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Economic Analysis

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Emerging pride on the brink of the European abyss

What at the time was seen as an incredible show of strength by emerging markets, when they recovered swiftly in the wake of the Lehman collapse, could end up being their greatest vulnerability. As we are drawn further into a European debt crisis of increasing proportions, emerging markets have continued to expose their economic strength to the raging storms around them. In fact, the first signs of economic slowdown were explained by the fall in foreign demand, though this could in no way have much effect in the case of economies with such potent domestic demands as those that managed to emerge unscathed from the meltdown in 2008-09.

Time is beginning to show the cracks in this excess confidence in the face of an event of such magnitude as the European debt crisis. Even three emerging giants with colossal domestic demands such as China, India and Brazil, have considerably cut their growth forecasts for 2012-2013, despite starting on an expansive cycle in their monetary policies, particularly intense in the case of Brazil. On the fiscal front, there is much less room than before, though even so, China has once again announced new public investment plans to avoid a hard landing. India and Brazil, with levels of public debt closer to those of developed than emerging countries, are eyeing China enviously on the brink of the European abyss.

Despite the seriousness of the situation, it should not be forgotten that we are talking about a temporary phase within the unstoppable process of convergence of the emerging and developed worlds. The difficulties of the emerging markets, which without doubt will increase over the coming months, continue to be more easily handled than ours. This does not mean that they should not be viewed with concern by their economic authorities, who would do well to rid themselves of any excess confidence, in preparation for what the future may bring.