

# **A** ART MARKET GURU

WHAT THE WEST CAN LEARN  
FROM CHINA'S DIGITAL  
TRANSFORMATION OF  
THE ART MARKET

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## SUMMARY

In the past decade, the country's art market has become the fastest-growing in the world, reaching a market value of US\$59 billion<sup>1</sup>. It achieved this accolade from 2010 to 2014, and then again in 2017 and 2018<sup>1</sup>. With a total turnover of \$4.5 billion in the auction market, China occupied nearly 30 percent of the global fine art market in 2018. In 2016 the online auction market in China transacted nearly US\$4 billion in business<sup>2</sup>. Depending on how observers view the country's development, the digital transformation of China's art market may provide a challenge to the West's legacy institutions, new business opportunities for intrepid entrepreneurs, or inspiration for new technology solutions to traditional art market issues.

The rapid expansion of China's art market has three primary drivers: within a mere 30 years since the country opened its economy to international markets, it has become the second largest in the world after the United States. Also, its middle class at 400 million<sup>3</sup> people is still expanding, and it has 400 million Millennials<sup>4</sup> who are as confident in their use of digital technology as their elders were with the bicycle a mere 20 years before, when there were few cars on the road. Add to the mix hundreds of billionaires and thousands of millionaires, an inexhaustible supply of technology entrepreneurs, the catalyst of mushrooming creative exploration, and the world has an economic "miracle" called China's art market.

The report **What the West Can Learn from China's Digital Transformation of the Art Market** looks at a possible digital path America and Europe may take as it expands its own art markets. The analysis also looks at how digital technology has helped China's art market leapfrog the West's from practically non-existent 20 years ago to the game-changer it is becoming today. The report focuses on the digitization of transactions of galleries and collectors in Mainland China and Hong Kong. It surveys the domestic digital players large and small that have contributed to the rapid development of the country's art market.

From the regional disparities that have driven the country's growth through the entrepreneurial opportunities in the art market that the nation's billion-dollar digital giants have taken advantage of, the report investigates the digital applications that started China's "art culture revolution" and the smaller companies now capitalizing on the latest breakthroughs in technology to bring art to the rich and to the masses.

**What the West Can Learn from China's Digital Transformation of the Art Market** also provides perspectives for Western galleries and collectors interested in entering the China art market, and possible ideas for Western tech entrepreneurs looking for the next "big idea". The survey shares insights gained from American and European first-movers in China's dynamic business environment, as well as consultants, researchers, and advisors that have done business in the country.

While the West may have created the internet and developed the smartphone, it is China that is expanding online auction markets, e-commerce, artificial intelligence (AI), Blockchain, and Augmented Reality (AR) applications in ways Western entrepreneurs have not considered yet. But who may one day come to copy.

<sup>1</sup> Building the Chinese Art Market

<sup>2</sup> Will China's art market spark a digital revolution?

<sup>3</sup> The question mark hanging over China's 400 million-strong middle class

<sup>4</sup> Chinese millennials are about to kick US millennials' butts

## WHERE ARE THE ART MARKET CENTERS IN CHINA?

Large, east coast cities in China overwhelmingly dominate the art market in the country. Divided between the metropolises of Beijing in the north, Shanghai along the central-east of the coast, and Hong Kong in the deep south of the country.

As the first ranking trading center of the Chinese art auction market, Beijing has jointly supported nearly 80% of China's total auction turnover along with Hong Kong and Shanghai. Beijing's strong cultural and historical atmosphere is second to none in the country. It has accumulated high-quality art created before 1949 (when Mao Zedong declared the formation of the People's Republic of China), academic research centers, market resources, and central government support.

As the base for major auction houses such as Poly international, Council, and China Guardian, Beijing accounts for nearly half of the total volume of the art sold in China. Already home to important art fairs such as Art Beijing (established in 2006), 2018 saw the introduction of JINGART. Beijing is also home to the 798 Art District, a huge complex of former military buildings which now showcase new creative spaces, artists' studios, sculptural installations and galleries such as Pace Beijing and the Long March Space.

Meanwhile, Shanghai, the financial center of China with a growing cultural scene, is situated in one of China's fastest-growing and wealthiest regions. Heavily influenced by the West in the first third of the 20th-century, it is a center for modernist galleries and stylish boutiques. Although its art market is not as mature as Hong Kong's, Shanghai has become one of the key regions of the Chinese art market with numerous curators, collectors and gallery operators dealing mainly in art developed after 1949. Shanghai's two most important art fairs are Art021 Shanghai Contemporary Art Fair and West Bund Art and Design. The West Bund Art Museum, a 22,000 square meter glass building designed by David Chipperfield on the Huangpu river, is set to open later this year. It will extend the growing cultural enterprises that are being developed in this once highly industrial area of Shanghai.

Hong Kong is the fourth largest fine art trading center in the world after New York, London and Beijing. The city hosts the world's top auction houses, such as Sotheby's and Christie's, as well as Asia's best art fairs, including Art Basel Hong Kong. As an internationally renowned offshore financial centre and free trade port, Hong Kong's linked exchange rate system and rule-of-law have greatly reduced the risk of fraud. The stable marketplace and Western-style judiciary facilitate the development of long-term contracts and large transactions. Other advantages include low tax rates, a high degree of internationalization, a large English-speaking professional class, and a Western sense of business ethics.

Of the three major art market centers, Hong Kong is generally considered to be the most accessible, attracting a wider, more varied pool of high-level collectors. Hong Kong is home to influential contemporary art gallery Pearl Lamb, as well as multiple Western-founded mega galleries such as Gagosian, Perrotin and White Cube. The new cultural center M+ designed by Herzog & de Meuron is currently under construction and it schedule to open in 2020. It will hold part of the renowned Uli Sigg collection and focus on 20th and 21st century art.

## HOW IS THE CHINA MARKET DIFFERENT FROM THE WESTERN ART MARKET?

The transition from analog to digital technologies is key to understanding how China's art market has exploded within a mere decade. For most of the 20th century the Communist-led country lacked infrastructure of the most rudimentary kind: roads, railways, telephone networks (including landlines and telephone sets), and sophisticated supply chains. Few Western institutions were allowed into the country until the late 1980s. The country's difficult history with the West for the previous two hundred years led the government and the people to embargo Western enterprises and sensibilities. When the art scene came to China in the late 1990s, one of the foreign institutions that met with little trust or understanding was the art gallery.

### The Inversion of “Primary” and “Secondary” Markets

Traditionally in the West, the primary market consisted of contemporary art galleries promoting artists and selling their works to collectors. Artworks enter the secondary market when collectors decide to resell; dealers, art brokers and auction houses are the agencies to recirculate them. Galleries are the primary market, auction houses and dealers the secondary market.

In the West, artists rely on primary market galleries to initiate the promotion and sale of their work. Galleries build solid relationships with collectors and artists, most with strict protocols to avoid forgery or fraud. Being represented by highly reputable and resourceful galleries is regarded as a summit of an artist's career.

In China, however, the same development history is missing for contemporary galleries. With fewer resources and less experience amongst staff to operate a primary market, many galleries struggled with finances and foot traffic. Galleries in the 1990s were few, far between, and seemed like alien venues even for the well-off Chinese (most of whom had never been out of the country). Furthermore, galleries were often the target of exploitation and schemes by forgers and their agents. Mainlanders, however, were more than familiar with auctions. Almost immediately, auction houses had cash flow due to their familiarity to patrons. With their new-found funds auctioneers cut out middlemen and started sourcing works from artists and directly selling them to collectors. Artists bypassed galleries and sold their art directly to auction houses. Physical art auction houses, though, were considered as something home-grown. They developed to eventually become the cornerstone of the art market. Collectors in Mainland China consider a good auction record the primary indicator of success for an artist's career, followed by the interest from galleries and museums.

As novice buyers have seen powerful sellers and well-known collectors frequent major auction houses in China, new collectors have felt that good works of art can only be found and purchased at auctions. The new buyers see art collection in China as an investment vehicle based on the credibility of the auction house, rather than as something to be appreciated for its aesthetic value.

As a result, what the West considers the secondary market has gradually replaced galleries as the dominant market force for art transactions in China. The inversion of the primary and secondary markets has become a distinct characteristic of the contemporary Chinese art market.