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Can China vault the middle-income trap?

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China and Brazil, in their roles as both populous countries and important emerging economies, face the challenge of evading the middle-income trap. How to address the issue and escape the trap were the topics discussed by experts from both sides at an international forum held on November 22 in Rio de Janeiro, Brazil.

China can break free of the trap

The "Middle income trap" refers to the per capita income of a country that has reached the world's middle level. Impetus for growth is insufficient as a result of failing to transform the economic development model, and the country eventually falls into economic stagnation, experiencing a slowdown in growth and difficulty in raising per capita income.

Now that more than 30 years of torrid growth has catapulted China into the group of middle-income countries, with per capita GDP reaching 6,100 U.S. dollars, China faces the task of solving the issues of unbalanced, uncoordinated and unsustainable development, said Zhao Shengxuan, vice president of the Chinese Academy of Social Science (CASS) during the forum.

Zhao believes in order to escape the middle-income trap, China needs to transform its economic growth model, adjust its industrial structure, and maintain and improve social and political stability.

"A sound system, reasonable policies, and optimized infrastructure will ensure that China can break free of the middle-income trap", said Zheng Bingwen, a researcher with the CASS, during the forum. "China will become high-income country in the years between 2022 and 2024."

In the wake of the Third Plenum of the 18th Communist Party of China Central Committee, China announced a series of measures on economic reform, stressing the decisive role of the market. Brazil should learn from China in areas such as high savings rates and investment levels, good infrastructure, and a stable society, said Senaldo Fedel, vice president of the Getulio Vargas Foundation at the forum.

Brazil's experiences and lessons

Brazil has been hailed as the "country of the future" since the 1930s, but from the 1980s inflation started to become a barrier to economic growth. After the country implemented a series of measures including maintaining the independence of the central bank, reducing government-run monopolies, curbing inflation and opening its market, its economy saw rapid growth again from the year of 2000.

Lia Pereira, a researcher with the foundation believes the key for Brazil to circumvent the middle-income trap is to increase investment in innovation and patent protection, and accelerate the commercialization of its patents. In addition, it also needs to upgrade the quality of the education system, build a sound economic environment, and develop a rational income distribution system and a proper social security system, he said.

Currently, Brazil's problems lie in inadequate market openness, low domestic savings and investment levels, financing difficulties, and a heavy tax burden.

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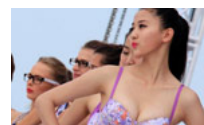
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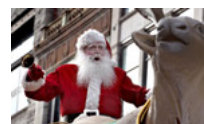
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Key Words

Brazil is one of countries with the biggest gap between the rich and poor. Its income inequality soared to the highest level in 1980s, with a Gini coefficient of 0.64.

The said income gap had been narrowed thanks to measures including the improvement of labor market and income transfer.

Marcelo Neri, Minister of the Strategic Affairs Secretariat of Brazil said the most important thing is to maintain sustainable development in economy, environment and resources. The country also needs sustainable strategic plans and polices.

The forum on the theme of "Middle-income gap---the perspectives of Brazil and China" was jointly hosted by the Latin American research center of the CASS and the Brazilian economic research center of the Getulio Vargas Foundation.

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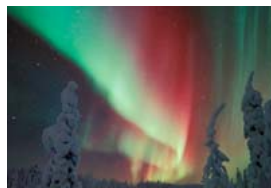
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