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HOW FINNISH MICRO AND SMALL SIZED COMPANIES CAN
ENTER CHINESE MARKET VIA STRATEGIC PUBLIC SECTOR
PARTNERSHIP BETWEEN CHINA AND FINLAND

DEGREE PROGRAMME IN INNOVATIVE BUSINESS
SERVICES
2016

KUINKA SUOMALAISET PIEN- JA MIKROYRITYKSET VOIVAT KANSAINVÄLISTYÄ KIINAAN JULKISEN SEKTORIN STRATEGISTEN KUMPPANUUKSIEN VÄLITYKSELLÄ

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Satakunnan Ammattikorkeakoulu
Innovative Business Services koulutusohjelma
Marraskuu 2016
Ohjaaja: Salahub, Jeffrey
Sivumäärä:26
Liitteitä: -

Asiasanat: Kiina, mikro- ja pienyritykset, julkinen sektori, strateginen kumppanuus

Opinnäytetyön aiheena oli tutkia miten mikro- ja pienyritykset Suomessa voivat kansainvälistyä paremmin Kiinan markkinoilla. Tutkimuksessa tutustuttiin keskeisten toimijoiden julkiseen materiaaliin, sekä haastateltiin asiantuntijoita niin Kiinassa kuin Suomessakin. Tarkoituksena oli luoda pohjaa tulevaisuuden uusille tutkimuksille osoittamalla mahdollisia julkisen sektorin toimijoita molemmin puolin jotka eivät vielä olleet keskenään tehneet yhteistyötä. Lopputuloksena syntyi muutamia pareja joiden välillä aloitettiin viralliset keskustelut jo lopputyön aikana ja sieltä syntyi tuloksena myös ehdotuksia tulevaisuuden tutkimusaiheille, jotka tämän lopputyön lopussa esitellään.

HOW FINNISH MICRO AND SMALL SIZED COMPANIES CAN ENTER
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BETWEEN CHINA AND FINLAND

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Degree Programme in Innovative Business Services

November 2016

Supervisor: Salahub, Jeffrey

Number of pages: 26

Appendices: -

Keywords: China, Strategic partnership, micro and small sized companies, public sector

The purpose of this thesis was to conduct research how small and micro sized Finnish companies could establish operations in China via strategic partnerships channels from the different organisations of the public sector. The information was sought from internet and from in depth interviews with experts both in China and Finland. The thesis proved to be an excellent starting point for further research in the same field and it mapped and pointed out some key organisations from both countries who have yet to do any cooperation successfully but have a significant role in their own countries. As a result of this thesis new partnerships were made between some organisations and it also created a possibilities for future research which are presented in this thesis document.

1. INTRODUCTION	5
2. RESEARCH OBJECTIVE	6
3. RESEARCH METHODOLOGY	7
3.1. Research process	7
3.2. Research method	8
3.3. Reliability and validity of the research	8
4. THEORETICAL FRAMEWORK AND DESCRIPTIONS	9
4.1. Companies in Finland	9
4.2. Modern China	10
4.3. Public Private Partnerships (PPP) development in China	11
4.4. State Administration of Foreign Experts Affairs (SAFEA)	11
4.5. National Development and Reform Commission	12
4.6. COFCO	14
4.7. ProAgria Finland	14
4.8. SEKES	15
4.9. Ulvila Automatization City and Robocoast	16
4.11. State Administration of Work Safety (SAWS)	16
4.12. Chinese foreign direct investment in the European Union	17
4.13. Chinese investor types	17
5. QUALITATIVE RESEARCH	18
5.1. Interviews with Heikki Perko	18
5.2. Interviews with Patrick Lapoule	20
6. CONCLUSION AND FUTURE RESEARCH	22
6.1. State Administration of Foreign Experts Affairs and Satakunta Region	23
6.2. ProAgria and COFCO	23
6.3. Recommendations for future research	24
8. REFERENCES	25

1. INTRODUCTION

It has been stated that internationalizing of micro and small sized companies is and has been nearly impossible that simply there is not enough resources and especially with The People's Republic of China the possibilities for small and micro sized companies the opportunities are limited or non existing. This thesis explains how the platform for this internationalizing is possible to construct and how in practice it is done.

Together with help and in depth interviews with development specialists from both Finland and the People's Republic of China and the key public side organisations the platform was able to come existing. The platform itself connects the countryside of Finland with the countryside of The People's Republic of China and in particular between Satakunta Region in the Western Finland and Sichuan Province and county of Pujiang and, for strategical regions, the city of Ningbo in the People's Republic of China.

The work started in March 2016 and the results are to be seen in the seminar in Satakunta in 2017. This thesis and the seminar will function as the starting point and a new model for cooperation between the two world's and cultures. This thesis presents different organisations and model how they can cooperate and create a channel for the companies and experts. This research provide sustainable solution for further research e.g. researching how the organisations can work together and how to make the cooperation more effective.

2. RESEARCH OBJECTIVE

Research objective was to point out the key organisations from the public sector from both countries and get familiar with their countryside development strategies and how the both sides provide support for the companies in their respected areas. After completing the first step of the research was time to interview the specialist and project manager Mr. Heikki Perko from Prizztech Ltd, Pori and Mr. Patrick Lapoule from the Patelike - Un Pont entre deux Mondes ltd, Shanghai. Based on the interviews conducted there was a both theory and practical information provided to create a strategy how to implement this information.

The information from Mr. Perko and Mr. Lapoule that the research was looking for was the practical information from the field. What challenges small companies are facing? How does the public sector support the companies? What is the reality behind the national curtain in both sides? How these challenges could be beaten? When the information from the interviews and the background research conducted would provide sufficient amount of data, it would be possible to create strategy and platform for development which would serve as a result from this research.

Theoretical part of the research has been conducted by researching the operative organisations and their websites and to find matching ground together. Once the logic is sound and there is enough similarities in the responsibilities of the organisation they are prone to cooperation.

3. RESEARCH METHODOLOGY

In this chapter focuses in explaining the research work and my approach to the research. It explains also new modern approach towards research as information was hard to find in written books, therefore in depth interviews and access to public information from key government organisations was used.

3.1. Research process

Research process begun in March 2016 with the interviews of Mr. Patrick Lapoule and Mr. Heikki Perko. Interviews were conducted in emails, phone conversation and in extensive interviews in person. The challenge was also that other person lived in Finland and the other in The People's Republic of China. This required some travel in the beginning and after discussion via video calls.

Simultaneously an internet based research for public information from government official internet pages and official material found from these pages. It did not appear necessary to research other publications because the previous researches have pointed out this model to be nearly impossible and therefore not reliable material was found so the research started from zero and using the primary existing material only.

During the middle of the research when the result started to shown the form of presenting the result was chosen to be a seminar in Satakunta for Finland and China officials, organisations and companies who would sign the initial agreement for further cooperation platform development and then work could continue. The

seminar will be hold in Finland, Satakunta during the year 2017 and in the seminar will be participant from six different countries who wish to implement this model.

3.2. Research method

I conducted my research as qualitative and used primary official information and in depth interviews. The interviews lasted for over a month and were similar to working together to solve a common challenge. Therefore this method was very qualitative and did not leave much room for false information.

For support I researched and analysed the internet pages and information which partly were pointed out by my interviewees and partly from my own discovery. This would not much room for error as this was the information that was also available for the micro and small sizes companies so therefor it was feasible method.

3.3. Reliability and validity of the research

When combining the professional experience of Mr. Heikki Perko and Mr. Lapoule and the up to date information from governments of Finland and the People's Republic of China, the research reliability level can be pointed to be high and very valid. Especially when the logical outcome of the research has been found sound by other professionals and officials who will be attending the seminar in 2017.

4. THEORETICAL FRAMEWORK AND DESCRIPTIONS

4.1. Companies in Finland

In 2013 Finland had 283 290 companies (Tilastokeskus, Yritysrekisteri 2013) excluding agriculture, forestry and fishing. They employ total of 1,4 million people. 98,9 % of the companies are the ones who employ less than 50 people.

For over a decade the new jobs have been created to small and medium sized companies. Between 2001-2012 large over 250 employee companies hired 7164 people and small and medium sized companies created jobs for over 100 000 people.

- Under 10 employee company is micro sized company
- Under 50 employee company is small sized company
- 50-249 employee company is a medium sized company
- Over 250 employee company is a large company

The number of the companies who employ less than 10 people is 264 435 which 93,4% of the total. Small sized companies 15 675 (5,5%), medium 2 592 (0,9%) and large companies 588 (0,2%) (yrittajat.fi/suomen-yrittajat/yrittajyys-suomessa, 2016)

4.2.Modern China

Chinese culture goes back to over thousands of years but the concept of modern China is fairly new. Beijing olympics 2008 was considered as opening for China to join the modern global community and with that they succeeded well. But lot before the Beijing Olympics opening ceremony we must look back to the time before communist revolution 1949. Those times Chinese people valued the Confucian values which for one example did not triumph over profits in business but also did not really oppose them. Since then China has changed quite dramatically.

The communism changed the China a bit in a way the differs a lot from the history and original culture of China, however this is only present in the Mainland China, while Taiwan, Hongkong and Macau give a more traditional option and more freedom and openness. Therefore China must be considered as a continent not as a country. Many Chinese use Taiwan, Macao and Hongkong as escape goats to do business. They are also considered Chinese. Naturally there are a network of overseas Chinese who still have tight connections to their motherland. During the Mao Zedong era the modern China concept was different, due to the communistic approach. But when nowadays China experiences more economical freedom, it provides sustainable growth for people mastering the trade with modern China. (Mitter 2008, p. 1-23)

4.3. Public Private Partnerships (PPP) development in China

As the research for better and more efficient PPP's has just begun in the 2000's there is still plenty of room for development especially in the field of international PPP's. Traditionally there are two main structures of the PPP's. The formal agreement model and the informal agreement model. There is still however the lack of regulatory of the PPP models in China

While the formal model in China is clear transparent contracts between the private and the public sector and there are everything written in the form of contracts. This is proven to be very solid but not that flexible. In formal contract the two parties agree on costs, risks and responsibilities according to the Chinese law. However in the informal contract it relies more to the social cooperation between the organisations. For example when public sector makes new legislations it explains the private sector why such of regulations are to be made. Other way around the private sector will help the public sector to create the laws and regulations so that the private sector may more efficiently respond to these. Therefore is suggested that both models are needed for a successful PPP. (Zhe & Ming, 2010, p. 513-538)

4.4. State Administration of Foreign Experts Affairs (SAFEA)

As mentioned earlier that most of the companies in Finland are micro and small sized companies and they often base their business on their personal expertise in their field then the State Administration of Foreign Experts Affairs is the key organisation to cooperate with. SAFEA's role in China is to coordinate the acquisition of foreign expertise from Europe, United States, Canada, Australia and New Zealand. The organisation is directly under the central government of The People's Republic of China and they have offices across China in the most respective and important locations. They are also responsible for granting foreign experts certificate which is

needed in order to apply foreign experts visa. Additional responsibilities they have are directly related to the modernization and automatization of state owned factories across the China. The European headquarters are located in Cologne Germany.

The organisation have many different recruitment models to attract experts and professionals, but they did not have an existing model for Finland and other countries and they have not directed much resources to Finland due to the size of the country and its location. However they are the key organisation when it comes to exporting expertise and knowledge from Finland to the People's Republic of China. (en.safea.gov.cn, 2016)

The public private partnerships (PPP) in China are used to share responsibilities of the public sector with the private sector. There are many different models of PPP contracts in the People's Republic of China, but to this chapter the thesis finds most related to SAFEA "the service contract". Usually shorter up to three years in duration. In this PPP model the public sector, in SAFEA's case, could acquire expertise from Finland companies or experts to work on service projects of the city in the fields of education, maintenance or clean technology. Other model of the PPP could be Build Own Operate model. Where the sectors mentioned before could build for example a University of Applied Sciences in China funded by the government but operated by the private sector. (Adams, Young & Wu, 2006, p. 384-396)

4.5. National Development and Reform Commission

Stable macroeconomic conditions has been considered as one of the success factor for PPP's. The predictability and steady strong market conditions create better start for cooperation and promotes investments. Some other success factors are favourable legal framework, strong and good private consortium, appropriate risk allocation and risk sharing. These were the success factors of PPP's in Hong Kong. (Cheung, Chan & Kajewski, 2012, p. 45-58) To achieve similar results the National Development and Reform Commission is an important organisation.

The NDRC is a macro economical developing agency under the state council of the people's republic of China- Formerly known as the state planning commission. The NDRC is responsible of the economical and social development and reform in the People's Republic of China, which they have broad control over it. The commission has over 30 different departments and several responsibilities. Below are mentioned the key departments and responsibilities related to this thesis.

Responsibilities.

1. To formulate and implement macroeconomic policies;
2. To monitor and adjust the performance of the national economy;
3. To examine and approve major construction projects;
4. To guide and promote economic restructuring;
5. To coordinate the readjustment of China's industrial structure with development of agriculture and rural economy;
6. To formulate plans for the development of China's energy sector and manage national oil reserves;
7. To promote the Western Region Development Program, which calls for China's economic growth to include the poorer Western provinces;
8. To submit a national economic plan to the National People's Congress on behalf of the State Council.

Related departments

- Department of development planning
- Department of industrial policies
- Department of regional economy
- Department of rural economy
- Department of High-Tech industry
- Department of small and medium sized companies

- Department of personnel
- Department of International cooperation (en.ndrc.gov.cn/, 2016)

4.6. COFCO

China National Cereals, Oils and Foodstuff Corporation, is a China state owned food processing company. It is one the largest state owned companies in China and controlled directly under state council of the People's Republic of China. Besides food processing COFCO has diversified their operations to several fields including investment, cultivation and planting. They are also promoting the rural and agricultural development and innovations and are investing also internationally into the the fields mentioned above. Overall, they are the largest operative company in China in their field. (cofco.com/en, 2016)

4.7. ProAgria Finland

ProAgria is Finnish national agricultural development and counselling organisation. They provide services for the Agricultural and rural region entrepreneurs across Finland and is strongly connected to the entire line from farm to the food on the table with consumers.

ProAgria operates in the fields milk production, vegetable cultivation, meat processing development, tourism and food, consumer food products, wellbeing, fishing and fisheries, organic food production and other business operations. They provide network and connection to companies in their field and promote the innovation process. (proagria.fi/tietoa-proagriasta, 2016)

For the analysis of the strengths of small country doing trade with China and strategy for the small and medium size companies to enter China. We can compare Finland with New Zealand. New Zealand has very similar economy to Finland and good political ties with China. Agricultural products and innovation as well the consumer products from New Zealand have possibilities because of the brand of New Zealand and Chinese consider them very likeable people. This is an advantage compared to big European Union countries or the United States of America. (Cremer & Ramasamy, 2009, p. 15-26)

4.8. SEKES

SEKES is a nationwide network of development agencies in Finland. The member companies are regional development agencies that are funded by the cities and municipalities in the respective regions. 90% of the all development agencies in Finland are members of the SEKES association. Association provides various services for new entrepreneurs as well as for existing companies in terms of innovation development, product development, services development, internationalizing and networking. SEKES has approximately 1000 experts working in the development agencies and daily they work together with over 30 000 companies all over the Finland. (sekes.fi, 2016)

Transparent and efficient procurement process is essential for cost and time of the negotiating and making the deal. Bidding solely for price might not end to right procurement decision. This way the public sector may benefit from the procurments more efficiently. (Cheung, Chan, Lam, Chan & Ke, 2012, p. 652)

SEKES in Finland provides procurement assistance for the public sector as well. This similar partnership could be sought with Chinese cities as well.

4.9. Ulvila Automatization City and Robocoast

Ulvila is a small city in Satakunta region of Finland, however the area has a large concentration of robotics and automatization companies with total number beyond 100 companies. These companies are in the network called Robocoast. Robocoast is created by Prizztech ltd and it aims on the development of robotics and automatization companies and also promote the internationalization and help them find internationalizing channels to sell their expertise. Ulvila and Robocoast together wish to become the Automatization capital of Finland. (robocoast.fi, 2016)

4.11. State Administration of Work Safety (SAWS)

State Administration of Work Safety is Central government organisation responsible of work safety regulations and creating new policies for work safety and occupational health in the people's republic of China. Main areas where they seek for international cooperation are work safety regulations enforcement, safety education, work safety and health technologies. Research for data and methodology and education of the staff and personnel. Year 2016 SAWS develop new plan for enhancing the work safety in China, especially related to coal mine safety. (chinasafety.gov.cn, 2016)

4.12. Chinese foreign direct investment in the European Union

Chinese foreign direct investments to European are a good example of how Finland has not been successful with cooperating with China's public sector. As mentioned in part 4.11 - Chinese investor types, the thesis shows that Chinese investor types are often related to the public sector. Therefore once investigating Chinese foreign direct investment we will find out clearly what Finland's role has been.

Chinese investment in the European Union has always concentrated to small number of countries. France, UK and Germany have attracted on average 36,8% of annual Chinese investments from 2003-2009. There are couple of things that boost the Chinese direct investments in Europe and those are the domestic market size of the host country, good foreign relations and network and the amount of European member states direct investments in China. Finland is ranked among the poorest losing in comparison to other small countries like Sweden, Estonia, Denmark, Macedonia and Cyprus. Difference comes from these countries policies in promotion of investments and as well potential market size and international connections.

When looking the Chinese investments from the point of mergers and acquisitions the numbers is rising. 2011 India still was ahead of China in this sector but the number is rising. In Finland this phenomenon is relatively rare only few in last decade. (Clegg & Voss, 2012, 27-29)

4.13. Chinese investor types

There are four ownership categories for Chinese investor:

- Government investors are those who form part of the Chinese state

- Public investors are the companies whose shares are publicly traded, however this does not mean that Chinese government would not control and own majority of the company either directly or indirectly. So therefore it's hard to say if the companies are public compared to public firms in EU for example
- Private investors that are companies which are not listed and they are controlled by private individuals
- Investors who are wealthy and invest under their own name

Private and government investors are responsible for most of mergers and acquisitions, but since 2001 there has been significant rise in the private sector. With nearly 50 % of the investments coming from the private sector. The total annual EU's Chinese acquisitions is small, it did not pass over 17 acquisitions between 2000 and 2010. (Clegg & Voss, 2012, 27-29)

5. QUALITATIVE RESEARCH

In this chapter the thesis presents the results from interviews with two professionals with more than 60 years of international development work experience internationally and in Finland and the People's Republic of China.

5.1. Interviews with Heikki Perko

Mr. Heikki Perko, currently positioned as project manager at Pori regional development agency Prizztech Ltd. He has 25 years of experience in project management and he is an expert in European Union project funding among other national project funding instruments. His project "Innovations from bioeconomy to sustainability" has also mentioned creating new channels for internationalizing for the micro and small sized companies. This thesis will also support his project work.

Interviews with Heikki Perko were conducted between May and October 2016 and this chapter presents the summary of those interviews.

- *How does the public sector support the companies?*
- *What organisations in Finland have provided “China” assistance for small and medium sized companies and have they been successful?*
- *What is your view on Finland and China cooperation in business to business sector and public sector?*
- *What are the key organisations in Finland that should seek cooperation with China?*

The public sector Finland has several financing models to support the companies. Companies may create group projects where more than five companies together create joint project with common goals and then they create project with mutual goal. This is one of the best ways to create a development project with the financial help from the public sector. However in this model of course a self funded portion 25-30 % from the total project value must come from the enterprises. Sometimes companies are bit reluctant to do so.

In Finland, the national organisations like Finpro and Team Finland have been serving large companies internationally and China but the small and medium sized companies, not to mention micro sized companies, have felt that their needs have not met the services provided by this two institutions. This has been the major criticism from the field. The regional development agencies have some smaller methods to help the companies but they all lack the right knowledge and experience. Mainly because they have not spent time and effort in China and focused on the projects from the China’s perspective.

As mentioned before Finland has been successfully assisting companies with outsourcing and finding partners for Finnish business who wish to find private partner in China. The problem however has been with the public sector in China. While the largest market in China e.g. clean tech industry the central government is holding the key position in order implementing new technologies to solve the challenges what the People's republic of China is facing. For this Finland has not yet found solutions or an efficient support model, not to mention recognized the key organisations for the benefit of micro, small and medium sized companies.

In Finland we can name few organisations that could benefit from cooperation between China and Finland due to the fact that they have connection to many small and micro sized companies. These organisations are ProAgria, SEKES, and Leader Action Groups LAG, these all are connected to the rural development of Finland and therefore very important part for the Finland's economy. Also these organisations are very operative and practical and they are familiar with reality. If these could be matched with similar organisations it could create something new.

5.2. Interviews with Patrick Lapoule

Patrick Lapoule is French national industrial designer, inventor, technological expert and entrepreneur. He has over 40 years of experience of from international business development and last 7 years from China. He has university degrees in both marketing strategy and sociology. Working experience with various sector and companies in Europe, America and China. As an expert of Sociological consumer behaviour in China I interviewed him to find out the approach and strategy to create partnership with Chinese public sector.

- *How does chinese public sector make decisions?*
- *How does the Chinese public sector do business development?*

- *How much the Chinese countryside cities municipalities know about international cooperation?*
- *What are the trends of the business development outside the large cities in China?*

In the People's Republic of China, the decision making process is very vertical and almost always from up to down. This means that there is also a large gap between the leaders of the country and the leaders of the city. This makes progress very slow in China today. However, with right connection in the central government and their support this process can be faster and more efficient. But nowadays, it is almost impossible to talk with central government organisations because of the corruption problem in the past.

In the Chinese public sector is very typical that the public sector is very phlegmatic and the private sector associations or companies will do the development of the projects. For example, when you have tourism development project and you need international partners. In this case the city officials might just help the companies to get contacts with foreign organisations and connect them with the right actors in China. The city authorizes the Chinese company to start the development work and they give them land and possible guarantee their business loan. But after this they simply do nothing. Only wait what will happen. This is the only way the cities support the companies nowadays, and this is a bit of a problem.

Third problem and challenge that china countrysides are facing is the lack of knowledge of the outside world. Simply they have know idea. Naturally many Chinese city officials do "business trips" with delegation to the west but often these are just like holidays for them, and the travel agencies helping them are just interested to get their money and to provide invitation letters for the delegation to

apply for visa and to apply permits from China side. Yet again, Beijing has spent billions in past years but the money has been wasted as the official delegations have just been tourist in the western world and nothing has been learnt.

Currently the western China's trends in development are around tourism, agricultural development, organic farming, healthcare and wellbeing. With bit more larger cities the trends are in automatization and robotics, and clean technologies. However, the verticality is again the main problem. So if the issue how to cooperate with Beijing central government could be solved, then partnerships could be successful.

6. CONCLUSION AND FUTURE RESEARCH

“The Government Procurement Agreements (GPA) defines "entity" to include three primary groups: 1. federal agencies, 2. state and local agencies, and 3. all other entities that procure in accordance with the GPA. Any entity "covered" under the GPA must open its contract solicitations to competition from all other GPA countries. China, a country on the doorstep of joining the GPA, has, at a minimum, 350,000 state-influenced enterprises (SIE).” (Mathieson, 2010, p.233-266)

When conducting the research it has become clear that Finland has not been able to attract direct investments from China and also Finland has not been able take part in large government procurement projects and not “touch the large field of state owned enterprises mentioned above.

During the process of this thesis we have created strategic partnerships between some organisations and started the strategic work between some others. This thesis will provide good and solid ground for future thesis according to the following results.

6.1. State Administration of Foreign Experts Affairs and Satakunta Region

During the thesis process we visited SAFEA office in Köln together with Chairman of the Regional council of Satakunta Region Mr. Tapio Huhtanen and Mr. Heikki Perko from Prizztech to discuss about cooperation model where Satakunta would assist SAFEA to find suitable partners for automatization and robotics industry development in China. China has launched new project called Made In China 2025, which focuses on modernisation of China's industry by automatization and robotics as one of their main themes.

The city of Ningbo has been selected as the pilot city of this program and in November 2016 Ningbo and the city of Ulvila signed a Memorandum of Understanding for future cooperation. This cooperation will open possibilities for small and micro sized expertise companies from Ulvila, Satakunta and Finland in general. This entire cooperation was organised together with the help of SAFEA.

6.2. ProAgria and COFCO

During the thesis research the discussions between ProAgria Finland and the COFCO was also initiated, although nothing official has not yet done but only had some discussion both in China and Finland. As a result of this cooperation yet again Finnish small and micro sized companies from the field of food processing and agriculture and cultivation could benefit greatly

6.3. Recommendations for future research

According to this thesis the future student and scholars could start conducting research of the following suggestions.

- SAFEA and Satakunta partnership

Conduct research with the help of SAFEA to find out what kind of expertise in China is needed and what kind of models SAFEA has to attract these experts. This could be the starting point between SAFEA and Finland to write Memorandum of Understanding and to modify the two countries cooperation to be mutually beneficial.

- COFCO and ProAgria partnership

One of the largest agricultural products and food processing company COFCO has launched new programs to promote agricultural innovations. ProAgria is strong actor and has significant role in this field in Finland. Research topic could be to find out the key points for cooperation and find out some starting points from China's rural areas for cooperation. COFCO has access to all the information.

- NDRC and Leader Action Group partnerships

NDRC has agricultural and rural development department, and Leader Action Group (LAG) is under the financing of EU commission. LAG has over 2500 regional offices responsible for countryside development. Research to find out how many of those 2500 would be interested to cooperate with China would be very helpful.

- Educational institutions and SAWS partnerships

How to integrate work safety into the China's Education systems? For this questions to find answer which Finnish organisations have work safety related knowledge.

This thesis now provided a solid starting point for research in the fields mentioned above.

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