Brazil’s lesson for China: do not ignore inequality

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Next door to my office in Shanghai is one of the most luxurious shopping malls I have ever seen. The English name, Plaza 66, does not give much away but in Chinese it is called "Forever Prosperous". Only the most exclusive brands are allowed and at weekends you have to queue to get into Louis Vuitton.

I was reminded of Plaza 66 on a recent trip to Brazil when I was taken to Daslu, the country’s snootiest shop. We had to drive there – you cannot simply walk in from the street – and a valet ushered us inside, where the same designer clothes were on display.

There is one big difference. Daslu is often disparaged for being a symbol of Brazil’s perceived ill, the playground of a spoilt elite. Columnists mock its clientele. Yet Plaza 66 appears in many accounts of modern Shanghai as a badge of success, a magnet for the rising young, moneyed generation.

Maybe we have got Plaza 66 wrong. To travel back from São Paulo to Shanghai is to sense the real risks that China is taking with its growth-at-all-costs model. There is a distinctly Latin American feel about some parts of Chinese society today that goes beyond nouveau riche brashness.

In the late 1960s and 1970s, when Brazil was a dictatorship and the economy booming, social policy was neglected. “Grow the cake now, divide it up later”, became the mantra. For the past 20 years, China has sometimes adopted a similar approach.

One of the less well-known features of China’s boom is the state’s withdrawal from providing health and education. Mao-era healthcare was far from perfect, but today most Chinese have no health insurance. In rural areas it is hard to find a family bankrupted by medical bills. Schools are losing 1m children a year because parents cannot afford the fees. Given how often China is labelled a success and Latin America a failure, it is worth noting that in the past decade Brazil’s government has spent twice as much of its gross domestic product on health and education as communist China.

Just as surprising, inequality is fast approaching Brazil’s notorious levels, despite falling poverty levels. Using the Gini coefficient to measure income distribution, “zero” means perfect equality and “one” complete inequality. The official Brazilian figure is now 0.53 and falling, while China’s is 0.47 and rising. (The US figure is 0.41 and India’s 0.31.)

Chinese inequality is about the gap not just between urban and rural areas, but also within cities. Urban China has two classes of citizen: permanent residents get subsidised social services while poorer migrant workers often pay full price. Crime is nowhere near Latin American levels, but there are signs of tension. The rural poor see wealth only on television; the urban poor witness lavish lifestyles in the flesh.

Latin America has suffered from cosy pacts between business elites and politicians, but what sort of elite is China creating? In the early days of reform, entrepreneurs were often from the fringes of society – indeed a few had done time in prison. Today many boast their Communist party positions on their business cards. China’s rich list is dominated by real estate, where schmoozing to secure government contacts is essential.

So is China really becoming like Latin America? That would be a rash prediction to make. Latin America’s social divisions escalated in the 1980s when its economies drowned in foreign debt, yet China has reserves of $1,500bn (£897bn). Latin American inequality is rooted in centuries of colonialism and slavery, not just in two decades of unbalanced growth. Many Chinese migrants have a plot of land to return to if the city does not work out, rather than having to fast in city slums. Most importantly, China’s leaders are aware that high inequality could aggrivate unrest and create a permanent underclass, so they have ordered big increases in social spending. Wen Jiabao, China’s premier, has promised a clinic in every village and an end to school fees for the poor.

Yet success is not guaranteed. Local authorities could swallow increased funding before it reaches schools or hospitals. Political and business elites will oppose policies that might slow their part of the economy. Grow the cake today, redistribute tomorrow.

We are used to the idea that China will be the biggest economy in the world, but the fate of Mr Wen’s project will help determine what sort of society it creates. As Latin Americans can attest, rapid growth can still leave behind deep social scars.

The writer is the FT’s Shanghai correspondent.