Brazil and China

Challenges to development

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BRAZIL AND CHINA AS EMERGING COUNTRIES have drawn attention both for what they have in common—not much—and for their outstanding differences. The main similarity is the fact that they are both major economies. They have also become more active and relevant in global geopolitics, something that cannot be ignored by companies, governments, and international institutions planning their global strategies.

The differences between Brazil and China, on the other hand, are numerous. On one side, Brazil is a Latin American country that has European, African, and Amerindian roots; five centuries of history; and today a functioning and vibrant democracy with all the freedoms, noise, and difficulties typical of a country where power can only be exercised with many limitations and balances. On the other, China is an ancient oriental civilization that has been immersed in socialism and has a centrally planned economy but whose single-party government has now introduced market mechanisms that have led to the most impressive economic growth spurt in human history.

The partnership between the Brazilian Institute of Economics of the Getulio Vargas Foundation (IBRE-FGV) and the Institute of Latin American Studies at the Academy of Social Sciences of China (ILAS-CASS) believes that new thinking can arise from an exchange of the experiences of each country in order to help find solutions to challenges that both countries face. Clearly this does not mean mechanical application of each other's solutions, since the socioeconomic and political models of China and Brazil are very different. But precisely because they are located at opposite poles, the two nations can look to each other to assess the extent to which they can correct the excesses of their own development models.

Brazil can learn in particular how China has managed to create a diversified export platform. Clearly, many aspects of the Chinese model are distinctive, starting with China's high savings and investment. Nevertheless, it would be interesting to understand how China carries out its export-oriented industrial policy, which necessarily involves the choice of sectors to be benefited.

This is a sensitive issue in Brazil. Although past policies to promote import substitution helped to industrialize the country, they also were among the causes of economic imbalances that led to a long period of low growth after the 1980s. It is true that China's political system favors centralized decision making, but given the success of its industrial and export diversification, it is reasonable to assume that there is an active and well-organized bureaucracy to carry out industrial policy, and that sectors to be favored are chosen for serious technical reasons. Brazil, which has returned to a policy of promoting specific sectors, could learn a lot from the Chinese experience.

Another area of interest is China's success in carrying out infrastructure projects. China has astonished the world with the fantastic speed with which it has built roads, railways, ports, dams, telecommunication networks, homes, and even entirely new cities. In contrast, Brazil finds it very difficult to carry out infrastructure projects, as is clear from the lethargic implementation of the Growth Acceleration Plan (PAC) and the vacillations in designing infrastructure concessions to attract the private sector.

As with industrial policy, it would be naive to imagine that the Chinese experience can be automatically transplanted to the Brazilian context, where environmental protection, the vested interests of various groups, and the rights of less well-off Brazilians are highly sensitive issues, though there is as yet no institutional framework that rationally takes them into consideration. Thus, rights and interests are often accommodated at the cost of delaying or even preventing realization of major infrastructure projects. Nevertheless, it is likely that China has much to suggest to Brazil in this area, particularly in terms of building bureaucratic capacity to formulate and execute massive long-term investments.

Clearly Brazil and China have much to gain from closer relations, in terms not only of trade and investment but also of the exchange of knowledge and experience.

But the Chinese also have much to gain by examining the Brazilian model of social inclusion. The success of the Brazilian model is reflected in the popular approval of recent governments. When the economic instability that had long consumed all the authorities' energy was at last ended, they were able to carry out income distribution policies that have begun to repair the complex injustices that had accumulated throughout Brazilian history.

China is currently experiencing a critical moment of its institutional development as it works to set up a comprehensive social welfare safety net that will make sense both politically and economically.

Thus, especially in terms of social security and transfer programs, ours should be a very interesting case for the Chinese authorities. Brazil certainly has one of the most extensive and generous social security systems in the emerging world; and its Family Grant program of conditional cash transfers is a world-class example in terms of efficiency and service to the poor. On the other hand, the Brazilian experience can illustrate for the Chinese the trade-off necessary between inclusion and growth, which though certainly much smaller than we believed is by no means nonexistent.

In general, the broad movement of social inclusion and acknowledgment of the rights of the poor in the Brazilian Constitution of 1988 provides for China an example of how, in addition to economic growth, political stability also relies on the ability of authorities to respond to the demands for justice for the majority of population. In this sense, the democratization of Brazil since 1988 is a road map of the interaction of inclusion, economics, and politics.

Clearly Brazil and China have much to gain from closer relations, in terms not only of trade and investment but also of the exchange of knowledge and experience. The two volume book The *Middle Income Trap: Visions of Brazil and China* published by Getulio Vargas Foundation Press will have fulfilled its mission if it proves to be the first of many other initiatives on the part not only of IBRE-FGV and ILAS-CASS but also of all who see the rich potential in Sino-Brazilian partnership. The book will be presented at a joint IBRE and ILAS-CASS seminar on "The Middle Income Trap" on November 22, at the FGV headquarters in Rio de Janeiro.

As the title makes clear, the unifying theme of all the articles in the book is the "middle income trap," characterized by the fact that there are many transitions countries must make in moving from poverty to the middle stage of development and on to the higher income level of the most advanced nations. Even the idea of there being a "middle income trap" is disputed by some authors. But China and Brazil are middle-income countries that aspire to ascend to the level of the developed world as a definitive statement of their role on the global stage, and for both the assumption that there is a trap is a great starting point for discussion and analysis.

The first volume of the book, edited by Fernando Veloso and Lia Valls Pereira, presents the views of IBRE researchers on the environment, inequality, welfare, innovation, savings, and financial systems. The objective is to show how Brazil is addressing each of these vital areas and formulate policy recommendations to make its efforts more effective. The second volume of the book, edited by Prof. Zheng Bingwen, presents the views of ILAS-CASS researchers on the same issues for China. They look into China's economic growth experience and the challenges to overcome the middle income trap. The 8 articles that follow are a summary of the books' various contributions presented by their respective authors.