studies with a thorough review of literature. When examining a particular institution, one can base the analysis on existing laws and regulations, as well as parliamentary debate materials, to outline the current institutional arrangements and property rights. Following this, in-depth discussions with stakeholders of the institution through interviews can provide insights into the impacts of the current system on each organization, focusing on the hidden transaction costs and effects on organizational governance structures.

However, implementing this approach in the present study encountered significant challenges, particularly in the aspect of literature review. Ideological issues have always been an integral part of the totalitarian aspect of the CCP's authoritarian rule. Within the existing legal framework of the People's Republic of China, there is no comprehensive set of laws and regulations that clearly define the censorship system. "The Regulations on the Administration of Publication" and "Regulations on the Administration of Printing Industry" as the only two administrative regulations just provide a quite vague institutional description, while avoiding discussion of their actual operation (Yun, 2018). According to my literature review on media control, the control over media in China has always been a covert operation of CCP, primarily managed through secret regulatory systems. Furthermore, discussions on laws related to media control on publishing industry are insufficient in China, with no related parliamentary or legal debates.

Given the lack of publicly available regulations and considering the typical opacity and secrecy of a Communist state, combined with unrestricted governmental power resulting in severely limited access to primary information, qualitative research emerged as the most feasible approach.

Thus, the research design of this thesis primarily utilizes in-depth interviews and ethnography, supplemented by content analysis to delineate the institutional arrangements of the book number system. Under a clear understanding of these arrangements, thematic analysis helps map out the property rights, transaction costs, organizational governance structures, and censorship within the system. This structured analysis allows for a granular examination of how each of these elements interrelates within the broader institutional framework, revealing the underlying forces that sustain

the current arrangements. By individually analyzing the economic and political benefits of this institution, the study provides a nuanced understanding of the industry's resistance to reform. This comprehensive research design, combining in-depth interviews, ethnography, and content analysis, ensures that the study captures both the overt and subtle factors that perpetuate the status quo in the publishing industry.

3.2. Data Collection

This study primarily utilizes interviews for data collection, supplemented by ethnographic research. The core concerns in the interview method are the selection of interviewees and interview topics.

Regarding the selection of interviewees, considering the publishing industry in China employs approximately 50,000 individuals, this study selected nine interview subjects. The industry comprises both privately-owned and state-owned publishers. Given that only experienced professionals and leaders are typically familiar with the industry's cost issues, the selection of interviewees was not random. Instead, it included four senior editors from renowned publishing houses with over 15 years of experience; two editors from private companies, with 18 and 6 years of experience respectively; and two founders of private publishing companies, one of whom was among the pioneers in private publishing and holds significant esteem in China's cultural and civil society sphere. In addition to these eight interviewees, to further cross-verify the interview content, a seasoned professional from a book review media was selected for an in-depth interview.

In terms of interview themes and methods, structured interviews were not considered as this research focuses on the impact of institutions. Semi-structured interviews were employed, prompting respondents to discuss publishing processes, role perceptions, incentives, and cost structures. Furthermore, I explored challenges faced by the interviewees in their work, their choices, and their perceptions of these challenges.

Beyond interviews, this study also incorporates ethnographic methods. Under the clear statement of research objectives, I participated in a one-month internship at a state-owned publishing house and recorded field notes. Since my fieldwork perspective was that of an entry-level intern, mainly involving and observing the specific operational processes of a state-owned publisher, the

ethnographic approach primarily helped in validating certain institutional arrangements and governance structures.

The interview data collection summary table is on the Appendix.

3.3. Data Analysis

Since there is no existing literature on the institutional arrangements of the book number system, it's challenging to determine a clear coding direction without understanding the system. Therefore, I divided the data analysis into two steps. The first step involves using content analysis to outline this covert institutional arrangement and its operations. The second step, within the framework of the overall institutional arrangement, involves conducting a thematic analysis focusing on property rights, transaction costs, and governance structure based on NIE.

In the content analysis, as this paper focuses on the institutional impact on the industry, I adopted a perspective rooted in behavioral institutionalism focusing on relationships between institutions and human behavior. I selected all my interview records and field notes as samples, using paragraphs as the coding units. For the coding scheme, I chose "rules and regulations," "legal framework," "formal and informal norms," "regulatory bodies," "power dynamics," "compliance with regulations," "policy enforcement," "rule changes," "interest negotiation," "accountability mechanisms," and "legal sanctions" as the basic codes to analyze how this book number system functions.

After establishing the entire institutional arrangement, since I already have NIE as my theoretical framework, I used a deductive approach to identify my themes as "property rights," "transaction costs," and "governance structure" for the second step of thematic analysis. Additionally, due to the sensitive political topic, I included a "censorship" theme. For coding, I used interview records and field notes as samples, employing sentences as coding units. Based on my specific understanding of the system, I used open coding to code the data. The initial open codes included "bureaucratic delays," "uncertain regulations," "editorial regulations" and so on. After preliminary organization, I categorized these codes into "theme-role" categories and then consolidated these categories into my themes.

3.4. Research Limitations and Reliability

This study faces limitations in the representativeness of interviewees and potential biases or omissions during interviews. Key figures such as heads of publishing houses, who also function as bureaucrats within the party-state, or crucial censors, whose work is secretive, were not interviewed. Additionally, government personnel from the Propaganda Department or the Press and Publication Administration were inaccessible, reflecting the political realities of a communist dictatorship.

Various methods were employed to ensure data reliability. First, interviewees were carefully selected. The chosen participants were spread across seven different organizations, and they were generally unfamiliar with each other. In terms of the interview methodology, because there are potential conflicts between the types of organizations represented, I used cross-validation by asking related questions to different types of interviewees, examining cost structures, and book numbers transactions. Additionally, my interviews included an independent book review media professional, whose third-party perspective provided further cross-verification. My ethnography also validated information from the state-owned publisher, which further enhanced the data's reliability.

3.5. Ethical Considerations

As noted by Stig Thøgersen and Maria Heimer (2006), interviewing in China on sensitive topics can be risky for both interviewers and interviewees. Given the sensitive nature of this study, ethical considerations such as informed consent, confidentiality, and potential risks to participants were paramount. The research was conducted in strict adherence to ethical guidelines, ensuring participants were fully informed about the study's purpose and their rights. Before conducting interviews, the research purpose, content, and confidentiality were thoroughly explained to participants, and their informed consent was obtained. All interview content was treated confidentially to ensure no disclosure of personal information, perspectives, or identifiers such as the names of publishers, companies, books, or individuals. In the interview table, all interviewee names were replaced with codes. In terms of experience, the years of service for several senior editors with over 20 years of experience were blurred. Additionally, during the ethnographic

research, the unit was informed of my research purpose, and with permission to record field notes, relevant identity and business information were obscured.

4. Institutional Arrangement: The Book Number System

The main goal of this chapter is to describe the institutional arrangements of the book number system based on my research data. Following North's institutional research approach (North, 1990), this chapter will describe these arrangements in two parts: institutions and organizations. For the institutional aspect, I will briefly summarize the official regulations in this field and then explain the practical operation of the system with a focus on the book number system. For the organizational aspect, I will describe the roles of state-owned publishers, private publishers, and censorship agencies within these institutional arrangements.

4.1. Administrative Regulations

To enter the market and reach consumers, a book typically goes through stages such as planning, editing, printing, distribution, and sales. The CCP and the state control the publishing market through the full control of these stages, particularly by restricting private publishers.

The only explicit regulations in the publishing industry are the "Regulations on the Administration of Publishing(出版管理条例)" and the "Regulations on the Administration of the Printing Industry(印刷业管理条例)". (Yun, 2018)

The "Regulations on the Administration of Publishing" stipulate that individuals do not have the right to register a publishing house. Each publishing house must have a supervising unit(监管单位) and a sponsoring unit(主办单位), with the supervising unit being a party or government agency, and private enterprises cannot be affiliated with them (Feng, 2011). The GAPP allocates a certain number of Chinese standard book numbers to publishing houses each year. Legally, private individuals do not have the right to establish publishing houses, and the allocation system does not allow the allocation of book numbers to private entities. The CCP and the state theoretically and legally prohibit the sale and purchase of book numbers (Interview E, F).

The "Regulations on the Administration of the Printing Industry" stipulate that all printing houses must obtain government certificates. The CCP and the state classify "printing" as a special industry. For a long time, state-owned printing houses were not allowed to accept private printing orders, nor could private publishers directly pay for printing. Various regulations restricting state-owned

printing houses limit private publishers' ability to publish books. The CCP restricts state-owned printing houses from accepting private orders and prohibits many smaller printing houses from accepting large orders from state-owned publishers (Yun, 2018). This creates a challenging operational environment for private printing houses, forcing private publishers to collaborate with state-owned printing houses for safety reasons. This arrangement enables the CCP and the state to firmly control the printing industry.

Despite these regulations, there is a significant gap between actual market operations and these formal norms. Therefore, this study focuses on the practical operation of the industry rather than the official regulations.

4.2. Practical Operation

China's publishing landscape is defined by a tripartite system consisting of private publishing companies, state-owned publishing organizations, and the CCP. These roles each play a crucial role in a book's lifecycle, which is divided into three distinct stages. This chapter will describe the operation of the book number system through the book publishing process.

4.2.1. Prior to Editing

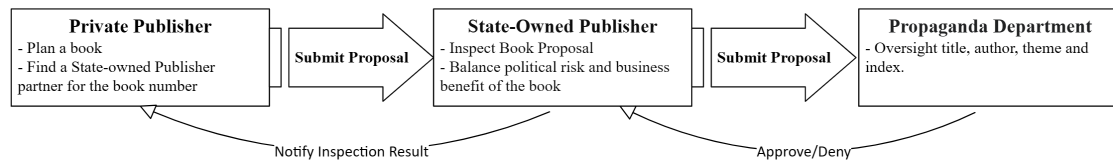
In the project approval stage, private publishers are limited to seeking book numbers under the guise of "publishing planning" to enter publishing market. This requires collaboration with state-owned publishers associated with the government. The fastest way is usually to purchase a book number, the price of which varies according to the reputation of the state-owned publisher and market conditions at the time. The price has generally ranged between 50,000 and 100,000 yuan over the past five years (Interview B, C, D). It should be noted that these transactions are not simply purchases; they are packaged as "management fees (管理费)," which essentially pay for censorship services (Interview E, F). Private companies and state-owned publishers sign a wide variety of contracts (Interview A, B, C, D).

On the other hand, state-owned publishers receive a certain quota of book numbers from the CCP each year. Their practices include using some book numbers for internal publishing and selling the remaining book numbers to private companies to increase their revenue sources. In any case, these publishers are responsible for ensuring that the content – author, subject, and abstract – meets the

CCP's strict guidelines, avoiding sensitive or prohibited content before submitting it to the CCP's regulatory agencies for approval. In transactions involving book numbers, state-owned publishers essentially act as agents of the CCP, representing the CCP to pre-review the content. (Interview G, H)

The CCP conducts a brief review based on an opaque set of "sensitive words" and often obscure unwritten rules. This pre-publication review is an important task, and its breadth, strictness, and the CCP's unpredictable and growing demands significantly impact the industry's direction and vitality. (Interview G, H)

Before Editing



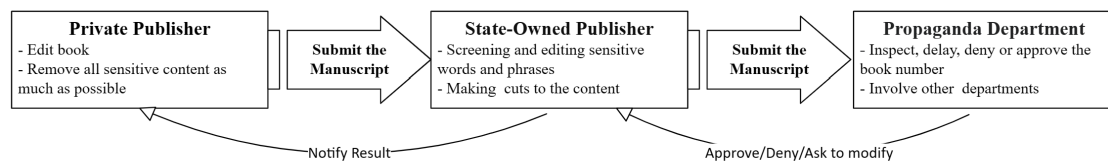
4.2.2. On Editing

In the second stage, the editing stage, private publishers submit their manuscripts for review, carefully removing any potentially sensitive content beforehand (Interview C, D).

The review process at state-owned publishers may involve up to three rounds of rigorous editing and proofreading to ensure meticulous content inspection. This process can lead to extensive content modifications before book number submission, or further revisions required by the CCP (Interview E, F). Editors and final reviewers at these publishers bear significant editorial responsibility and must exercise extreme caution in performing their duties, preferring to remove sensitive content rather than guarantee the coherence of the book's content (Song, Y. 2022).

The CCP's role at this stage is to check, delay, or directly veto the book number. The manuscript's theme may also trigger collaborative inspections by specific departments to ensure compliance with CCP requirements. (Interview E, F)

On Editing



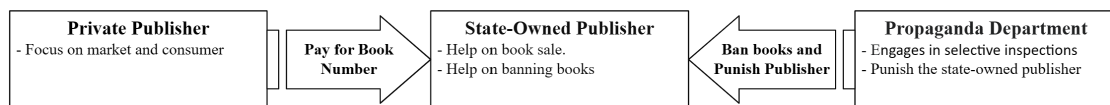
4.2.3. After Publishing

In the final stage, post-publishing, market dynamics shift to the market. Private publishing companies drive sales and marketing efforts, operating in a market-driven environment thoroughly (Interview A, B).

State-owned publishing companies face a double dilemma. While they aim to maximize profits by helping private publishing companies with sales and marketing, they must remain vigilant in dealing with CCP directives, which can quickly switch from encouragement to suppression of new publications depending on political trends. This is often communicated through internal secret phone calls rather than official channels. Political mistakes found in subsequent CCP inspections can trigger retrospective reviews of all publications from previous years, leading to temporary shutdowns and potentially reducing the allocation of book numbers the following year, ultimately impacting profitability. (Interview E, F, G, H)

After publishing, the CCP conducts selective checks and responds to reports, exercising its power to impose bans in the industry. The severity of punishment for publishers is proportional to the political sensitivity of the violation and may extend to measures against editors directly associated with the publication, such as frequently ordering the editor-in-chief and president to write self-criticism reports (检讨书). When the Party deems errors to be severe, it imposes penalties on the involved publishing house or group. Typical punishments include severe administrative sanctions directly targeting the responsible editor and the head of the publishing house, mandating the withdrawal of books containing political errors, or prohibiting their reprinting. These administrative penalties not only deal a significant blow to the careers of those involved in the publishing industry but may also lead to the replacement of the heads of the publishing houses. (Interview F, G, H)

After Publishing



4.3. The Organizations within Book Number System

With the book number mechanism clarified, we need to shift our focus to the organizations operating within this mechanism to better understand how the institution functions.

4.3.1. State-Owned Publishing House

In the strictly regulated field of state-authorized publishing, the number of state-owned publishing houses has remained relatively stable, totaling 587. By nature, these state-owned publishing houses have all been state-owned enterprises since 2010. Among them, 220 publishing houses are funded by the Ministry of Finance of China and are centrally managed, while the remaining 367 are funded and managed by local governments (National Press and Publication Administration, 2021).

Administratively, as mentioned in the background, in the process of gradually moving away from the bureaucratic system, most publishing houses have been integrated into more than twenty large publishing groups to maintain the effectiveness of bureaucratic management, and these publishing houses are administratively managed by the higher-level publishing groups (Yun, 2018).

In terms of financial scale, these publishing houses are generally small. Take the largest, China Publishing Group, which is the largest centrally funded cultural enterprise. It includes 15 well-known publishing houses, two printing companies, and multiple book import and distribution companies, but its total revenue in 2018 was 11.9 billion yuan, and its profit was only 910 million yuan (Liu, 2018). Some publishing houses are currently smaller in scale, with annual revenue of even less than 20 million yuan and fewer than 10 employees (Interview E).

In terms of organizational structure, due to their small size and similar main businesses, these publishing houses generally have a similar structure. In a medium-sized publishing house, there is usually a three-tier pyramid structure. The base of the publishing house consists of book editors responsible for planning, editing, and reviewing books. The middle tier consists of heads of editorial departments, responsible for overseeing book editors for a particular field of books. The top level of the publishing house typically includes a general manager or president responsible for operations and implementing the upper-level ideas, and an editor-in-chief responsible for publishing operations. (Interview G) In some smaller publishing houses, there is no middle tier (Interview I).

Book editors in state-owned publishing houses have a distinctiveness compared to book editors in private publishing companies. In China, publishing houses claim to be "ideological departments" (Interview E). These state-owned entities' editors often undergo rigorous study and examinations to obtain editorial qualifications, focusing on ideological and political education and must continuously learn and take assessments throughout their careers to be eligible for promotion (Zhao, 1998). An experienced book editor understands the CCP's ideology and the subtle shifts in the party's ideology beyond the educators responsible for teaching political thought in primary education and universities (Interview G). The work of publishing house editors is, in essence, that of ideological censorship bureaucrats, which can be termed as thought police.

In terms of business operations, these state-owned publishing houses are allocated a certain number of book numbers each year. After the mass reduction in 2018, most publishing companies have been granted approximately 300 book numbers each year (Interview E, F). Publishing houses assign these book numbers to editors, requiring them to produce 5 to 10 publications each year.

However, in practice, except for the well-known publishing houses with extremely good business conditions, other publishing houses cannot fully utilize these book numbers, and the excess quotas are sold to private publishing companies – although this practice is common, publishing houses carefully avoid calling it "selling book numbers" to avoid the CCP's punishment (Interview E, F).

4.3.2. Private Publishing Company

In China's vast publishing ecosystem, almost 10,000 private publishing companies are operating (Interview A, B), yet they are prohibited from registering as publishing houses. Due to the lack of authorization to obtain book numbers – the license to enter the market – these private companies are marginalized in the formal publishing field. To obtain book numbers, private entities must collaborate with state-owned publishing houses.

Financially, these private publishing companies are small in scale. Although there are several large private publishing companies, most have annual revenue of less than 10 million yuan, profits of less than 1 million yuan, and cash flow of less than 1 million yuan (Interview B).

Organizationally, these private publishing companies are often simpler than publishing houses. Most private companies have fewer than 10 employees and generally have a two-tier structure consisting of the owner and book editors (Interview A, B). The owners of private companies are

often responsible for running the company, sourcing funding, finding book numbers, and seeking partners for book distribution. Book editors are generally responsible for planning, editing, and marketing the company's books (Interview D).

In terms of business operations, private publishing companies focus on publishing books as their core business. Under the book number system, private publishing companies must submit proposals to multiple publishing houses for individual books or series in hopes of securing a cooperation agreement. They are usually forced to pay a so-called "management fee," which generally ranges between 50,000 and 100,000 yuan – essentially an alternative fee for book numbers and a payment for censorship. This practice is carefully designed to avoid any charges of illegal book number transactions. It is worth noting that before 2015, this fee was below 50,000 yuan, but due to intensified political censorship and enhanced industry scrutiny, it has since increased (Interview A, B).

Furthermore, private publishing companies, particularly those with limited recognition or smaller scales, often abandon distribution rights of their publications in exchange for cooperating with more prestigious publishing houses (Interview C). This typically means that the publishing house will completely monopolize the distribution rights for all books that cooperate with private publishers. Despite this, private publishing companies must bear the financial burden of all pre-publication expenses, such as copyright, translation, editorial services, typesetting, and printing. They must also bear the cost of the review process in publishing houses and share part of the sales revenue with the publisher (Interview A, B).

Despite these difficulties, private publishing companies remain the main force in this book market according to surveys, and most bestsellers are published by private publishing companies (Yun, 2018).

4.3.3. Regulation Authority

A notable feature of China's publishing industry is that the publishing and media industries are regulated by the CCP-state agency, the GAPP. In free-market countries, the publishing industry is generally managed by industry associations that are completely independent of the government. However, in China, despite the existence of publishing industry associations, the regulatory agencies are part of the CCP-state institutions, focusing primarily on content, ideological and language censorship.

From an administrative affiliation perspective, since the reform and opening up, this regulatory department has undergone many organizational changes. The most recent changes can be summarized as follows: before 2018, the publishing industry was directly under the jurisdiction of GAPP, a subordinate to the State Council, at least nominally within the scope of administrative authority (Shambaugh, 2017). After 2018, the publishing industry was directly under the supervision of the CCP's Central Propaganda Department (State Council of the People's Republic of China, 2018). With the shift to direct CCP supervision, the industry ecosystem and publishing market that had developed over 30 years were almost destroyed.

In terms of internal organizational structure, due to the separation of powers between the central and local governments, central-level agencies like the Central Propaganda Department (中宣部) are responsible for issuing guidelines or instructions, while local-level counterparts implement them according to the central guidelines and instructions (Brady, 2009). In the publishing industry, local publishing houses are managed by provincial press and propaganda departments. For example, all publishing houses in Shanghai are supervised by the Shanghai Press and Publication Bureau and the Shanghai Propaganda Department, although some publishing houses are directly managed by the central government or specific party-government agencies, like Jiuzhou Publishing House, which is directly supervised by the Taiwan Affairs Office. It is foreseeable that since different local press and propaganda departments have different understandings and interpretations of central instructions and spirit, there will be significant differences in censorship standards in practice. This difference provides much-needed space for private publishing companies. It is reflected in the fact that the head of a private publisher brings a list of books they want to publish in the next three or five years (including author and content summary) and finds that some publishing houses in Beijing or Hebei are inaccessible, but they may achieve cooperation by approaching publishing houses in Shanghai or Hangzhou (Interview A, B).

From the perspective of administrative duties, the Central Propaganda Department is responsible for comprehensive cultural propaganda and ideological control. In China, ideological propaganda is ubiquitous, and after the advent of the internet era, regulatory control has only increased (Shambaugh 2017). In fact, the publishing industry is a core ideological department. The focus of this study, the book number system, was supervised by GAPP, which is also responsible for the annual allocation and control of book numbers. Although China joined the international ISBN

system early on, the Chinese standard book number also includes a CIP number, and only books with a CIP number are included in China's database and are considered "legal" Chinese books (Interview A, B). The system behind the Chinese book number is a comprehensive party-state censorship system.

5. Expensive Book Number System: The Economic Analysis

After analyzing the institutional arrangement, the next step is to analyze the economic efficiency of the book number mechanism from the perspective of NIE. The primary focus will be on property rights and their distortions, transaction costs in the Chinese publishing market, and the governance structure of the three aforementioned institutions.

5.1. Property Right and Its Distortion

Property rights theory emphasizes that clear and stable property rights help promote economic efficiency. Coase (1960) even explicitly stated that clear definition of property rights is a prerequisite for market transactions. When the government intervenes in the market and distorts the structure of property rights, efficiency often declines, especially under unchecked governmental power. The book number system in China introduces significant property rights distortions to private publishing companies and the entire publishing market by establishing book number quotas and completely excluding private companies from obtaining them. This chapter uses property rights theory in NIE to explore the impact of this system on private publishing companies, editors, and the publishing industry.

5.1.1. The Impact of Property Right Distortion on Private Publishers

The book number system brings significant property rights distortions and market discrimination against private publishing companies. Unable to obtain book numbers directly from the government, private publishing companies are forced to buy these scarce resources at high prices from state-owned publishers. In the past two years, for a book priced at 80 yuan and with a print run of 5,000 copies, printing and editing costs range from 40,000 to 80,000 yuan, while the book number cost is between 50,000 and 100,000 yuan, which has been increasing yearly due to stricter CCP censorship requirements (Interview A, B). Other variable costs, such as copyright, warehousing, and logistics, account for about 20% of the book price, while bookstores or online platforms pay publishers about 60% of the book price. This indicates that private publishing companies would have a profit margin of 10% to 15% without considering book number costs. However, with book number costs factored in, there is no profit (Interview A, B).

Analyzing this situation from a property rights perspective, it's clear that the scarcity and high cost of book numbers directly increase the production costs of private publishing companies, weakening their competitiveness in the market. As a result, private publishing companies find it difficult to turn a profit, as their sales revenue sometimes cannot cover the cost of book numbers. This has been common in the past five years of economic downturn and intensified CCP ideological censorship, leading many well-established private publishers to face bankruptcy (Interview A, C, D). Ms. Z mentioned that more than half of their published books have sold less than 5,000 copies, incurring losses in cost accounting (Interview C). This institutional design poses significant challenges for small private publishing companies, making it difficult for them to afford the cost of book numbers and significantly increasing their operational risks.

5.1.2. The Impact of Incentive Structures on State-Owned Publishing Houses

Despite the advantageous position state-owned publishing houses occupy within the book number system, their market performance remains lackluster, and they exhibit a notable absence of competitive drive in the publishing sector. What, then, are the underlying causes of this phenomenon?

Publishing is a cultural industry reliant on knowledge and creativity, where the most important asset is human capital. Editors at state-owned publishing houses are the main figures responsible for publishing business. The distortion of property rights significantly affects their behavior and will greatly impact publishing houses' business activities.

This distortion is closely related to a huge niche market – self-published books. The funding for self-published books often comes from the authors themselves. From the perspective of publishing activities, self-published books involve authors paying the publishing house fees, and the publisher does not expect self-published books to have good sales. Self-published books mainly come from university scholars with academic publication subsidies and bureaucratic institutions with publication needs, largely to fulfill academic or political targets.

Due to the scarcity and high cost of book numbers, editors at state-owned publishing houses enjoy a significant cost advantage in this huge niche market. For self-published books, since private publishing companies must pay for book numbers in addition to basic costs, this is not profitable for them.

This easy-money niche market has instead had a negative incentive effect on the editors at publishing houses. An experienced editor can produce a maximum of two to three market-oriented books with publishing value each year, but their year-end performance is still far below that of colleagues who only produce self-published books. In contrast, market-oriented books have complex review mechanisms, long publication processes, and high risks. Even if they are successfully published, they can't guarantee sales figures, which directly affects editors' performance (Interview E). This way, the distortion of book number quotas' property rights deprives publishing house editors of the motivation to publish books oriented to the real book market.

Furthermore, due to the scarcity of book numbers caused by property rights distortion, publishing houses often have a cost advantage, allowing them to sell book number licenses at any time. Since state-owned publishing houses can ensure their financial stability by selling book numbers, they lack motivation to promote market-driven practices (Interview E, F). Their management and incentive structure are closer to a traditional bureaucratic organization than a market-oriented enterprise. This inertia hinders the adoption of efficient business practices, suppressing the industry's potential growth and development.

5.1.3. Market Supply and Taxation Effects

The book number system controls the annual total of book numbers, suppressing free supply in the market and preventing many potentially valuable books from being published. This system has a so-called "taxation effect," manifested primarily in the government charging a censorship tax of 50,000 to 100,000 yuan per book and then using the tax revenue to subsidize state-owned publishers' censorship services. The increased tax burden raises market prices, causing significant losses in markets with high price elasticity.

From the above analysis, it's clear that this distorted property rights structure has a significant impact on the publishing market. The cost of book numbers raised the breakeven point from 2,000 to 5,000 copies. Therefore, private publishing companies can only focus on books with greater market potential, abandoning those with sales potential between 2,000 and 5,000 copies (Interview E). This prevents these works from coming to market, reducing market diversity and harming the interests of authors and consumers.

Property rights theory reveals various negative impacts of book number system on the publishing market. The distortion of property rights significantly increases private publishing companies' costs, making it difficult for them to survive in the market. Meanwhile, the distorted incentive structure dampens editors' enthusiasm, leading them to favor subsidized books over market-oriented books. Finally, this system limits market supply and has a significant taxation effect, stifling innovation, and vitality in the publishing market.

This distorted property rights arrangement—the book number system—has imposed extremely high transaction costs on private publishers. These escalating transaction costs have pushed many private publishers to the brink of bankruptcy.

5.2. Transaction Costs in the Book Number System

NIE also emphasizes the importance of transaction costs in economic activities. Since Coase (1937), transaction costs have been a significant consideration in economics, and almost no one can deny their importance. In markets where property rights are unclear or distorted, transaction costs are especially high and complex. Under the context of China's book number system, transaction costs manifest in many ways, for instance, delays in book number approval and the complexity of book number transactions. The following section will analyze the transaction costs imposed by this system and their impact on private publishing companies, illustrated with specific examples. According to my interviews, I categorize these transaction costs into three forms.

5.2.1. High Costs of Book Number Transactions

The formal norms and informal operations of the book number system create a paradox: state-owned publishers are granted book numbers by the CCP but cannot legally resell them, yet the CCP tacitly allows private publishing companies to trade book numbers from state-owned publishers. This has resulted in a complicated system without a formal market creating substantially environmental uncertainty.

This arrangement forces private publishing companies to rely on informal relationships with state-owned publishers to obtain book numbers, often involving personal relationships between private company executives and senior executives at state-owned publishers, increasing transaction costs

(Interview A, B). The lack of a legitimate market means that publishing companies have to navigate a network of private negotiations, often involving significant markups and inefficiency. Since book number transactions are not formally recognized under existing laws, private publishing companies face high costs in market regulation and enforcing these transactions. In their cooperation, there is a high possibility of contract breaches, and disputes often cannot be resolved through contract arbitration or courts. Private publishing companies can only solve problems through informal channels (Interview B), further increasing transaction costs.

5.2.2. Time Costs of Regulation

Another significant cost brought by the book number system is the time cost of regulation. The review and censor process is uncertain and lengthy, often extending the time for editing and approving books, particularly those involving sensitive topics.

The extended publishing process adds several months to the timeline, putting financial pressure on publishing companies, which need to ensure stable cash flow to maintain operations (Interview B, D). This delay not only affects the publishing companies' ability to recoup their investments but also hinders their ability to respond quickly to market demand. For example, a book that has paid an advance to a foreign copyright agency has only a five-year copyright period. However, censorship can delay the book from reaching the market until the last two years before the copyright expires, which places a huge financial strain on private publishers (Interview A). Also, the publishing market, like other cultural markets, has many trends and hotspots that can expire. When the censorship system delays these important trend-related publications for a year or several months, this also significantly impacts the profitability of private companies. Please note that these two situations are common in this industry since 2018 (Interview A, C, D).

5.2.3. Regulatory Uncertainty

The book number system introduces significant transaction costs through regulatory uncertainty in approvals. Private publishing companies face indefinite delays caused by vague censorship standards and requirements set by regulatory agencies, leading many books into endless approval processes.

Under this system, private publishing companies that publish foreign books face severe challenges. They usually have to pay copyright fees upfront, and the copyright period usually lasts only five

years from the prepayment time. Not only that, but foreign books have often already paid translation fees. My interviewee, Mr. F said that his company had to pay millions of yuan in copyright and renewal fees due to a 3–5-year delay in book approval, eventually leading to financial bankruptcy. These delays directly translate into high transaction costs, as they make it difficult for publishing companies to predict their cash flow and plan accordingly.

Publishing companies mainly publishing domestic books also face uncertainty in book number approval. In my interview, Ms. Z said that her company faced a two-year delay due to a title conflict with an authoritative book, illustrating the subjectivity and unpredictability of the approval process (Interview C). This delay disrupts the orderly operation of publishing companies and significantly increases the transaction costs needed to bring a book to market.

According to the Coase theorem (Coase, 1960), the initial allocation of property rights does not affect overall social welfare in a world with zero transaction costs. However, the high costs associated with book number transactions significantly reduce market efficiency. The regulatory uncertainty and delayed book number approval introduce high transaction costs, which can severely undermine the financial stability of publishing companies. The complexity of book number transactions further increases costs due to the lack of a formal market and legal recognition. Additionally, the lengthy regulatory process extends publishing timelines, increasing the financial pressure on private publishing companies. Together, these factors reveal the significant inefficiencies introduced by the book number system, which severely hampers growth and innovation in the publishing industry.

Apart from that, the book number system is not only a distorted property rights arrangement but also a stringent and costly censorship regime. While it raises transaction costs for private publishers, it also undermines the governance structures that state-owned publishing houses should maintain as enterprises.

5.3. Governance Structure due to the Book Number System

In this section, we should focus on the most complex institution in this system: state-owned publishing houses. They are both state-owned enterprises and agents of the CCP's censorship and possess the dual incentive mechanisms of bureaucratic institutions and enterprises. The

governance structure theory in NIE examines the inherent incentive systems in different organizational forms, such as markets, enterprises, and governments. Imposing a governance system from one context onto another can lead to inefficiency and unintended consequences (Williamson, 1991). Because of the contradictory governance structure of publishing houses, China's book number system places publishing house editors in conflicting roles and incentivizes bureaucratic decision-making over market-oriented practices. This section will delve into the detailed impact of these dynamics, using specific examples to illustrate the issues.

5.3.1. Conflicting Roles of Publishing House Editors

In China, publishing house editors find themselves playing two conflicting roles: on the one hand, being loyal censors for the CCP, acting as thought police and ensuring political correctness, and on the other, being market-oriented book editors pursuing profitability (Interview F, G).

The role of loyal censors requires editors to act as government agents, ensuring that published content complies with political and ideological guidelines. Senior editors bear more responsibility in this role, often involved in reviewing and finalizing books to ensure they meet these political demands. In contrast, the professional editor role requires creativity, market insight, and a focus on profitability. Editors should ideally select and produce books that meet market demand and bring profit to the publishing house.

Governance structure theory posits that each organizational form has its consistent incentive system (Williamson, 1991). For publishing house editors, the government's incentive system demands political loyalty and risk minimization, while the commercial incentive system demands profitability and market responsiveness. This conflicting incentive leads to inefficiency, as editors tend to choose safer, politically compliant books at the expense of creativity and market appeal.

5.3.2. Bureaucratic Management in Publishing Houses

The management system of Chinese publishing houses has distinctly bureaucratic characteristics, causing tension between political loyalty and economic efficiency.

Managers of state-owned publishing houses are usually appointed by local press and publication bureaus, whose main goal is to maintain political security, which profoundly influences their management style and decision-making. Several interviewees indicated that most publishing houses only began the process of transitioning to enterprises in 2008, and it has been quite

incomplete; to this day, many publishing houses have not achieved this goal (Interview F, G, H). This further illustrates that the enterprise characteristics of publishing houses are not prominent.

According to interviews with Mr. Y and Ms. J, the performance evaluation of managers emphasizes political loyalty rather than profitability (Interview G, H). This makes them focus more on political factors and following government guidelines rather than seeking market opportunities.

Publishing house managers typically receive fixed salaries, and their promotions depend more on political evaluation than financial performance (Interview E, F, G). The fixed salary system further influences the remuneration of editors, with limits on wages and bonuses reducing their motivation to achieve financial success.

5.3.3. The Impact of Bureaucratic Incentives on Publishing House Operations

The management model of state-owned publishing houses has distinctly bureaucratic characteristics, which has specific impacts on their operations. Their managers' main motivation is to maintain political stability but moderate profits because excess profits from publishing houses are taken away by the group and cannot remain with the house. The profits taken away are used by the group to subsidize the loss-making units within the same group, and they will also trigger higher-level expectations for their continued high profitability. Once they fail to meet such expectations, their career promotion within the party system will be affected. Therefore, they focus more on consolidating their positions by expanding their budgets rather than pursuing profitability.

According to Kornai's analysis of communist economies, state-owned enterprises aim to maximize budgetary resources rather than profits (Kornai, 1992). This is particularly evident in state-owned publishing houses, where managers focus more on maintaining the status quo rather than promoting innovation and market-oriented initiatives (Huang, 2008). Editors under this governance mechanism face various restrictions instead of incentives for professional skills or income, limiting their ability to innovate and pursue market-oriented projects. Since managers prioritize political security, editors often need to align their work with these priorities, further distorting the process of selecting publications.

Governance structure theory provides insight into the challenges faced by China's book number system. The conflicting roles imposed on publishing house editors lead to significant inefficiencies as the bureaucratic incentive structure overshadows market-driven motives. The hierarchical

nature of publishing house management and risk-averse tendencies further deepen these problems, leading to stagnation and inefficiency in industry practices.

According to NIE, China's book number system exhibits significant high costs and inefficiencies. Firstly, property rights theory reveals the system's negative impact on the publishing market, where distorted property rights increase operational costs for private publishing companies and suppress editors' motivation, thereby limiting market supply and stifling innovation. Secondly, based on the transaction cost theory, the high transaction costs associated with book number transactions drastically reduce market efficiency. These costs arise from regulatory uncertainty, delayed approvals, the complexity of transactions, and the lack of a formal market and legal recognition, which together undermine the financial stability of private publishing companies. Lastly, governance structure theory highlights how bureaucratic incentive structures and hierarchical management within publishing houses lead to stagnation and inefficiency in industry practices. In summary, within the framework of NIE, China's book number system is considered costly and ineffective, significantly hindering growth and innovation in the publishing industry.

6. Efficient Censorship System: The Political Analysis

The previous chapter utilized NIE to analyze the market-level distortions caused by the book number system. The next question is why such an economically inefficient mechanism continues to operate. This chapter attempts to answer this question through rational choice institutionalism. First, we need to determine the censorship mechanism behind the book number system and how it functions within the publishing industry. Secondly, it is essential to understand what factors have compelled the CCP to marketize the censorship process.

6.1. Complex Censorship

The book number system was established for censorship activities. If censorship activities were simple and standardized, then this complex book number system would be unnecessary. This section will first present the censorship activities, demonstrating the complexity of censorship itself.

6.1.1. Complexity of Censorship Content

Before 2015, there was considerable room for discussion regarding the sensitivity of a book, usually evaluated based on the author, specific topics, and content to determine if it could pass pre-publication review & censorship. However, in recent years, this approach has increasingly become a blanket policy – for instance, authors from Hong Kong, Taiwan, and the United States are banned from publishing or must go through a time-consuming and complex process with a high likelihood of rejection.

The CCP-state censorship system is secretive, meticulous, and volatile, understandable only to those with long industry experience.

First is author censorship.

Chinese authors are evaluated on their sensitivity to the CCP, criticism levels, and promotion of democratic ideas, aligning with government directives (Interview B). Some face temporary or permanent publication bans, but sensitive authors may still be in demand. Censorship standards vary by regions of publishing houses, creating opportunities for private publishers (Interview A, B). Authors from Hong Kong and Taiwan have consistently been regarded as highly sensitive by

the CCP, especially literary authors. Taiwanese authors' manuscripts undergo lengthy reviews by the Taiwan Affairs Office. Recently, review periods have become longer and more secretive. (Interview H) For foreign authors, the post-Sino-U.S. trade war era has made U.S. authors particularly sensitive (Interview H). Before 2018, sensitivity focused on Hong Kong and Taiwan authors. Since then, it's shifted to nationality-based assessments, reflecting the CCP's narrowing ideological stance.

Next is theme censorship.

There are topics that are absolutely prohibited in theme censorship, which directly undermine the CCP's legitimacy, such as non-fiction after 1949 (involving the Land Reform, the Great Leap Forward, the Great Famine, the Anti-Rightist Movement, and the Cultural Revolution), the Tiananmen Square incident, Falun Gong and its persecution, issues faced by Uighurs and Tibetans and CCP's bloody repression, questioning current CCP leadership, questioning the historical legitimacy of the CCP, unauthorized biographies of past CCP leaders, etc. (Interview A, E, F) This absolute prohibition list, especially regarding modern history and literature, can continue – for instance, the genuine historical research on the Anti-Japanese War and the authentic history of the CCP (like the works of CCP party historian Gao Hua).

Some topics may be published, but with high risk. For example, regarding CCP history, "party history" in China can only be written by a few selected scholars. Topics involving the history of the Han and ethnic minorities, especially the Uighurs and Tibetans, are highly sensitive, as are border history, democracy and constitutionalism, Chinese foreign affairs, military affairs, and the history of the Soviet Union and Eastern Europe, including their disintegration (Interview A, E, F, G). Religious issues – Islam being the most sensitive, followed by Christianity, then Buddhism and other religions (Song, 2022).

Contemporary non-fiction works, especially those that describe the hardships and difficulties of the lower classes (such as the HIV villages in Henan and the one-child policy), are highly sensitive because they reflect the true nature of CCP rule. For example, a few years ago, Peter Hessler's "Country Driving," although still allowed to be published in China, was strictly censored, while another book, "Oracle Bones," was completely banned (Interview F).

Recently, some new taboo topics has emerged, including the "New Qing History"; some new archaeological books are also banned because certain theories suggest that Chinese culture may

not have originated in China (Interview E). This demonstrates the CCP-state's ever-expanding standards for sensitive content, whose boundaries are vague and secretive. Reducing the CCP-state's censorship costs and ensuring every publishing company maintains high level of self-censorship is an important feature of censorship. It also explains why different state-owned publishers make different judgments because censorship is carried out by individuals, making it difficult to standardize human thought.

Finally, there is specific content censorship. During the review process, every word, sentence, viewpoint, expression, and illustration in the manuscripts must be carefully considered to ensure it does not violate the CCP's ideology and historical narrative (Song, 2022). Usually, there is an ever-expanding database of sensitive words. Manuscripts are first machine-scanned and then manually verified to ensure all sensitive words and content are removed (Interview E, F, H).

6.1.2. Complexity of the Censorship Process

Censorship can be divided into pre-publication and post-publication censorship. However, since post-publication already results in the dissemination of ideologically conflicting content, pre-publication censorship is the primary focus (Brady, 2009).

In the pre-publication review mechanism, the complexity of content review goes without saying. It is worth mentioning that the review is not limited to local press and publication bureaus and propaganda departments. Depending on the topic or author, the book may need further review by relevant departments (Interview H). For instance, books by Taiwanese authors or involving Taiwan must be reviewed by the CCP's Taiwan Affairs Office (台湾办公室), while those involving Hong Kong must be reviewed by the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region (中联办). If a book involves religion, such as Buddhism or Christianity, it must be reviewed by the CCP's religious affairs department. Each review is a lengthy process, and it's common for results to take six months to a year. (Interview, E, F, G, H)

Finally, there is post-publication censorship. The post-publication review mechanism exists in many countries; for instance, during the Republic of China era and Taiwan's martial law period, significantly sensitive issues found in publications could lead to the ban on specific journals. In contemporary communist China, this practice is uncommon because there is a well-functioning,

strict pre-publication review that usually prevents many manuscripts from being published and ensures those that are published are "clean." However, post-publication censorship is the last line of defense in the censorship process, requiring random checks after publication and responding to reports, removing sensitive books from circulation in the market.

6.1.3. Necessity of Censorship Activities and Their Problems

For the CCP, ideology has always been an integral part of its governance. The CCP is ideologically driven and heavily relies on language and discourse, making it unlike any traditional governance system in the East or West. After seizing power, the party continued to rely on discourse and violence, recognizing that while large-scale violence and killings could instill fear, they could not promote the acceptance of ideology (Shambaugh, 2016).

Nevertheless, maintaining communist ideology and corresponding thought control is a challenge for these totalitarian regimes. For example, in East Germany around 1976, more than 800,000 people were involved in propaganda work, accounting for about 5% of the total population, with many more part-time agitators. Still, the effectiveness of propaganda and agitation was not ideal (Xu, 2013). China has faced similar challenges since the Reform and Opening Up; its vast propaganda machine has failed to effectively control people's minds, and the massive bureaucratic system has put fiscal pressure on the government (Brady, 2009).

Specifically, the complexity of censorship content and processes leads to two main problems the CCP faces in this process: A) Limited rationality because people have limited ability to process information; B) Complexity because censorship is inherently complex, involving extremely high information costs. According to Williamson (1975), this situation can easily lead to market information blockages and high institutional costs.

Furthermore, to ensure that censors are loyal and work effectively, the CCP needs to incur high incentive costs. How to reasonably operate these incentives in a vast bureaucratic system has always been a complex puzzle (Manion, 1985).

6.2. Marketization of Censorship

However, the book number-centric censorship mechanism largely solves this puzzle. This system can be divided into two parts.

The first part involves book number transactions between private and state-owned publishing houses. Despite the high costs for the publishing market, this reduces the complexity and asymmetry of information, as both parties are experienced book editors.

The second part involves the book number market between state-owned publishing houses and the CCP. In this market, the CCP annually exchanges a certain number of book numbers for censorship services provided by state-owned publishing houses, incorporating mechanisms such as reducing the allocation of book numbers to avoid problems. This book number market effectively transforms the high-incentive organizational issues of the CCP into market issues. According to my interviews, prior to 2018, GAPP even experimented with incorporating some private companies into its censorship agency system, aiming to activate the market more effectively between the CCP and censorship service providers (Interview G, I). However, post-2018, due to heightened and more secretive party censorship demands, this initiative was discontinued.

Moreover, two features of the book number system enhance its functionality.

The first is the scarcity of book numbers. The CCP adjusts the total number of available book numbers annually based on market conditions, ensuring they are undersupplied. If book numbers are oversupplied or balanced with demand, state-owned publishers will face competitive demand in the book number trading market, potentially causing book number prices to drop to levels comparable to censorship costs, failing to incentivize effective censorship. Instead, the current undersupply ensures that state-owned publishers earn substantial profits, thus incentivizing them to invest in high-quality censorship activities (Interview C, D). Here, the CCP acts as a monopoly resource provider, effectively controlling the supply to drive incentives.

The second is the ambiguity of censorship standards. Based on the findings of this article, which is grounded in interviews with many senior editors, the main focuses and requirements of CCP censorship are summarized. However, no explicit written list or guidelines for all censorship requirements are provided to publishing companies, forcing them to review and censor any content that might offend the CCP more conservatively and carefully, prompting higher levels of censorship and self-censorship (Interview C, D, E, G).

The book number-centric censorship system effectively enhances censorship efficiency, reduces censorship costs, and shrinks organizational costs for the CCP and fiscal pressure on the government.

6.3. Drawbacks of the Book Number System for CCP

This market-oriented censorship mechanism is not without problems for CCP. Since 2018, potential flaws in this mechanism have been revealed due to institutional changes.

According to my interviews, since then, changes in the Party's propaganda policies have led to stricter ideological control, and as regulatory agencies shifted from the government to the Propaganda Department, censorship became stricter and more unpredictable. This has led to a significant increase in censorship costs (Interview A, B, C, E, H).

State-owned publishers act as contractors in the censorship mechanism, undertaking the most important pre-censorship tasks. Due to the constantly changing intentions of the Party's policies, state-owned publishers find it challenging to understand and implement the latest policy requirements promptly (Interview E). This uncertainty and volatility in policies have forced the Central Propaganda Department and local Propaganda Department to become more deeply involved in pre-censorship work to ensure that publications comply with the Party's propaganda policies and ideological requirements. However, this direct intervention is inefficient, as it increases the organizational costs of the CCP and creates additional complexity throughout the publishing process.

Williamson's governance structure theory can explain this phenomenon. According to Williamson (1991), a highly uncertain environment increases the costs of negotiation and contract enforcement. In such cases, internalized organizations may have an advantage over market and hybrid forms because they can respond to changes through internal hierarchical systems and coordination mechanisms. Due to changes in the Party's policies, all publishing entities need to frequently adjust their processes and policies to comply with the constantly changing policy requirements. This process directly increases market coordination costs. Since the book number market cannot absorb the rising censorship costs through market mechanisms, the CCP has to incorporate these costs into its organizational expenses, further increasing its internal cost burden.

6.4. Rational Choice Benefiting Only the CCP

Rational choice institutionalism emphasizes that political actors are usually guided by rational decisions that pursue their interests. For dictators, they tend to prioritize strategies that maximize their power and interests when formulating policies and designing systems. According to Acemoglu and Robinson (2006), dictators often build complex institutional structures to circumvent potential threats and consolidate their power base.

In the case of China's publishing industry, the CCP, facing the complex task of censorship, found it impractical and inefficient to operate directly through the party-state system. Therefore, they chose to delegate censorship tasks to state-owned publishers through the book number system. The book number system essentially allocates the licenses to publish and print books to specific institutions, leaving them responsible for censoring book content.

Although this system has its limitations, which may damage market efficiency in the face of highly uncertain censorship standards, overall, it effectively reduces the CCP's organizational costs of censorship and improves censorship efficiency. Therefore, even though this system has negatively affected market activities, the CCP has still chosen to establish and maintain it because it politically benefits them in achieving control over information and suppressing dissenting voices (Lorentzen, 2014).

7. Conclusion and Look Forward

The book number system, as an important institutional arrangement in China's book publishing market, imposes various restrictions and constraints on the country's book market.

From an economic perspective, it is based on state control, which undermines market vitality and competitiveness. By granting the government tight control over book publishing, it restricts the free flow of the market, reduces the diversity of publications, and hinders the entry of new publishers. The book number system negatively affects the price, production, and distribution efficiency of publications, disrupting the normal functioning of market mechanisms and leading to a lack of market vitality and diversification in the publishing industry.

From a historical and political perspective, the book number system is the main tool for the party-state to exercise ideological control over the publishing market. Through strict control over book publishing, it curbs the diversity of ideas and information, ensuring the dissemination of a specific political ideology. This information blockade not only undermines freedom of speech and information but also deprives the Chinese people of their right to freely access diverse ideas and knowledge.

Therefore, as an institutional arrangement, the book number system greatly limits the free development of the publishing market while causing substantial harm to the freedom of thought of the Chinese people, ultimately having a severe negative impact on market development and intellectual progress.

Reflecting on the book number system, this research further provides a reference for studying the dual-track system of state-owned and private enterprises in China. In any field deemed critical by the CCP, the government can intervene and control the market through institutional means. The book number system is a typical example of this administrative intervention, which grants the government absolute dominance in publishing through strict regulation and licensing. This control not only stifles diversity in the publishing industry but also reflects the state's strict censorship of ideas and information, hindering the normal circulation of different voices in the market.

In other critical areas of China, such as energy, finance, and telecommunications, the party-state also controls the market through similar means. State-owned enterprises gain advantages through direct administrative directives and policy preferences, while private enterprises face multiple

restrictions, making it difficult for them to compete on equal terms. This dual-track system results in an unbalanced market landscape where government intervention weakens the role of market mechanisms and leads to inefficient resource allocation.

Therefore, criticism of the book number system also reveals issues with the dual-track system of state-owned and private enterprises: the state intervenes in the market through institutional arrangements in critical areas, making it difficult for enterprises to develop in a freely competitive environment. This arrangement ultimately limits market efficiency and innovation potential, hindering long-term economic development. Reflecting on the book number system and its role in information control can provide valuable insights for understanding and critiquing the dual-track system of state-owned and private enterprises and offer insights for future institutional reform and market development in China.

This research believes that in the absence of political reform, the book number system and other similar administrative interventions will continue to exist, maintaining control over resources, information, and ideas. Without in-depth political reform, administrative control will continue to exert influence in critical areas. This means that property rights protection will be suppressed for a long time, and market mechanisms will continue to be interfered with by political forces, leading to uneven resource allocation and affecting market fairness and efficiency.

Against this backdrop, the dual-track system of state-owned and private enterprises will become increasingly entrenched, squeezing the survival space of private enterprises in critical areas and stifling innovation and competition. Reflecting on the book number system is not only a critique of the publishing industry but also a critique of the entire institutional arrangement. It reminds us that in a CCP-ruled China, administrative interventions and regulatory measures are unlikely to fundamentally change without political reform.

Therefore, China's future development needs to be built on political institutional reform, stimulating economic vitality by reducing administrative intervention and strengthening market competition. This will not only bring more diverse voices and ideas to the publishing industry but also more innovation and opportunities to other industries. Only with the impetus of political institutional reform can the market achieve truly fair competition and free development.

Appendix

Inter view	Interviewee	Organization	Role	Experience	Intervie w Duration
A	Mr. F	Private Publishing Company A	Owner	30 years	210 min
B	Mr. Q	Private Publishing Company B	Owner	20 years	90 min
C	Ms. Z	Private Publishing Company B	Manager	18 years	150 min
D	Ms. W	Private Publishing Company C	Editor	6 years	90 min
E	Mr. K	State-Owned Publishing House D	Senior Editor	20 years	90 min
F	Ms. L	State-Owned Publishing House E	Senior Editor	17 years	60 min
G	Mr. Y	State-Owned Publishing House F	Manager, Senior Editor	15 years	Written interview (1500 words)
H	Ms. J	State-Owned Publishing House D	Senior Editor	16 years	120 min
I	Mr. B	Media G	Reporter	7 years	90 min

Field Notes were recorded during my activities as an intern at a State-Owned Publishing House, based on a one-month experience, totaling approximately 1,500 Chinese characters.

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