

## Development of the Art Auction Market in China: From the Perspective of Industry Clusters

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— *Review of* —  
**Integrative  
Business &  
Economics**  
— *Research* —

### ABSTRACT

This study has conducted a comprehensive study of the flourishing art auction market in China from the perspective of industry clusters. After comparing the development of the Chinese art auction industry with the evolvement of the famed Manhattan borough in New York, this paper identified and recommended solutions for three critical problems encountered in some auction markets. The findings of our study promote mutually beneficial relationships among industry stakeholders, authorities, and art auction houses, as well as provide valuable reference for the overall development of the arts and cultural sector.

Keywords: art auction; arts and culture industry; industry cluster; China.

### 1. INTRODUCTION

China has identified arts and culture as a pillar industry in its national overall development plan as called 13th Five Year Plan, promoting collaboration between the for-profit and non-profit cultural sectors to ensure the continued growth of the cultural industry as a key economic driver. Greater economic prosperity in China and the increased cultural literacy of its citizens have led to rapid growth in art auctions. Functioning as a platform for regional industrial development, a stage on which artists can showcase their work, and a key channel for boosting the ‘soft power’ of the nation, art auctions embody the prominence of the industry in the economic and cultural development of China.

Other nations are also taking note of the Chinese art auction market. In a recent report, Yuan (2015) identified the common characteristics of the new generation of art investors in China: They are relatively young, have access to significant investment funds, are knowledgeable about art investment, and tend to personally attend art auctions rather than merely rely on agents. This is because since 2013, sales of Chinese work at international art auctions have been steadily increasing, attracting investors and boosting their confidence levels. Compared to 2012, auction revenue in 2013 increased by 28.8%, totaling approximately 54.8 billion RMB. Up to 72.5% of the art works were produced in China (Global Chinese Art Auction Market Report, 2014). This demonstrates the significant economic value and enormous development potential of the arts industry in China.

Apart from their economic value, however, art auctions can also be a means of protecting cultural relics. In May 2015, an internationally renowned religious event

occurred at the famous Fo Guang Shan monastery in Kaohsiung, Taiwan: The stolen head of the statute of Shakyamuni Buddha, originally enshrined in the Youju Temple in Hebei Province of north China, was rejoined with its body (China News Service, 2015). Stolen nearly twenty years ago, the head had passed through the hands of multinational art collectors until it was finally purchased at auction by a devotee and donated to the Fo Guang Shan monastery. The completed statute has returned to Youju Temple in 2016. This remarkable event would not have occurred without the important role played by art auctions in bringing this rare relic back to its rightful owners.

Although the arts industry has traditionally prioritized collection over auction, it has gradually evolved into a professional investment market with three key groups of stakeholders: Auctioneers, artists, and collectors. Article 2 of the Measures for the Administration of Artwork (CMOC, 2003), which came into effect in China on 1 July 2004, defines artworks as paintings, calligraphy and carved seals, sculptures, artistic photographs, art installations, industrial art, and limited replicas of these works, it also defines art-related commercial activities. Art auctions can be categorized as providing a type of 'agency' service. To some extent, the market share and international scale of Chinese art auctions demonstrates the commitment of the Chinese government to realizing the commercial value of its cultural sector as well the confidence and enthusiasm of art investors. However, small to medium-sized art auction markets still share the common problems of: 1) Lack of reasonable art pricing mechanisms and misjudgment of market conditions, creating a 'bubble'; 2) Failure to properly categorize art and explain the creative inspiration of the artist during the auction process, causing investors to be confused, and 3) Operating in an isolated or fragmented manner, rather than sharing resources. These issues weaken the effective implementation of policy and the robust development of the cultural sector.

Considering the problems highlighted above, we aimed to explore the development of the art auction market in China, particularly from the recently popularized perspective of industry clusters. Our objective was to understand the makeup of the cultural sector and how it might be affected by clustering. We discuss case studies of business clustering in international art auction markets, and examples of how local policy has supported these developments. Lastly, we recommend solutions for the three key problems described above.

## **2. OVERVIEW OF INDUSTRY CLUSTERING IN THE CHINESE ART AUCTION MARKET**

The term industry cluster was popularized by Michael Porter, a well-known professor at the Harvard Business School. A cluster is a geographic concentration of interconnected companies or institutions that have formed a system of competitive yet collaborative relationships. Clusters can be highly effective in reducing costs, facilitating information flows, and promoting collaboration. According to Porter, successful industry clusters offer the following four advantages: 1) Accelerate the macro-development of the industry; 2) attract external investors; 3) enhance employment opportunities, and 4) raise personnel standards (Porter, 2000). Cooperative strategy in supply chain networks is one such example: In order to ensure a steady, quality supply of the raw materials or products that they need, companies

buy into supplier companies or assist them in improving their workflows so that effective supplier/buyer relationships are established. The industrial business parks recently established in China are built on this concept.

The art market, according to Poli (2006)'s definition, can be attributed to the essential part of secondary market, which play a significant role of selling between galleries, individuals, or both. As prices on the primary market are confidential, auctions are the main pattern of ascertaining information on this type of transaction, artists or their gallery representatives are incapable to manipulate the market for works auctioned, in terms of both prices stipulated and available supply. A successful auction firm, therefore, should focus on improving auctioned performance positively (Fernandes and Afonso, 2014). Most previous studies on business clusters have focused on technology industries (Audretsch and Feldman, 1996; Feldman and Florida, 1994; Saxenian, 1994). Research on the art auction market has concentrated on current industry conditions (Zhao, 2008), industry problems (Zeng, 2007), and auctioning of specific types of art (Zhang, 2012), with few researchers highlighting the issue of industry clustering. Currently, the art auction industry in China is most commonly clustered by region. This is particularly true for large auction houses such as Poly International Auctions, Guardian Culture Group, XiLing YinShe Auctions, Shanghai Duo Yun Xuan Auctions, Holly's Auctions, and Heibeijiahai Auctions. With extensive knowledge of the source of artwork, these firms often work closely with local artists or art institutions, enabling them to directly negotiate brokerage rights to artwork. They are also well-positioned in the art collection market. Business transformations within these firms have driven overall growth in the industry. For example, Beijing Poly International Auction Co. Ltd went public on the Hong Kong Stock Exchange in early 2014. China Guardian Auctions restructured as the Guardian Culture Group and expanded its business to include professional investment services, such as private wealth, financial support and fund services (Global Chinese Art Auction Market Report, 2014). Simultaneously, social media marketing has also influenced many aspects in commercial transactions, including art auction. Yong and Ali Hassan (2019) examined the relationships between social media marketing and entrepreneurial success. These developments demonstrate that, in addition to consolidating their middle-class domestic customer bases, these firms are actively pursuing greater exposure, new strategic high ground, and expansion into international art markets, to effectively drive advancement of the overall industry.

### **3. CASE STUDY: THE CLUSTER EFFECT IN THE ART AUCTION MARKET OF MANHATTAN**

Manhattan, home to world-famous institutes such as the Metropolitan Museum of Art, the Museum of Modern Art, and the Guggenheim Museum, has become an artistic and cultural hub, showcasing the development of the United States as a nation and the heritage of its early European settlers (Upper East Side Art Galleries, 2015). Statistics report over 200 art studios, including art trading centers, are located in Manhattan (Best Uptown art galleries, 2015). It is without doubt the birthplace of the American lifestyle, its drawing power attracting creative and artistic geniuses for over a century. Manhattan has also formed a solid industry chain model, incorporating the concepts of the value chain, organizational chain, supply-demand chain and spatial chain. This

has established a type of multi-stakeholder collaboration mechanism that enables us to experience the unique artistic and cultural dynamics of the area.

As seen on the website of NYC & Company (Manhattan New York, 2015), purposeful promotion of the unique art and culture of Manhattan has built the area into a thriving tourist destination as well as an international hub of art dealing. Tourists browsing the website can access a wide range of information on activities from art exhibits to musicals to solo shows, and even information on nearby lodging. Operating since the 1980's, auction houses in neighborhoods such as Chelsea and Soho boast impressive and continuously increasing sales turnover rates (Contemporary Art Market, 2014). The rich cultural atmosphere of Manhattan is the underlying foundation of its art auction industry chain, firmly linking authorities, exhibition venues, auction houses, and local artists into a strong cluster of coexistence.

The difference between the development of the Manhattan model and that of the art auction industry in China is that although there are large auction houses such as Sotheby's and Christie's in the U.S., the small-to-medium art auction sector has grown mostly spontaneously, evolving into an industry cluster alongside local authorities and institutions, and over time becoming a prominent local feature. Although it is difficult to gauge the operational effectiveness of this approach in building an industry cluster, the Manhattan case is an example of a win-win model that can serve as reference to other nations in promoting the robust development of art auction markets.

#### **4. CONCLUSION**

From the viewpoint of industry clusters, we studied the operational models of successful international art auction houses. Based on our findings, we make the following recommendations to solve the three problems described in the first chapter:

1. Ensure that pricing information is transparent, to prevent a 'bubble' forming in the Chinese art auction market: King et al. (1993) defined a 'bubble' as severe overvaluing of asset prices, the negative effects of which can seriously impact economic growth and consumer spending. We often read reports of record-breaking prices being achieved at art auctions. Kräussl et al. (2014) found that in late 2011, the U.S. art auction sector was negatively affected by bubble-driven prices. Although achieving exorbitant prices for art does not necessarily indicate a bubble, the probability of one developing is reduced if participants in art auctions, particularly auction houses, have in-depth knowledge about the origin and historical value of art. They must avoid grandstanding in an attempt to manipulate or artificially inflate the price of art, in order to effectively prevent or reduce the possibility of a bubble forming.

2. Encourage networking within the art industry cluster. The modern arts and creative industry are placing more emphasis on group strategy in sales and marketing, capitalizing on collective power to acquire resources and reduce information asymmetry. This would contribute positively to the robust development of the art auction market in China as well as the wider arts and cultural sector.

3. Cultivate the skills of art auction staff. While most staff at auction houses do have a certain extent of knowledge about art, many small to medium auction houses simply apply general codes to their pieces rather than clearly categorizing them. During the auction, they often make the mistake of either describing the piece to briefly or hastily, or exaggerating the quality of the creation or its creator in order to inflate the auction price. Both of these approaches can easily repel potential buyers which in turn can raise doubts in the minds of external parties. In order to raise the overall standards of the industry, auction houses must improve the professionalism of their staff, training them to convey their knowledge as interpreters rather than salespeople. This would assist in strengthening the soft power of culture through local communities.

If properly implemented, the recommendations in the three areas above can effectively enhance the economic value of the arts and cultural industry, as well protect and preserve the value of the new generation of art in China. We suggest that future studies explore in-depth the current issues or problems encountered by art auction houses in China. The specific findings and discussion resulting from such research would assist the art auction industry in expanding its global reach and achieving stable growth.

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