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By staff reporter Cheng Fang and Wang Changyong

Italy wants to encourage two-way investment with China, particularly among companies of modest size, said Italian Economy and Finance Minister Tommaso Padoa-Schioppa in an interview with *Caijing* in Beijing.

"Special working groups have been created for the field of foreign direct investments, small- and medium-sized enterprises" to develop "direct investments from Italy into China, and from China into Italy," said Padoa-Schioppa.

He cited complementary business activities in the countries as a foundation for more cooperation. As a strong component of the Italian economy, small- and medium-sized enterprises offer promising opportunities for Chinese investors. And China, currently a net exporter to Italy, has a relatively inexpensive labor force that's attractive to Italian firms.

The Italian minister mentioned some sticky points in bilateral trade relations, particularly intellectual property rights.

"Compliance with intellectual property rules is one of the issues" yet to be resolved, Padoa-Schioppa said. "There are still too many products which are simply copied with the brand here in China."

Nevertheless, he said last year's visit to Beijing by Italian Prime Minister Romano Prodi marked "a complete turnaround in the relationship between Italy and China" that set the stage for progress in bilateral trade.

"I have observed through the years how market economy principles have been increasingly adopted by China," Padoa-Schioppa said. He cited "big progress in that."

Meanwhile, Italy's domestic challenges leave the Minister with little room to get involved in the affairs of other countries, including China, Padoa-Schioppa said.

Italy has faced a large public debt in the recent years. Recent data from Istat, Italy's statistics bureau, showed a budget deficit of 4.4 percent in 2006, higher than the 3 percent ceiling set by the European Union. Last year's debt-to-GDP ratio topped 106 percent.

Italy's public debt is highest in Europe and the third-highest in the world, forcing Prodi's

central-left government to raise taxes and cut spending. Padoa-Schioppa is involved in the effort to improve the financial picture.

"To increase fiscal discipline and restore growth are two key priorities," said Padoa-Schioppa, the architect of Italy's 2007 budget. In addition to domestic duties, his experience also stems from work as a founding member of the European Central Bank.

The finance chief said his economic restructuring plan includes controlling healthcare, pension and education expenditures, and liberalizing a number of markets including the bank and insurance sectors, as well as retail licensing.

Padoa-Schioppa was on his initial trip to China since being appointed finance minister when Prodi took power one year ago.

On the trip's first leg, he met his Chinese counterpart Finance Minister Jin Renqing on April 26 in Beijing. The two leaders exchanged views on global issues including the International Monetary Fund, the G7 and foreign development aid.

Padoa-Schioppa said he's familiar with the "merchant spirit of Chinese culture" and is confident that a two-way investment road with Italy can "provide an interesting experience for your country."

At the same time, the Italian minister said he hopes to benefit from his China experience.

"I've not come here to teach," he said. "I've come here to learn."