

RELEASE IN PART
B6

From: H <hrod17@clintonemail.com>
Sent: Tuesday, July 14, 2009 5:40 AM
To: 'JilolyLC@state.gov'
Subject: Fw: Back in DC

Pls print for me.

----- Original Message -----

From: Roach, Stephen [redacted]
To: H
Cc: ValmoroLJ@state.gov <ValmoroLJ@state.gov>
Sent: Wed Jul 08 10:45:51 2009
Subject: Re: Back in DC

B6

Dear Secretary Clinton,

Your assistant, Lona Valmoro, and I have been exchanging emails on trying to find a time to meet in Washington on July 30. I am hopeful something can be worked out. In the meantime, I wanted to take you up on your offer below and provide you with a few thoughts on China prior to the upcoming SED on July 27-28. I send you this note from Beijing (midway through a four-day visit) via Blackberry -- so apologies for any typos.

1. Mounting signs of social instability have intensified China's growth imperatives. Beijing insiders are very concerned about the Xinjiang uprising; Hu Jintao's pre-G-8 exit validates those concerns. Coming on the heels of last year's problems in Tibet, social instability can no longer be dismissed as an isolated occurrence. In both cases, my sources claim growth shortfalls have exacerbated ethnic disturbances. China's recent fiscal stimulus -- especially infrastructure initiatives in the West -- attempts to address this. Growth has long been modern China's antidote to the risks of social instability.
2. A massive external demand shock dilutes the growth antidote that China needs to contain social instability. In fact, the global recession adds a new risk factor to China's social instability equation. The government has confirmed reports of over 20 million layoffs of migrant workers in export-intensive Guangdong Province -- a direct outgrowth of the collapse of Chinese exports over the past year (from growth of +25% in mid-2008 to a contraction of -25% in May 2009). Driven by a record capitulation of the American consumer -- real US consumption down by -1.8% over the past four quarters (a 58-year record plunge) -- China's biggest source of end-market export demand has been hit with an extraordinary shock. To the extent there is more to come on this count -- and that remains my best guess, although with a less dramatic US consumption adjustment than we saw over the past year -- external demand pressures will continue to undermine China's growth imperatives and feed heightened concerns over social instability.
3. China's stimulus package is a "quick fix" that can only exacerbate its already worrisome structural imbalances. The focus of the stimulus is on its two most unbalanced sectors -- fixed investment and exports, which collectively account for about 80% of Chinese GDP. Fully 72% of the RMB4 trillion fiscal initiative announced last November goes to infrastructure. And there are aggressive incentives directed at exporters (i.e., tax rebates, "buy China" procurement incentives, SME credit support, etc.). Moreover, there has been a huge push of State-directed bank lending -- the full-year 2009 lending target was hit in mid-April! This latter initiative underscores the risks of deteriorating loan quality and associated banking problems down the road. Meanwhile, despite public claims to the contrary, very little has been done to stimulate the one sector in China that needs it the most -- internal private consumption. Social safety net efforts are still puny -- the recent healthcare plan translates into US\$30 per person for three years and the National Social Security Fund only has enough assets to provide about \$90 of lifetime social security benefits per worker! This forces fear-driven -- or precautionary -- saving that, in turn, inhibits the consumer-led impetus a Chinese rebalancing urgently needs.

4. All this points to an asymmetrical global rebalancing -- a very worrisome prognosis for a post-crisis world. Despite all our problems, the US is actually tempering its greatest macro imbalance -- excess consumption. At the same time, China is unfortunately upping the ante on its two most unbalanced sectors -- investment and exports. Sadly, this could set up a still unbalanced global economy for another serious accident in the not-so-distant future.

Sorry to have rambled so much. There is a good deal more to each of the points above -- but wanted to give you the highlights ahead of the SED. Good luck with that -- and with all else that seems to be going on around the world. Hope to see you on the 30th.

Best regards,

Stephen S. Roach
Chairman
Morgan Stanley Asia



B6

----- Original Message -----


From: H <HDR22@clintonemail.com>
To: Roach, Stephen (FM)
Cc: 'ValmoroLJ@state.gov' <ValmoroLJ@state.gov>
Sent: Fri Jul 03 04:58:29 2009
Subject: Re: Back in DC

Dear Stephen,

Delighted to hear from and about you. I'm looking forward to seeing you when you're in DC and I'm copying my assistant, Lona Valmoro, so she can work w you to schedule a visit. Your timing is impeccable since I will be co-chairing w Tim Geithner the first Strategic and Economic Dialogue w the Chinese on July 27-28 in DC. So if you have any thoughts you want to share before our meeting, pls pass them on.

I hope all is well w you and yours. Happy 4th! All the best, H

----- Original Message -----

From: Roach, Stephen 
To: H2
Cc: H
Sent: Thu Jul 02 05:32:50 2009
Subject: Back in DC

B6

Dear Secretary Clinton,

Although I regretfully missed seeing you on your swing through Beijing earlier this year, I will be back in Washington on July 30. Would love the opportunity to meet with you briefly and give you up update on my thoughts/ insights into China and the rest of the region. The story is not quite as neat as it appears on the surface. Despite all the hype, this region remains an export machine that should struggle in the aftermath of the crisis -- with important implications for many of the global economic issues you are facing. I have had extensive meetings throughout the region over the past few months and would welcome the opportunity to provide you with a first hand assessment.

One other note: I will be publishing a book in Sept/ Oct, "The Next Asia", which digs beneath the surface of many of the macro issues the region faces. It is generally constructive on the Asian outlook but lays out a number of critical

milestones that must be hit to validate the hopes and dreams of the "Asia Century." I have asked the publisher (Wiley) to send you an advance copy of the manuscript in the hope you or your staff might find it of interest.

Hope to hear back from you on the feasibility of meeting later this month.

Best regards,

Stephen S. Roach
Chairman
Morgan Stanley Asia



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