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THE INFLUENCE OF THE GLOBAL FINANCIAL CRISIS ON THE CHINESE ART MARKET

Summary: Investment in art is not considered the mainstream asset class. Art is incorporated into portfolios to diversify them. The art market seems to be less subject to macroeconomic aspects than other investment areas and during turbulences on the stock exchange some investors decide to use alternative forms of capital allocation (including investments in paintings and sculptures). However, the art market suffers adverse consequences of the global financial crash as well, which can be easily observed in particular on the emerging art markets. The purpose of this paper is to show how the financial crisis influences the major emerging art market which is the Chinese art market.

Keywords: Chinese art market, global economic crisis, art investments, art finance.

1. Introduction

Looking back at history, investing in art may seem to be very safe. During economic stability but, which is more important, also during unstable times auction houses keep providing us with information about price records. The art market seems to be less subject to macroeconomic aspects than other investment areas and during turbulences on the stock exchange some investors decide to use alternative forms of capital allocation (including investments in paintings and sculptures). However, the art market suffers adverse consequences of the global financial crash as well, which can be easily observed in particular on the emerging art markets. The purpose of this paper is to show how the financial crisis influences the major emerging art market – Chinese art market.

China has continued to gain share in the global market. In 2007 it achieved the third largest sales worldwide, and in the next years maintained that position¹. This paper consists of five sections. Following the introduction, section 2 of this paper focuses on the history and characteristics of the Chinese artwork auction market. Section 3 analyzes the Chinese art market as an investment area and then section 4 analyzes the influence of the global financial crisis on the Chinese art market and

¹ C. Mc Andrew, *Globalisation and the Art Market. Emerging Economies and the Art Trade in 2008*, TEFAF 2009, p. 14.

proves that emerging art markets share a significant long-term relation with other financial market instruments. The final section summarizes the main findings in the paper.

2. History and characteristics of the Chinese artwork auction market

The year 1993 marked the beginning of the Chinese artwork auction market. The first artwork went under the hammer in China Guardian auction house, and since then the market has been developing rapidly. The following four development stages may be distinguished²: **The 1st phase – 1993-2000** – was the initial stage. The most important auctions took place in the continental part and in Hong Kong, most of the purchasers were foreign collectors and the prevailing stream was contemporary Chinese painting and calligraphy. This period ended with the financial crisis in Asia (in 1997), which caused a slowdown on the market. No reliable data concerning auction quotations from this period is available.

The 2nd phase – 2000-2003 – was the time of rapid market development, increased transactions and turnover. The annual turnover ranged from 1 to 1.5 billion Chinese yuans (150 to 220 million US dollars). In 2003 the prosperity of the Chinese economy was interrupted by the outburst of “SARS” epidemics. As regards artwork auctions that took place in the spring of 2003, the total turnover reached 340 million RMB³, which was merely 61% of the turnover reached in the same period of the previous year.

The 3rd phase – 2003 - first half of 2008 – was further rapid market development. In 2004 the turnover from spring auctions reached 3.1 billion RMB, which exceeded the turnover reached in 2003 by 9.2 times⁴. This record surprised everyone’s expectations.

In the third phase there was competition on the financial market. Banks and other financial institutions started to struggle for the richest clients. As a result, their offer, which previously focused on typical financial products, included innovations such as artwork products and services. “Artworks Investment Scheme” may serve as an example as regards the Chinese art market. This close-end fund was proposed by Minsheng Bank in 2007. The maximum annual rate of return was set on the level of 18%, the investment period was 2 years and minimal contribution amounted to 500 RMB⁵.

² *Artworks Auction Market of China Spring*, Artron Art Market Monitoring Center, 2008, p. 6.

³ RMB (Renminbi, Chinese Yuan).

⁴ *Artworks Auction Market...*, p. 9.

⁵ *Artworks Auction Market...*, p. 6.

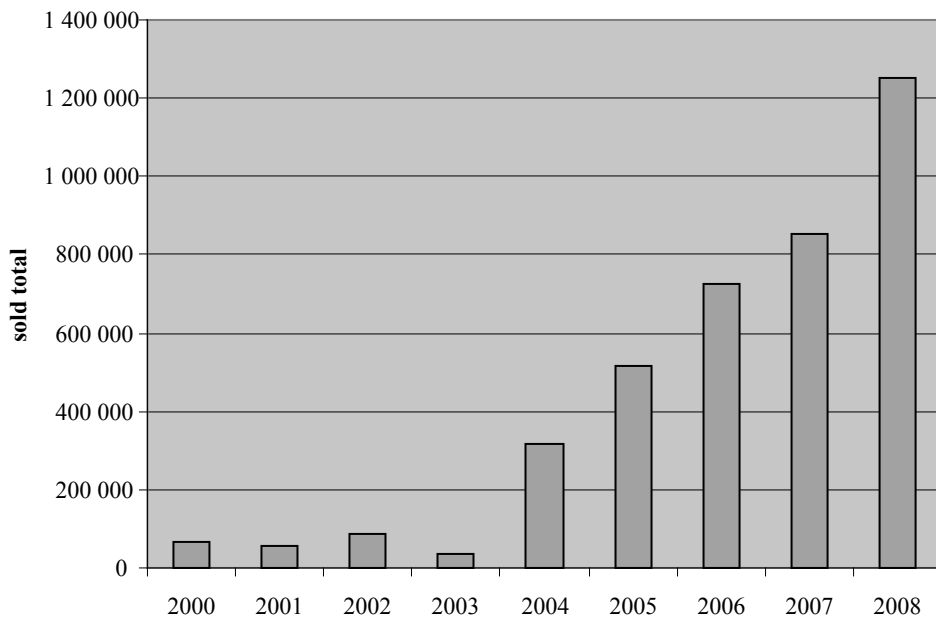


Figure 1. Year-on-year uptrend of annual spring auctions total sale (2000-2008)

Source: Artworks Auction Market of China Spring, Artron Art Market Monitoring Center, 2008, p. 9.

The sales structure underwent considerable changes in the third phase. It became much more diversified than ever before. Another change that was recorded regarded the share of particular segments in the overall sales structure. It was Chinese ceramics, craftwork and classical painting that enjoyed the greatest popularity during auctions held in the spring of 2008. Oil and contemporary paintings, so popular in 2007, did not arouse great interest (Figure 2).

Collectors from this part of the world purchased indigenous artworks and works of artistic craftsmanship which were previously carried away as a result of purchase or plunder that had taken place in the areas of former colonies, in occupied areas or war-stricken areas. What became genuinely popular with Chinese middle class is the Yuan, Ming and Qing Dynasty emperor porcelain (from the XIIth – XIXth cent.), historical brass works and other archaeological and historical objects. Owing to increasing demand, these items often reached record prices, e.g. a ritual brass lidded ewer from the XIth – Xth century B.C. which was sold at the Christie's auction in New York in March 2005 for 240 thousand USD and the Zhou Dynasty ritual wine ewer which was bid for 9.2 million USD (Christie's, New York)⁶.

⁶ M. Korzeniowska-Marciniak, *Idzie nowe – nowe tendencje na międzynarodowym rynku sztuki*, „Gazeta Antykwaryczna” 2006, Nr 06-08, p. 45.

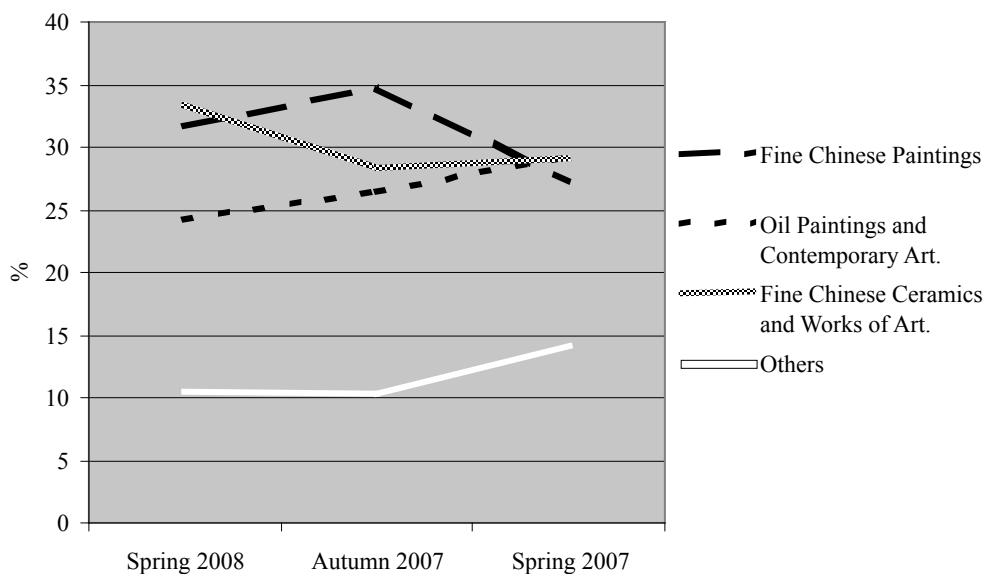


Figure 2. Turnover proportion change tendency chart of different kinds of art (2007-2008)

Source: *Artworks Auction Market...*, p. 10.

Between 2001 and 2006 the value of contemporary Chinese artists increased by as much as 440%. The number of Chinese artists placed on the TOP 100 Contemporary Artists list increased from 1 to 25. In 2001 only Cai Guo-Qiang was on the 59th position with the annual turnover of 207 000 dollars. In 2006 Zhang Xiaogang reached the 2nd position on the TOP 100 list with the turnover amounting to 23.7 million dollars and he was just after Jeff Koons⁷.

China became a serious player in the world of contemporary art market. The price index for Chinese art increased by 780% from 2001 to 2007⁸. Another evidence of the boom on the Chinese art market is the fact that the number of works sold increased considerably. Auction houses also increased in number – apart from Christie's and Sotheby's there are almost one hundred local auction houses, e.g. Beijing ChengXuan Auctions, Shanghai Hosane Auction and Hua Chen Auctions⁹.

In 2008 the total turnover from spring auctions exceeded 12.5 billion RMB, thus setting another record and exceeding the turnover reached during autumn actions of the previous year by 14.37%. In comparison with the same period of 2007, the turnover from the auctions held in the spring of 2008 increased by 46.71%. Summing

⁷ Jeff Koons – American painter and sculptor. *Hanging Heart (Magenta and Gold)* is his work of art that reached the highest price at artworks auctions. His work was sold on 14 November 2007 at Sotheby's for 23.6 million dollars. *Art Market Trends 2006*, The Artprice Annual Report, p. 19.

⁸ Ibidem, p. 18.

⁹ Ibidem, p. 17.

up, in the spring of 2008 473 auctions were held, which was 46.44% more than in the same period of 2007. 120249 works were sold in this period, which is 37.93% more than in the same period of the previous year¹⁰. Prices rose considerably at the beginning of 2008. The share of works which were sold for more than 10 million RMB increased by 58.75% when compared with the previous year¹¹.

Throughout the last years of the 3rd phase the Chinese art market boomed and developed rapidly, which was crowned by the 3rd position won in 2007 and 2008 as regards turnover structure on the world art market (Figure 3).

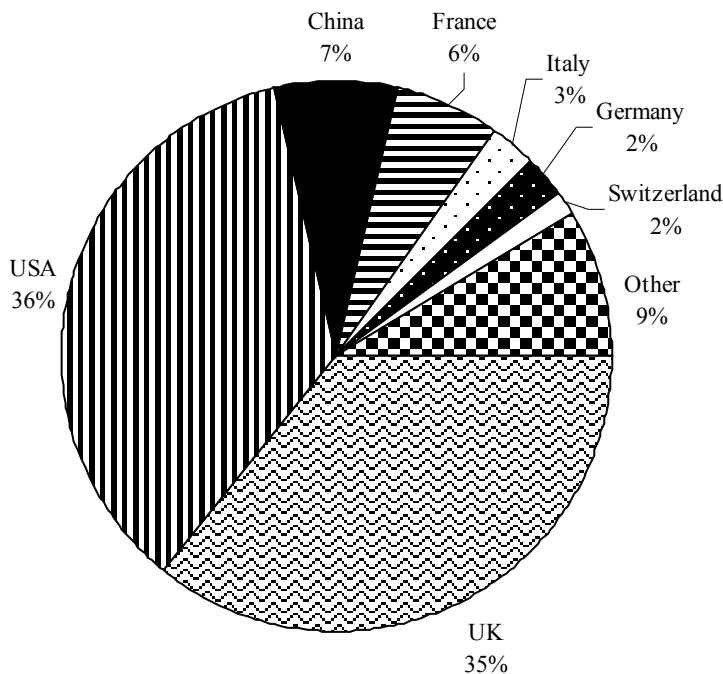


Figure 3. Fine art auction sales turnover in 2008 (breakdown by country)

Source: *Art Market Trends 2008*, The Artprice Annual Report, p. 10.

The 4th phase – from the second half of 2008 – was a rapid crash on the art market caused by the global financial crisis. The global financial crisis affected both world potentates, i.e. Christie's and Sotheby's that located their seats on the Chinese market in Hong Kong, and local auction houses such as China Guardian, Beijing Poly or Sungari International.

¹⁰ *Artworks Auction Market...*, p. 9.

¹¹ *Ibidem*, p. 10.

Table 1. Leading auction houses in China

Rank in 2008	Auction Company	Sold Total (RMB, ten thousand Yuan)	Special Auction Number (Pc)	Market Share in 2008	Rank in 2007	Market Share in 2007
1	HK Christie's	201.078	14	16.05%	1	15.22%
2	HK Sotheby's	150.261	13	11.99%	2	11.20%
3	China Guardian	130.233	46	10.39%	3	7.48%
4	Beijing Poly	91.484	22	7.30%	4	6.63%
5	Sungari International	61.810	13	4.93%	6	4.10%
6	Beijing Hanhai	49.566	24	3.96%	5	4.97%
7	Beijing Council	39.043	10	3.12%	8	3.50%
8	Chieftown Auction	37.885	8	3.02%	11	1.88%
9	LD Sotheby's	35.704	4	2.85%	20	0.92%
10	Zhongding International	28.818	8	2.30%	53	0.30%

Source: Artron Art Market Monitoring Center, Artworks Auction Market of China Spring, 2008, p. 14.

In conclusion, it is worth emphasising that on the Chinese art market two parallel markets can be distinguished: the traditional art market, including antique bronze art, emperor porcelain, silk scrolls and ink paintings, and the contemporary art market with oil and acrylic paintings from the previous three decades. What distinguishes these two parallel streams is the fact that historical works return to China whereas contemporary art is very popular with foreigners. People from the west as well as from other Asian countries, such as Japan and Korea purchase contemporary Chinese artworks. Contemporary Chinese art does no longer supplement the offer of leading auction houses (Christie's and Sotheby's) – it is a part of the mainstream on the world art market¹².

3. The Chinese art market as an investment area

Of all the emerging markets (China, India, Russia and the Middle East), China has made the greatest impact on the global market, both due to its size and to the strength of international interest in Chinese art¹³. As it was already mentioned in the previous chapter, the majority of precious works made in China throughout centuries belongs to foreigners. Chinese collectors are ready to pay a lot for the most precious and historical works of art. Thus, information regarding auction records is not surprising

¹² M. Czechońska, W. Jakóbiec, *Import/Export. Chiński rynek dzieł sztuki*, "Arteon" 2006, Nr 12, p. 11.

¹³ C. Mc Andrew, *Globalisation and the Art Market...*

– such works of art arouse considerable interest in potential investors. Chinese entrepreneurs are very active on this market (only one of the firms seated in the province of Zhejiang built up a collection whose market value was estimated to exceed 700 million dollars in 2006)¹⁴.

The most important advantages as regards investments in art are as follows: the art market is considered to belong to investment areas which are the least subject to the current economic situation and profits from investments in artworks are characterised by little or even negative correlation with profits from financial assets. In December 2008 Roman Kraeussl and Robin Logher from VU University Amsterdam carried out a research aimed to verify the above-mentioned thesis in the context of the Chinese art market. They compared investment attractiveness of the three emerging art markets (Chinese, Russian and Indian) with other popular forms of capital investment, such as the stock exchange and the gold market. The Russian art market exhibits positive correlations with the most common financial assets and a positive market beta, and the index for Indian art reveals a negative market beta and varying correlation results, whereas the Chinese art market demonstrates a negative correlation overall and a negative market beta¹⁵.

In the period of 1990-2008 the average rate of return for the Chinese art market amounted to 5.7%, which was rather low when compared with the Shanghai Stock Exchange Composite Index. However, what may be considered a positive aspect is the fact that the average rate of return from investments in Chinese art *mentioned above turned out to be low correlated with the results of the S&P 500 and three-month treasury bills*¹⁶.

The standard deviation indicator, which measures auction market volatility, amounted to 21.08% as regards the Chinese art market. This was the lowest result of the three emerging art markets under the research; however, this indicator was much higher than in case of S&P 500 (14.5%)¹⁷.

In case of the Chinese art market the Sharpe ratio, which is a measure of the excess return (or Risk Premium) per unit of risk in an investment asset or a trading strategy, amounted to only 0.16, which was the lowest value taking into account all investment options under the research¹⁸. Thus, capital investment in Chinese art gave the lowest rate of return taking into account the investment's risk.

The research mentioned above also proved that Chinese artworks have a negative beta (-0.22)¹⁹. The following factors were taken into account in the analysis: the S&P500 index represented the expected rate of return, whereas the rate of return for

¹⁴ M. Czechońska, W. Jakóbiec, op. cit., p. 12.

¹⁵ Kraeussl R., Logher R., *Emerging Art Markets*, VU University Amsterdam December 2008, p.1.

¹⁶ Treasury bill is a short-term debt obligation issued by the government, very popular in the Anglosphere. In Poland treasury securities are issued. Ibidem, p. 10.

¹⁷ Ibidem, p. 20.

¹⁸ Ibidem, p. 10.

¹⁹ Ibidem, p. 11.

three-month treasury bills was identified as the risk-free rate. The negative beta is the evidence of inversely proportional sensitivity of the Chinese artworks to the market situation (i.e. conjuncture on the N.Y. Stock Exchange). Thus, Chinese artworks placed in the portfolio seem to be an interesting security during the bear market. The above-mentioned research covered cointegrating relations, e.g. between the value of the Chinese GDP or the Chinese stock exchange index and the local art market index. As regards the above-mentioned indices, we deal with long-term correlation²⁰.

In conclusion, the Chinese art market is indifferent to short-term changes on the financial markets or reacts inversely in comparison with the remaining investment markets. Thus, placing a painting or sculpture made by a Chinese artist in the portfolio seems to be an interesting alternative. Nevertheless, in the long-term period the situation on the art market reflects tendencies occurring in the economy. The condition of the economy influences art but not immediately²¹. It must be emphasised that investments in art differ considerably from investments in securities or treasury securities. Artworks are considered as both investment goods and consumer goods – they generate profits but they also bring joy. Consequently, they should not only be treated as effective capital investment but also as a source of delight and satisfaction.

4. The influence of the global financial crisis on the Chinese art market

The crash on the financial markets exerted a negative impact on the art market. In the first quarter of 2009 only in case of 79 works sold on the global market the bid price exceeded 1 million dollars. In comparison with the same period of the previous year, this number fell by 50%. 77% of the offers concerned works whose asking price was below 5 000 USD (in 2008 it was 67%). The share of works with the asking price exceeding 50 000 USD fell dramatically; in the first quarter of 2008 it was 6% of the offer whereas in 2009 it was only 3%²².

As a result, the following changes were implemented: auction houses, art galleries and museums dismissed a considerable number of employees, guaranteed prices were no longer available, works sold at auctions significantly decreased in number and banks from the private banking sector withdrew from art banking services²³.

²⁰ Ibidem, p. 23.

²¹ D. Brewster, *Art prices fall 35% as collectors cash in*, "Financial Times", www.ft.com, 22.05.2009.

²² *First quarter of 2009: an ailing art market*, www.artprice.com, 06.05.2009.

²³ Art banking is a system that provides the client with comprehensive and individual service in the scope of selling, purchasing and collecting artworks. A. Piechaczek, *Bardzo obiecująca nisza*, „Miesięcznik Finansowy BANK” 2006, Nr 12 (170/171).

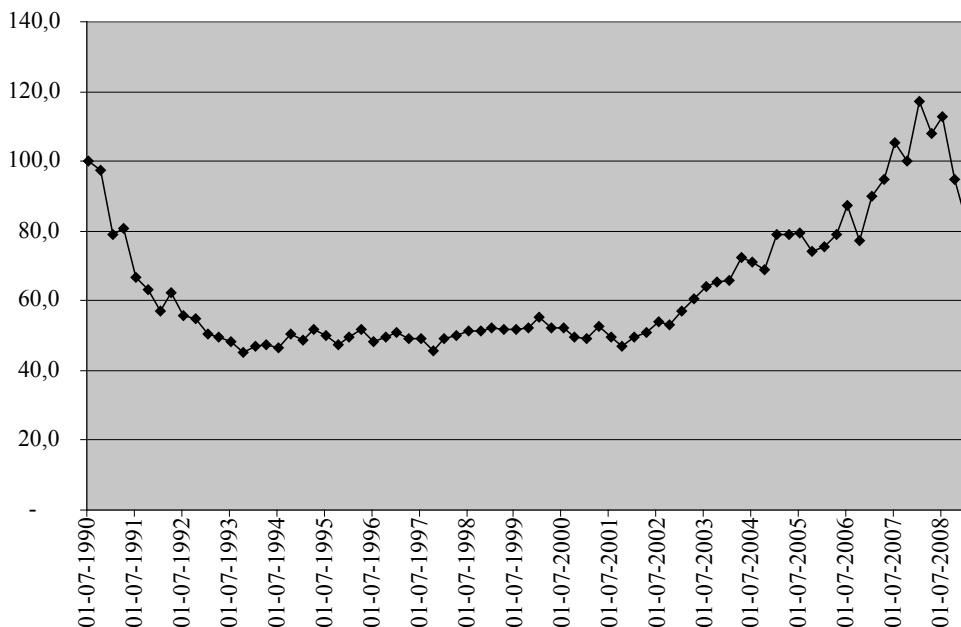


Figure 4. Artprice global index (1990-2009)

Source: <http://imgpublic.artprice.com/pdf/agi.xls?ts=20090602040639>, 24.04.2009.

The crisis affected China as well. In October 2008 President Hu Jintao claimed that the Chinese economy was stable and its stable growth might relieve the global slowdown; however, it quickly turned out that China would suffer the consequences of the crisis as well. The evidence of the crisis in China was the situation on the Shanghai Stock Exchange – the Shanghai Composite Index and B-Share Index fell by 70% in the period of November 2007-November 2008²⁴.

The recession deeply affected the Chinese art market. As many as 37 art galleries closed down in Beijing in the first quarter of 2009²⁵. The auction houses located in Hong Kong also suffered the consequences of the global crisis. The turnover from the auctions held in local branches of Christie's and Sotheby's was surprisingly low²⁶. The Asian financial crash that took place in 1997-1998 did not affect the Chinese art

²⁴ A. Kobyłka, *Wpływ kryzysu finansowego na chińską gospodarkę i próby jego przezwyciężenia: szansa czy zagrożenie?*, „Biuletyn OPINIE” 2009, Nr 12, p. 2.

²⁵ L. Lim, *Sky-High Chinese Art Market Comes Back To Earth*, <http://chinadigitaltimes.net/2009/03/sky-high-chinese-art-market-comes-back-to-earth/>, 23.05.2009, p. 1.

²⁶ *New markets and the crisis*, “Art Market Insight” February 2009, <http://web.artmarketinsight.com/en/09/02/02/New+markets+and+the+crisis>, 23.05.2009.

market. The crisis we deal with today is much more serious; as experts estimate, it will last for minimum two or three years²⁷.

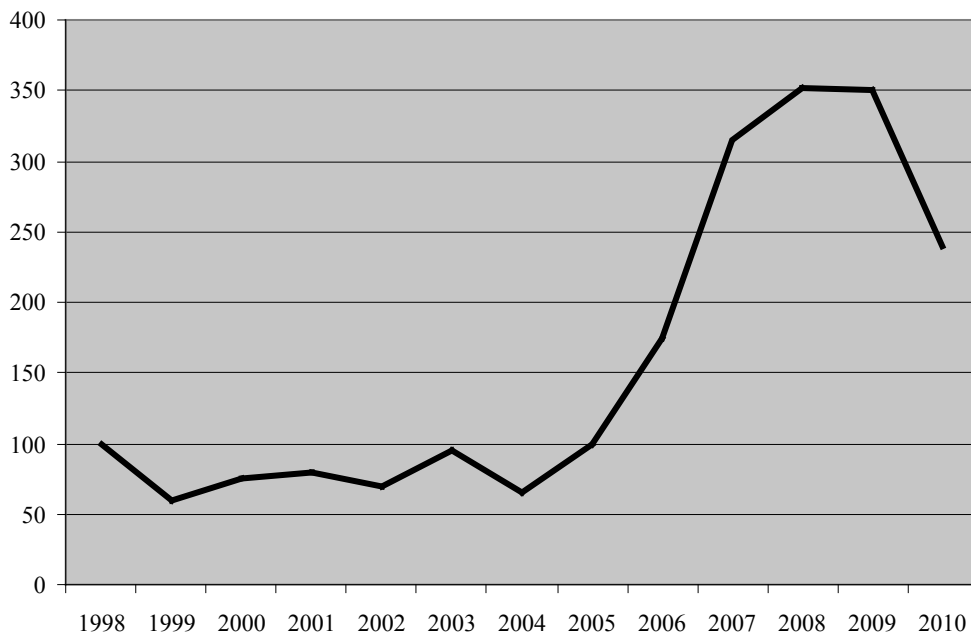


Figure 5. Chinese Contemporary Art Market Index (1998-2008)

Source: *Contemporary Art Market 2008/2009*, The Artprice Annual Report, p. 103.

Karl Schweizer, an art market expert representing the Swiss bank UBS, highlights the spectacularity of the Chinese art market. Prices seemed to be artificially increased. As regards the works purchased on the emerging markets, it is difficult to say whether they will pass the test of time or not. In order to reduce the risk, the artwork portfolio should be diversified. In case of the Chinese art, it is both contemporary art and classical art that should constitute the artwork portfolio²⁸. The prices for Chinese works of classical art are rather low in comparison with the prices reached in the UK or the USA. Additionally, taking into consideration the fact that the supply of this kind of works is limited, prices may increase considerably in this segment²⁹.

²⁷ J. Couteau, *The Asian Art Market vis-a-vis The Global Economic Crisis*, http://www.cartsmag.com/articles/detail.php?Title=The%20Asian%20Art%20Market%20vis-a-vis%20The%20Global%20Economic%20Crisis&ID_Comment=35, 12.05.2009.

²⁸ J. Pomfret, *Looking at Asian art for next big jackpot*, "International Herald Tribune" 04.02.2008, p. 216.

²⁹ J. Pomfret, *Nervous investors canvass Asian art for big returns*, <http://www.reuters.com/article/sphereNews/idUSHKG14233320080203?sp=true&view=sphere>, 03.02.2009.

The latest Chinese art segment, which was treated as a speculation instrument, was severely affected by the art market turmoil. As Evelyn Liu, Sotheby's executive, said, "The market for contemporary Chinese art has seen unprecedented growth in the past five years – from three million dollars in 2004 to 194 million dollars in 2007. The prices were exaggerated. Young artists, still in school, were selling their paintings for 100,000 dollars. It had lost touch with reality. The crisis will put this straight"³⁰.

During contemporary artwork auctions held in Hong Kong in November the number of works which were not sold amounted to 35%. The average fluctuated between 9% and 14%. On 30 November Christie's recorded another failure: only 44% works were purchased³¹.

The situation on the art market improved in the spring of 2009. This stems from the fact that auction houses lowered prices and the number of works bid without the minimal price increased (bidding starts "from zero yuan")³².

5. Conclusions

Beyond the shadow of a doubt, the global economic crisis affected the art market. However, the influence of the crisis had a limited meaning owing to low correlation of this area with financial markets. As regards the Chinese art market, it is the contemporary art segment that was the most severely affected. The past several years were a boom period – with exaggerated prices for contemporary artworks and many artists establishing their commercial value. Artwork factories were becoming more and more popular; contemporary artists, so busy with other duties, employed craftsmen that made "works of art" for the artist. The only thing that the artist-employer had to do was to sign his name on the works³³. The current situation makes us think about the past and draw conclusions. Apart from unquestionable problems and negative consequences, there are also some positive aspects of the crisis: instead of focusing on the number of painted or sculptured artworks artists have to focus on the theme of their works and be more creative in order to reach the target.

³⁰ J. Garrus, *Financial crisis: a probable correction to contemporary Chinese art market*, <http://arts.cultural-china.com/en/100Arts3700.html>, 22.05.2009, p. 1.

³¹ *Art Market Trends 2008*, The Artprice Annual Report, p. 8.

³² E. Soetrijono, *Global Economic Crisis and the Asian Art Market*, Asian Contemporary Art And Culture, <http://www.c-artsmag.com>, 14.04.2009.

³³ L. Lim, *Sky-High Chinese...*, p. 1.

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CHIŃSKI RYNEK SZTUKI A GLOBALNY KRYZYS FINANSOWY

Streszczenie: Z historycznego punktu widzenia sztuka wydaje się być bardzo bezpieczną formą lokaty kapitału. W czasach stabilizacji gospodarczej, ale – co istotniejsze – także w momentach kryzysu, z domów aukcyjnych wciąż napływają informacje o kolejnych rekordach cenowych. Mimo iż rynek sztuki w porównaniu z innymi obszarami inwestycyjnymi wydaje się być w mniejszym stopniu podatny na aspekty makroekonomiczne, również na nim można zaobserwować negatywne konsekwencje globalnego krachu finansowego. Zjawisko to jest szczególnie wyraźne na wschodzących rynkach sztuki. Autorka niniejszego opracowania postawiła sobie za cel ukazanie wpływu kryzysu na rynkach finansowych na sytuację na rynku dzieł sztuki, na przykładzie chińskiego rynku sztuki.