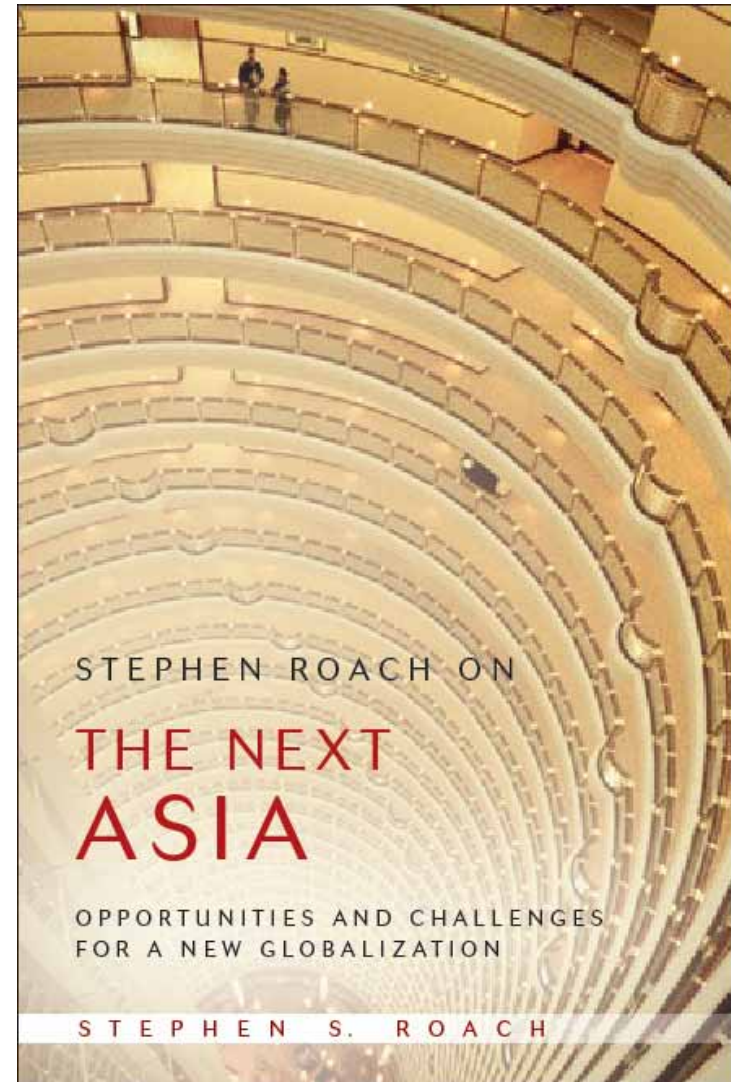


Post-Crisis Imperatives for
The Next Asia

Stephen S. Roach
Chairman
Morgan Stanley Asia

**26th ABA General Meeting and Conference
Manila, Philippines
October 30, 2009**

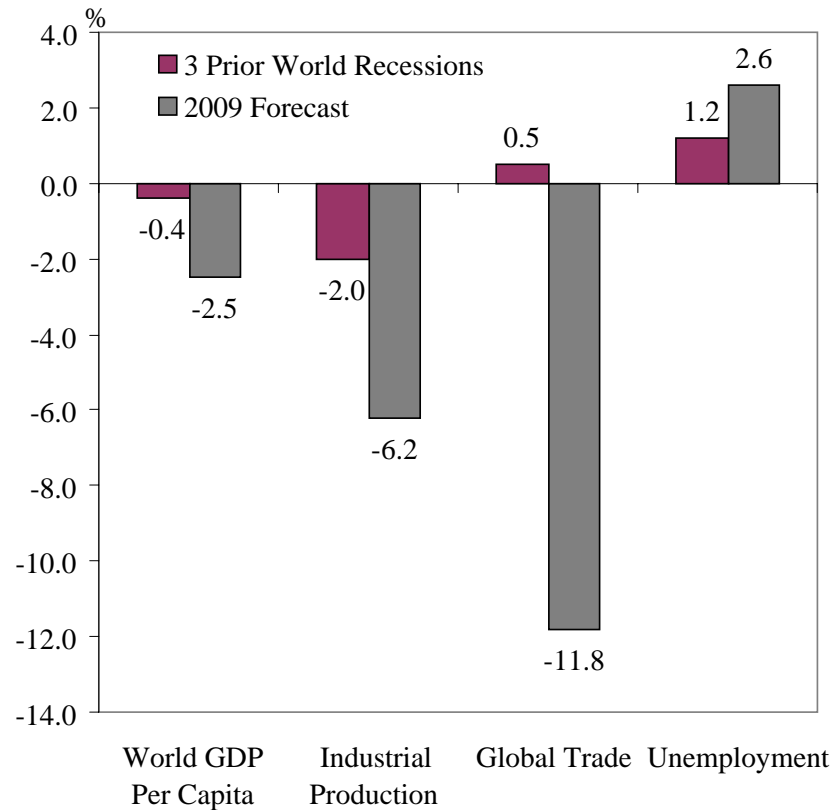


Roadmap for a Post-Crisis World

- Not a normal business cycle
- Imbalances and bubbles
- Demand-side focus: American consumer
- Supply-side focus: Chinese producer
- Multi-year downshift of global growth

Global Shock Therapy

Unprecedented Global Contraction



Recovery Headwinds

- Lingering Financial Crisis
- Synchronicity of Global Recession
- American Consumer
- Asian Imbalances

Note: Three prior recessions years are 1975, 1982, and 1991; Per capita world output is based on purchasing power parity weights; Unemployment comparison is percentage rate increases in the global unemployment rate.

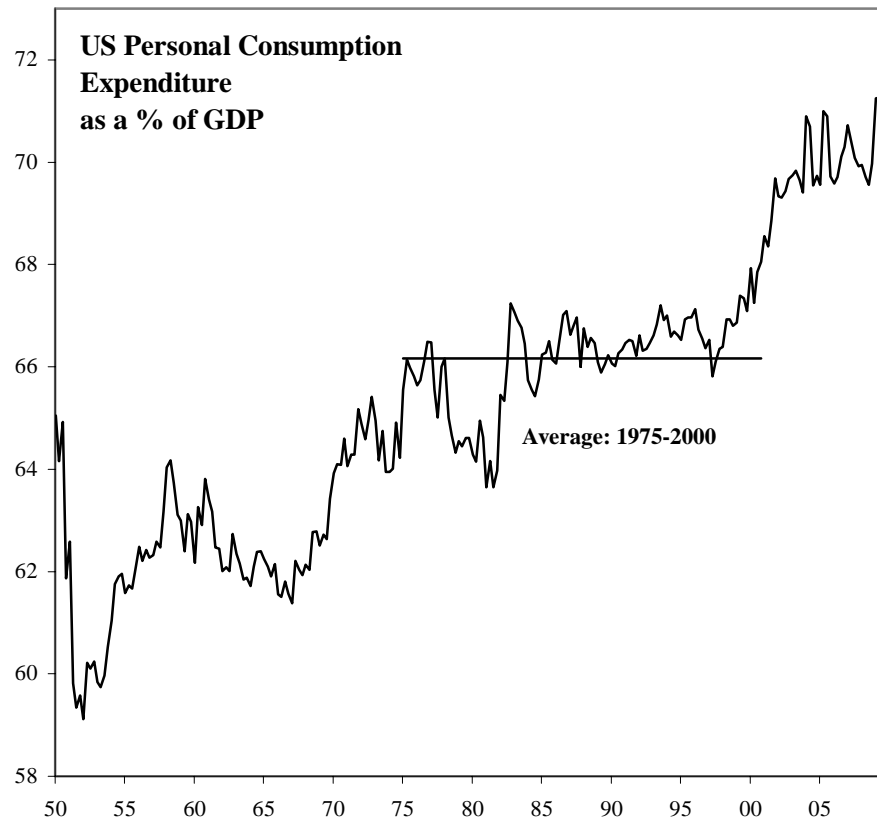
Source: International Monetary Fund

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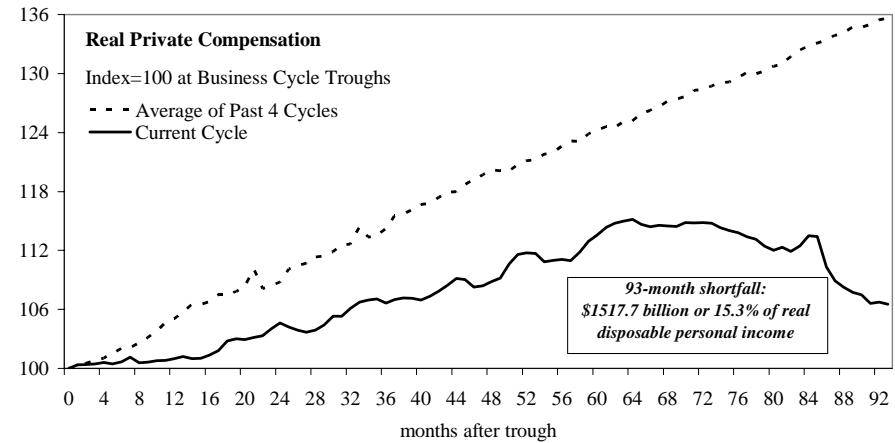
American Consumer at Risk

US Consumption Binge

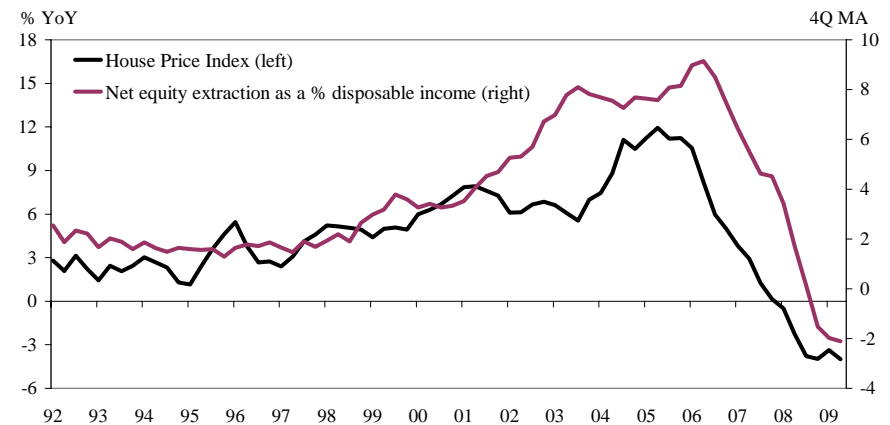


Source: National sources, Morgan Stanley Research

Income Effects



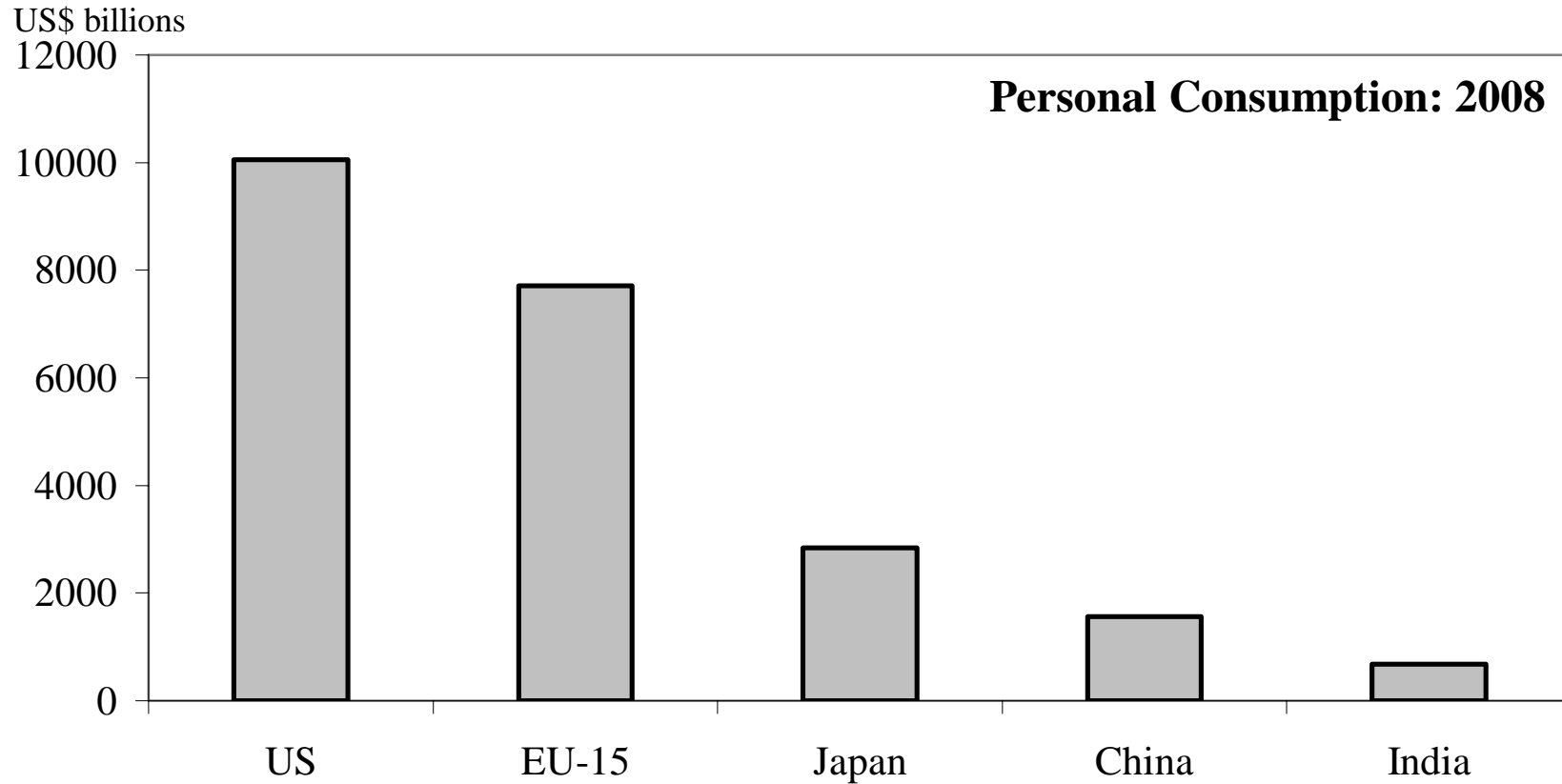
Wealth Effects



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The Global Consumer



Source: National Sources, UN, Morgan Stanley Research

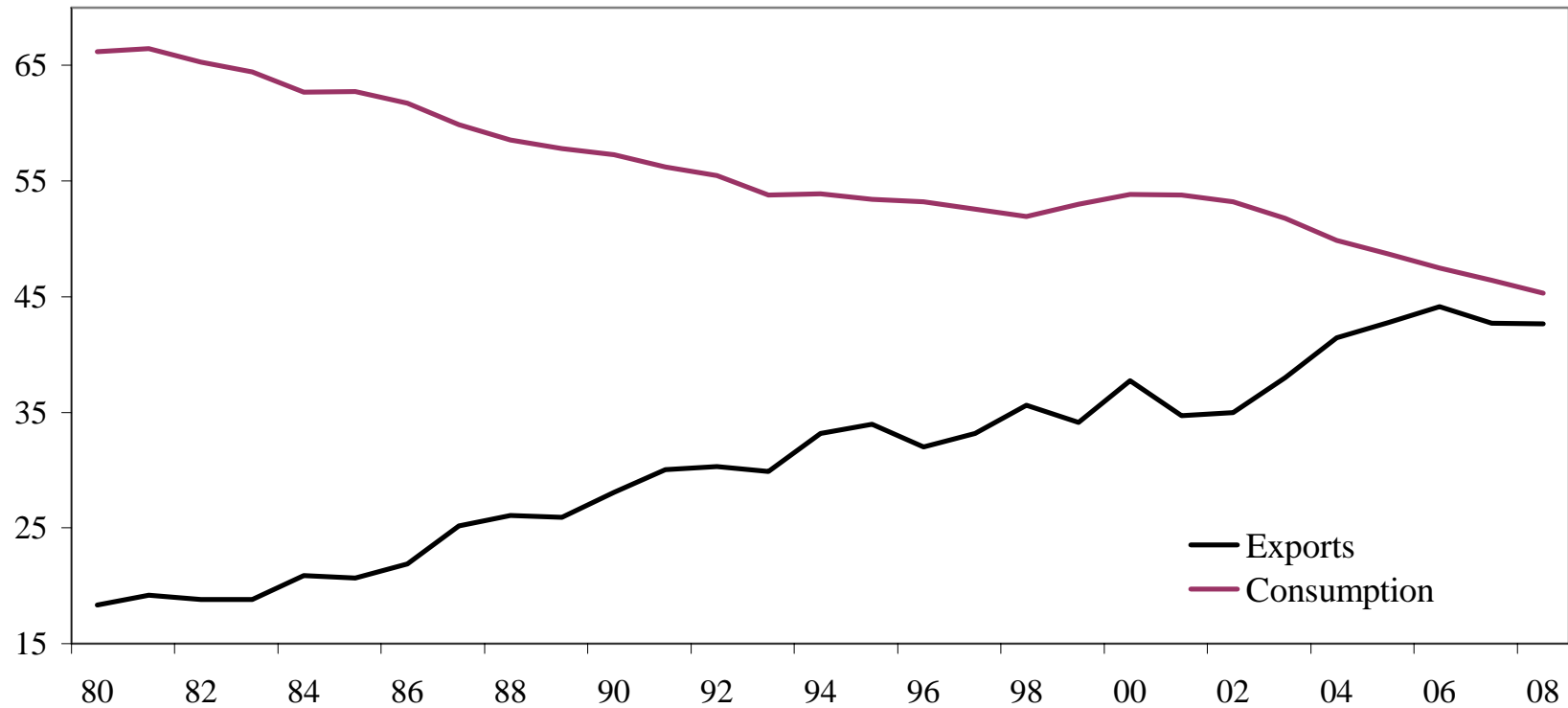
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Asia: Past & Present

GDP Shares: Developing Asia

as % of GDP



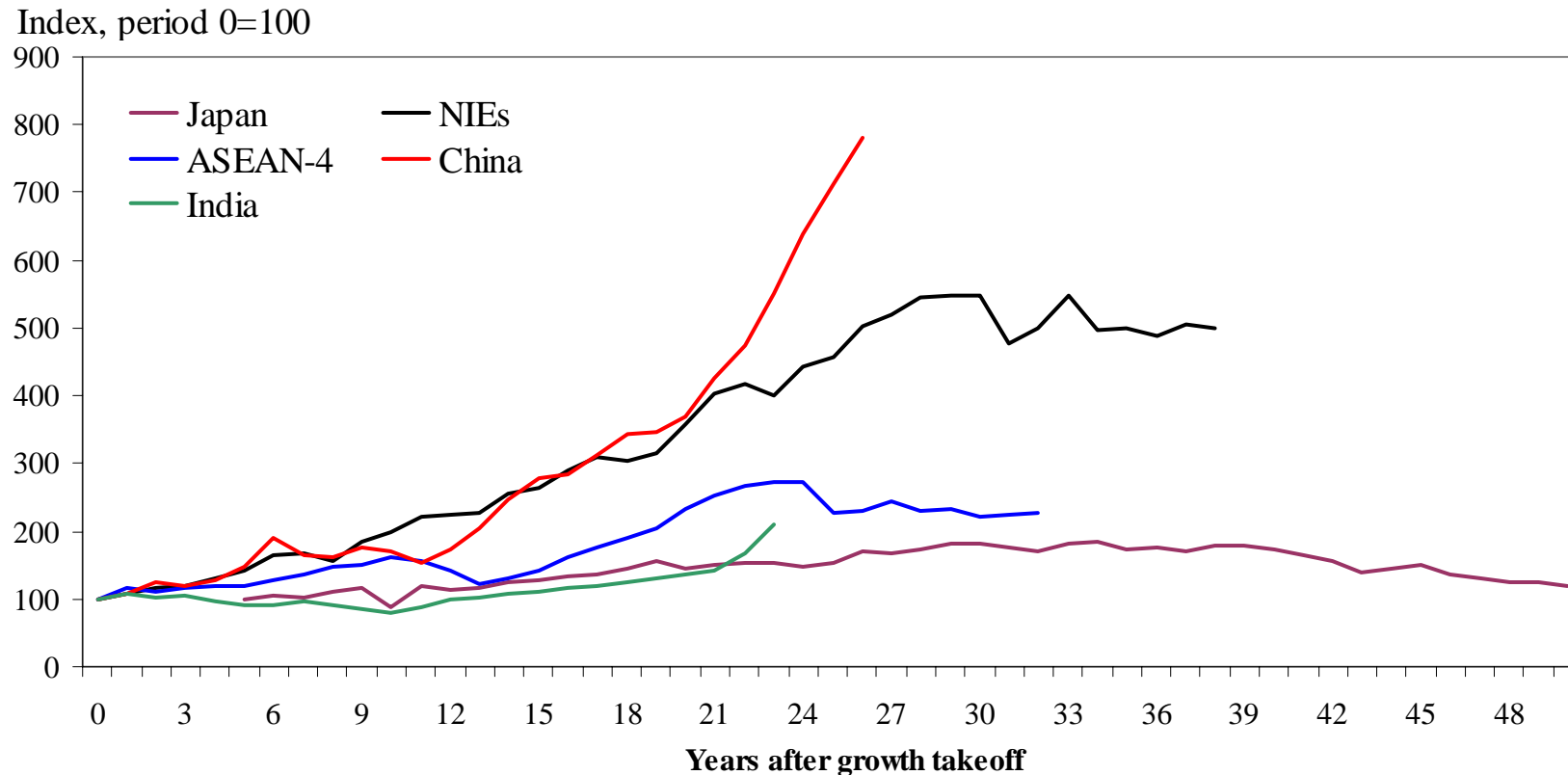
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Source: IMF, Morgan Stanley Research

Globalization's Greatest Beneficiary

Share of World Trade



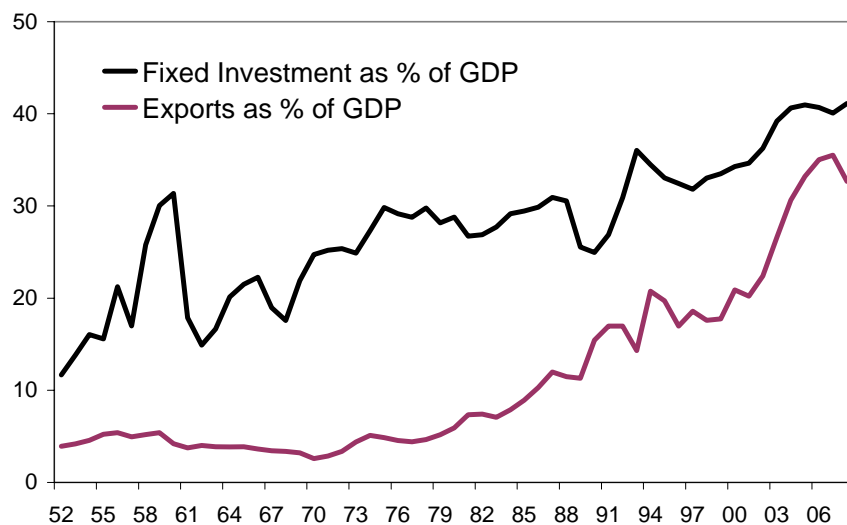
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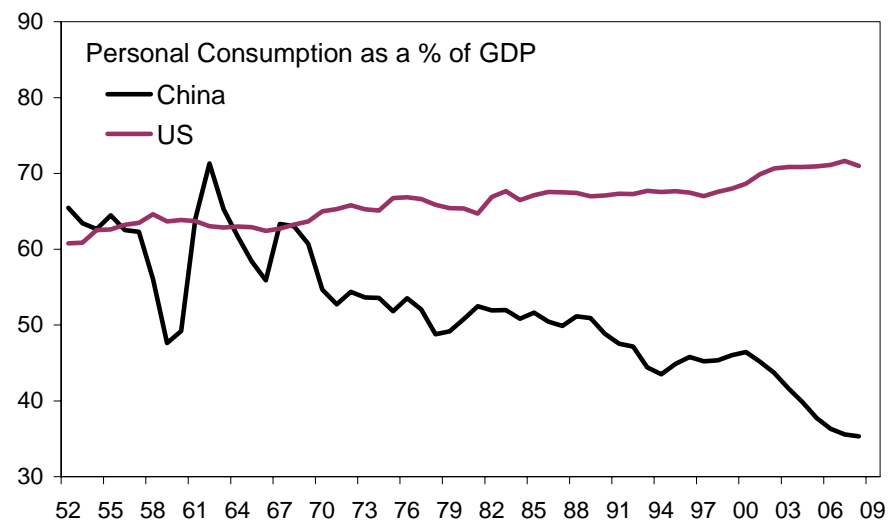
China: Beneath the Surface

“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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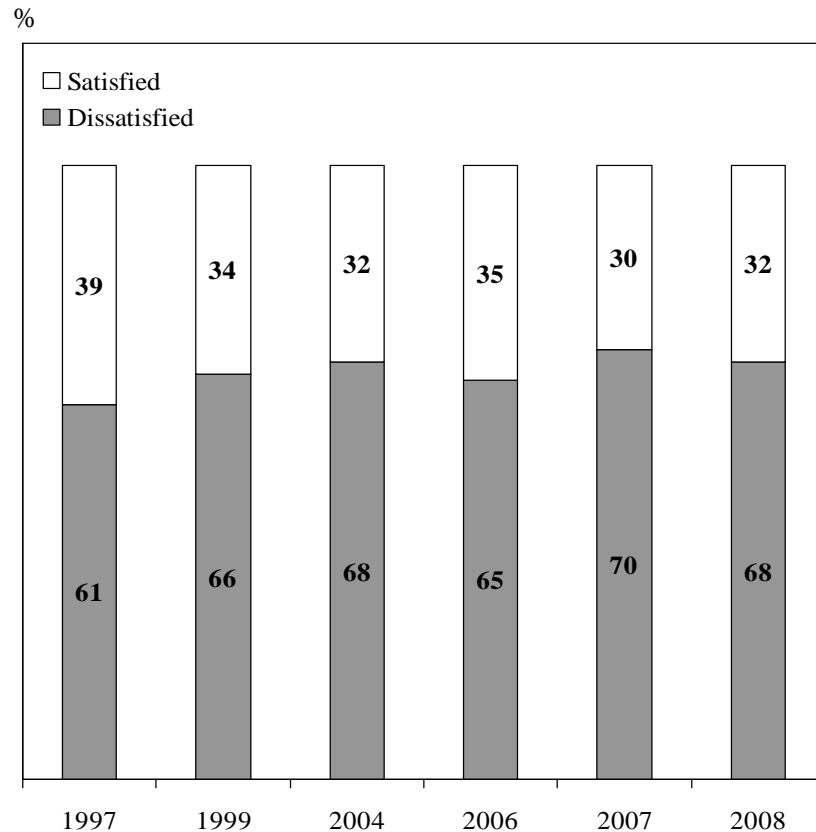
Asia's Unbalanced Macro Structure

Shares of GDP	1995	2000	2008
China			
Private Consumption	44.9%	46.4%	35.3%
Investment	40.3	35.3	43.5
Net Exports	1.6	2.4	7.9
Household Saving Rate	29.5	27.5	37.5
Other Developing Asia			
Private Consumption	67.3%	65.1%	58.4%
Investment	25.9	25.0	23.6
Net Exports	-7.6	-1.4	2.9

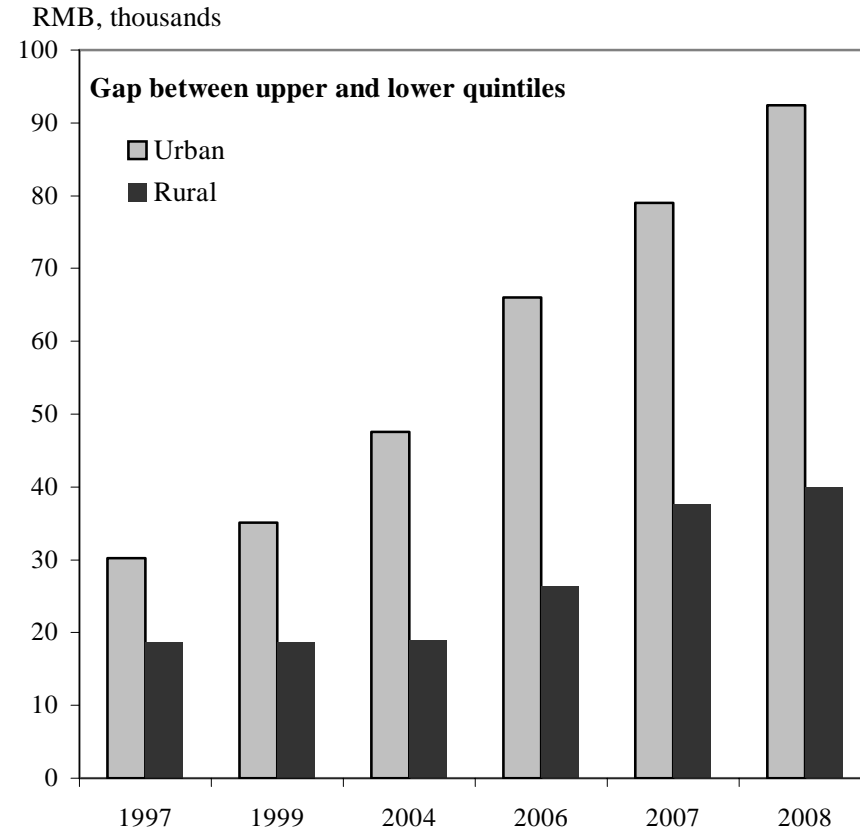
Source: Eswar S. Prasad, "Rebalancing Growth in Asia", Cornell University, July 2009

The Next China: Consumer-Led Growth

Saving Sentiment



Income Disparities: Urban vs. Rural



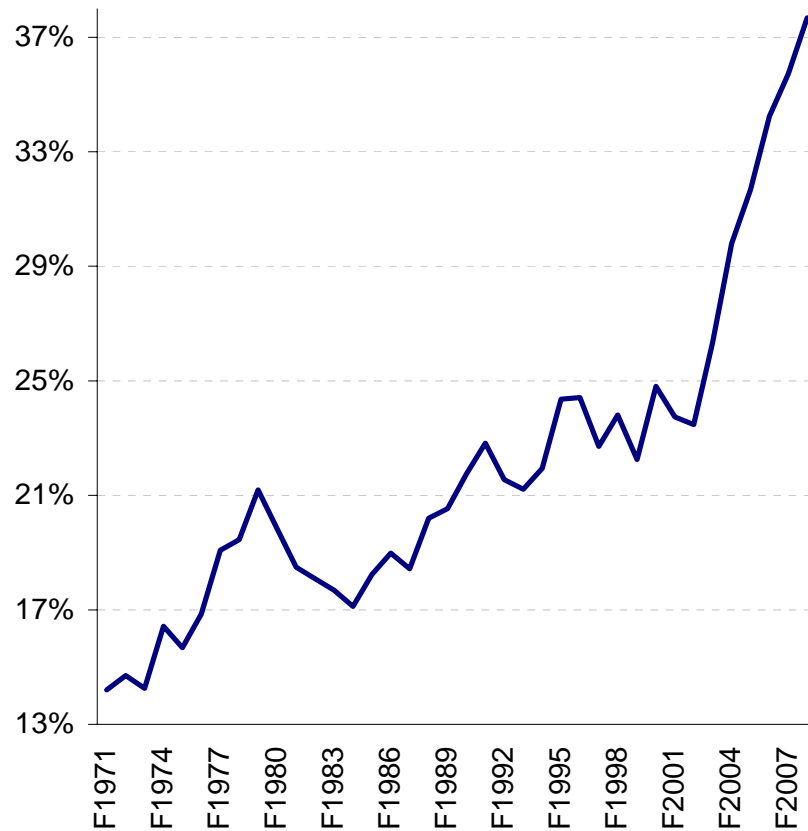
Source: The Gallup Poll of China: Nationwide Polling, 1997-2008

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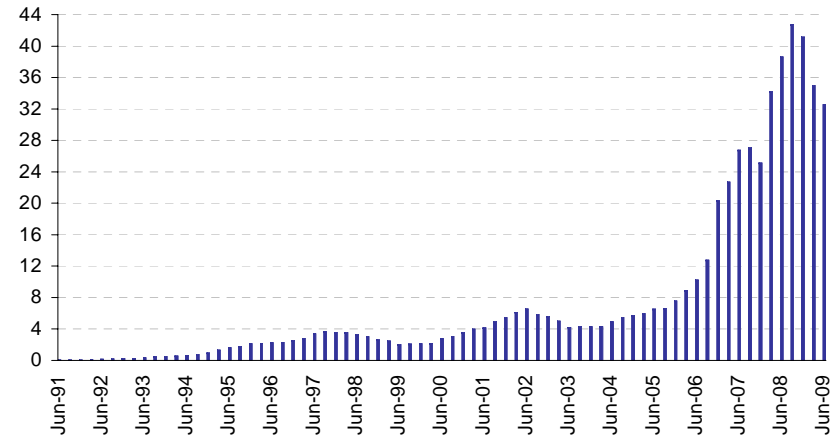
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India's Improving Macro

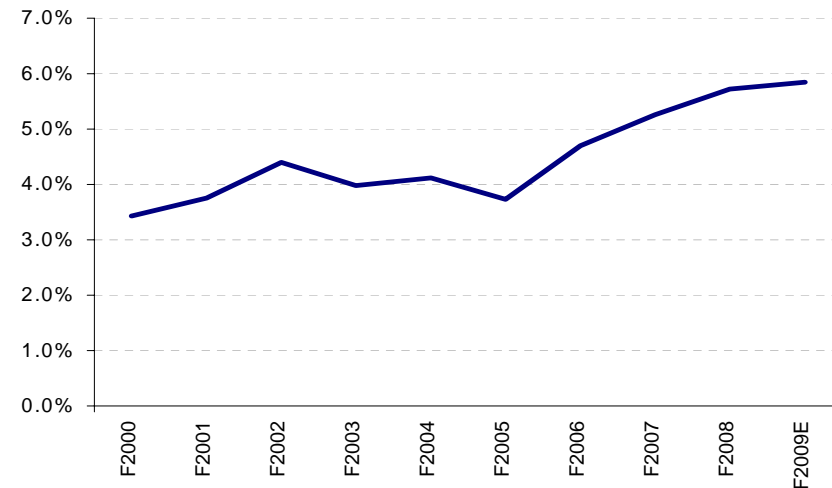
Gross Domestic Savings as a % of GDP



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



Infrastructure Investment as a % of GDP



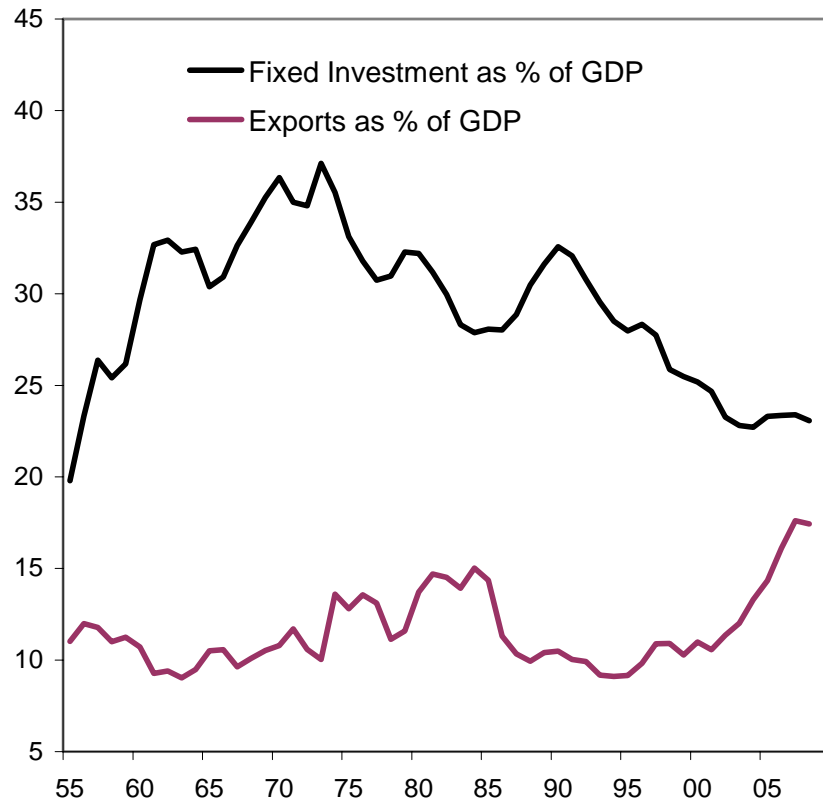
Source: CSO, DIPP, RBI, CEIC, Morgan Stanley Research, E= Morgan Stanley Research Estimates
 * Adjusted for US\$4.6Bn of Share Swaps and Round Tripping in FQ32007 for the Cairn IPO

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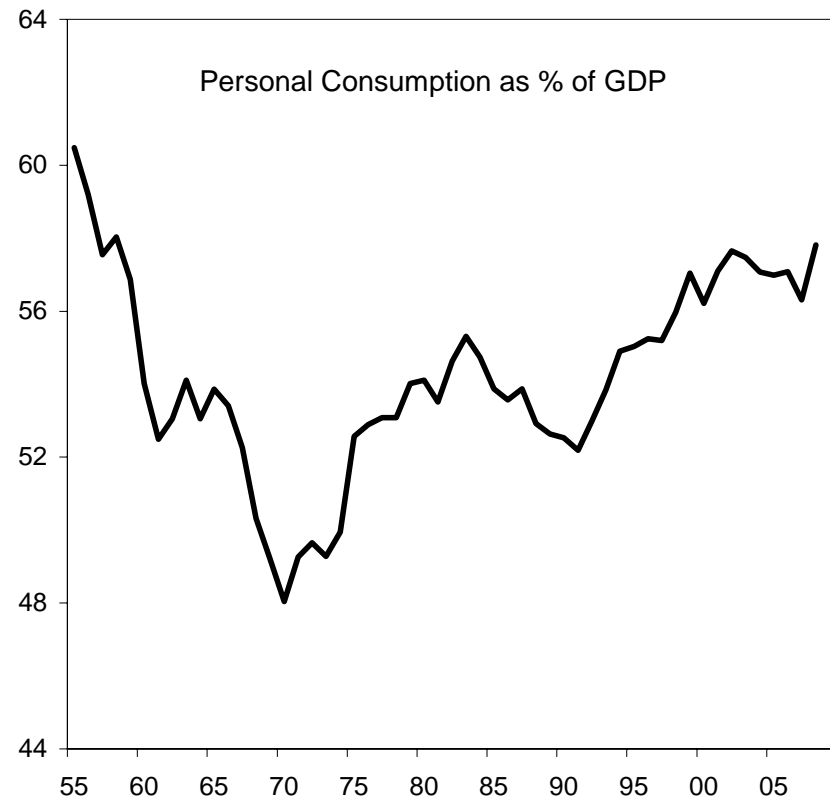
Japan's Structural Imperatives

Japan's Growth Pillars



Source: CEIC, Morgan Stanley Research

Japan's Laggard

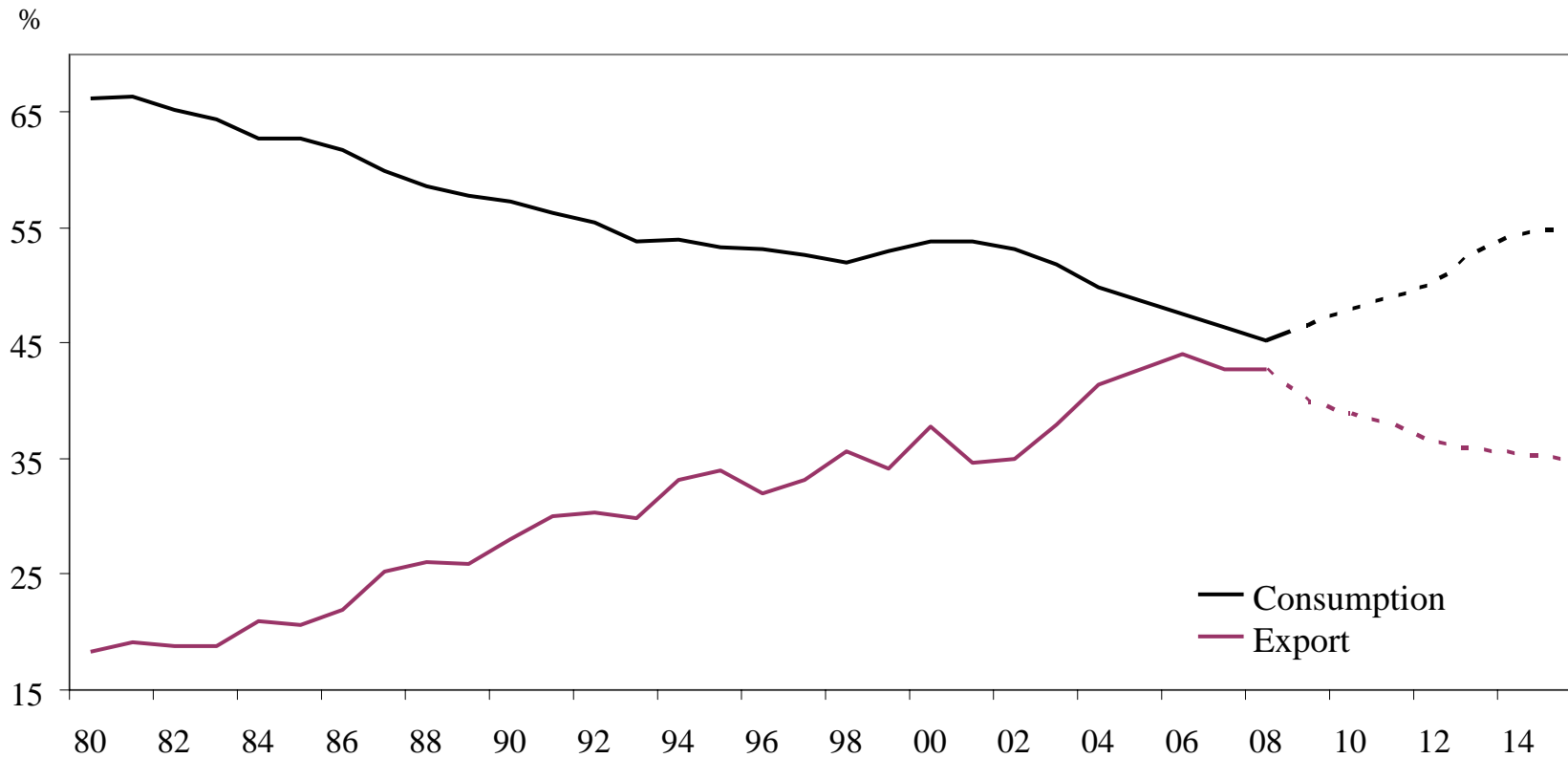


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The Next Asia

GDP Shares: Developing Asia



Source: National Sources, UN, Morgan Stanley Research

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Source: IMF, Morgan Stanley Research

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

Leadership Imperatives

- Quick Fix or Rebalancing?
- Re-regulation: Coping with Systemic Risk
- Globalization or Localization?
- Shared Responsibility or the Blame Game?

Stephen Roach on the Next Asia

About the Book

The Next Asia is a timely assessment of the region's potential to provide a new source of growth for a post-crisis global economy. Most have presumed that that baton of economic leadership has already passed from the West to the East, heralding the onset of the Asian Century. If it were only that easy! The current Asia remains very much an export machine, with auxiliary fuel provided by capital investment. It's a supply-oriented growth model that leaves Asia heavily dependent on external demand from others. The region can lead — if and only if it becomes better balanced, drawing increased support from internal private consumption. Notwithstanding the tensions of the globalization debate and the risks of US-China trade frictions, *The Next Asia* makes the case for this daunting transition.

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- I. A World in Crisis
 - II. The Globalization Debate
 - III. Chinese Rebalancing
 - IV. Pan-Asian Challenges
 - V. U.S.-China Tensions
- Afterword
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Total number of pages: 414

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Advance Praise

"Stephen Roach's prescient collection of insights and analyses, from his many years in Asia as one of the most experienced decoders of China's political and economic trends, are cogent, valuable, and immensely helpful."

Henry A. Kissinger

"This book presents a fresh Asian perspective in understanding the root cause of the global financial crisis. Its panoramic and penetrating analyses are adding value to the existing debate on the future of China and Asia."

Liu Mingkang

Chairman, China Banking Regulatory Commission

"Stephen Roach's articles on Asia give the reader an authoritative and highly readable overview of the many fascinating aspects of Asia's new emergence on the global scene. Based as he is in Asia, he has produced a must-read volume for anyone wanting to get a flavour of a mega trend that is already evident and one that is expected to continue."

Montek Ahluwalia

Deputy Chairman, Planning Commission, Government of India

"Debate rages over whether Asia has become the new engine of growth in a post-crisis global economy. Stephen Roach challenges this presumption and provides timely insight as to what China and the rest of Asia need to accomplish in order to step into this important role."

Laura D'Andrea Tyson

**Professor, Haas School of Business UC Berkeley and former chair,
White House National Economic Council, Clinton Administration**

"Roach has enjoyed a ringside seat in Asia through the crisis. The combination of economic and business analysis gives him a unique perspective. His warning that globalization is fragile and that we run the risk of a retreat to localization deserves to be taken very seriously indeed by policymakers and business people alike."

Howard Davies

**Director, London School of Economics, former executive chairman,
UK Financial Services Authority**

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