
From: H <hdr22@clintonemail.com>

RELEASE IN PART
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Sent: 1/24/2009 8:18:26 PM +00:00

To: Oscar Flores

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Subject: Fw: China feedback

Pls print.

From: "H"
Date: Sat, 24 Jan 2009 11:10:39 +0000
To: Huma Abedin <Huma_Abedin@clinton.senate.gov>
Subject: Fw: China feedback
Pls print.

From: "Roach, Stephen (FM)"
Date: Sat, 24 Jan 2009 19:07:47 +0800
To: <hr15@att.blackberry.net>
Subject: China feedback
Dear Secretary Clinton,

Congratulations on your confirmation. From all reports out here in Asia, you have hit the ground running. I want to take you up on your offer to provide some input into your thought process in these early days. I would like specifically to comment on China -- especially in the aftermath of Tim Geithner's comments on the Chinese currency issue, which have more than raised eyebrows out here.

Three quick points:

1. **China may well be in recession right now** -- or at least quite close to it. Its GDP growth is reported on a year-over-year basis -- unlike ours which is reported on a sequential quarterly basis. If you translate the +6.8% year-over-year number just reported by China for the fourth quarter of 2008 it works out to an outright decline of about -0.5% (at an annual rate) relative to the third quarter. Leaders of any economy in recession -- especially defensive ones such as those in China -- don't take too kindly to saber rattling on the currency front.

2. **The dramatic slowing in China is a direct outgrowth of its extraordinary export-led imbalances.** China made a massive bet on the global export boom. Over the 2001 to 2007 period, the Chinese export share of its GDP nearly doubled from 20% to 36% while the global export share of world GDP went from 24% to 31%. In other words, China upped the ante on its export dependence at precisely the moment when global trade enjoyed its most spectacular growth. That effectively turbo-charged China's benefits from the strongest global boom since the early 1970s. That was then. As evidenced by a rare synchronous recession in the US, Europe, and Japan, the world trade boom has now gone bust. Chinese exports, which had been surging at a 25% year-over-year rate as recently as mid-2008, reversed course with a vengeance -- ending the year in a mode of outright contraction, falling by 2.8% in December.

3. **The US has a multi-lateral trade imbalance** -- not a bilateral problem with China. This is a point that I have discussed with you in the past. Last year, we had deficits with about 100 of our trading partners. Yes, the largest bilateral deficit was with China. While the currency probably played some role here, my guess is that conscious outsourcing decisions of American multinationals, together with consumer price and value preferences, were far more important. The multi-lateral problem is a direct outgrowth of the US saving shortfall -- a problem that is about to get a good deal worse in an era of America's trillion dollar budget deficits. If currency policy is used to influence Chinese trade two severe consequences could arise: One, the Chinese piece of the US trade deficit simply goes to another higher-cost American trading partner -- the functional equivalent of a tax hike on middle-class workers; Two, China tempers its appetite for dollar-based assets -- resulting in a sharp decline in the dollar and higher long-term US interest rates.

All in all, a thorny issue -- but one that bears strategic consideration in this climate. The reaction in Asia in the aftermath of Geithner's comments was one of surprise of anger. In their view -- and I'm just the messenger here -- the new Administration is not off to a good start in framing its Asia policy.

I will be in Washington on February 17 testifying in front of the US-China Economic and Security Review Commission. If you or your staff wish to discuss any of these issues with me, I am at your disposal.

Best regards in these challenging and exciting times.

Stephen S. Roach

Chairman

Morgan Stanley Asia

Phone: [redacted]

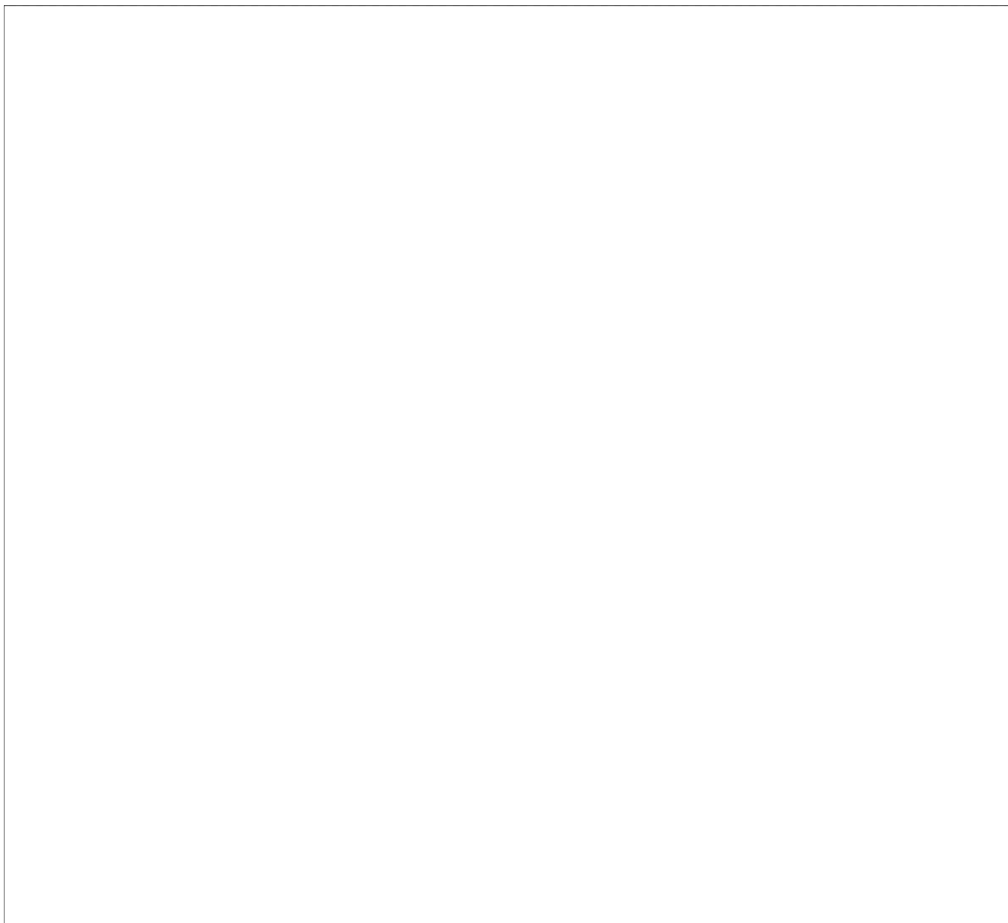
[redacted]

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**Message
Headers:**

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