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Globalization or Localization: A Debate for the Next Cycle

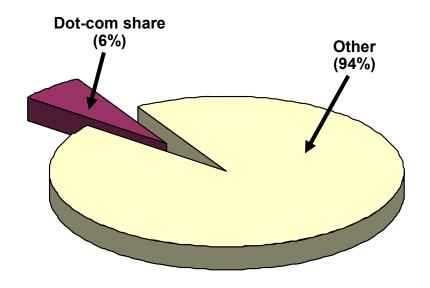
Stephen S. Roach Chairman Morgan Stanley Asia

Brussels Economic Forum 2008 Brussels *May 15, 2008*

Two Canaries in the Coal Mine

Dot-Com Bubble

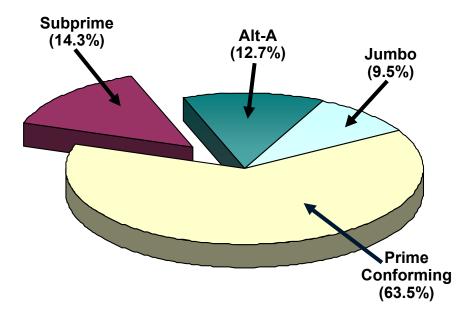
Market Capitalization: US Equities (year-end 1999)



\$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

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

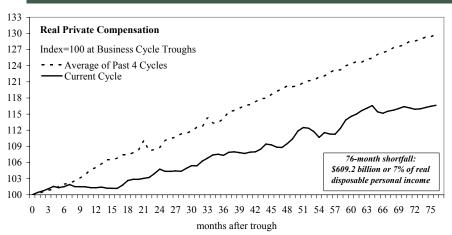
American Consumer at Risk

US Consumption Binge

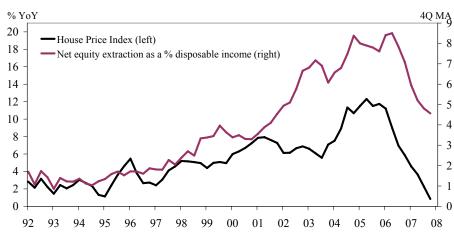


Source: National sources, Morgan Stanley Research

Income Effects



Wealth Effects

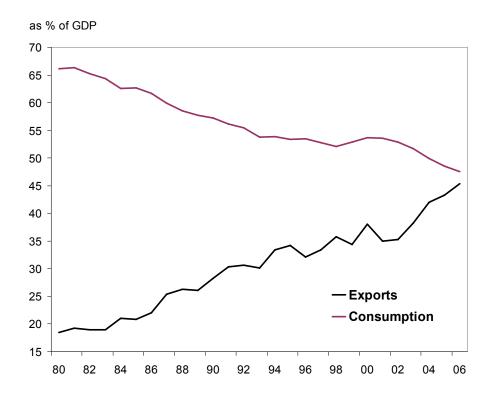


Decoupling Dreams

The Global Consumer

US\$ billions 10000 Personal Consumption: 2006 9000 8000 7000 6000 5000 4000 3000 2000 1000 0 US EU-15 Japan China India

Export-Led Developing Asia



Source: National Sources, UN, Morgan Stanley Research

Source: IMF, Morgan Stanley Research

China: Beneath the Surface

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

China's Growth Leaders

Fixed Investment as % of GDP Exports as % of GDP 25 20 15 52 55 58 61 64 67 70 73 76 79 82 88 91 94 97 00 03 06

China's Growth Laggard



Source: National sources, Morgan Stanley Research

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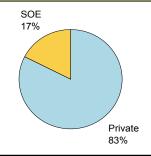
China's New Micro

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 stateowned 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

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











远洋地产

SOE IPOs

(2 Deals.

US\$2.6Bn in

Proceeds)

Sino-Ocean Land Holdings US\$1,764MM (SEHK) September 21, 2007



永新颖博 China Digital TV US\$221MM (NYSE) October 4, 2007

ANTA Sports Products

June 30, 2007

Source Morgan Stanley



China High Speed Transmission

US\$312MM (SEHK)

June 26, 2007



SPREADTRUM

US\$145MM (NASDAQ)

June 26, 2007



合景泰富集團

KWG Property Holding

US\$670MM (SEHK)

June 22, 2007











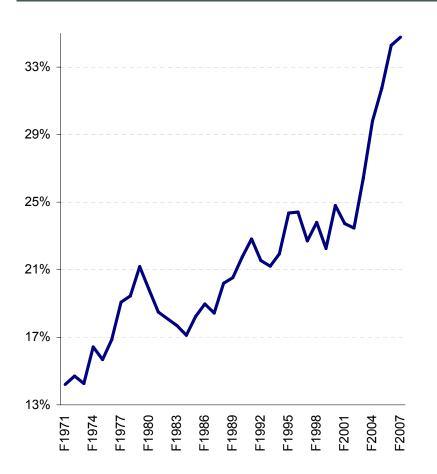






India's Improving Macro

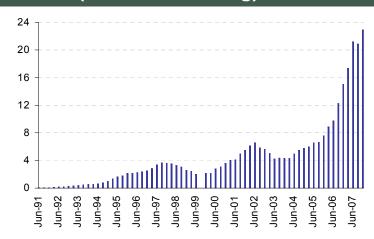
Gross Domestic Savings as a % of GDP



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

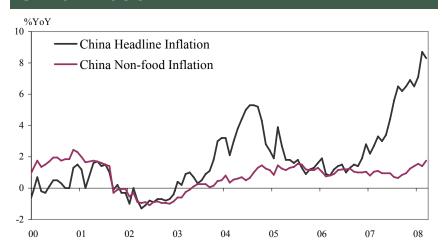


Infrastructure Investment as a % of GDP

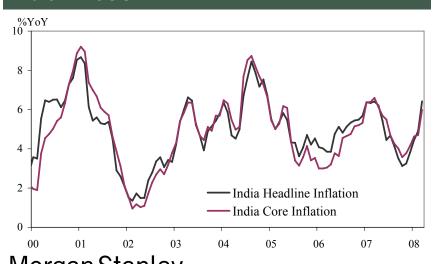


Inflation Risks in China and India

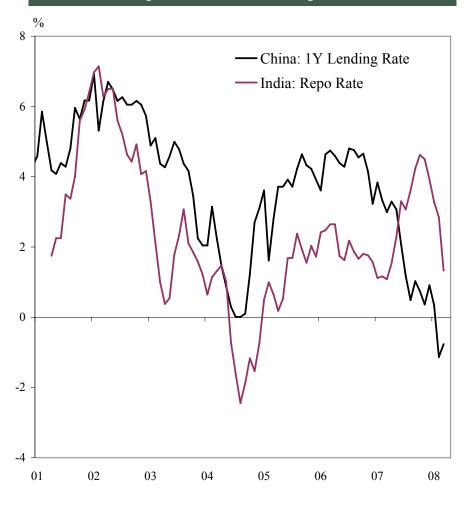
China Inflation



India Inflation



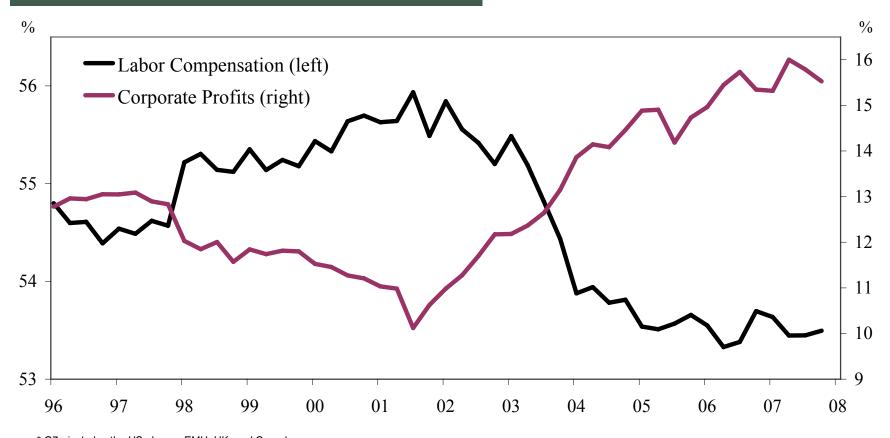
Inflation-Adjusted Real Policy Rates



Source: CEIC and Morgan Stanley Research

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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Protectionist Risks

Anti-China Measures Introduced in the US Congress 109th Congress: 2005-06 110th Congress: 2007-08

Bill	Sponsors	Introduced	Bill	Sponsors	Introduced
1. S.14	Stabenow (MI)	1/24/2005	1. H.R.294	Kildee (MI)	1/5/2007
2. H.CON.RES.33	Ryan (OH)	1/26/2005	2. H.R.321	English (PA)	1/9/2007
3. S.295	Schumer (NY)/Graham (SC)	2/3/2005	3. H.R.388	Kildee (MI)	1/10/2007
4. H.R.728	Sanders (VT)	2/9/2005	4. H.R.571	Tancredo (CO)	1/18/2007
5. S.377	Lieberman (CT)	2/15/2005	5. H.R.548	DeFazio (OR)	1/18/2007
6. H.R.1498	Ryan (OH)	4/6/2005	6. S.445	Stabenow (MI)	1/31/2007
7. H.RH.1575	Myrick (NC)	4/12/2005	7. H.R.782	Ryan (OH)	1/31/2007
8. S.CON.RES.28	Lugar (IN)	4/26/2005	8. H.R.1002	Spratt (SC)	2/12/2007
9. S.984	Snowe (ME)	5/10/2005	9. S.571	Dorgan (ND)	2/13/2007
10. H.R.2208	Manzullo (IL)	5/10/2005	10. H.R.1229	Davis (AL)	2/28/2007
11. S.RES.142	Dorgan (ND)	5/16/2005	11. H.R.1278	Camp (MI)	3/1/2007
12. H.R.2414	Rogers (MI)	5/17/2005	12. S.796	Bunning (KY)	3/7/2007
13. H.R.3004	English (PA)	6/21/2005	13. S.974	Collins (ME)	3/22/2007
14. H.RES.344	Pombo (CA)	6/29/2005	14. H.R.1958	Kaptur (OH)	4/19/2007
15. H.CON.RES.203	Rangel (NY)	6/30/2005	15. S.1677	Dodd (CT)	6/13/2007
16. H.R.3283	English (PA)	7/14/2005	16. S.1607	Baucus (MT)	6/13/2007
17. H.R.3306	Rangel (NY)	7/14/2005	17. H.R.2942	Ryan (OH)	6/28/2007
18. S.1412	Dorgan (ND)	7/15/2005	18. S.1919	Baucus (MT)	8/1/2007
19. S.1421	Collins (ME)	7/19/2005			
20. S.RES.270	Bayh (IN)	10/6/2005			
21. H.CON.RES.303	DeFazio (OR)	11/17/2005			
22. S.2267	Dorgan (ND)	2/9/2006			
23. H.R.4808	Jones (NC)	2/28/2006			
24. H.R.1450	Tancredo (CO)	3/17/2006			
25. S.2467	Grassley (IA)/Baucus (MT)	3/28/2006			
26. S.CON.RES.87	Biden (DE)	4/5/2006			
27. H.CON.RES.380	Schiff (CA)	4/5/2006			

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Source: Morgan Stanley Research

From Globalization to Localization?

Globalization

Trade Liberalization

Low Inflation

Low Interest Rates

Strong Corporate Profits

Dollar: Soft Landing

Localization

Protectionism

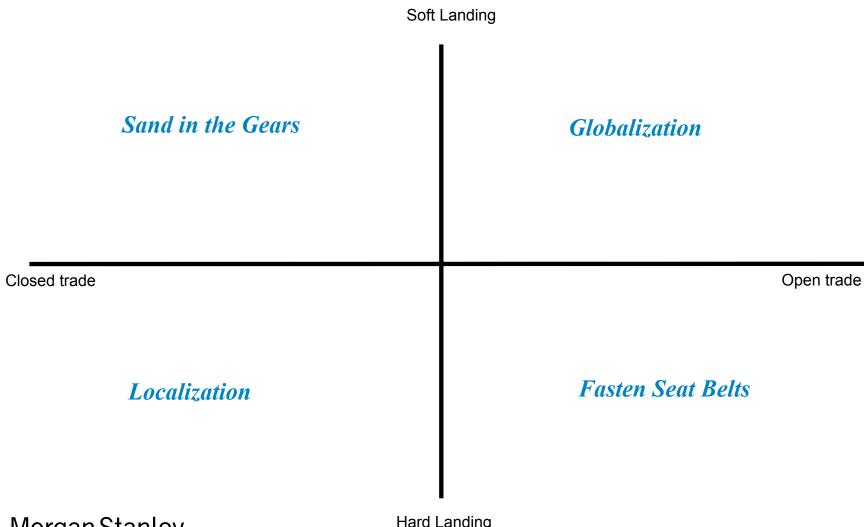
Rising Inflation

Rising Interest Rates

Margin Compression

Dollar: Hard Landing

Four Scenarios: Trade Liberalization vs. the Business Cycle



A Brief History of the World

Shifting Mix of Global GDP

	Western Europe	FSU	United States	Japan	China	India
	Laropo		Otatoo	Capan	Giiiia	maia
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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