

# **ASIA** Treasury Markets Summit

## China's Global Challenge

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Organisers



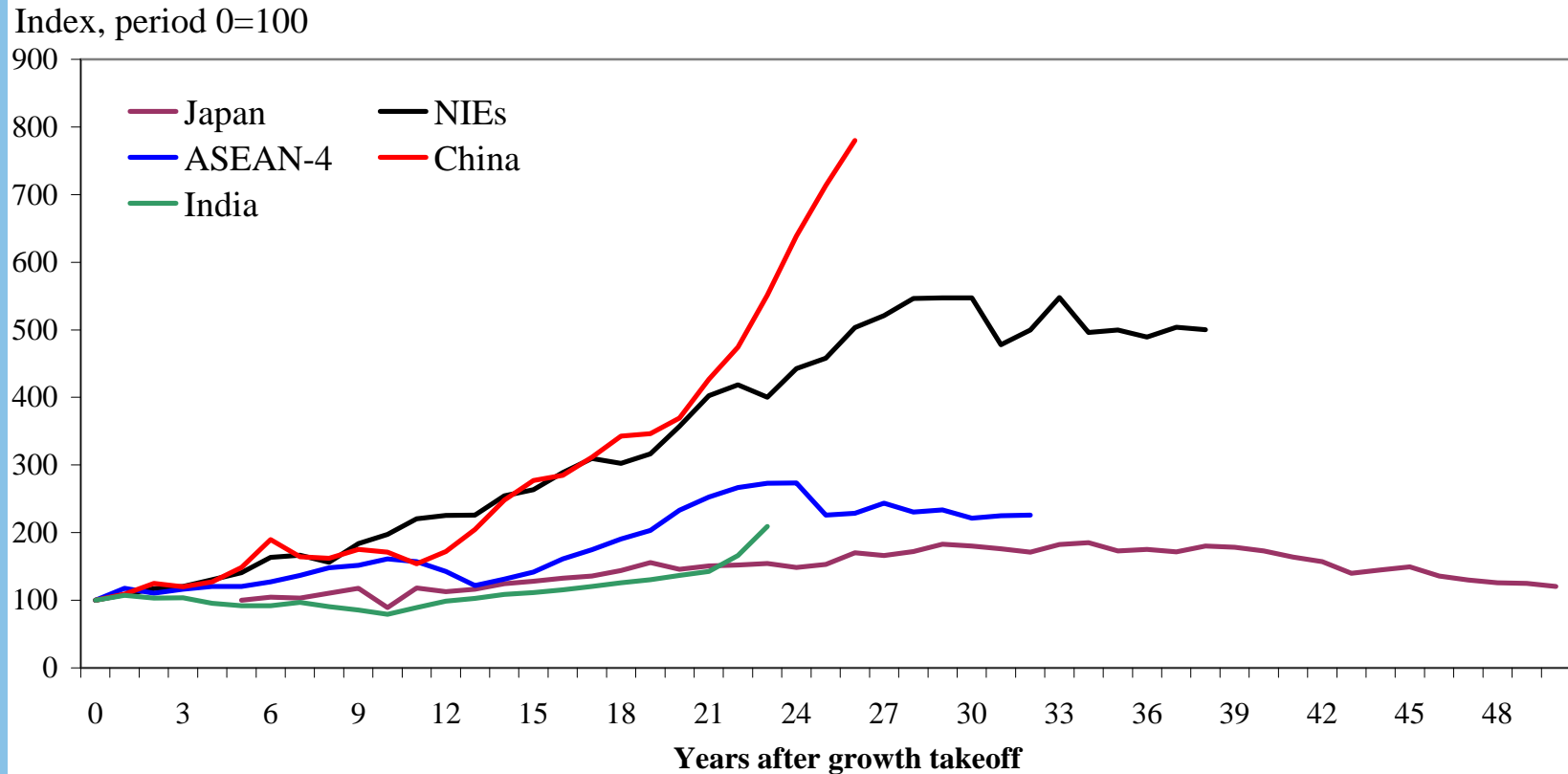
HONG KONG MONETARY AUTHORITY  
香港金融管理局



財資市場公會  
Treasury Markets Association

# Globalization's Greatest Beneficiary

## Share of World Trade

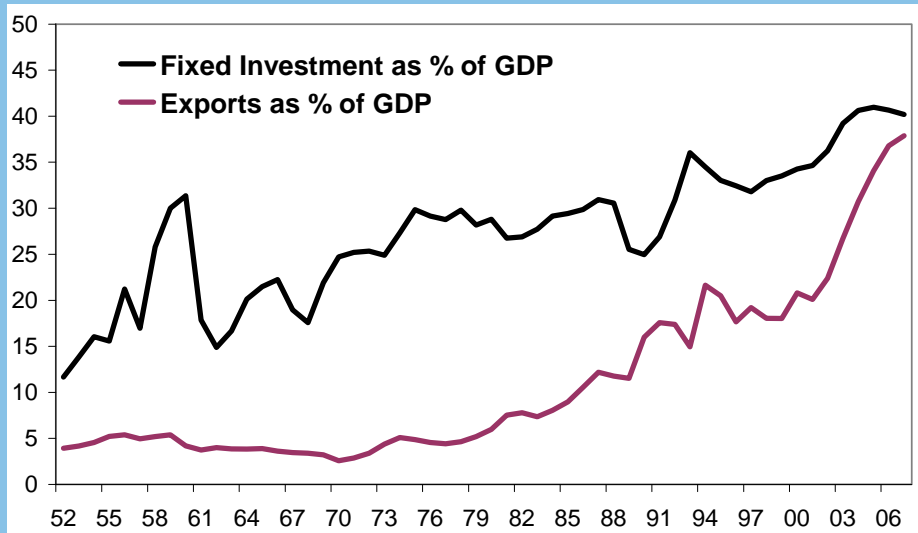


Source: IMF

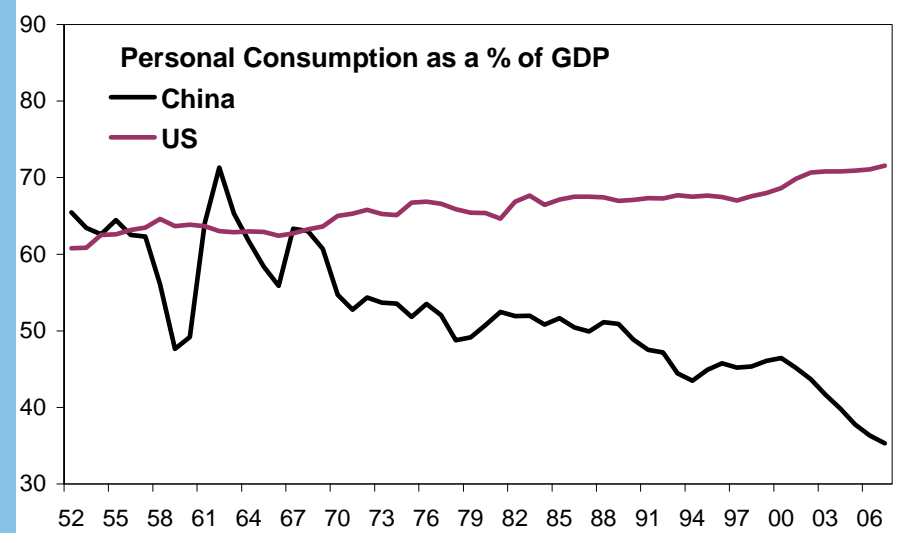
# China: Beneath the Surface

*“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

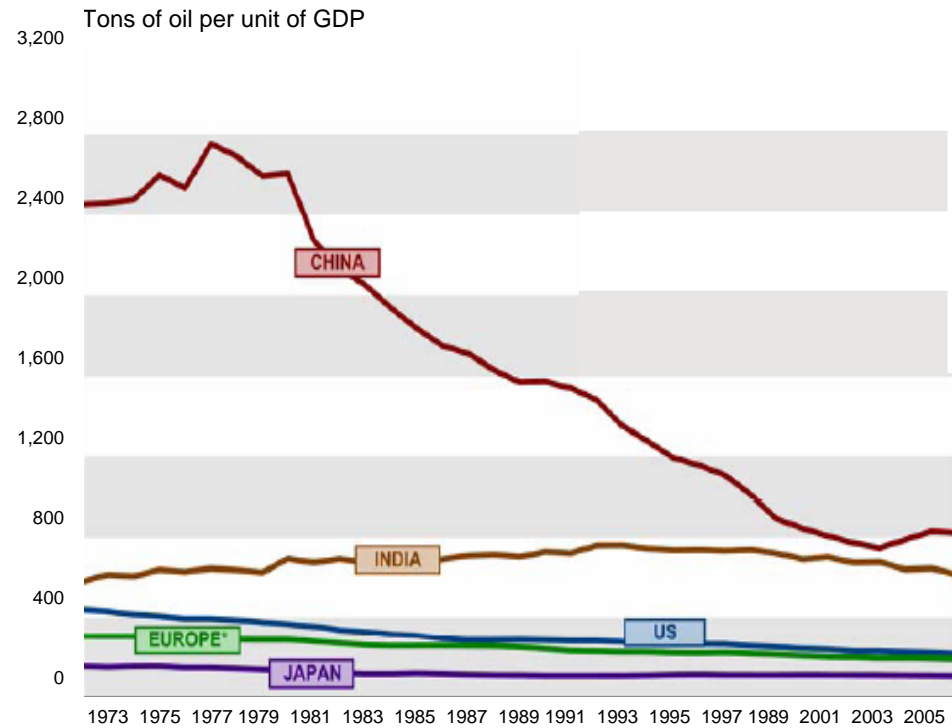
# China: Unstable

## China and the Global Commodity Delta



Source: IEA, World Bureau of Metal Statistics, IMF, Morgan Stanley Research

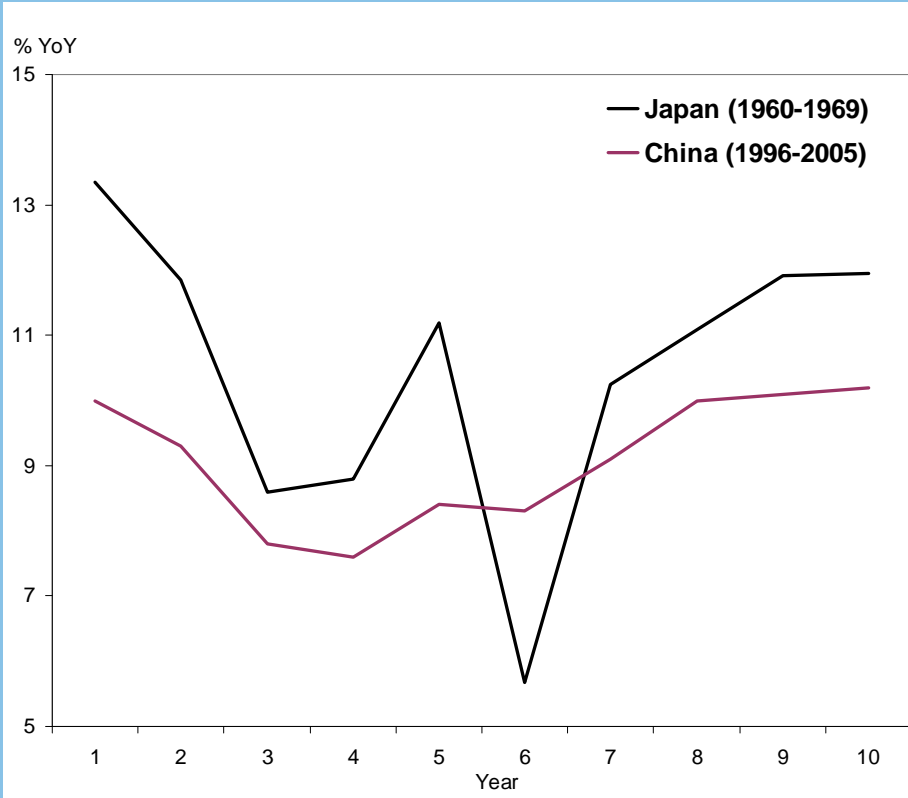
## Energy Intensity



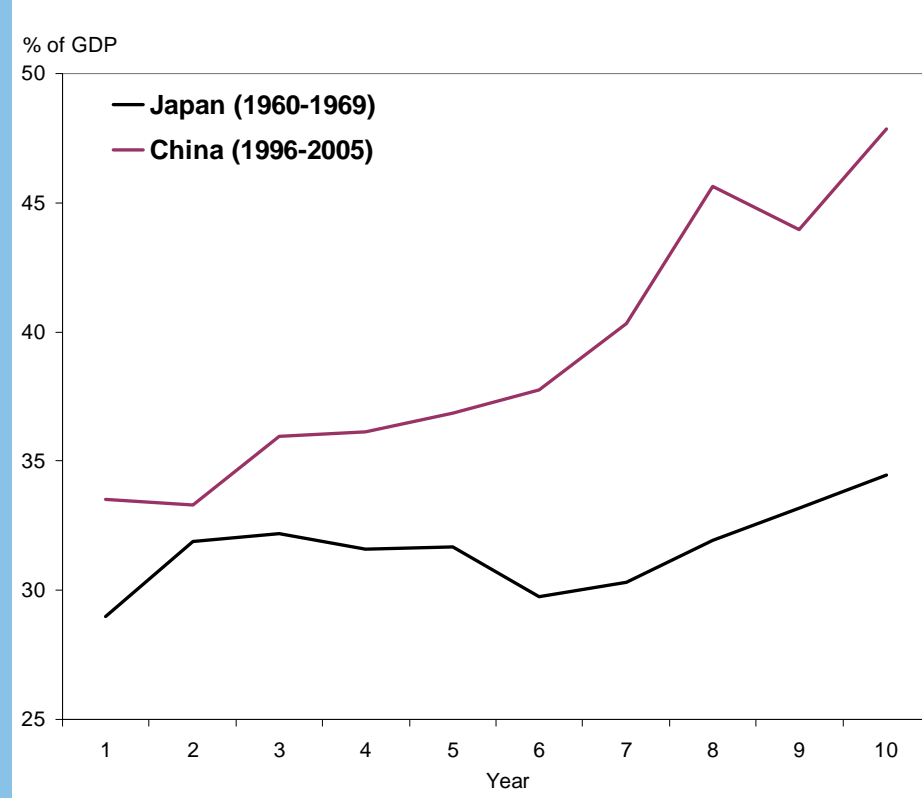
Source: BP, OECD, EIU

# China: Uncoordinated

## Real GDP Growth



## Fixed Investment Shares



Source: Japan Cabinet Office, China National Bureau of Statistic, Morgan Stanley Research

# China: Unsustainable

## Environmental Degradation

### Air Pollution

(SO<sub>2</sub> mcg per cubic meter)

1. Guiyang, China	424
2. Chongqing, China	340
3. Taiyuan, China	211
4. Tehran, Iran	209
5. Zibo, China	198
6. Qingdao, China	190
7. Jihan, China	132
8. Rio de Janeiro, Brazil	129
9. Istanbul, Turkey	120
10. Anshow, China	115

### Emissions of Organic Water Pollutants

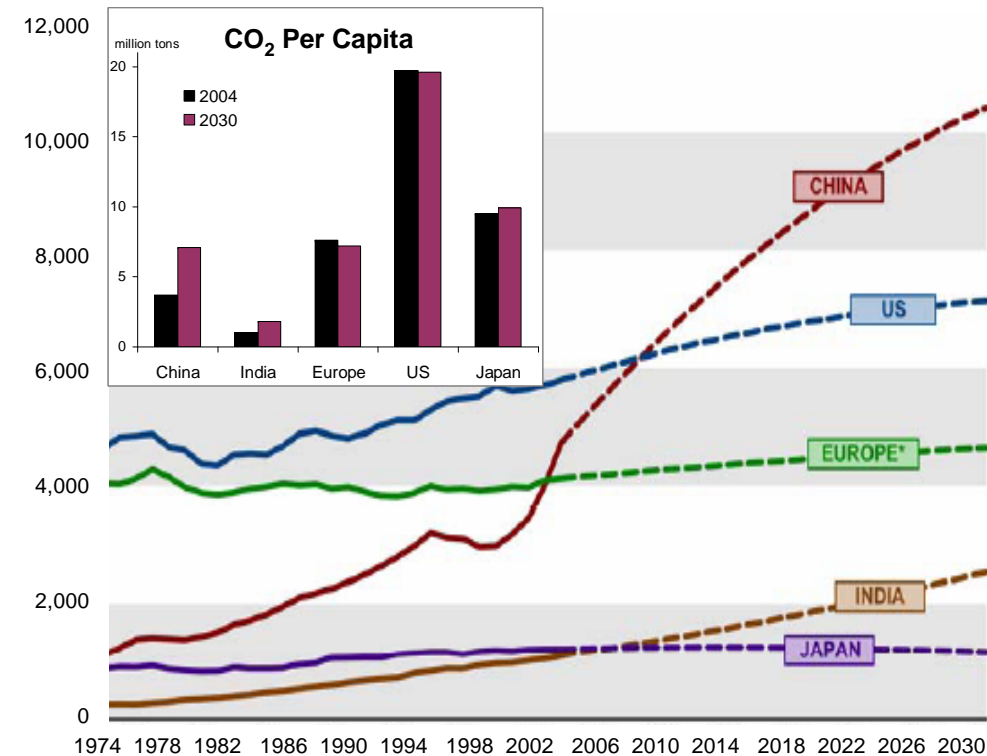
(kg per day, millions)

1. China	6.09
2. US	1.81
3. India	1.52
4. Russia	1.39
5. Japan	1.18
6. Germany	0.97
7. Indonesia	0.73
8. France	0.56
9. Italy	0.49
10. Ukraine	0.45

Source: World Bank

## Annual CO<sub>2</sub> Emissions

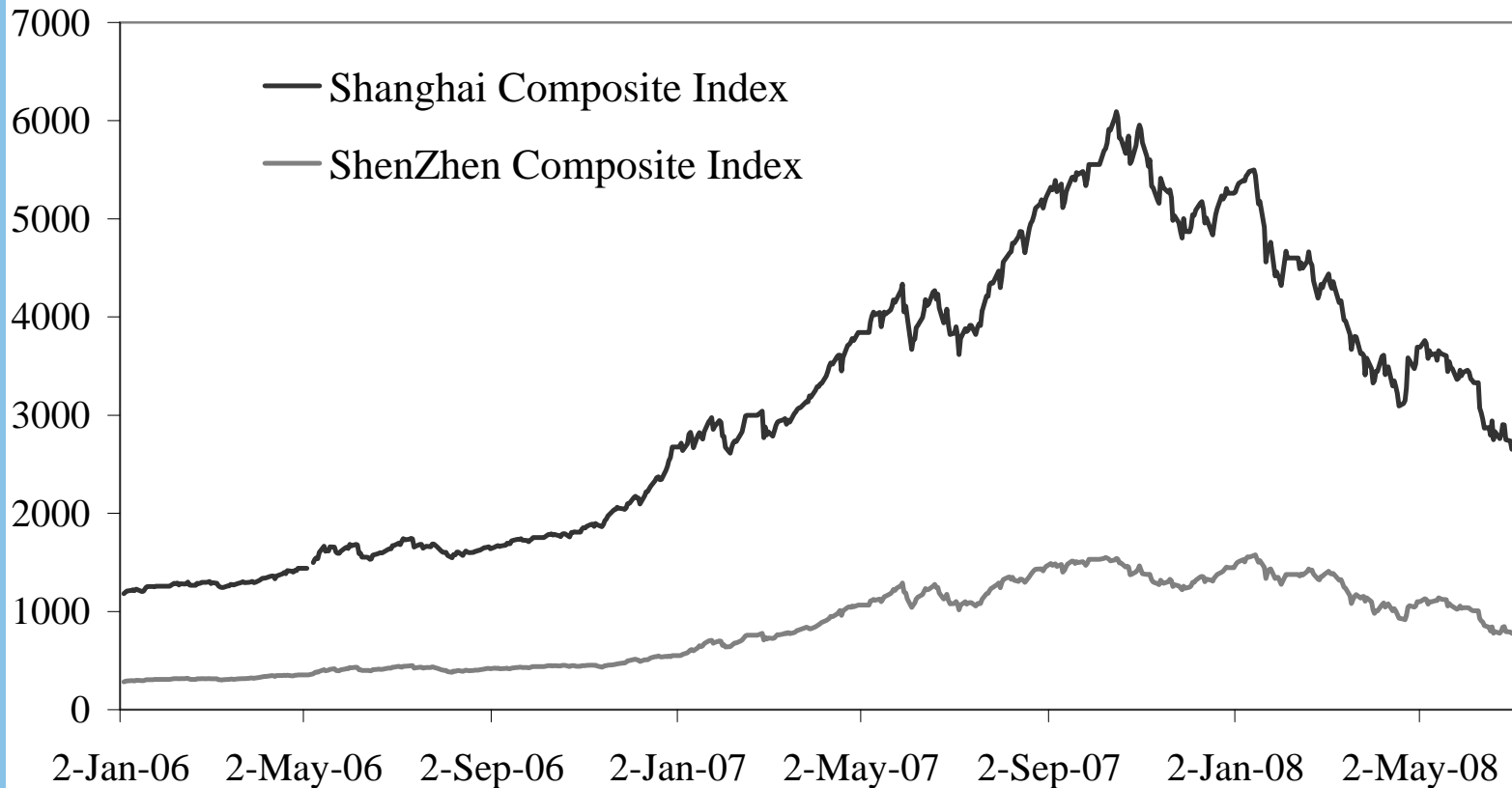
million tons



Source: EIU, IEA, China Strategic Advisory

# China: Speculative Excesses

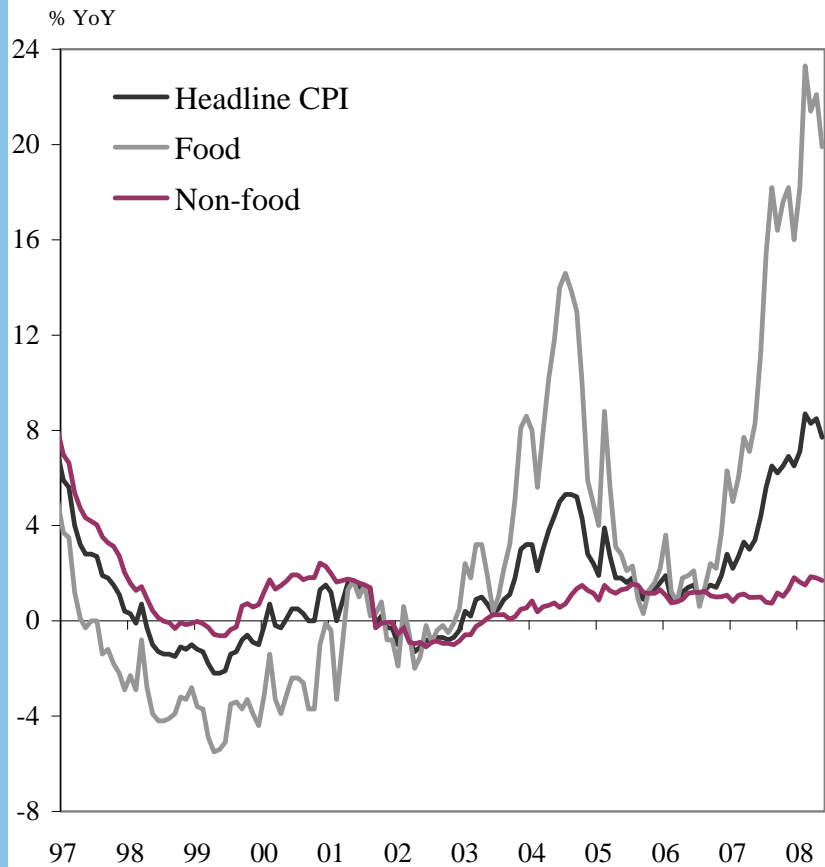
## Domestic Stock Market



Source: CEIC, Morgan Stanley Research

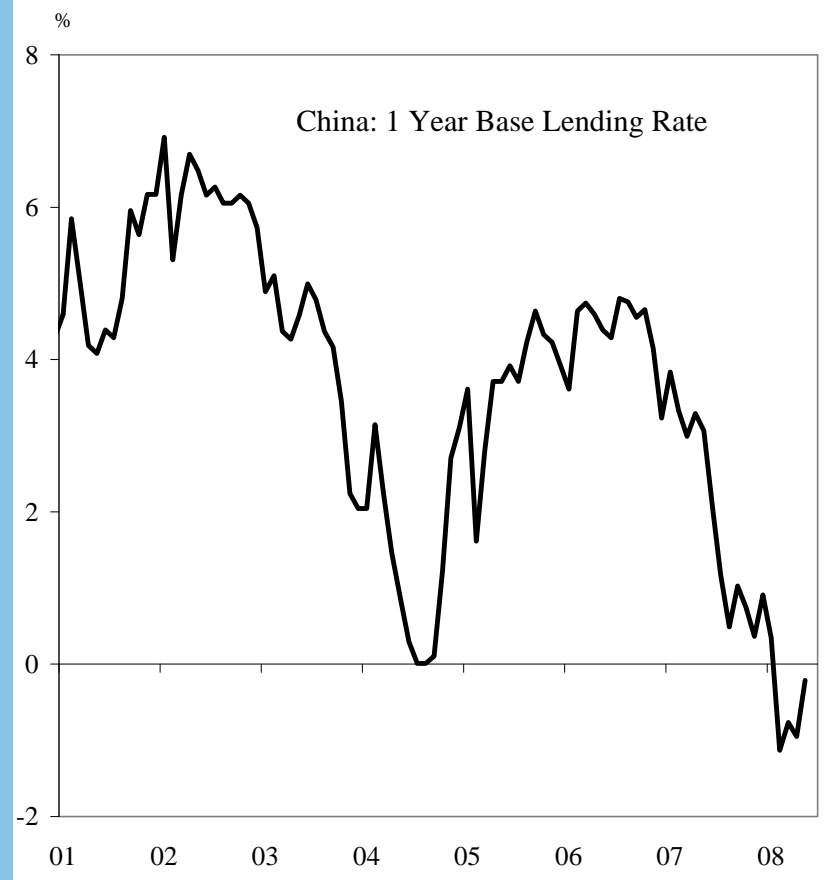
# China: Overheating Risks

## China Inflation



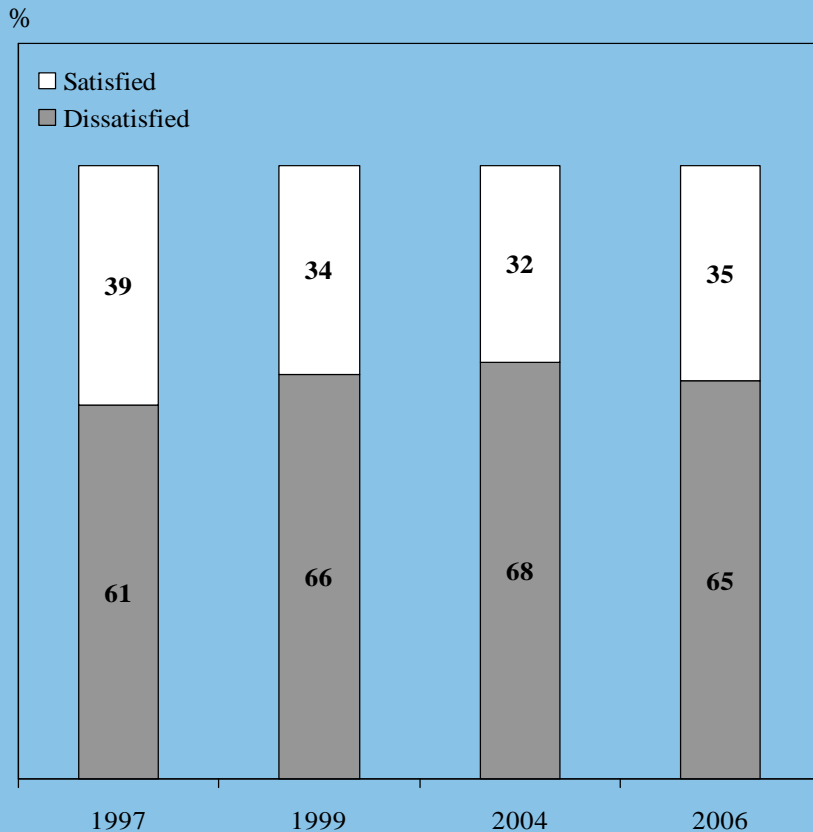
Source: The Gallup Poll of China: Nationwide Polling, 1997-2006

## China Real Interest Rate



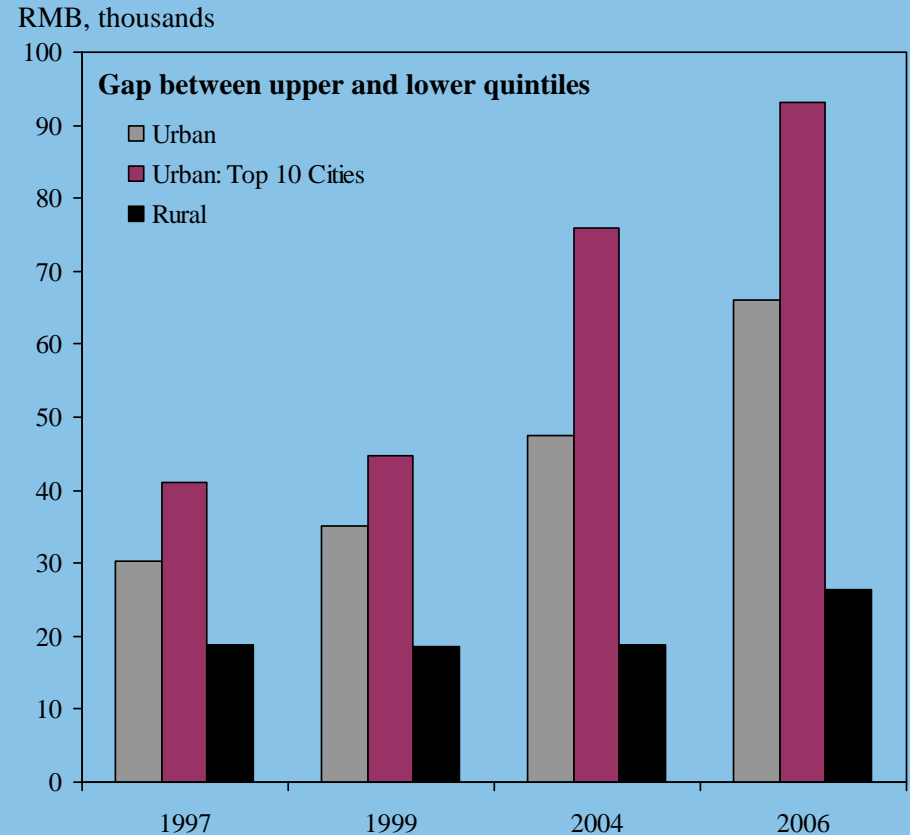
# The Next China: Consumer-Led Growth

## Saving Sentiment



Source: The Gallup Poll of China: Nationwide Polling, 1997-2006

## Income Disparities: Urban vs. Rural



# 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

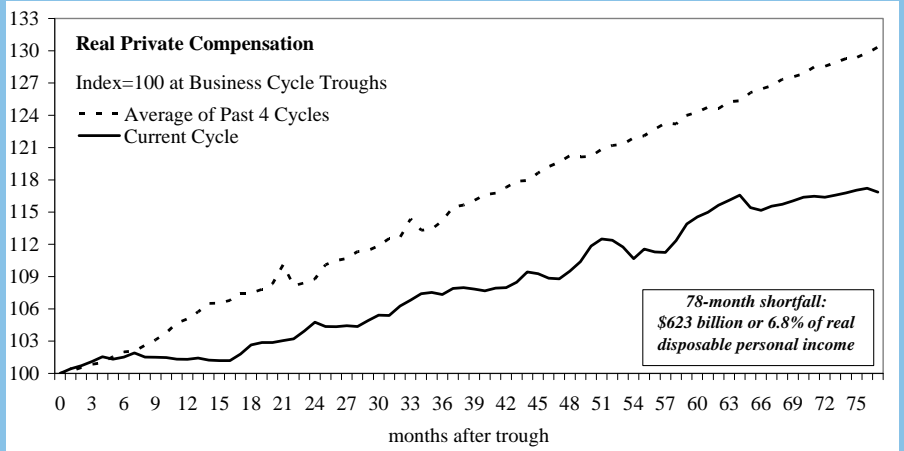
# American Consumer at Risk

## US Consumption Binge

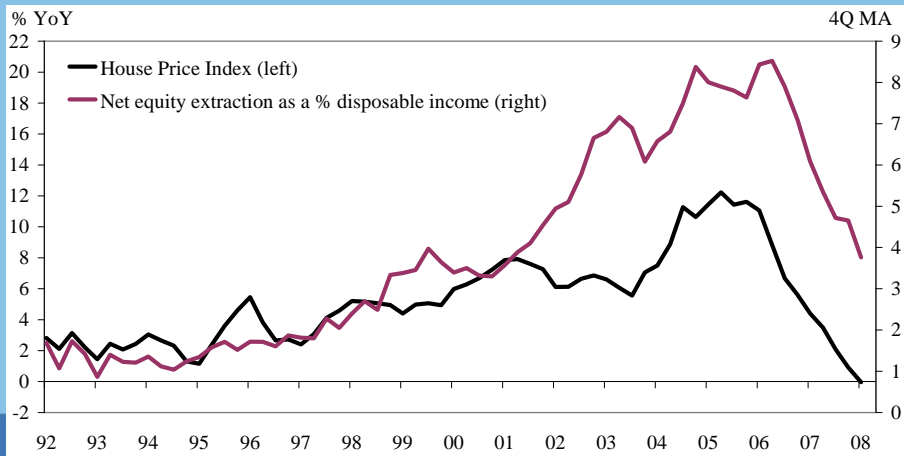


Source: National sources, Morgan Stanley Research

## Income Effects

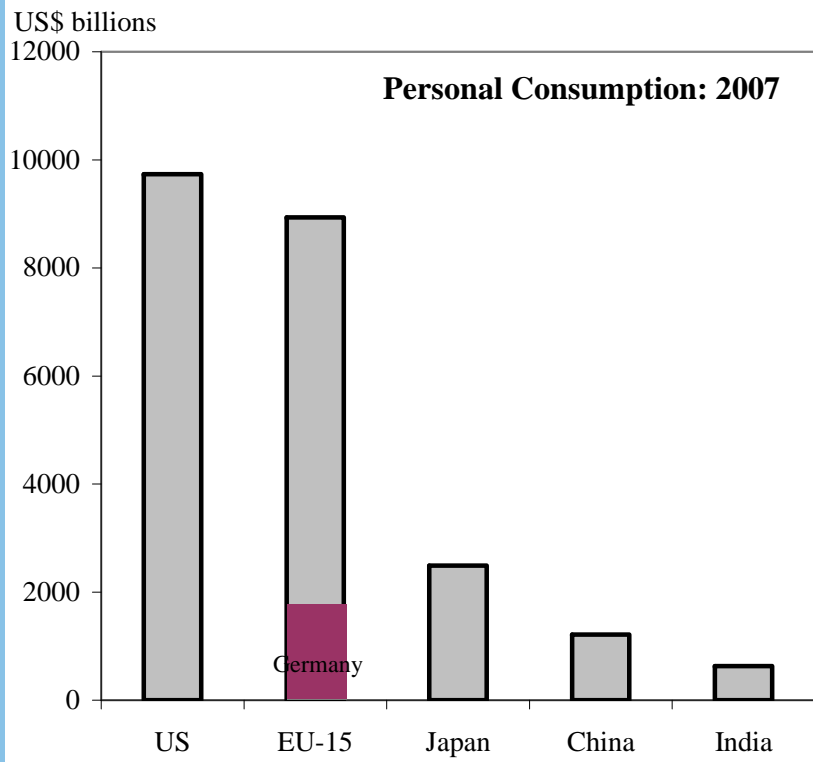


## Wealth Effects



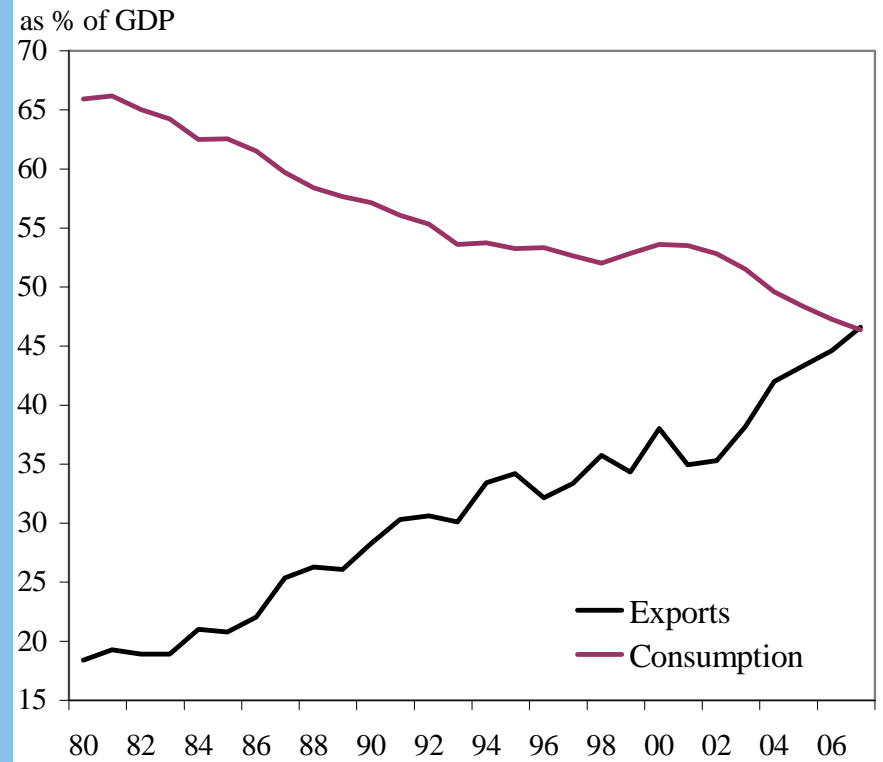
# Decoupling Dreams

## The Global Consumer



Source: National Sources, UN, Morgan Stanley Research

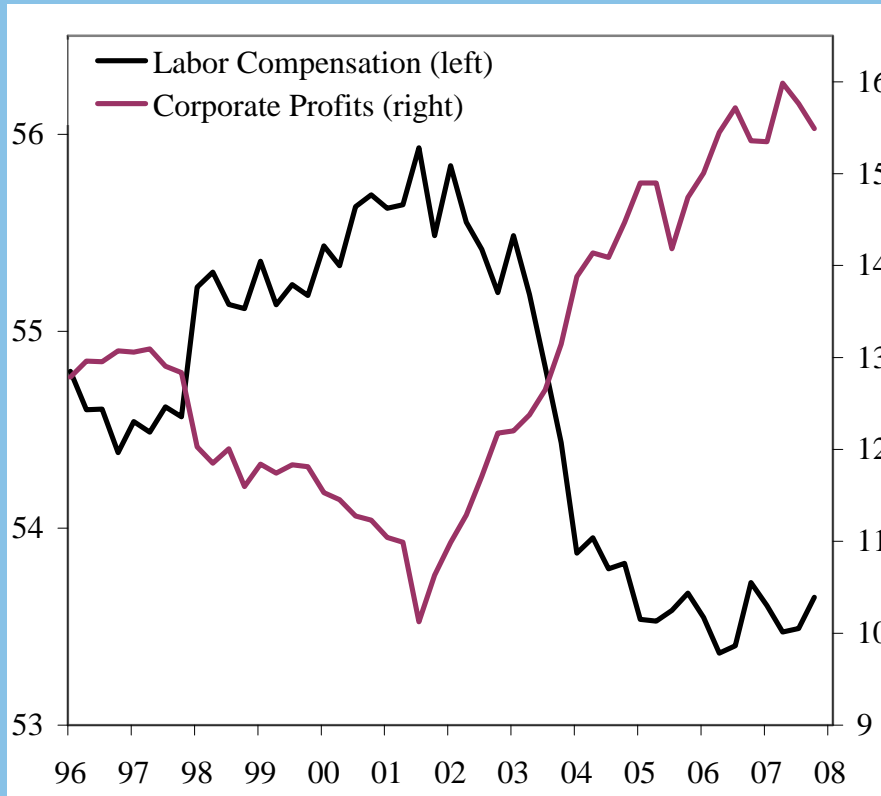
## Export-Led Developing Asia



Source: IMF, Morgan Stanley Research

# Backlash Against Globalization

## Shares of National Income: G7+ Economies



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

Source: National sources, Morgan Stanley Research

## From Globalization to Localization?

### Globalization

### Localization

Trade Liberalization

Protectionism

Low Inflation

Rising Inflation

Low Interest Rates

Rising Interest Rates

Strong Corporate Profits

Margin Compression

Dollar: Soft Landing

Dollar: Hard Landing

# Protectionist Risks

## Anti-China Measures Introduced in the US Congress

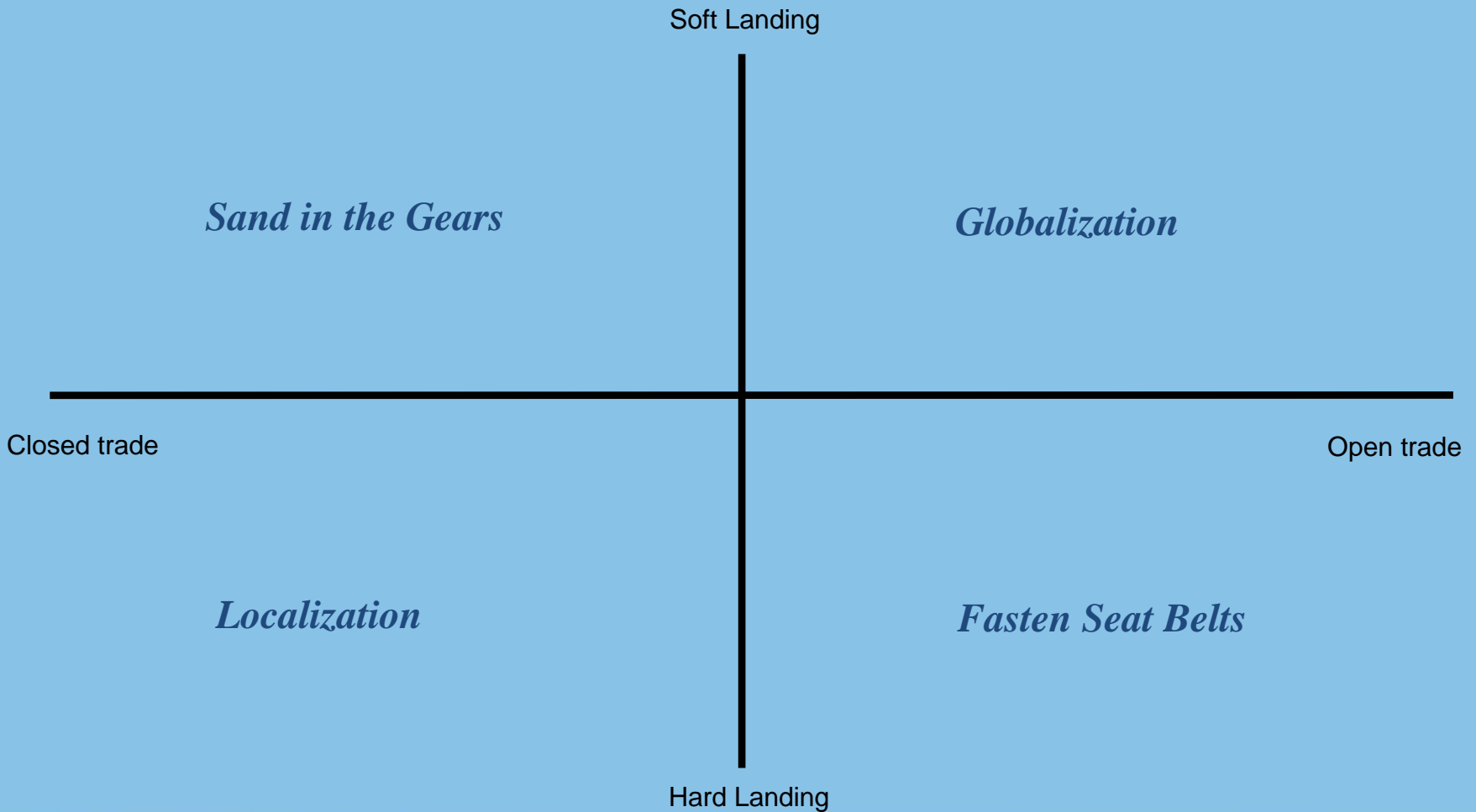
109th Congress: 2005-06

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			

Source: Morgan Stanley Research

# Risk Scenarios: Trade Liberalization vs. the Business Cycle



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