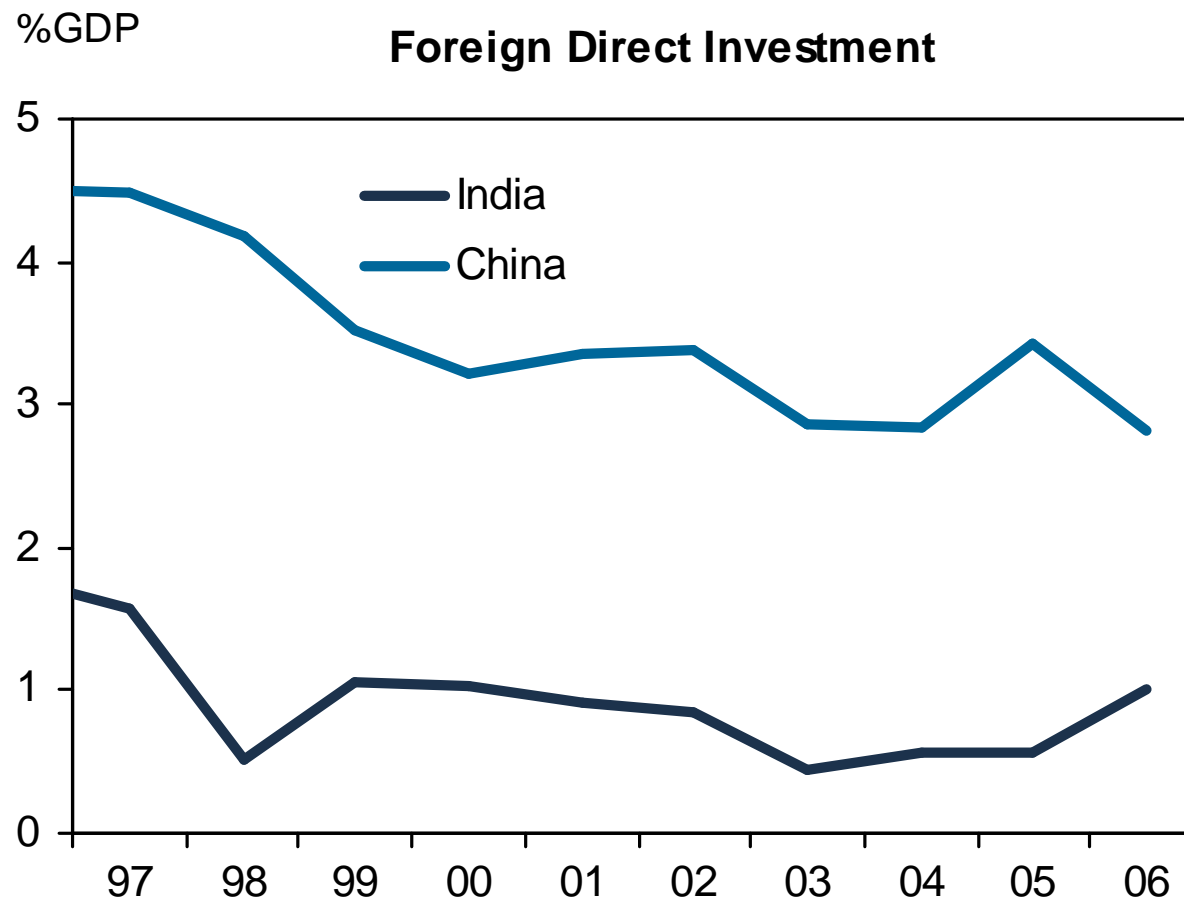


# **Developing Domestic Capital Markets to Finance Innovation Capacity in China and India**

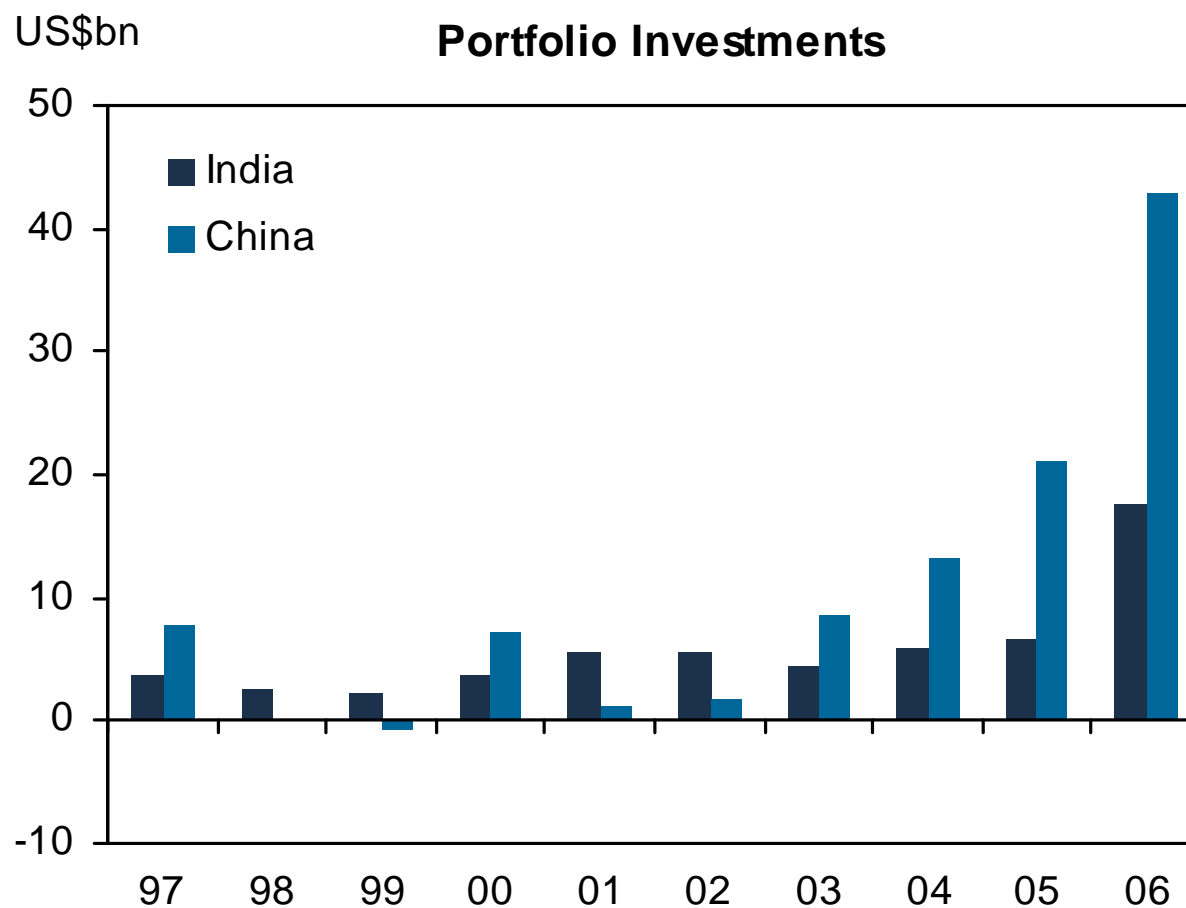
**Sandra Lawson  
Senior Global Economist  
Goldman Sachs  
September 24, 2007**

## China Outpaces India in FDI, But India's Upturn May Persist



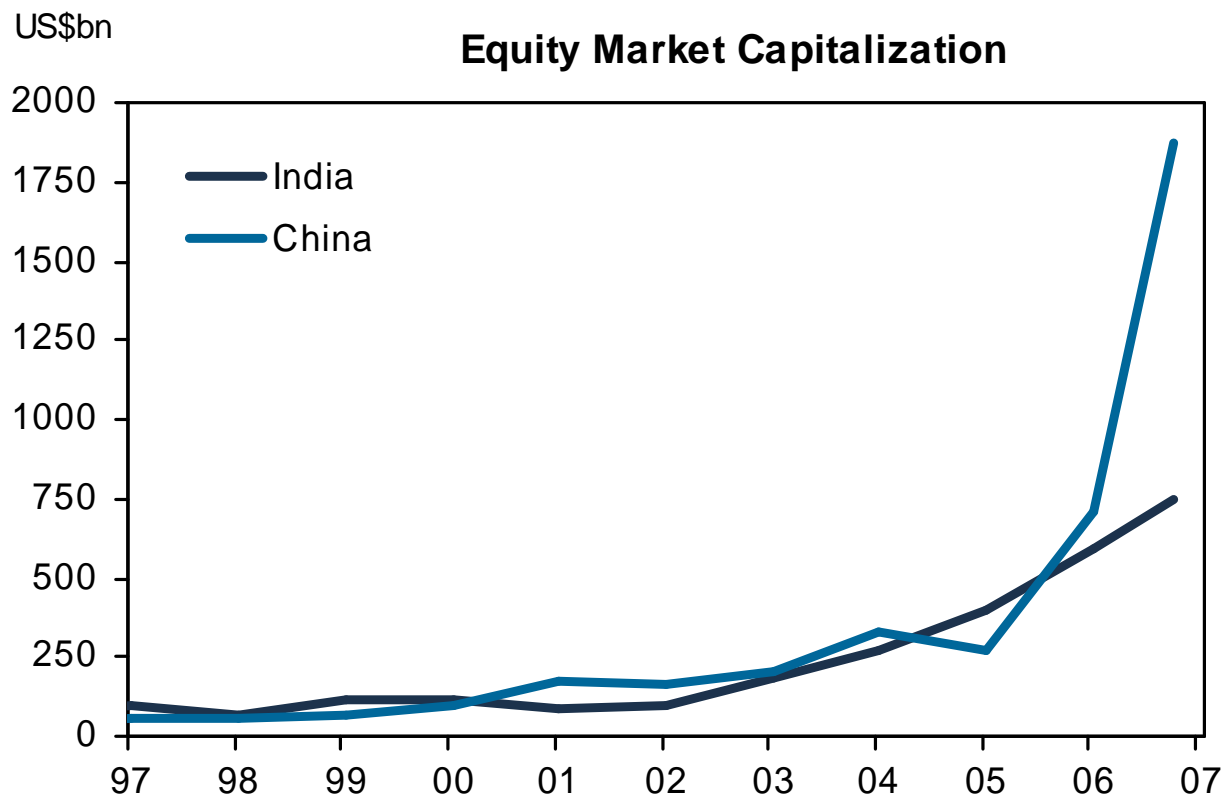
Source: IMF. National Statistical Sources.

## Portfolio Investments Show a Steady Rise



Source: Reserve Bank of India, IMF

## Domestic Support Underpins Equity Markets

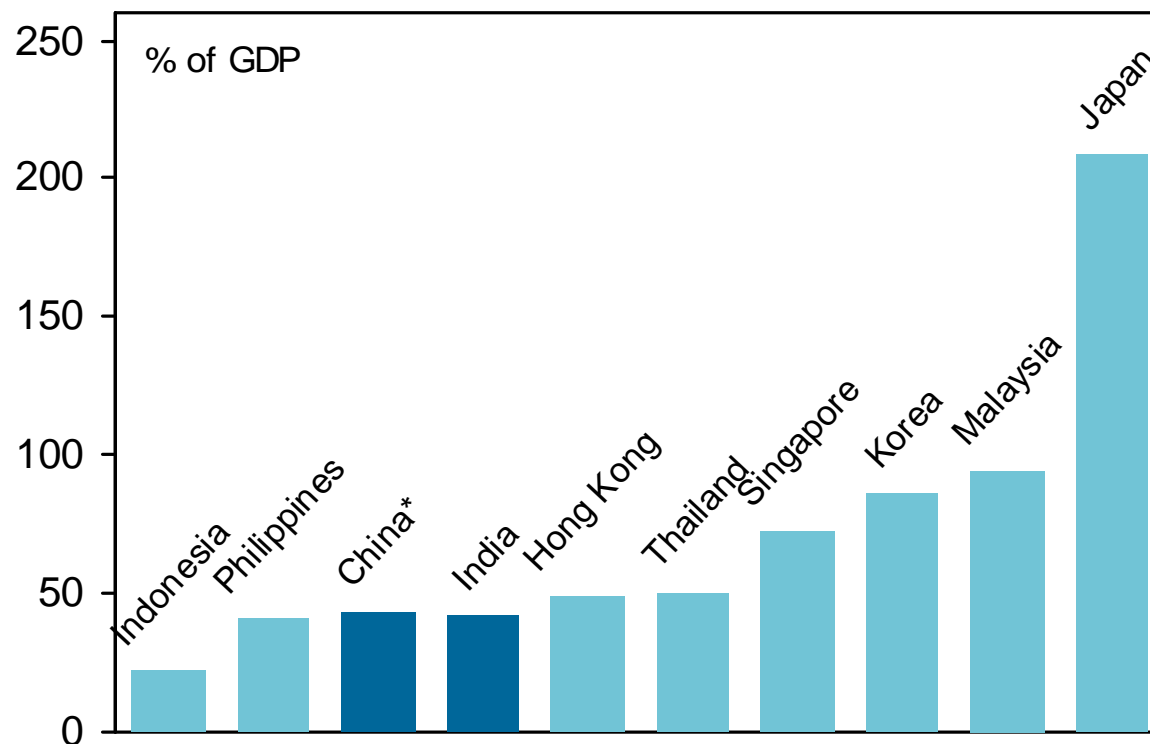


\* As of September 2007.

Source: Datastream

## Across Asia, Debt Markets Play a Limited Role

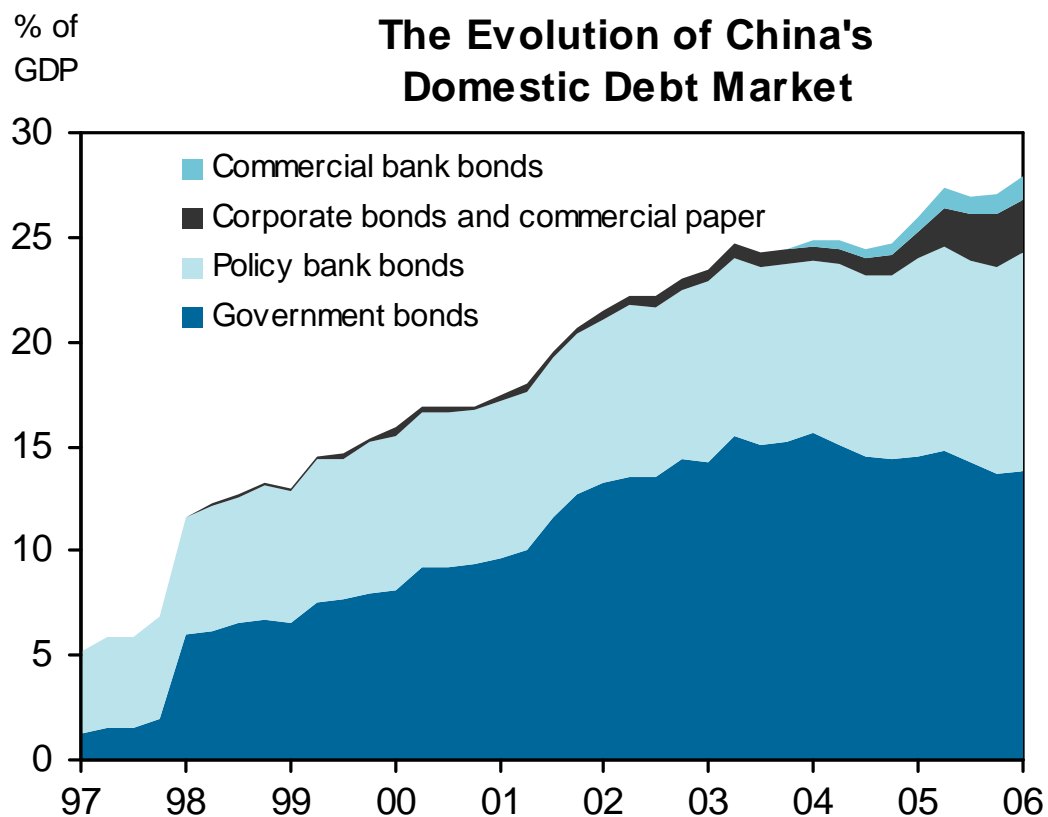
### Asia's Domestic Bond Markets



Source: BIS, Asian Bonds. 2006 data

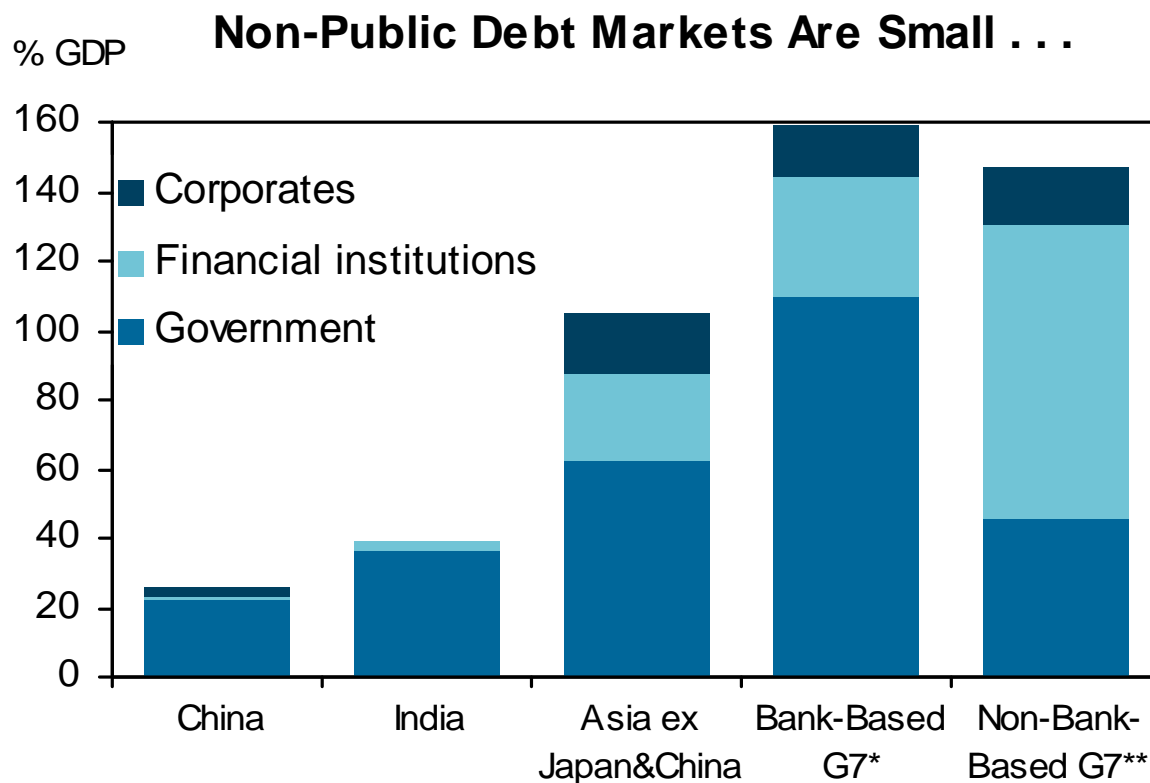
\* includes PBoC sterilization bills

## Despite Rapid Growth, Government and Quasi-Government Debt Dominates China's DCM



Source: ChinaBond, September 2006 data

## Disintermediation Is Limited . . .

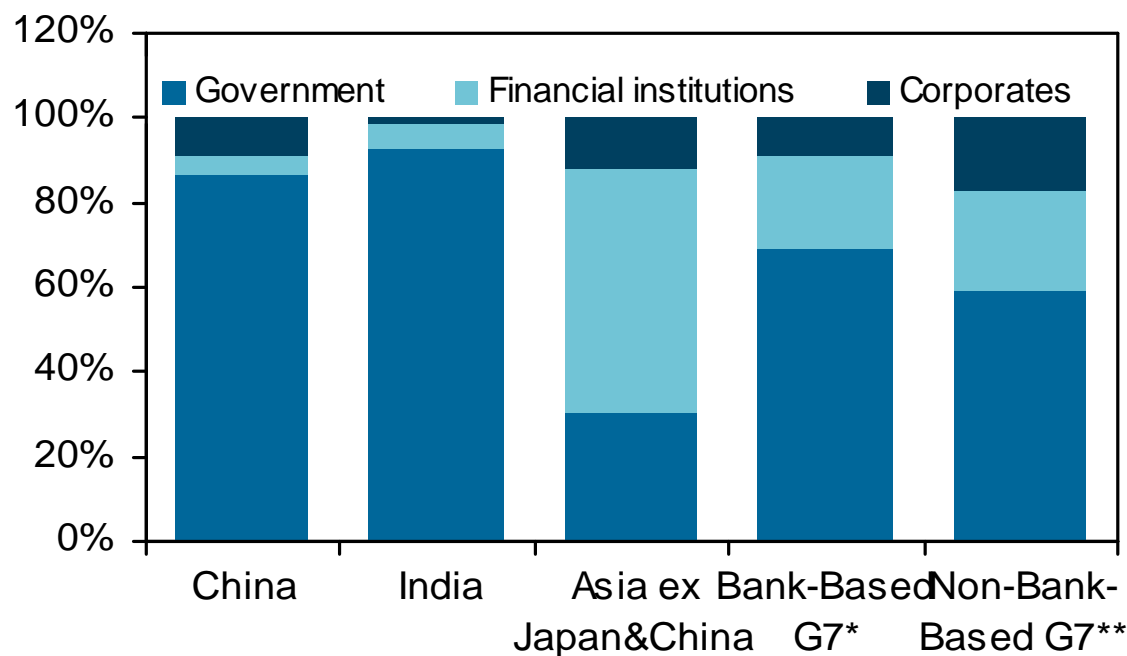


Source: BIS, GS calculations. Note: For China, government bonds include bonds issued by policy banks. Corporate bonds include commercial paper. \*Japan, France, Germany and Italy. \*\*US, UK and Canada.

## ... Forcing Banks to Rely on Bank Loans

share of  
market

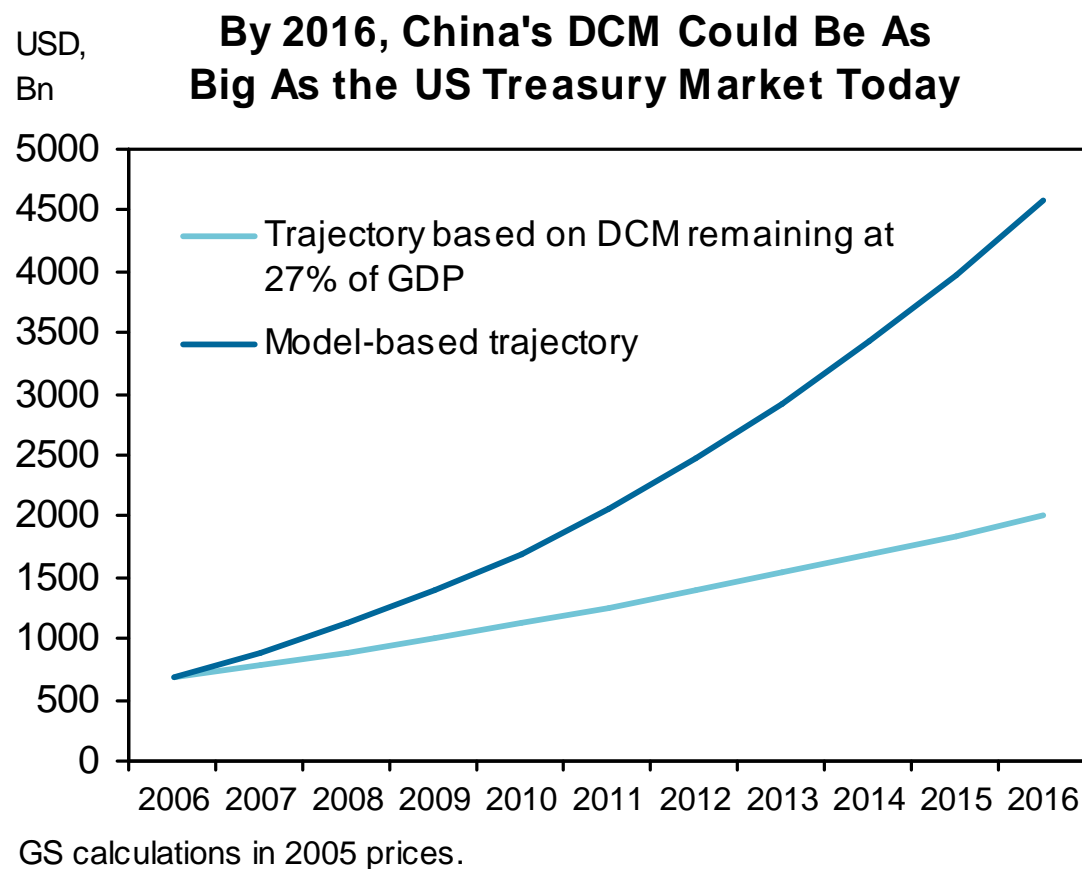
... Measured by GDP or by Market Share



Source: BIS, GS calculations. Note: For China, government bonds include bonds issued by policy banks. Corporate bonds include commercial paper. \*Japan, France, Germany and Italy. \*\*US, UK and Canada.



## Financial Liberalization Points to Dramatic Growth Ahead



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