If it is active regulation that both China and the US need, it is time to ask if capitalists and socialists are that different where regulatory conditions are concerned.

By Wang Gungwu

THE need for more regulation in American financial services is obvious. More careful regulation is also certainly needed for Chinese manufacturing industries. The time may have come to stop dividing the world into free and unfree, painting one as good and the other as evil. The problem for everyone is how to build a more effective regulatory system that calls for a global bipartisanship of the sort the United States Congress practiced domestically in the face of crises.

When the Cold War ended with the collapse of the Soviet Union, many hailed the onset of a world in which there would be only one model of success. Capitalism was victorious and all countries must thereafter adopt its principles to ensure growth and survival. Even some erstwhile Chinese revolutionary leaders were ready to accept that.

Indeed, Deng Xiaoping anticipated that change a good decade earlier and began to move towards the capitalist model at the end of the Cultural Revolution. No one foresaw how successful his economic reforms would be. Thirty years later, there are still people who are sceptical that China’s capitalistic gains can endure.

However, in recent months, the juxtaposition of the sub-prime fiasco in the United States with the striking success of the Beijing Olympics has encouraged many to wonder whether an authoritarian capitalism could challenge the liberal model, the so-called “Washington consensus”. The leaders of some developing countries are eyeing China’s achievements with growing interest, with the authoritarian among them becoming more confident that they could do better by moving away from Western-style democracy-based development and follow the emerging Chinese model.

The two distinct models have been set against each other, often as either/or choices. But the world has become smaller and more interconnected, and a week has become a long time in economics as well as politics. Soon after the end of the splendid Beijing Olympics, China faced the scandal of contaminated milk and the international market for its food products was threatened. About the same time, the US financial system conjured up threats of a severe recession. Suddenly, no one is certain how the rescue efforts in both countries will pan out.

On the surface, a tainted food industry cannot be compared with a weakened financial system. Clearly those shady Chinese businessmen poisoning the food of babies are not like the CEOs who have been the masters of Wall Street for decades. It is pure coincidence that the two catastrophic series of events occurred about the same time.

But the fact that the two have shared the news headlines for several weeks now should make us pause, if only to ask if seemingly diametrically opposed ideological positions are not giving way to increasingly blurred compromises.

China stepped off the central planning platform to expand democracy, and it believed that a free-market economy is truly free of all regulation. The US and Britain, inspired by former president Ronald Reagan and former prime minister Margaret Thatcher, were convinced that regulation inhibited economic growth; therefore, the less of it the better.

In both cases, it is difficult to show a direct causative relation between deregulation and the consequences we see today. But, coming from opposite directions, China and the US both believed that removing regulatory regimes was the secret of economic growth. Both are paying a very high price for that assumption.

Of course, those at greatest risk in these crises are not comparable. Sickened children represent a total loss, a different constituency from investors who might lose their life savings. China and the US are obviously at different deregulated stages of economic growth. China is still at the manufacturing stage where whole industries could lose credibility for decades; while the US, with its dollar the only universal currency and its service industry larger than anything ever known before, impacts the world at a much higher level.

It is too early to predict what will happen in the months to come. But it is not far-fetched to think that the common need for better regulation has become inevitable.

China reminds us of 19th century capitalism, the early rampant forms of which inspired the Communist Manifesto and the formation of trade unions to check capitalist power. Delayed by a century of political upheaval, China had a lot of catching up to do economically. It, therefore, deregulated under conditions where there was little law and even fewer checks on corruption and power abuses.

This has exposed its industries to fraud and unscrupulous profiteering. The US, on the other hand, had fought European socialist tendencies successfully by emphasising individual rights and freedoms above all else. The decision now to re-regulate, and recognise the collective needs of the many threatened by the capriciousness of the few, must be very painful.

Neither country nor the model they each represent can be content with the measures taken thus far to deal with the developments of the past weeks. Both also see nothing in common in the agonising choices they have to make. But if it is active regulation that they both need, it is time to ask if capitalists and socialists are that different where regulatory conditions are concerned.

The world is getting too small for ideological divisions. Whether they are on the rights of individuals and aggressive entrepreneurs or the interests of communities of investors and customers, coming together to seek optimum areas for regulation calls for an open form of global bipartisanship. This may be the next step we should all take in order to avoid highly volatile futures for the human condition.

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