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Guidelines for South African boatbuilding companies to market boats in China

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Cape Peninsula
University of Technology

**GUIDELINES FOR SOUTH AFRICAN BOATBUILDING COMPANIES TO MARKET
BOATS IN CHINA**

by

DING YI

Thesis submitted in partial fulfilment of the requirements for the degree

Master of Technology: Marketing

in the Faculty of Business

at the Cape Peninsula University of Technology

**Supervisor: Mr Ben Piet Venter
Co-supervisor: Prof Andre Slabbert**

**Cape Town
September 2008**

DECLARATION

I, **DING YI**, declare that the contents of this dissertation/thesis represent my own unaided work, and that the dissertation/thesis has not previously been submitted for academic examination towards any qualification. Furthermore, it represents my own opinions and not necessarily those of the Cape Peninsula University of Technology.

Signed

Date

DEDICATION

**This thesis is dedicated
to the heavenly father Jesus Christ our Lord who give me Holy Sprit, wisdom,
courage, power and direction.**

ACKNOWLEDGEMENTS

Firstly, I wish to thank our Father in Heaven, hallowed be Your name. Your kingdom come. Your will be done on earth as it is in Heaven. Give us this day our daily bread. And forgive us our debts, as we forgive our debtors. And do not lead us into temptation, but deliver us from the evil one. For Yours is the kingdom and the power and the glory forever.

My father Ding Yaochu, and my mother Zhang Lutan, for their love, understanding, encouragement and financial assistance, which they have given me so that I can realise my goals.

I am sincerely grateful to Mr. Ben Piet Venter and Professor Andre Slabbert who, in spite of their various responsibilities, agreed to guide my research. Their wise guidance, understanding and encouragement helped me throughout writing this thesis.

Special thanks to Father John at St Mark's Church for his love, prayers, and encouragement, which enabled me to overcome all my difficulties during the research.

Many thanks to all my friends at St Mark's Church for their love, prayers, encouragement and belief in me.

Many thanks to all my friends at Life Church for their love, prayers and belief in me and my research.

Particular thanks go to all my friends who work at the library at the Cape Peninsula University of Technology, for their time and contributions towards relevant literature.

My gratitude to the management at the Cape Peninsula University of Technology and library at the Cape Town Campus, which permitted and assisted me to reach my goal of completing my postgraduate studies.

May everyone not mentioned above who contributed towards the realisation of this work, receive my sincere appreciation.

ABSTRACT

The opening ceremony of the 29th Olympic Games displayed a historical tapestry of Chinese culture to the world. At the same time, the 2008 Games presented new opportunities for Chinese people to experience aspects of the outside world, which may have previously been closed to them. Aquatic sport is one such example, especially recreational sailing and yachting, which are novel concepts within Chinese society. Given China's rapid economic growth, this burgeoning market has potential for South African exporters, including the recreational marine sector. However, South African manufacturers have not promoted their products, many of which are of a high standard, in this market. Are there barriers, which may prevent successful exports of marine products to China? Would a deeper understanding of China's unique business culture assist the local boatbuilding industry to successfully present their products in China?

The purpose of this study is to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation. The entire research study shows that there are indeed opportunities to market boats in China, while the market is mainly located in coastal cities. The research reviewed South African trade with China, successful entry of South African companies into the Chinese market, and shows that potential does exist for penetration of the Chinese market by South African marine industries. Based on a further review of the internal marketing environment in China, it is established that a unique feature of Chinese business culture, termed Guanxi, might be a major barrier for penetration of the Chinese boat market by the South African marine industry.

Therefore, in order to examine the perception and application of Guanxi to export possibilities that are afforded South African boat builders, a survey was conducted with these boat builders in respect of their viewpoints regarding business and friendships, awareness of Guanxi and its functions, as well as perceptions of approaches to creating Guanxi connections. This quantitative design, using a self-completed questionnaire survey, was administered in Cape Town, the centre of the South African boatbuilding industry. Thirty questionnaires were distributed to all the boat builders in Cape Town, of which a total of fourteen were returned.

Descriptive statistics of data analysis were used to obtain results from the questionnaire survey. Findings from this study revealed that South Africa has not expanded its boat exporting business to China; boat builders conceded that Chinese have their own business

“inner circle”, but lack understanding of Guanxi, and ignorance regarding penetrating Guanxi networking, which are major barriers for them to find their way into the Chinese market.

Barriers are inevitable within marketing development, but it is crucial to identify these barriers and to obtain solutions.

It, therefore, follows that guidelines to beginning a boat export business in China, rely on an ability to penetrate, establish and sustain Guanxi networking. Attendance at Chinese boat shows is an important step towards establishing Guanxi networks and taking sales orders. According to Chinese business culture, it is also important for South African boat builders to present gifts in order to begin Guanxi networking. In order to facilitate and sustain a viable Guanxi connection with Chinese counterparts, it is recommended that South African boat builders acquire introductory Chinese language skills.

Consequently, training programmes are also recommended in order to familiarise South African exporters with Chinese business culture focusing on Guanxi, gift-giving and Chinese language skills.

It is expected that when existing barriers have been removed, operating with Guanxi networks will contribute towards new business ventures within the budding Chinese recreational marine market.

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CHAPTER 1: INTRODUCTION TO THE PROBLEM

1.1 INTRODUCTION

During the period from 1978 to 2004, the economy of the People's Republic of China increased at an average rate of 9% per year (Evans, 2004). In 2004, China's gross domestic product (GDP) reached 1.65 trillion United States Dollars (USD), which is 9.5% more than the previous year, without showing any major fluctuation (China Daily, 2004). **Table 1.1** shows that in 2005, China ranked fourth in the world in terms of GDP compared with seventh in 2004. As China's economy has experienced unprecedented growth in the past decade, this has also provided opportunities for the acquisition of yachts and boats by emerging wealthy classes.

Table 1.1 Comparisons of China and Other Countries: GDP (2004 -2005)

Rank	GDP in 2004 (Word Bank, 2006a)		Rank	GDP in 2005 (Word Bank, 2006b)	
	Country	GDP (US\$) Billion		Country	GDP (US\$) Billion
1	U.S.	11,668	1	U.S.	12,455
2	Japan	4,623	2	Japan	4,506
3	Germany	2,714	3	Germany	2,782
4	UK	2,141	4	China	2,229
5	France	2,003	5	UK	2,193
6	Italy	1,672	6	France	2,110
7	China	1,649	7	Italy	1,723
8	Spain	991	8	Spain	1,124
9	Canada	980	9	Canada	1,115

Development of the yacht and boatbuilding industry is closely related to the country's economic growth (Ferguson, 2006: 3). Accompanying long-term economic growth, consumption of housing and automobiles, represent a massive increase in China. From 1998 to 2004, house sales quadrupled from 251 billion yuan to 1,037 billion yuan, while it is also estimated that by the year 2008, the market will reach 15 million cars in China, which means that one of every four cars made in the world will be purchased in this country. It shows that China has recently shown a tendency toward pursuit of luxury activities and items, which range from golf to properties, and from cars to boats (Ferguson, 2006: 1-2).

Since introduction of a new democracy in South Africa in 1994, the boatbuilding industry has experienced growth of over 120%, with 84% of this growth coming from exports and international markets, especially the USA, as well as the United Kingdom, the Caribbean, Spain, Holland and Chinese Hong Kong. Benefiting from this international marketing, the annual turnover of the South African boatbuilding industry in 2004 was approximately 1.1 billion rand (approximately 184.5 million US dollars, at 2004 rate) (Tedder, 2005: 139).

China has an immense potential in its yacht and boat market. It has been noted that the budding Chinese boat market will become profitable in the near future (Suntec Integrated Media SIM, 2005: 3). This anticipated growth in the Chinese boat market provides an opportunity for South African boat builders to develop an understanding of consumer marketing and its impact in China.

However, South African boats are currently not fully promoted in the Chinese boat market and at its boat shows. A high degree of international credibility (See section 1.2.3, Page 7), which South African boat builders have, may enhance opportunities that they will have in China. Tapping into the Chinese boat market may require South African boat builders to examine their involvement in either exhibitions or investments. The nature of this involvement, would firstly warrant sufficient research.

A main objective of the study is to establish possible guidelines, which may be used to contribute to marketing South African-built boats in China.

Therefore, the study focuses on reviewing recreational marine market opportunities in China, and an exploratory review of current South African trade with China, as well as the successful entry of South African companies into China, in order to show that potential exists for entry into the Chinese market by South African marine industries.

Taking into account China's internal marketing environment, particularly focussing on one of the unique features of Chinese business culture, namely Guanxi, the study establishes the current awareness of Guanxi within the South African boatbuilding industry. This is done because Guanxi is an important business principle in China, but which is less understood in other countries.

The first chapter discusses the research background and a statement of the research problem, research questions, objectives of the study, as well as an introduction of research

design and methodology. Finally, the chapter culminates with a discussion of the significance, contributions and content of the research.

1.2 BACKGROUND TO THE RESEARCH PROBLEM

International marketing is a process of arranging and conducting business transactions, which satisfy consumers or users in more than one nation. It is necessary for nations because it is impossible to uphold national economic isolationism. Successful international marketing benefits quality of life, improves society, creates more efficient business circumstances, and even contributes to a more peaceful world (Gzinkota & Ronkainen, 2007: 4).

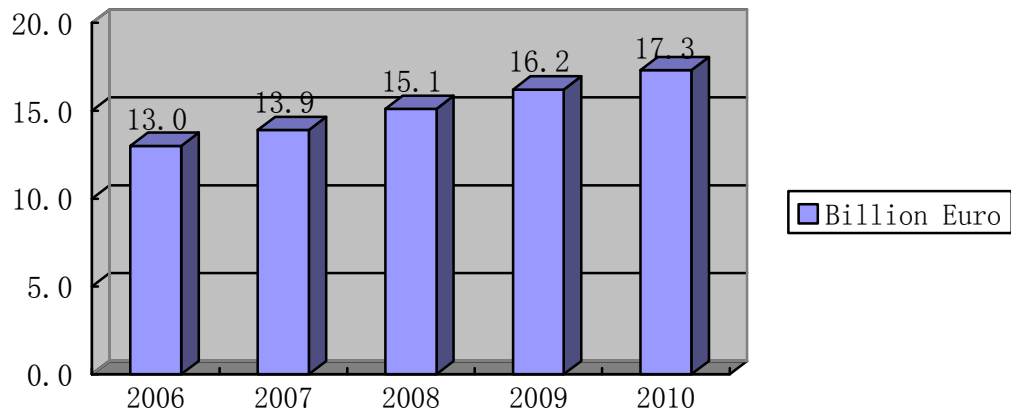
At the same time, Cateora and Graham (2005: 9) have defined international marketing as “the performance of business activities designed to plan, price, promote, and direct the flow of a company’s goods and services to consumers or users in more than one nation for a profit.” Exporting South African boats to China is, therefore, positive in the sense of earning foreign capital and profit.

In fact, culture is pervasive in everything in one’s life, from birth to death. It tempers, molds and dictates style of living, consumption, as well as priority of needs and wants. As a result, culture can also be a stumbling block in international marketing efforts. Since a marketer’s activities are judged for acceptance, in a cultural context, resistance, or rejection, how such activities interact with a specific culture determines the degree of success or failure of the marketing efforts in the target country (Cateora & Graham, 2005: 94). Perera and Hewege note that “culture is one of the key elements of product choice determinants of the consumers and national culture is gaining importance in marketing as a general theory.” They add that “national culture forms a country’s unique identity and it tends to regulate consumers’ attitudes toward both domestic and foreign products” (Perera & Hewege, 2007:119-138). Consequently, successfully beginning a boat export business in China relies on an understanding of and interacting with Chinese business culture, with a specific focus on penetrating, establishing and sustaining Guanxi.

1.2.1 Introduction to world yacht and boatbuilding market

According to statistics gathered in 2004, internationally, sales of yachts and boats reached about 12.5 billion euro (Douglas-Westwood, Limited, 2005: 44), while this market is predicted to continue to grow in future (See **Figure 1.1** below).

Figure 1.1: Estimated growth of the world yacht and boatbuilding market: 2006 - 2010



Source: Douglas-Westwood, Limited, 2005: 13

Figure 1.1 above shows an estimated growth of the world yacht and boatbuilding market from 13.0 billion euro in 2006 to 17.3 billion euro in 2010 with a 7.5% average annual growth rate between these five years. A total growth was estimated at about 33% during this period. Increasing market demand promotes a healthy economic climate for boatbuilding companies globally.

Currently, new trends have appeared in the world yacht and boatbuilding market:

- Firstly, the US will still lead the way and occupy a majority market value around the world (Douglas-Westwood, Limited, 2005: 44);
- Secondly, there are new market opportunities in Australia, Canada and Europe (Maine International Trade Center, 2005: 1); and
- Lastly, China will provide great opportunities for the world's boat builders in the near future (Maine International Trade Center, 2005: 1).

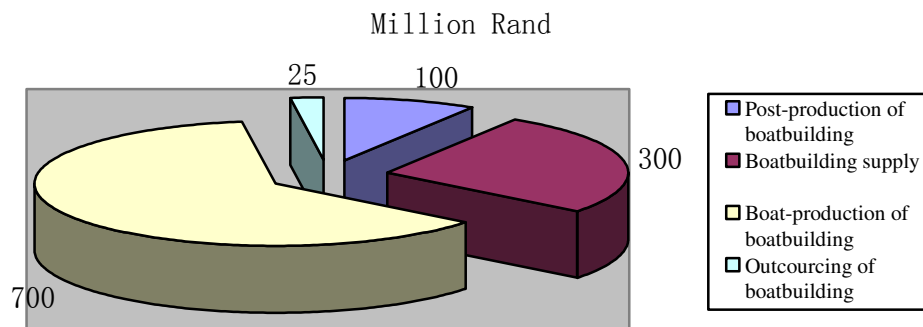
This anticipated opportunity significantly provides a justification for South Africa's marine exporters to consider expanding into the yacht and boat market in China.

1.2.2 An overview of South African boatbuilding industry

Since the new democratic dispensation in South Africa, the boatbuilding industry within the country has developed at a fast pace. Cape Town is the most important manufacturing base for South African boat builders. In South Africa, approximately 75% of all the country's

boatbuilding companies and 87% of the industry's turnover, is located in the Western Cape (Tedder, 2005: 139).

Figure 1.2: Annual turnover of the South African boatbuilding industry: 2005 (million rand)



Source: South African Boatbuilders Business Council (SABBC) 2006: 3

Figure 1.2 above shows that in terms of actual production of boats, the annual turnover in 2005 was approximately 700 million rand. With inclusion of electronics, chandlery, naval architects, engineering contracting, and sail making, boatbuilding supply industries are valued at close to 300 million rand. In addition, the post-production industry, which includes yacht maintenance and delivery, marine insurance and brokerage, crane hire, marine surveyors, publishing, and yachting events, is worth over 100 million rand. It is valued at 500 million rand for harbour facilities for leisure boating and approximated at 25 million rand for outsourcing. Currently, the overall annual turnover of this industry is over 1.1 billion rand.

Presently, in order to sustain a continuing competitive advantage within the international market, South African boat builders make arduous efforts to improve themselves. Progress includes development of new designs and new moulds, as well as use of hi-tech materials such as advanced epoxies, which have appeared in boatbuilding technology over the past few years. New equipment and new technologies are used in this industry such as vacuum bagging, digital pattern cutters and balsa cores (Tedder, 2005: 139).

Therefore, the South African boatbuilding industry has entered a growth phase and has initiated a high degree of innovation, thus preparing the ground for added international credibility and expansion in future. The local South African industry has shown that it has potential and confidence in future long-term penetration of the Chinese market.

1.2.3 International credibility of South African boatbuilding industry

After 1994 South Africa consolidated its already high credibility in international marketing. Presently, South African boat builders have a fine reputation among American boat designers who often refer clients and allocate orders to them (Cape Town Boatbuilding and Technology Initiative (CTBI), 2004: 3).

In the past few years, the South African boatbuilding industry has developed a strong competitive position within the global market. For example, with tough competition from the United States (US) and European producers, South Africa has even penetrated the competitive US boat market through sales to both individuals and boat rental companies (Tedder, 2005: 139).

Table 1.2 International awards won by South African boats: 2000-2006

Year	Name of boat	Name of award
2006	St. Francis 50	“Cruising Catamaran of the Year” by Cruising World Magazine in America
	Gunboat 46 St. Francis 50 Jaguar 36	Nominees in Cruising World Magazine for “Boat of the Year”
	Moorings 400	“Imported Boat of the Year” by Cruising World Magazine in America
2005	Maxim 380 Moorings 400 Admiral 38	Nominees in Cruising World Magazine for “Boat of the Year”
	Gunboat 62	“Boat of the Year Innovation Award” by Cruising World Magazine in America
	Voyage 580	“Cruising Multihull of the Year” by Cruising World Magazine in America
2003	Island Spirit 40	Named in Sail Magazine Top 10 for 2003
	Aerodyne 47	“Full Size Cruising Boat of the Year” by Cruising World Magazine in America
	Leopard 42	Places in Sail Magazine’s Top 10
2002	Voyage Yacht 440	“Cruising Yacht of the Year” by Sail Magazine in America
	Shearwater 45	“Cruising Boat of the Year” by Cruising World Magazine in America
2001	Shearwater 45	“Cruising Boat of the Year” by Cruising World Magazine in America
2000	Aerodyne 38	“Boat of the Year” by Cruising World Magazine in America

Source: South African Boat builders Business Council (SABBC), 2006 b: 8-9

South African-built boats are, therefore, highly praised and have won several international awards. **Table 1.2** above shows that South Africa has a positive reputation globally. During the period of 2000-2006, South African boats had won awards annually from Cruising World Magazine in America. Recently, in 2005 and 2006, there were six South African boats that

were nominated by Cruising World Magazine for “Boat of the Year” awards. Furthermore, South African boats were often placed in the “Top 10” by Sail Magazine. These facts prove South Africa’s prestigious status amongst the world’s boatbuilding market, while South African boats have also gained respect from important marine media, globally.

Recently, South African manufacturers within the boatbuilding industry have established an efficient industrial structure and have made their products internationally competitive with respect to durability, quality (both in finish and sailing abilities) and prices (Tedder, 2005: 139). Hence, South African boat builders have obtained a number of contracts internationally, and have marketed their products across the world.

Table 1.3 Major global contracts won by South Africa: 2000-2006

Name of Company	Major Contracts
Robertson & Caine	Delivered 150 th yacht to The Moorings Charter Company
	The world’s first new generation America’s Cup yacht for the 2007 Challenge was built in Cape Town
	World renowned sailor and explorer, Skip Novak, ordered a South African boat builder to build his new aluminum expedition yacht, “Pelagic”
Harvey Yachts	Outbid five international boat builders and won the contract to build a range of new generation catamarans
Prestige Inflatables	Won two major contracts to Europe and USA from 450 units in 2002 to 2250 units in 2003
Stealth Marine	Built inflatable craft used by Hong Kong Police in China and California’s Sheriff’s Department in the US
Gemini Inflatables	Is the preferred supplier of inflatable craft to the National Sea Rescue Institute in South Africa, Australian Military and Singapore Navy

Source: South African Boatbuilders Business Council (SABBC), 2006 b: 3-9

Table 1.3 above shows that South African boats have been ordered by government organizations globally such as the California Sheriff’s Department, Hong Kong Police, South Africa’s National Sea Rescue Institute and the Australian military, as well as the Singapore Navy. The quality of local marine products has meant that international marine clients who demand a high standard, have acquired South African-made products. At the same time, South African boat builders became suppliers for the world’s first new-generation yacht. Therefore, it is appears that South African boats have acquired a positive international reputation.

Furthermore, by using quality boats from South Africa, international sailors have won several yacht and boat races around the world. For example, in 1999, a South African designed and built a boat that won the prestigious King Cup Regatta in Spain. In December 2000, *Nicorette*, a Maxi Racing yacht, which was designed and built in South Africa, won the Sydney to Hobart yacht race in a record time (SABBC, 2006b: 8).

South African boat builders have a strong ability to market their products around the world, which forms a basis for South Africa to enter the Chinese boat market and to represent its industry at boat shows and expositions in China.

1.2.4 An overview of the Chinese boat market

With the rapid growth of its economy and improvement in living standards, modern aquatic activities and sports have entered social life in China. At present, boating activities are not yet within reach of any except the richer Chinese, and although local manufacturers can offer certain less expensive options, with their low capacity, and lack of experience, domestic pleasure boat manufacturers cannot compete with foreign advanced products. In China, the luxury pleasure boat market still relies on imported boats. This section discusses domestic production and the domestic boat market.

1.2.4.1 Domestic Production (China)

Manufacturers have supplied Glass Reinforced Plastic (GRP) boats in China since the 1970s. Most of their products were of a lower standard and were mainly used for tourism and transport, and not for leisure and luxury (Wei, 2005: 28).

Since China opened its doors to world trade during the 1980s, corporations from overseas began to manufacture boats with local partners. This kind of co-operation has hugely improved the Chinese boatbuilding industry. In 2003, the annual turnover of the Chinese boatbuilding industry was approximately 1.5 billion RMB (approximately 1.2 billion rand, or 180 million USD). At present, China has an ability to manufacture sail boats, fishing vessels, as well as boats for the leisure market, and a wide variety of larger commercial and military vessels (Wei, 2005: 28).

There are approximately 250 boatbuilding companies in China, and most of them supply the local military and workboat sector (Loke & Derrett, 2006: 63).

Currently, boat manufacturers lack capacities of design, criterion, arts and crafts, as well as marketing. Maine International Trade Center (2005: 24) has pointed out that “limited by quality and technology, domestic pleasure boat manufacturers cannot compete with foreign advanced products. Currently, the domestic luxury pleasure boat market relies on imported boats”.

Domestic boat production can still not satisfy the needs of consumers in this country, especially within the advanced luxury pleasure boat sector, which represents an opportunity for overseas boat builders to market their boats in China in this sector.

1.2.4.2 Market Development and Prospects

The middle class in China has expanded substantially since the 1980s, while the number of wealthy people has also increased, hence creating more potential buyers for yachts and boats (Suntec Integrated Media SIM, 2005: 3). Wealthy people in China prefer to buy imported luxury cars such as BMWs, Porsches and Ferraris to show off their status and because they do not trust the quality of local cars. Yachts and boats represent a higher status than any luxury car in China. Since Chinese boats are considered to be of a low quality, wealthy people in China prefer to import recreational boats and are willing to pay high prices.

Table 1.4 Main imported recreational boats represented in China

Name of brand	Country	Name of boat
1. Sea Ray	United States	375 Sundanceer; 355 Sundanceer; 335 Sundanceer; 315 Sundanceer; 275 Sundanceer
2. Sun Tracker	United States	Party Barge 21
3. Myacht	United States	4815
4. Bayliner	United States	242Classic; 180RB; 245SB
5. Carver	United States	57 Voyager; 360 Mariner; 420 Mariner
6. Larson	United States	Cabrio 274
7. Sunseeker	United Kingdom	Manhattan 64; Manhattan 56
8. Mustang	Australia	3200SC
9. Trophy	United States	2902 Walkaround
10. Meridian	United States	580 Pilothouse

11. Maxum	United States	1800 SR3; 3500 Sport Yacht
12. Fairline	United Kingdom	Phsntom 40; Targa 34; Squadron 74; Squadron 58

Source: Guangzhou South China Ship Exchange Service Co. Ltd, 2006

Table 1.4 above shows the main imported brands that are marketed in China. Presently, yachts and recreational boats are imported from the United States, European countries and Australia, and use suppliers such as Sea Ray, SunTracker, Myacht, Bayliner, Carver, Larson, Sunseeker, Mustang, Trophy, Meridien, Maxum, and Fairline. This penetration indicates that foreign boat manufacturers have already expanded their businesses into China.

The recreational boat market is a next boom market in China, and the consumption of yachts and boats will increase massively in the near future. Currently, there are around 1,000 leisure boats that are purchased annually in China (Loke & Derrett, 2006: 63), but a further estimated demand will reach 550,000 boats in 2031, which leaves a huge volume to produce or import in order to fill the gap (Ferguson, 2007: 44).

1.2.5 Boat exhibitions in China

In China, boat exhibitions are mainly located in Shanghai and Guangzhou. For example, the city of Shanghai produced its 12th China International Boat Show at the Shanghai Exhibition Center on 5-8 April 2007. Exhibitors came from 17 countries and districts for this exhibition, which is held annually. The main foreign VIPs that were present included the American Boat and Yacht Council (ABYC), the European Certification Bureau (ECB), and the British Marine Federation (BMF).

Boat Tech China exhibited in Guangzhou, which displayed the latest in boat design, equipment, systems, materials and accessories. It provided a platform for all boat industry manufacturers and distributors to network, interact and conduct business with a highly targeted audience of potential buyers from most provinces within China (Suntec Integrated Media, 2005: 2).

According to statistics from the 12th China International Boat Show in 2007, where there were 352 foreign exhibitors, the number had increased by 10% when compared with that of the previous year (Shanghai Association of Shipbuilding Industry, 2007: 11). This indicates that

foreign boatbuilding companies have become increasingly interested in extending their reputation at boat shows in China.

Fifty imported boats were swiftly sold during the exhibition; and most of the buyers were mainly from Jiangsu and Zhejiang Provinces in East China. Exhibitors furthermore divulged that 48,000 customers had indicated plans to buy a boat, while over two million Chinese can currently afford to own a boat (International Boat Industry (IBI), 2007). Presently, wealthy Chinese people purchase yachts in order to show off their financial status.

However, according to information contained in reports such as those produced by the Shanghai Association of Shipbuilding Industry, South African boat builders have not fully involved themselves with the Chinese marine market and they have also not represented themselves at most boat shows in China. Although South Africa has a competent and successfully developing boatbuilding industry, a realistic appraisal would include a need for more forward-thinking international marketing initiatives, with a number of competitor countries having already penetrated the Chinese marine market.

In China, a unique way of conducting business involves a concept, which is referred to as Guanxi relationships. Based on personal relationships and connections, Guanxi acts as a major factor within Chinese business culture, which is crucial to build trust. Boat shows in China are viable and important platforms, as it allows foreign boat manufacturers to network and make business contacts, which facilitate their market entry (Loke & Derrett, 2006: 63).

Therefore, it is important for boat builders to use guidelines to establish Guanxi networking before penetrating this new market.

Currently, the following have become apparent with regard to China's unprecedented economic growth.

- The Chinese boat market is expanding rapidly.
- Many overseas countries have started to export boats to China, mainly by using boat shows;
- South Africa, with a solid boatbuilding industry, has not yet done so, and should exploit this opportunity; and

-
- Guanxi is a major barrier for overseas companies.

1.3 STATEMENT OF THE RESEARCH PROBLEM

China's yacht and boat market will provide a wide and on-going range of opportunities from the present into the foreseeable future. Anticipated growth of this sector has created a strategic opportunity for boat builders in South Africa.

Each year, South Africa exports yachts and boats all over the world and has experience in international marketing. However, South African boat builders have little or no knowledge of marketing in China, hence they lose opportunities that are presented by this market.

Based on a further review of opportunities in the Chinese recreational marine market, South African trade with China, successful entry of South African companies into the Chinese market, and Chinese business culture, as well as Chinese-style business networking (Guanxi) in Chapter Two, the study assists the South African boatbuilding industry to understand and relate to Guanxi within Chinese business relationships.

Consequently, the research problem of this study revolves around how to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation.

1.4 RESEARCH QUESTIONS

The research question is: how can South African boat builders be assisted to expand their business operations in China by developing guidelines for marketing strategy formulation?

The following sub-questions are applicable to the study:

- What opportunities are there for South African boat builders who choose to sell boats in China?
- Can South African boat builders expand their business within the Chinese market?
- What barriers prevent these marketing opportunities?

-
- How should the South African marine industry overcome these barriers in order to enter the Chinese boat market?

1.5 OBJECTIVES OF THE RESEARCH

The objectives of the research are:

- To understand opportunities in the Chinese recreational marine market.
- To explore potential that exists for penetration of the Chinese market by South African marine industries.
- To identify barriers, which prevent these international marketing opportunities.
- To develop possible guidelines to market South African boats in China.

1.6 RESEARCH DESIGN AND METHODOLOGY

The research was conducted within a key region for the boatbuilding industry in South Africa, which is Cape Town (Cape Town Boatbuilding and Technology Initiative (CTBI), 2004: 1).

The research design and methodology is detailed in Chapter Three, however, a brief outline is provided below.

1.6.1 Methods and tools of data collection

In order to achieve the objectives of this study, primary and secondary data collection methods were both used.

Secondary data sources were used for the first two objectives of this study, in the form of a literature search, which is presented in Chapter Two, particularly concerning opportunities in the Chinese recreational marine market, international trade between China and South Africa, successful examples of South African companies in the Chinese market, as well as the international marketing environment in China, particularly China's unique business culture, Guanxi.

In order to identify South African boat builders' perceptions of Guanxi, questionnaire surveys were administered in Cape Town. Results of this primary data collection were used to generate guidelines to improve marketing South African boats within China.

1.6.2 Population, sampling and sampling method

A simple random sampling method was used for this research.

According to the Cape Town Boatbuilding and Technology Initiative (CTBI), there are 30 yacht and boat builders in Cape Town who comprise the population for this research. As the population is relatively small, the sampling frame covers these 30 boat builders.

1.7 DELINEATION OF THE RESEARCH

With assistance from the South African Boat Builders Export Council (SABBEX) and the Cape Town Boatbuilding and Technology Initiative (CTBI), a questionnaire survey was conducted with all 30 boat builders in Cape Town.

1.8 SIGNIFICANCE OF THE RESEARCH

If the South African marine industry could obtain a better understanding of China's unique business culture, especially the use of Guanxi, and expand its marketing of boats to China, it will not only be positive in the sense of earning foreign capital, or increased profits for South African boat builders, but it will also be helpful to create further employment within this country.

1.9 CHAPTER OUTLINE

The dissertation is divided into the following chapters:

Chapter One outlines a background of the research. It provides a statement of the research problem, research questions and research objectives, as well as a brief introduction of the research design and methodology. The chapter proceeds with the delineation and

significance of the study. Lastly, it outlines each chapter of the entire thesis and summarizes Chapter One.

Chapter Two examines opportunities that are presented by the Chinese recreational marine market for South African boat builders. The short exploratory study in this chapter reviews South African trade with China and the successful entry of South African companies into China, which shows that potential exists for penetration of the Chinese market by South African marine industries. In order to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation, the chapter provides an understanding of the internal marketing environment in China, especially China's unique business culture, and particularly the application of Guanxi.

Chapter Three details the research design, which was employed in this research study. It also examines methods that were used in this study. Finally, the study population, sampling method and instrumentation and data collection, are also described.

Chapter Four is a presentation of results and findings from the questionnaire survey.

Chapter Five provides discussion, conclusions and recommendations, which are based on the results and gives some guidelines for future study.

1.10 SUMMARY

According to the research background and market situation, yachts and boats can be exported from South Africa to other countries, and the South African boatbuilding industry has experience in international marketing. The burgeoning boat market in China has already attracted several foreign boat manufacturers. It is advisable for South African boatbuilding companies to become aware of these opportunities, and to confidently penetrate this market. In order for them to do this successfully, an understanding of China's unique business culture is necessary and, therefore, it is detailed in the next chapter.

CHAPTER 2: SOUTH AFRICAN TRADE WITH CHINA, AND THE CONCEPT OF SOCIAL NETWORKING (GUANXI) IN CHINESE BUSINESS RELATIONSHIPS

2.1 INTRODUCTION

During these early years of the 21st century it is clear that international trade has assumed prime importance within the world's financial environment.

According to Rosenberg (1993: 184), international trade, which is also called foreign trade, is "measured by merchandise exports and imports of a country for a stated period, often one year".

Kotler and Armstrong (2001: 709) note that "international trade is booming. Since 1969, the number of multinational corporations in the world's 14 richest countries has more than tripled, from 7,000 to 24,000. Experts predict that by 2005, world exports of goods and services will reach 28 percent of world gross domestic products, up from only 9 percent 20 years ago."

A sufficient structure for the growth of international trade has developed during the last decade. In 2006, world merchandise exports increased by 8%, in contrast to the 6.5% increase of the previous year (WTO, 2007: 2).

In 2006, real merchandise exports of the United States increased by 10.5%, which was the highest growth rate since 1997, and it was approximately double as much as import growth (WTO, 2007: 4).

Real merchandise exports in Asia remained consistently high at 13.5%. Asia's imports grew more rapidly than in the previous year, but exports superseded import growth. A majority of the surplus of Asia's export over import growth can be ascribed to major traders within the region, which include China and Japan, while China's merchandise trade growth continued to be exceptionally strong (WTO, 2007: 2-4).

Europe's strongest annual growth in real merchandise exports since 2000 was recorded in 2006. It proved to exceed import growth (estimated at 7%) but continued to lapse with respect to the global rate of trade expansion (WTO, 2007: 4).

The four net fuel exporting regions, which include the Commonwealth of Independent States, the Middle East, Africa and South/Central America and the Caribbean, recorded modest growth in export quantity – approximately 2 percentage points. Their imports, however, increased more rapidly than the average for global trade in 2006. Collective exports of Africa and the Middle East are estimated to have almost come to a standstill, while the growth of imports, in spite of their slow pace, persisted, to some extent, more rapidly than the global average (WTO, 2007: 5).

Taking the basic scenario of global economic GDP growth of nearly 3% into account, global merchandise trade could be expected to increase about 6% in 2007 (WTO, 2007: 3).

The evidence, therefore, points to an optimistic picture of international trade, which continues to grow and has brought new opportunities. South Africa and China are also part of this growth, and also benefit from international trade.

In 1998, the People's Republic of China and the Republic of South Africa established diplomatic relations. Since then, international trade between these two countries has grown extensively. Currently, South Africa is China's biggest trading partner in Africa, comprising about 20 percent of total turnover between China and Africa (Chinese Embassy in South Africa, 2008).

China is a country that has booming economic growth and holds an immense potential in its boat market. Selling boats to China will help to improve South Africa's exports to that country. In order to seek possible guidelines that may be used to market South African-built boats, it is useful to first outline an overall perspective of international trade between China and South Africa.

"The longer companies delay taking steps toward internationalising, the more they risk being shut out of growing markets..." (Kotler & Armstrong, 2001: 710). Therefore, there is an imperative for South African companies to do business in China.

However, in spite of growing international trade, and growing trade between South Africa and China, there are still barriers to doing business with China, and the biggest is that of culture. A survey, which tracks barriers to business in the world market, ranked cultural differences first on a list of eight items (including law, price competition, information, language, delivery, foreign currency, time difference, and culture differences) (Pan & Zhang, 2004:1). Several failures that are faced by multi-national companies, are caused by neglecting cultural differences (Pan & Zhang, 2004:1).

China has a unique business culture. Despite expansion of the boat business to Hong Kong, it is also necessary for South African boat building companies to acquire a good knowledge of the marketing environment in China, hence overcoming some possible barriers to conducting business in this country.

Therefore, this chapter provides a general overview of opportunities, which are presented by the Chinese boat market, a summary review of international trade between China and South Africa, as well as the international marketing environment as it relates to China. In line with the purpose of the study, which is to provide an understanding of the barriers, which hamper trade with China, and in overcoming such barriers, the unique business and cultural phenomenon, Guanxi, is also presented and discussed.

Are there sufficient opportunities to sell boats to China? The next section examines those opportunities.

2.2 OPPORTUNITIES TO SELL BOATS TO CHINA

Illustrating the rapid growth of the Chinese economy, and particularly the marine recreational market, Maine International Trade Center (2005: 23) indicated that “China’s recreational marine market is poised to expand in coming years”. Reasons for this expansion are discussed below.

Fast expansion of the Chinese economy, increasing tourism and rising domestic living standards, are generating a demand for marine and water recreational products in China. It is possible that organizations and individuals in more developed coastal cities such as Shanghai, Qingdao, and Guangzhou, will procure luxury items such as recreational boats, as the economy expands.

In addition, the tourism industry netted 67 billion USD in 2002. It should also be noted that China is anticipated to be the world’s largest tourist destination by 2020. China’s underdeveloped water recreation network, marine amenities and management systems are hindrances to expansion of China’s tourism industry at present (Maine International Trade Centre, 2005: 23).

Presently, notwithstanding opportunities to sell boats at boat shows in China, the Chinese government regards the recreational boat market as an “encouraged” area for foreign investment. There are another four key opportunities implied for South African boat builders,

which are indicated below. These opportunities will potentially influence China's yacht and boat market in future.

Firstly, in Shanghai, the GDP per capita has risen to USD 4 500 and continues to rise. Its successful bid to host the 2010 World Expo will create massive demand and opportunities in the city. With this in mind, the municipal government has decided to enhance the city's infrastructure by building marine facilities along the Suzhou River, which flows through the central business district (Maine International Trade Centre, 2005: 24).

Secondly, because of its distinctive scenery and environmental advantage, the municipal government of Zhou Shan, which controls China's largest island chain on the eastern coast, Zhou Shan Island Chain, intends to introduce a chief yachting gateway, which would be a focus for wealthy tourists from south east China (Maine International Trade Centre, 2005: 24).

Thirdly, the 2008 Beijing Olympics should also aid expansion of yacht and boat consumption in China. Qingdao, which was the city responsible for hosting the 2008 Olympic Sailing Regatta, has invested 9.1 billion USD in 154 aquatic sport construction projects. Presently, Qingdao is considered to be the most significant aquatic sport training base and aquatic sport centre in the country (Maine International Trade Centre, 2005: 24).

Finally, China's central government has stated that it will increase rapid transport in coastal shipping in the near future. It will insist on the purchase of superior quality boats in order to transport travellers and merchandise along the coast and rivers. The government will also invest in new vessels in order to build its customs and marine fisheries management and frontier defence (Maine International Trade Centre, 2005: 24).

This presents major prospects for South African boat builders, marine accessory manufacturers, marine designers and suppliers of construction materials. Because of the limitations of domestic manufacturers, China still depends on the import of large scale and high-grade pleasure boats to meet the market demand (Maine International Trade Centre, 2005: 24). The assumption is that the market will grow from 2005, and that the market size, on the whole, is expected to reach USD 10 billion within the next ten years (Maine International Trade Centre, 2005: 23).

In order to facilitate a framework that can be used in the marketing of South African marine exports to China, it will be beneficial to consider international trade between the two countries, with a special focus on achievements that have already been realised by a number

of large South African companies in the petrochemical, brewing, resources and media sectors.

2.3 INTERNATIONAL TRADE BETWEEN CHINA AND SOUTH AFRICA

Trade between China and the African continent has increased in the last ten years, reaching a total of USD 40 billion in 2005. Trade, stimulated by Africa's exports to China, increased by 72% in 2005. South Africa is a prominent trade partner, comprising 20.8% of Chinese-African trade flows (Centre for Chinese Studies, 2006: 15). **Table 2.1** below shows existing exports and imports between China and South Africa.

Table 2.1 South African top 10 exports and imports: Countries: 2003 (per country, in rand value)

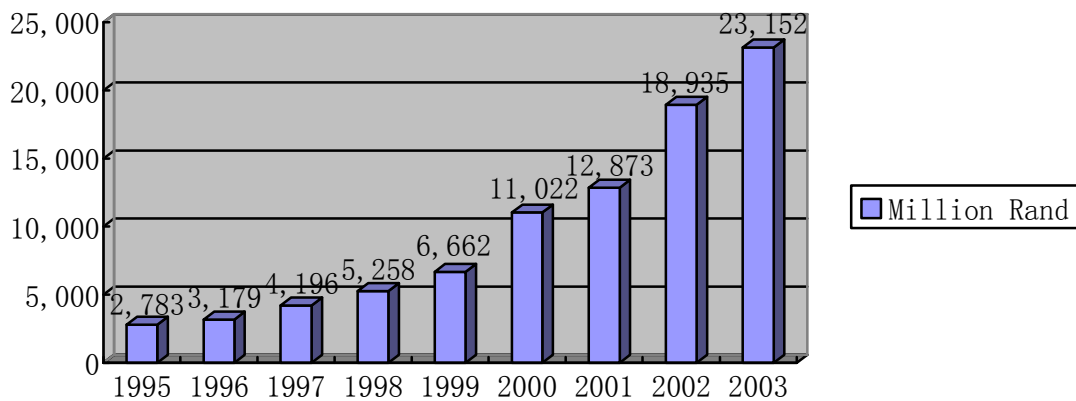
Rank	Top 2003 exports per country		Rank	Top 2003 imports per country	
	Country	Rand (Million)		Country	Rand (Million)
1	U.S.	24,828	1	Germany	38,387
2	UK	23,194	2	U.S.	25,025
3	Japan	20,660	3	UK	22,475
4	Germany	16,714	4	Japan	18,233
5	Netherlands	11,404	5	China	16,580
6	Belgium	7,362	6	France	15,448
7	Italy	6,948	7	Saudi Arabia	15,047
8	China	6,653	8	Iran	9,286
9	Zimbabwe	6,550	9	Italy	8,409
10	Spain	6,156	10	Australia	6,101

Source: Department of Trade and Industry South Africa (DTI), 2005: 30-31

International trade between China and South Africa began during the early 1990s (Consulate-General of the P. R. of China in Johannesburg, 2004). South Africa's trade commitment to China is quite recent, since official relations were initiated at the beginning of

1998. However, trade grew quickly, and in 2003 China became South Africa's eighth largest export partner, while China became South Africa's fifth-largest trading partner (See **Table 2.1** above). The Department of Trade and Industry (DTI) asserts that although South Africa's relationship with China is reasonably new, there has been a significant growth in bilateral trade (Botha, 2006: 17).

Figure 2.1: International trade between South Africa and China: 1995 - 2003



Sou

Source: Wesgro, 2005:24

Figure 2.1 above shows trade history between these two countries, which indicates that volume rose from 2.783 billion rand in 1995 to 23.152 billion rand in 2003. Particularly, bilateral trade has increased dramatically since China established diplomatic relations with South Africa in 1998.

Presently, the volume of academic literature, which covers this subject area, is relatively limited. However, according to recent statistics, in 2005, the South African trade deficit with China, was 22.72 billion rand. Figures accumulated by the Department of Trade and Industry (DTI) explicate that in 2005, South Africa's exports to China totalled R8.76 billion, which was an increase of 33.2% from 2004. In 2005, South Africa imported merchandise and services worth R31.48 billion from China, placing the trade balance nearly four times in China's favour (Botha, 2006: 16).

Meanwhile, Botha (2006: 16) points out that "so while trade between China and South Africa is booming, there is a clear South African trade deficit." Since South Africa has a quality boat building sector, with a good reputation among users internationally, marketing South African-built boats would help to decrease South Africa's trade deficit, and balance its bilateral trade volume.

Table 2.2 Chinese-South African exports and imports

Main exports to China	Main imports from China
Iron ore	Textiles
Steel	Kidney beans
Manganese	Groundnuts
Chrome ore	Cotton seed cake
Tobacco	Light electronics
Wool	Capital equipment
Granite	Paraffin wax
Gold	Television sets
Copper	
Aluminium	
Motor vehicle spares	

Source: Wesgro, 2005: 24

Table 2.2 above shows that South Africa's main exports to China include iron ore, steel, gold, chrome ore, manganese, copper, aluminium, granite, tobacco, wool and motor vehicle spares. At the same time, China's main exports to South Africa include textiles, light electronics, capital equipment, cotton seed cake, kidney beans, groundnuts, paraffin wax and television sets.

Presently, South Africa imports value-added manufacturing products from China, and exports raw materials and commodities. Marketing boats to China would assist in diversifying South Africa's export products and improve product quality levels.

In order to support bilateral trade, the two governments have signed a succession of agreements including investment protection, joint committees for economy and trade, as well as agreements on economy, trade and technology cooperation. It is, therefore, appropriate for boat builders to examine these bilateral agreements before they start boat export businesses in China. This is examined in the following section.

2.3.1 Bilateral trade agreements between China and South Africa

Economic and trade collaboration between these two countries has expanded. Mutual trade has grown quickly since formation of diplomatic relations between China and South Africa.

In order to support this expansion, the two governments signed a succession of supportive agreements in the area of economy and trade. These agreements vary from an agreement on investment protection to that of a joint committee for economy and trade, and include agreements on economy, trade and technology cooperation.

Table 2.3 Trade agreements between China and South Africa

Year	Title of Bilateral Agreement
1991	Exchange of Notes Regarding Establishment of Informal Offices in Pretoria and Beijing
1996	Agreement on Technical Co-operation in the Field of Endangered Species Conservation
1997	Agreement Concerning Maintenance of the Consulate General of the Republic of South Africa in the Hong Kong Special Administrative Region of the People's Republic of China
1997	Agreement Concerning Reciprocal Encouragement and Protection of Investments
1997	Joint Communiqué on Establishment of Diplomatic Relations
1997	Memorandum of Understanding on Establishment of Diplomatic Relations
1998	Exchange of Notes Regarding Funding of Edenvale/Modderfontein Low Cost Housing Project
1999	Agreement on the Establishment of a Joint Economic and Trade Commission
1999	Agreement on Trade, Economic and Technical Co-operation
1999	Agreement Relating to Civil Air Transport
1999	Letter of Intent on Consultations
1999	Agreement on Scientific and Technological Co-operation
1999	Exchange of Notes Regarding Participation in the Integrated Fish Farming Technology Training Course
1999	Exchange of Notes Constituting an Agreement Concerning the Sale of the Beva Nuclear Fuel Fabrication Plant
2000	Exchange of Notes Concerning the Provision of Water Supply Materials
2000	Agreement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income
2000	Agreement in Respect of Police Co-operation
2000	Agreement on Co-operation in Animal Health and Quarantine
2000	Agreement on Co-operation in the Fields of Arts and Culture
2000	Agreement on Maritime Transport
2000	Agreement on Phytosanitary Co-operation
2000	Pretoria Declaration on the Partnership Between the Republic of South Africa and the People's Republic of China
2000	Memorandum of Understanding on Co-operation Between the National

	Prosecuting Authority of the Republic of South Africa and the People's Procuratorate of the People's Republic of China
2000	Memorandum of Understanding on Public Health and Medical Sciences
2001	Treaty on Extradition
2001	Memorandum of Understanding Concerning Defence Co-operation
2002	Memorandum of Understanding on Co-operation in the Field of Human Resources Development and Public Administration
2002	Implementing Programme under the Agreement on Co-operation in the Fields of Culture and Arts for 2001
2002	Memorandum of Understanding on Co-operation in the Fields of Human Resources Development and Employment Creation
2002	Memorandum of Understanding on Information and Communications Technologies
2002	Memorandum of Understanding on the Implementation Plan for Organised Group Travel By Chinese Citizens to South Africa
2003	Treaty on Mutual Legal Assistance in Criminal Matters Source: Department of Foreign Affairs, South Africa

Source: Western Cape Trade and Investment Promotion Agency (Wesgro), 2005:28-30

Table 2.3 outlines a number of bilateral agreements that were signed between China and South Africa. From 1991 to 2003, there were 32 bilateral agreements that were signed between these two countries. Since establishment of diplomatic relations between China and South Africa in 1998, China has signed a number of agreements, including an “Agreement on the Establishment of a Joint Economic and Trade Commission”, an “Agreement on Trade, Economic and Technical Co-operation”, both in 1999, and an “Agreement on Maritime Transport” in 2000. These agreements provide further positive indications for South African marketing in China, including the possibility of boat exports in the near future.

2.3.2 Examples of South African companies marketing in China

Creation of diplomatic relations also functioned as a spur to increased South African trade and investment with China. Presently, South Africa’s development in this area is proceeding satisfactorily (Sandrey, 2006: 1). Prominent South African businesses that currently operate in China include SAB Miller, Kumba Resources and Naspers (Liu, 2005).

The South African brewery giant, SAB Miller, which has the world’s fourth-largest brewing capacity, has consolidated its second-ranked position in China, whereas other competitors in this sector have experienced a degree of market failure. By the end of January 2008, SAB Miller managed 51 breweries throughout China (SAB Miller, 2008).

Kumba Resources was one of the first South African organizations to penetrate the Chinese market when it invested USD 10 million in the construction of an iron ore terminal at Qingdao Harbour. The group's ore sales to China now surpass 8 million tonnes per year. The company also possesses a 60% stake in a zinc refinery and smelter, which is situated in Inner Mongolia with a total investment of approximately 170 million rand (Kumba Iron Ore Limited, 2006: 22).

Naspers, the Cape Town-based media conglomerate, has established itself as an internet service provider in China, and has penetrated the online marketing sector. Naspers has a presence in both Beijing and Shanghai, and further media-related activity is being considered (Alves, 2006: 39).

Sasol, the South African petrochemical group, has had significant success in accessing the Chinese market, especially through purchase of the chemical company Condea from the German RWE Group. Sasol operates plants in Nanjing and Fushun and is considering building two coal-to-fuel plants in Ningxia and Shaanxi provinces (Alves, 2006: 40-41).

Numerous South African mining companies, including Anglo-American and BHP Billiton, are expanding into China. Other companies that are involved are Impala Platinum, the Bateman Group, Goldfields and Mintek (Wesgro, 2005: 25).

Financial institutions, which have established beachheads in China, include banking giants ABSA and Nedbank, while Investec Bank has cooperated with the Bank of China regarding gold sales to that country (Wesgro, 2005:25).

The success of pioneering South African companies in China to penetrate this distant and culturally different market, can act as an example and encouragement for local marine industries, giving them confidence to penetrate and expand into this new export arena.

However, a lack of local knowledge, especially regarding language and business culture, can preclude such success from being achieved (Botha, 2006:16).

Importance of gaining an understanding of the marketing environment should, therefore, be a priority for any South African company that wishes to explore business possibilities in China.

2.4 INTERNATIONAL MARKETING ENVIRONMENT

Successful companies understand that the marketing environment is one, which constantly changes and metamorphoses, and that continual adaptation and close observation of this environment is essential if success should be achieved (Kotler, 2000: 136).

Within a rapidly changing global market picture, firms should monitor major forces such as economic, political-legal, and social-cultural (Kotler, 2000: 139-140). Companies often use a PEST analysis for marketing strategy. A PEST analysis considers political, regulatory, economic, social, cultural and technological factors. These macro-environmental factors need consideration as they are forces that shape opportunities and create barriers, which prevent success of a company's international marketing endeavours (Kotler & Armstrong, 2006: 68).

2.4.1 Economic environment in China

In the international marketing environment, economic environment consists of factors that affect consumer purchasing power and spending patterns. Two important factors reflect a country's attractiveness as a market: the country's industrial structure and its income distribution (Kotler & Armstrong, 2001: 101, 717).

Nations vary greatly in level and distribution of income and industrial structure. There are four types of industrial structures, namely subsistence economies (few opportunities for marketers); raw-material-exporting economies such as the Democratic Republic of Congo (copper) and Saudi Arabia (oil), with good markets for equipment, implements, supplies, and luxury goods for the rich; industrializing economies such as India, Egypt, and the Philippines, where a new rich class and a growing middle class demand new types of imported products; and industrial economies, which are rich markets for all sorts of merchandises (Kotler & Armstrong, 2001: 717).

Presently, China is recognized as a country with an industrializing economy, as is South Africa (Kim, 2006: 15). As a result of its rapid economic growth, a new rich class and middle class has expanded substantially in China, hence creating more potential buyers for yachts and boats. Presently, several overseas countries have already started to export boats to China. With a solid boatbuilding industry, South Africa should also catch up and exploit this new opportunity.

The second economic factor is the country's income distribution. Kotler and Armstrong (2001: 717) also point out that "countries with subsistence economies may consist mostly of households with very low family incomes. In contrast, industrialized nations may have low-, medium-, and high- income households. Still, other countries may have households with only either very low or very high incomes. However, in many cases, poorer countries may have small but wealthy segments of upper-income consumers. Also, even in low-income

and developing economies, people may find ways to buy products that are important to them.”

Generally, a country’s market development is divided into four stages namely, low-income, lower-middle-income, upper-middle-income, and high-income. Countries such as China and South Africa are recognized as lower-middle-income countries and, at the same time, these two countries are big emerging markets (BEMs) (Keegan & Green, 2005: 57).

Development of the Chinese economy has resulted in a growing number of millionaires, as income levels rise sharply, and a new wealthy class begins to emerge (Solheim, 2006: 2). According to Gap Gemini & Merrill Lynch (2007: 2-5), the Asia-Pacific Wealth Report (2007) states that there are over 345,000 High Net Worth Individuals (HNWIs) in China and more than 4,900 of them have a net worth in excess of USD 30 million. These facts reflect reasonable wealthy consumers for the luxury segment of the market, and this includes consumption of luxury marine purchases in the near future.

In the past, China restricted imports through high tariffs and taxes, non-tariff measures, trading rights restrictions, and other barriers. The Chinese government has become increasingly aware, however, that such protective measures cause endemic economic inefficiencies and encourage smuggling (Wesgro, 2005: 34).

In order to deal with these problems, the Chinese government agreed to radically reduce several barriers as part of its World Trade Organization (WTO) Accession (See **Table 2.4**). By the end of 2006, China had made required tariff cuts under its WTO Accession Agreement and widely expanded trading rights.

Table 2.4 Tariff Reductions since China’s WTO Entry (Kaiser & Bueren, 2002)

SECTOR	2001	2002	2003	2004	2005	2006	2007	2008
		Y1	Y2	Y3	Y4	Y5	Y6	Y7
Agriculture	An average of 31% to 14%			Cut to 10 %				
Manufacturing Industry	An average of 24.6 in 1997 to 9.4 %							
Chemical Products	An average of 6.9% to 8.8 %							
Cars	Tariff cut from 100-80% to 25%							
IT-Technology	An average of 13.3% to 0%							

Internally, it is also presumed that since China joined the WTO in December 2001, the country would move to eliminate the several tax preferences that are enjoyed by foreign invested enterprises (FIEs) and adopt “national treatment” of all companies for tax purposes. Foreign investors in China presently enjoy one of the lowest tax rates in the world (Wesgro, 2005: 35).

2.4.2 Political-legal environment in China

The political and legal environment, which is prevalent in China, should be considered, as it has a strong influence on the framework within which business enterprise is conducted. The political environment in the host country includes attitudes towards business endeavours, and these attitudes give rise to an entire scope of laws and regulations (the legal environment), which manage the conduct of business (Walsh, 1993: 27).

Every country has its own unique legal and regulatory system that affects operations and activities of the global enterprise (Keegan & Green, 2005: 152).

At least four political-legal factors should be considered in deciding whether to accomplish business in a certain nation: attitudes towards international commerce, government bureaucracy, political stability, and monetary regulation (Kotler & Armstrong, 2001: 719).

2.4.2.1 Attitudes towards international commerce

In their attitudes towards international commerce, some countries are quite friendly towards foreign enterprises, while others are antagonistic (Kotler & Armstrong, 2001: 719).

Table 2.5 Opening of Chinese markets through WTO (Kaiser & Bueren, 2002)

SECTOR	2001	2002 Y1	2003 Y2	2004 Y3	2005 Y4	2006 Y5	2007 Y6	2008 Y7
Manufacture and advanced production							Quotas and non-tariff restrictions eliminated within 5 years	

Textiles					By end 2005, import quotas eliminated
Non-Life insurers	Joint venture with 51% ownership			Wholly Foreign Owned Enterprise (WFOE) is possible	
Foreign Life Insurers	Maximum 50% ownership	Maximum 51%			WFOE possible
Geographic restrictions	Permitted in Shanghai, Guangzhou, Dalian, Shenzhen, Foshan	Permitted in Shanghai, Guangzhou, Dalian, Shenzhen, Foshan, Beijing, Chengdu, Chongqing, Fuzhou, Suzhou, Xiamen, Ningbo, Shenyang, Wuhan, Tianjin		No geographical restrictions	
Business Scope	Permitted to provide "Master Policy" insurance of large-scale commercial risks. Foreign non-life insurers are permitted to provide insurance of enterprises abroad, as well as property insurance, related liability insurance and credit insurance of FIE upon accession			Permitted to provide full range of non-life insurance services to both foreign and domestic clients	
Banks				Conduct RMB business with Chinese enterprises	Conduct local currency business with private individuals across China
Mobile		35% equity in JV, operating in and between 17 cities.	49% in JV, with no geographic restrictions		
Tourism					100% ownership stake in hotels in China possible.

In the WTO negotiations, China consented to open more of its domestic markets to foreign enterprises, which reduced restrictions on foreign-owned businesses (See **Table 2.5**). **Table 2.5** indicates that since the end of 2006, quotas and non-tariff restrictions for manufacture and advanced production, would be eliminated within five years. By the end of 2004, geographical restrictions for conducting business in China, had been eliminated (See **Table 2.5**). After gaining membership of the WTO, the Chinese market and industrial development became more transparent and standardized. It is, therefore, clear that the restrictions, which may have made penetration of the Chinese market by marine industries difficult, have largely fallen away.

2.4.2.2 Political stability

The ideal political climate for international investors is a stable and business-friendly government (Cateora & Graham, 2007: 159). Backed by a relatively stable political system, China offers several opportunities to investors and exporters – factors such as a high economic growth rate, low labour costs, low operational overheads and a large consumer market – combine to make it an attractive investment destination (Wesgro, 2005: 5).

In China, the leadership, which assumed power during September 2004 continued and extended movement towards political and social openness. Hu Jintao replaced former president, Jiang Zeming, as chairman of the Central Military Commission (the party organization that tops the military bureaucracy). Hu has broached the objective of political reform, which includes an expansion of social democracy. Emphasis on social justice and responsible public administration under Hu Jintao and Wen Jiabao (Prime Minister), has been described as China's New Deal (Wesgro, 2005: 8-9).

At the 17th congress of the Chinese Communist party in October 2007, Hu Jintao noted that the party had fallen short of peoples' expectations in some ways, and addressed the problem of local level administrative corruption. However, the stable and reform-minded platform of government, which had evolved during the present decade, has been consolidated, and this situation can only be seen as advantageous for international commercial activity in the country.

2.4.2.3 Monetary regulations

Capital movements are basically unobstructed only for direct investments in Chinese industry. Foreign direct investment in China has assisted improved foreign exchange reserves and money supply in recent years (Korhonen, 2004: 4).

In China, dividends that are paid or profits that are distributed by a foreign invested enterprise to foreign investors, are exempt from withholding tax. However, as required by local foreign-exchange control formalities, relevant tax exemption certificates should be obtained from competent tax authorities before such dividends/profits can be remitted overseas through designated banks (Wesgro, 2005: 35).

Companies should also evaluate nations' monetary regulations, since sellers want to take their profit in a currency of value to them (Kotler & Armstrong, 2006: 595). Knowledge of local monetary regulations is an important factor when considering establishment of an export market.

2.4.2.4 Government bureaucracy

Another factor is government bureaucracy---the extent to which the host government operates an efficient system, which results in a positive and supportive environment for foreign companies (Kotler & Armstrong, 2001: 719). Networking is an important aspect of conducting business internationally, but it takes on added importance in a society with a complex bureaucracy and a legal system, which is still subject to circumvention. A web of Guanxi helps firms to navigate through China's bureaucratic challenges (New Zealand Trade and Enterprise (NZTE), 2006: 22).

Small-to-medium enterprises, in particular, should typically find a counterpart in China to make sales and deliver products for them. Most business relationships are built on the concept of Guanxi, which literally means "connections", and can be understood to refer to any type of inter-personal and inter-group networking and association. In the Chinese business world, it is furthermore understood as a network of relationships among various parties, which facilitate cooperation and support (Wesgro, 2005: 42).

It is apparent that political legal factors discussed above make for an attractive opportunity and friendly environment in which to market South African boats in China.

However, it is clear that there will still be barriers, even in this friendly environment, with Guanxi possibly the most significant. There are currently thus still formidable barriers that should be overcome before a company can penetrate the Chinese market.

Guanxi is a unique business and cultural phenomenon; and it is an important vehicle to navigate within Chinese society, including the business world. The concept of Guanxi is, therefore, central to this study, and is examined at length in the next section.

2.4.3 Cultural environment in China

Cateora & Graham (2005: 58) have defined culture as "society's accepted basis for responding to external and internal events". They further suggest that in order to understand a nation's behaviour and attitudes, it is significant to appreciate the influence of a country's

history. Thus, it is helpful to have some perception of China's long history and cultural heritage before introducing Guanxi. In this section, Chinese history, Chinese culture and Chinese cultural values, including Guanxi within Chinese business culture, are discussed.

2.4.3.1 Chinese history

In order to be aware of, clarify, and appreciate a people's awareness of itself and the attitudes and unconscious anxiety that may be reflected in its conception of foreign cultures, it is necessary to study contemporary culture, as well as comprehend the culture as it was--- that is, a country's history (Cateora & Graham, 2005: 58).

China's history dates back more than 3,300 years. Modern archaeologists provide evidence of still earlier cultures that flourished between 2500 and 2000 B.C. in what is now central China and lower Huang He (or Yellow River) Valley of northern China. Centuries of resettlement, combination, and development brought about a distinctive system of lettering, philosophy, art, and political organization that became recognized as Chinese civilization (Chaos Group, 2007).

Of the accordant characteristics identified by independent historians, one that has been recognized, is capability of the Chinese to assimilate people of contiguous areas into their own civilization. The Chinese also left a lasting impression on people beyond their borders, especially the Koreans, Japanese, and Vietnamese (Chaos Group, 2007).

For centuries, substantively, all foreigners that Chinese rulers saw came from less developed societies. The Chinese regarded their domain as a self-sufficient centre of the cosmos and traced from this image the traditional (and still used) Chinese name for their country, which is Zhongguo, literally, Middle Kingdom or Central Nation. However, by the mid-nineteenth century, insulted militarily by superior western weaponry and technology and faced with imminent territorial dismemberment, China began to reassess its position with respect to western civilization. By 1911, China's two-millennia-old dynastic system completely collapsed (Chaos Group, 2007).

After the Chinese communist party takeover in 1949, the country experienced solid elementary progression and development, as well as periods of turbulence, under the leadership of Mao Zedong. From 1966 until Mao's death in 1976, a series of thought-reforms and anti-rightist battles during the Cultural Revolution, led to further instability. Following Deng Xiaoping's ascension to power, a number of economic reforms, as well as a

liberalization of state control over the population, heralded a movement away from a planned economic base to that of a mixed economy. Since the 1990s, based on the heritage of Mao Zedong and Deng Xiaoping, further economic liberalization led to extraordinary growth, which alleviated, to an extent, the position of millions of poverty-stricken peasants and workers. Although political control remains centralized, such control has been relaxed extensively, while living standards have improved considerably for the general population (Chaos Group, 2007). In 2001, China joined the World Trade Organization (WTO).

China began world trade roughly 2000 years ago during the Han Dynasty, by opening up the famous Silk Road, which facilitated trade with west Asia. During the Tang Dynasty in the 7th and 8th century, the country further engaged in trade with the outside world. Zheng He, a famous Chinese navigator began his voyage in the 15th century with trade to the Middle East and the east coast of Africa. These expeditions took place a century earlier than those of Columbus and Da Gama. At that time, China benefited from world trade and the country became rich and influential.

Subsequently, Chinese rulers turned inward and began to restrict this open movement, hence losing an important opportunity for development. During the period of Emperors Kangxi and Qianlong (between the late 17th century and the end of the 18th century) during the Qing Dynasty, China was still a leading industrial producer in the world, but because of continuing to indulge in complacency and continuing to close its doors to the world, the country lost this lead as European countries unleashed their productive force by embarking on a path of modern capitalist revolution and the Industrial Revolution, which left China in a state of stagnation. After that, China was left far behind in development and its international status plummeted, which lead to semi-colonial status and was exposed to insult by foreign powers.

Profound changes and development occurred after the founding of the People's Republic of China. During the period 1950 to 1960, China developed rapidly in economics, science and technology. However, with the decade-long "Cultural Revolution" beginning in the late 1960s, China lost another opportunity for its development. Since the 1980s, the opening up of the entire country has brought about even further development. China is presently open to world trade again.

It is obvious that when a country opens itself, that country becomes strong, developed and prosperous, however, isolation will result in turbulence, instability and lack of development. In a speech at the National University of Singapore in 2007, the Chinese Premier, Wen

Jiabao (2007), declared that “only an open and inclusive nation can become strong and prosperous, while a nation that shuts its door to the world is bound to fall behind.”

2.4.3.2 Chinese culture

Culture influences business practice and Chinese culture should be examined in order to understand how commerce works in China.

Scholars have offered different definitions of culture. Some of them have divided culture into two different categories, namely material culture and nonmaterial culture, which are seen as interrelated (Keegan & Green, 2005: 119).

Generally, the concept of culture is varied and broad, but is usually construed as a system of societal values and customs, which are shared and transmitted across generations. Culture can also be seen as a system, which embraces differing aspects including art, literature, language, spirituality, music, cuisine, artefacts and architecture. The spectrum of Chinese culture is wide, spanning the entire gamut of human cultural and artistic production.

Joseph Needham, a British biochemist and scholar, is one of the best known western authorities on Chinese civilization, and his “Science and Civilization in China” series is a monumental work that is still regarded as a definitive publication on the subject of Chinese studies (Needham Research Institute, nd).

Needham (Powell, nd: 4) noted four Chinese inventions, which he regarded as being the most important, namely the compass, gunpowder, papermaking, and printing.

The large and rich culture of China includes a system of cultural values, which are rooted in tradition, exercising a profound influence on social behaviour and relations. These values are of relevance to this study and bear examining in detail.

2.4.3.2.1 Chinese cultural values

In their influential publication, “Principles of marketing”, Kotler and Armstrong (2006:89) mentioned that “people in a given society hold many beliefs and values. Their core beliefs and values have a high degree of persistence. These beliefs shape more specific attitudes and behaviours found in everyday life”.

A value can be defined in two different categories: instrumental and intrinsic. Instrumental values refer to advantages, interests and profit, which are directly beneficial to us.

Instrumental values guide people and society and stimulate them to move from being poor to being rich. Instrumental values are, therefore, temporary and last only as far as a certain degree of wealth is attained. The only inexhaustible value is intrinsic value. Intrinsic value prevails at vital moments of decision-making, which lead to development of social civilization, and always calls to people from an ever-distant summit (Harrison & Huntington, 2000: 45). Thus, values have been further defined as a durable belief that a specific mode of behaviour is personally or socially preferable to its opposite (Rokeach, 1968: 160). Accordingly, cultural values form peoples' philosophies and attitudes and guide their activities (Fan, 2000: 4).

China's long historical and cultural traditions have had a deep influence on values. Dogmas and philosophy of Confucius constitute basic pillars of Chinese life and ways of living even today (Qian, Razzaque & Keng, 2007: 215).

In various ways and at diverse levels, Confucianism represents a large part of China, Korea, Japan and other countries' cultural inheritance to an extent that one can articulate that Confucianism is to East Asia what Christianity is to Western Europe (Ng, 2003).

Confucianism is a religio-philosophical world view that explicates the workings of, and the relationship between, humankind and the universe. Confucianism is both a political philosophy and a social ethic. Core values of Confucianism endeavour to accomplish an elementary and organic harmony between the human being and nature (Ng, 2003).

Confucius points to the fundamental "Five Relationships" (called *wu-lun*) between sovereign and minister, father and descendant, husband and wife, elder and younger brothers, and between friends. *Wu-lun* designates the complicated and organic web of relations between individuals, and these strong interactions reflect the relations-centred emphasis in Chinese culture (Song & Werbel, 2007: 52).

In this regard, the concept of Confucianism is close to that of social institutions. Social institutions influence the ways in which people deal with each other (Czinkota & Ronkainen, 2002: 79-80).

Since the early twentieth century, Confucianism has been much slandered and scorned by both Chinese reviewers and Western bystanders, to an extent that it has been viewed as a reactionary value system that has resulted in the fecklessness of China in the global horse race for progression of material civilization and technological innovation (Ng, 2003).

However, with recent spectacular economic success of the Asian “tigers”, with Japan taking the lead, followed by Hong Kong, Taiwan, Singapore, South Korea and now China, Confucianism has been re-interpreted as an ideological and cultural generator of economic growth. Since the early 1980s’, China has been actively encouraging revival of Confucianism. A traditional statue of Confucius, demolished during the Cultural Revolution, has been reinstated, and in 1990, a commemorative stamp in honour of Confucius was issued. Once detested, Confucius and Confucianism are presently not only acceptable, but are enthusiastically promoted (Ng, 2003).

Using Confucianism as a guide, Chinese cultural values can be divided into six salient aspects, namely Family Orientation, Guanxi (referring to interpersonal relationships), Yuan (or karma, destiny), Mianzi (or face saving), Renqing (social relationships), and Reciprocity (Qian, Razzaque & Keng, 2007: 215-216). Much business in China is based on interpersonal relationships and Guanxi is, therefore, crucially important in this field.

2.4.3.2.2 Guanxi in Chinese business culture

Among these aspects, Guanxi is deemed to be vital because it has been enshrined in the way that the Chinese have preferred to do business since the time of Confucius, and still influences the way that the Chinese do business nowadays (Buttery & Leung, 1998: 378). Therefore, Guanxi, as a Chinese business custom and expectation, should be carefully met or avoided, in order to gain business success. In China, informal discussion, entertainment, contacts and mutual friends, or simply spending time with others, are ways that develop trust. Sustaining friendship, human relations, and reaching a level of trust, are beneficial to enter Guanxi, hence business operations.

The entire concept of Guanxi is examined in some detail in the following section.

2.5 Guanxi

While western business customs have developed impersonal structures to channel power and connect through relying on laws and contracts, the Chinese tend to build interpersonal interactions and connections and store political capital from them. For the Chinese, contracts form a useful programme are a symbol of improvement, but obligations come from business relationships (Czinkota & Ronkainen, 2002: 79-80).

The literal translation of Guanxi means “correlation” or “relationship”, but it is the implication of the word that is significant within a business context. It can be comprehended as a

network of interactions amongst a range of parties that work collectively and maintain each other (Fan, 2007: 499). Traditionally, Guanxi advocates a set of ethical codes that can be handled by Chinese political leaders to control Chinese people to accomplish ideal social harmonization, whereas the modern practice of Guanxi regards it as a strategic instrument to achieve business goals (Leung and Wong, 2001: 56-57).

Presently, the Guanxi concept in China refers to connections and social networking, which are based on reciprocal interests and benefits. There are both positive and negative aspects to Guanxi. Positively, Guanxi facilitates business transactions that benefit from limited resources/information, and preferential treatment, as well as protection from exterior threat. Negative aspects of Guanxi include corrupt behaviours such as favouritism and nepotism (Lee, Pae & Wong, 1999: 54).

The purpose of business operations is profit-seeking. Motivation for initiating a Guanxi relationship could be the objective of tremendous profits or other economic benefits (Cheng, Szeto & Wright, 2006: 427). In China, Guanxi can be used to facilitate business in four ways, which include:

- developing new customers;
- keeping existing clients;
- facilitating business operations; and
- avoiding or bypassing government bureaucracy (Dunfee & Warren, 2001: 7).

Each of these four ways are examined in more detail below.

2.5.1 Guanxi as a promotional tool to develop new customers

One of the vital functions of Guanxi is that it is regarded as an effectual promotional tool. Sometimes it is even more cost economical and more successful than customary advertising and personal selling. For example, in China, the wives of government bureaucrats are often said to have more influence than their husbands. Several are active in business transactions, and benefit from their husbands' occupations. For example, a French wine manufacturer in the local Chinese market faced strong competition from an opposing French label that had been distributed there for several years, and was successfully immune to

conventional promotion. One of the female sales agents was introduced to the wife of a local government bureaucrat while playing mah-jong – a popular occasion to develop Guanxi. The wife was requested to assist in promoting the new wine brand and was promised a substantial remuneration. She took turns to get in touch with members in her Guanxi network; one of them was general manager of a large state-owned hotel, which is often used by local dignitaries to entertain important executives and by large corporations for business functions. The manager launched the new brand, and it began to appear in routine news and television reports of official events. It became the market leader within six months. Government bureaucrats, in this case, had played a role that would be considered in the West as “celebrity” endorsers. The strategy worked so well because consumers generally believed that if the leaders preferred a particular brand, it implies good taste and high reputation (Fan, 2007: 503).

The importance of Guanxi in business operations in China is accepted as essential for successful market entry and persistent success within this market (Dunfee & Warren, 2001: 20).

2.5.2 Guanxi as an approach to keep existing clients

Relationship marketing can be seen as a series of arrangements, which identify and establish, maintain and enhance relationships with clients and other parties, at a profit, so that the targets of participators that are involved, are met. This is accomplished by reciprocal exchange and realization of promises (Brink & Berndt, 2004: 6). Within a framework of increasing globalization and ever-larger corporations, relationship marketing is a way of keeping existing customers. Guanxi is seen as social interaction within a systematic group where repeated “favour” exchanges ensure a measure of trust among the players of this system. It can offer insights into relationship marketing operators because it enables network players to cooperate harmoniously for their long-lasting mutual benefit. In China, superior levels and more sophisticated relationship marketing is more like Guanxi (Geddie, Defranco & Geddie, 2005: 614-627).

The only difference between relationship marketing and Guanxi is that Guanxi focuses on constructing the bond or relationship before the exchange in such a way that once the exchange is completed, the corporation and client become one cooperative system, while relationship marketing deals with the exchange first and builds the relationship later (Geddie, Defranco & Geddie, 2005: 627).

2.5.3 Guanxi as networking to facilitate business operations

Generally, Chinese society is classified as a low trust society (Fukuyama, 1995: 43).

In China, reputation and trust are integral elements within a Guanxi network (Fan, 2007: 502-503). In the article “Business networking in the Chinese context”, the authors mentioned that former Singapore Prime Minister, Lee Kuan Yew, recognised networking as an efficient approach to move into conceivable profitable markets in China. Even though there are no prior connections, possible business partners always intentionally create or seek to build Guanxi (Szeto, Wright & Cheng, 2006: 432-433). In China, when trust has been established, one’s word, by itself, can be a foundation for business transactions and operations within the Guanxi network. Therefore, an essential problem for international administrators is that because Chinese relationships are built over a long period of time, they might have less trust in a foreigner who may not be recognized as dedicated to China and who is likely to move on to other sites. Successful international companies and executives, therefore, recognise a need to invest long periods of time to build connections and penetrate Guanxi networks (Hutchings & Weir, 2006: 277-279).

2.5.4 Guanxi as a tool to avoid or bypass government bureaucracy

Guanxi also sets up an unofficial association, which allows bypassing inefficiencies in government bureaucracy. In China, Guanxi acts as a strategic instrument, particularly for organizations without strong government ties. In this sense, Guanxi may be regarded as a substitute for the rule of law. For example, a manager may befriend a government administrator as a means of expediting a time-consuming authorization process on a new product. As a result, this companionship allows the manager to bypass a government system and bring his product to market more quickly (Dunfee & Warren, 2001: 6-18). By bypassing the government, a Guanxi network may facilitate access to resources such as market information and market trends, government policies, regulations and business opportunities, as well as licenses and approvals (Tomas & Arias, 1998: 145-156).

The use of Guanxi saturates Chinese peoples’ daily lives and is based on a tradition of Chinese cultural values that encourage shared social experiences and responsibilities between and among individuals (Molz & Wang, 2006: 49).

One of the most important aspects of Guanxi is that of gift-giving. In the process of nourishing Guanxi, gifts are generally used. Gift-giving is a means of establishing and maintaining Guanxi (Leung & Wong, 2001: 56).

2.6 Gift-giving: basis for establishing Guanxi

Lacking Guanxi is not merely an obstruction to penetrating the Chinese market, but a considerable handicap (Dunfee & Warren, 2001: 20). Naturally, a prime consideration would be how to establish a Guanxi relationship, and what is the first step in this process.

Approaches that lead towards establishing Guanxi include (1) inviting executives on a journey, and offering to pay for all costs; (2) entertaining executives by hosting luxurious parties; (3) presenting modest gifts; and (4) using a middleman to set up contacts (Dunfee & Warren, 2001: 17). Among these, gifts are a basis towards building Guanxi.

Normally, in western business culture, business relationships develop fully only once business is complete, but in Asia, relationships are built before business develops.

This relationship (Guanxi) is a set of exchanges of favours, which result in establishment of trust. In China, accepting a gift and reciprocating, is a rule of etiquette within a business context because gifts show respect towards a counterpart and is a way of nourishing the relationship, as well as corroborating trust, caring, reciprocity and commitment between respective parties. Gifts, therefore, are a foundation for creating a relationship (D'Souza, 2003: 33-37).

Sensitivity towards the practice of giving gifts is also an indicator of respect for the manners and customs of a host country's culture (Czinkota & Ronkainen, 2002: 71). Sumptuous gifts proved essential in Chinese culture in the past. Presently, official Chinese business culture discourages giving gifts, as this kind of behaviour may be considered to constitute corruption, which is illegal in the country. It is possible then that a gift may be turned down. Attitudes towards giving gifts are, however, beginning to relax and this aspect of Guanxi remains important (Wesgro, 2005:46).

Traditionally, the Chinese will turn down a gift three or more times before final acceptance so that they do not seem greedy. One should continue to insist. Once the gift is accepted,

gratefulness is expressed. One is expected to undergo the same procedure if one is presented with a gift (Wesgro, 2005: 47).

Gifts may be miniature and reasonably priced. If the meeting is at a banquet, gifts should be offered at the end. It is normal for Chinese to not open the gift in front of one; still, they may do so if one signifies that one would like them to, or wish to describe something about the gift. It is unnecessary to offer the whole group gifts, but rather present gifts to a senior person only, or possibly one or two others. If one wishes to present a subordinate person or interpreter with a gift, this should be done in private rather than in front of a superior (New Zealand Trade and Enterprise (NZTE), 2006: 23).

Care should be taken with the manner in which the gift is wrapped; for example, it should be in appropriate coloured paper (Czinkota & Ronkainen, 2002, 71). In China, pink, gold and silver are considered suitable colours for gift-wrapping. Yellow gift wrapping and black writing is only used for bereavement. Also, ensure that differences in colour suitability from region to region, are understood. Since colours have several dissimilar connotations in Chinese culture, a reliable option is to delegate the task of gift-wrapping to a shop or hotel that offers this service (Wesgro, 2005: 47).

2.7 Trade exhibitions and Guanxi development

Trade exhibitions, also called trade fairs or trade shows, are considered as significant instruments of marketing communication (Blythe, 1999: 100). Kotler (2000: 375) mentions that before entering the foreign market, “one of the best ways to initiate or extend export activities, is by exhibiting at an overseas trade show.”

Important results of exhibiting at trade shows include meeting new clients, presenting new products, and making sales orders (Blythe, 1999: 100-110). Conversely, trade shows also open avenues for personal selling, which does not only offer another platform for making sales, but also to establish customer relationships (Kotler & Armstrong, 2006: 427).

International marketing managers who conduct business in China should comprehend that marketing implies cooperation more than competition. The Chinese believe that one should construct the connection first and, if that is successful, businesses will follow (Czinkota & Ronkainen, 2002: 69). Therefore, great potential exists for exhibitors to build Guanxi with end-users, competitors, media, and local government in Chinese trade exhibitions, especially at local trade shows (Loke & Derrett, 2006: 63).

2.8 Language and Guanxi development

Language is usually regarded as a mirror of culture (Czinkota & Ronkainen, 2002: 64). Despite China's development of competent English-language skills, firms that are serious about expanding business to China, should supply business profiles in Chinese and be prepared to initiate contact in Chinese. Having Chinese-language information arranged, and a Chinese speaker or interpreter accessible, makes a positive first impression and demonstrates that a corporation is serious about initiating business in China (Wesgro, 2005: 42). Hence, it is sensible to employ a Chinese marketing manager if a company has a long term project to penetrate the Chinese market.

In other words, investing in developing Chinese language information and profiles about their companies and products, will help firms to successfully penetrate the Chinese market. Small companies should also build capacity in Chinese-language expertise.

Language capability serves international marketing in four different ways. First, language is an important approach for information gathering and evaluation. Second, language facilitates communication with local society. Third, language capability is increasingly significant in business communications, whether within business organizations or with channel members. Finally, language provides more than a capability for communication (Czinkota & Ronkainen, 2002: 64).

Furthermore, being able to be aware of the local language, will help one to facilitate better Guanxi amongst Chinese acquaintances. Before the trip, preparing to know aspects of Chinese language, culture, history, and geography, is recommended, since hosts will be pleased with the initiative. If one speaks Chinese, they will appreciate one's efforts and take the initiative of starting business in China more seriously, than if one did not speak any Mandarin.

2.9 CONCLUSION

With rapid development of China's economy, the recreational marine market is anticipated to be profitable in future. Chapter Two has examined opportunities, which are presented by the

Chinese recreational marine market for South African boat builders. This short exploratory review of South African trade with China and the successful entry of South African companies into China, showed that potential exists for penetration of the Chinese market by South African marine industries.

An understanding of the internal marketing environment in China, including economic, political-legal and cultural factors, and China's unique business culture, particularly the concept of Guanxi, is necessary in order to overcome barriers, which may prevent survival and success within this business culture.

Chinese business culture can be seen as based on harmonious relationships. Confucianism acts as an instrument, which harmonises Chinese peoples' daily lives and their social relationships. Underpinned by Confucianism, Guanxi relationships are hugely influential within local business culture. Guanxi can be used as a kind of promotional tool to develop new customers, an approach to keep existing clients, networking to facilitate business operations, as well as a method of avoiding or bypassing government bureaucracy.

Gifts are a basis and foundation of Guanxi. Trade exhibitions are one of the best ways to enter foreign markets, and they are also a good platform to build Guanxi relationships. A good working knowledge of Mandarin is an essential element towards conducting business in China and, therefore, also essential for the establishment of Guanxi relationships. The importance of these three factors, namely gifts, language knowledge and exhibition participation, which were derived from a survey of South African boat builders' penetration of the Chinese home market, is clear.

Therefore, investigating application of Guanxi to export possibilities that are afforded South African boat builders, is the main focus of this study. Successful use of Guanxi is a skill, which especially small to medium South African companies should master in order to build and maintain long-term business objectives within the Chinese market.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter describes various methodological elements of the study, including data collection strategy, research design, as well as methodology. These will facilitate the main objective of the study, which is to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation.

3.2 DATA COLLECTION METHOD

In order to achieve the objectives of this study, primary and secondary research data were both used.

3.2.1 Secondary data collection

Secondary research refers to gaining access to the results or outcomes of previous literature. This kind of research is sometimes also called desk research (Baines & Chansarkar, 2002:25).

Baines and Chansarkar argue that marketing research often begins with a secondary data research phase in which available and associated information is generated before the researcher sets up primary research data collection.

For the purpose of this study, secondary data sources are relatively important. In order to resolve the first two objectives of this study, secondary data was used in a form of literature search in Chapter Two, particularly regarding opportunities within the Chinese recreational boat market, the history and actuality of bilateral trade between China and South Africa, as well as successful entry of South African companies into China.

After understanding the potential that exists for penetration of the Chinese market by South African marine industries, additional books, literature and government publications, were also reviewed to examine the internal marketing environment in China, especially the business culture environment within the country.

Finally, searches of relevant information, speeches and databases indicate that the primary research focus of this study is to investigate the application of Chinese business culture, specifically Guanxi, by South African boat builders to enhance their marketing possibilities in China.

3.2.2 Primary data collection

Comprehension of primary research is research, which has not previously been implemented and involves collection of data for the specific purpose or a particular project (Baines & Chansarkar, 2002:25).

In order to identify how boat builders perceived Chinese business networks, or Guanxi, a self-completed questionnaire survey was administered in Cape Town. The questionnaire was based on literature from previous research that had been conducted. The questionnaires consisted of open ended and close ended questions. See the Appendix.

Results of this primary data collection were used to generate guidelines to improve marketing the South African boat industry in China.

With assistance from the South African Boat Builders Export Council (SABBEX) and the Cape Town Boatbuilding and Technology Initiative (CTBI), questionnaires were distributed to the 30 boat builders in Cape Town. Only one questionnaire was distributed per boat builder. The sample element was defined as the owner/partner, marketing manager or senior manager of the boat builder. In the case of more than one person available, the most senior person was always chosen.

3.3 STUDY DESIGN

All data, information and human knowledge should ultimately reach the researcher either as words or numbers (Leedy, 1993:139). The nature of the data collection dictates the methodology. If the data is textual, the methodology is qualitative, and if it is numerical, the methodology is quantitative (Leedy, 1993:139). Both types of research are applied in certain circumstances according to their strengths and weaknesses. In this study, qualitative and quantitative methods are applied successively.

3.3.1 Qualitative methodology

Qualitative methodology is often used at the preliminary stage of a research project to discover basic factors, which affect the current research problem (Baines & Chansarkar, 2002:23). It allows the researcher to use some flexible, exploratory and discovery-oriented procedures, therefore, collect relevant information (Leedy, 1993:144).

Secondary data collection is a kind of qualitative research technique, which is economical to define the background to research (Baines & Chansarkar 2002:65). This qualitative approach is firstly used to explore South African trade with China, and the concept of social networking (Guanxi) within Chinese business relationships in Chapter Two.

3.3.2 Quantitative methodology

Quantitative methodology is often used to test the validity and reliability of findings from qualitative research (Baines & Chansarkar 2002:27,63). A survey is perhaps the most popular and best method available for social research (Babbie, Mouton, Vorster & Prozesky, 2001:230-232). Generally, in survey research, questionnaires are frequently used for data collection (Babbie, Mouton, Vorster & Prozesky, 2001:239). Therefore, in order to investigate application of Guanxi to marketing possibilities that can be explored by South African boat builders, a quantitative questionnaire survey was adopted for this study.

3.4 POPULATION AND SAMPLING

3.4.1 Sampling frame

The population is a specified aggregation of the research element, from which the sample is chosen (Babbie, Mouton, Vorster & Prozesky, 2001:173-174). Presently, Cape Town is a key region for the boatbuilding industry in South Africa. Approximately 75% of the country's boat builders and 87% of the industry's turnover is located in the Western Cape province, particularly Cape Town (Cape Town Boatbuilding and Technology Initiative (CTBI), 2004:1)

Due to limitations of time and budget, the study population, therefore, only included boat builders in this city. According to the Cape Town Boatbuilding and Technology Initiative (CTBI), there are 30 yacht and boat builders in Cape Town, hence the population of this research comprises 30 boat builders.

A sampling frame is a complete list of the units from which the sample is selected (Babbie, Mouton, Vorster & Prozesky, 2001:173-174). As the population is relatively small, the sampling frame covers these 30 boat builders in Cape Town.

3.4.2 Sampling method

A simple random sampling method was applied to select boat builders in the boatbuilding sector in Cape Town. Simple random sampling is a kind of probability sampling, in which each member of the sample has the same opportunity of selection (Welman & Kruger, 2001:53).

An advantage of simple random sampling is that the generation of data is easily comprehensible and the result is far more representative. A disadvantage of this method is that it is sometimes difficult to obtain a comprehensive sample frame (Baines & Chansarkar 2002:25). In this study, the sample frame already covers a relatively small population, hence the disadvantage of the sampling method is minimized.

3.5 PROCEDURE

The procedure of data collection was conducted with the aid of the South African Boat Builders Export Council (SABBEX) and the Cape Town Boatbuilding and Technology Initiative (CTBI). Thirty (30) questionnaires were distributed to boat builders by email and fax in Cape Town, and the survey was conducted within a period of one month (April to May, 2008).

Questionnaires were distributed to respondents with requests to fax or email back to SABBEX and CTBI upon completion. Due to the convergence of public holidays between the end of the April and the beginning of May in South Africa, it was essential to allow respondents time to complete the questionnaires at their own convenience. The questionnaires were handed to boat builders and collected after two weeks from the end of the public holiday at the beginning of May 2008. Anonymity of respondents was ensured since they were not obliged to identify themselves.

3.6 PILOT STUDY

Before the main survey was conducted, two pre-test questionnaires were submitted to the South African Boat Builders Export Council (SABBEX) and the Cape Town Boatbuilding and Technology Initiative (CTBI) for a pilot study. A pre-test becomes necessary to test validity of the questions, as well as to optimise the structure of the questionnaire. Pre-tests are also indispensable aids to develop good questionnaires and to examine potential for both respondent and interviewer errors (Dillon, Madden & Firtle, 1990:439). Finally, as a result of the pilot study, a number of improvements were made to increase the simplicity and phrasing of the questionnaire.

3.7 DATA ANALYSIS

Statistical Package for Social Sciences (SPSS) is statistical software, which assists researchers to summarize data, compile suitable tables and graphs, examine relationships among variables and perform statistical significance, which is based on relevant research questions (Babbie, Mouton, Vorster & Prozesky, 2001:583). All primary data from the questionnaire survey in this study was organised and coded before inclusion in Microsoft Excel format, while data was also fed into the SPSS (SPSS 16.0 version).

Once all the necessary data was analysed from SPSS and Microsoft Excel, results were interpreted and compiled. In order to simplify the results, tables, figures, frequency distributions and proportions were used to present them.

3.8 SUMMARY

This chapter has outlined the methodology that was used in this study. By understanding the potential that exists for penetration of the Chinese market by South African marine industries from secondary data sources in Chapter Two, the researcher attempted to survey boat builders within Cape Town. A self-completed questionnaire survey was used to identify application of Guanxi in relation to export possibilities among South African boat builders. The research findings and results are presented in Chapter Four.

CHAPTER 4: FINDINGS AND RESULTS

4.1 INTRODUCTION

Chapter Four describes the results of this study. It provides perspectives of boat builders in Cape Town in respect of their viewpoints regarding business and friendships, awareness of Guanxi and its functions, as well as their perceptions of approaches to creating Guanxi connections.

In order to understand how South African boat builders perceive the influence of Chinese business culture (Guanxi) on their business operations, the researcher drew on a survey (n=30), which was conducted with the aid of the South African Boat Builders Export Council (SABBEX) and the Cape Town Boatbuilding and Technology Initiative (CTBI). Thirty questionnaires were distributed to boat builders in Cape Town, of which a total of fourteen were returned, yielding a response rate of 46.7%.

4.2 ACTUALITY OF EXPORTING BOATS TO CHINA

Question: Has your company ever promoted boat exports to China before?

	Number of respondents	Percentage (%)
Yes	0	0.0
No	14	100.0
Total	14	100.0

Table 4.1 Actuality of exporting boats to China (n=14)

The question was to determine the actuality of South African boat builders exporting boats to China. The result above shows that 100% of respondents have never had any experience of exporting boats to the Chinese market. Therefore, no further profiles were needed or included.

4.3 VIEWPOINTS ON RELATIONSHIP BETWEEN BUSINESS AND FRIENDSHIP

Viewpoints regarding business and friendships in the boatbuilding industry in South Africa consisted of eight pre-developed statements, which had to be verified. These statements examined impressions that boat builders had of business and friendships. All statements were closed ended questions with space for specification and comments. Major concerns were various dimensions between business and friendships, which might also be related to Guanxi development.

The statements were presented by using a 5-point scale: definitely agree, tend to agree, undecided, tend to disagree and disagree. The first measurement was “approval”, which fused with “definitely agree” and “tend to agree”, the second measurement was “undecided” and the third measurement represented “disapproval”, which fused with “tend to disagree” and “disagree”.

4.3.1 Acceptability of borrowing money

Statement: Borrowing money for business purposes is acceptable.

This statement tested the more pragmatic issue of whether or not a business relationship (Guanxi) could be extended to an ability to borrow money.

	Number of respondents	Percentage (%)
Definitely agree	8	57.1
Tend to agree	5	35.7
Undecided	0	0.0
Tend to disagree	1	7.1
Disagree	0	0.0
Total	14	100.0

Table 4.2 Acceptability of borrowing money (n=14)

Results shown in **Table 4.2** indicate that a majority of 92.9% (57.1% plus 35.7%) of boat builders felt that borrowing money for business purposes is acceptable, while the rest of the respondents (7.3%) stated that it was not acceptable to borrow money for business.

4.3.2 Conducting favours

Statement: I do favours for business acquaintances whenever I am asked.

	Number of respondents	Percentage (%)
Definitely agree	1	7.1
Tend to agree	8	57.1
Undecided	4	28.6
Tend to disagree	0	0.0
Disagree	1	7.1
Total	14	100.0

Table 4.3 Favours for business acquaintances (n=14)

Results indicate that most boat builders 64.3% (7.1% plus 57.1%) were inclined to conduct favours for business colleagues; four (28.6%) remained undecided, while 7.1% of boat builders felt that it might be difficult for them to assist business acquaintances in this way.

4.3.3 Acquaintances' requests

Statement: I would find it hard to refuse a request from a business acquaintance, even if it cost me money.

	Number of Respondents	Percentage (%)
Definitely agree	0	0.0
Tend to agree	1	7.1
Undecided	4	28.6
Tend to disagree	8	57.1
Disagree	1	7.1
Total	14	100.0

Table 4.4 Hard to reject acquaintances' requests (n=14)

As results indicate, 7.1% of respondents would find it hard to refuse a business acquaintance's request, while 28.6% of the respondents could not decide, and most boat builders 64.3% (57.1% plus 7.1%) **disapproved**.

4.3.4 Most businesses depend on relationships

Statement: Most business is generated through relationships.

	Number of respondents	Percentage (%)
Definitely agree	3	21.4
Tend to agree	10	71.4
Undecided	1	7.1
Tend to disagree	0	0.0
Disagree	0	0.0
Total	14	100.0

Table 4.5 Most businesses depend on relationships (n=14)

The outcome of the survey shows that 92.9% (21.4% plus 71.4%) consented that business is dependent on relationships; only one respondent (7.1%) remained undecided, while no boat builder thought that they could expand their business without relational support.

4.3.5 Less government interference in business

Statement: Business people should be free to operate without meddling from government.

	Number of respondents	Percentage (%)
Definitely agree	3	21.4
Tend to agree	8	57.1
Undecided	1	7.1
Tend to disagree	2	14.3
Disagree	0	0.0
Total	14	100.0

Table 4.6 Less government interference in business (n=14)

The statement determines whether or not business people enjoy government interference. Of the fourteen respondents, a majority, namely 78.6% (21.4% plus 57.1%), reported that they enjoyed being free of government interference; one (7.1%) respondent remained undecided and two (14.3%) respondents claimed that government interference was acceptable.

4.3.6 Profits are more important than companionship

Statement: Profits are more important than companionship.

	Number of respondents	Percentage (%)
Definitely agree	0	0.0
Tend to agree	5	35.7
Undecided	4	28.6
Tend to disagree	4	28.6
Disagree	1	7.1
Total	14	100.0

Table 4.7 Profits are more important than companionship (n=14)

An aggregate of 35.7% believed that profits are more important than friendships; 28.6% of respondents remained undecided and 35.7% (28.6% plus 7.1%) thought that friendships are more important than profit.

4.3.7 Help each other with business connections

Statement: Business connections exist so that business people can help each other.

	Number of respondents	Percentage (%)
Definitely agree	6	42.9
Tend to agree	7	50.0
Undecided	1	7.1
Tend to disagree	0	0.0
Disagree	0	0.0
Total	14	100.0

Table 4.8 Help each other with business connections (n=14)

Results obtained from boat builders in Cape Town, which are shown in **Table 4.8**, was that 92.9% (42.9% plus 50.0%) of respondents consented that business people should help each other with business connections; a further 7.1% could not make decisions, while no boat builders thought that business connections were useless.

4.3.8 Chinese help members of inner circle

Statement: Most Chinese businessmen/women belong to a network, which assists each other to succeed.

	Number of respondents	Percentage (%)
Definitely agree	1	7.1
Tend to agree	5	35.7
Undecided	8	57.1
Tend to disagree	0	0.0
Disagree	0	0.0
Total	14	100.0

Table 4.9 Chinese help members of inner circle (n=14)

The outcome shows that 42.9% (7.1% plus 35.7%) of respondents stated that Chinese have access to an inner circle when they conduct business; eight (57.1%) of them remained undecided and nobody believes that there are no business networks within and amongst Chinese business culture.

Results from this section show that a majority (92.9%) of boat builders felt that borrowing money for business purpose is acceptable.

Most respondents (64.3%) were inclined to do favours at any time for their business colleagues, although 7.1% of them felt that it is difficult to offer help at all times.

Most boat builders (64.3%) find that it is not hard to refuse a request from a business acquaintance, even if it costs them money.

None of them believed that business is not generated through relationships.

A majority of respondents (78.6%) believed that business people should be free from government interference when they operate their business.

An aggregate of 35.7% believed that profit is more important than friendship, while 35.7% of the population surveyed thought that friendships are more important than profits, and 28.6% were undecided.

Finally, the research shows that existence of business networking is extremely important for business purposes, and a majority of the boat builders (92.9%) consented that business

people should help each other through business connections, while nobody thought that business connections were useless.

Existence of business networking in Chinese business culture was acknowledged by all respondents.

4.4 PERCEPTIONS OF GUANXI

In order to achieve the objectives of the research and provide an oversight of an awareness of barriers, which prevent exports among South African boatbuilding industry, boat builders in Cape Town were asked about their perceptions of Guanxi. This part consists of one open ended statement and two close ended questions. The concerns were perceptions of and familiarity with Guanxi, as well as knowledge of the functions of Guanxi. A 5-point scale was used for the statements.

4.4.1 Familiarity of Guanxi

Question: What comes to mind when you hear the word “Guanxi”?

All fourteen answers to this open ended question were negative. Ten respondents had totally no idea what the word means, and answers included “Nothing”, “Unknown”, “No idea”, “What is it?”, “Have never heard of the word before”, as well as use of punctuations such as “?” and “/”. Two respondents stated that “Guanxi” is a “Place in China and boat show” or “China”. One boat builder thought that “Guanxi” is a “Chinese sounding name”, while one thought that “Guanxi” meant “Far east market”. All the answers were completely wrong, indicating total unawareness of the concept.

4.4.2 Guanxi as a strategic business tool

Statement: Guanxi (connections) is a strategic tool, which is used to achieve business goals in China.

	Number of respondents	Percentage (%)
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Definitely agree	1	7.1
Tend to agree	4	28.6
Undecided	9	64.3
Tend to disagree	0	0.0
Disagree	0	0.0
Total	14	100.0

Table 4.10 Guanxi as a strategic tool (n=14)

Results above show that 35.7% (7.1% plus 28.6%) agreed with the statement, but that most of the respondents (64.3%) were not sure whether Guanxi could help them to achieve business goals in China. No boat builders disagreed with the statement.

4.4.3 Functions of Guanxi

Question: Which, among these factor(s), do you think is/are function of “Guanxi”, when conducting business in China?

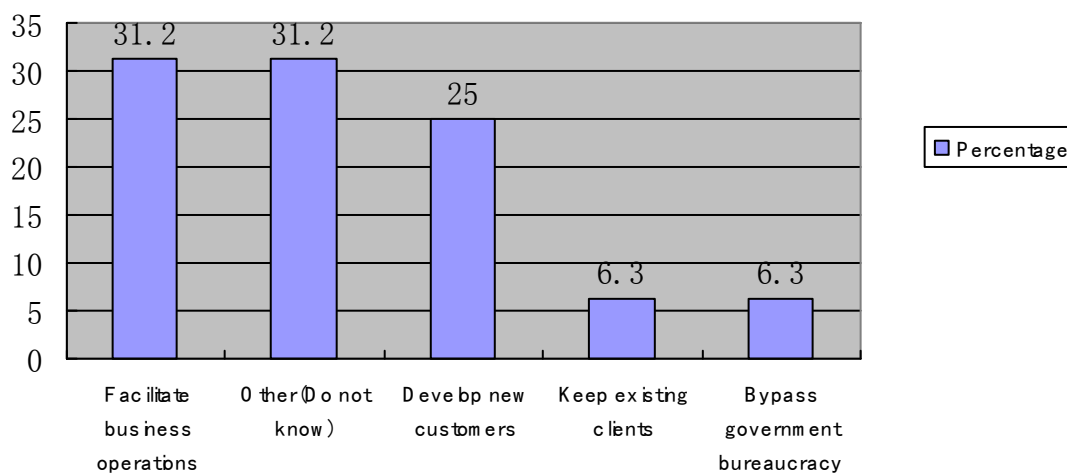


Figure 4.1 Knowledge of the functions of Guanxi (n=16)

It is noteworthy that several respondents gave multiple answers to this question and that this situation was repeated in 5.4 (question): “Colour of gift wrapping” and 6.2 (statement): “Efficiency of boat show”, hence the variation between (n) and the number of repetitions.

Results above indicate that 31.2% (five) of respondents believed that they do not know anything about the functions of Guanxi, while 31.2% (five) of respondents considered Guanxi as networking to facilitate business operations; 25.0% (four) of respondents figured Guanxi as a promotional tool to develop new customers; 6.3% (one) stated that Guanxi is a tool to

avoid or bypass government bureaucracy; and another 6.3% (one) stated that Guanxi can be used as an approach to keep existing clients.

Results from this section show that the boat builders were not familiar with the concept of “Guanxi” at all, and all the answers regarding the importance of Guanxi were incorrect, which indicate total unawareness of the concept.

Most of the boat builders (64.3%) were not sure whether Guanxi could help them to achieve their business goals in China.

Although almost all the four different functions were chosen correctly, 31.2% of the population still believe that they are ignorant regarding the functions of Guanxi.

4.5 FAMILIARITY OF GIFT-GIVING

Familiarity with the practice of gift exchange in the South African boatbuilding industry was tested by two statements and two questions. These questions and statements comprise impressions that boat builders have about gift-giving within Chinese business culture. All questions and statements were closed ended with place for specifications and comments that relate to gift-giving and Chinese business culture, as well as gift-wrapping. A 5-point scale was again used in this section.

4.5.1 Role of gift-giving in business culture

Statement: Gift-giving is part of Chinese business culture and tradition.

	Number of respondents	Percentage (%)
Definitely agree	1	7.1
Tend to agree	4	28.6
Undecided	7	50.0
Tend to disagree	1	7.1
Disagree	1	7.1
Total	14	100.0

Table 4.11 Role of gift-giving in business culture (n=14)

Results indicate that most boat builders (50.0%) were not sure whether gift-giving is part of Chinese business culture, while 35.7% (7.1% plus 28.6%) of them considered that Chinese have a tradition of exchanging gifts when they conduct business, and 14.2% (7.1% plus 7.1%) of respondents disapproved of the statement.

4.5.2 First steps in business relationships

Statement: Gift-giving is a first step to establish business relationships in China.

	Number of respondents	Percentage (%)
Definitely agree	1	7.1
Tend to agree	3	21.4
Undecided	8	57.1
Tend to disagree	1	7.1
Disagree	1	7.1
Total	14	100.0

Table 4.12 First step in business relationships (n=14)

Results show that 57.1% were not sure how to establish business relationships by engaging in gift-giving as a first step in China, while 28.6% (7.1% plus 21.4%) of respondents approved of the statement, and 14.2% (7.1% plus 7.1%) disapproved.

4.5.3 Willingness of gift wrapping

Question: Do you think that you will wrap your gifts before you present them to your Chinese counterpart?

	Number of respondents	Percentage (%)
Yes	7	50.0
No	7	50.0
Total	14	100.0

Table 4.13 Willingness of gift wrapping (n=14)

Results in **Table 4.13** point that 50.0% of all respondents would like to wrap gifts before they present them to their Chinese business partners, whereas the other half stated that it was not necessary to wrap their presents. Respondents who approved of the question were also required to verify the following statement.

4.5.4 Colour of gift wrapping

Statement: Which, among these colour(s), do you think is/are appropriate to wrap your gift when you conduct business in China?

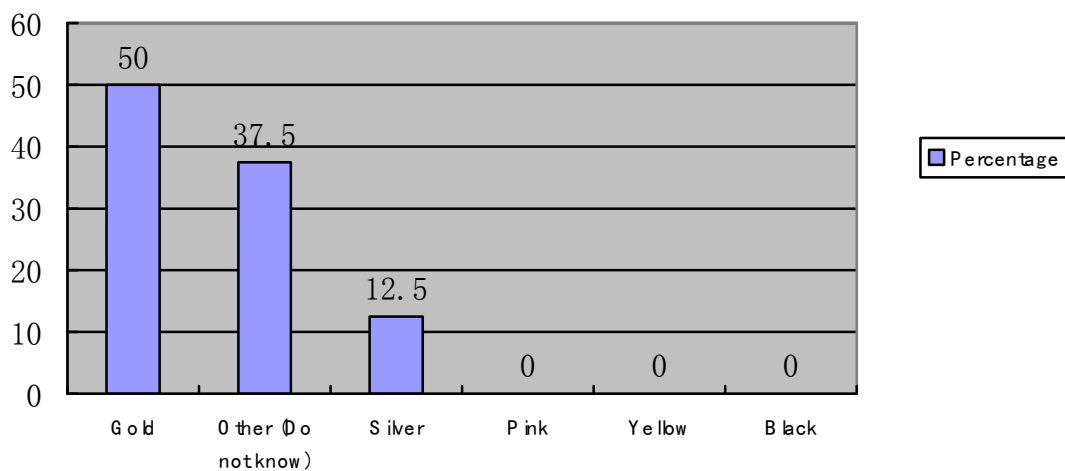


Figure 4.2 Colour of gift wrapping (n=8)

According to results illustrated in **Figure 4.2** above, a majority of respondents (50.0%) believed that gold is appropriate to wrap a gift; 12.5% (one) preferred to use silver; 37.5% (three) chose other (or do not know); while one specified red; one preferred blue; and the rest (one) had no idea about the colour of gift wrap. The results also show that nobody would choose pink, yellow or black to wrap the gift.

Results from this section show that a majority of boat builders are either not sure (50.0%) or do not know (14.2%: 7.1% plus 7.1%) that Chinese have a tradition of exchanging gifts when they conduct business.

When the respondents were asked to comment on “Gift-giving is the first step in establishing business relationships in China”, a majority chose undecided (57.1%) and dissented (14.2%: 7.1% plus 7.1%).

Half of the respondents would wrap their gift before presenting it to their Chinese friends.

No respondents selected an inappropriate colour, but 37.5% of them chose “don’t know (other)”.

4.6 PERCEPTIONS AND EFFICIENCY OF BOAT SHOWS

In order to determine possible guidelines to develop business connections with their Chinese counterparts, two questions regarding perceptions of boat shows were directed at boat builders in Cape Town. These two closed ended questions were mainly concerned with perceptions of Chinese boat shows and their efficiency.

4.6.1 Perceptions of Chinese boat shows

Question: How many times do you attend Chinese boat shows per year?

	Number of respondents	Percentage (%)
12 or more times per year	0	0.0
6-11 times per year	0	0.0
3-5 times per year	0	0.0
Once or twice per year	0	0.0
Less than once a year	14	100.0
Total	14	100.0

Table 4.14 Perceptions of Chinese boat shows (n=14)

Results above show that 100% of all respondents have never experienced a boat show in China.

4.6.2 Efficiency of boat shows

Question: Which, among these factor(s), do you think is/are important reason when you represent your products at boat shows?

The question was asked to survey the objective of boat builders who attend boat exhibitions. As several respondents provided multiple answers to this question, this, therefore, shows variation between (n) and the number of repetitions.

	Number of Repetitions	Percentage (%)
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Meeting new customers	14	15.5
Launching new products	7	7.8
Taking sales orders	7	7.8
Interacting with existing customers	7	7.8
Promoting existing products	6	6.7
Enhancing company image	8	8.9
General market research	7	7.8
Meeting new distributors	9	10.0
Keeping up with competition	7	7.8
Obtaining information about the competition	7	7.8
Interacting with existing distributors	5	5.5
Getting an "edge" on non-exhibitors	4	4.4
Enhancing staff morale	2	2.2
Other, please specify	0	0.0
Total	90	100.0

Table 4.15 Efficiency of boat shows (n=90)

Major outcomes in **Table 4.15** show that fourteen (15.5%) respondents stated that meeting new customers, is important. Others mainly emphasised meeting new distributors (10.0%) and enhancing the company's image (8.9%).

The result from this section shows that boat builders have never had any experience of boat shows in China.

However, they considered that boat shows are beneficial and important to expand their business.

4.7 WILLINGNESS TO LEARN CHINESE

The last question of the survey determined the willingness of respondents within the South African boatbuilding industry to learn the Chinese language.

Question: Do you think that you will be prepared to learn the Chinese language before you extend your business to China?

	Number of respondents	Percentage (%)
Yes	3	21.4
No	11	78.6
Total	14	100.0

Table 4.16 Would you consider taking a preparatory Chinese language course (n=14)?

Results above point to the fact that 21.4% of all respondents would like to learn some Chinese language, whereas a majority (78.6%) of respondents thought that it was not necessary for them, even if they wanted to conduct business in China.

4.8 SUMMARY

This chapter has presented findings of the research. Its focus has been on illustrating the analysed data to determine views of boat builders in Cape Town with respect to business and friendships, perceptions of Guanxi and its functions, as well as approaches to building Guanxi connections.

The research shows that boat builders in South Africa have never had any experience of exporting boats to the Chinese market.

The analysed data that was collected and presented in this chapter, helped to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation. The data that was generated, also directed the research to achieve the objectives of the study.

The collected data was presented in **three** major parts in this chapter. **The first part** presents the viewpoint of boat builders with regard to various dimensions between business and friendships, which might also contribute to Guanxi development.

Results from this part show that a majority (92.9%) of boat builders felt that borrowing money for business purposes, is acceptable. Most respondents (64.3%) were inclined to do favours at any time for their business colleagues, while 7.1% of them felt that it is difficult to offer help at any time. Meanwhile, most boat builders (64.3%) find that it is not hard to refuse a request from a business acquaintance, even if it costs them money. None of them affirmed that business is not generated through relationships. A majority of respondents (78.6%) believed that business people should be free of government interference when they operate their business. An aggregate of 35.7% believe that profits are more important than friendship, and 35.7% of the population that was surveyed, thought that friendships are more important than profits. Finally, the research shows that the existence of business networking is extremely important for business purposes, and a majority of the boat builders (92.9%) consented that business people should help each other through business connections. Nobody thought that business connections were useless and nobody believed that there is no business networking within Chinese business culture.

The second part consists of perceptions of Guanxi and its functions within the South African boatbuilding industry.

Results from this part show that the boat builders were not familiar with the concept of “Guanxi” at all, and all the answers regarding the importance of Guanxi were incorrect, which indicate total unawareness of the concept. Most of the boat builders (64.3%) were not sure whether Guanxi could help them to achieve their business goals in China. Although almost all of the four different functions were chosen correctly, 31.2% of the population still believe that they do not know anything about the functions of Guanxi.

The third part examines knowledge and familiarity of different approaches that relate to creating Guanxi connections. The boat builders were asked to answer questions that relate to the image of awareness of gift-giving, impressions of boat shows, as well as aspirations regarding Chinese language study.

Result from this section **firstly** shows that a majority of the boat builders are either not sure (50.0%) or do not know (14.2%: 7.1% plus 7.1%) that Chinese have a tradition of exchanging gifts when they conduct business. When respondents were asked to comment on “Gift-giving is the first step in establishing business relationships in China”, a majority chose undecided (57.1%) and dissented (14.2%: 7.1% plus 7.1%). Half of the respondents would wrap their gift before they presented it. Nobody selected the wrong colour, but 37.5% of them chose “don’t know (other)”.

Secondly, in order to assess the current situation, the boat builders were also asked to present the actuality of exhibiting boats to China. Results again show that boat builders have never had any experience of boat shows in China. However, they considered boat shows as beneficial and important to expand their business.

Thirdly, the result shows that a majority (78.6%) of the boat builders thought that it was not necessary for them to have Mandarin language skills, even if they wanted to do business in China.

Results obtained from the research, thus far, are examined and discussed in the concluding chapter, where recommendations for further research, are also made.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

Chapter Five presents a summary of the study. It reviews discussions and findings of the study, and provides conclusions and recommendations.

Each year, yachts and boats are exported from South Africa to other countries, and the South African boatbuilding industry has accumulated experience in international marketing. The burgeoning boat market in China has already attracted a lot of foreign boat manufacturers, but none of them are from South Africa. In China, a unique way of doing business is based on the concept of “Guanxi”.

In order to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation, the study examines opportunities presented by the Chinese recreational marine market for South African boat builders.

A short exploratory review of South African trade with China and successful entry of South African companies into China shows that potential exists for penetration of the Chinese market by South African marine industries.

In order to gauge an understanding of the internal marketing environment in China, especially the unique Chinese business culture, Guanxi, a self-completed questionnaire survey was conducted with boat builders in Cape Town in respect of their viewpoints regarding business and friendships, awareness of Guanxi and its functions, as well as perceptions of approaches to creating Guanxi connections.

Findings of the survey show that South Africa has not expanded its boat exporting business to China, major barriers for South African boat builders comprise a lack of understanding of Guanxi and ignorance regarding penetrating Guanxi networking.

Results of the survey helped to address the research problem and are further detailed below.

5.2 SUMMARY OF SURVEY FINDINGS

The purpose of this study was to assist South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation.

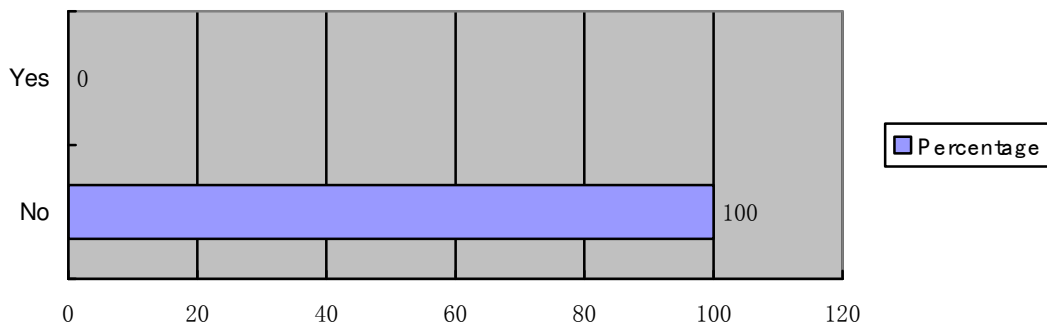
Based on an understanding of the internal marketing environment in China, particularly China's unique business culture, Guanxi, the survey was conducted amongst selected boat builders in Cape Town to access their viewpoints regarding business and friendships, awareness of Guanxi and its functions, as well as perceptions of approaches to creating Guanxi connections.

As means understand barriers that South African boat builders face when they perceive the influence of Chinese business culture (Guanxi) on their business operations, the study was conducted within the boatbuilding industry in Cape Town. The investigation was carried out with the aid of the South African Boat Builders Export Council (SABBEX), and the Cape Town Boatbuilding and Technology Initiative (CTBI).

The survey findings are presented in three major parts. The first part presents viewpoints of boat builders with regard to various dimensions between business and friendship; and contributes to examining acceptance of Guanxi. The second part discusses perceptions of Guanxi and its functions within the South African boatbuilding industry. The third part examines knowledge and familiarity of different approaches that relate to creating Guanxi connections. The survey findings present in this section examine barriers that prevent marketing South African boats to China (the third research sub-question). Results are discussed below.

It is apparent that South African boat builders do not yet export leisure craft to China.

Figure 5.1 Actuality of exporting boats to China



(Source: Data based on Table 4.1, Chapter 4, See Page 66)

As results in Figure 5.1 indicate, even in South Africa's most important boat building base, Cape Town, manufacturers have never had any experience of marketing boats in China.

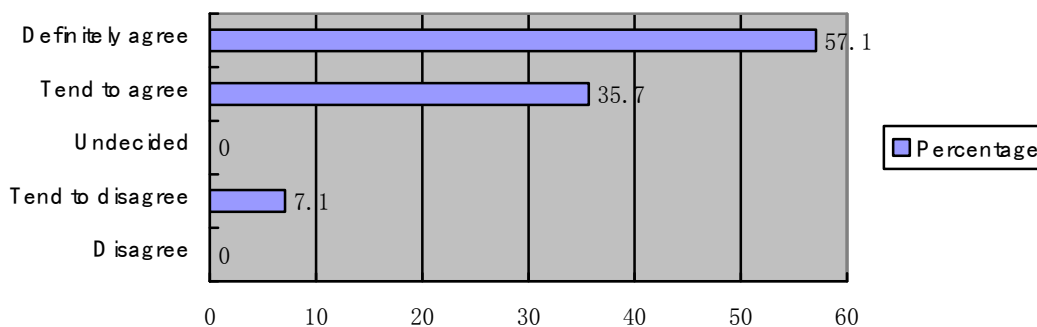
Also, in respect of literature indicated in Section 1.2.3 Chapter One (See Page 7-10), South Africa has a strong ability to market boats within the international market. This outcome is a positive sign for further studies in the field of exporting South African boats to China. There is, therefore, ground to develop and share guidelines for boat builders to visit China.

In order to discover the barriers regarding perceptions and application of Guanxi, the research examines viewpoints of the boat builders with regard to business and friendship, perceptions of Guanxi and its functions amongst South African boat builders, as well as knowledge and familiarity of different approaches that relate to creation of Guanxi connections.

5.2.1 Viewpoints of boat builders with regard to business and friendships

Results from Figure 5.2 show that 92.9% (57.1% plus 35.7%) of boat builders agree with borrowing money within their business relationships.

Figure 5.2 Acceptability of borrowing money

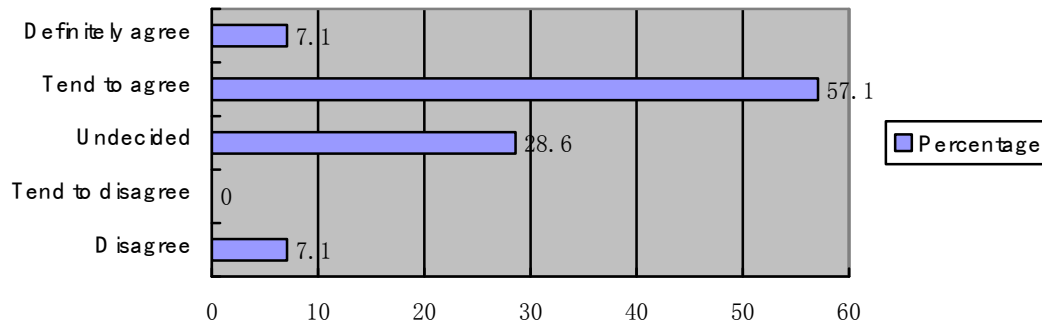


(Source: Data based on Table 4.2, Chapter 4, See Page 68)

Borrowing money for business is acceptable for most of the boat builders, which indicate their openness to relationships, and relationships are what Guanxi is all about, since it implies an easy Guanxi development and easy to start business when marketing South African boats in China.

Results from Figure 5.3 show that 64.3% (7.1% plus 57.1%) of respondents were inclined to do favours at any time for their business colleagues; and 7.1% of them felt that it was difficult for them to offer help to colleagues.

Figure 5.3 Favours for business acquaintances

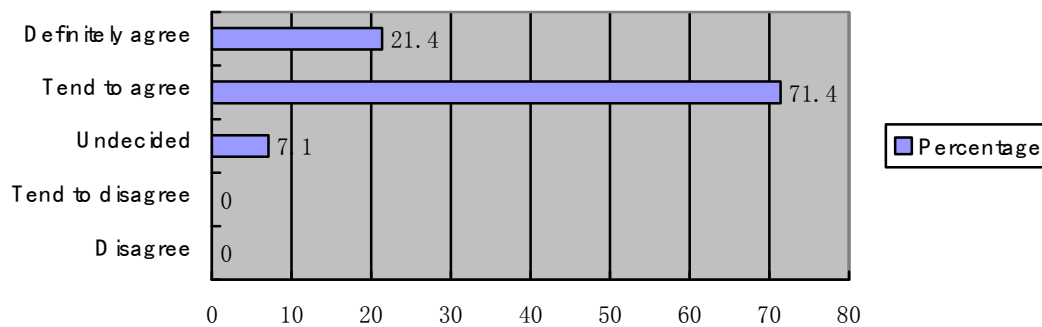


(Source: Data based on Table 4.3, Chapter 4, See Page 68)

Results again indicate that boat builders’ openness to relationships, especially to business friends, is another positive aspect for Guanxi development when they start exporting to the Chinese market.

When respondents were posed with the statement that “Most business is generated through relationships”, 92.9% (21.4% plus 71.4%, See Figure 5.4) of the boat builders affirmed and nobody opposed the statement.

Figure 5.4 Most businesses depend on relationships

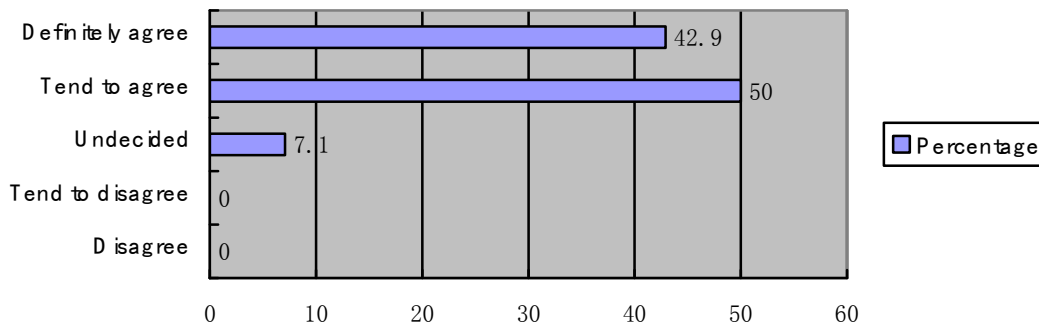


(Source: Data based on Table 4.5, Chapter 4, Page 69)

Results indicate that respondents agreed that relationships are important for business development, which is a good foundation for acceptance of Guanxi when boat builders expand their business to China.

Again, 92.9% (42.9% plus 50.0%, See Figure 5.5) of respondents agreed that business connections exist so that business people can assist each other.

Figure 5.5 Help each other through business connections

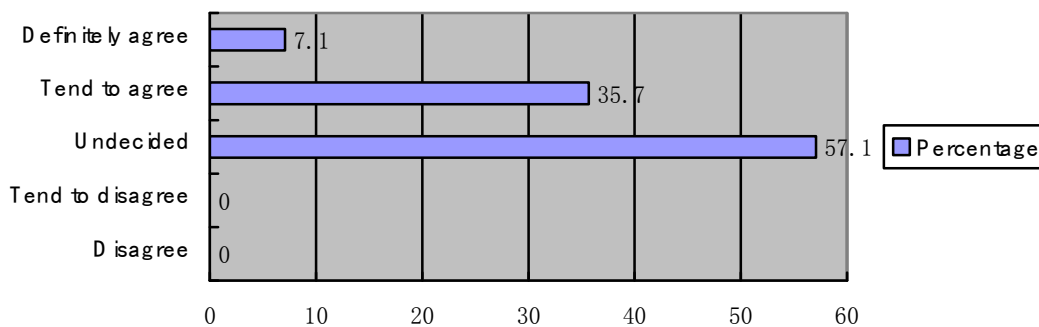


(Source: Data based on Table 4.8, Chapter 4, Page 71)

Results from the above data indicate that existence of business networking is extremely important for business purposes, and that boat builders are willing to help each other in order to benefit and expand their business by utilising business connections.

Furthermore, as the outcome of Figure 5.6 shows, nobody believes that there is no business networking within Chinese business culture.

Figure 5.6 Chinese help members of inner circle

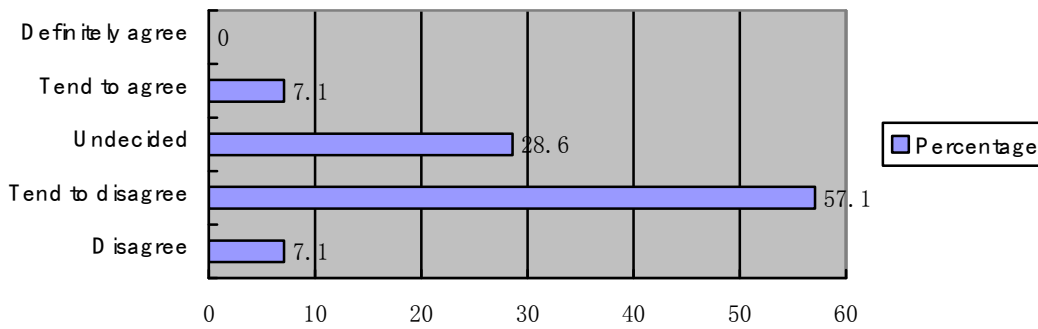


(Source: Data based on Table 4.9, Chapter 4, See Page 72)

It indirectly implies that the Chinese concept of business relationships (Guanxi) can also be accepted by South African boat builders if they extended their business to China.

Results of Figure 5.7 show that 64.3% (57.1% plus 7.1%) of respondents find that it is not hard to refuse a request from a business acquaintance, even if it costs them money.

Figure 5.7 Hard to reject acquaintances' requests

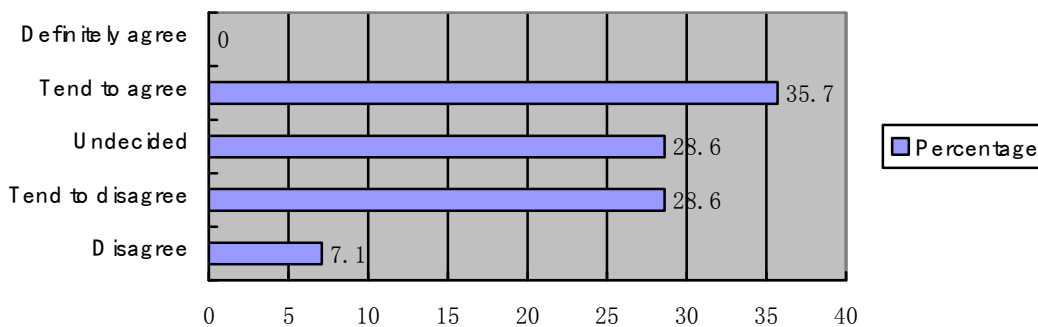


(Source: Data based on Table 4.4, Chapter 4, See Page 69)

Although it was regarded as important to maintain business connections, boat builders stated that they can only accept reasonable requests from their business friends, as business networking is only a part of a totality of business endeavours.

Reasons for this attitude can be further explained by results from Figure 5.8. Taking the importance of the link between profit and friendship into consideration, the answers of boat builders are divided with 35.7% (28.6% plus 7.1%) choosing friendships and 35.7% believing that profits are more important, while 28.6% of respondents remained undecided.

Figure 5.8 Profits are more important than companionship

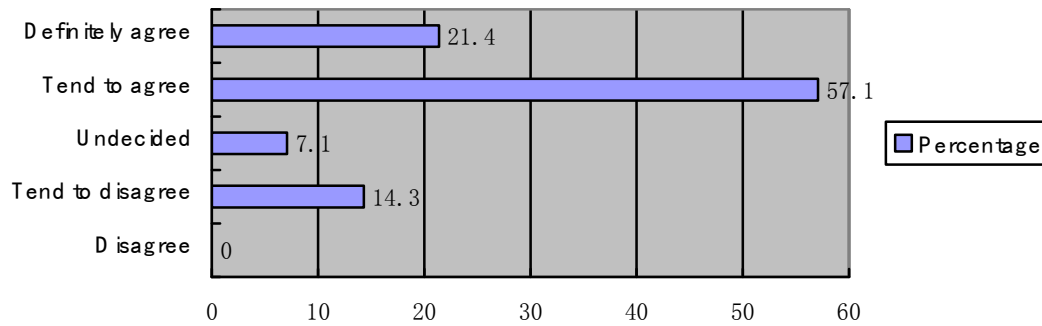


(Source: Data based on Table 4.7, Chapter 4, See Page 71)

From another perspective, the outcome again implies that business relationships are not always dependable; people will count the cost when they face a choice between profits and companionship.

Based on Figure 5.9, a majority of respondents (78.6%: 21.4% plus 57.1%) believed that business people should be free of government interference when they operate their business.

Figure 5.9 Less government interference in business



(Source: Data based on Table 4.6, Chapter 4, See Page 70)

As Guanxi (See Page 52-53, Section 2.5.4, Chapter Two) can be used appropriately to bypass government bureaucracy, this indicates that the Chinese style of business networking (Guanxi) would be an acceptable concept for boat builders to engage with in order to access the Chinese market.

It is clear that South African boat builders can be open to relationships, particularly with business friends because relationships are important for their business development, since relationships are what Guanxi is all about. It also implies an easy Guanxi development and an easy start for business when marketing South African boats in China.

Business networking is a part of the totality of business endeavours, but it is extremely important for business purposes, while boat builders are willing to help each other in order to benefit and expand their business. It again implies that the Chinese concept of business relationships (Guanxi) can also be accepted by South African boat builders if they extended their business to China, as Guanxi and business networking are virtually interchangeable terms.

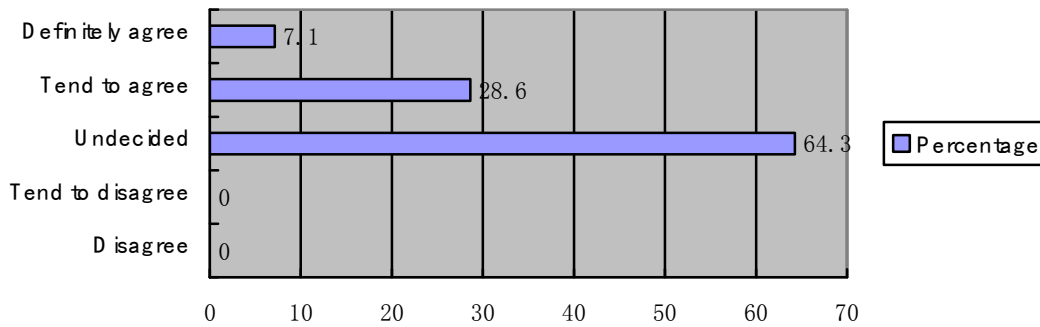
As a majority of boat builders would like to be free of government interference, Chinese style of business networking (Guanxi) would be an acceptable concept for boat builders to access the Chinese market as means to bypass government bureaucracy.

5.2.2 Perceptions of Guanxi and its functions amongst South African boat builders

With reference to Section 4.4.1 in Chapter Four (See Page 74), respondents were not familiar with the concept of “Guanxi” at all, and all the answers regarding the importance of Guanxi were incorrect.

At the same time, most (64.3%) respondents (See Figure 5.10) were not sure whether Guanxi could help them to achieve their business goals in China, whereas 35.7% (7.1% plus 28.6%) agreed that business connections are a strategic tool within the Chinese market.

Figure 5.10 Guanxi as a strategic tool



(Source: Data based on Table 4.10, Chapter 4, See Page 74)

All these facts indicate unawareness of the concept of Guanxi.

Table 5.1 Knowledge of the functions of Guanxi (n=16)

	Number of Repetition	Percentage (%)
Guanxi as a promotional tool to develop new customers	4	25.0
Guanxi as an approach to keep existing clients	1	6.3
Guanxi as networking to facilitate business operations	5	31.2
Guanxi as a tool to avoid or bypass government bureaucracy	1	6.3
Other, please specify (Don't know)	5	31.2
Total	16	100.0

(Source: Data based on Figure 4.1, Chapter 4, See Page 75)

Results from Table 5.1 above indicate that almost all four different functions were chosen correctly, but 31.2% of the population still believed that they have little understanding of the functions of Guanxi.

This self-contradictory result shows that people were not clear about the meaning and function of Guanxi and, in a sense, respondents began to hypothesise that Guanxi might be beneficial in certain instances when conducting business with the Chinese, but they could not exactly understand that Guanxi and business networking are virtually interchangeable terms.

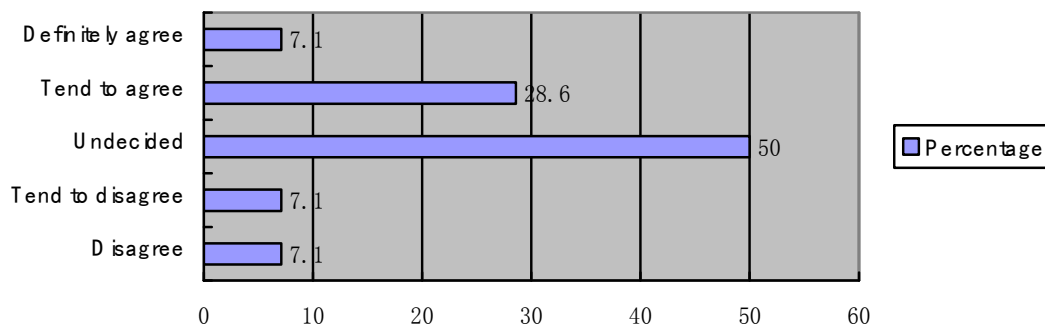
Facts from the survey findings above make the possibility of training courses feasible in terms of business networking for South Africa firms that export to China.

5.2.3 Knowledge and familiarity of different approaches relating to the creation of Guanxi connections

Based on the literature study, which is presented in Chapter Two, the boat builders were asked to answer questions regarding their awareness of gift-giving, their impression of boat shows, as well as aspirations regarding Chinese language study.

With regard to awareness of gift-giving, 35.7% (7.1% plus 28.6%, See Figure 5.11) of boat builders considered that the Chinese have a tradition of exchanging gifts when they conduct business, while most respondents were either not sure (50.0%) or did not know (14.2%: 7.1% plus 7.1%) that that kind of business culture exists in China.

Figure 5.11 Role of gift-giving in business culture

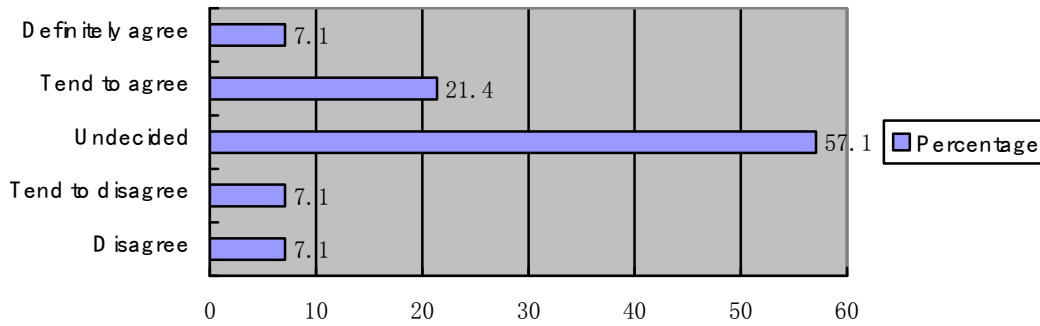


(Source: Data based on Table 4.11, Chapter 4, See Page 76)

The concept of gift-giving in Chinese business culture is currently vague amongst South African boat builders.

Therefore, when respondents were asked whether “Gift-giving is the first step in establishing business relationships in China”, a majority (See Figure 5.12) were undecided (57.1%) and dissented (14.2%: 7.1% plus 7.1%).

Figure 5.12 First step in business relationships

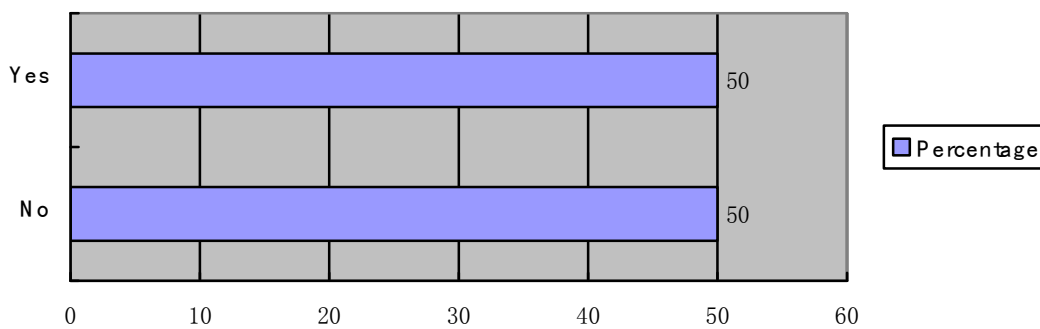


(Source: Data based on Table 4.12, Chapter 4, See Page 77)

The above outcomes show that the importance of gift-giving in Chinese business culture is not well known amongst South African boat builders.

Although gift wrapping is not compulsory, the study shows that 50.0% (See Figure 5.13) of respondents will wrap their gift before they present it to their Chinese acquaintances.

Figure 5.13 Willingness of gift wrapping



(Source: Data based on Table 4.13, Chapter 4, See Page 78)

Amongst these, nobody chose the wrong colour (See Table 5.2), but 37.5% of them chose the option of “don’t know”.

Table 5.2 Colour of gift wrapping

	Number of Repetition	Percentage (%)

Pink (Correct colour)	0	0.0
Gold (Correct colour)	4	50.0
Silver (Correct colour)	1	12.5
Yellow (Incorrect colour)	0	0.0
Black (Incorrect colour)	0	0.0
Other, please specify	3	37.5
Total	8	100.0

(Source: Data based on Figure 4.2, Chapter 4, See Page 78)

As the literature in Chapter Two (See Page 54, Section 2.6) has suggested, a reliable option is to delegate the task to a local shop or hotel that offers this service, and this option might help South African boat builders if they are confused about gift-wrapping preferences in China.

The study further shows that the boat builders considered boat shows beneficial and important to expand their business (See Table 5.3).

Table 5.3 Efficiency of boat shows

	Number of Repetition	Percentage (%)

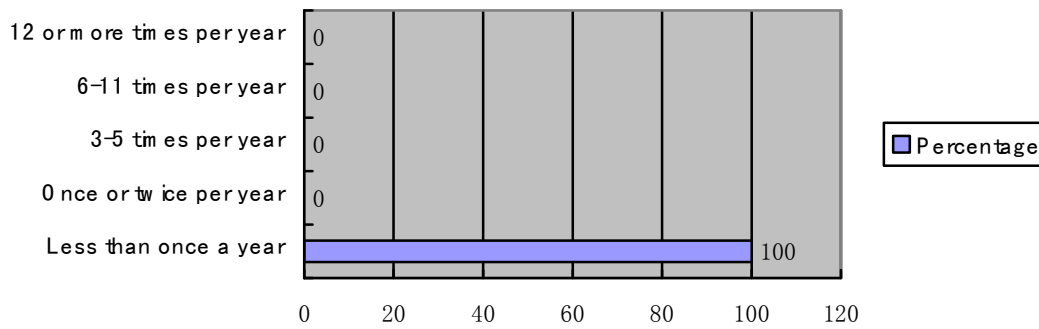
Meeting new customers	14	15.5
Launching new products	7	7.8
Taking sales orders	7	7.8
Interacting with existing customers	7	7.8
Promoting existing products	6	6.7
Enhancing company's image	8	8.9
General market research	7	7.8
Meeting new distributors	9	10.0
Keeping up with competition	7	7.8
Getting information about the competition	7	7.8
Interacting with existing distributors	5	5.5
Getting an "edge" on non-exhibitors	4	4.4
Enhancing staff morale	2	2.2
Other, please specify	0	0.0
Total	90	100.0

(Source: Data based on Table 4.15, Chapter 4, See Page81)

Results above show that all the elements of boat show efficiency are selected respectively by South African boat builders and, among them, meeting new customers, meeting new distributors and enhancing the company image, appear to be most important.

However, currently, none of the surveyed boat builders has any experience with exhibiting boats in China (See Figure 5.14).

Figure 5.14 Perceptions of Chinese boat shows



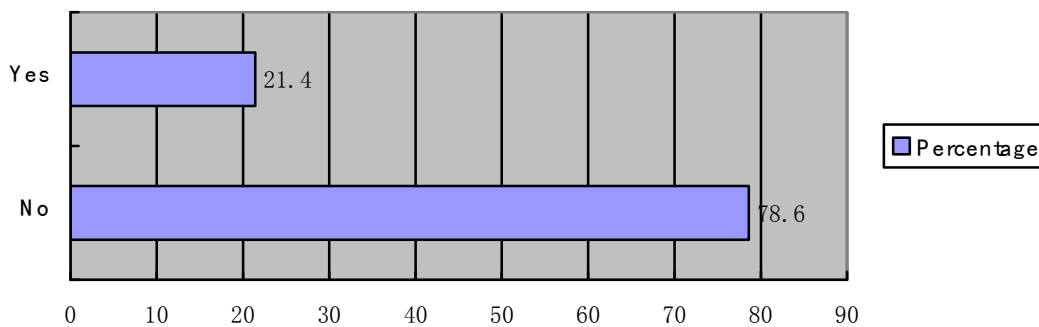
(Source: Data based on Table 4.14, Chapter 4, See Page80)

In Chapter Two, Czinkota and Ronkainen (2002: 69) indicated that Chinese prefer to construct a successful connection and relationship first, while business will follow.

Therefore, Chinese boat shows should be seen as a preferential procedure for South African exporters if they want to expand boat selling business in China, since potential exists for boat builders to build Guanxi networking with end-users, distributors, media and local government, as well as other possible targets (Loke & Derret, 2006: 63).

Results from Figure 5.15 show another negative factor in respondents' perceptions of Guanxi, as 78.6% of the surveyed population thought that it was not necessary for them to learn any Chinese, even if they want to market in China.

Figure 5.15 Would consider taking preparatory Chinese language course



(Source: Data based on Table 4.16, Chapter 4, See Page82)

South African boat builders might not understand that, as foreign business operators, having Chinese-language skills could make a great first impression and support Guanxi development (Wesgro, 2005: 42), particularly when they want to present their products to local customers.

Therefore, even a perfunctory knowledge of Chinese language would be beneficial and, as an initial step, Chinese language instruction prior to approaching the Chinese market, is strongly recommended.

Results of the survey finding show that South African boat builders do not yet export leisure craft to China.

The survey revealed that business networking is important for business purposes, and that boat builders are willing to help each other in order to benefit and expand their business. The Chinese style of business networking (Guanxi), therefore, can be an acceptable concept to South African boat builders to access the Chinese market.

As a majority of the boat builders would like to be free of government interference, Chinese style of business networking (Guanxi) can also help them to bypass government bureaucracy when accessing the Chinese market.

The survey further found that although Guanxi is important business culture when conducting business in China, South African boat builders are unaware of the concept of Guanxi, as they could not understand that Guanxi and business networking are virtually interchangeable terms. A training course regarding the application of Guanxi would be feasible for them they before expand their business to China.

In respect of the knowledge and familiarity of different approaches that relate to the creation of Guanxi connections, results of the survey indicate that the concept of gift-giving in Chinese business culture is currently vague to the local boat building industry, since a majority do not have much knowledge of the importance of gift-giving within Guanxi development.

The study further shows that the boat builders considered boat shows as beneficial and important to expand their business, but they have not promoted themselves at boat shows in China, which prevents them from Guanxi seeking or business selling. This, therefore, forms another barrier to marketing in China.

Finally, the survey discovered that a lack of commitment to equipping themselves with Chinese language skills, is a disadvantage for South African boat builders who want to establish themselves and to facilitate Guanxi networking in China. Therefore, training for Chinese language skills within a business context, is necessary.

5.3 SUMMATION OF STUDY FINDINGS

The research set out to find whether there are opportunities for South African exporters in China's recreational boat market, and to see what barriers exist in respect of conducting business in China. Another question that was addressed, concerns guidelines that could be developed to overcome these barriers. The findings, thus far, show that there are opportunities for South Africa's boat exports, but barriers, particularly regarding Guanxi development, and guidelines for strategic marketing, would be useful to overcome barriers in terms of successful trade, particularly barriers related to Guanxi networking.

With the rapid development of China's economy, the recreational marine market is anticipated to be profitable in future years. At the same time, the South African boatbuilding industry has acquired experience in international marketing; however, South African boats are not fully promoted within the Chinese boat market. Therefore, the research question of this study is: how to assist South African boat builders in expanding their business operations in China by developing guidelines for marketing strategy formulation? In order to provide guidelines, the author divided the research into four sub-questions.

5.3.1 What opportunities are there for South African boat builders who choose to sell boats in China?

A secondary data collection method was used in the form of a literature search, which was presented in Chapter Two. Anticipated opportunities of China's yacht and boat market are as follows:

- In Shanghai, the successful bid to host the 2010 World Expo will create massive demand and opportunities within the city. The local municipal government has decided to enhance the city's infrastructure by building marine facilities along the Suzhou River, which flows through the central business district.

-
- In Zhou Shan, because of its distinctive scenery and environmental advantage, the municipal government, which controls China's largest island chain on the eastern coast, Zhou Shan Island Chain, intends to introduce a chief yachting gateway as a focus for wealthy tourists from south east China
 - The 2008 Beijing Olympics should also aid expansion of yacht and boat consumption in China. Qingdao, which was the city responsible for hosting the 2008 Olympic Sailing Regatta, has invested 9.1 billion USD in 154 aquatic sport construction projects. Presently, Qingdao is considered as the most significant aquatic sport training base and aquatic sport centre in the entire country.
 - China's central government has stated that it will increase rapid transport in coastal shipping in the near future. It will insist on the purchase of superior quality boats in order to transport travellers and merchandise along the coast and rivers. The government will also invest in new vessels in order to enhance its customs and marine fisheries management and frontier defence.

Above all, fast expansion of the Chinese economy, increasing tourism and rising domestic living standards, have generated a demand for marine and water recreational products in China. It is possible that organisations and individuals in more developed coastal cities such as Shanghai, Qingdao, and Guangzhou, will procure luxury items such as recreational boats, as the economy expands.

In addition, the tourism industry made 67 billion USD in 2002. It should also be noted that China is anticipated to be the world's largest tourist destination by 2020. China's underdeveloped water recreation network, marine amenities and management system, have been noted as being a hindrance to China's tourism industry expansion.

Presently, notwithstanding opportunities to sell boats at boat shows in China, the Chinese government regards the recreational boat market as an "encouraged" area for foreign investment.

An assumption is made that the market will grow from 2005, and that the market size on the whole, is expected to reach USD 10 billion within the next ten years.

Therefore, there are lucrative opportunities for the South African boat market in China, hence South African boat builders should be encouraged to market their products in that country. The research addressed the research sub-question: what opportunities are there for South African boat builders who choose to sell boats to China?

5.3.2 Can South African boat builders expand their business in the Chinese market?

A secondary data collection method was again used in the form of a literature search, which was presented in Chapter Two. This short exploratory review of South African trade with China and successful entry of South African companies into China, showed that potential exists for South African marine industries to enter the Chinese market.

An understanding of China's internal marketing environment, including economic, political-legal and cultural factors, and particularly China's unique business culture, and the concept of Guanxi, is necessary in order to overcome barriers, which prevent survival and success within this business culture.

The research established that Guanxi can be used as a kind of promotional tool to develop new customers, an approach to maintain existing clients, networking to facilitate business operations, as well as a method to avoid or bypass government bureaucracy.

Furthermore, the research found that gift-giving is a basis and foundation of Guanxi. Trade exhibitions are one of the best ways to enter foreign markets, and they are also a good platform to build Guanxi relationships. A good working knowledge of Mandarin is an essential element of conducting business in China and, therefore, is also essential for the establishment of Guanxi relationships.

Hence, investigating perceptions and application of Guanxi for export possibilities afforded South African boat builders, was the main focus of the survey.

Above all, it is clear that South Africa companies can expand their business in China, but Chinese business culture, namely Guanxi, might be a considerable barrier within that market. The survey was, therefore, designed to discover whether there is a lack of Guanxi awareness within South African boatbuilding companies. If so, training for the understanding of business networking in a Chinese context, is possible and necessary.

5.3.3 What barriers prevent these marketing opportunities?

A quantitative design, which used, a self-completed questionnaire, was administered to boat builders in Cape Town. Results of this survey revealed that South Africa has not expanded its boat exporting business to China. Although business networking cannot be regarded as being of paramount importance, boat builders in South Africa believe that it is important and beneficial for their business operations. They also considered that Chinese have their own business inner circles, and even though this kind of Chinese-style business networking (Guanxi) seems to be acceptable for the boat builders, their conception of Guanxi remains unclear. Therefore, their lack of understanding of Guanxi and ignorance regarding penetrating Guanxi networking, are major barriers, which prevent South African boat builders from entering the Chinese market.

The perceived barriers are discussed below in order to show implications of each for the development of guidelines.

5.3.3.1 Perceived barriers

Consequently, perceived barriers that affect development for South African boat builders, which are related to the Chinese boat market in this study, can be summarised as follows:

- South African boat builders are not familiar with the importance of social networking (Guanxi) in Chinese business relationships. Therefore, social skills training within a Chinese context, has become necessary.
- Significance of gift-giving in creating Guanxi networking within the Chinese business culture was not known by South African boat builders. Therefore, training about gift-giving in Guanxi development, has become necessary.
- Until now, South African boat builders have not had any exposure to present boats at Chinese boat shows; hence, they lose opportunities to start Guanxi networking and to sell their products. Therefore, participating in Chinese boat exhibitions, has become necessary.
- Lack of commitment to learning at least some Mandarin is a disadvantage for South African boat builders who want to establish themselves and to facilitate Guanxi networking in China. Therefore, training in Chinese language skills within a business

context, has become necessary.

5.3.3.2 Overcoming perceived barriers

As South Africans have no experience of marketing boats in China, the following recommendations are suggested for future actions:

- Since South African boat builders are not familiar with the importance of social networking (Guanxi) in Chinese business relationships, they should attend training programmes, which familiarise South African exporters with Guanxi and Chinese business culture.
- Significance of gift-giving in creating Guanxi networking within the Chinese business culture was not well known amongst South African boat builders. According to Chinese business culture, it is important for South African boat builders to present gifts in order to begin Guanxi networking. At the same time, gift-giving training programmes is also necessary before presenting gifts to Chinese.
- The research shows that South African boat builders have not had any experience presenting boats at Chinese boat shows. As Chinese boat shows are viable and important for networking and sales, it is, therefore, essential for South African boat builders to embark on establishing Guanxi networks.
- Lack of commitment to having a working knowledge of Mandarin is a weakness of South African boat builders. In order to facilitate and sustain a viable Guanxi connection with Chinese counterparts, it is recommended that South African boat builders should acquire introductory Chinese language skills. Therefore, training for Chinese language skills within a business context, has also become necessary.

“It is only when all the sub-questions have been addressed or solved that the researcher can state that the overall research question, thus research problem, has been solved” (Cape Peninsula University of Technology (CPUT), 2007: 10).

5.4 RECOMMENDATIONS FOR FUTURE STUDY

As there are both positive and negative aspects to Guanxi, for example, corrupt behaviour (Lee, Pae & Wong, 1999:54), a future study of how to identify positive Guanxi, how to choose appropriate Guanxi, and how to avoid possible corrupt behaviour by use of Guanxi, is essential for South African companies if they plan to market long term projects in China.

Another direction for future research could be an examination of the efficacy of training programmes in order to familiarise South African exporters with Chinese business culture, while focusing on Guanxi, gift-giving and Chinese language skills, in general.

5.5 CONCLUSION

Yachts and boats can be exported from South Africa to other countries, and the South African boatbuilding industry has built experience in international marketing. The burgeoning boat market in China has already attracted a lot of foreign boat manufacturers. Therefore, assisting South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation, is the research problem. It is advisable for South African boatbuilding companies to become aware of these opportunities, and to confidently penetrate this market.

The entire research study shows that there are opportunities to market boats in China. The Chinese government regards the recreational boat market an “encouraged” area for foreign investment. With China’s rapid economic growth, including its tourism industry, China should develop and manage water recreation networks and facilities, including marine amenities. Currently, predictable opportunities for boat marketing are mainly located in coastal cities such as Shanghai, Zhou Shan, Qingdao and Guangzhou, with anticipated growth from 2005 onwards, while the market size, on the whole, is expected to reach USD 10 billion within the next ten years.

The research reviewed South African trade with China, and the successful entry of South African companies into China, which showed potential that exists for the penetration of the Chinese market by South African marine industries. A further review of the internal marketing environment in China established that the unique feature Chinese business

culture, termed Guanxi, might be a major barrier for the penetration of the Chinese boat market by the South African marine industry.

The research found that Guanxi can be used as a promotional tool to develop new customers, an approach to maintain existing clients, networking to facilitate business operations, as well as a method to avoid or bypass government bureaucracy.

Therefore, in order to examine perceptions and applications of Guanxi to export possibilities afforded South African boat builders, a self-completed questionnaire survey was conducted with boat builders in Cape Town in respect of their viewpoints regarding business and friendships, awareness of Guanxi and its functions, as well as perceptions of approaches to creating Guanxi connections.

The survey indicated that a lack of understanding of Guanxi and ignorance regarding penetrating Guanxi networking, are major barriers for South African boat builders towards finding their way into the Chinese market.

Major barriers that affect development of South African boat builders in the Chinese market include four aspects. **Firstly**, South African boat builders are not familiar with the importance of social networking (Guanxi) in Chinese business relationships. **Secondly**, the significance of gift-giving in creating Guanxi networking within Chinese business culture was not well known by South African boat builders. **Thirdly**, until now, South African boat builders have not had any experience to present boats at Chinese boat shows, hence losing opportunities to start Guanxi networking and to sell their products. **Finally**, a lack of commitment to learn at least some Mandarin is a disadvantage for South African boat builders who want to establish themselves, and to facilitate Guanxi networking in China.

As a result, the research finds that guidelines for South African boatbuilding companies to market boats in China would include the following:

- Since South African boat builders are not familiar with the importance of social networking (Guanxi) in Chinese business relationships, training programmes to familiarise South African exporters with Guanxi and Chinese business culture, are recommended.

-
- The significance of gift-giving in creating Guanxi networking within the Chinese business culture was not well known by South African boat builders. According to Chinese business culture, it is important for South African boat builders to present gifts in order to start Guanxi networking. At the same time, training programmes for gift-giving is also necessary before presenting gifts to Chinese.
 - The research facts show that South African boat builders have not had any experience to present boats at Chinese boat shows. As Chinese boat shows are viable and important for networking and sales, it is essential for South Africans boat builders to embark on establishment of Guanxi networks.
 - A lack of commitment to acquire a working knowledge of Chinese language is a weakness for South African boat builders. In order to facilitate and nourish a viable Guanxi connection with Chinese counterparts, it is recommended that South African boat builders acquire introductory Chinese language skills. Therefore, training, which provides for Chinese language skills within a business context, is also necessary.

Barriers are inevitable in marketing development, however, it is crucial to identify these barriers and to find solutions. As the Chinese boat market is a new concept for South African business, this study has assisted South African boat builders to expand their business operations in China by developing guidelines for marketing strategy formulation. Centuries of Chinese historical and cultural traditions have resulted in Guanxi relationships as part of their business culture. It is important for boat builders to examine guidelines to establish Guanxi networking before penetrating this new market. It is expected that when barriers have been removed, operating with Guanxi networks will contribute towards new business ventures.

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APPENDIX

Questionnaire survey on Guanxi



FACULTY OF BUSINESS

QUESTIONNAIRE

**Guidelines for South African boatbuilding companies
to market boats in China**

This research topic has been accepted by Research & Technology Promotion at the Cape Peninsula University of Technology (CPUT). As a postgraduate student at CPUT, I responded by identifying a research topic titled “Guidelines for South African boatbuilding companies to market boats in China”.

HOW TO COMPLETE THIS QUESTIONNAIRE

- ◆ Persons who complete this questionnaire should be owner/partner, marketing manager or senior manager in the boatbuilding sector in Cape Town.
- ◆ Please place an “X” in the block that you wish to select for your response unless a more detailed answer is provided.
- ◆ Should you wish to add a comment on this research, please add it in the space provided

All information obtained is confidential

All inquiries regarding this research and questionnaire may be directed to the Researcher.

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Your willingness to complete this questionnaire will be highly appreciated.

SURVEY ON GUANXI

Q1. Has your company ever promoted boats to China before?

- (X)
- Yes Please proceed to Q2
No Please proceed to Q6

Q2 How long has your company been active in marketing marine products to China?

- (X)
- Less than 1 year
1-2 years
3-5 years
More than 5 years

Some questions about yourself and your company.

Q3 What is your job title?

- (X)
- Sales/marketing director
Owner/partner/managing director
Administrator
Other

Q4 What are the numbers of employees in your company?

- (X)
- 0-50
51-150
151-300
301-500
501-1000
More than 1000

Q5 What is the estimated number of boats that your company takes to China annually?

Q6 What comes to mind when you hear the word “Guanxi”?

Here are some statements. In each case, please tick “X” to indicate whether you definitely agree, tend to agree, are undecided, tend to disagree, or disagree with the statement.

Q7 Statement: Borrowing money for business purposes is acceptable.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q8 Statement: I do favours for business acquaintances whenever I am asked.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q9 Statement: I would find it hard to refuse a request from a business acquaintance, even if it costs me money.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q10 Statement: Most business is generated through relationships.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q11 Statement: Business people should be free to operate without meddling from government.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q12 Statement: Profits are more important than companionship.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q13 Statement: Business connections exist so that business people can help each other.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q14 Statement: Most Chinese businessmen/women belong to a network, which assists each other to succeed.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q15 Statement: Guanxi (connections) is a strategic tool to achieve business goals in China.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q16 Which among these factor(s) do you think is/are functions of "Guanxi", when conducting business in China?

(X)

a) Guanxi as a promotional tool to develop new customers	
b) Guanxi as a approach to keep existing clients	
c) Guanxi as networking to facilitate business operations	
d) Guanxi as a tool to avoid or bypass government bureaucracy	
e) Other, please specify	

Q17 Statement: Gift-giving is part of Chinese business culture and tradition.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q18 Statement: Gift-giving is the first step to establish business relationships in China.

Definitely agree	Tend to agree	Undecided	Tend to disagree	Disagree

Q19 Do you think that you will wrap your gifts before you present them to your Chinese counterpart?

- (X)
- Yes Please proceed to Q20
 No Please proceed to Q21

Q20 Which, among these colour(s), do you think is/are appropriate to wrap your gift when you conduct business in China?

(X)

a) Pink	
b) Gold	
c) Sliver	
d) Yellow	
e) Black	
f) Other, please specify	

Q21 How many times do you attend the Chinese boat shows per year?

- (X)
- 12 or more times per year
 6-11 times per year
 3-5 times per year
 Once or twice per year
 Less than once a year

Q22 Which, among these factor(s), do you think is/are important reasons when you represent your products at the boat shows?

(X)

a) Meeting new customers	
b) Launching new products	
c) Taking sales orders	
d) Interacting with existing customers	
e) Promoting existing products	
f) Enhancing company image	
g) General market research	
h) Meeting new distributors	
i) Keeping up with the competition	
j) Obtaining information about the competition	
k) Interacting with existing distributors	
l) Getting an "edge" on non-exhibitors	
m) Enhancing staff morale	
n) Other, please specify	

Q23 Do you think that you will be prepared to learn Chinese language before you extend your business to China?

- Yes (X)
 No

If you wish to provide comments regarding this research, please use the space below

If you would like feedback on this research, please enter your email address and cell number in the space below:

Email:
 Cell:

**WE REALLY APPRECIATE YOUR PARTICIPATION
 THANK YOU FOR TAKING THE TIME TO COMPLETE THIS SURVEY**

