

**ADDRESS OF CHIEF GUEST JAYANTHA DHANAPALA AT THE SRI  
LANKA ECONOMIC ASSOCIATION ANNUAL SESSION**

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I must begin by thanking the President and Committee of the Sri Lanka Economic Association for the honour of inviting me as your Chief Guest today. Sometime after my return from service at the United Nations one of my distinguished gurus at Peradeniya, Professor Aluthwela Indraratna, kindly invited me to address the annual session of the SLEA. Because of my schedule at that time, I was not able to accept. If truth be told, I was also very diffident about accepting to speak to an audience of economists on a subject of which I am so ignorant - even if I sprinkled a few terms like “Gini coefficient” and “Pareto efficiency” to conceal that fact! I have never forgotten the devastating comment of one of my first year Economics teachers in Peradeniya on my tutorial on price mechanisms – “You are sacrificing facts for style”!

On this occasion, I am comforted by the fact that my dear friend and fellow UN retiree, Dr. Usvattearachi, an internationally renowned economist, will in fact be delivering the Keynote Address which will no doubt deal comprehensively and elegantly with the complex issues that economists talk about when they get together. That leaves me with the hopefully innocuous task of speaking on generalities in international relations, which, as a retired diplomat with a dilettante’s penchant of being a jack-of-all-trades and master of none, I have gladly chosen in this voluntary division of labour.

I am, however, guided by the need to be relevant to the interests of the audience and so I would like to talk - partly from an autobiographical perspective - on the global impact of the economic development of China in the almost five decades since I first went to China as a junior diplomat in 1968 amidst the confusing convulsions of the Cultural Revolution. It is an impact that is, for the moment, largely confined to the economic field as China has become the second largest economy in the world and will, according to expert predictions, replace the USA as the largest in 2030. This economic impact is obviously widespread and figures prominently in Sri Lanka's own economic relations especially in terms of our foreign debt. Consequently China's path to sustained growth is a relevant subject for discussion at this annual session.

The 2013 issue of the UNDP's Human Development Report focuses on the "The Rise of the Global South" and so let me quote from it – "The South has risen at an unprecedented speed and scale. For example, the current economic take-offs in China and India began with about 1 billion people in each country and doubled output per capita in less than 20 years – an economic force affecting a much larger population than the Industrial Revolution did. By 2050, Brazil, China and India combined are projected to account for 40% of world output in purchasing power parity terms." So it is a tide lifting all boats. While South-South trade has increased from 8% in 1980 to 26% in 2011 the rise of the South must not be seen purely in terms of a North-South divide. The Human Development Report goes on to say, and I quote, "The South needs the North, and increasingly the North needs the South. The world is getting more connected, not

less...Indeed one can go further and state that there is a “south” in the North and a “north” in the South.”

Since politics and economics are Siamese twins, the political consequences of China’s rise are yet evolving on a national and international scale. And yet, worried Western commentators have sometimes disguised the racist warning of the “Yellow Peril” of yesteryear with more sophisticated theories of, for example, a Chinese “a string of pearls” in the Indian Ocean as an indication of alleged expansionist designs by China. These theories have justified a ‘pivot’ of US defence policy from the Euro-Atlantic theatre to the Asian Pacific to contain what might become a super power in an attempt to replicate the George Kennan doctrine of the “containment” of the old Soviet Union in the Cold War years. The implications of these attempts to fuel a global contest, or a new Asian Cold War, for us in Asia and for Sri Lanka, with our own vital geo-political relationship with the other Asian economic giant India, are enormous.

In 1997, in a fallow interlude in my career between my premature retirement from the Sri Lanka Foreign Service and my appointment as UN Under-Secretary-General for Disarmament Affairs, I was privileged to be invited to deliver the William Gopallawa Memorial Lecture. I chose as my theme “Sino-US Relations in the Twenty-first Century – Cold War or Cohabitation?”. What I said then - almost two decades ago - remains valid and so I quote –

“It is in this geo-political context of the emergence of the Pacific Basin as the fulcrum of global power in the 21st century that we must now look closely at the Sino-US

relationship. In my view the stable management of this bilateral relationship will be a defining aspect of security for the region and for global affairs in the decades to come..... In the present global system the USA is very much the dominant power who helped to create the status quo while China is the upwardly mobile new power. The challenge for the USA as the sole super-power is to integrate China into the global system ensuring at the same time that the respective national interests of the USA and China do not collide but can be harmonized in the interests of global peace and stability. The fundamental importance of this bilateral relationship to the world in general, but especially to smaller Asian countries like Sri Lanka in particular, is obvious. The danger of the two Asian giants - China and India -being locked in permanent hostility creating a tension laden regional context is happily behind us. The threat of a Sino-US confrontation could be far worse with its global ramifications in the political and economic spheres. It is vital therefore for all countries to bend their diplomatic efforts to ensure that Sino-US relations do in fact proceed along a co-operative trajectory.”

The new leadership of China assumed office in March this year and while President Xi Jinping had an informal summit meeting in June with President Obama in California, Prime Minister Li Keqiang went to India in May, signaling the pragmatic concerns of the new China to establish a harmonious working relationship with the USA and India. At a time when Russian President Putin in his recent op-ed in the New York Times challenged the US self image of “exceptionalism” in the context of the Syrian conflict, it is relevant to recall the wise words of Dr.Henry Kissinger (whom I do not always quote approvingly!) from his book “On China” distilling his long and rich experience with China. Kissinger stated –“American exceptionalism is missionary. It holds that the

United States has an obligation to spread its values to every part of the world.

Chinese exceptionalism is cultural. China does not proselytise; it does not claim that its contemporary institutions are relevant outside China.”

I am sure many of you have seen the impressive TED lecture by the Shanghai businessman Eric Li on Youtube expounding the virtues of the Chinese one party system. Before rushing to accept all the claims made by Eric Li it is certainly good for us not to judge the Chinese system by Western standards and yet, to remind ourselves that the Chinese do not advocate the export of their system shaped by their history and their culture. A striking feature I encountered on my last visit was the frequent use of the slogan “The Chinese Dream” (*Zhongguo Meng*) coined by Xi Jinping in late 2012 while still General Secretary of the Communist Party. It is an obvious take-off on “The American Dream” which for decades embodied the “log cabin to White House” ethos inspiring Americans to work hard to exploit the limitless opportunities for upward mobility. Xi Jinping himself described the term as representing “national rejuvenation, improvement of people’s livelihoods, prosperity, construction of a better society and military strengthening”. Others have commented that the Chinese Dream is the Chinese path to sustainable development.

I was ten years old when the epic Chinese Revolution climaxed with Mao Tsetung declaring on the ramparts of Tian An Men Square in October 1949 that the country, which Napoleon had described as a “sleeping dragon”, had “stood up”. Over a period of time reading about China and Sri Lanka’s own inadequately researched history of

contacts with that giant Asian civilization, I had formed a determination to opt for Chinese as my foreign language speciality when I entered the Sri Lanka Foreign Service. This qualified me automatically for a posting to Beijing which was then regarded as a “difficult” post for which only an eccentric would volunteer. From 1968-70, I lived happily and comfortably in Beijing with my young family and have made many visits since then. I have recently returned from my tenth visit to that amazing country which has caused me to revise and re-revise my beliefs in the human condition and the economic organization that could best achieve equity with growth. Living in the fishbowl of a guarded diplomatic enclave in Beijing, but insulated from the excesses of the Cultural Revolution by Sri Lanka’s friendship with China, I had to filter my reporting on China based on my own observations digesting the crude propaganda of Xinhua and the patronizing and biased assessments of Western, Soviet bloc and Indian diplomats.

Revisiting China, it has been a genuine pleasure to see the remarkable development and rapid rise in the standards of living despite the environmental and social consequences. An estimated 650 million raised above the poverty line by itself is an unprecedented achievement. The swarms of blue tunic clad cyclists I saw on the streets of sprawling Beijing in 1968 have been replaced with an estimated 5 million cars in Beijing alone, incredible high-rise buildings in all major cities and a self confident population busily engaged in a consumerist splurge in a “de-ideologized” but still Communist Party ruled China.

The relationship between China and the Global South is inevitably of special interest to all of us. My first book was on “China and the Third World”, published in India in 1984, and contained impressions of China’s political interaction with the Non-aligned

Movement and the economic model it represented for developing countries – impressions which I have had to revise drastically because of the reforms of Teng Hsiaoping. On my last visit a retired Ambassador of China to India told me that when a befuddled British Professor asked him to explain China his cryptic reply was “Confucius, Mao Tsetung and Teng Hsiao-ping”. I would have added Adam Smith. If Chairman Mao’s visionary concept of a society imbued with the self-less virtue of serving humankind in communes (*Wei Renmin Fuwu*) and through periodic self-education in the countryside was ultimately disastrous would Teng Hsiaoping’s pragmatic socialist market economy with Chinese characteristics be the answer not only for China but also for the developing countries of the world? Is the “rise of the global south” the promised world of the New International Economic Order (NIEO) that we were led to expect in the 1960s and 1970s by UNCTAD led by Raul Prebisch, Perez Guerrero and our own Gamani Corea?

But already the alarms are being sounded that the Chinese economic miracle is in trouble just as the Japanese economic miracle ran into its own problems within three decades of World War II. Some of the problems that have been identified by the Chinese authorities and foreign observers are - the social engineering of a one child policy that has led to the notorious problem of a generation of spoiled children; the growth of the elderly segment of the population; an uncertain future regarding the availability of human resources; the need for a more even development of all the regions and an unstable gender imbalance with males outnumbering females.

Industrialization and consumerism has also led to major pollution which affects many major Chinese cities compelling the restriction of the number of cars allowed to enter cities, a restriction in the issue of new car registration plates, the adoption of EU standards of emission control and tax rebates to manufacturers of solar power products in an attempt to prop up the struggling sector boosting domestic demand for these products. In the context of the latest IPCC report this is of vital importance for us all. Corruption is a major problem, as it is elsewhere in the world, but the trial and conviction of Bo Xi Lai is an example of the drastic penalties being imposed to check this problem. As encouraging for me was the conscious effort to learn from past mistakes and retain the rich heritage of the past blending tradition with modernization. I was delighted to go on a pedicab tour of the old “*Hutungs*” of Beijing around the Drum Tower; have lunch in the courtyard of a modest home; see an example of classic Beijing opera and then visit the artist quarter of Liulichang to watch a demonstration of ancient Chinese calligraphy in the cao shu style. The billionaires who build the skyscrapers are still guided by “feng shui”.

At the Dalian Summer Davos Forum in September this year, Premier Li Keqiang showed that the Chinese leadership was seized of the need for the structural transformation and upgrading of the economy. China's export and investment-led growth model has to change since China cannot continue to rely on manufacturing exports when its major sources of demand - the US and Europe - are struggling and its labour costs are rising. Rising domestic demand within China cannot compensate fast enough for this. Thus reflecting the slowdown from the breathless pace of double digit growth the leadership

have set a GDP growth target of 7.5% for this year with inflation at less than 3.5%. Premier Li's confident forecast was - "In the next five years, China is expected to import 10 trillion US dollars of goods, invest 500 billion US dollars overseas and send over 400 million tourists abroad. China, with its economic structure transformed and upgraded, will contribute more to the prosperity and development of the world economy. China is ready to share this huge business opportunity with the rest of the world and hopes to have a better cooperation environment for its development."

The middle class has historically been an engine of growth in the West following the Industrial Revolution. By 2020 one estimate is that that 52% of the world's population will be middle class. Asia's middle-class population is also expected to experience explosive growth in the coming years, rising from 500 million people in 2010 to 1.75 billion in 2020. As China's middle class expands and acquires greater economic power they will want more political power than the current dominance of the Communist Party allows them. The big question is whether this will be achieved peacefully.

Thank you for allowing me to share my thoughts with you on China's way forward to sustained growth. I wish the Annual Session all success in your deliberations.