

Cultural Economics and Cultural Entrepreneurship
Master Thesis

**The Emerging Chinese Art Market: What Contributes to the Price
Surge of Chinese Contemporary Art, 2004-2008?**

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Abstract

The Chinese art market developed faster than the art markets elsewhere in the past five years. In 2004 Sotheby's and Christie's together sold \$22 million prices of Asian contemporary art. 2 years later, the two auction houses sold \$190 million pieces of Asian contemporary art, the majority of which was by Chinese artists. While in 2004 there were only 2 Chinese artist in the global TOP 100 (ranked by auction revenue), in 2008 the number of artists increased to 10 (www.artprice.com 2005:11); (www.artprice.com 2009b:25-26) and the majority of which were contemporary artists.

China is gaining importance among the emerging art markets and has replaced France for the third place in 2007, following the United States and United Kingdom, in terms of the total auction turnover. Three major auction houses Christie's, Sotheby's, and Bonhams opened offices in Hong Kong and held several contemporary art sales both in Hong Kong and in mainland China. In response to the booming Chinese art market, auction houses from mainland China, such as China Guardian, Poly International, and many others, are gaining international recognition. Next to Christie's, Sotheby's, and Phillips De Pury, Artprice reports that in 2007 Chinese auction houses Poly International and China Guardian each accounted for 1.8% and 1% of the global auction sales turnover (www.artprice.com 2008:12) . In a global context, these figures represent a considerable power.

The Chinese auction market consists of three major segments: Chinese Paintings and Calligraphy, Ceramics and Antiques, and Contemporary Art. Artprice and other sources indicate that the price surge of Chinese art was particularly significant in the price of Chinese contemporary art, in the thesis I intend to conduct a qualitative study on factors which contributed to the price surge of Chinese contemporary art between 2004 and 2008.

The results of the study suggest that the Chinese art market is mostly led by the 'market', both internationally and domestically. The quality of art as a financial investment is emphasized in the Chinese art market. Unlike in the Western world where there are many different investment vehicles, investment vehicles in China are limited to stock, funds, and real estate. Therefore, as the results of the interviews suggest, art has been treated as an alternative investment after the Chinese government began to impose strong controls on stock and real estate speculations since 2004. Besides, an important aspect of the price surge appears to be regarding buyers' perception: that Chinese contemporary art was perceived to be a 'sure thing' financially without taking into account all the additional costs. The rapid increase in the price of contemporary art was likely to be an overvaluation bubble based on speculative trading.

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1 Introduction

This Chapter addresses some fundamental issues with respect to the author's motivation to study the Chinese art market, key research questions, the structure of the thesis, the scope of the research, and to what extent this work contributes to cultural economics literature.

1.1 Background Information

For the last six years, Chinese contemporary art has enjoyed skyrocketing prices and recognition around the world. In 2004 Sotheby's and Christie's together sold Asian contemporary art to the value of \$22 million. Two years later, the two auction houses sold Asian contemporary art to the value of \$190 million, notably, the majority of which was by Chinese artists. More recently, the Chinese contemporary art market's share in the global art market, in the over \$100,000 segment (works which achieved over \$100,000 at auction) grew from 0.6% in 2004 to 7.2% in 2008(www.artprice.com 2005:5, www.artprice.com 2009b:10). In 2004 there were only 2 Chinese artist in the global TOP 100 (ranked by auction revenue), in 2008 the number of artists increased to 10 (www.artprice.com 2005:11);(www.artprice.com 2009b:25-26).

The soaring prices sparked debate about whether the sales were being artificially manipulated thus encouraging speculators, rather than true collectors, to enter the art market. Zhang Xiao Gang, aged 51, perhaps the best known contemporary Chinese artist, has seen his most celebrated paintings "The Bloodline Series" fetch high prices at Sotheby's and Christie's auctions. The most expensive painting from the series "Bloodline: Big Family No.3" was sold for \$ 6.1 million at Sotheby's Hong Kong auction.¹

A source (Wang 2009:53) indicates that some of Zhang's auctioned works of art remained in their packing before being sold on by the buyer. Also, when it comes to Chinese contemporary art, some buyers were not able to explain why they purchased contemporary works of art which are not pleasant to look at in comparison with traditional Chinese paintings (Guo Hua) which often depict elegance and beauty.

The opening of China in 1978 saw the beginning of a transformation in Chinese contemporary art. New art movements such as "Scar Art", Realism, Chinese Abstraction, and Expressionism started to influence traditional ideology toward art. In the 1980s, Chinese contemporary artists created experimental and political works in several places around China, a situation which had never been considered possible before. Some of the artists also began to address the massive damage done by the Cultural Revolution in China between 1966 and 1976, which was a forbidden issue before.

The rapid economic changes in the 1990s brought new challenges to Chinese contemporary artists; the increasing gap between rich and poor, the emerging concept of consumerism and leisure, and the interplay of communist and capitalist ideologies

gradually changed the attitude of Chinese artists towards artistic success. How Chinese art should be defined is a renewed question.

China's experience as one of the emerging Asian contemporary art markets (other being Thai, Indonesian, Indian and South Korean)² provides a challenging research background and poses important questions such as the causes and attributes of the surge in the price of art over a relatively brief period. The Chinese art market is in its infancy compared with art markets elsewhere, as a result, is relatively unregulated: Western media such as *The New York Times* reported that there are artists who sell their works of art directly into the auction market and thus do not follow international standards. The newspaper also claims that Chinese gallery officials and artists send representatives to the auctions to bid on their own works in order to artificially inflate prices.³

In the thesis I intend to conduct a qualitative study on factors which contributed to the price surge of Chinese contemporary art between 2004 and 2008. My reason for focusing on the Chinese contemporary art market is that it is a fast growing, and recently emerged market. Before the 1990s there weren't any buyers of Chinese contemporary art, at that time, the Chinese art market had been dominated by traditional Chinese art. Moreover, the price surge of Chinese contemporary art was exceptional: the price of Chinese contemporary art began to soar in 2004 and, in some cases, exceeded the price of traditional Chinese art. Art critics compare it to the global art price boom in the late 1980s and debate whether the price surge between 2004 and 2008 was a bubble that would inevitably burst.

1.2 Research Questions and Thesis Structure

The main research question is: *what contributed to the price surge of Chinese contemporary art between 2004 and 2008.*

There are four major sub-research questions. The first is: *what are the relevant theories and practices of the art market in general?* In answering this question I examine the existing literature determine to what extent the literature can support my main research question. The second sub-question is: *What are the main price determinants of Chinese contemporary works of art?* The answer to this question relies on several factors including: demand for art, aspects of artists and works of art, the climate in the art market, government intervention, and the economic and political situation.

The third sub-question is: *which other determinants of the price of the Chinese contemporary arts between 2004 and 2008 can be noticed?* For this question I look further to the macro factors (i.e. Social, Technological, Economic, and Political factors) which contribute to the price surge of Chinese contemporary art. The fourth sub-question is: *how do art professionals comment on the factors that contribute to the price surge of Chinese contemporary art that occurred between 2004 and 2008?* This question is addressed in the empirical research section (chapter 5 and 6) in which I analyse the interview findings and ethnographic materials.

There are three important issues that need to address: firstly, referring to the terms “price surge” or “increase in art price”, unless otherwise stated, I intend to describe the increase in the auction price of art. This is because the major providers of art price data, for example, www.artprice.com (English) and www.artron.net (Chinese) from which I draw data, build price indices based on art auction records;⁴ I explain this further in section 2.2.

Secondly, the Chinese art market is centred in large cities such as Hong Kong, Beijing, and Shanghai, among these Beijing is the most important market given the density of galleries, auction houses and art academies. In light of the time constraint I focus on the art scene in Beijing.

Thirdly, I have intentionally omitted any lengthy discussion regarding the effect of the Global financial crisis of 2008 on the Chinese art market. The reason for this is that the price of Chinese contemporary art started to drop around June 2008, and the effect of the crisis on the global art market as well as the rest of the economy is so extensive, that a separate study might be needed in order to fully address the issue.

The thesis is organized as follows: Chapter 1 presents a general introduction to the research subject, research questions, and the structure of the thesis. Chapter 2 serves as a theoretical framework for the rest of the thesis and reviews existing literatures of cultural economics literature with respect to actors, agents, and infrastructure of the art market as well as possible the determinants of price of art. Chapters 3 explains the methodology adopted and ways of data collection in the thesis. Chapter 4 and 5 describe the current Chinese art scene by introducing Chinese galleries, auction houses and art fairs, and research the factors which influenced the price of Chinese contemporary art between 2004 and 2008. Chapter 6 explains the findings of the interviews and observations. Chapter 7 forms the overall conclusion and raises questions for future research.

2 Theoretical Framework

This Chapter lays the theoretical background. Issue is selected based on its relevance to the research questions. Section 2.1 describes the infrastructure of the art market. Section 2.2 discusses auctions and the price of art in detail. Section 2.3 features various determinants of art price in terms of such factors as work-of-art specific, artist-specific, demand side and supply side. Finally, section 2.4 describes the price movement of Chinese contemporary art from 2004 to 2008.

2.1 Art Market in General

The art market is considered to be a complex network in which various actors interact with each other (Jyrama 2002). Art is sold at auctions, by dealers in art galleries, or directly by artists, and is bought by various buyers including museums, business institutions, and individual collectors and investors. The art market contains actors including artist, gallery, auction house, art academy, art critic, art museum, and art fair (Plattner 1998). I look at the main actors in turn.

Art academies have, since the time of the impressionists, been the places which facilitate the creation of art and the exchange between artists has been art academies. According to the study of (Plattner 1998), in the United States in 1989 there was an average of some 16000 bachelor's and 2700 master's degrees in the visual arts alone. The functions of art academies are not solely for academic interests, but also provide discourse on art, supply artists, and help art dealers identify group of new talents (Plattner 1998). There is a mutually connected relationship between art academies and artists, such as (Galelson 2005) indicates that in the American art market, nearly all established artists graduated from recognized art schools such as the Harvard Graduate School of Arts. Their works of art all fetched high prices at auctions.

Art critics played a leading role in guiding the aesthetic evaluation of art throughout the history of art. However, in today's art world, some authors claim a death of critical authority (Plattner 1998), the main argument being the overwhelming role of market success (measured by art price) in determining the value of art. The influence that art critics have on art prices is thus largely subject to the environment in which the art market operates – whether it is prices driven by speculators or aesthetically driven by collectors. In the latter, art critics could play a more dominating role.

Art museums are exhibitioners, educators, and collectors in the art world, and contribute to art discourse by publishing books and fine art publications (Williams 1996, Martin 1994, Berry 1998). Art museums are important in promoting new art and artists - all of whom attend at least one exhibition in major art museums. Moreover, art museums influence the price of art through their acquisitions of art and have a positive impact on the auction prices of art (Pommerehne, Feld 1997). The distinct characteristics of public museums is that they often ignore the opportunity cost and are willing to pay the highest bid in order to complete their collections - this is also to the sellers' advantage.

The structure of contemporary galleries in Western countries is studied by authors such as Velthuis (2005) and Jyrama (2002). Galleries in Western European countries such as Finland, France, and Great Britain are often recognized per age and degree of establishment - only elite galleries are considered as established. Furthermore, galleries often specialize in art genres. Likewise, galleries in New York and Amsterdam share a similar structure, galleries are further classified as Avant-Garde or commercial (Velthuis 2005:29). These galleries operate in similar ways regardless of difference in genres (Jyrama 2002).

The relationship between galleries and other actors in the Western art world is described as informal and personal, and based on shared taste in art ((Jyrama 2002)). However, galleries have little contact with auction houses because of the difference in their price mechanisms: Auction houses provide guide prices which are subject to various factors. For example, speculation about the potential fame of a particular artist leads to inflated guide prices for a piece by that artist, and, consequently, unrealistic hammer prices when compared with the price an art gallery would set for the same piece. Many Western galleries are hostile towards auction houses and consider auction houses to be parasites which focusing on the price of art rather than acknowledging the contribution galleries make towards promoting artists ((Velthuis 2005:78).

Art fairs provide an infrastructure, a labour market, and a meeting place for various regional arts, networks, and sub-cultures (Bydler 2004:99). Art fairs also facilitate cultural and educational exchange and boost competition between artists. Established Western art fairs include the Venice Biennial which occurs every second year and has a permanent pavilion for the event, and which awards prizes to artists and arranges gatherings for participants.

There are relatively few studies on art fairs in the literature of cultural economic, possibly owing to the fact that a sizable number of art fairs only appeared in the 1980s and 1990s (Bydler 2004:96) and those studies which exist focus on the social-cultural significance of art fairs rather than on trading and economic aspects. In the case of China, art fairs play an important role in supporting the art market; I discuss this in section 3.6.

Among actors in the art market, artists are the standing point of all market activities. Artists not only produce works of art for sale in galleries and auctions, but established artists also have considerable influence on the price of art. To gain wide recognition an artist needs to be identified and supported by peers, critics, art dealers, and the public, throughout every step of his/her career, as described by Alan Bowness, a former director of Tate London. Once an artist has gained wide recognition he/she needs to build a sustainable relationship with collectors and curators to prolong his/her artistic career (Galenson 2005:5-6). Various actors such as art academies, art museums, critics and experts, art dealers, art collectors, etc. play important roles in determining an artist's recognition and success.

In the past century, the financial performance of art has been much emphasized. As a result, increasing numbers of speculators have entered the auction market for art. In

this section I do not mention Western auctions and their relevance to the price of art, because in the western art world, auction houses are often excluded from the artistic network, owing to the price-oriented nature of art auctions. In a more commercialized market such as the Chinese art market, domestic auction houses play an important role and sometimes influence the operation of the artistic network.

2.2 Auction and Price of Art

This section introduces art auctions base on the findings of existing studies. The most common format for art auctions around the world is the English auction in which bidding starts low, the auctioneers call out for higher and higher prices, and an item is sold when the auctioneer knocks the hammer down. Another format is the Dutch auction in which bidding starts high, the auctioneer calls out increasingly lower prices, and an item is sold when the bidders accept the price (Ashenfelter, Graddy 2003:764).

The process of buying at major auction houses is as follows⁵: a buyer registers with the auction house and then the buyer is eligible to bid either in person, via the internet or telephone, or by leaving a commission bid. Successful bidders (buyers who offer the highest bid when the hammer goes down) pay the auction house and the auction house arranges transportation for the property. The cost of buying includes the price of the work of art, the buyer's premium, insurance, tax, and transportation. The buyer's premium to the auctioneer varies per country; and is between 10% and 25% of the hammer price, depending on the estimate price of the work.

The process for selling at major auction houses is as follows: sellers make a consignment to the auction house and the decision to sale is based on the estimate price suggested by the auctioneer (the price that the auction house suggests is appropriate for sale and which would be printed in the catalogue) and the reserve price (the lowest price the seller is prepared to accept); after the auction, sellers may reject the sale if the hammer price is below his/her reserve. The seller's commission is often 12% on the hammer price.

Buyers of art generally fall into three groups: private collectors, corporate collectors, and public collectors (Pommerehne, Feld 1997). Private collectors are often individuals who buy art to consume art rather than to make a financial investment. Corporate collectors are companies and act in a similar way to private collectors. Public collectors include art museums or art institutions which buy art in order to complete their collections and rarely resell art.

Before an auction, an auction house issues a catalogue. Estimate prices have a lower and upper price range (Ashenfelter, Graddy 2003:765). This estimate price is often biased and do not reflect the true selling price. There is no general consensus on whether these estimates are biased upwards or downwards, it is likely to be the auctioneer's strategy to manipulate the eventual selling price (see Ashenfelter, Graddy 2003, Beggs, Graddy 2008, D'Souza, Prentice 2002, Ekelund, Ressler & Watson 1998, Mei, Moses 2005).

Unsold items are considered ‘burned’ or ‘bought-in’ by the auction house. ‘Burned’ items usually do not appear in the subsequent auctions but are either removed from the auction market, or are offered for sale in a later time. Some studies suggest a negative effect on the future price of an item when it goes unsold (Ashenfelter, Graddy 2003:773, Beggs, Graddy 2008).

The eventual sale of an item depends on the seller’s reserve price - if the highest bid is lower than the reserve price, the item goes unsold, and vice versa. Reserve prices are not publicized in many art auctions. It is generally believed that reserve price is 70% to 80% of the auctioneer’s low estimate price (Ashenfelter, Graddy 2003:779).

Art price studies rely heavily on auction data to provide a public report on the art prices (Ashenfelter, Graddy 2003:783, Frey, Eichenberger 2003). Major providers on art price information such as www.artprice.com and www.artnet.com are based on auction data. However, there are limitations in the use of auction data, for example, some authors indicate that ‘burned’ items are not included in the art price nor does the art price reflect the true equilibrium price (Frey, Eichenberger 2003). In all, the price of art implicitly means the auction price of art.

Art price indices are conducted based on economic models such as Repeat Sale Regression (which uses the price of individual objects traded at two different times to compute the price index) and Hedonic Regression (which regresses prices based on various attributes of the object such as dimension, artist, subject matter, etc., and use the residuals of the regression to compute the price index) (Ginsburgh, Mei & Moses 2006).

There are four important uses of art price indices, the most important being to provide a simple way of appraising the value of a work of art (Ginsburgh, Mei & Moses 2006). Price indices may be used to outline the general market trend and help compare prices of art with those of financial portfolios. For example, a study computes an art price index of works of impressionist, modern and contemporary European masters sold at auctions between 1962 and 1991, then compares the result with the index of a stock exchange within the same period, and finds that the art market correlates with the financial market (Ginsburgh, Jeanfils 1995b). The art price indices could help examine the major social and economic factors affecting art price such as inflation (Ginsburgh, Jeanfils 1995b).

Despite the effort in developing art price indices, a long term forecast of art prices has not been likely, due to two unique characteristics of art goods (Baumol 1986; Chanel 1995). Firstly, unlike the owner of other trading commodities, the owners of art are subject to the endowment effect (art is only valued more once a work of art does not often appear in the art market for resale).

Secondly, the art market is inefficient due to asymmetric information; the direct consequence of this is the high cost which new buyers face when they enter the art market (Coffman 1991). New buyers will not be successful unless they recognize a

bargain in the catalogue and understand the tricks of buying in the art market. This is particularly prevalent in the closed artistic network and the complicated web of interaction of the art market which outsiders find difficult to penetrate.

2.3 Determinants of Art Price

Studies on the determinants of art price include (Anderson 1974), (Frey, Pommerehne 1989a) and (Frey, Pommerehne 1989b). These studies found the major factors to be artist specific factors and work-of-art specific factors. Artist specific factors include the reputation, publicity, past achievement and exhibition attended of the artist. Work of art specific factors include the work's condition, size, provenance, subject matter, the style or school the art belongs to, the variety of medium and materials used, the previous selling prices, the expectation of the future selling price, the historical and artistic significance, and strength of attribution. The general finding is that oil paintings are most expensive, possibly owing to its durability, skills required for execution, the spectrum of artistic effects it allows for (Sproule, Valsan 2006).

Other studies have not added much to the previous findings on artist and work of art specific factors, except for (Rengers, Velthuis 2002), (Velthuis 2005) and (Ekelund, Ressler & Watson 2000), which add that nationality, age, gender, and living status of the artist also influence the price of art. There is no general finding on which factors are most relevant to the price of art, except an artist's reputation, publicity, past achievement and exhibition attended are likely to be major determinants of the price of his/her works.

Recent studies have featured other aspects influencing the price of art such as auction estimates, expert opinions, legislations, demand, fashion and taste, stock exchange and economy, anomalies of the art market, risks and information problem, and the return of art as an investment. In the subsequent sections I discuss those aspects in turn.

In order to facilitate reading, each determinant is marked +, -, biased, or uncertain to indicate that this determinant is positive, negative, not related, or there is no general consensus regarding its relationship to the price of art.

Determinant	Correlation with Art Price	Represent Study
Artist Specific Factors		
Reputation	+	(Anderson 1974)
Publicity	+	(Anderson 1974)
Past achievement	+	(Anderson 1974)
Exhibition attended	+	(Anderson 1974)
Nationality	+	(Rengers, Velthuis 2002)
Age	+	(Ekelund, Ressler et al. 2000)
Gender	N/A	(Ekelund, Ressler et al. 2000)
Living status	+	(Ekelund, Ressler et al. 2000)
Works-of-Art Specific Factors		
Condition	+	(Frey, Pommerehne 1989b)
Size	+	(Frey, Pommerehne 1989b)
Provenance	+	(Frey, Pommerehne 1989b)
Subject matter	N/A	(Frey, Pommerehne 1989b)
Style or school	N/A	(Frey, Pommerehne 1989b)
Variety of medium and materials used	+	(Frey, Pommerehne 1989b)
Previous selling prices	+	(Frey, Pommerehne 1989b)
Future price expectation	+	(Frey, Pommerehne 1989b)
Historical and artistic significance	+	(Anderson 1974)
Strength of attribution	+	(Anderson 1974)
Supply Side Factors		
Auction estimates	Biased	(Ashenfelter, Graddy 2003)
Expert's influence	+	(Plattner 1998)
Public support and tax concessions	+	(O'Hagan 2003)
Demand Side Factors		
Demand	+	(Sagot-Duvauroux 2003)
Fashion and taste	Uncertain	(Baumol, 1986)
The financial market	+	(Chanel 1995)
State of the economy	+	(Frey, Pommerehne 1989a)
Market anomalies: Masterpiece effect Burning effect Law of one price	Uncertain + Biased	(Ashenfelter, Graddy 2003)
Risk	Uncertain	(Frey, Pommerehne 1989a)
Return of art as an investment	Uncertain	(Frey, Pommerehne 1989a)

*NA= this determinant is not statistically correlated with the price of art

a) Overview of studies and results of art price determinants

Auction estimates (biased) may theoretically affect the valuation of an item of a customer, in particular when a customer has insufficient knowledge about the quality of the item for sale. However, empirical findings suggest that the estimate price is biased and does not reflect the eventual sale price (Ashenfelter, Graddy 2003, Beggs, Graddy 2008, D'Souza, Prentice 2002, Ekelund, Ressler & Watson 1998, Mei, Moses 2005, Louargand, McDaniel 1991). Moreover, the above listed studies indicate that auctioneers have systematically provided downwards-biased price estimates in an attempt to attract customers. Conversely, a study suggests an upwards bias in the estimate price, possible due to the limitations in the pricing model of auction houses (see Louargand, McDaniel 1991).

Expert opinion (+) has considerable influence on the price of art since the value of art is often associated with the attention of key critics, curators, dealers, and collectors. When deciding the purchase of art, art buyers seek security by consulting experts, art market reference books, art price indices, and the later developed internet resources (e.g. www.artprice.com) (Plattner 1998). This is largely due to the asymmetric information in the art market I discussed above. Fashions and fads may alter expert opinion since over time, a large proportion of artistic appraisals become obsolete, particularly when the commercial aspect of art dominates other aspects, all that remain for judgement is the price of art (Plattner 1998:487).

Tax concessions (+) to cultural industries is mainly practised in the United States and Europe. The usual approach adopted by governments in regard to supporting the arts is to subsidize the suppliers of cultural goods (Frey 1999). The initiatives involve providing subsidy to cultural institutes or offering tax concessions on the production of cultural goods. Also, in the United States, donations or gifts to arts institutions are exempted from tax (the giver receives tax exemption in terms of property tax exemption and the capital gains tax remission) (O'Hagan 2003).

Demand for art (+) and the wealth of buyers (+) are strong predictors of the price of art. In the visual arts market, auction buyers are mainly dealers, museums, and private collectors (Anderson 1974). The composition of art buyers is more complicated and they depart from various motivations when deciding on acquisitions. In most cases, the behaviours of buyers at auctions (and the subsequent prices they are willing to pay) are subject to type (e.g., dealers, museums, or private collectors), nationality, wealth, willingness to pay, and the behaviours of other competitive buyers (Sagot-Duvauroux 2003).

Demand for art is generated by a complex process of advertising, promotion of exhibitions, salon gathering, literary contributions, collector and museum curator appeals (Singer 1981), and is affected by changes in overall income and the level of interest in art and education of art consumers (Anderson 1974). In addition to these findings, I consider the condition of the economy to be a major factor influencing the demand of art; this can be illustrated by the significant drop in demand of art after the financial crisis in October 2008 (www.artprice.com 2009a).

Fashion and taste (uncertain) are, by and large, factors which guide art buyer's behaviour. During the art boom in the second half of the 20th century the majority of paintings which sold at auctions were French impressionists. Since 2000 the works of art which have fetched high auction prices have been works by contemporary artists. However, change in fashion and taste are rather difficult to predict and its immediate influence on prices of art is difficult to determinate. I leave this factor to further studies.

Price movement in the art market correlates price movement in the financial market (+) (Chanel 1995; Ginsburgh, Jeanfils 1995a; Goetzmann 1993). The art and finance markets roughly move together and no systematic transfer exists. Moreover, financial variables may predict art prices: where the profit generated on the financial markets is invested in art, stock exchange information may be considered as advanced indicators to predict the next movement in the art market (Ginsburgh, Jeanfils 1995a). Other findings suggest that art prices correlate with real estate prices (Worthington, Higgs 2006).

The state of the economy (+), on national and global levels, is associated with the period of boom in the art market. Firstly, a strong economy stimulates supply and demand owing to buyers' increasing wealth and sellers' expectations of increasing returns. Secondly, art remains a stable portfolio compared with stocks and bonds. The money generated from the financial market can be invested in art, as means of diversifying risk (Frey, Pommerehne 1989a).

Most debates on the anomalies of the art market concentrate on matters such as the masterpiece effect, the 'burning' effect, and the law of one price. The masterpiece effect (uncertain) is a belief that established works of art yield better financial returns. Several studies suggest that if a masterpiece effect exists, its influence on price of masterpieces is likely to be negative rather positive (Pesando, Shum 2007; Goetzmann, Spiegel 1995; Ginsburgh, Jeanfils 1995b).

The 'burning' effect (+) is the negative effect on the future price of a work of art which has been previously gone unsold at auction, this effect is generally confirmed by (Ashenfelter, Graddy 2003) and (Beggs, Graddy 2008), however, I have not found further studies in regards to this effect.

The law of one price (biased) dictates that the price of a work of art should remain consistent between different geographic markets. The general findings are that art price differs in locations, auction houses, and time of sale, no systematic findings are suggested regarding the law of one price (Pesando 1993), (Pesando 1993), and (Mei, Moses 2002).

Buying works of art implies certain risks (uncertain) and buyers may not be fully aware of these risks. For example, the attribution problem associated: some of Van Gogh's works were likely to have been produced by his students, particularly in regards to his drawings. Fakes and forgeries are a similar problem (Frey, Pommerehne 1989a). Moreover, buyers may not be aware of costs involved in commission charges (from dealers and auction houses), maintenance and restoration of works of art, insurances, and

so on. Provenance and price history, particularly of lesser known works of art, are sometimes not divulged by the art dealer. However, the influence of the above discussed on art price remains unclear. It is believed that those factors could affect the confidence toward investing in art as a financial asset.

Financial performance of art (uncertain) as an investment has been the focus of many studies. The general finding is that the financial rates of return on art show a large variance and are subject to the time period (in which the financial transaction occurred), countries, genres of art, and methods used in building price indices, and on average, returns on art are lower than on other assets (Frey, Pommerehne 1989a), (Frey, Eichenberger 2003), and (Campbell 2007).

Returns on works of art contain two types, namely the financial and psychic return; a majority of studies report the financial return of art. The extent of psychic and financial returns may be theoretically determined by the types of buyers involved in the art market: pure collectors who derive consumption benefits (psychic return) from purchasing art, in contrast to pure investors or speculators who gain financial returns from purchasing art, i.e., the higher the psychic return and the lower the financial return (Frey, Eichenberger 1995).

The above mentioned studies have limitations: most analyses are based on auction data of sold works thus bought-in items are not included. Furthermore, transaction costs such as commission charges, insurance, shipping are systematically ignored; furthermore, the methods of Hedonic Regression (HR) and Repeat Sale Regression (RSR) used in building price indices have shortcomings (for a detailed discussion see (Ginsburgh, Mei & Moses 2006)); and above all, the rates of return on art as an investment suggested by these studies are so varied that no general consensus can be formed ((Campbell 2007:25; Frey, Eichenberger 1995:530)).

2.4 Price of Chinese Contemporary Art, 2004-2008

Between 2004 and 2008, there was a correlation between the global art market and the Chinese art market, both in terms of periods of boom and the shift of taste toward contemporary art. The boom in the global art market which started in 2004 was mainly driven by the surge in the price of contemporary art: in major art markets such as the US market, emerging Contemporary artists such as Jeff Koon, Jean-Michel Basquiat, Maurizio Cattelan and Damien Hirst saw their works reach hammer prices in excess of \$ 1 million at Christie's and Sotheby's auctions (www.artprice.com 2005:8).

From the perspective of contemporary art the trend continued in 2005 when contemporary art and photography became most popular in art auctions. The price increase in the segment was 12.5% in 2005 compared with 8.2% for Modern Art, -2.4% for 19th century paintings and 8.7% for Old Masters works (www.artprice.com 2006:7). The art market continued to enjoy a boom in 2006 and 2007. In 2006, there were 9,200 auctions of fine art worldwide, more than 400,000 lots were offered for sale, no less than 810 works were sold for over a million dollars, and there was an increase of 52% in the

revenue of fine art auctions compared to the situation in 2005 (2007:4). In 2007, this percentage again increased 43.8% compared to the situation in 2006 (2008:6).

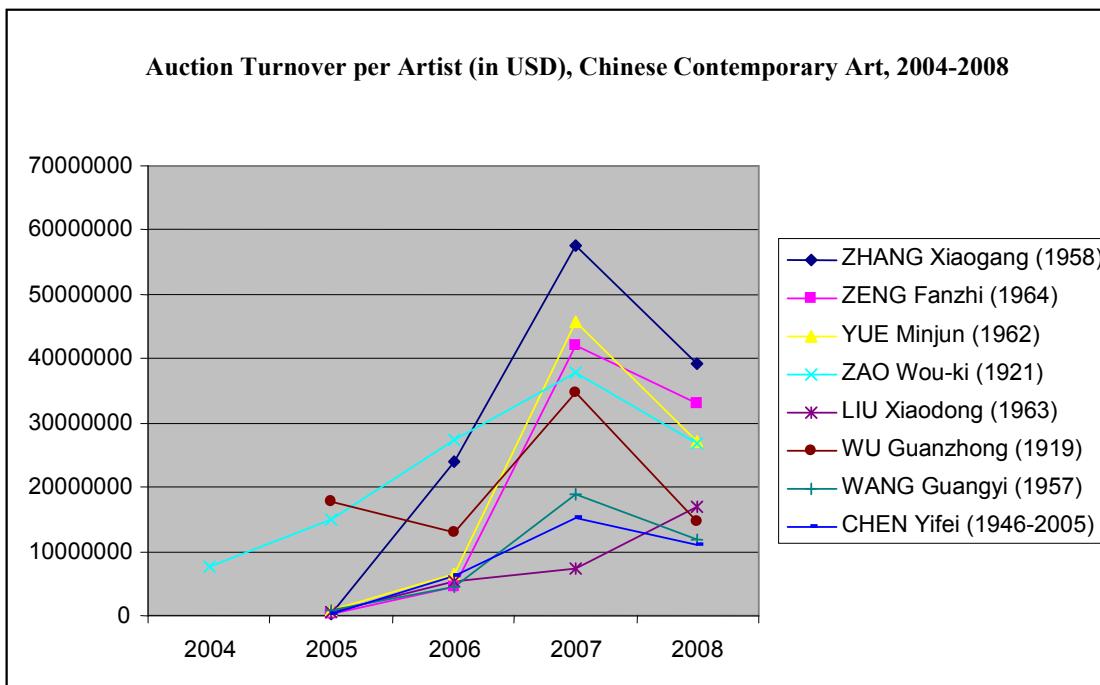
The Chinese art market exhibited a trend which strongly resembled that in the global art market. In the last 5 years, the Chinese art market developed faster than the art markets elsewhere. In 2004 Sotheby's and Christie's together sold \$22 million pieces of Asian contemporary art. Two years later, the two auction houses sold \$190 million pieces of Asian contemporary art, the majority of which was by Chinese artists. In the mean time, works of art reached record prices at auctions include Chang Yu's Fen Hehua (Pink Lotus) sold for HKD 28 million in 2006 and Xu Beihong's Fangxia Nide Bian Zi (Put Down Your Wipe) sold for HKD 72 million in 2007, both at Sotheby's auctions. Furthermore, Charles Saatchi, a well-known fine art collector, purchased a major work from Zhang Xiaogang and some of others contemporary Chinese artists (www.artprice.com 2007:11). While in 2004 there were only two Chinese artist in the global TOP 100 (ranked by auction revenue), in 2008 the number of artists increased to ten (www.artprice.com 2005:11); (www.artprice.com 2009b:25-26) and the majority of which were contemporary artists.

China is gaining importance among the emerging art markets and has replaced France for the third place in 2007, following the United States and United Kingdom, in terms of the total auction turnover. Three major auction houses Christie's, Sotheby's, and Bonhams opened offices in Hong Kong and held several contemporary art sales both in Hong Kong and in mainland China. In response to the booming Chinese art market, auction houses from mainland China, such as China Guardian, Poly International, and many others, are gaining international recognition. Next to Christie's, Sotheby's, and Phillips De Pury, Artprice reports that in 2007 Chinese auction houses Poly International and China Guardian each accounted for 1.8% and 1% of the global auction sales turnover (www.artprice.com 2008:12) .

Since 2004, Artprice.com has increased coverage on the Chinese art market, notably devoting a lengthy discussion (c.a. 4 pages) about the booming Chinese art market in its 2007 annual report on the global art market. China was mentioned as a major emerging market player where the annual auction revenue reached a considerable height. The number of local Chinese auction houses increased significantly and they posted strong growth over the preceding years (www.artprice.com 2008: 16-19). I select 8 Chinese contemporary artists who were listed in the 2008 Global TOP 100 Artists (ranked by the auction revenue of their works) in www.artprice.com and the following tables and graphs present an overview on their annual auction turnover and the number of lots sold from 2004 to 2008 (based on data obtained from www.artprice.com 2005:11-12; 2006:13-14; 2007: 26-27; 2008:34-35; 2009:24-25).

Auction Turnover per Artist (in USD), Chinese Contemporary Art, 2004-2008					
Artist	2004	2005	2006	2007	2008
ZHANG Xiaogang (1958)	-	327,622	23,939,322	57,516,646	39,223,384
ZENG Fanzhi (1964)	-	321,305	4,379,124	41,922,534	33,079,333
YUE Minjun (1962)	-	833,646	6,417,448	45,713,832	27,046,362
ZAO Wou-ki (1921)	7,606,263	14,881,646	27,411,899	37,824,099	26,877,902
LIU Xiaodong (1963)	-	489,650	5,424,410	7,416,698	16,947,886
WU Guanzhong (1919)	-	17,750,063	13,108,900	34,681,113	14,646,425
WANG Guangyi (1957)	-	721,901	4,576,130	19,037,873	11,828,467
CHEN Yifei (1946-2005)	-	171,411	6,204,408	15,107,017	11,062,325

b) Auction Turnover per Artist (in USD), Chinese Contemporary Art, 2004-2008

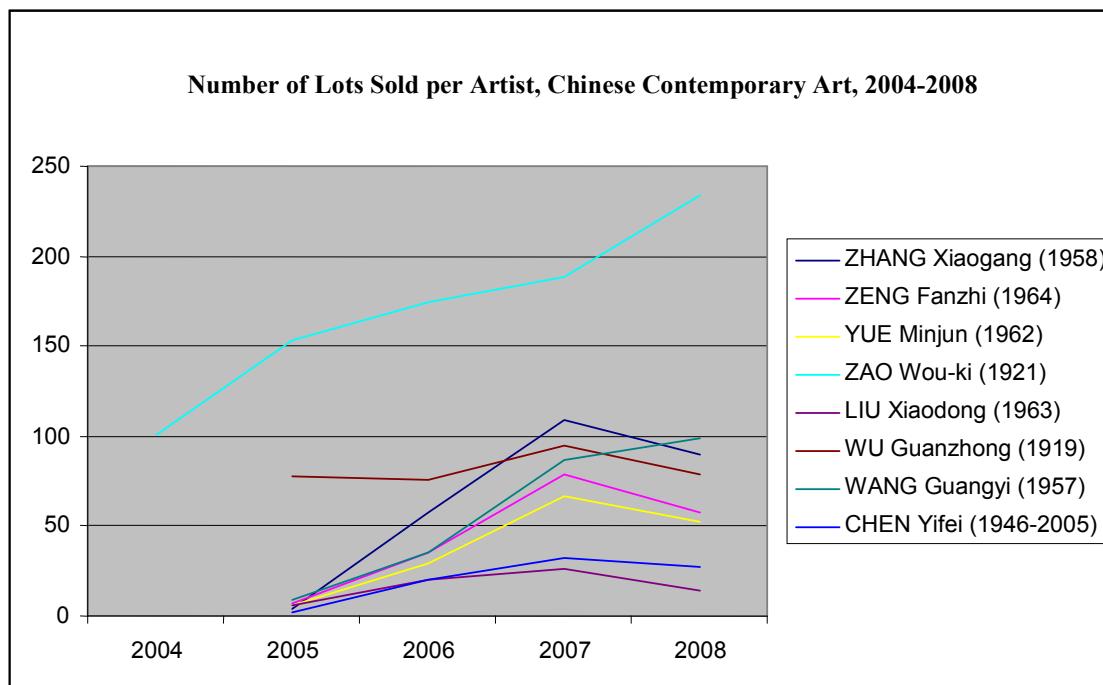


A. Auction Turnover per Artist (in USD), Chinese Contemporary Art, 2004-2008

The prices of works by Zhang Xiaogang, Zeng Fanzhi, Yue Minjun, Liu Xiaodong, and Wang Guangyi exhibit some common patterns such as those appeared in auctions only in 2005, nevertheless, the works of art soon fetched high auction prices; some prices even exceeded the price of those of established artists (i.e. Chen Yifei, Zao Wou-ki, and Wu Guanzhong), notably, Zhang Xiaogang who ranked the highest. With a rapid increase in the auction prices of his paintings, Zhang achieved the position of 22 in Artprice.com Top 100 rank of global artists in 2008 (www.artprice.com 2009:24).

Number of Lots Sold per Artist, Chinese Contemporary Art, 2004-2008					
Artist	2004	2005	2006	2007	2008
ZHANG Xiaogang (1958)	-	4	57	109	90
ZENG Fanzhi (1964)	-	7	35	79	57
YUE Minjun (1962)	-	6	29	67	52
ZAO Wou-ki (1921)	101	153	174	189	234
LIU Xiaodong (1963)	-	6	20	26	14
WU Guanzhong (1919)	-	78	76	95	79
WANG Guangyi (1957)	-	9	35	87	99
CHEN Yifei (1946-2005)	-	2	20	32	27

c) Number of Lots Sold per Artist, Chinese Contemporary Art, 2004-2008



B. Number of Lots Sold per Artist, Chinese Contemporary Art, 2004-2008

Their number of lots sold also exhibits the same pattern: Among the contemporary artists, taking the advantage of selling works at auctions in an early stage, Zao Wouki was ranked as achieving the highest bid volume and trade volume. While the works by Zhang Xiaogang, Zeng Fanzhi, Yue Minjun, Liu Xiaodong, and Wang Guangyi appeared in the auction market in 2005 and achieved the highest trade volume in 2007. In general 2007 was the prime time for these artists.

2.5 Conclusion

To provide an adequate background to the study of art price, in the above sections I review the previous studies. In cultural economics, studies regarding prices of art have been focused on Western and American paintings. In this chapter, the process of art price

formation is analyzed such as what is described in section 2.2. These studies suggest determinants of art price including artist related factors, work-of-art specific factors, as well as auction estimates, expert opinions, legislations, demand, fashion and taste, stock exchange and economy, anomalies of the art market, risks and information problem, and the return of art as an investment. Section 2.4 presents some tables and graphs on the price surge of Chinese contemporary art between 2004 and 2008, section 4.2 provides more information on the portfolio of Chinese contemporary artists.

3 Methodology

At the beginning of the thesis I define the central research question as well as four sub-research questions surrounding the surge in the price of Chinese contemporary art between 2004 and 2008. I continue investigating these research questions by examining relevant documents and collecting qualitative data from semi-structured interviews and observations. I focus on the art market in Beijing.

The emergence of the Chinese art market is a recent phenomenon, therefore, literature in English on the Chinese contemporary art market are difficult to obtain as little research has been done by Western scholars. Instead, I look at other documents (documents which can be used in scholarly works include personal documents, e.g. diaries and letters, official documents deriving from the states, mass-media outputs, and virtual /internet documents, Bryman 2008:515-525) when researching factors which contributed to the price surge of Chinese contemporary art. For example, I consult publications in Chinese such as Zhao's annual reports on the Chinese art market (see section 4.3-4.5). I also gather auction records, descriptions and references of Chinese contemporary paintings sold on the websites of Christie's, Sotheby's, www.artprice.com or www.artron.net (Chinese) (e.g. section 5.1); Furthermore, I use statistics in the World Economic Outlook Database of International Monetary Fund (IMF), data from China's National Wealth Report 2008, and information from the CPC's 11th five-year plan (2006-2010) (see section 5.2-5.3).

Interviews are commonly employed in qualitative research, containing methods of structured, unstructured, and semi-structured interviewing. These 2 methods differ in the flexibility of interview questions. In semi-structured interviews, interviewers often prepare an interview guide in which a brief inventory of questions is listed and there is flexibility in asking these questions during actual interviews (Bryman 2008: 442). Semi-structured interviewing is more flexible in than structured and unstructured methods and could help interviewees bring more useful insights without blurring the focus of the central research questions (Bryman 2008: 439).

Observation is a qualitative research method in which the researcher spends a period of time in a social setting and observes and interacts with the members of that setting. Results are recorded in the form of field notes, diaries, and photographs (Bryman 2008: 420-421). In my research I combine methods of observation with the semi-structured interviews, for example, during the visit to 798 Art Zone, I speak to gallery employees regarding the artists they represent, prices of works of art, and the composition of their customers. I document relevant observations such as size of galleries, type of art exhibited, characteristic of visitors, and whether exhibitions are open to the public.

The combination of the methods of the examination of documents, observation, and interviewing has proven to be successful in the study of Velthuis (2002). When researching how art dealers in Amsterdam and New York set price for contemporary art, between 1998 and 2001, Velthuis conducts 18 interviews with art dealers in Amsterdam

and 19 interviews with art dealers in New York, in the form of semi-structured interviews. In both cities, the same interview guide is used. (2002:11-12). Velthuis also conducts informal conversations with dealers, artists, and collectors at openings, parties, professional meetings, art fairs or public debates. Data are gathered by means of participant observation.

Velthuis also uses information from newspapers and art magazines, biographies of art dealers, guidebooks to the art market for artists, and court materials, in addition to interviews and observations. Velthuis employs a quantitative database obtained from the Dutch government which contains data on the prices of approximately 16,000 works of art sold in the Netherlands between 1992 and 1998. With the help of the database Velthuis is able to derive information on the price determinants of Dutch contemporary works of art.

I apply a similar methodology in my research and make further adjustments according to the situation. My research design is a qualitative cross-sectional study, in other words, I conduct qualitative research in a fixed period of time (May – July 2010). Unlike Velthuis focuses on the interviewees who work in galleries, I select interviewees from various backgrounds as I aim to provide a general picture in regard to the price surge.

Interview questions concern the operation of, and the interaction between galleries, auction houses, and art fairs. Issues emerged when reviewing literature are raised. For example, during the interviews I raise the issue that some Chinese artists do not follow international standards by selling works directly into the auction market (reported by *The New York Times*). Finally, I do not cover issues relating to art museums in China, due to of the limited availability of literature; I address this issue in the interview questions. A list of the interview questions can be found in the appendix.

The interviews are one-to-one semi-structured interviews lasting approximately 30 to 45 minutes. Questions which are relevant to a particular actor or institution are not addressed during the interview: for example, when interviewing gallery owners, questions concerning the operation of auction house are omitted.

Interviewee	Profile
Min, Fang	Artist, Shangzun Art Gallery, 798 Art Zone
Leo, Li	Manager, Can Art Center, 798 Art Zone
Xiaojin, Nie	Coordinator, Asian Art Center, 798 Art Zone
Lin, Wen	Manager, 798 Space Gallery, 798 Art Zone
Keven, Zheng	Administrative Director, Other Gallery, 798 Art Zone
Lin, Zhou	Professor of Faculty of Art Management, China Central Academy of Fine Art (CAFA), Art Critics.
Li, Zhao*	Professor of Faculty of Art Management, China Central Academy of Fine Art (CAFA), Art Critics, Editor of China Art Market Research Report.

- * Zhao only answers some of my interview questions due to his busy agenda
- d) List of main interviewees and their profiles

4 The Chinese Art Market I: History, Structure and Internal Actors

Chapter 4 and 5 are an integrated part and aim to provide an in-depth overview of various factors influencing the development of the Chinese art market. Chapter 3 introduces actors in the internal environment of the Chinese art market, including: artists, galleries, auction houses, and art fairs.

4.1 History and Development

China's opening and reform in 1978 has permitted the Western world assess to, and has become an important source of, the study of China's history, culture, and society. The Chinese government's effort to boost the international trade of China's cultural goods and the emigration of Chinese artists in the 1980s were factors which contributed to the availability and price of Chinese art in the 1990s (Croizier 1990:589). The following chapters draw a timeline of important events in China's modern and contemporary art history; how the market for Chinese contemporary art has developed will be illustrated.

Before China's economic reform in 1978, art in China was mainly viewed as a reflection or expression of the political propaganda. Mao Zedong, in his speech *Talks on Literature and Art* in 1942, mentioned that art is for the purpose of serving the people, that is, the creation of art should be based on guidelines issued by the communist party (Sullivan 1999:712). During the 1950s and 1970s, Art was classified as *official* and *unofficial*: official art was produced by artists with revolutionary ideologies; unofficial art was those of nudes, abstraction, or expression works (Sullivan 1999:713).

Despite China's restrictions on artistic creation, several remarkable works of art were created during the 1950s and 1970s and which became known as the collection of *Red Classics* (1919-1976) (Zhao 2007:183). Important artists include Chen Yanning and Ma Baozhong whose works fetched high auction price in the 2000s. In the same period, some artists emmigrated to Western countries to seek for artistic independence, these artists, who later came into prominence, are known as *the Overseas Chinese Artists (1949–1976)* and include Zao Wou-ki (Chinese-French), Zhu Dequn (Chinese-French), Cai Guoqiang (Chinese-American), Xu Bing (Chinese-American) and Gu Wenda (Chinese-American) (Zhao 2007:193).

For the past 2 decades, Chinese contemporary art went through several important stages. In 1978, China started the economic reform. Along with the transformation of China's political, economic, and cultural system, art in China began to flourish. The most important events in China's modern art history at that time were the Stars' exhibitions in 1979 and 1980. Influenced by western post-impressionist art, several young artists formed groups of such as *the New Wave, Shanghai Young Artists Group, New Space Group* and began to conduct independent artistic activities. New art movements appeared such as *Scar Art, School of Realism, Chinese Abstraction, and Expressionism* (Sullivan 1999:715).

Since 1995, Chinese contemporary art gained recognition in Western countries, such as in the United States, a number of galleries began to represent Chinese contemporary artists. At auctions, oil paintings by Chinese contemporary artists such as Wu Guanzhong fetched high prices (Zhao 2008:436). Thereafter Chinese contemporary art began to attract worldwide attention including from Western media. Also, Chinese artists were permitted to participate in exhibitions abroad. Most of all, the continuing growth of China's telecommunication services made it possible for Chinese artists to assess information and images from abroad and gain recognition in the international art world in their own right (Joy, Sherry Jr 2004:311).

4.2 Works of Art and Artists

Chinese art which created since 1900 are classified in genres including *The Early Chinese Style, Red Classics, Works by Chinese artists who live abroad, and Contemporary Art* (See Table 2). Chinese contemporary art is those of Chinese Avant-garde or experimental works of art created since 1976 and contain such styles as *Scar Art, Realism, Chinese Abstraction, and Expressionism* which are executed in forms of oil painting, photograph, video art, and installation art (Sullivan 1996; Zhao 2010).

Genres of Modern and Contemporary Chinese Art (1900 – 2010)		
Style / School	Period	Genre
The Early Chinese Style	1901-1949	Modern Chinese Art
Red Classics	1949 -1976	Modern Chinese Art
Works by Chinese artists who lived abroad	1949–1976	Modern Chinese Art
Scar Art, Realism, Chinese Abstraction, Expressionism	1976 onwards	Contemporary Art

e) Genres of Modern and Contemporary Chinese Art (1900 – 2010), based on Zhao (2007:183; 2008:204; 2009:120; and Sullivan 1996).

In the following paragraphs I introduce some established Chinese contemporary artists by looking at their background, works, and how they came to fame. These artists selected are the Chinese contemporary artists who were listed in the 2008 Global TOP 100 Artists (ranked by the auction revenue of their works) in Artprice.com (www.artprice.com 2008:34-35). A summary of these artists' career characteristics are presented in the below table:⁶

Artists (B. date)	Characteristics
Wu Guanzhong (1919) Zao Wou-ki Wu (1921) Chen Yifei (1946-2005)	<ul style="list-style-type: none"> - Careers were supported by Western art critics and galleries <ul style="list-style-type: none"> - Worked and lived in Western countries - Works of art were included in auction in the 1990s
Wang Gunangyi (1957) Zhang Xiaogang (1958) Yue Minjun (1962) Liu Xiaodong (1963) Zeng Fanzhi (1964)	<ul style="list-style-type: none"> - Participants of the '85 New Wave Art Movement (1980s). - Gained recognition by participating in foreign exhibitions and art fairs <ul style="list-style-type: none"> - Works of art appeared in auctions only in 2005 quickly fetching high price
The Unmask Group Chen Ke (1978)	<ul style="list-style-type: none"> - Career was mainly supported by Chinese galleries - Engaged in commercial activities in addition to artistic creations.

f) List of Chinese contemporary artists and their career characteristics

In the 1990s works of art by Wu Guanzhong, Zao Wou-ki, and Chen Yifei were included in auctions and some early auction results of the artists are: two oil paintings by Chen Yifei sold for HKD 1.37 million and HKD 1.98 million by Christie's Hong Kong in 1989 and 1992, respectively (Zhao 2008:385), a painting by Wu Guanzhong sold for HKD 2.6 million at a Sotheby's Hong Kong auction in 1991 (Zhao 2009:376), and in 1999, a painting by Zao Wou-ki appeared in the auction of China Guardian and fetched a record price of CNY 6,65,500 (Zhao 2009:368).

The career path of Wu Guanzhong, Zao Wou-ki, and Chen Yifei is similar: they lived and worked abroad in Western countries, for example, Zao Wou-ki and Wu Guanzhong immigrated to France and the United States in the 1980s. As a result, their works were largely influenced by the Western styles - Zao Wou-ki's painting being an example of the reconciliation of Chinese and European aesthetics. Moreover, their art careers were mainly supported by Western critics and galleries - Zao Wou-ki is currently represented by the Marlborough Gallery in New York and his first exhibition was hosted by the Creuze Gallery in Paris since 1949.⁷



1. Big Family Number 3 by Zhang Xiaogang

Image retrieved on 10 July from <http://www.allhatnocattle.net/big-family-3.jpg>



2. The Massacre at Chios by Yue Minjun

Image retrieved on 10 July 2010 from http://www.artworldsalon.com/blog/wp-content/uploads/2007/10-October/Yue_MinJun__The_Massacre_at_Chios.png



3. Great Criticism: Coca Cola by Wang Guangyi

Image retrieved on 10 July 2010 from

http://www.artspeakchina.org/mediawiki/images/f/fb/Political_Art-Wang_Guangyi.jpg

Zhang Xiaogang (school of *Cynical Realism*), Zeng Fanzhi (school of *Expressionism*), Yue Minjun (school of *Cynical Realism*), Liu Xiaodong (school of *Cynical Realism*), and Wang Guangyi (school of *Political Pop and Cynical Realism*) gained recognition mainly by participating in Western exhibitions and art fairs, notably the '85 New Wave Art Movement and Political Pop. Since 1991, Zhang Xiaogang has participated in exhibitions in Hong Kong and in Western countries. Some milestones include the Stars exhibitions in 1979-1980 in Beijing, *China's New Art, Post - 1989* at Hong Kong Art Center in 1993, the 46th Venice Biennal (1995), and *Inside Out: New Chinese Art* at Modern Art Museum of New York (1999).⁸ Zeng Fanzhi also participated in the exhibition *China's New Art, Post - 1989* at Hong Kong Art Center in 1993, and then participated in several Western art fairs in Hamburg, Spain, and Singapore.⁹

A source (Wang 2009:42-43) indicates that there was little interaction between artists and art museums in China; this is confirmed in the survey of Zhao (2008:21-47) of Chinese galleries.¹⁰ 80 Chinese galleries (54 in Beijing and 26 in Shanghai) responded to the survey and indicated that they regarded the issue of paramount importance to be the insufficient interaction between artists and art museums in China - , 13% and 30.8% of galleries in Beijing and Shanghai respectively mentioned that there was a lack of academic support from local art museums and academies. I address this question in section 6.1.

In recent years some young artists emerged in the Chinese art scene. For example, Zhao (2010) introduces several new talents and many of whom are in their early 30s, such as, Chen Ke and the Unmask Group. Chen Ke's paintings are simple in structure and are heavily influenced by cartoon imagery. The Unmask Group is a group of three young sculptors (Liu Zhan 1976, Tan Tian Wei 1976, and Kuang Jun 1978),¹¹ and, in addition to sculptures, is also involved in installation art, interior design and toy design. In all, the Unmask Group takes a rather new approach to art, for example, their works of art are often decorative and pleasant to look at (Zhao 2010). The artistic career of Chen Ke and the Unmask Group are mainly supported by Chinese galleries and auction houses, a relatively new phenomenon since previously artists had to rely on Western recognition in order to be successful.



4. Half Transparent by the Unmask group

Image retrieved on 10 July 2010 from

http://farm1.static.flickr.com/77/164863186_cda746b6f3.jpg



5. Another Me, 2009 by Chen Ke

Image retrieved on 10 July 2010 from

<http://www.szarts.cn/UserFile/200708/19650/userfiles/image/old/200792/2007929233247.jpg>

4.3 Galleries

Art galleries in China only came to existence in the 1990s as a result of China's opening and the Chinese government's subsequent foreign trade policy in which exports of oil paintings were encouraged in order to promote foreign exchange transactions (Sullivan 1999:717). Under this influence, galleries started to act as sale and distribution agents for artists' works of art. Some art galleries began to adapt modern management practices as their business operation model (Zhao 2007:7). The practices of Chinese galleries followed the practices of the Western art world.

Galleries in China are categorized in different ways (Wang 2009:79-82): the ownership of galleries (foreign or locally owned); the business mode of galleries (commercial or other types). There are galleries which only sell art and specifically do not represent or promote artists. Some galleries are owned and operated by artists but are often short-lived.

Galleries in Beijing are concentrated in three districts: 798 Art Zone, Caochangdi Village, and Jiu Chang Art Complex, with the 798 Art Zone being the most famous in term of scale and recognition: in 2008, before the financial crisis, there were a total of 250 galleries situated in the 798 Art Zone (Zhao 2009:24-25). Chinese galleries were in the majority, followed by galleries from Taiwan, South Korea, Japan, Singapore, the United States and West Europe.

Galleries exhibit a range of art including oil painting, sculpture, print, photograph, and installation art (Zhao 2008:22); of these, oil painting, sculpture, and print are the most popular. On average, galleries represented between 5 and 10 artists, with large galleries being able to represent up to 30 artists. The relationship between artist and gallery is formalized by a representation contract which typically lasted between 1 and 4 years, depending on the negotiation between artist and gallery (Zhao 2008:21-47).¹²

The Chinese art market consists of the primary art market and the secondary art market (Zhao 2007:6).¹³ Unlike what is observed in the Western art market, Chinese galleries maintain a close relationship with auction houses and participate in auctions (confirmed by 73.9% of respondent galleries in Beijing (Zhao 2007:28). No existing studies suggest the reason why Chinese galleries and auction houses maintain such a close relationship. I address this issue in Chapter 6 when reporting on the result of the interviews.

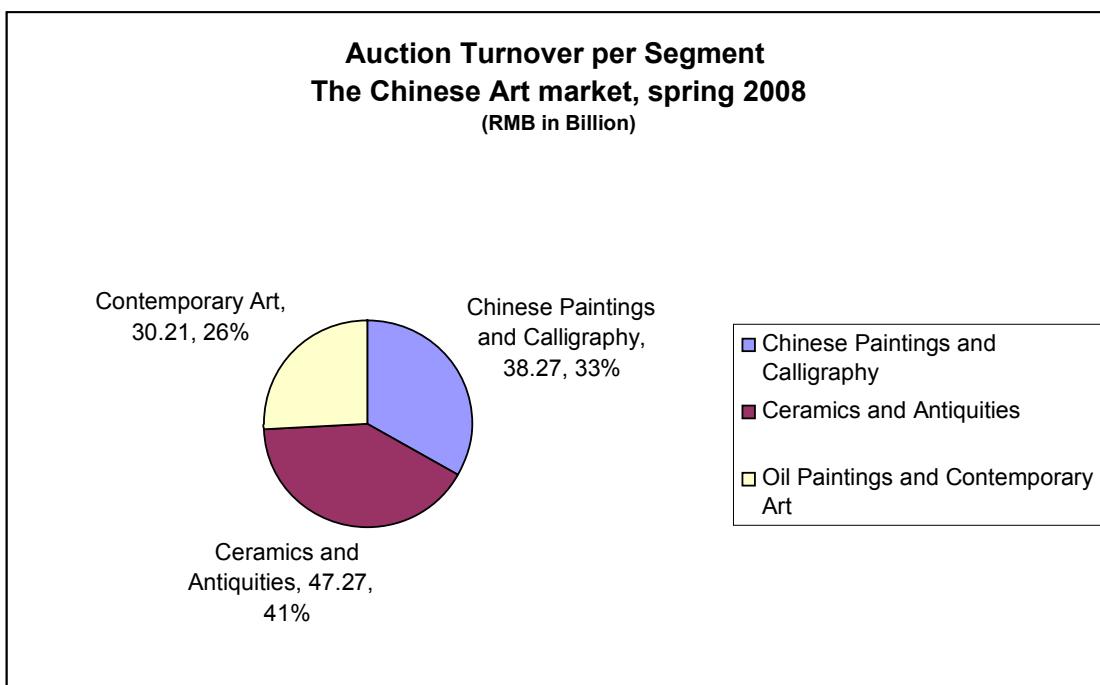
Galleries are facing the threat of increasing competition from auction houses and the recent bubbles in the auction price of art: works by 1 artist could sell at various prices in galleries and auctions. As a matter of fact, many people in China know little about professional galleries, thus transactions often take place in artists' home rather than through galleries.

The Chinese art market is relatively unregulated compared with the Western art market. This is evidenced by the volatility of art prices and aspects of interaction between artists, galleries and auction houses in China. Critics often focus on the price of art rather

than promote art and artists. These issues will be further addressed in section 6.1 when reporting the interview results.

4.4 Auctions

The Chinese art auction market consists of three major segments: Chinese paintings and calligraphy, ceramics and antiquities, and contemporary art. Chinese paintings, and ceramics and antiques are the dominant force in auction sales, both in term of quantity offered and price achieved. For example, in the peak of the contemporary art price boom in spring 2008, the share of Chinese contemporary art was 26%, in terms of auction turnover of all segments. This figure was 41% and 33% for ceramics and Chinese paintings respectively (Zhao 2008:142).



C. Auction turnover per segment, the Chinese art market in spring 2008. Based on data obtained from Zhao 2008:142

Many auction houses in China have adopted the English auction system. The commission rate charged to buyer and seller varies between Hong Kong and mainland China: auction houses in Hong Kong follow the international standard, the buyer's premium is 25% up to HKD 400,000, 20% above HKD 400,000 - HKD 8 million, and 12% above HKD 8 million;¹⁴ seller's commission is not fixed and can be negotiated. In mainland China, many auction houses adopt the following standard charge: seller's commission 10%, buyer premium 12%, 1% insurance, and 3% tax on top of the hammer price.¹⁵

The Auction Law of the People's Republic of China came into force in July 1996. General provisions regarding selling and buying at auctions were made.¹⁶ Most aspects of the law can be identified in Western practices, except with regard to trading antiques which is restricted. Auction houses are required to have capital of at least RMB 1 million in order to be registered. Such a large expense goes some way to explain why there are numerous unregistered small auction firms in China. This auction law to some extent standardised auction activities and clarified the liabilities of buyers, sellers and auction houses in mainland China.

In recent years, there has been a remarkable growth in the number of Chinese auction houses. In addition to Western auction houses such as Christie's, Sotheby's, Philip de Pury, and Bonhams, auction houses from mainland China such as China Guardian, Beijing Poly, and Beijing Council are gaining dominance in the market place. In 2007 there were a total of 83 auction houses in Beijing alone, whereas in 2002 there were less than 20 (Zhao 2007:44; 2008:78). The number of auction houses is based on the official data of the State Administration of Cultural Heritage, not including countless small 'unknown' auction firms which have not registered in the database and which was approximately 300 (nationwide) in 2002.

Hong Kong, with two major auction houses, Christie's and Sotheby's, also plays a dominant role for the auction of contemporary Chinese art. For example, since Zhang Xiaogang's *Bloodline Series: Comrade No. 120* fetched high price in Sotheby's New York auction in 2006,¹⁷ Sotheby's has concentrated extensively on auctions of Chinese contemporary art. At the peak of the contemporary art boom in spring 2008, Sotheby's held 4 Chinese contemporary art sales and achieved HKD 494 million in revenue.¹⁸

Hong Kong is the centre of art trading and has several advantages over Beijing such as a favourable tax system and the loose policy with regard to the import and export of art. In mainland China, the exportation of the majority of antiques is banned, takes money out of the country, and is difficult due to strict regulations over the control of Chinese currency (Andrew. M.C. Clare 2009:38).

Other emerging art markets are gaining importance in the auctioning of art, those are concentrated in the Yangtze River and Pearl River delta areas, and are represented by the cities of Shanghai and Guangzhou (Zhao 2008:78). These cities are by no means the economic centres of China. The reason for the strong demand for art may be explained by the composition of Chinese art buyers: many hold occupations in the area of finance, real estate, manufacturing, and business (Zhao 2007:18; 2008:47). I explore this further in section 4.2.

4.5 Art Fairs

In recent years, a number of important art fairs were established in China (Zhao 2009: 40-52; Andrew. M.C. Clare 2009). 2 are located in Beijing: *Art CIGE (China International Gallery Exposition)* and *Art Beijing*. 2 in Shanghai: *ShContemporary* and *the Shanghai Art Fair*. And 1 in Hong Kong: *Art HK*. In addition, there are many other expositions

which mainly focus on decorative arts. China also hosts two art biennales: *Shanghai Biennale* and *Beijing Biennale*.

The 2000s is considered to be the ‘era of art fairs’ since many art galleries in China gain recognition by participating in art fairs (Wang 2009:43). This is possibly because art fairs increase the opportunity for galleries to meet clients. Like Zhao (2009:40) comments, art fairs present art in a unified format, connect different art worlds, facilitate scholarly exchange, and is interactive and open to public. Moreover, it provides less-recognized galleries with the opportunity of meeting with their peers and the public.

Earlier forms of art fairs can be found in Taipei and Hong Kong dating back to 1992; later several art fairs were established in mainland China, notably the first Guangzhou Triennial in 2002 and the first Shanghai Biennial in 2004 in which works of art by contemporary artists Zhang Xiaogang and Zeng Fanzhi were first exhibited to the public.

The structure of an art fair such as Art Beijing is as follows: it usually takes place in May each year, focuses on contemporary art, and whose participants are approximately 50% Chinese, 30% Asian, and 20% Western galleries and art publications firms.¹⁹ The exhibition is open to the public and ticket prices are around RMB 50, - an accessible amount for the average domestic income. Other art fairs vary in the art genre they present and the ratio of Western to Chinese (participating) galleries.

Art Beijing is also a trade fair, generating a total turnover of RMB 2 billion (Zhao 2008: 133), and co-hosting other activities and exhibitions, for example, the *Thread of Time* exhibition by Fang Lijun in Guangzhou Museum of Art. As is common practice among art fairs in China, Art Beijing cooperates with commercial firms such as Volkswagen, Mercedes-Benz, Hermès, and Samsung; this not only brings funding for the fair, and also creates opportunities for collaboration between art and commerce.

The Chinese government’s initiative to support the creative industry has allocated RMB 2 million to be granted to major contemporary art fairs and exhibitions held in China.²⁰ According to the latest report, 20 art fairs and exhibitions were selected including Art Beijing. The rationale behind the government’s support is that along with the development of China’s economy, art fairs serve as a portal for artistic exchange and as an economic instrument. Zhao (2008:134; 2009:40) mentions that the economic effect of art fairs in China is considerable because they boost spending in other market sectors such as art insurance, art prints and packaging, art transportation, art installation as well as hotels and restaurants.

Without doubt, the establishment of art fairs in China has significantly supported and promoted the development of Chinese contemporary art. Zhao (2009:66) suggests that art fairs should be adequately considered as the tertiary art market which is a market force in its own right, in addition to the primary and secondary market represented by galleries and auction houses. I discuss this further in section 6.1.

4.6 Conclusion

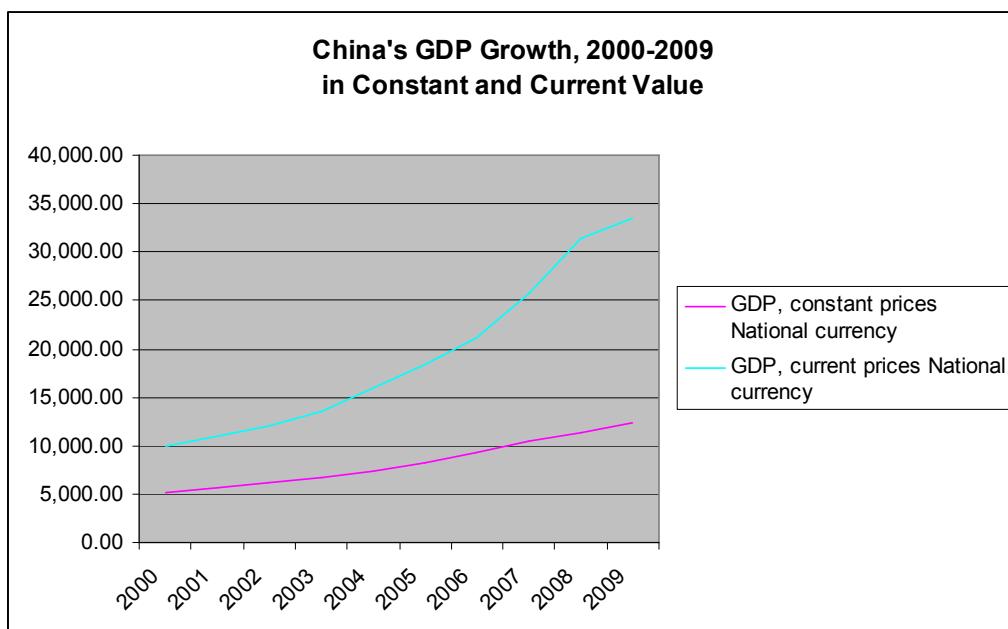
In conclusion I introduce the Chinese contemporary art market by discussing several aspects related to the past and current situation of the Chinese art market, internal actors, and agents in the network. The research approach has been inductive and focuses on the macro view of the Chinese art world. Several emerging issues are discussed such as the broken tie between art academies and galleries in the network, the volatility of art prices, and aspects of interaction between artists, galleries and auction houses. In addition, the emergence of the Chinese art market has to do with several macro factors, notably China's economic growth, the government's cultural policy, and the public's recognition of the importance of art in both social and economic aspects. I address these factors in Chapter 5.

5 The Chinese Art Market II: Environment, Demand, and Institutional Factors

Chapter 4 discusses the factors influencing the development of Chinese contemporary art market such as China's economy, demand for art, and China's cultural policy.

5.1 China's Economy and Demand for Art

This section looks at China's economy and the demand of art in order to account for other macro factors influencing the development of Chinese contemporary art. Based on the indication of International Monetary Fund (IMF), China has emerged as a major economic power, next to the United States, Japan, Germany, and France. China is the second largest trading nation in the world and the largest exporter and second largest importer of goods. Since the beginning of China's economic reform in the late 1970s, until the last decade, China's economic growth, measured in Gross Domestic Product (GDP), increased on average 9% per year (see Graph 2 and 3 for China's GDP growth from 2000 onwards).



D. China's GDP growth, 2000-2010, in constant and current value. Data in the graph is based on statistics in International Monetary Fund, World Economic Outlook Database, retrieved on 26 April 2010 from www.imf.org.

	GDP	GDP	GDP	GDP	Inflation	Inflation
	*	*	**	**	***	***
	RMB in Billions	% Change	RMB in Billions	USD In Billions	Index, 2000=100	% change
2000	5,216.69	8	9,921.46	1,198.48	100.00	0
2001	5,650.09	8	10,965.52	1,324.81	100.73	1
2002	6,164.48	9	12,033.27	1,453.83	99.95	-1
2003	6,781.11	10	13,582.28	1,640.96	101.12	1
2004	7,466.33	10	15,987.83	1,931.65	105.06	4
2005	8,243.06	10	18,321.74	2,235.93	106.97	2
2006	9,199.76	12	21,192.34	2,657.85	108.54	1
2007	10,397.22	13	25,730.56	3,382.44	113.71	5
2008	11,390.57	10	31,404.50	4,519.94	120.42	6
2009	12,385.54	9	33,535.30	4,908.98	119.60	-1

*constant prices **current prices ***average consumer prices

Based on statistics in International Monetary Fund, World Economic Outlook Database, retrieved on 26 April 2010 from www.imf.org.

g) Statistics on China's GDP and Inflation, 2000-2009

Other than China's rapid growth of annual GDP figures, other achievements of China's economic reform include a significant reduction on the poverty rate. Based on the poverty line of USD1.25 a day (PPP / Purchasing Power Parity) set by the World Bank, from the start of China's economic reform onwards, China achieved a poverty reduction from 85% to 15.9%; that is, China lifted more than 600 million people out of poverty between 1981 and 2010.²¹

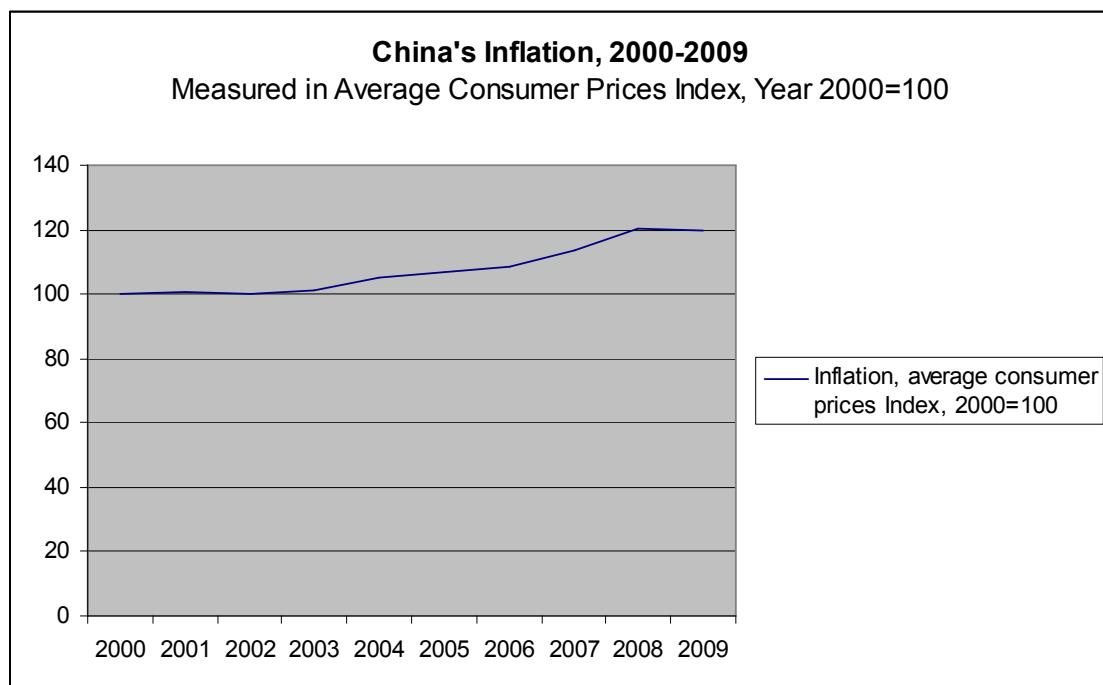
Along with the rapid development of major Chinese cities, the majority of the rural population has moved to cities in search of work. According to China's National Bureau of Statistics, approximately 1.4 billion people migrated from rural area to work in cities up to 2008 (Ma 2010). This vast migration has hastened the development of China's economy and the process of urbanization, and, as a consequence, there is a significant increase in the number of people in the middle class and meaning that more Chinese are able to afford to consume expensive goods than before.

Parallel with the population shift, there has also been a vast change in China's industrial structure. China's GDP is mainly made up of three sectors: agriculture, service (e.g. restaurant and catering), and industry (e.g. mining and ore processing) (Wei 2010). Official statistics indicate that between 1952 and 2008, the share of agricultural sector declined from 51% to 11.3% and the share of industrial sector rose from 20.8% to 48.6%, becoming a key driving force for China's economy in the 2000s (Wei 2010). The change in China's industrial structure has largely reduced the number of workforce employed in agriculture and allowed sufficient labours for developing the rest of the economy.

There is a considerable scale of income disparity in China. China recorded the largest rural-urban income gap compared with other countries in 2009 when the average urban per capita net income was around CNY 17,175, compared with the average rural per capita net income CNY 5,153, the urban-to-rural income ratio surged to 3:1.²² China's low income population is mainly concentrated in less developed rural areas (e.g. parts of Tibet); despite of the Chinese government's effort to develop the rural economy, there are still approximately 15 million Chinese living in extremely poverty.²³

In contrary, the wealthy in China exhibit some common patterns such as they are concentrated in China's big cities, achieved at least a college diploma (i.e. professional education in China), and are aged in their 40s; some are engaged in emerging industries such as IT and new technology; the wealthy hold a combined fortune of roughly CNY 3000 billion, equivalent to 40% of the nation's wealth (China's National Wealth Report 2008, www.sina.com).²⁴ Some of the wealthiest people are high government officials; this is due to China's particular political and economic system: nearly half of China's major industries are state owned - the percentage of fortune controlled by the state is believed to be approximately 50% (Chen 2010). Given the situation, government officials are often involved with the business operation of state enterprises. At the same time, China suffers from widespread corruption. Since corrupt payments are usually done in secret, there is no official data indicating the scale of corruption. Based on my observations, the number of wealthy people among government officials is likely to be larger than what is acknowledged.

China's economic growth has also significantly increased the average consumer spending power. Based on IMF statistics, China's Consumer Price Index (CPI) increased steadily in the 2000s, implying steady growth of China's GDP and an average increase in wages, salaries, pensions, and consumer goods and service prices. KPMG reports that China's luxury consumption has reached RMB 6 Billion in 2004, accounting for 12% of the global luxury consumption; whereas in 1999 it was only 1%.²⁵ The number surged to RMB 8 Billion in 2007 and continued to grow in 2008. The latest report indicates that the luxury consumption in China is likely to exceed the previous figure in 2009 and will account for a share of 25 % in the global luxury consumption.²⁶



E. China's inflation, 2000-2010, in constant and current value. Data in the graph is based on statistics in International Monetary Fund, World Economic Outlook Database, retrieved on 26 April 2010 from www.imf.org.

Luxury consumption in China is mainly driven by a rapidly expanding middle and upper class seeking to enhance its identity and quality of life with luxury goods. For example: until 2008, there were approximately 18,000 billionaires, 440,000 multimillionaires, and a fast rising middle class of around 250 million people with large purchasing power in China. This population is found to be in their 30s-40s, well educated, and some are second generations of previously wealthy people (Degen 2009).

Most art buyers in China are private Chinese collectors and work in areas of finance, real estate, manufacturing and business (Zhao 2007:18; 2008:47). This population consists primarily of middle and upper class and they begin to collect art as they accumulate wealth. For the past few years, these people have become the main consumers of Chinese contemporary art, whereas previously Chinese contemporary art were mainly bought by Western collectors.

Among the Chinese collectors, many buy art as an investment. This could be explained in two aspects: firstly, along with the contemporary art price boom, the return on investment in Chinese contemporary art considerably out-performed that of other financial portfolios. It is only possible to invest in stocks, funds, and real estate in China. After the Chinese government imposed strict control over speculations in stocks and housing, many Chinese collectors began to see art as an investment since the price of art, particularly of the masterpieces, remains stable and in some cases yield lucrative returns.²⁷ More details regarding Chinese art collectors are addressed in section 6.1.

In the above section I have illustrated the process of economic and social changes which have taken place in China since its opening to the Western world in 1978. The result of China's economic development is that Chinese people are getting richer and have more disposable income to spend in goods other than food and water than before. The Chinese art market thus developed under these important conditions. However, the rapid growth of China's economy, the income gap between rich and poor and the interplay between communist and capitalist ideology have led art to be largely commercialized.

5.2 Institutional Factors

Visual arts, particularly those of Chinese Avant Garde, have not been favoured by the communist party. One factor being that Chinese contemporary art often protests against the party's propaganda, for example, the Iconoclastic Political Pop painting has long been the symbol of Chinese contemporary art. Furthermore, the central government's initiatives in promoting China's image to the outside world involve projecting an image of beauty and quality thus leaving no space for anything that may be perceived as poor quality or ugly. Therefore, the focus of the Chinese cultural policy has centred on broadcasting, performing arts, and the like.

In recent years the Chinese government has realized the importance of developing cultural industries, and the initiative to do so is mainly driven by the incentive to boost China's economy. Thus, the Chinese art market flourished under the preferential political climate. The emergence of China's art market is also a result of China's economic growth.

Cultural enterprises in China have gone through remarkable transitions since 1978, most significantly, the privatization of state owned enterprises. Some privatization did not involve the transfer of ownership to the private sector (some of the enterprises remain state owned), instead, they enable state owned enterprises to function in the same way as market-oriented firms and compete with each other to generate economic effect (Fan 2010). The immediate result was that previously state-funded enterprises had to seek alternative income streams in order to survive in the market economy, thus significantly increased the productivity of the cultural sector. These changes also allowed private parties to invest in the public sector, which, to a large extent, solved the financial problems which occurred after the withdrawal of state support.

Television and broadcasting, for example, in the 1980s under the CPC's guidance of transforming China into a market oriented economy, the central government withdrew public funding from most broadcasting enterprises and began to privatize this sector (Donald, Keane & Hong 2002). As a result, the number of television stations in China radically reduced. Those that survived began to seek alternative income streams. Competition among the remaining firms became fierce. With China's accession to WTO in 2001, large broadcasting firms started to cooperate with external investment funds to form multi-sector or even trans-regional groups in order to cope with the strong competition from domestic and foreign companies. This has resulted in Chinese broadcasting firms emerging as dominant powers in the domestic audiovisual sector.

Privatization of state owned enterprises occurred in many sectors. China's economic reform over the past 30 years has resulted in a considerable number of public services being either privatized or outsourced to private enterprises (Lin 2010). Sectors being privatized include health care, education, arts, and culture, and so on. Furthermore, individuals and business enterprises are encouraged to invest in these sectors, in return for favourable tax exemptions. In recent years, some of the investment schemes have been open to foreign funds; however, foreign investors often encounter strict restrictions on investment policies. For example, investors in television and broadcasting are not allowed to intervene in the content of programmes.

During the 17th CPC congress (2006), the party's leader Hu Jintao stressed the importance of cultural industries. This was the first time that the development of cultural industries had been mentioned in the first rank of the Communist Party.²⁸ Globally, as concepts like 'the creative economy' and 'information society' emerge, cultural industries became the major boost of future economic growth. In response, the Chinese government also began to treat cultural industries as sources of increasing in China's global competitive advantage and the next instrument of China's economic development.

The CPC's 11th five-year plan (2006-2010) indicated the government's initiatives for China's economic, social, and cultural development in an exclusive chapter.²⁹ Important features include regulating and optimizing the structure, distribution, supply and demand of cultural industries, and increasing the weight of cultural industries among other sectors. The document also put forward the task of boosting the export of Chinese cultural goods to foreign countries.

In subsequent years, several laws and regulations were introduced.³⁰ Important ones include the Copyright Law of People's Republic of China (1991) for protecting the copyright of authors in their works of literature, art, natural science, social science, and engineering technology; Regulation on Administration of Commercial Performances (1997) aiming to improve the administration of live performing arts; and Regulations on the Administration of Audiovisual Products (2002) for regulating business activities relating to audiovisual products. These laws have regulated business activities related to cultural industries and have provided further incentives for individuals and firms to innovate.

In 2009, the central government announced a tax policy spanning 5 years to help boost the cultural industries.³¹ The policy states that, starting from 2009 and ending in 2013, Chinese cultural enterprises are entitled to Value Added Tax (VAT) and business tax exemptions. Qualified cultural enterprises include those dealing with press, publication, broadcasting, film, television, cultural and artistic businesses. Film companies are further exempted from VAT and relevant tax for revenues from rural areas. There is also a VAT reimbursement in regards on exports of cultural goods such as newspapers and publications, audio visual products, and films and TV productions.

The export of oil paintings was already exempted from tax in early 2000, indicated by Ma Meiling, the owner of Linda gallery in Beijing.³² This is the Chinese

government's effort to promote foreign exchange. Most importantly, this may explain why Chinese contemporary art was mainly bought by Western collectors before: this favourable tax treatment to a large extent encouraged galleries to sell works of art to Western collectors.

5.3 Conclusion

China's economic development and the government's initiatives in boosting cultural industries are important to the development of the art market. The art price boom between 2004 and 2008 and the popularity of Chinese contemporary art in the global marketplace encouraged many wealthy Chinese people to invest in Chinese contemporary art. China's investment ways are somewhat limited to stocks, funds, and real estate; given the unsteadiness of those investment objects, art is increasingly considered as an alternative investment. In all, the Chinese art market is mostly led by the 'market', both internationally and domestically.

6 The Chinese Art Market III: Interviews and Observations

This Chapter reports results from the empirical study. Section 6.1 addresses the research questions and section 6.2 discusses the implications of the results.

6.1 Data Report

Question: *What is the process for an artist to gain recognition? How do actors such as art academies, art museums, art critics, art dealers, and art collectors interact in the Chinese art world?*

A common view among the interviewees is that there are two basic steps that an artist must complete in order to become widely recognized: selection and promotion. Art dealers select new artists based on several criteria; the artist's academic background and with whom the artist served as an apprentice. For example, Li and Wen mentioned that they tend to favor artists who graduated from established art schools. While Wen mentions, "Artist who spend years serving as an apprentice with a master usually demonstrate a better artistic quality than those who did not serve with a master". The artist's past achievement and their exhibition attendance are also important considerations. Wen points out that in some instances, artists who show strong personality in their works have a greater chance of being selected by art galleries.

Li, Wen, and Nie suggest that after selection, the artist needs to go through 4 steps in order to become widely recognized: firstly, the artist must participate in group exhibitions and art fairs; secondly, the gallery must issue and distribute individual catalogues of the artist's works and must cooperate with art critics in an attempt to increase the number of articles written about the artist's works; thirdly, the gallery must arrange television and newspaper interviews for the artist in order to increase exposure to the public; finally, the gallery must send some of the artist's works to auction.

The process includes careful planning from galleries, art critics and auction houses - an artist does not rise to fame at random. "There is a lot of planning in this market, galleries and auction houses work together to boost up the price of art." Zhou comments, "Everyone is amazed by the prices of contemporary art achieved at auctions. In fact, fake bids are endemic, new collectors who enter this market are most likely to become victims."

Zhou indicates that many Chinese galleries do not follow this 4-steps routine completely but have formed their own way of doing business. A large number of new galleries only emerged as a result of the recent Chinese art market boom, and do not know how a professional gallery operates nor have the infrastructure to support and promote young artists.

With regards to whether there is collaboration between galleries and art museums, Zhao states that, on the whole, art galleries do work with art academies and art museums, particularly during the process of selecting and promoting new talents. The art academic

world focuses on the aesthetic valuation of art, whereas art galleries focus on commercial gain; consequently, drawing a border between the two. Small or less established galleries do belong to neither the art academic world nor the network of galleries, leaving large mainstream galleries to collaborate with art museums and boost the asking price of the pieces they display. Gallery size and reputation determines the galleries' fate.

Question: How do art critics function in China?

Being art critics themselves, Zhao and Zhou state that, since the establishment of new China in 1949, there has been no consistency in China's art market with regard to art's aesthetics or the theory of beauty. This is due to several historical reasons: China's modern art history emerged roughly from the 'May Fourth' new culture movement in 1916, henceforth discussion and evaluation in regards to visual arts encountered various changes due to China's political fluctuations. In new China, the emerging concept of consumerism, the widening gap between rich and poor, and the interplay of capitalist and communist ideology to large extent influence the way art critics see art.

Since the price surge of Chinese art in 2000, several art critics have focused on price rather than aesthetic value. There is a considerable amount of confusion in reading the articles of those writers when discuss what art should be and serve. Zhou adds that mainstream media often headline the price of art achieved at auctions which provides an illustration to the public that investment in art is highly beneficial. In fact, there is considerable speculation about art prices, galleries and auction houses are major players behind the scenes.

Works of art which retain trans-historical value remain masterpieces regardless of political and economic change, such as those by the great Chinese masters in the early 20th century. "The collapse of the price of Chinese contemporary art in 2008 taught Chinese collectors an important lesson: they are more careful when deciding which works of art to buy." Zhao says, "Buying contemporary art as an investment is very risky since no one is able to predict future trends; the majority of contemporary art which command high prices today could be worthless in the future."

Question: How do galleries set the price of art?

The price of art varies per type of gallery and artist. Li suggests that not all galleries in China can be regarded as 'galleries', some are little more than that - 'art shops' where stocks are of lesser quality or are copies of the originals. In professional galleries, the price of art is much higher than that in 'art shops'. Moreover, in galleries the artist is an important determinant when discussing the price of art. The artistic fulfillments of the artist and the gallery's promotion of artist are essential.

The followings are a summary of the interviewees' answers and cover how galleries set the price of art of an artist during his/her different career stage.

During the artist's debut, galleries usually set low prices and limit the number of works (less than 5) that can be sold to the same collector (e.g., limits to less than 5). The practice of limiting the number of sales is an attempt to thwart the wide price speculation created when a collector purchase the majority of an artist's works and sell them immediately at auction, believing the artist to be a rising star but often resulting in situations where the works of art were 'burned', and consequently, the majority of the gallery's promotional efforts on behalf of the artist are wasted.

When an artist gains recognition, galleries seek to launch solo exhibition (an exhibition where only one artist's works are displayed). If the exhibition is successful (i.e., if attendance is high and the majority of the works are sold), the gallery increases the prices of the works at the next exhibition to between 20% and 30% of the previous price. The gallery might also consider sending some works to auction in an attempt to promote the artist on a larger stage.

Interviewees state that, as is the practice in Western galleries, Chinese galleries do not decrease the price of art. Instead, Chinese galleries offer discounts to VIP clients of up to 20% of the original asking price.

Question: *How can the relationship between the artist, his/her representative gallery, and auction houses be described?*

The interviewees state that the relationship between galleries and auction houses is somewhat complicated. On one hand, they are partners in that galleries depend on auction houses to promote artists and boost the price of art; conversely, auction houses rely on galleries to obtain auction items if they have insufficient stock. On the other hand, they are competitors in that galleries and auction houses compete for the same customers and auction houses dominate the market thus pushing galleries into a corner.

Asymmetric information and irregularities describes the Chinese art market. When asked whether Chinese galleries send representatives to auctions in an attempt to inflate prices, although not implicitly expressed, most interviewees confirm that this practice exists. This seems to be the hidden rule of the game since auction houses are aware of this situation. Zheng states an extreme case in which galleries cooperate with auction houses to auction forgeries. Under China's auction law, auctioneers are guilty only when it can be proven that prior to the auction the auctioneer had knowledge that an auction lot was counterfeit. Hence, involved parties can escape legal sanction by denying their awareness of the counterfeits.

Auction houses have more customers than galleries and the customers are often extremely wealthy. As China's rapid economic development has lead to a widening in the gap between rich and poor, the attitude of many Chinese artists towards artistic success has changed: selling directly into the auction market is a quick way for an artist to gain fame and fortune, particularly for debuting artists.

“The claim by the *New York Times* that some Chinese artists sell works directly into the auction market is factual, albeit not a widespread phenomenon. Galleries often control the sale of works into the auction market.” Wen comments, “For an artist to sell directly to the public it is likely that he/she has already gained a certain reputation in this field. Auction houses do not easily open their doors to new artists since selling at auction is a fast track to fame and fortune. Selling at auctions is the eventual goal of many artists in China.”

Artists can also sell works to individual buyers despite the contract with his/her representative gallery. Li acknowledges that there is no legal protection for contracts signed between artists and galleries, for this reason, galleries are not able to enforce exclusive sale rights over an artist’s work. Once an artist has risen to fame, he or she may well choose to work for other galleries. Again, no legal restrictions apply to this regard, this is not because that the contract between the gallery and the artist is worthless but that contract law doesn’t protect the gallery.

Question: What criteria do auction houses use in setting estimate prices?

The interviewees mention three major criteria used in setting the estimate price of art: authenticity, quality, and marketability. Authenticity refers to the originality of the work of art, quality is often judged by in-house auction experts, and marketability describes the sale situation of a particular type of art in a certain time frame, this aspect is particularly significant in auctions of Chinese art and antiques. For example, if there are a lot of certain types of ceramics has appeared in auctions, similar types of ceramics are marked as less marketable.

Also, the atmosphere during the auction or the time of the auction has certain influence on auction price of art. Assessing the general condition of the economy and the consumption power of art buyers is crucial in the determining strategies employed by the auction houses.

Question: Who are the buyers of contemporary art in auctions?

The interviewees suggest that there are three types of buyers and they are summarized as follows: the first type of buyer is wealthy private business individual who buys contemporary masterpieces such as works by Zhang Xiaogang, Yue Mingjun, and Liu Ye, and who may not necessarily be acquainted with art and art history. This first type of buyer has often accumulated wealth in areas of commerce, real estate, manufacturing, and mining, and are able to spend millions in art (i.e., they are financially unconstrained). They purchase art primarily for investment, and, as Zhou points out, often hire art consultants to plan their investment portfolios.

The second type of buyer is the corporate collector -firms which buy art, are often directed by wealthy individuals within senior management, and which buy art with the intention of investing in art or raising the company’s prestige and status in the business community (i.e., they are financially unconstrained).

The third type of buyer is the middle class collector who is bounded by financial constraints thus usually visits galleries or art fairs to search for works of art to add to, or complete, their collections. According to the interviewees, the third type of buyer is likely to be the true art collectors.

Questions: How do contemporary art museums function in the Chinese art world?

At the time of writing there are no state established museums which are dedicated to contemporary art. National Art Museum of China (NAMOC), for example, focuses on 20th century Chinese art and rarely displays contemporary art (NAMOC exhibition brochures). Instead, two private museums, Today Art Museum (TAM) and Ullens Center for Contemporary Art (UCCA), are the main exhibitors of Chinese contemporary art. TAM is the first private museum in China and was established in 2002 by the real estate giant Zhang Baoquan (TAM exhibition brochures). UCCA is a non-profit art museum founded by Western collector Guy and Myriam Ullens aiming at promoting Chinese contemporary art (UCCA exhibition brochures).

The following is a summary of my observations from my visit to TAM. Firstly, the location was very hard to reach: there were no road signs and most taxi drivers in the locality are not acquainted with this museum. Secondly, there were very few visitors on the day that I visited, with a total of 3 including myself. Thirdly, I was told by the museum guide that visitors often do not know what the museum offers and ask whether the paintings on display are for sale. Finally, TAM runs a Western style museum shop, however, the items found in the shop are fairly expensive - I noticed a set of teapots priced at CNY 3,000 which the average Chinese would not be able to afford.

During the interviews with Zhao and Zhou I brought up my observations from TAM. Zhao and Zhou state that contemporary art museums in China only emerged in the 2000s (marked by the establishment of TAM in 2002) and are still in their developmental phase. The Chinese government's attitude towards contemporary art has always been suspicious, particularly with regard to the styles of art which focus on the Cultural Revolution themes or which protest the government with their works.

Because of the attitude of the Chinese government towards contemporary art, contemporary art museums have to be self reliant when generating income. "The facts you have observed reflect the current state of contemporary art museums in China: there is a lack of art education provided for the general public; people often see contemporary art as too abstract to understand, and art museums do not seem to have found the means to bridge this gap. Lack of support from the central government in this regard worsens the situation." Zhao says.

Questions: How did art fairs emerge in China? How do art fairs affect your organization?

Art fairs emerged in China in the mid 1990s as a result of the rise in the number of galleries and auction houses. "The Chinese government supports art fairs and has provided financial and policy related assistance." Zhou says. Zhou also indicates that the

Chinese government's initiative in supporting art fairs is primarily for economic concerns: "Art fairs are not merely a venue where actors in this network meet and exchange; it also attracts many interest from foreign visitors who may well be future buyers." Zhou further explains that people who come to art fair require dining and accommodation, while trading in art requires shipment and insurance, maintaining the venue, security, and a service team. Thus, spending in these areas could further boost the growth of China's economy and reduce the unemployment rate.

The interviewees share various opinions about how art fairs have affected the art market itself, and the general view is that art fairs bring positive influences, especially as they provide platforms for galleries to meet customers and to facilitate the exchange between participants. However, some interviewees suggest that the cost that an art gallery must pay in order to participate in an art fair is considerable; this leads to the exclusion of the majority of young or small-sized galleries.

Questions: *The Chinese government is taking initiatives to boost the development of creative industries, how do these initiatives influence the Chinese art market?*

All interviewees believe that the Chinese government's policy in developing cultural industries has influenced the art market; however, the effect is rather mixed. By way of illustration, Li, Nie, And Fang all refer the case of the 798 Art Zone.

The 798 Art Zone, originally an old factory complex located in Chaoyang district in Beijing, at the time of writing houses a large contemporary artist community of approximately 300 businesses including galleries, art studios, fashion shops, and cafés. Its main sponsors include the Beijing Municipal Government and Chaoyang District Government. In 2006, the 798 Art Zone was listed as one of the key concentrations of creativity industries by Beijing Civic and Chaoyang District Government. Chaoyang District Government's initiative was to transform the 798 Art Zone into 'a creative zone, a cultural park' and to form a special promotional and administration team to boost the development of this project (798 information brochures).

The 798 Art Zone attracts a large number of tourists because of the promotion by the government, Li says, "The majority of visitors are tourists in the proportion 50% foreigners and 50% Chinese." Li continues, "Many visitors are not acquainted with art. They visit galleries, take photos, but do not seem to be interested in buying."

As a result of the financial crisis in 2008, a considerable number of galleries and art studios have moved out of 798 Art Zone. Nie states the following reasons, "Rental expenses were increasing as was the popularity of the area, whereas the price of contemporary was in sharp decline. Artists are no longer able to afford to work in this place."

During my visit to the 798 Art Zone I notice that most galleries have public exhibitions; also, some galleries explicitly mark the price of each piece. A gallery officer tells me that many galleries in the 798 Art Zone here are owned by wealthy individuals

from the commercial sector, they often appoint managers who are responsible for overseeing daily operations; particularly, the owners' purpose of investing in galleries is mainly for investment.

Fang comments that the commercialization of the 798 Art Zone is partly due to government intervention. "The government outsourced the project of transforming the 798 Art Zone into 'a creative zone, a cultural park' to external companies, but the coordination has been a shambles. Fashion shops and cafés are gradually replacing galleries and art studios. If this trend continues, the 798 Art Zone is likely to become the next bar and café district in Beijing." Speaking about the widespread speculation in the Chinese art market, Fang says, "since the government has clamped down on stock and real estate speculations, many investors have begun to invest in the arts and culture sector, for example by owning galleries. They are often quite profit oriented."

Questions: *Looking at the Chinese art market since 2000s, what are the key factors which contributed to the price surge of Chinese contemporary art?*

All interviewees mention that the rapid growth of China's economy and the steady increase of the annual GDP are important to the development of the Chinese art market. The rise of China as an economic power has attracted vast attention to its history, culture, and society, in addition to the growth of the economy. Chinese contemporary art which depict a modern China is drawing interest from art collectors.

Zhou comments, "China has experienced remarkable changes over the past 30 years, and, regardless of the negative comments on the party's leadership, Chinese people are getting richer; the emergence of the Chinese art market is thus a product of the booming Chinese economy".

Zhao further indicates that the global contemporary art bubble is also a factor which contributed to the price surge of Chinese contemporary art. "In the early 2000s, Chinese contemporary art which commanded high price was mostly sold by Western auction house Christie's and Sotheby's. As a result, Chinese auction houses began to include Chinese contemporary art in auctions. China Guardian, for example, started its first contemporary art sale in 2006 and received pleasing results, thereafter attracting many followers in the Chinese art market."

Nevertheless, Zhou and 3 others believe that the price surge of Chinese contemporary art was mainly driven by speculation and greed. Zhou states that, "In early 1990s, it was Western (American and European) buyers who were buying the Chinese contemporary works of art, today the buyers are mainly bought by Chinese." Zhou speaks cautions, "There are lots of speculations and manipulations involved in the seemingly inexorable rise in prices; in other words, there are lots of bubbles in the price of Chinese contemporary art. The vast decline of contemporary art prices during the financial crisis (2008-2009) proved this to be true. Most Chinese art collectors treat art as an alternative investment after the Chinese government began to impose strong controls on stock and real estate speculations".

Nie says other factors are involved “The Chinese government is gradually changing its attitude towards Chinese contemporary art. For example, with the support of the local government, today more people get chances to visit places such as the 798 Art Zone, and experience contemporary art; this changes the underground status of contemporary art in the Chinese society”.

Fang suggests that artistic factors should be taken into account, “Chinese contemporary art is getting professionalized in terms of its artistic expression, techniques, quality, and originality of ideas and creativity.” As Fang says, “Today Chinese contemporary art shows its unique characteristic and quality, and no longer a copy of Matisse or Andy Warhol.”

The last factor is the government’s influence on building the infrastructure of the art market, Fang suggests, “Over the past 10 years, I have noticed a remarkable increase in the number of galleries, auction houses, art museums, art fairs, and art publications. Without this support, the Chinese art market would not have been able to develop this fast”.

6.2 Implication of the Results

My perception of the Chinese art market is that actors, particularly galleries, auction houses, and art museums, are striving to reproduce the Western management style, their attitude towards the Western art world is quite utopian. During my visit to the 798 Art Zone, I noticed several art magazines, some of these, *Muse Yishu* (Muse Art) and *Yishu Yu Touzi* (Art and Investment), devote a large proportion of their content describing how the Western art world functions, the conclusion often point towards the current issues in the Chinese art market.

The current situation in the Chinese art market is not without problems. The interviewees suggest that, although there are many galleries in China, only a few of those can be referred to as ‘professional’ galleries. As a matter of fact, some function in the same way as the retail stores which buy and sell works of art without any involvement from the artists. To explain this phenomenon, Zhou mentions that a large number of galleries in China only emerged as a result of the recent art market boom and thus, do not know what a professional gallery is like nor have the infrastructure to conduct the required business activities.

Similarly, artists neglect the standards in the art market by selling works of art simultaneously to auction houses, galleries, and individual buyers. Moreover, it has been found that auction houses cooperate with galleries to arrange fake bids and to sell forgeries. The Chinese art market resembles the early chaotic stages of the Chinese stock market, also, as in the booms in the stock and real estate markets, the booming art market was also a result of the economic upturn and the surplus capital funds that investors held.

One characteristic of art goods is that art provides both consumer and financial services (Singer 1981), and, as a result, trading art includes 2 unrelated markets: the

market for consumer services and the market for financial services. The quality of art as a financial investment is emphasized in the Chinese art market. Unlike in the Western world where there are many different investment vehicles, investment vehicles in China are limited to stock, funds, and real estate. Therefore, as Zhou and others suggest, art has been treated as an alternative investment after the Chinese government began to impose strong controls on stock and real estate speculations.

To recapitulate, Chapter 1 defined four major sub-research questions (See section 1.2 Research scope, Questions, and Structure): firstly, what are the relevant theories and practices of the art market in general? Secondly, what are the main price determinants of Chinese contemporary works of art? Thirdly, which other determinants of the price of the Chinese contemporary arts between 2004 and 2008 can be noticed. Finally, how do art professionals comment on the factors that contribute to the price surge of Chinese contemporary art between 2004 and 2008?

The sub-questions 1 and 4 are addressed in Chapter 2 and Chapter 6, respectively.

The results of the study suggest the following for sub-questions 2 and 3: On one hand, due to the irregularities in the art market, the price of art appears to be a very volatility. Wen and Li acknowledge that an established artist may sell his work of art to galleries, auction houses, and individual buyers at different prices, without legal restrictions. Also, auction houses have been known to cooperate with galleries to artificially boost the price of art at auction. On the other hand, determinants of art prices suggested by Western studies, such as size, medium, artist's reputation, auction estimates, expert opinions, legislations, demand, fashion and taste, and the economy only partially apply in the Chinese art market (See section 2.3 for an overview of art price studies). Among these determinants, artist and works of art specific factors have less influence on the price of art while demand for art, the state of the financial market and the economy are more important.

This has been proven during the financial crisis in 2008. In 2008 the total auction turnover in China was RMB 131.37 billion, compared with RMB 262.99 billion in the 2007, a decrease of approximately 50% (Zhao 2009:31); this was also the first time since 2004 that auction had turnover declined compared with the previous year. The decline of art price is mainly driven the decrease in the price of contemporary art.

Sotheby's Chinese contemporary art auction on October 2008 reported that some 35% of the lots were unsold. Since then, Sotheby's has held few specific auctions on Chinese contemporary art. In Christie's Asian contemporary art auction in November 2008, 41% of the lots went unsold. In mainland China, major auction houses such as Beijing Poly reported a drop of 64.34 % in revenue of Chinese contemporary oil paintings and the bought-in rate increased to some 31% in the four quarters following October 2008 (Zhao 2009:71).

Taken together, the price surge of Chinese contemporary art between 2004 and 2008 was initially led by economy and demand. As a result of the surge in the prices of

art, many investors started to invest in the art market in spite of a massive asymmetry in information. The following may account for the phenomenon that this art boom was concentrated on contemporary art: when investors decide which art to buy, the likely financial yield from the piece is possibly to be one of the decision making factors; thus, compared with other collectibles, the price of contemporary art is regarded as having more potential to grow.

The Chinese government's effort in developing creative industries is also a factor, yet these initiatives are still driven by economic concerns. Zhou suggests that in the case of the 798 Art Zone, government support was justified because of the positive economic effect which the 798 Art Zone could generate. It is yet to be decided what the current Chinese cultural policy would ultimately lead to, given the changing face of China. While some people question whether China is capitalist or communist, how art will be influenced by the ongoing instability in China's situation remains uncertain.

The results of my study suggest that the price of contemporary art was boosted by the number of investors who purchased art for the purpose of investment. I assert that the rapid increase in the price of contemporary art was likely to be an overvaluation bubble based on speculative trading. Besides, an important aspect of the price surge appears to be regarding buyers' perception: that Chinese contemporary art was perceived to be a 'sure thing' financially without taking into account all the additional costs.

Finally, as has been noted, China has grown into a major economic and military power in the last two decades. Given China's market potential, labour resources, and comparative advantage in labour costs, it is plausible to say that China's economy will continue to grow until China becomes one of the largest investment economies in the world. Along with the process of intensified globalization, all these factors will further attract the inflow of foreign capital to China. I believe that the price of Chinese contemporary art will continue to rise in spite of constraints and disruptions, as more people in China become able to afford to consume art in the future. Ultimately, the Chinese art market will pass through infancy and step into regularity.

7 Conclusions

7.1 Strength and Limitations of the Thesis

The thesis attempts to utilize the factors contributing to the price surge of Chinese contemporary art between 2004 and 2008; as there are relatively few studies on the Chinese art market, this study attempts to fill the gap in the literature of cultural economics. Aspects of the Chinese art market examined are: artists, art critics, galleries, auction houses, and art fairs. Other factors such as art, the economy and the financial market, correlation with Western art markets, and the government's initiatives in developing culture-related industries are also discussed. The result of the study shows that the emergence of the Chinese art market is mainly driven by the economy.

In cultural economics, one literature which exclusively studies the financial aspects of modern Chinese paintings is (Mok, Ko et al. 1993). In the literature, Mok and Ko et al. suggest that between 1980 and 1990, the financial return on modern Chinese paintings was not superior in comparison with that of other investment portfolios. Taking into consideration the costs of insurance, maintenance, and illiquidity, modern Chinese paintings should not be considered as a good alternative for other investments (Mok, Ko et al. 1993).

Based on the finding of the thesis, I assert that Mok and Ko et al. ignore an important factor which plays a dominate role in determining the action of agents in the Chinese art market, that is, the political and social background of China. In a country governed by a communist party, everything is under governmental control. Despite a decade of opening up and reform, China still lacks of international perspective, and as a consequence, matters such as globalization and the free market can not be conceptualized in the context of the discussion concerning the question of democracy. The Chinese art market will continue to face institutional constraints and interventions given the continuing control of the Chinese government over the cultural sector.

The result of the study may be beneficial for art professionals who are interested in studying the Chinese contemporary art market and investors who are considering buying Chinese contemporary art as an investment. The market insights presented in the thesis may have implications for public institutions which are involved in cultural policy making, given the irregularities in Chinese art market during its developmental phase.

The thesis has limitations. Hong Kong and Shanghai are important art markets in China. Contemporary works of art which fetched record prices were initially sold at Christie's and Sotheby's auctions in Hong Kong. At the same time, Shanghai has also emerged as a major art market next to Beijing. I only refer to the art markets in Shanghai and Hong Kong rather than provide a comprehensive analysis. Moreover, due to time constraints, I do not address how the art markets in Beijing, Shanghai, and Hongkong interact with each other and influence the price of art on an aggregate level.

I encountered great difficulty when approaching the interviewees. The Chinese art world is a rather closed network which rarely opens its doors to outsiders. I only managed to conduct full interviews with 6 people. I therefore carried out informal conversations with gallery employees, museum employees and art academy students, and attended several lectures given by Zhao Li whose works are frequently cited in the thesis. Data reports from the interviews should be read with careful examination since the data I collected are far from complete and are not necessarily representative.

7.2 Suggestions for Future Research

The study suggests three directions for future research.

Firstly, of the four important art markets in China, Beijing, Shanghai, Guangzhou, and Hong Kong, I only focus on the art market in Beijing. It might be of interest to examine the relationship between these the art markets in Beijing, Shanghai, Guangzhou, and Hong Kong, and how these art markets as a whole influence price movement in the Chinese art market.

Secondly, another direction for future research could be the study of the rate of return in regards to individual art portfolios, for example, ceramics, jade, Chinese paintings and calligraphy. As illustrated in section 2.3, studies on the return of art as investment have been limited to Western paintings, scholarly works on Chinese art investment are seriously lacking. Studies which could fill in this gap and complement the findings on Western paintings can be of great value.

Finally, I have intentionally omitted lengthy discussions on the Chinese art market following the hit of the financial crisis in 2008. The reason is explained in section 1.2. The recent financial crisis has a profound impact on the Chinese art market; this provides a good opportunity to reexamine the debates on art prices. Desirable studies are those which assess the effect of the crisis on the Chinese art market as well as the rest of the economy.

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9 Notes

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¹² Same as note 11

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³¹ China releases new tax law for cultural industries, originally in Chinese, translated by the author for the purpose of research, retrieved on 19 May 2010 from

<http://www.cnnsr.com.cn/xwzx/zl/0602why/>

³² Interview with Ma Meiling, the owner of Linda Gallery Beijing, retrieved in 25 May 2010, from http://news.artron.net/show_news.php?column_id=178&newid=25597

Appendix

Interview questions

(Background information: interviewee's occupation and expertise)

1. Actors such as art academies, art museums, critics and experts, art dealers, and art collectors play important roles in determining an artist' success, how is the network like in the Chinese art market?
2. How do art critics function in China?
3. To what extent does the price of art associate with the reputation of the artist?
4. Can you briefly describe the process for a new artist to gain recognition?
5. How do galleries set the price of art?
6. Are there collaborations between art museums, academies, and galleries? How do 'the commercial world' (galleries) and 'the academic world' (art museums and academies) interplay with each other?
7. Under the contract with his/her representative gallery, can the artist sell works in other means? For example, selling works directly to individual buyers.
8. How can the relationship between galleries and auction houses be described?
9. The *New York Time* reports that some Chinese artists are not following international standards by selling works directly into the auction market, what is your comment on this?
10. The newspaper also claims that Chinese gallery officials and artists are sending representatives to the auctions to bid on their own works to artificially inflate prices, what is your knowledge about this?
11. How do auction houses set the estimate price of art?
12. Who are the buyers of Chinese contemporary art?
13. How do art fairs function in the Chinese art market?
14. How do contemporary art museums function in China?
15. In the 1990s there were a sudden emergence of art galleries, auction houses, and art fairs, what contributes to this phenomenon?

16. The Chinese government is taking initiatives to boost creative industries in urban areas, how does this influence the Chinese art market?
17. Is it likely that the emergence of the Chinese art market is a result of China's rapid economic growth?
18. Looking at the Chinese art market since 2000s, what are the key factors which contributed to the price surge of Chinese contemporary art?