

Looking Beyond the Crisis: Pitfalls in a Post-Bubble World

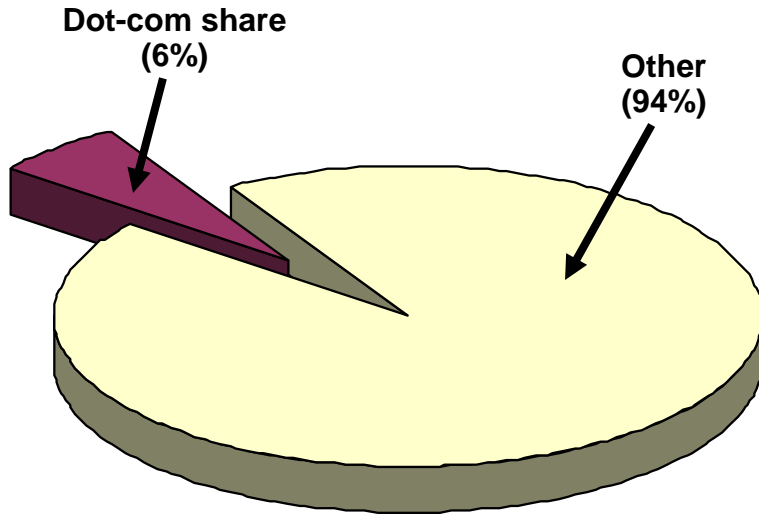
Stephen S. Roach
Chairman
Morgan Stanley Asia

**Khazanah Megatrends Forum
Kuala Lumpur, Malaysia
October 20, 2008**

Two Canaries in the Coal Mine

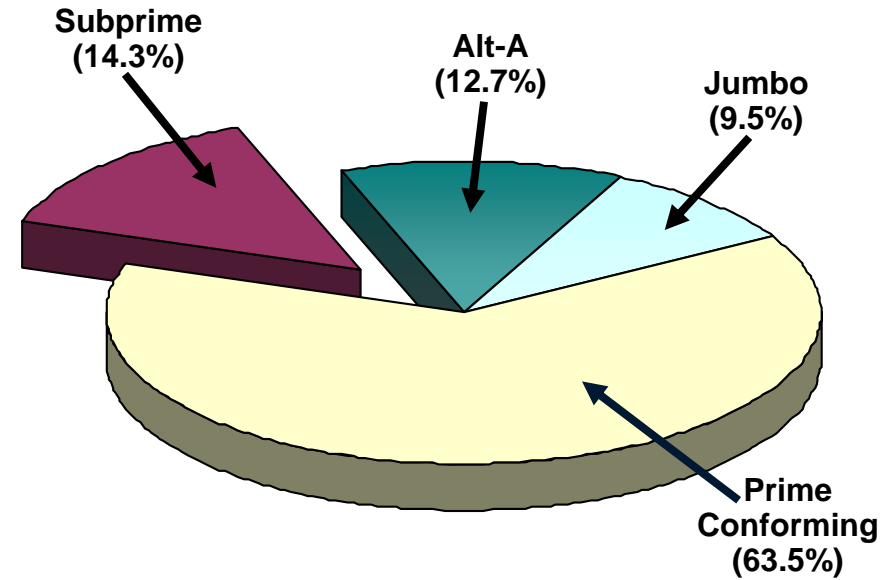
Dot-Com Bubble

\$17.2 trillion total equity market cap: Year-End 1999



Subprime Bubble

\$6.3 trillion total securitized mortgages: March 2007



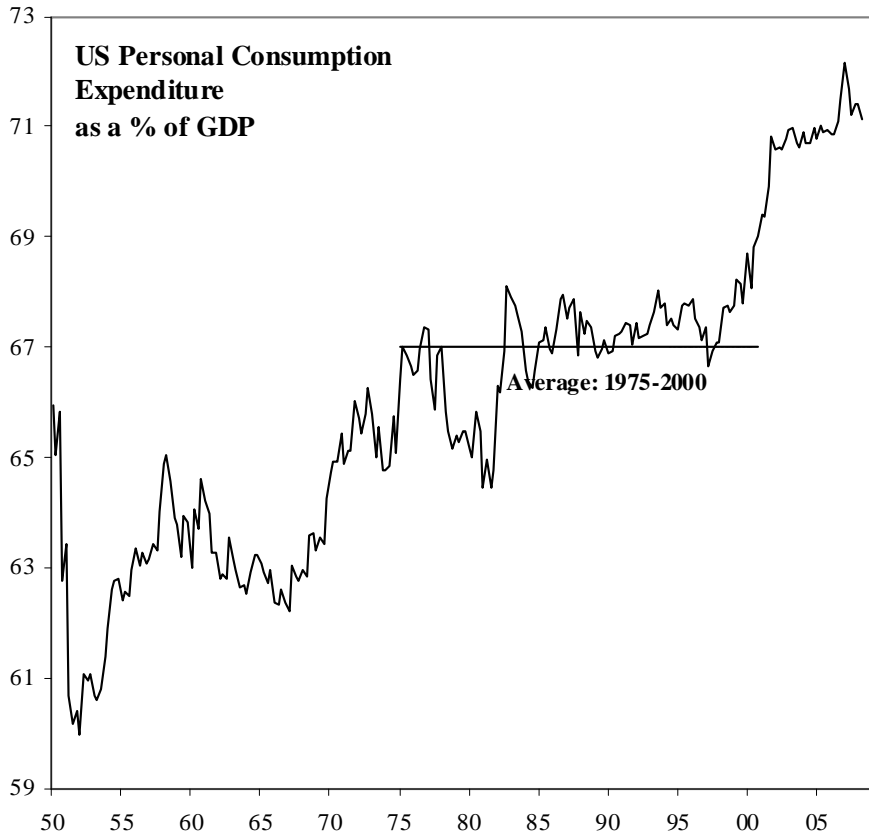
Source: Federal Reserve, FDIC, MBA, Morgan Stanley Research

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

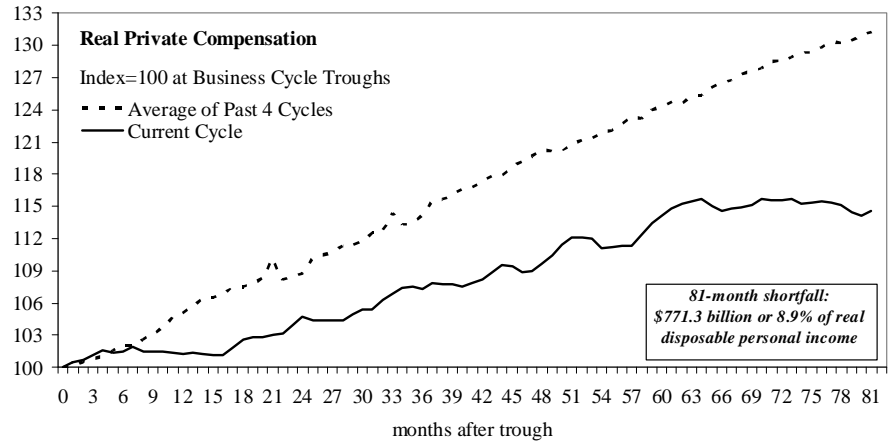
American Consumer at Risk

US Consumption Binge

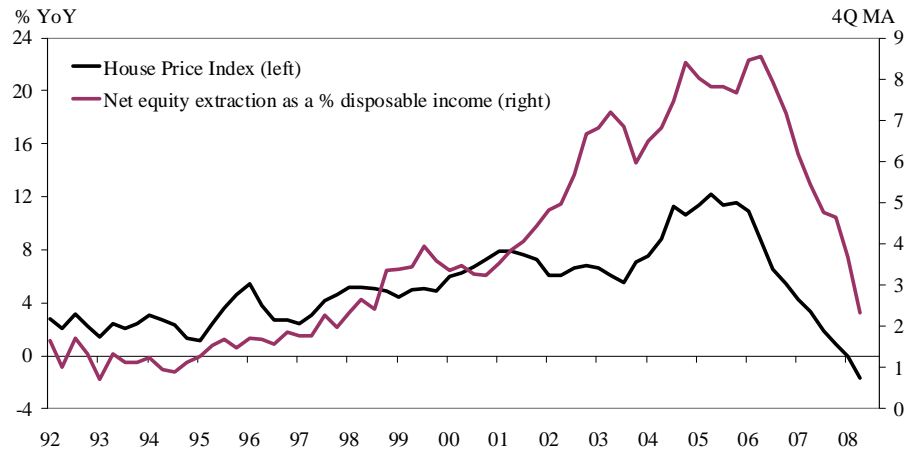


Source: National sources, Morgan Stanley Research

Income Effects

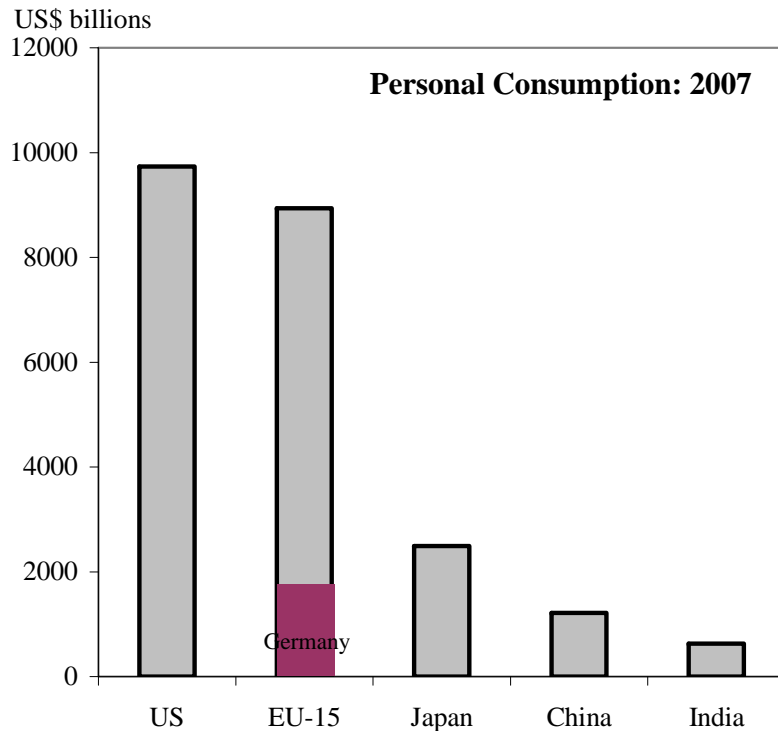


Wealth Effects



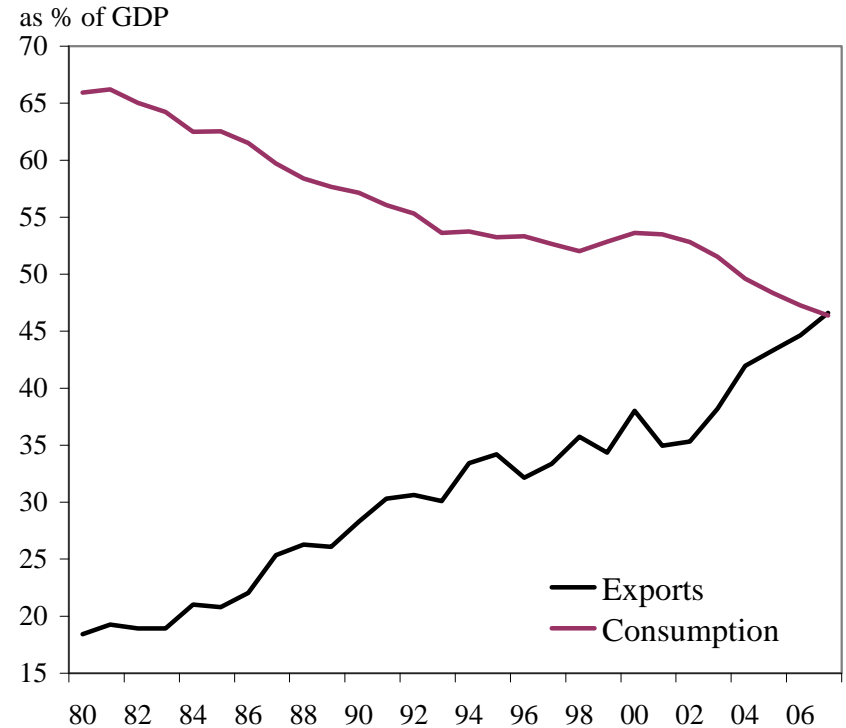
Decoupling Dreams

The Global Consumer



Source: National Sources, UN, Morgan Stanley Research

Export-Led Developing Asia

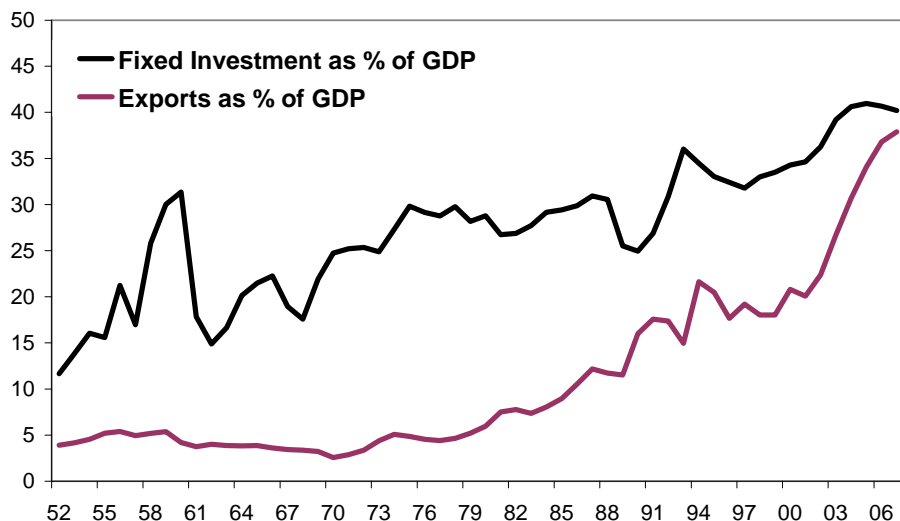


Source: IMF, Morgan Stanley Research

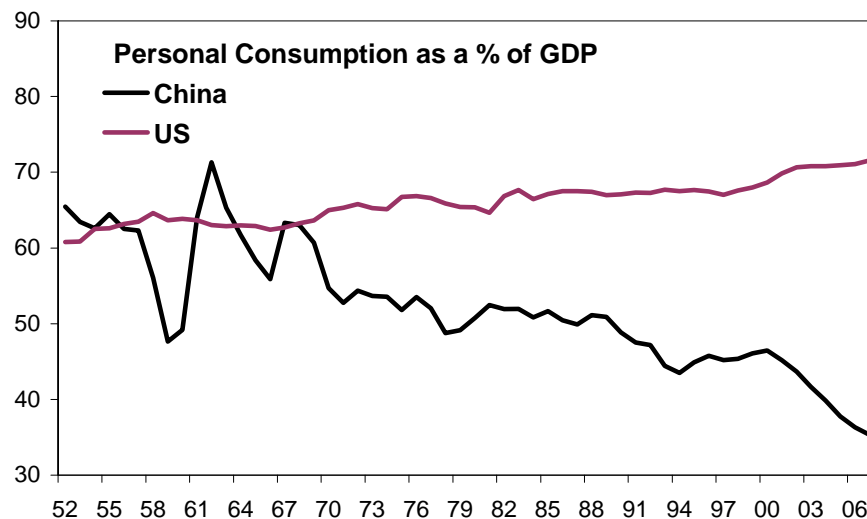
China: Beneath the Surface

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

China's Growth Leaders



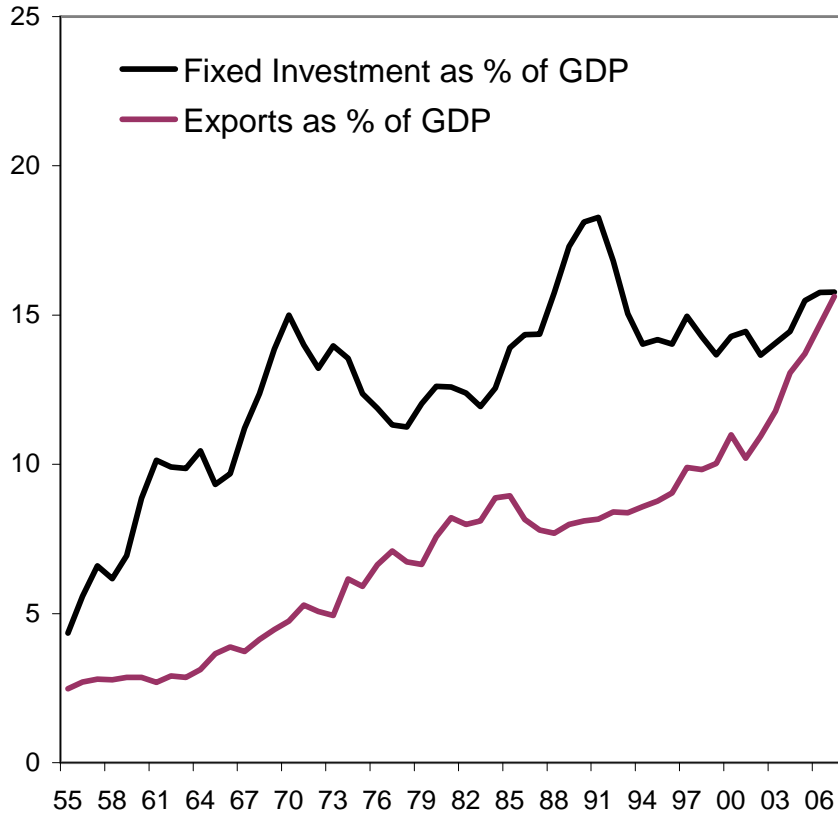
China's Growth Laggard



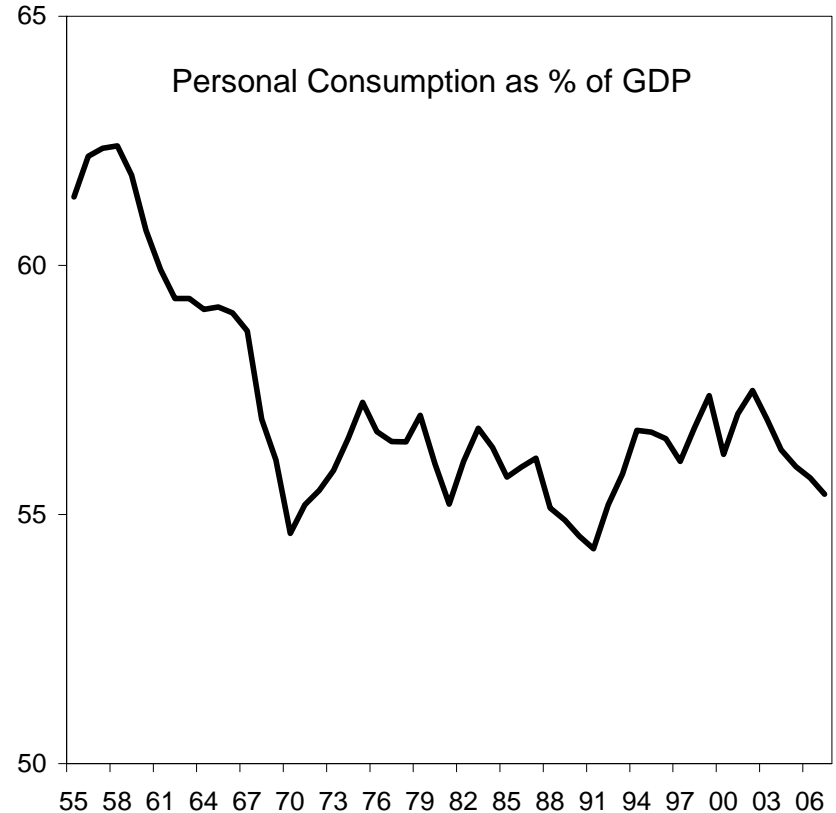
Source: National sources, Morgan Stanley Research

Japan's Structural Imperatives

Japan's Growth Pillars



Japan's Laggard



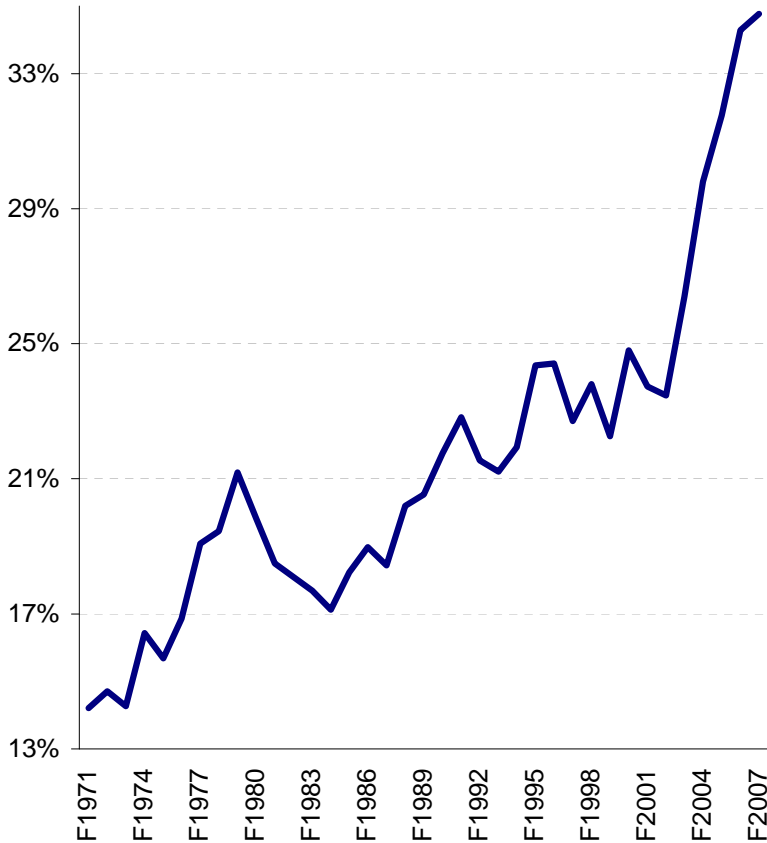
Source: CEIC, Morgan Stanley Research

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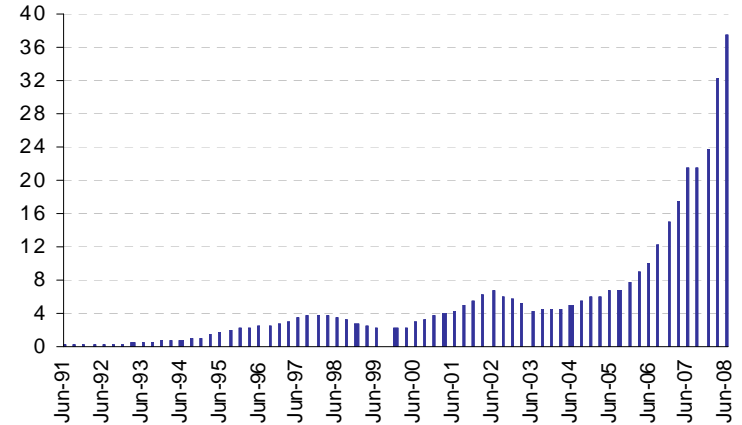
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India's Improving Macro

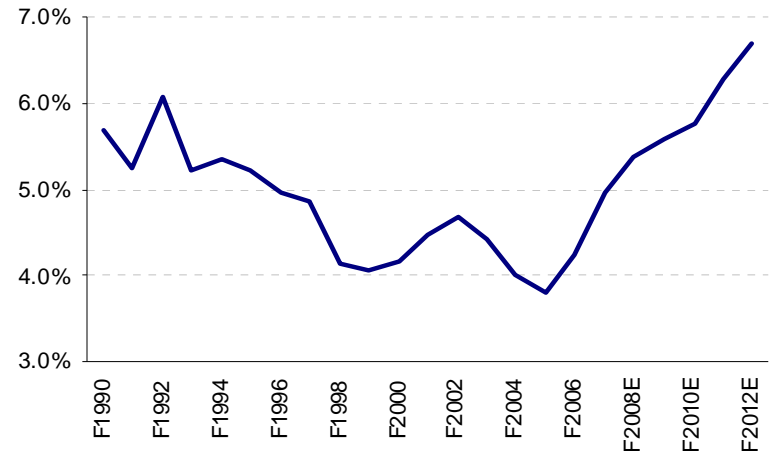
Gross Domestic Savings as a % of GDP



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



Infrastructure Investment as a % of GDP



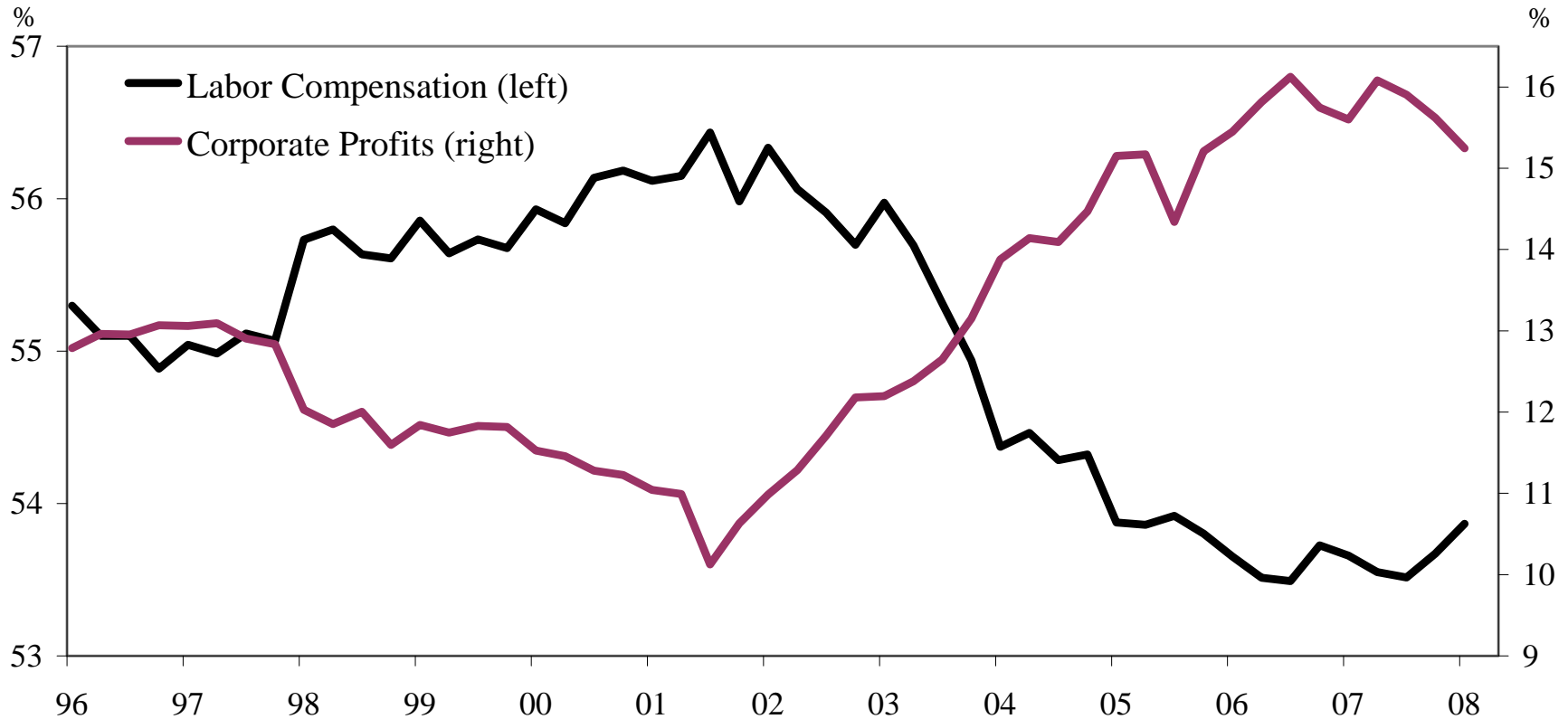
Source: CSO, DIPP, RBI, Morgan Stanley Research, E= Morgan Stanley Research Estimates
 * Adjusted for US\$4.6Bn of Share Swaps and Round Tripping in FQ32007 for the Cairn IPO

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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

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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