

Master thesis

Erasmus school of history, culture and
communication

The review of art markets in Mainland China

----- Features, Consumptions and the Trends

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The review of art markets in Mainland China

----- Features, Consumptions and the Trends

Abstract The thesis provides a solid background for analyzing art markets in Mainland China for the perspective of features, art consumption behavior and the future trends throughout the survey and interview. The outstanding characteristics of art markets in Mainland closely relates to the booming of traditional Chinese art after the boost of contemporary Chinese art in the global scale. Such booming trends also reflect on the increasing art consumption of traditional Chinese art among Mainland Chinese buyers. Indeed, the expanding gap between contemporary art and traditional Chinese art since 2008 seems to confirm the prediction that traditional art will hold the domination trends for a long term.

Keywords *Contemporary art; traditional Chinese art; art consumption; Mainland China*

Introduction

China as one of the most important contributors of emerging global art markets has replaced the leading position of US by only one decade's development. Nevertheless, the ascending trends of Chinese art markets, from the comprehensive dimensions such as rising artists, expanding scale of market, increasing participators, international influence, and incremental value as well as price, keep growing substantially even during the global economic crisis. Currently, the international attention and highlights of Chinese art markets tend to focus on the contemporary art and antiques featured by cultural relic. As the nature consequence, the western academic research from cultural economic perspective merely reflects bits of the real art markets in China since the reality is that traditional Chinese art accounts for the overwhelming portion of art markets in Mainland China. As the matter of fact, the cognition of resistance towards western art and investment inside art markets in China can attribute to the insufficient knowledge and study of traditional Chinese art form.

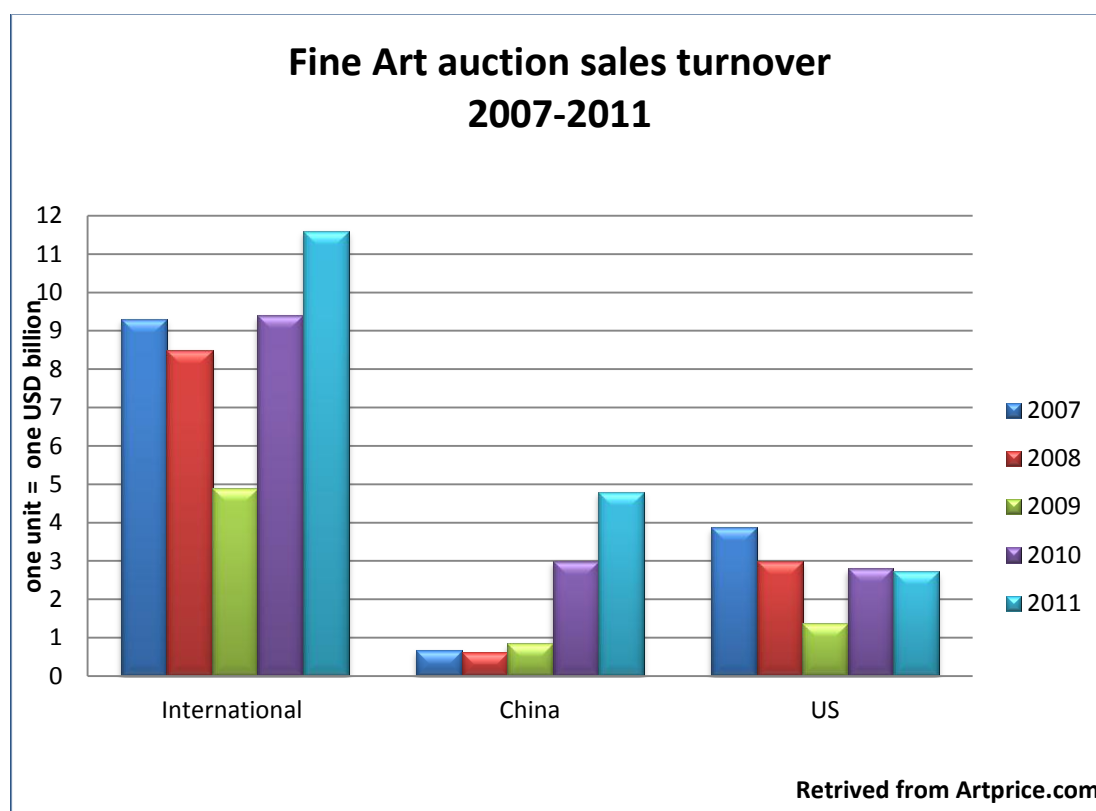
The doubt regards to the outpouring dynamics of art markets in China can hardly be answered only from the academic research of contemporary Chinese art. Indeed, traditional Chinese art and its primary art market have existed along with Chinese history for thousand years already. The strong cultural root and historical impact behind art markets in China as well as inherent conventional market mechanism and taste formation of Chinese inhabitant has been barely researched.

Due to the blank of the research field, the thesis is aim to provide the reasonable overview and point out the true features of art markets in Mainland China. Throughout the explanation of unique characteristic, art price and profound summary of current statement of supply and demand of art markets in China, as well as the survey and interview for investigating art consumption among Mainland Chinese buyers, the review of present art markets in Mainland China would be concluded.

1. Theoretical Framework

For in-depth research of art markets in China, the citation of previous study, mostly provided by European and American academies, would be demonstrate in the thesis. Besides, the related article and research done by Chinese scholar as well as written in Chinese are replenishment as necessary supplements for better cognition of art markets in China. The whole reviewing section focuses on illustration of art markets, art price, distribution channel, and current development in China. Through the highlight of distinguishing features of art markets in China, as well as the description of the overall economic and political context and the inherent drawbacks from the perspective of traditional and contemporary art forms, the comprehensive literature review can offer a solid theoretical basis for the further study of the comparisons between traditional painting market and contemporary painting market in China.

1.1 The significance of China in global art markets

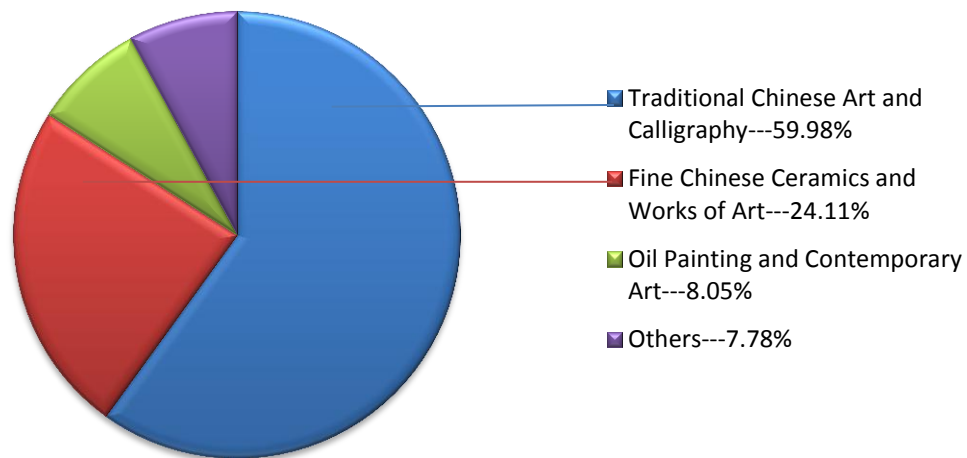


The bar chart above demonstrates the general trends of art auction markets worldwide in the past five years. During the half decade, the global art markets experience a fluctuation which has been considered as the consequence of international financial crisis (Spaenjers, 2010) as well as the soaring expanding Chinese art market due to the continuous strong growth of China economy (Renneboog and Spaenjers, 2009). The year of 2009 is an arguable boundary of the history of art markets because of the first disputable art bubble discussion since the 21st century, and the substantial increase of Chinese art markets during the economic recession. Indeed, afterwards recovering of global art markets since 2009 accounts for the growth of Chinese art markets to a great extent (Trends, 2010).

Since 1950s, the leading position of the US has been overtaken by China in 2011 for the first time. Meanwhile, the auction sale record in the same year is held by a traditional Chinese painting in a Chinese auction house¹. When China exceeds France, then British, locking in the second largest art market from 2008 to 2009, the viewpoint of dampening down Chinese art market, such as the argument of contemporary Chinese art bubble², increase the difficulty for predicating the trends of global art markets. The debate as well as increasing research concerning the participation and the performance of Chinese art markets appears since 2008 (Roman and Logher, 2010). One of the indisputable perspectives in art world is that the participation of China has the remarkable meaning of reforming the current pattern of global art markets.

1. Qi Baishi's "Eagle Standing on Pine Tree, Four-Character Couplet in Seal Script" had been sold for ¥370 million (\$57.2 million) against an initial estimate of ¥88 million on 22 May 2011, which is the world record for a work of Modern brush painting.

Pie Chart of Various Art Category's Turnovers of Total Turnovers in 2011



The fact that Chinese art market stands for one of the most representative emerging global art markets is not attribute to the international shifting focus in the past five years but owe to a strong inner growth of demand side of tradition Chinese art. It utmost accounts for the immanent frame of initial traditional art trading form since Song dynasty¹ and the strong insistence of conventional culture (Li, 2007). In other words, the expanding of art markets in China parallels with western art markets, specifically the art markets in US and the Europe. The rising of art markets in China implicates the conflicts and coexistence between traditional Chinese art and contemporary Western art (Zhao, 2008).

The contribution that China devoted in global art markets can barely be explained by the performance of contemporary art solely for the reason of western art form only possesses small portion of art markets in China though the percentage of oil painting's turnover has a stable raise in the recent years. Therefore, the comprehensive and accurate interpretation of rising Chinese art market requires a profound study of traditional Chinese art.

1. In 2008, the calligraphy created by Emperor Huizong of Song dynasty was sold in HKD 1.28 hundred million, which has been considered as the symbolic event of booming traditional Chinese art.

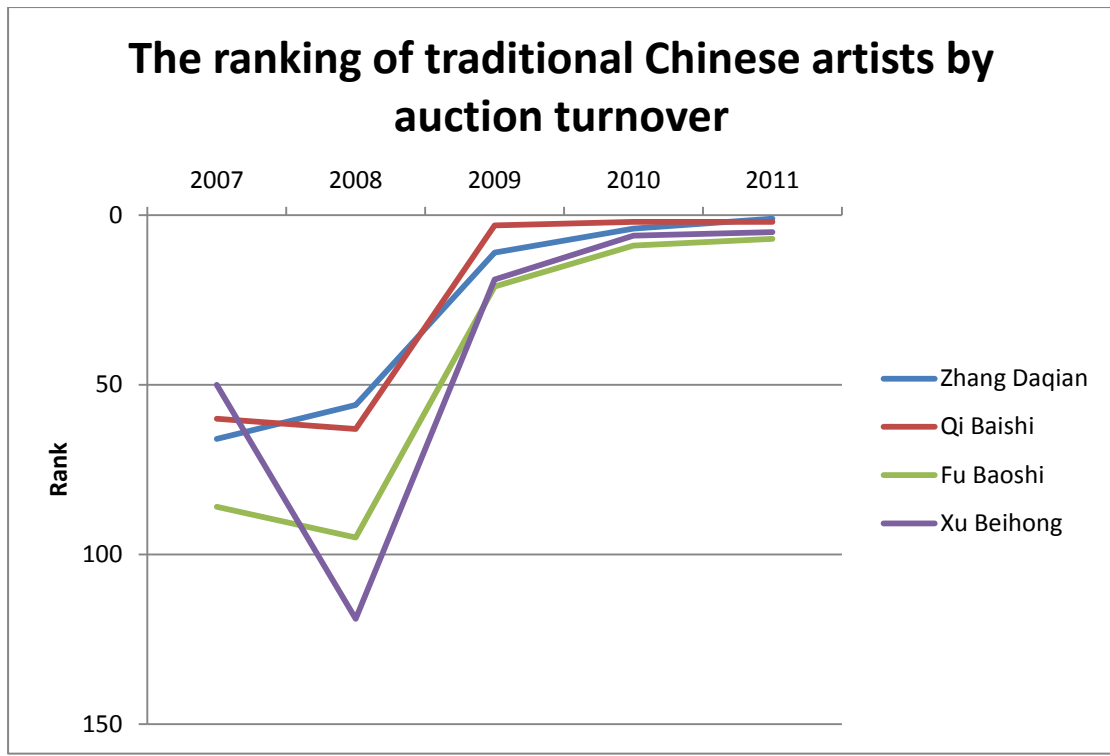
1.2 Detailed characteristics of art markets in China

Art markets in China still keep expanding rapidly after occupying the largest market share worldwide. International attention of Chinese art market is prone to concentrate on the performance of Chinese contemporary art form outside of China due to the auction price record broken by a number of middle-aged Chinese oil painters.

However, in differ from the international performance, art markets in China achieved the significant turnover and trading volume by carrying certain characteristics regard to the Chinese-style features. By the general implication of traditional Chinese art and different distribution channel as well as the elaboration of the main markets, the intrinsic drivers of booming art markets from inner China shall be stated briefly.

(1) Trends of traditional Chinese painting and contemporary Chinese painting

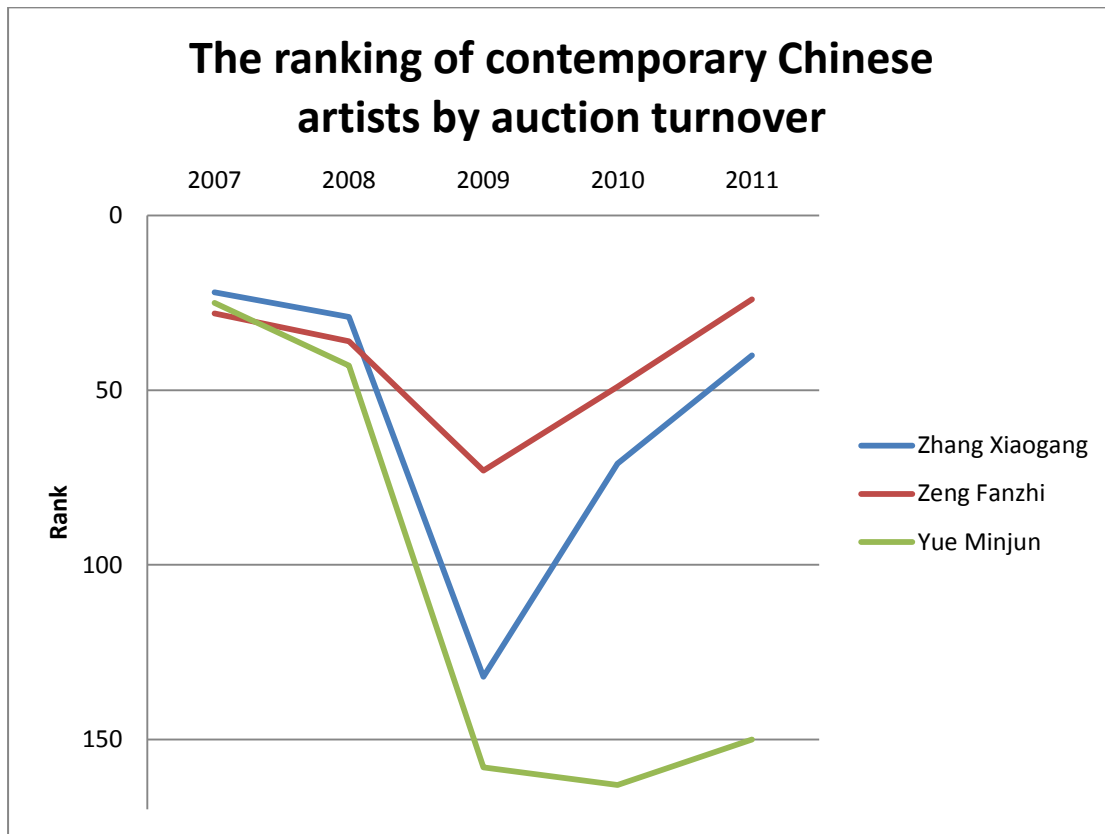
As global art markets, paintings occupy the biggest share of art markets in China. While current art markets in China are dominated by traditional Chinese paintings, “one of the oldest continuous artistic traditions in the world⁶”. The development of traditional Chinese paintings experiences six major periods of Han dynasty (B.C.202–220), Sui and Tang dynasties (581–907), Song and Yuan dynasties (960–1368), Late imperial China (1368–1895), Modern painting (1940–1968), and after -Cultural Revolution (1978–now) according to the different paintings style and historical division (Barnhart and Richard, 2002). The first three periods provide paintings with the priceless historical value while modern painting produces paintings the highest auction price. Current hummer price record of global art markets is created by one of the most prestigious traditional painting master Qi Baishi.



The recent five years witnesses a skyrocketing price of traditional Chinese painting. Represented by Qi Baishi, Zhang Daqian, Xu Beihong and Fu Baoshi, the four masters of traditional Chinese painting take over four positions of the top ten auction turnover in global ranking in the past year. Noticeably, the soaring rank of traditional Chinese painters' starts from 2009 meanwhile the ascending trends tend to be stable the past three years. As the matter of fact, the significant performance of Chinese art market attributes to the tremendous financial return that traditional Chinese paintings have obtained (Trends, 2011) rather than contemporary Chinese art which initially attracts international attention of emerging global art markets. Indeed, the entire hammer price records achieved by traditional Chinese paintings close a deal in Chinese auction houses and all the buyers as well as most bidders are Chinese. Through the observation of recent art trends in China, the striking feature of traditional Chinese painting markets can be concluded as the intrinsic interactive model of art markets in China.

The rising of Chinese art markets closely correlates to the international art trade. Currently, the worldwide celebrated contemporary Chinese artists actually are promoted by western cultural authority (Mai and Tao, 2010). The emblematic example is the overnight famous of Zhang Xiaogang, who hold a number of price

record in contemporary art world after Dieter Ronte, the former curator of Kunst Museum Bonn, introduced his painting to San Paolo biennale in later 1994 then Venice biennale in 1995. In the wake of a series exhibition in the Europe and America, Chinese contemporary art become the one of the most sought-after objects in global art markets.



The skyrocketing price of contemporary art, including contemporary Chinese painting triggers the speculative action, which results in the intensive discussion of contemporary art bubble in the range of global art markets (Noah, 2010). In spite of the debatable perspective that Chinese contemporary paintings push forward the formation and burst of art markets (Kelly, 2007), the extremely unstable and unpredictable trends as well as monetary return of contemporary Chinese art is doubtless.

(2) Commercialized art markets in China

Currently, the main distributions for trading art in China have the similar medium as western art markets such as auction house and gallery. Meanwhile, due to the strong intrinsic traditions inherited from history and unique characteristics because of the rapid development since modern China was born, art markets in China have several disparate distributions.

Firstly, through the thousands years history of China, the initial marketing channel for art, shared certain features while differed from the concept of gallery, normally named “art store¹” has been preserved till now even though the country had been torn by the war during the long time of modern history as well as experienced the invasion of western art marketing layout since last two decades. Nowadays, “art store” still function as the first and foremost trade centre for traditional Chinese art and spread around almost every city in China. Although the concept of “art store” has similarity as “gallery” including selling paintings and operating by art cognoscenti generally, “art store” only trades traditional Chinese art works and contains more extensive business range of antique, jade, brush painting and calligraphy. The most prestigious art store Rong Bao Zhai located in Beijing has existed for hundred year’s history, which still insists only operating the business of traditional Chinese art.

The second one closely relates to the layout of flea market and open market. The common statements of such layout are “antique market”. Literally, “antique market” can be defined as a simplex trading centre for old stuff. But the concept of “antique market” in China covers a wide range of a mixture from negotiating second-hand goods in a small booth to inquiring the fine art works in the well-decorated store. Noticeably, “antique market” only merchandise traditional Chinese art. Indeed, the existence of “antique market” reflects the deep-rooted and pervasive traditional culture among Chinese citizens. Besides, sometimes, “art store” is encompassed by “antique market”. Actually, where “antique market” is anchored in can be considered as a spontaneous cultural cluster for traditional Chinese art.

1. In this article, Chinese “Shu Zhai” is translated into “art store”. Literally, “art store” is running business regarding any forms of traditional Chinese art, from ceramics, brush painting to fine jewellery, even including painting tools.

As for the third distinguishing art distribution, is deemed to emerge with the blossom stock market in China. In the coexistence with other distribution channels, “Chinese Culture and Art Property Exchange (CCAPE)”, functioned as art stock rises from the middle of 90s. Normally, CCAPE locates in less developed economic cities instead of top level city. Central government tends to be strict towards the permission of founding a new CCAPE in elite cities. The reason might be the forgery issue and relatively lower approval degree of art markets. In differ from “art store” and “antique market”, both contemporary art and traditional art have a share in CCAPE. Although the initial purpose of CCAPE announce to be the civil universal participation of buying art, the essence of CCAPE still goes to speculative action. Current study of CCAPE rarely focuses on the artistic quality or social significance but provides detailed report of gaining and losing art stock. As the matter of fact, due to the severe speculative behaviour and deficient supervision system, there is a voice of closing down the CCAPE years ago.

(3) Two leading art markets: Beijing and Shanghai

Considering the large scale territory of China, several major art markets in China spread around a number of economic developed cities from north to south, mostly centralized in eastern coastal region. Throughout those important cities for art trade, Hong Kong, the autonomous region separated from People’s Republic of China with strong international sphere due to the past colonial history, distinguishing from art markets in China continent, therefore, has been excluded from the discussion of the thesis because of its different art regulations and market operations. Besides, Beijing and Shanghai represents the art capital of northern part and international art hubs of China continent, respectively. Thus, the illustration of this section concentrates on the two main cities through a comparative study.

One of the main reasons in forming current leading position of Beijing in global art markets owes to the development of contemporary art and the prevalent deep-rooted traditional Chinese art. The premier importance of Beijing for global contemporary art markets can be affirmed via the prestigious of 798 contemporary art zone¹, known as Chinese Soho². As one of the biggest contemporary art centre worldwide, 798 Art Zone has engaged plenty of prominent Chinese artists and

1. Also named Da Shanzi Art District.

2. See Wikipedia: http://en.wikipedia.org/wiki/798_Art_Zone

international art collectors as well as local financial supports. For Chinese contemporary art and artists, Beijing creates a favourable artistic circumstance including the top level art cluster (798 Art Zone, Song Zhuang Artist Residence), art school (Central Academy of Fine Arts) and art fairs (Beijing Contemporary Art Fairs) in Asian as well as beneficial cultural policy. Besides, as the capital of six dynasties since ancient Chinese history, Beijing remains holding the primary status firmly due to the intrinsic sense of identity of traditional Chinese art. Traditional Chinese art form still accounts for the largest share of local art market till now.

As for Shanghai, acknowledged emerging financial centre worldwide, firmly occupies the second largest art market in China. If Beijing stands for the flourishing traditional Chinese art, the role of Shanghai is to fulfil the gap between art markets worldwide and art markets in China as well as forming a paradigm for the domestic art fairs (Andrews, Julia and Kuiyi, 1998). In differ from Beijing, traditional Chinese art is rootless in Shanghai while contemporary art in Shanghai relates to fashion industry rather than art markets (Wen, 1993). However, the largest scale art fair in China, even in Asian area, locates in Shanghai. Due to the prosperous financial industry and banking business, Shanghai provides a beneficial environment for international art trade and communication. Shanghai Art Fair established in 1997, with the support of Saunterretimized Art Event¹, successfully attracts more than 1,000 art galleries, organizations, agencies from over 50 countries and areas participated in this lively art exchange during the past dozen years.

1.3 Art price in China

Talking price about art, the dispute regarding invaluable but tagged price always contradicts each other. From economic perspective, art is luxury good and art market abides by market mechanism to certain extent. But delivering a precise predication or concluding a reliable regulation in general of art price trends are believed to be extremely sophisticated. Nevertheless, the previous study implicates a number of regular patterns between financial markets and art markets via the computation of art price index. The procedure of calculating art price index adopts the characteristics for

1. See introduction of Shanghai Art Fair: <http://www.sartfair.com/2010/eweb/index.asp>

determining art price based on the variation on art markets. With the purpose of in-depth research of the stunning performance of art price in China, the brief introduction of general art price drivers can provide a reasonable explanation. Moreover, due to the unique characteristic of traditional Chinese art market, the introduction of main methods for computing art price in China, especially for traditional Chinese art work, focuses on the distinguishing features in contrast to western standards. Finally, the economic significance of art markets in China influenced international art price as well as global art markets would be analysed via the comparisons between Chinese stock market and art market.

(1) The determinants of art price

Art had been defined as fancy, rare and luxury goods in 17th and 18th century. The form of art work had been narrowed as painting, sculpture or jewellery with high price and small number of supply for rich people. In differ from daily necessities, art work seems to not follow the economic principle of supply and demand. Adam Smith's free market and invisible hand theory exclude art work. Therefore, the determinants of art price are different.

The early concepts of determinants about art price were proposed by Mandeville. He perceived "there is a standard to go by that always remains the same, painting is an imitation of nature". From this point, Mandeville demonstrated four vital features on determining art price, the fame of the artists, the reputation of their owners, their scarcity, and their faithfulness to nature (Mandeville, 1732). The contemporary recognition for estimating the price of art involves plenty of influential factors such as material, size, technology and time input. One of the recognized demonstrations of the main determinants of art price is the "physical properties of the works of art" and "the date and the place of sale" (Sagot-Duvauroux, 2003). Physical properties contain the construction of an artist's reputation, which has numerous impacts on determining art price. Although dealers, auction house and gallery owners mark the price of art objects due to the overall judgments, the ranking order of the artists and art works can be a decisive factor sometimes. In addition, relative research for exploring the relationship among art price, death effect and artist's reputation provide the evidence that "death effect is indeed negative for artists who are dying young" and vice versa

(Heinrich and Christian, 2006). The research also points out that top-artists is “subject to more pronounced death effects than the work of merely accomplished artists, and the work of journeymen artists is even less affected”. Besides, “for what price the maker may have sold artworks to museum” plays an important role for determining art price (Velthuis, 2005). This is because institutional recognition actually proved the artistic quality, enhances artist’s reputation and increase price of their art work. As the matter of fact, the authority and experts have the significant influence on estimating and pricing a work of art.

Nowadays, economic scholars have presented amount of newly emerged important factors on determining art price. Under the impact of development economic theory, the formation of art price involved more financial factors. Back to the 1970s, the initial concept regarding the formulation of the financial return by applying econometrics (Anderson, 1974; Stein, 1976). The first application of those concepts on art market and published the very influential article about price return on art work (Baumol, 1986). Baumol argued that financial returns of art work are provided by aesthetic pleasure. In the wake of booming financial market, a large number of Baumol’s followers looked into “art as an investment” to result in art price indices by applying econometric methods.

The general determinants of art price have been recognized over hundred years while the last factor has been changed since last century. However, the variables of art price drivers emerge with the development of contemporary art forms mixed abstractionism, surrealism, realism and other ideology emerged with development of human society. Meanwhile, globalization of art market, raise of international fairs, transformation of auctioneer’s role, emergence of commissioners, lack of shared aesthetic, benchmarks to understand and appreciate contemporary creation, determinants of art price experiences the reconsideration under the drastically changing environment.

(2) Hedonic vs. Repeated Sales methods

Repeated Sales Regression (RSR) analysis simply cites the purchasing of “the fluctuations in value of an average or representative asset over a particular time period” (Mei and Moses, 2002) to test the monetary return. Based on the authoritative sales

record provided by auction house, galleries and other organizations, RSR collects reliable figures of a large number of art work which are sold twice or more during a certain period. In general, RSR are a quite feasible and accessible method. By observing the range of the rate of the return according to the sold price of each time during the specific period, a clear monetary figure can be concluded via a chart or a form, which results in the expanded usage of RSR. The most representative literature using repeated sales regression known as Baumol's landmark article of art investment named Unnatural Value: or Art Investment as Floating Crap Gram in 1986.

RSR has a number of merits such as only gathering numbers and directly transferring figures to the perceivable result. For this reason, most relevant literatures regarding the rate of return choose repeated sales regressions. Although RSR considers the changing inflation and currency issue and summarizes a purely economic result, the intrinsic flaw of RSR is that the data have been gathered are the subset of available transactions. The application of RSR only reflects the secondary art markets while the information and figure of primary market, in another word, gallery has been substantially missed due to the "problematic with auction price" of some transactions and deals do not pass by salesroom within art market" (Guerzoni, 1994). Furthermore, the collusion between the art dealers, for instance, "dealers may buy at lower prices but sell at higher prices transactions costs" which caused the reduction of art investors' rate of return, might decrease the reliability of data collection (Frey and Eichenberger, 1995).

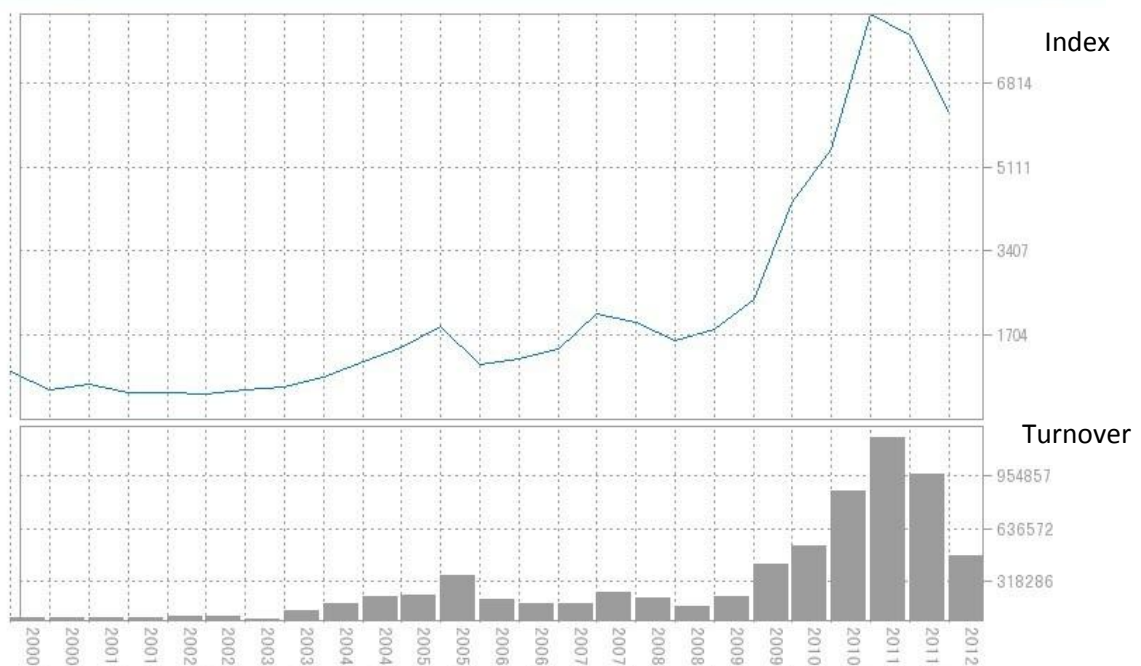
With the similar characteristics of RSR, such as data collection, HR is also been applied in various studies. However, in differ from RSR, HR covers considerable physical features of objects instead of collecting data and figures. For art market, the measureable characteristics are the name of the artists, the date of art object's making, the dimensions (height, width, or total area, the square of the total area), the material, the technique used, the style, and meaningful information of the artists or art work (reputations, historical value, etc.). Generally speaking, HR includes more independent variables regarding the features of art work itself and artist per se instead of simple number of money. But HR also encounters the criticism such as the unavoidable problem that is the arbitrary issue since the characteristics of the art object are defined from personal point of view. Despite of the problem, this method has been used commonly during the middle of 1990s due to the relative comprehensiveness because that the index is constructed from all sales instead of only

an available subset of transactions (Frey and Pommerehne, 1989a, 1989b; Buelens and Ginsburgh, 1993; Chanel et al., 1993; etc.).

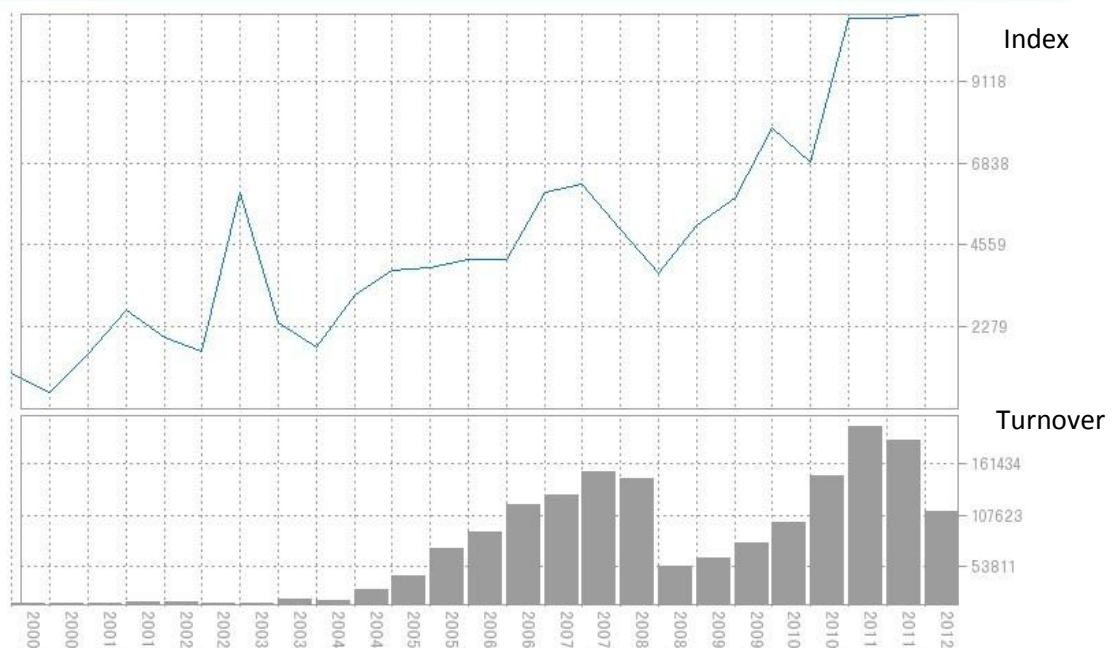
Therefore, with the purpose of avoiding missing market segments as well as covering comprehensive elements which can impact art price, hedonic determinants provide the more appropriate model to explore the integrated art markets. Moreover, traditional Chinese paintings tend to emphasize the characteristic of art work and artist. Size of paintings and fame of artists both play the crucial role for determining closing price. Considering those factors above, the thesis applies the hedonic determinants instead of repeated sales regression analysis.

(3) The price-float of traditional Chinese art and contemporary art in China

Auction price index of traditional Chinese art from 2000 to 2012



Auction price index of contemporary Chinese art from 2000 to 2012



The table retrieved from Artron¹ states the differed price index² of traditional Chinese painting and oil painting since the spring sale of 2000 till the latest autumn sale. As the authority original Chinese art monitor, Artron provides two different kinds of index to display the price fluctuation of painting of auction sale in China.

From 2000 to 2011, traditional Chinese painting maintains a steady upward trend in the first eight years in general then soaring suddenly since 2008. Meanwhile,

1. Artron (<http://www.artron.net>) was invested by Artron group and set up in October, 2000. As the world well-known Chinese art website, Artron.net provides comprehensive services to art institutions, collectors and art fanciers of China as well we the whole world through online media and value-added news.

2. Artron Index (<http://index.artron.net>), the important guide index system of Chinese art market is also published by Artron.net. And another system is the Chinese artwork authentication system (<http://cars.artron.net>), which has already been wildly recognized by artists and became a major standard for artworks evaluation.

oil painting experiences an intensive change in the last decades but still shows the overall growth trends. Especially in the year of 2008, when contemporary art market in China had undergone the recession as global art markets along with the economic crisis worldwide, however, traditional art market has retained a benign upward trend isolated global art markets. Economic recession barely suppress the development of traditional Chinese art market in China. As the matter of fact, the steady growth of traditional Chinese art has glittered to the global art markets in that year. Admittedly, the initial rising of Chinese art markets attributes to Chinese contemporary art but current thriving art markets in China actually is on account of traditional Chinese art (Artron art report, 2010). Whereas, international dominant academic view tends to centralize on Chinese contemporary art due to the cultural difference and incomprehension of traditional Chinese art. In fact, the overlook of traditional Chinese art market results in the “inscrutable” feature of Chinese art markets from western academic research.

Indeed, the gap between traditional Chinese painting Index and oil painting Index provided by Artron can reflect the flourishing art markets in China Mainland favouring traditional art much more than contemporary art. The prosperous view of contemporary art in China actually arose from the beginning of this millennium. The development of Chinese contemporary art experiences a disputable voice with the unexpected hammer price of several Chinese contemporary artists around 2007. Due to the global financial crisis, the viewpoint of contemporary Chinese art bubble has roared during 2008. Nevertheless, the suspicion has been denied in the wake of the strong bounce in the next year. It is noticed that the violent ascendant oil painting markets has occurred around the year of 2002. The reason for that closely relates to the openness towards foreign investment and international art collectors’ strong interests of Chinese contemporary art (Li, 2005). However, international attention on Chinese contemporary art barely changes intrinsic pattern of art markets in China. The mainstream of art still belongs to traditional Chinese art. While the development of contemporary Chinese art in China is prone to be quite tepid comparing with traditional Chinese art (Ma, 2009), through the general trends of contemporary Chinese art keep climbing. From this point, a taint faint of disappointment among some international art dealers and collectors is relevant to the over-moderated increase in price, trading volume and total turnover within Chinese art markets (Lin,

2006). Besides, the limitation for international auction house and market disruption also leads to the unsatisfied contemporary Chinese art market.

(4) Pricing methods of art markets in China

Generally speaking, the recognized formula for pricing an art work is based on the long term operation of western art markets. Pervious study provides repeated-sales regression analysis (), hedonic regression analysis (), and average price analysis () based on the different characteristics of western art markets. However, the pricing principles which suit western art markets are not universal rules for art market in China. Therefore, pricing drivers of art markets in China differ from western art market, especially in traditional Chinese art work, though there are a number of citations from international art market. Current economic research of determinants of art price in China stays at the study of synthetic estimate method and qualitative analysis (Dong, 2005). Due to short history of modernized art markets in China, there is little research of this field from the perspective of cultural economics.

First of all, the primary method for pricing art in China attributes to analogy method (Zhu and Sun, 2002). Art experts play a crucial role in determining art price for traditional Chinese art market. By application of analogy method, pricing an art work bases on the price of congeneric art work which has been sold. Another mode of analogy method accounts to the classifications of art works of the same artist based on different quality. Normally, there are three levels of art work, by which the benchmark price refers to the medium art work. While price adjustment of the superior art work and inferior art work has 120% to 150% mark up and 50% to 70% shrink, respectively (Wang, 2010). The advantage of analogy method is straightforward. But lack of scientific proof and theoretical support results in the inaccurate judgement.

The second method is arithmetic average price method of a single artist. This method summarizes the sold price of art works of a single artist in certain period in order to come out the price per unit, for instance, square foot of painting (Tang, 2009). It is noticed that price per square foot has significant importance for setting price in traditional Chinese painting market (Tang, 1999). However, arithmetic average price method only analyses the price trend of certain artist's work. As for the estimation a single art work, the prediction is quite difficult.

To conclude, both of the methods above have quite low degree of accuracy on computing art price in China. Although precision rate of traditional Chinese art is slightly higher than contemporary art (Fan, 2007), the average precision rate in the whole art markets only attains 30% in total.

(5) Art consumption in China

Art markets in China shaped from 1992 then boosted around 2005. During the development of the two decades, art consumption, especially the consumption of Chinese art, becomes the new interest for Chinese nouveaux riches (Peterson, 2004). The emerging Chinese millionaires are followed by a continuously increasing demand for luxury goods and exclusive ventures (Benjamin, 2009). Such phenomena used to appear in Japan during the 1980s. While the boost of Japanese art consumption in the last century directly relates to the speculative buy-in action on western impressionism art, Chinese buyers tends to purchase famous domestic art work (Wang, 2008).

One of the noticeable phenomena of Chinese art market is backflow of traditional Chinese art, rising around 2008, followed by the recent fluctuation of Chinese contemporary art market. On one hand global art markets witness China buyers' strong purchasing capacity. On the other hand, traditional Chinese art markets implicate the steady upward trend during the global economic crisis. The two causes trigger the massive backflow of art work, from antique to modern masterpiece. Especially for modern brush painting, combined artistic value and historical interest of the exceptional years of Chinese history, particularly prevails among Chinese buyers. Therefore, a large number of brush paintings drifted out of Mainland China are fetched by Chinese auction houses and art dealers to attract domestic buyers.

(6) The economic contribution of Chinese art market in global scale

The economic significance of Chinese art markets is not only represented by stunning auction sale but also reflects on the influence of global art consumptions and art markets. The study of the correlation between stock market and art market as well as

financial rate of return focused on Chinese art market implicates the increasing importance of Chinese art markets worldwide.

The early phase of investigation on monetary return of Chinese modern painting illustrates the potential for growth of financial return (Mok, Woo, and Kwok, 2001). However, the prediction of monetary return regarding modern brush painting stays in the stable growth in long run. Present skyrocketing price of traditional Chinese art form seems to be underestimated.

The rising economic significance of Chinese art markets represents the power of emerging art markets. Whereas, Japanese once used to influence international art price through the purchase of western masterpieces, but Chinese tends to collect Chinese painters' art work then bidding up the price. Consequently, although art markets in China hit amazing total turnover, the impact of global art markets from the perspective of promoting the price of western art is limited. While, the positive influence of Chinese art market towards global art market is the promotion of consumer confidence.

1.4 Present status of painting markets in China

Throughout the business range of art markets, painting accounts to the largest share constantly. Therefore, the brief introduction of art markets in China centralizes on the description of Chinese painting markets. Painting markets in China are divided into two catalogues in general (Lu, 1997), which are oil painting and traditional Chinese painting. In the two distinguishing painting markets, traditional Chinese painting market exists with the long history of Chinese civilization while oil painting market rises within briefer Chinese modernization history. Indeed, oil painting as an emerging art form has limited impact on the whole art markets in China. Noticeably, present painting markets in China are dominated by traditional Chinese painting but the growth trend of oil painting is observable.

(1) General introduction of painting markets in China

The development of painting markets in China attributes to the overall enlightened environment of the whole country. Open policy has brought economic benefits, global trade, and cultural communication, which extensively leads to the prosperous view of current art markets. There is a standpoint that painting markets in China has experienced a revival since the nature development process of art markets in China had been interrupted by the long term invasion of foreign power and inside conflicts in the latest two hundred years. Admittedly, current painting markets in China take over the leading position of global art markets and appear to firmly occupy the primary standing.

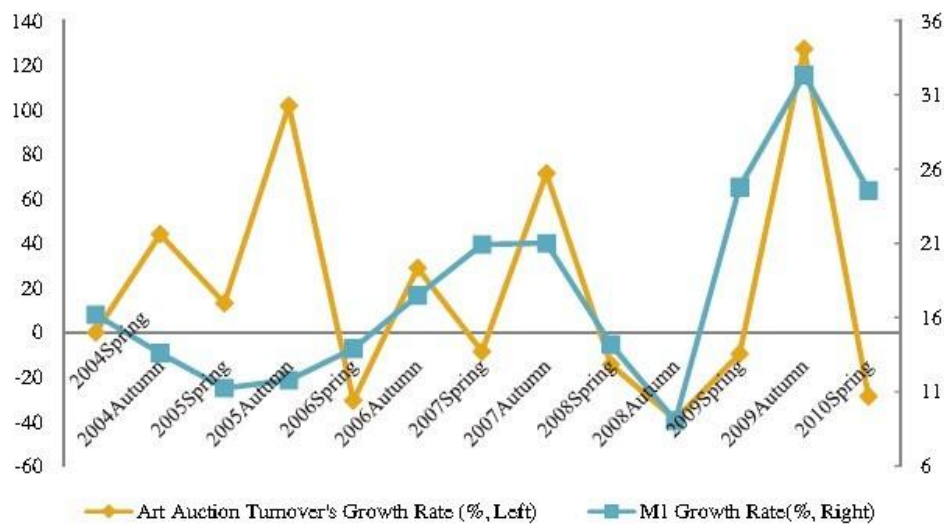
(2) Economic environment of art markets in China

The positive correlation between economic increase and art market growth is doubtless. In the wake of Chinese soaring GDP, the skyrocketing growth of art markets in China is an affirmative trend. Emerging newly wealthy contributes the stunning turnover of art markets in China to a great extent. As the booming Japanese art market around the 1980s, the tremendous development of art markets in China is the nature consequence of Chinese economic growth (Fabbri, 2005). Although there is a general believe that economic foundation is the root of a booming art market (Dillion, 2009), the speciality of China, especially during the modern history, leads to a different mainspring, named “Open Policy”. The stunning performance of Chinese economic is caused by the further application of “Open Policy” in various domains (Davis, 2005). Indeed, the conduct of “Open Policy” represents the political progress of Mainland China. Therefore, for art markets in China, the change of political climate has the vital impact.

Art, as the luxury good, implies the aggregate levels of wealth (Kelleher, 2010). Economic environment closely correlates to the emerging art market. During the first two decades of Chinese openness, art markets barely had any improvement whereas Chinese economic developed rapidly. The reason attributes to the insufficient wealth accumulation of Mainland China. One of the consequences of economic boost appears

to be that art markets in China become the lucrative businesses for artists, art dealers, and potential investors (Peterson, 2004). Previous study reveals the importance of wealth accumulation for art consumption as well as the correlation between financial market and art market (Wu, 2007). When worldwide economic crisis has initial impact on financial market then spreading to global art markets, art markets in China still hold an upwards trend in the contrast of the recession of global art markets. The main cause can attribute to the relatively strong economic performance of China.

Figure 1-1 Development of Chinese art market in recent years under obvious influence of liquid capital changes



Source: Artion Art Market Monitoring Center, WIND

Considering the economic slowdown in the first half of 2010, the central bank further contained the liquidity, so the growth rate of money supply (M1) of the narrow sense decreased from 32% at the last yearend to 24% at the end of this June. That brought significant decline of asset prices; plus the tight policy and fund collecting-back policy towards the real estate industry announced successively after April, both the stock market and the housing market grew weak.

Nevertheless, despite the lower growth rate, the liquid capital still kept growing in terms of the total sum in the first half of 2010. Due to depressed stock market and housing market, some idle money flew into the art market, driving up such a small-scale market.

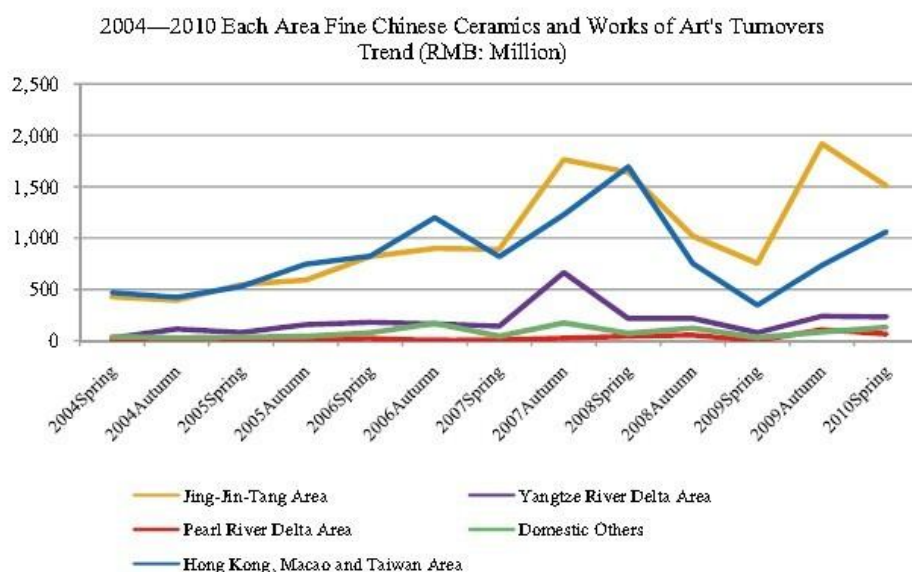
What will Chinese art auction market be against the backdrop of continuous economic slowdown? Due to its smaller scale than that of other investment markets like the stock market and the housing market, the art market is less sensitive to economic changes. The total art market will be not significantly affected by the economic situation but will grow at a lower rate, thanks to the abundant liquid capital in terms of the absolute value which will further shrink in the second half of the year though .Such a circumstance will pose more challenges to auction houses' competition strategies and capability of sustainable development.

(3) Emerging painting market in China: Northern area vs. Long triangle area

Geographic factor of art markets in China has the particular significance due to the immense area of China. The booming art markets in China basically concern to the developed economic area which also breeds splendid Chinese art and culture.

According to the geographic partition, art markets in Mainland China can be divided into Jing-Jin-Tang area, Long triangle area, and Zhu triangle, namely northern area, western seaboard area, and south western seaboard area.

Figure 2-8 Both Jing-Jin-Tang area and Hong Kong, Macau and Taiwan showed their respective advantages in the spring auction of 2010



Source: Artion Art Market Monitoring Center, collected between January 1 and June 30, 2010

The three regions stand for more than 75% auction sale of painting market in greater China region including Hong Kong, Macau, and Taiwan. Especially the northern area, represented by Beijing, the big heart of art markets in China, occupies more than half painting market. The boost of northern area attributes to the firmly long term history of traditional Chinese art in the capital city which benefits surrounding cities to a great extent. The profound cultural background of Beijing supplies not only outstanding artists but also great appreciators of art. Art market in northern area offers an integrated platform for domestic artists. Plenty of young artists' rise to fame benefits from the mature art markets in northern area. Besides, the foundation of CCAPE in Tianjin, an important northern port city nearby Beijing, provides a different distribution for art investors from middle class. Along with the intensive competition among art auction in Beijing, small auction houses shift into surrounding cities to exploit new markets while large auction houses also pursues the expansion of business range to nearby regions. In the contrast to northern part, the forming of art markets in the long triangle area bases on the booming of financial market instead of solid art background. Dependence on the strong economic power

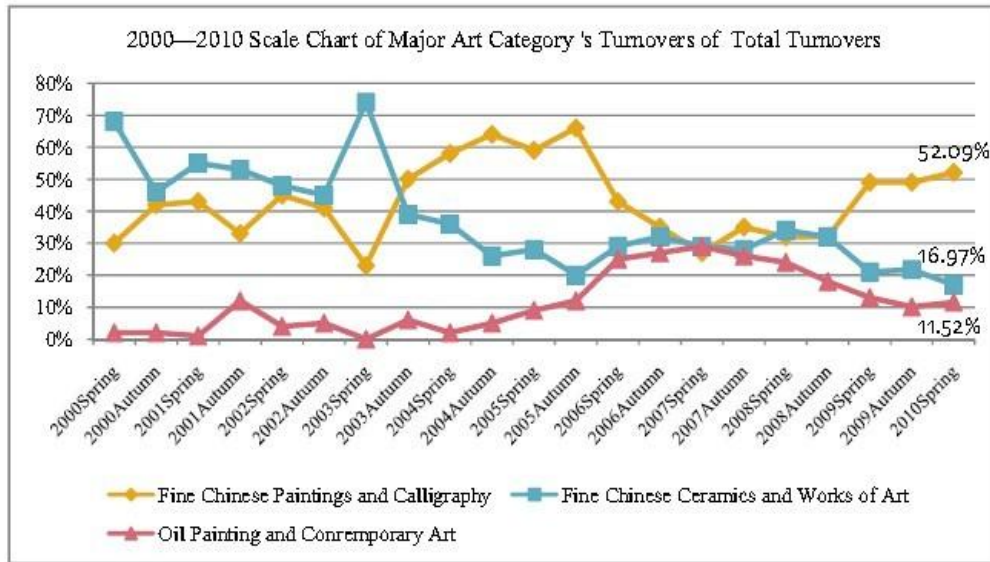
and mass international trade of Shanghai, long triangle area still holds near a quarter shares of Chinese art markets.

(4) Market share of traditional Chinese painting and contemporary painting

The overwhelming dominant of traditional Chinese painting of art markets in China can be proved from the statistical data above. Although Chinese contemporary art used to resonate in global scale, art markets in China seem to be unconcerned such emerging art form. Current market share of traditional Chinese painting and calligraphy takes up more than half of the turnover which accounts for 58 billion RMB of all Chinese art auctions. Throughout the top 100 auctioned Chinese art works during the last year, traditional art works occupy over 60 seats. The striking record prices during the auctions are focused on modern brushing paintings and Chinese ancient paintings. Indeed, this trading pattern fully illustrates the importance of cultural recognition in collection in art markets in China.

The reason for the pursuit of traditional Chinese paintings in China attributes to the strong conventional cultural capital of Chinese history, Chinese literature and Chinese biographic figures, which are in the carries of traditional Chinese paintings and calligraphy. Art markets in China as well as academic study both recognize the point of view. Although the suspicious points out that the actual drivers of high auction price of modern brush paintings might be the price vying and the effect of amplification, which leads to the continuous steady growth in the long term, traditional Chinese paintings would sustain the dominant portion of auction market in China in a foreseeable future.

Figure 2-2 The gap of market share between Chinese paintings and calligraphy, and fine Chinese ceramics and works of art, oil paintings and contemporary art was further widened in the 2010 spring



Source: Artion Art Market Monitoring Center, collected between January 1 and June 30, 2010

Meanwhile, contemporary Chinese paintings and oil paintings creep slowly over the first four years since 2000. Between 2004 and 2008, the boost of international contemporary art markets results in a corresponding rise of Chinese contemporary art (Jiang, 2011). In addition, a number of talented Chinese young artists benefit from the promotion of international art investors (Lv and Yi, 2009). However, even in the year of 2007, Chinese contemporary painting market hit the record high only balanced traditional Chinese painting. In other words, contemporary Chinese art never achieve the same plateau as traditional Chinese art. Due to less cultural capital consumption base, the heady time of Chinese contemporary art fades away in the wake of global recession. Despite of the affirmative opinion that the contemporary Chinese art has the optimistic future, art markets in China are prone to express a growing gap. But considering the taste formation factors as well as art education for current generation, the trend of contemporary Chinese art seems to have alternative future.

(5) Supply: artists and art school vs. Demand: buyers, dealers and collectors

In the wake of rapid development of art markets in China, the increasing supply and demand of art work results in the booming education of art as well as the recognition of art consumption. The well-known eight art schools in China provide the top level artists for global art markets. Currently, top 10 contemporary Chinese artists of global artist index are graduated from the eight art schools. Since Chinese art markets prefer to promote domestic artists both for contemporary art and traditional Chinese art, the price of famous Chinese artists has been marked up aggressively. A number of Chinese artists attract international attention through art fairs and biennale worldwide as well as international art dealers and collectors. Meanwhile, in traditional Chinese art world, art consumer plays an important role functioned as the investors, collectors, managers and connoisseurs.

<5.1> Famous artists: contemporary vs. traditional

During the past ten years, a number of prestigious Chinese artists devote not only valuable art work but also contribute to shape the new pattern of global art markets as well as boost the international auction price. For further understanding of current art markets in China, the introduction of several far reaching influential representatives involves nine Chinese artists who achieve financial success and aesthetic value as well as attain universal recognition in Chinese Art Circle. The analysis of different catalogue of individual painter's price index is aim to point out the distinguishing price drivers and concludes the future trends by observing the development track.

<i>Contemporary youngster artists</i>	Zhang Xiaogang 1958 - now	Zen Fanzhi 1964 - now	Yue Minjun 1962 - now
<i>Current ranking order by auction turnover</i>	No. 40 USD 41,695,720	No. 24 USD 57,606,972	No. 150 USD 11,905,060
<i>Blending of Chinese and Western painting style</i>	Art educator: Lin Fengmian 1900 - 1991	Chinese abstractionist: Zhao Wuji (Zao Wou-ki) 1921 – now	Chinese impressionist: Wu Guanzhong 1919 - 2010
<i>Current ranking order by auction turnover</i>	No. 22 USD 66,698,393	No. 14 USD 91,914,351	No. 6 USD 221,158,432
<i>Modern brush painting master</i>	Zhang Daqian 1899 - 1983	Xu Beihong 1895 - 1953	Qi Baishi 1864 - 1957
<i>Current ranking order by auction turnover</i>	No. 1 USD 554,537,029	No. 5 USD 233,488,777	No. 2 USD 510,576,030

The price surge of Chinese contemporary art between 2004 and 2008 closely related to a number of prominent Chinese contemporary artists. When Demin Hirst advertises himself in London auction, eastern artists carry on the protocols of being famous in global art markets. Among the three leading artists, Zhang Xiaogang is the most successful one who holds a series records in contemporary art world, by which reflect on the auctioned price and widely distributed buyers worldwide. Most of Zhang's paintings are collected by Uli Sigg¹ and Guy and Myriam Ullens². Besides, Charles Saatchi, one of the most successful British art dealers who promotes Demin Hirst, and Oliver Stone, famous Hollywood director, both look to further increase of Zhang Xiaogang, even Guggenheim Museum purchases his paintings as permanent collection. In the comparisons with other Chinese contemporary artists, Zhang Xiaogang has the most international recognitions which ensure relatively steady development of Zhang's career. Even after the crush of the contemporary art bubble in 2008, auction price of Zhang's painting still holds the upper trends.

1. Uli Sigg - Former Swiss ambassador to China , noted collector and curator of Chinese contemporary art.

2. Guy and Myriam Ullens - Belgium collertors, devoted to promote contemporary Chinese art and operated non-profit contemporary art centre in Beijing.

Another two represented artists of Chinese contemporary art, Zen Fanzhi and Yue Minjun, used to hit the climax of their career around 2008, following Zhang Xiaogang occupied the second and the third ranking of Chinese contemporary art world. While due to less auctioned art work, Yue Minjun, performs after 2008 barely satisfactory and Zen Fanzhi recovers better. However, overall art consumption confidence of Chinese contemporary art drops off and rebound slowly.

However, the performance of contemporary Chinese art seems to limit in global scale instead of art markets in China. More than 80% contemporary Chinese paintings are auctioned in Hong Kong. Lack of cultural root, western financial background of the art dealers behind the artists and closely link up with global contemporary art markets, drivers the fluctuations of price index of individual contemporary Chinese artists.

The main reason for classifying Lin Fengmian, Zhao Wuji (Zao Wou-Ki) and Wu Guan Zhong in the same catalogue is their features of mastery both traditional Chinese painting and western art conception.

Current Chinese art market is the complex mixture of traditional Chinese art and Western art. The rise of modernized art markets in China, can trace back to the 1920s, when China was suffering from enforced openness of western countries from various dimensions including art and culture. Therefore, a combination between eastern and western painting style rises in response to the proper time and conditions. The forerunner of highly achievements for blending eastern and western art style attribute to Lin Fengmian. Lin was more than a great artist who blends traditional Chinese art style and western art essence but also delicate himself to art education career. Indeed, Zhao Wuji (Zao Wou-Ki), the most successful Chinese artist in western art history ever, and Wu Guanzhong, another great Chinese artist, both benefits from the early study under Lin Fengmian.

Thus, with the historic contribution on Chinese art history, the three masters' art work implicates more historical value, which becomes an important price driver (). Along with the booming contemporary Chinese art markets, paintings of Lin, Zhao, and Wu, also accomplish a new record. Besides, the fixed number of their art works results in the rising price in the long term.

In the contrast to the fact that the popularity of contemporary Chinese oil painting tends to be limited outside art markets of Mainland China, modern brush paintings, namely created from 1919 to 1949, attract great domestic interests. Back to

1920s, art markets in China began to appreciate brush paintings of Qi Baishi, Zhang Daqian and Xubeihong. The price of their art work keeps climbing even during the war time. The most sensational case of art auction in 2011 happened in China Guardian auction house concerning the bidding for a traditional Chinese painting and calligraphy work of Qi Baishi which hit the hammer price of RMB 4.225 hundred millions, a new record of Chinese art markets as well as the top auction price in global art markets.

Although Chinese auction houses and collectors desperately want to purchase Chinese modern brush painting, the fact that most of the Chinese modern brush paintings, especially created by the three masters, drift out of Mainland China because of Chinese Civil War. Therefore, any backflow of modern Chinese brush painting would be auctioned at a high price in Chinese auction houses. Besides, Chinese cultural policy announces that modern Chinese brush paintings are part of cultural relics, which means once modern Chinese brush painting return to Mainland China, the transaction deal afterwards is only allowed inside art markets in Mainland China. Thus, modern brush paintings' price in art markets in China would sustain a stable growth trends for a long time.

<5.2> The Eight Art Schools of Mainland China

The Eight Art Schools in Mainland China stand for the number of eight schools specialized in fine art, which keep the most prestigious degree, professional degree and representative geographic distribution, in Mainland China. It is generally believed that northern art schools are famous of yielding traditional Chinese artists, in which Central Institute of Fine Arts located in Beijing, China Academy of Art located in Hongzhou, possess the top level artists and art educators. While the art schools of central eastern section provide the best Chinese contemporary artists. Zhang Xiaogang and Zen Fanzhi graduated from Hubei Institute of Art and Sichuan Institute of Art, respectively. And southern region specializes in animation production.

As the matter of fact, in nearly all the Chinese artists with certain fames graduate from the prestigious art schools. Moreover, Chinese art circle is prone to appreciate artists from the eight art schools. Current percentage of top 50 Chinese artists who graduates from The Eight Art Schools accounts for more than 70%.

Whether graduates from The Eight Art Schools actually become an important dependent variable on determinants price of Chinese artists. Indeed, with the support of national subsidy and private fund, The Eight Art Schools centralizes the top level Chinese artists and cooperates with the first class international art institute. Thus, collectors and art dealers, especially from the primary art market, prefer to deal with Chinese artists graduated from The Eight Art Schools.

<5.3> Chinese art investors: the new wealthy class

No. 1	Contemporary art	36%
No. 2	Jewellery and Watch	34%
No. 3	Antique (brush paintings and calligraphy, porcelain, and furniture)	16%
No. 4	Luxury Car	14%

In 2009, Hurun Rich List15 presented the report regarding the “consumption preference of Chinese billionaire”, in which contemporary art occupied the first ranking order and the largest ratio of preferred collection items. While traditional Chinese art only accounted to 16%. Indeed, when the upsurge of Chinese contemporary art in global scale since 2004, Chinese wealthy began to shift their consuming interests in contemporary art. Hurun report implies that investment and collection of contemporary art became the new favorite for Chinese upper crust.

In the contrast to the fact that Japanese wealthy preferred purchasing western master paintings in 1980s, the emerging Chinese wealthy shows a sense of identification of national culture and art.

One of the clear tendencies is that a new participator of art markets is willing to overpay excessively for possessing a piece of art work (Mao, 2006). While the overpay action mostly focuses on the either contemporary art or traditional Chinese art. According to the introduction by Wen Guaihua, the general manager of Hanhai auction house, the new buyers normally have little recognition of past price. The

bidding price offered by new buyers generally based on their instinct rather than the reasonable prediction, which causes sensational hammer price of art markets in China.

Previous study demonstrates a number of features of Mainland Chinese collectors. Firstly, collectors concentrate upon economic developed area. Secondly, the number of collectors has the boost trend and appears to be younger generation. Thirdly, new buyers prefer to purchase “new work”, which refers to the contemporary art, especially for the art works created by the last 30 years. Finally, most art consumers in Mainland China are aim to pursue financial return rather than pure collection. This phenomenon relates to the wealth accumulation pattern of emerging Chinese wealthy. Since most of them are involved in financial and real estate business, their buy-in action closely relates to the desired monetary return in short term. When the art markets are fulfilled by the speculative art consumption, the burst of art bubble seems to be a nature consequence. Besides, the unhealthy market system in China intensifies the speculative action.

In 2010, Hurun report revealed that contemporary art fell to only 13% on the collection list of Chinese wealthy, meanwhile, ancient Chinese art rose to 25%. It proved the rising of Chinese contemporary indeed tended to be a result of massive speculative buzz. Art consumption in China is still dominated by traditional Chinese art.

(6) Chinese gallery and auction houses

The booming art markets in China correlate the well-developed Chinese auction houses and gallery as well as Chinese style gallery, namely art store. The general statement of Chinese gallery, art store, and auction house focuses on the historical development and current status as well as relative Chinese characteristics such as backflow of traditional Chinese art.

<6.1> Gallery vs. Art store

The difference between the concept of gallery and Chinese art store reflects on the catalogue of sold items. Normally, the major item sold by art store is antique, which contains furniture, jade, porcelain, brush painting and calligraphy. With the strong sphere of Chinese culture, art store experiences thousand years history with little change in business mode, range, form and even decoration. The owner of art store tends to sustain the friendship with artists rather than the formal contract. Rong Bao Zhai, famous for its cooperation with modern brushing painters, holds the operation principle of “forming a literacy circle, running business for artists”. For hundreds years, most of the talented modern brush painters, including Qi Baishi and Lin Fengmian collaborate to Rong Bao Zhai in their entire career. Indeed, Rong Bao Zhai pursues to constitute a friendly art circle. The imitate relationship between the owner of art store and artists, even among artists themselves, provides the best resource for art business.

While a number of galleries, especially in 798 Art Zone, are named by art store, which causes the misconception between gallery and art store. Indeed, most of the so called art store in contemporary art centre barely differs from western gallery. Actually, the business mode of art store seems like fading away with the intervention of western gallery. Even Rong Bao Zhai sets up the auction house to profit from secondary market.

Turning into gallery in Mainland China, the booming trends of Chinese gallery relates to intervention of Hong Kong capital. Depending on the open trade and investment regimes, indigenous Hong Kong gallery penetrates art markets of Mainland China since last century. One of the most successful cases is Hanart TZ Gallery, initially founded in Hong Kong. Hanart TZ Gallery has explored Chinese art for more than 20 years. Artists of the greater Chinese art world from Mainland China, Taiwan as well as the diaspora congregated, in time the Gallery became a locus of emerging Chinese artists. During the 1990s, the manager of Hanart TZ Gallery discovered Zhang Xiao Gang then brought his painting to Hong Kong, which contribute to the upsurge of Chinese contemporary art afterwards. More than 50% gallery in Beijing established around 2006. When financial crisis faded away during 2009, Beijing auction market achieved considerable turnover while gallery

encountered rescission. A number of galleries are forced to close. The dispute of current development of galleries in China focuses on the lack of mechanism market. Regardless of the dynamic secondary art market, the primary art market in China still need a long time to appear a boom.

<6.2> Four leading auction houses

The aggressive growing up trends of auction sale in China plays an important of converting the new pattern of globe art markets. China Guardian and Poly International ranked the third and fourth of fine auction sales in 2011. Deserved to be noticed, China Guardian, the third auction company in the world generating \$901.8 million from art sales and 7.79% of the world's art auction revenue from a small proportion of the global volume of transactions by only 2%. The reasons could attribute to the extremely strict regulatory framework towards foreign capital auction house out of consideration for preserving cultural relics as well as the strong conventional and inherent Chinese culture. Due to the constraints for foreign auction houses, Chinese art market provides a favourable and loose environment for domestic auction houses. When Sotheby and Christie seeking for a glean hope of entering mainland China via autonomous region of Hong Kong or corporation with domestic auction houses, Beijing based China Guardian implies the strong will for opening the branch in London and New York in 2010 (Miller, 2010). Since the large number of Chinese historical relics scattering overseas because of long time colonization in modern history of China, the globe expansion of Chinese domestic auction house might has a promising future.

The leading auction houses of Mainland China, China Guardian and Poly International, acknowledged as Chinese Sotheby and Christie, take the superior place since their founding year. China Guardian, established in May 1993, is the earliest auction company to specialize in the sale of Chinese artwork of all varieties. It is now the third auction house in globe art market with the record of hammer price in art world⁴. Besides the successful business, an important function of China Guardian is to work with the government for establishing methods and policies for the export of cultural and artistic works. And other tremendous achievements of China Guardian are assisting backflow of national treasures. For year's effort, national treasures and

cultural relics have been bought by national museums from overseas collectors and from private owners at home throughout the operation of China Guardian. In the contrast to the relative long history of China Guardian, Poly International founded in 2005, with only six years' expansion, in 2011, Poly International Auction has scored \$200 million in total, topping the first and booking an excellent record in Chinese art sales market.

The rapid growth of Poly Auction is benefited from the solid foundation and strong support from Poly Group, which is the one of major national enterprises of China. Poly Group owns sufficient capital and resources which guarantees the strong brand and the reputation of Poly Auction. With the similar features of Poly International, Beijing Council International was established in October of 2005, which sanction by Beijing Municipal Bureau of Industrial and Business Administration. Supported by Beijing municipal government, Beijing Council International steps into not only the auctioning of Chinese classic, fine Chinese modern, Chinese antiques, Chinese modern oil painting and sculptures but also carry on real estate auction and other charity auction. One of the most significant marketing strategies of Beijing Council International is the corporation with Japan Shinwa Art Auction, the most famous auction company in Japan, in 2009. As the matter of fact, the aggressive development of Beijing Council International started at the end of 2009. As for the year of 2010, Beijing Council International increased 55% turnover in total compared with last year, as well as created the highest price record of single auction, and stood the fourth place among the massive Chinese art auction houses. Moreover, the updating figure released last year proved that Beijing Council International already took the third place.

Finally, Beijing Hanhai, established in 1994, with more than 15 years' experience of outstanding operation on the backflow of cultural and historical relics, stands for the inherent of Chinese culture and history. By insistence on the concentration of Chinese traditional art, Beijing Hanhai barely involves itself into contemporary art objects or western art form. Although its position has been challenged by Beijing Council International, Beijing Hanhai is still one of the best auction houses in China.

<6.3> Backflow of Chinese art

Emerging Chinese art buyers influence the scale of art markets, price determinants, and even art valuation (Qiu, 2002). The upsurge of contemporary Chinese art results in the booming traditional Chinese art in Mainland China later on. While massive traditional Chinese art pieces drift out of Mainland China due to the semi-colonization and civil war history.

Current distribution of overseas traditional Chinese art centralizes in Europe and North American. While overseas traditional Chinese art in North American markets tends to be ancient and modern brush paintings and calligraphies, and European markets have more valuable Chinese porcelain, vase and jewellery (Li, 2012). Current backflow of traditional Chinese art is operated by a number of Beijing auction houses, namely Poly International, China Guardian and China Council. Admittedly, Beijing is the key city for gathering overseas Chinese art, followed by is Shanghai.

The trends of backflow of Chinese art imply the continuous development of art markets in Mainland China and the increasing importance of art markets in Mainland China. The expanding Chinese art markets would lead to a further backflow of Chinese art.

2. Research design

The purpose for the research design is aim to illustrate the difference between purchasing traditional and contemporary art markets in China as well as explores the art consumption drivers in China. Thus, for comprehensive investment of art markets in China, qualitative research methods would be applied within this thesis. First of all, a survey regarding the motivation of art consumption of art markets in China would be applied. Then, based on the answers of the survey, a multiple regression analysis, one of the most widely used statistical methods, would be conducted in this thesis for identifying the degree of importance of art consumption's motivation as well as the correlation among the distinguishing motivation of art markets in China. For the selection of variables, the basis would be constructed on the previous literatures and designed survey according to the identified features of Chinese art markets. The target group is the identified art buyers of art markets in China. Finally, the qualitative research focuses on the active interview and short survey including a number of galleries, art dealers and collectors. In order to conclude the motivation of art consumption in China, the interview and survey must be formed in Chinese then translated in English.

3. Methodology

Throughout the inspection of key element of price determinants and art consumption in China via selected statistical method as well as constructive interview and survey, the digestion of consumer behaviour and consumption motivation of buyers in Chinese art markets can be observed.

1.1 The usage of statistical methods of art markets

Within this section, the implication of resolving the most suitable methods among the three patterns above will be interpreted profoundly. In general, the applications of statistical methods for identifying certain influential elements of art markets have three patterns, known as ANOVA test, classification and regression tree analysis (CART), and multiple regression analysis (Bialynick, 2010). Among the four statistical methods, ANOVA test tends to examine the significant differences between average art prices through the assigned variables, while CART and multiple regression analysis, which identifies the crucial factor from a number of selected determinants of art price, could explain the values of the dependent variable depending on the values of independent variables. However, CART is prone to be too sophisticated to apply due the limited research time and data collection. Besides, since the purpose of the research is to declare the vital factor of art price determinants in China, multiple regression analysis, as the most concise and explicit pattern, embedded the identification impact among the different variables, can be considered as the most appropriate method for this paper.

1.2 Independent variables for investing art consumption

Art consumption in China correlates to the economic development. For conducting a feasible statistic research, independent variables of motivation of purchasing art are illustrated from the characteristics of art work, artists, sale and buyers since the four features generalize the standards of valuing art.

(1) Characteristics of art work

Size

The size of art work is the initial consideration for constructing the tagged price especially in gallery (Chanel, Gerard-Varet and Ginsburgh, 1996; Higgins and Worthington, 2005). It contains the height and the width as well as the dimension in

cm² of the art object. Based on the fundamental concept of economic theory, art work with larger size needs more labour time as well as material cost thus leads to higher price. However, in art world, there is a concave relationship between the size and price of a single art object (Chanel, Gerard-Varet and Ginsburgh, 1996; De la Barre, Docclo and Ginsburgh, 1994; Czujack, 1997). The research suggests that the most optimal size for paintings is 58x40 cm for Great Masters and 33x21 cm for paintings by Other Masters (Tatjana, 2010). But this result has never been proved in traditional Chinese art paintings yet.

Subject

Table 1: subject matter and the expected coefficient sign

Subject	Impact on price
Seascape	+
Landscape	+
Portrait	-
Figurative	+
Interior	-
Still-life-fruit	+
Still-life-flower	+
Still-life-other	+
Cityscape	+
Religious	-
Historical	-
Animal	-
Abstract	+

+ stands for positive/ - stands for negative

The current finding of how subject affect the price in western art markets is illustrated above in Table 1 Since the impact of the subject on traditional painting is uncertain yet. All the subjects above are considered as variables in this paper. Besides, for matching the essence of traditional Chinese art, one more catalogue should be added in this table which is calligraphy painting.

(2) Characteristics of artist

Reputation

Reputation can be barely well defined since the term could be quite subjective. For reaching the clarity of defining reputation, this research cites the Artron Index of

individual painter. Indeed, there are three art indexes of current art markets in China, which are Mei-Moses Index, AMI Index, and Artron Index. Indeed, the three indexes complement each other. The advantage of Mei-Moses Index is the international fames and AMI Index is the initial art index of art markets in China. But in the consideration of the high composite reliability of Artron Index, the research quotes Artron Index of individual painter to explain the ranking of reputation.

(3) Characteristics of sale

Auction house

The price drivers depend on the dominance of an auction house to a great extent. The paintings sold by dominating auction house such as Sotheby and Christies hit higher hammer prices owe to their reputation and leading position in this field (Pesando, 1993; Renneboog and Houtte, 2002). Thus, the four leading auction houses in China, mentioned in the previous sector, Poly International, China Guardian, Beijing Council and Beijing Hanhai, are considered as one unit while other auction houses located in the Beijing and Shanghai constitute the different one. And the rest of auction houses in China are classified as the third type.

Timeframe

The rising of Chinese art markets emerges around 2005. The breaking through year for art market in China has to be 2010 because China has surpassed the US became the largest art markets for the first time in worldwide art history. Noticeable, around 2008, contemporary Chinese art kept hitting records while two years later, it converted to traditional Chinese art. Thus, the timeline for art markets in China tends to be even more important.

Price

Financial return closely relates to the purpose of purchasing art. Previous research demonstrates the financial return tends to be the main purpose of buying Chinese contemporary art (Xi, 2010). Repeated sales analysis and hedonic regression analysis tells the different degree of monetary return. Art index provides a reference for buyers to compare the financial return between the artists. Due to most Chinese buyers

consider art as short term investment, financial return can be defined as an important variable.

(4) Characteristics of buyers

Social group recognition

The consumption of luxury goods reflects the importance of sense of belonging of socioeconomic group (Margarita, 2010). Consumer wants to be part of certain group, especially for upper class. The intrinsic motivation would always be the important element of art consumption.

Wealth accumulation

Current Chinese art market is fulfilled by newly emerging wealthy. Previous study shows affluent second generation prefer to invest art instead of other luxury brand (Hurun report, 2010). Indeed, wealth accumulation is the universal standard for luxury goods consumption.

1.3 Survey

Based on the demonstration of depend variables above, the survey of art consumption in China focuses on the buyers secondary art market. Instead of online research, the survey has been handed out through auction houses and galleries in Beijing. The scope of participators is limited in the Beijing area. Total participators achieve 50 in total, in which one thirds prefer purchasing contemporary art while the rest of them is regular customer of traditional Chinese art. The survey regards 17 closed questions of art consumption in both traditional Chinese art market and contemporary Chinese art market. According to the result of the survey, the computation of statistical output would demonstrate the most influential element of art consumption in Mainland China.

Questionnaire

For investing motivations of art consumption in Mainland China

Please tick the box in front of your choice

Thanks for your participation

1. What is your gender?

Female

Male

2. What is your age?

20-30

31-40

41-50

Above 50

3. What is your occupation?

IT

Real estate

Banking business

Cultural industry

Artist

Others

4. What is your income per year?

Below 500,000

500,000~1,000,000

1,000,000~2,000,000

2,000,000~5,000,000

Above 5,000,000

5. Which type of art work would you prefer?

Traditional Chinese art

Contemporary art

Others

6. What is your frequency for purchasing art?

Often (more than 3 times per year)

Sometimes (less than 3 times per year)

Never

7. Have you often engage in a social group regarding art appreciation?

Often

Sometimes

Occasional

Never

8. When did you decide to purchase art?

Before 2004

Around 2004-2008

After 2008

9. What is your purpose of purchasing art?

Aesthetic appreciation

Gift

Collection

Decoration

Investment

Flaunt

Others

10. Where did you purchasing art mostly?

Gallery

Art store

Auction house

Art fairs

Internet

Exposition

Others

11. What is your favourite auction house?

Poly International/China Guardian /China Council/Beijing Hanhai

Prestigious auction houses located in Beijing or Shanghai

Others

12. What is your preferred price of purchasing art?

Below 50,000

RMB 50,000-100,000

RMB 100,000-500,000

RMB 500,000-1,000,000

RMB 1,000,000-5,000,000

Above RMB 5,000,000

13. Which item below impact your art consumption utmost?

Size

Subject

Specific painter

Price

Artistic critics

Financial return

Others

14. Would you consider size as an influential element of your art consumption?

Yes

No

15. Which subject of art work would you prefer?

Landscape/seascape/cityscape

Interior/ figurative/abstract

Still-life-fruit/flower

Portrait

Religious

Historical

Animal

Calligraphy

16. To what extent financial return of art work would be your consideration for purchasing art?

I never consider financial return issue.

I do pursue financial return of art.

Financial return is the only reason for buying art.

17. To what extent you purchase art for the fame of certain artist?

I don't care the name of artist.

Prestigious artist might impact my buy-in action.

Sometimes I purchase an art work because of my personal interest in the artist.

I am specialized in collecting certain artists' work.

1.4 Method

Multiple regression analysis has been used to test causal models among more than one independent variable. There are several multiple regression analyses suitable for different research. In order to avoid the chaos caused by the over complex analysis, this paper is approaching to standard multiple regression analysis. The formula of standard multiple regression analysis can be stretched as below:

$$\hat{Y} = B_0 + B_1X + B_2X + B_3X \dots + B_nX + \mu_i$$

In this equation, B_0 represents the intercept of line, the predicted value of dependent variable when independent variable is zero. B_1 represents the steepness of the line, how strong the relationship between variables. In this case, the larger B_1 means the stronger relationship. $B_1, B_2, \dots B_n$ represents each independent variable respectively. And μ_i stands for the term of error. As the most common used multiple regression analysis, each independent variable in this equation is evaluated in terms of its prediction offered by other independent variables. Once the regression line has been produced, the next step is testing how well the model actually fits the data. Then, by looking at a measure of goodness of fit, checking R square can tell the precise percentage of the variance of the dependent variable can be explained by the independent variable. Followed step explains each independent variable by looking the correlation and pointing out the most important variable.

For the purpose of examining how the variables influencing the art price of traditional Chinese paintings and contemporary paintings, two equations concerning multiple regression are formed to analyse the possibility. Including all the important determinants are rather difficult in this paper, therefore, only 8 selected variables are presented in the equations:

$$[1] Y_{\text{tradAC}} = B_0 + B_1 \text{tradSIZE} + B_2 \text{tradSUB} + B_3 \text{tradREP} + B_4 \text{tradAH} + B_5 \text{tradTIME} + B_6 \text{tradP} + B_7 \text{tradSG} + B_8 \text{tradWA} + \mu_i$$

$$[2] Y_{\text{conAC}} = B_0 + B_1 \text{conSIZE} + B_2 \text{conSUB} + B_3 \text{conREP} + B_4 \text{conAH} + B_5 \text{conTIME} + B_6 \text{conP} + B_7 \text{conSG} + B_8 \text{conWA} + \mu_i$$

The equation [1] and [2] are approach to test the correlation between price of traditional and contemporary paintings in China and its drivers. The explanation of the influence of different independent variables would be conducted according to the result of the formula in the next sector.

1.5 Interview for investing motivations of art consumption in China

Since the quantitative research of this paper mainly covers the secondary art market in China, this part tends to focus more on primary market. Interview would be the main

method for digging the current situation of art consumption of art markets in China from the perspective of Chinese art collectors and art dealers.

(1) Outline of interview

To explain the motivation of art consumption in China more profoundly, this interview is aim to conduct a semi-structured interview of randomly selected art buyers, gallery owners, and artists. The interviewees are gallery owner or manger as well as a number of buyers and collectors who are willing to assist the research. The interview starts with the open question “why would you want to have the piece(s) of art” then covers the question regarding the research topic of the thesis. Throughout summarising the essence of their answer, the opinions regarding the motivation of art consumption can be concluded in general. The list of interviewee includes gallery managers, brush painters, contemporary artists, and art collectors. According to the comprehensive conversation with various people in art circle, the difference between the consumption of contemporary art and traditional Chinese art can be summarized as well.

Interviewees	Number
Gallery owner	1
Art store manager	1
Collector/ buyers	3

(2) Data Report : interview

Interviewee: Gallery owner

Question: Why do you decide to open a gallery? What elements contribute the expanding art consumption in China? How do you comment contemporary and traditional art consumption in the range of Chinese markets?

Yang is running a gallery in Beijing for five years. His initial purpose of opening a gallery concerns to his artist dream. Yang used to study oil painting during the school time while dropped off afterwards for his family business. Yang's father is the big fan of traditional Chinese art. Indeed, there is a delicate pastiche of Qi Baishi's painting hanging on Yang's office though his gallery only sale contemporary art work.

Yang implicated that the rising of contemporary Chinese art between 2004 and 2008 drives plenty of Chinese wealthy transferring their money into art world in different forms. Yang is one of them. Instead of being an art collector, Yang preferred to invest new artists rather than compete with experienced collectors. Actually, his gallery had considerable turnover in the first two years.

Another art consumption driver pointed out by Yang is the sense of sociologic recognition. Most of Yang's initial customers were Yang's friends. With less knowledge of western art style, some of Yang's customers even looked for traditional Chinese painting in Yang's gallery. Yang was puzzled by the fact that a number of Chinese wealthy only stay at the recognition of enjoying traditional art work while tried to search for a piece of contemporary art. "He said it's a fashionable thing to have a piece of strange oil painting", Yang said one of his customers solved his confusion by an honest answer.

However, when we discussed current art markets in China, Yang revealed his anxious towards the development of contemporary art but has an optimistic prediction of traditional Chinese art. As a well-educated Chinese in both traditional Chinese art from and western art style, Yang thought that Chinese preference of contemporary art can hardly been formed. In despite of of the upsurge of contemporary Chinese art in global scale seemed to cultivate Chinese taste of contemporary art to certain extent. The strong Chinese cultural root interrupts such cultivation rapidly throughout the backflow of modern brush paintings. Yang thought most art consumption of contemporary art only concerning the potential financial return. As for traditional Chinese art, the strong sense of cultural and national identification would sustain the heat in the long run.

Interviewee: Art store manager

Question: Did you ever purchase or intend to purchase a piece of contemporary art work? Would you consider that contemporary art might overwhelm traditional Chinese art in the future? How about the distribution of your customers?

Xue inherits the art store from his father. He is also a professional traditional Chinese painter. Except a number of brush paintings he received as the gifts from his teachers and friends in the art circle, Xue's art store barely has any historical art pieces. Indeed, Xue's art store sales more archaized items than the real antiques.

Xue expressed his interest in different art form. He even intended to study oil painting skill in the future since an increasing number of Chinese started to appreciate contemporary art. In fact, Zhao Wuji is Xue's most admirable artists. However, he firmly claimed that the dominated trends of traditional Chinese art can never be reversed in art markets in China. "I am afraid international investors of contemporary Chinese art will be disappoint at the reality of art markets in China", Xue said. Even though the rapid development of contemporary art imperilled the leading position of traditional Chinese art around 2006 and 2007, the worst situation in Chinese auction market is the same total turnover of contemporary art and traditional art. But only limited to the secondary art market, Xue emphasized. "My traditional art business can hardly be influenced by the growth of contemporary art", Xue ensured that primary art market only can be impacted by economic recession. When explaining the reason for solid traditional Chinese art market, Xue mentioned the importance of art education in primary school. Meanwhile, western art style has been introduced to student's class almost one century. Xue believed contemporary art still has a large space to grow as long as increasing number of young generation interested in it.

As for art consumption of traditional Chinese art, Xue summarized the general purchasing purpose is to decorate, present as a gift, preserve cultural relic. Most of the auction sales of traditional Chinese art are not with the purpose of monetary rate of return. Xue admitted he owns a few master paintings but never consider trading any of them. The major different drivers of purchasing contemporary art or traditional art attribute to the pursuit of financial return and the sense of cultural identification, respectively.

Interviewee: collectors/ buyers

Question: What elements might influence your art consumption? Which art form would you prefer, contemporary art or traditional Chinese art? What is your opinion about primary and secondary art markets in China?

Wang and Liu, the most famous couples of art collectors, invested about RMB10 billion on Chinese art markets, including Mainland China and Hong Kong, in the year of 2009. Their collections cover both traditional Chinese art and contemporary Chinese art. The sensational event done by Wang and Liu is the “Red Collection”, namely any kind of art work concerning the topic of communist classics and created during the “Cultural Revolution”.

Wang and Liu claimed that their collections are the foundation of private and public exhibition with the main purpose of artistic and historical education. Nevertheless, the skyrocketing price of “Red Collection” stimulated the booming of “Red Art”. Wang had been criticized of leading to the speculative buy-in action which results in the chaos of auction market. As for the motivation of investing art markets, Wang and Liu believed the upsurge of contemporary Chinese art since 2004 encouraged the wave of art collection. Although the recession of contemporary art hit Chinese market after 2008, Wang still implied her confidence of contemporary art.

Xin, comparing with Wang and Liu, started with purchasing contemporary Chinese art while turned into traditional Chinese art collection. Xin considered contemporary Chinese art as the work of production line. “Contemporary art is nothing but a decoration”, Xin believed the financial return of contemporary art is extremely unstable and unpredictable. The boost of contemporary art between 2004 and 2008 exacerbated his anxious of contemporary art valuation. Another reason for art collection shift is the relatively standard criteria for measuring traditional Chinese art. Xin confirmed that the uniform measurement of traditional Chinese art’s evaluation contributes the soaring trends of traditional Chinese art market besides the historical and cultural reasons.

Tang, running the large-scale entertainment incorporation, is also investment veteran of art markets. “Art markets in China have intrinsic flaws of irrational bidding”, Tang regarded the impulsive action as the lag phase of adaptation of western business style of art. Despite the flourishing view of Chinese art market, the business mode of auction house and gallery still is the new thing for Mainland Chinese buyers. Most buyers with the purpose of financial return did little price comparisons and reasonable market analysis, which caused the plenty of overpriced cases. In addition, Tang criticized the depression of gallery business in China. “Gallery in Mainland China functioned as the museum for free”, Tang thought most Chinese have no awareness of the real business mode of gallery. He pointed out the

well performed gallery cluster is the foundation of western art market while Mainland China is lack of such foundation but replicates western style. The large gap between the development of primary art market and auction market actually hampered the future growth of Mainland Chinese art markets.

1.6 Result analysis

For this section, the explanation of result towards art consumption in Mainland China based on the statistic summary of the questionnaire would be analysis. Then combing with the conclusion of the interview, the thesis would provide an overall statement of art consumption in Mainland China.

(1) Statistical result analysis

The result of questionnaire contains 18 answers towards contemporary art consumption and 32 buyers prefer traditional Chinese art. The statistic result focus on to what extent the individual element could impact the art consumption in different art form. The difference between the major contributions of contemporary art consumption and traditional Chinese art consumption might offer the explanation of featured art consumption behaviour among Mainland Chinese buyers.

According to the output of the survey, throughout the 50 respondents, 36% tends to purchasing contemporary art and all of them indicate the strong interests of financial rate of return. While 63% respondents prefer traditional Chinese art. They consider less monetary return issue and tend to pursue a series collection of certain artist. Their buy-in action is prone to be more regular than contemporary art buyers. The income level of most contemporary art buyers is higher than traditional Chinese art buyers. Contemporary art buyers are willing to spend more for purchasing a piece of art work. Besides, most of contemporary art buyers have financial related occupations. Noticeably, both contemporary and traditional Chinese art buyers prefer large size of art work.

The research assumes that eight influential characteristics have distinguishing impact for art consumption. The table below displays the statistic result of art

consumption's drivers. For the sufficient analysis of the result, the demonstration of model evaluation and each of the variables evaluation would be presented afterwards.

Table 1 Determinants of art consumption

Variables	Contemporary art	Traditional Chinese art
	<i>Beta</i>	<i>Beta</i>
<i>Constant</i>	1.000	1.000
<i>Size</i>	.136	.136
<i>Subject</i>	-.178	-.020
<i>Reputation</i>	.121	.092
<i>Auction house</i>	.478	-.276
<i>Timeframe</i>	.390	.394
<i>Price</i>	.341	-.193
<i>Social group</i>	-.058	.470
<i>Wealth accumulation</i>	.412	.225
<i>R²</i>	.312	.474
<i>Sig.F</i>	.00	.00
<i>N</i>	18	32

First of all, Table 1 illustrates the correlations between the eight predictors and art consumption. As we can see from the Table 1, *Sig.F*, namely the P-value, is smaller than 0.05, which proves a statistical significance of the research. The different *Beta* values of each predictor under the item of contemporary and traditional Chinese art consumption indicate to what extent an individual determinant can explain the art consumption.

For contemporary art consumption, according to the statistic output, wealth accumulation ($r=0.412$) account to the most positive influential element, which implies the vital importance of fortunes. While the recognition of social group ($r=-.058$) tends to be a less valuable predictor of contemporary art buyers. Indeed, the survey reveals little contemporary art buyers are enthusiastic about artistic activities.

Auction house ($r=0.478$) also could highly predict contemporary art consumption. Most contemporary art buyers are prone to purchase art works in secondary art market, especially in prestigious auction house.

While traditional Chinese art buyers appear to be more involved in artistic salon ($r=0.470$). The sense of identification might drive their consumption behaviour. As the same as contemporary art buyers, wealth accumulation ($r=0.225$) correlates traditional art consumption positively. In the contrast to the contemporary art consumption, auction house ($r=-0.276$) has negative influence on traditional Chinese buyer's buy-in action. The main reason might attributes to the conventional statue of art store in primary art market. Besides, the time element has positive correlation with both contemporary and traditional Chinese art consumption. Indeed, most art buyers start their purchase after the upsurge of contemporary Chinese art.

(2) Summary of the interview

The interview focuses on the three groups of people who engaged art consumption in Mainland China. Their main point of view indicates that major different purchasing motivation between traditional Chinese art and contemporary art is the explicit purpose of financial rate of return. Due to weak cultural root and short time development, the popularity of contemporary art can hardly level up traditional Chinese art in Mainland China. Another reason of relatively weak performance and unstable development of contemporary art attributes to the decrease international attention. In other words, the performance of contemporary art in Mainland China directly relates to global art market. While traditional Chinese art market is the connatural part of thousand years' Chinese art history, the sense of national recognition and cultural identification results in the overwhelming position of traditional Chinese art. As for the prediction of future trends of art markets in Mainland China, interviewees imply the optimistic perspective of traditional Chinese art while believe the slowly growth trends of contemporary art and the gap between traditional Chinese art and contemporary art might keep expanding.

4. Conclusion

The upsurge of contemporary Chinese art between 2004 and 2008 directly leads to the stunning rising trends of Chinese art markets. Besides the existing leading position of Hong Kong art market, art markets in Mainland China have been thriving by leaps and bounds. Along with the global economic recession, when international art markets go downwards, art markets in China are still chugging along though the contemporary Chinese art bubble seems to burst around 2008. Due to the well performed traditional Chinese art market, global art markets appear to be recovered in the short term.

Generally speaking, art markets in Mainland China distinguishing from western art markets attributes to the strong cultural root. Because of the sufficient wealthy accumulation due to gradually rapid development of Chinese economy and the application of in-depth open policy, art markets in Mainland China acquire an opportunity to expand as much as other financial market form. The stunning auction turnover and skyrocketing growth trends of art markets in Mainland China actually fit the large scale of Chinese economy.

The reality which has been overlooked by western academia is the overwhelming traditional Chinese art in current art markets in Mainland China. Indeed, traditional Chinese art market exists long time before the invasion of western art form. Considering the taste formation of valuing beauty for Chinese buyers, the popularity of traditional Chinese art and the booming of traditional Chinese art markets are reasonable.

Art consumption in Mainland China can be classified into contemporary art and traditional art consumption. According to the survey and interview, contemporary art buyers tend to use art as the financial instrument while traditional art buyers prefer to purely collect the art work.

The prediction of future trends of art markets in Mainland China focuses on the expanding gap between contemporary art and traditional Chinese art. Besides, the insufficient development of primary art market is in the stark contrast to the flourishing auction market.

5. Limitations

The thesis only summarizes a small portion of primary art market. The lack of information and unclear data statistic of galleries and art store has brought difficult for further investigation. Another limitation of the research is the relatively small number of interviewee and respondent. Therefore, the statistic result and qualitative analysis might be superficial.

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Appendix

Appendix 1

Representative literatures for different methodologies of computing art price

Author	Sample	Period	Method	Nominal return	Real return
Anderson (1974)	Paintings in General	1780-1960	Hedonic regressions	3.30%	2.60%
	Paintings in General	1780-1970	Repeat sales	3.70%	3.00%
Stein (1977)	Paintings in General	1946-1968	Geometric means	10.50%	
Baumol (1986)	Paintings in General	1652-1961	Repeat sales		0.55%
Fery and Pommerehne (1989)	Painting in General	1635-1949 1950-1987	Repeat sales Repeat sales		1.40% 1.70%
Buelens and Ginsburgh (1993)	Paintings in General	1700-1961	Hedonic regressions		0.91%
Pesando (1993)	Modem Prints	1977-1986	Repeat sales		1.51%
Goetamann (1993)	Paintings in General	1716-1986	Repeat sales	3.20%	2.00%
Barre, et. al. (1996)	Great Impressionist	1962-1991	Hedonic regressions	12.00%	5.00%

	Other Impressionist	1962-1991	Hedonic regressions	8.00%	1.00%
Chanel, et. al. (1996)	Paintings in General	1855-1969	Hedonic regressions		4.90%
	Paintings in General	1855-1969	Repeat sales		5.00%
Goetzmann (1996)	Paintings in General	1907-1977	Repeat sales		5.00%
Pesando and Shum (1996)	Picasso Paintings	1977-1993	Repeat sales	12.00%	1.40%
Czujack (1997)	Picasso Paintings	1966-1994	Hedonic regressions		8.30%
Mei and Moses (2001)	American, Impressionist and Old Masters	1875-2000	Repeat sales		4.90%

Appendix 2

Rank of auction house in terms of the turnover and the number of their auction sales in 2010 spring auction

