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Globalization or Localization:
A Debate for the Next Cycle

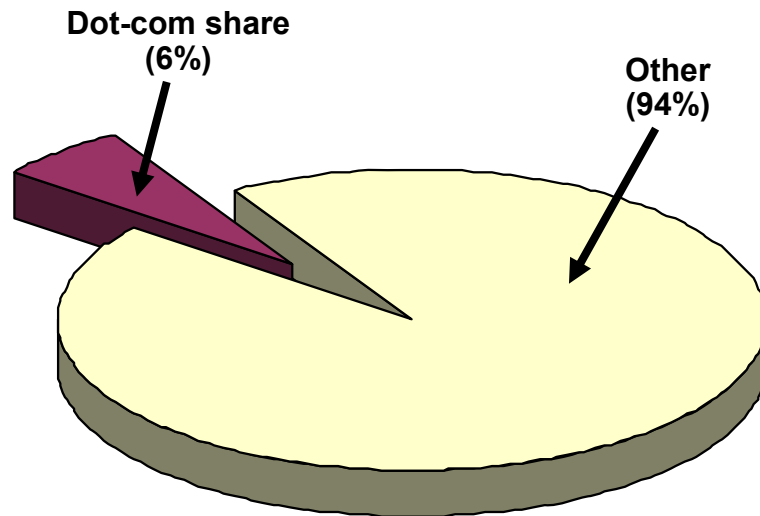
Stephen S. Roach
Chairman
Morgan Stanley Asia

Brussels Economic Forum 2008
Brussels
May 15, 2008

Two Canaries in the Coal Mine

Dot-Com Bubble

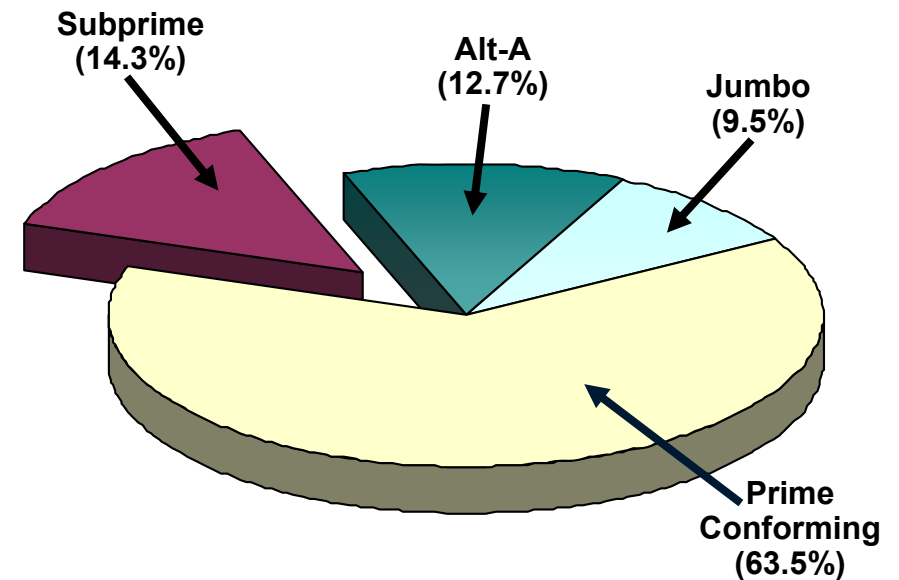
Market Capitalization: US Equities
(year-end 1999)



\$17.2 trillion total equity market cap

Subprime Bubble

Securitized Mortgage Debt Outstanding
(March 2007)



\$6.3 trillion total securitized mortgages

Source: Federal Reserve, FDIC, MBA, Morgan Stanley Research

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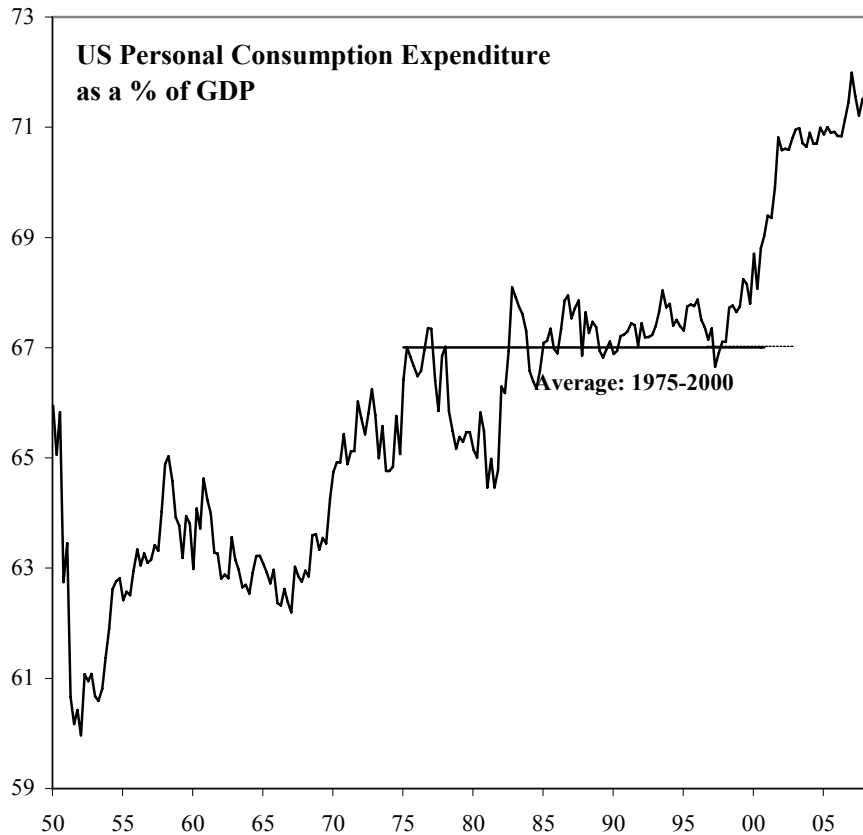
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Taxonomy of a Crisis

IMPACTS	TRANSMISSION MECHANISM	OUTCOME
FIRST-ORDER	CROSS-PRODUCT CONTAGION: DERIVATIVES AND STRUCTURED PRODUCTS	DE-RISKING DE-LEVERAGING
SECOND-ORDER	ASSET-DEPENDENT REAL ECONOMIES	CONSOLIDATION OF CONSUMPTION AND HOMEBUILDING
THIRD-ORDER	CROSS-BORDER LINKAGES: TRADE AND CAPITAL FLOWS	EXPORT AND VENDOR FINANCING RISKS

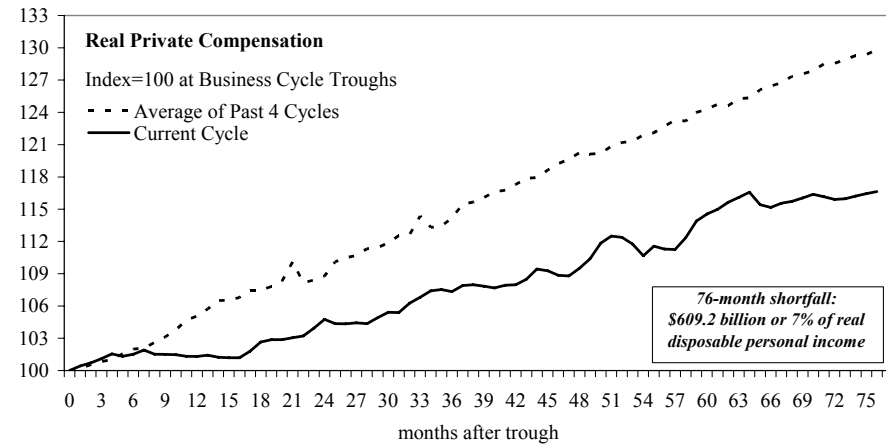
American Consumer at Risk

US Consumption Binge

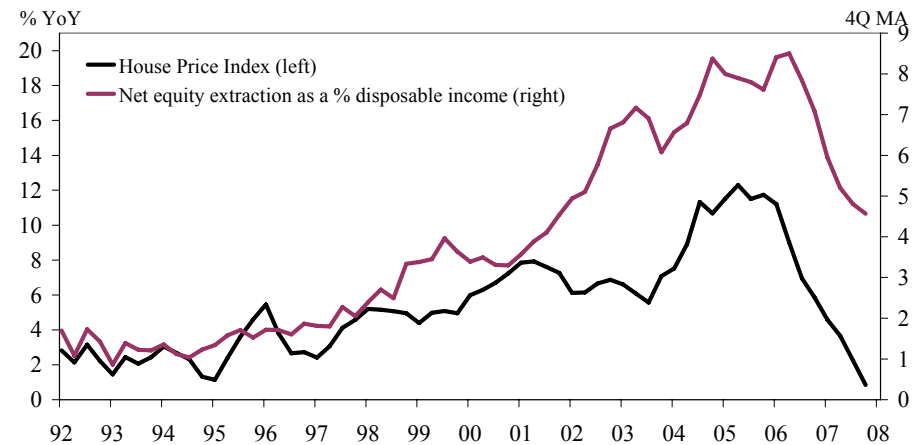


Source: National sources, Morgan Stanley Research

Income Effects



Wealth Effects

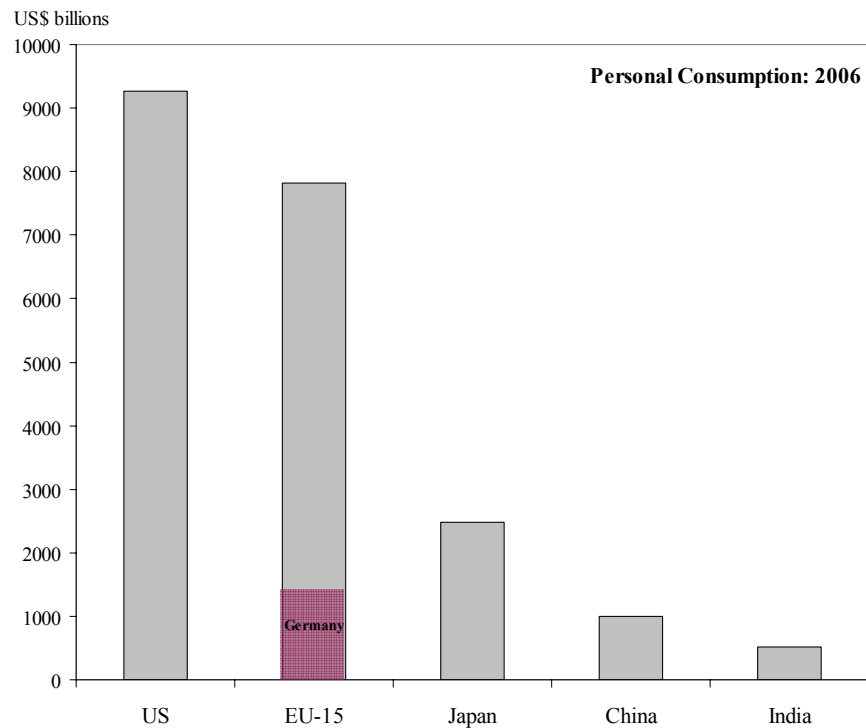


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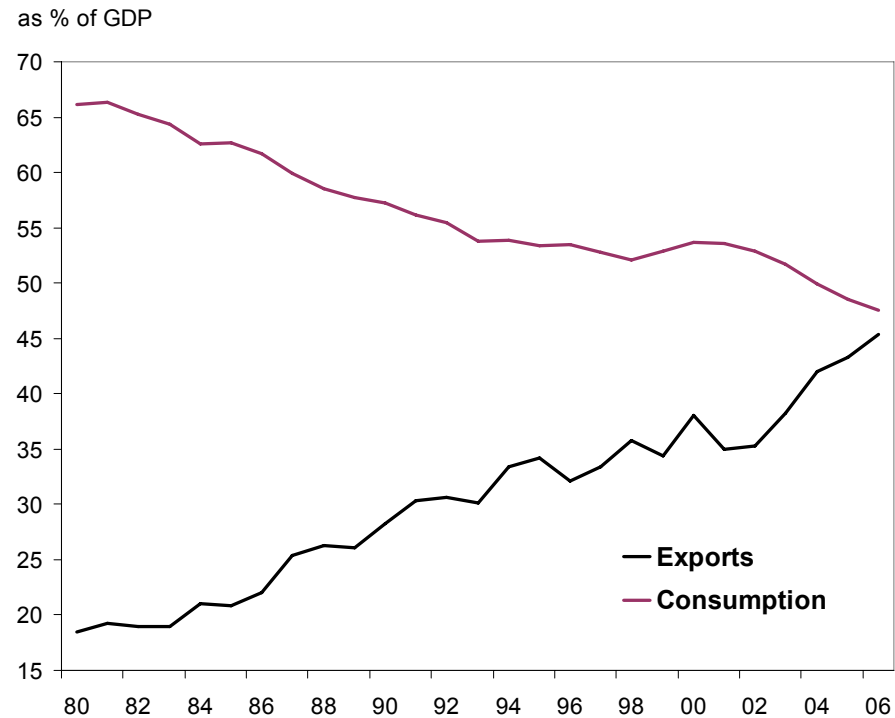
Decoupling Dreams

The Global Consumer



Source: National Sources, UN, Morgan Stanley Research

Export-Led Developing Asia



Source: IMF, Morgan Stanley Research

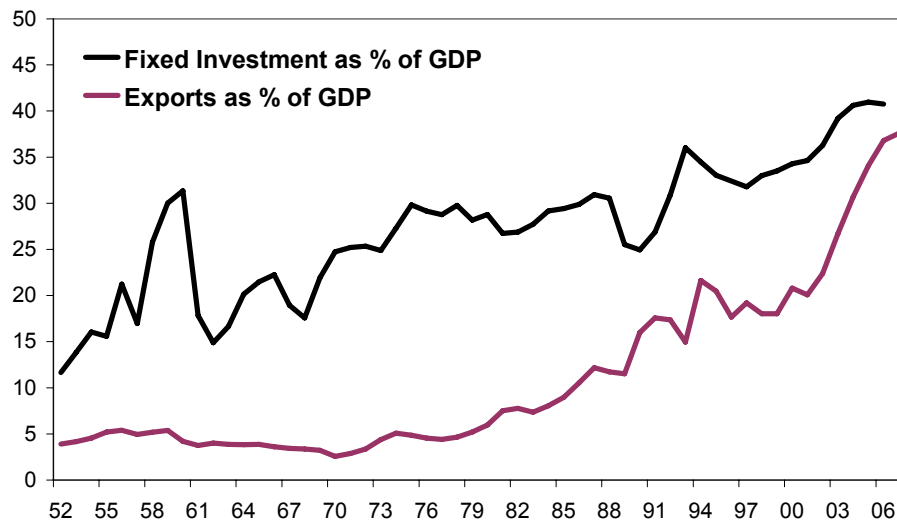
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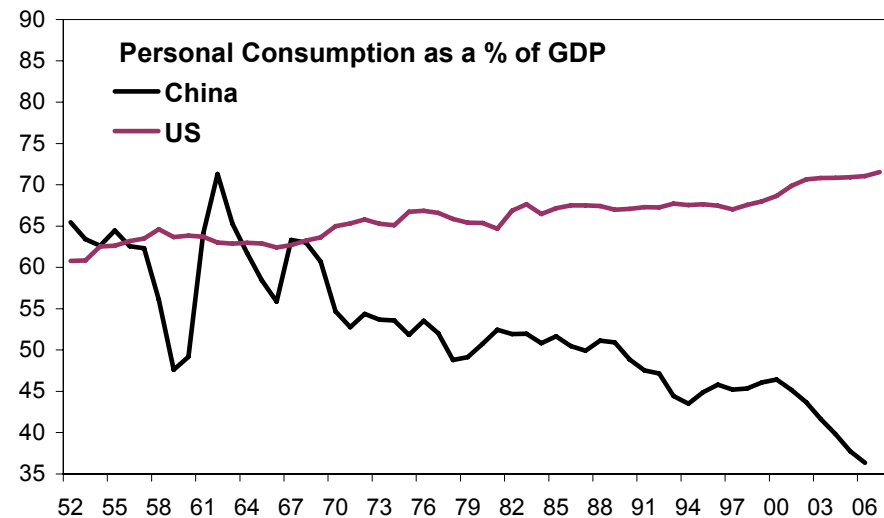
China: Beneath the Surface

“Unstable, unbalanced, uncoordinated, and unsustainable.”
— Premier Wen Jiabao, March 16, 2007

China's Growth Leaders



China's Growth Laggard



Source: National sources, Morgan Stanley Research

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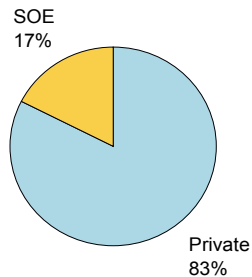
China's New Micro

Morgan Stanley Bookrun IPOs for China Issuers in 2007

- In 2007, Morgan Stanley acted as bookrunner in 21 IPOs for Chinese companies, raising over US\$14.7Bn in proceeds
 - Of these, only two IPOs involved the privatization of wholly or partially state-owned enterprises
 - Private company IPOs accounted for 83% of total \$ proceeds raised in 2007, and over 90% of the total number of IPOs

Issuance Breakdown By Total \$ Proceeds Raised

Total Deal Volume:
US\$14.7Bn



Source Morgan Stanley

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Private Company IPOs (19 Deals, US\$12.2Bn in Proceeds)



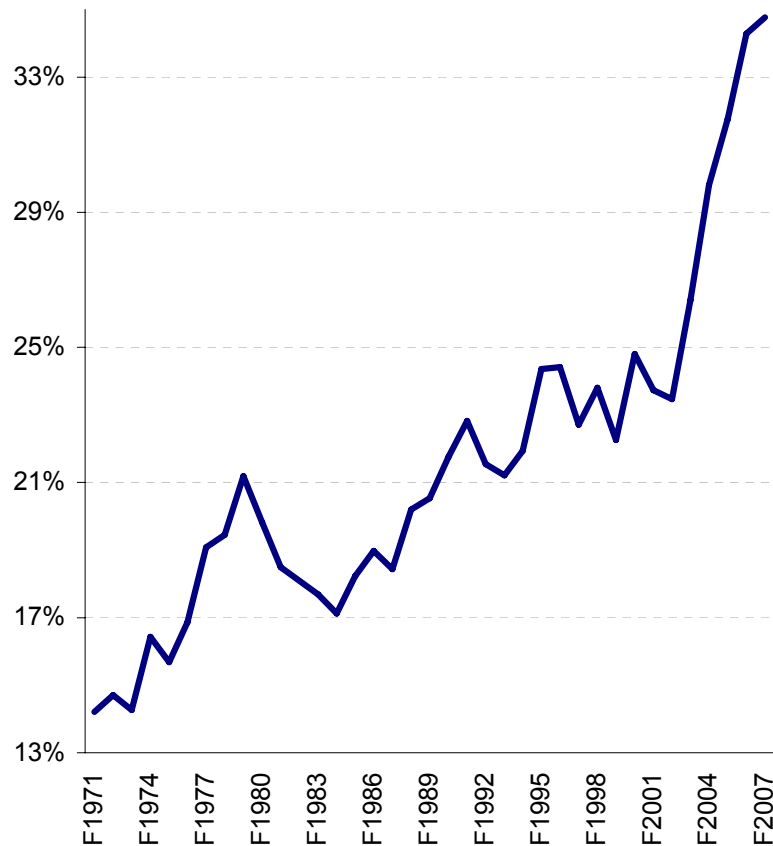
Source Morgan Stanley

SOE IPOs (2 Deals, US\$2.6Bn in Proceeds)

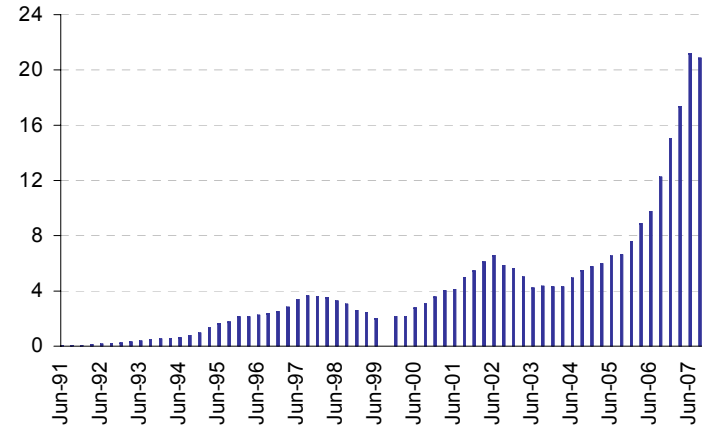


India's Improving Macro

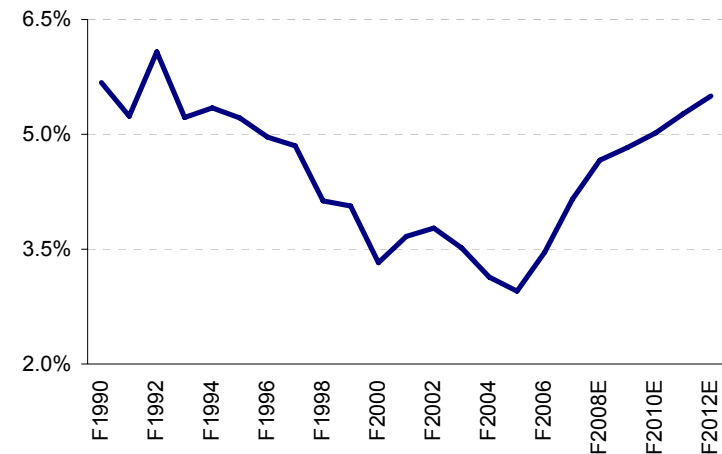
Gross Domestic Savings as a % of GDP



Gross FDI (4 Quarter Trailing) in US\$ Bn *



Infrastructure Investment as a % of GDP



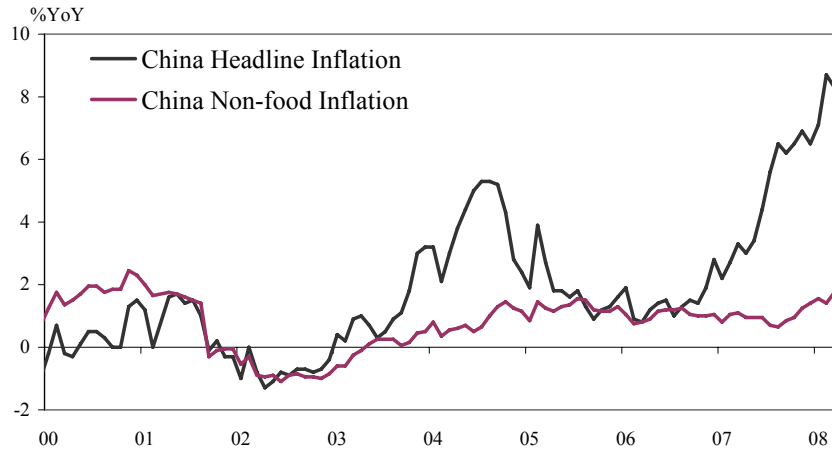
Source: CSO, DIPP, RBI, Morgan Stanley Research, E= Morgan Stanley Research Estimates
 * Adjusted for US\$4.6Bn of Share Swaps and Round Tripping in FQ32007 for the Cairn IPO

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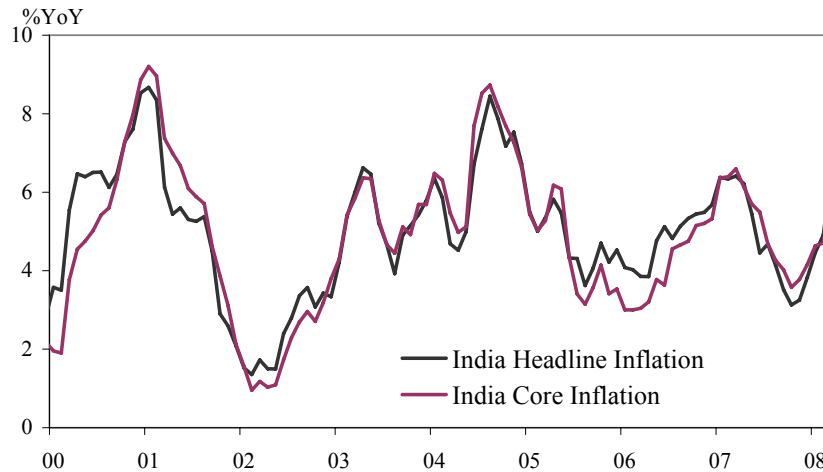
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Inflation Risks in China and India

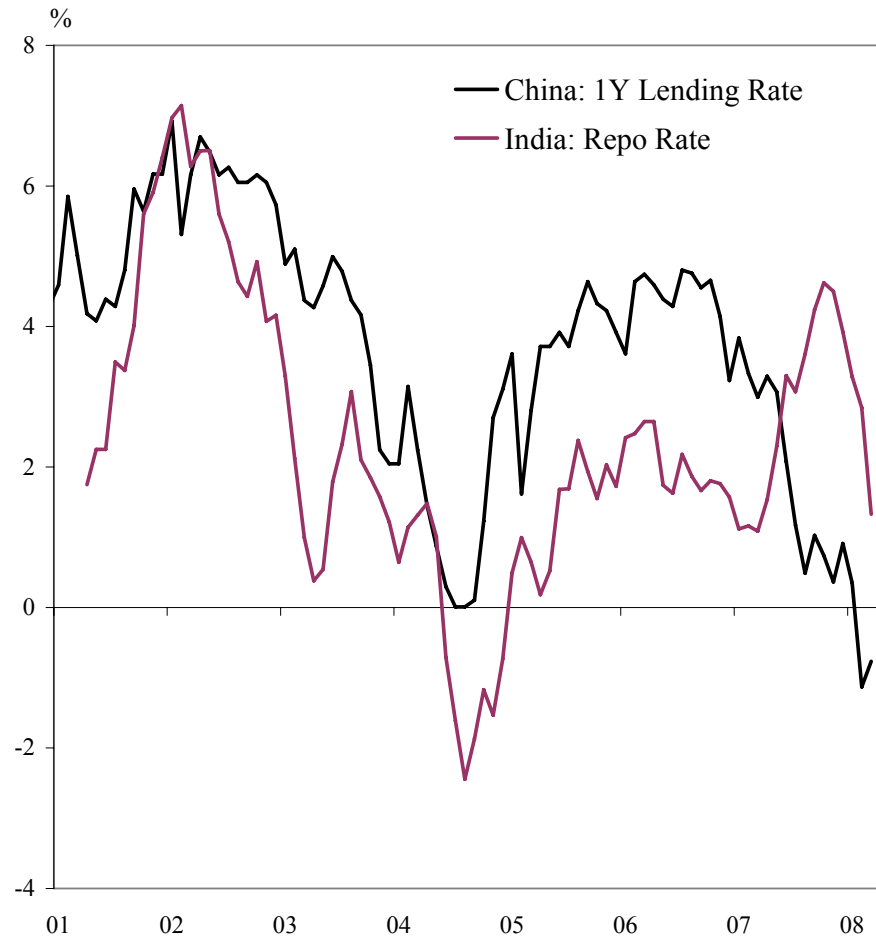
China Inflation



India Inflation



Inflation-Adjusted Real Policy Rates



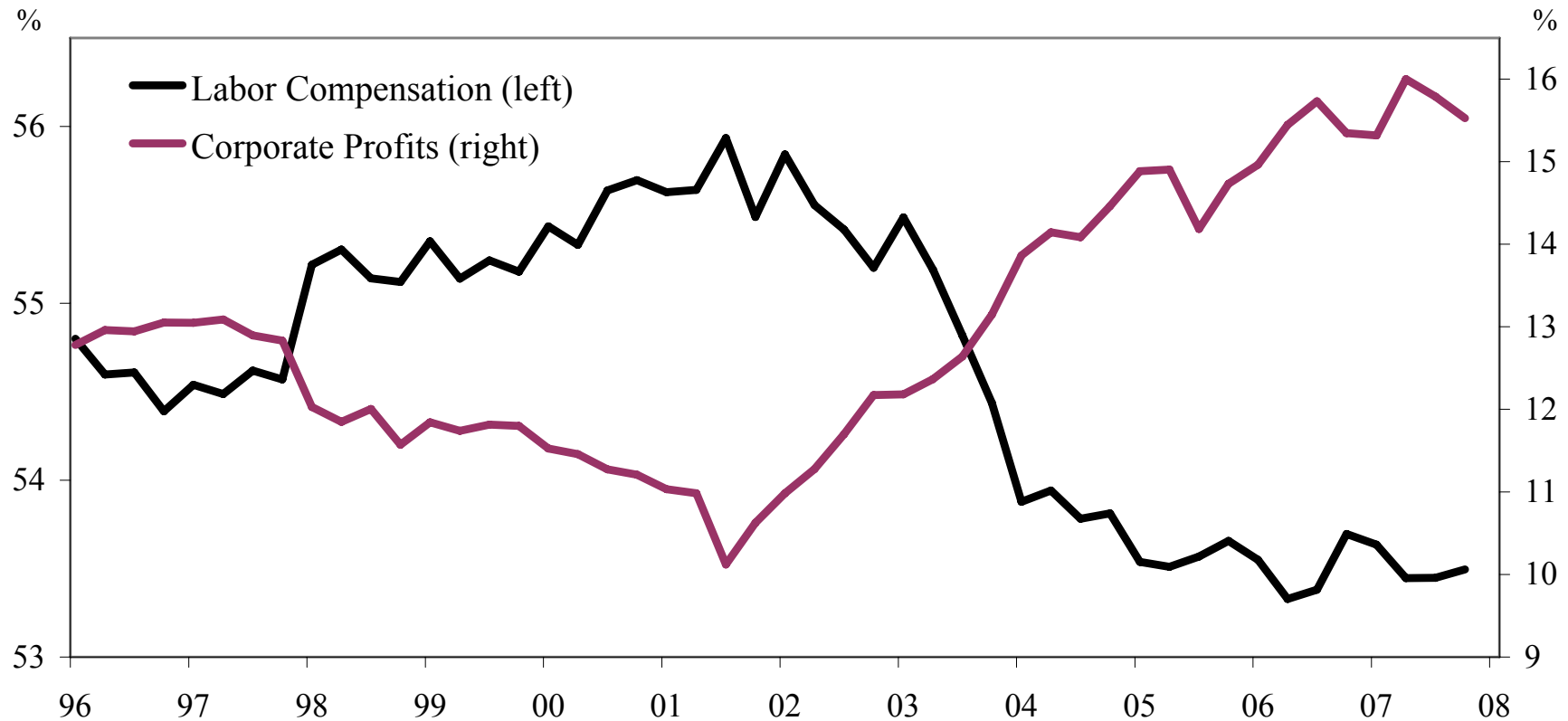
Source: CEIC and Morgan Stanley Research

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Backlash Against Globalization

Shares of National Income: G7+ Economies



* G7+ includes the US, Japan, EMU, UK, and Canada.

Source: National sources, Morgan Stanley Research

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From Globalization to Localization?

Globalization

Trade Liberalization

Low Inflation

Low Interest Rates

Strong Corporate Profits

Dollar: Soft Landing

Localization

Protectionism

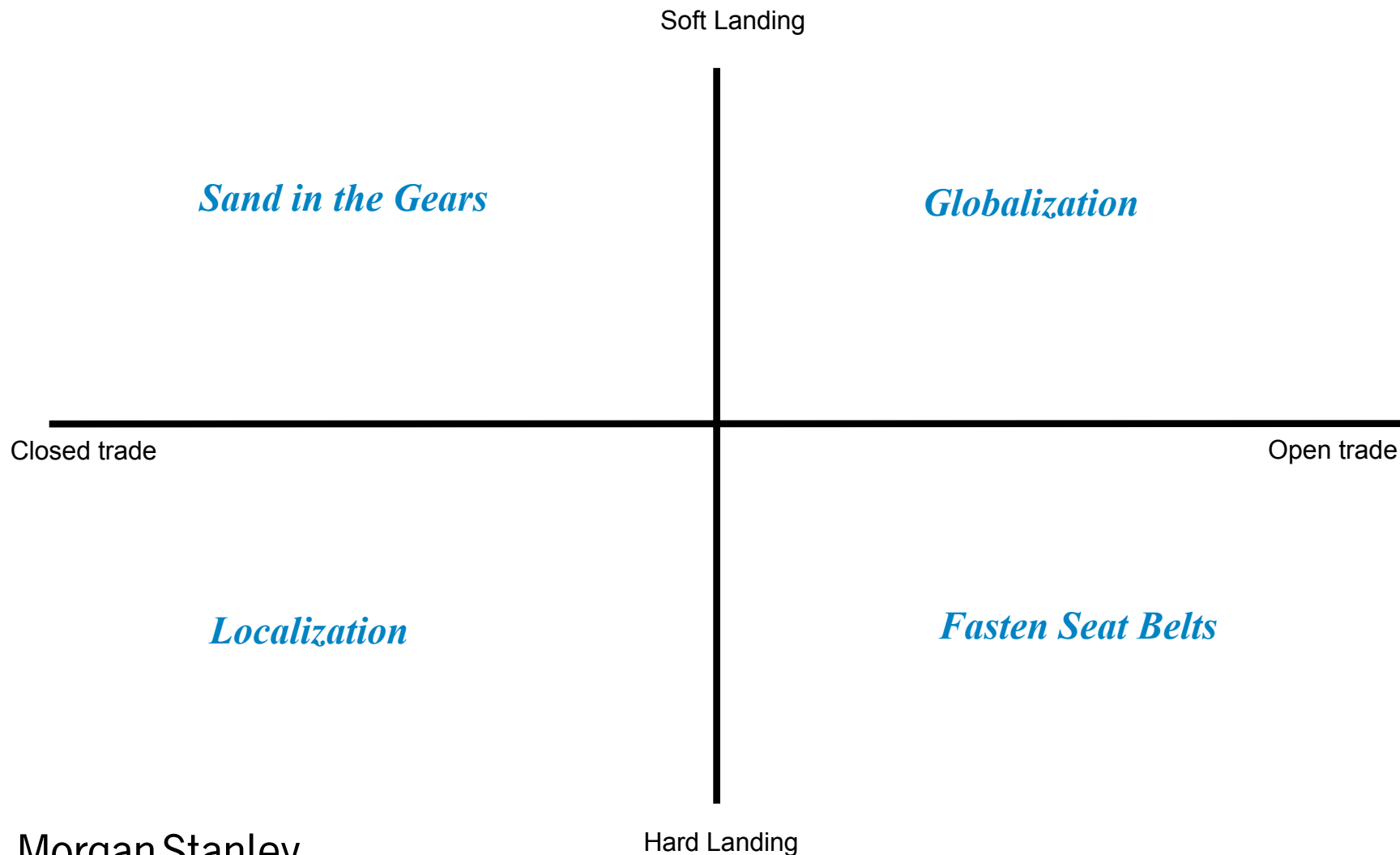
Rising Inflation

Rising Interest Rates

Margin Compression

Dollar: Hard Landing

Four Scenarios: Trade Liberalization vs. the Business Cycle



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A Brief History of the World

Shifting Mix of Global GDP

	Western Europe	FSU	United States	Japan	China	India
1500	17.9%	3.4%	0.3%	3.1%	25.0%	24.5%
1600	20.0	3.5	0.2	2.9	29.1	22.5
1700	22.5	4.4	0.1	4.1	22.3	24.4
1820	23.6	5.4	1.8	3.0	32.9	16.0
1870	33.6	7.6	8.9	2.3	17.2	12.2
1913	33.5	8.6	19.1	2.6	8.9	7.6
1950	26.3	9.6	27.3	3.0	4.5	4.1
1973	25.7	9.4	22.0	7.7	4.6	3.1
1998	20.6	3.4	21.9	7.6	11.5	5.0
2006e	19.0	3.8	19.7	6.3	15.1	6.3

Note: Based on 1990 International (PPP) Dollars; FSU is Former Soviet Union.

Source: Angus Maddison, The World Economy: A Millennial Perspective, OECD (2001); IMF, Morgan Stanley Research

Disclosures

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