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BY JOHN JULLENS

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The mood at the recent "Summer Davos" session of the World Economic Forum in Dalian, China, was surprisingly upbeat. Participants seemed to be breathing a collective sigh of relief: The prospect of a financial meltdown in the euro zone is fading, the United States has staged a moderate recovery, and even the recent economic news from China has been relatively positive. China's new premier, Li Keqiang, adopted a notably more confident tone in his opening address than his predecessor Wen Jiabao did at last year's meeting. And during one of the breakout sessions, Malta's prime minister, Joseph Muscat, even managed to sound shocked that anyone would still question the survival of the euro zone.

However, the future isn't as rosy as many may want to believe. In truth, although another financial crisis may have been narrowly averted, the longer-term outlook reveals a global economy that will remain quite fragile. Structural reforms to prevent a recurrence have yet to be implemented, and it's becoming clear that we're transitioning to a period of much slower economic growth than what we've become used to during the last decade. Unfortunately, each of the principal actors on the world economic stage—the E.U., the U.S., and China—is currently hamstrung when it comes to the ability to take the decisive action needed to jump-start the growth engine. It's as if the global economy is being strangled by a gigantic Gordian knot from which it cannot untangle itself.

The European Union's impotence stems from its reluctance to accept that political independence brings stagnation, whereas further economic integration can lead to prosperity. The E.U.'s existing governance structure may have succeeded in ending centuries of almost continuous warfare—the organization even received the Nobel Peace Prize in 2012—but it can't provide the strong oversight required to effectively manage the highly divergent, yet increasingly interdependent group of 28 economies that are now included in the euro zone. Europeans will simply have to come to terms with the fact that their union needs greater economic, fiscal, and political integration to remain competitive and avoid future financial crises. It's frustratingly clear what needs to be done, and creating a single finance ministry, treasury, and bank with centralized control over member states' budgets and economic policy would be a good start. Yet it's equally clear that the political resolve to do so any time soon is virtually nonexistent.

The United States also seems to have lost its ability to implement sound economic policy adjustments, struggling to make even straightforward tactical decisions, including, as of this writing, raising the debt ceiling. As in the E.U., the main issue in the U.S. is political gridlock, which has been caused by several factors,

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including decades of opportunistic gerrymandering. In addition, media fragmentation has had the unwelcome side effect of forcing U.S. politicians to cater to special interest groups, while many ordinary citizens spend their lives in ideological cocoons, feeding on partisan news, wishful thinking, and economic nonsense. As a result, the two main political parties are invariably locked into irreconcilable positions by the extreme fringes of the political spectrum. More significantly, both the United States and Europe are rapidly losing their moral authority as economic and political standard bearers, as the rest of the world—including China, Russia, and India—looks on with bewilderment and disbelief.

Meanwhile, China has reached a crucial stage in its economic development: Its remaining surplus of cheap labor is dwindling at the same time that its potential to make further productivity improvements by simply acquiring new technology and management skills from abroad is being exhausted. In addition, despite significant new infrastructure requirements in its Western regions, China's ability to maintain the double-digit growth levels of recent years through massive capital investments is limited, for example, by the inefficiency of its banking system, including the absence of a true cost of capital.

As a result, the freedom of China's central government to make decisions is quite limited. It must transition to a new domestic consumption–led growth model while still delivering annual GDP growth of around 7 percent or risk disaster, either through a financial crisis when inadvertently over-stimulating the economy, or, conversely, through social unrest for failing to raise the standard of living fast enough when economic growth falls substantially below the 7 percent target. And the government must manage this delicate balancing act during a time of unusual global economic uncertainty as well as rising social tensions at home, resulting from growing income inequality, evidence of corruption at even the highest levels of government, environmental degradation, and product safety issues.

Looking beyond these three key players, we find that emerging markets won't be able to pick up the slack. Not because of the Fed's proposed QE taper, but because they simply aren't large enough to, say, compensate for a permanent slowdown in China, which would have an additional knock-on effect on commodity-dependent economies such as Russia and Brazil. Moreover, several of the largest emerging markets, including India and Turkey, have gotten themselves hopelessly stuck in a morass of political inertia and incompetence, and seem to have lost their momentum when it comes to reform.

So what will the future hold? True doomsday scenarios remain far less likely than the various muddle-through alternatives. The U.S. will no doubt raise its debt ceiling through another nail-biting last-minute political deal, the E.U. will keep on stumbling toward further integration, China will manage to grow at a still remarkable 6 to 7 percent one way or another, and the economic convergence between developed and emerging markets will continue, albeit at a slower pace. But we probably won't see a strong recovery for a while, and the risk of another global financial crisis will remain uncomfortably real. Unfortunately, the pre-meltdown boom days may have been as good as it gets for some time to come. +

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