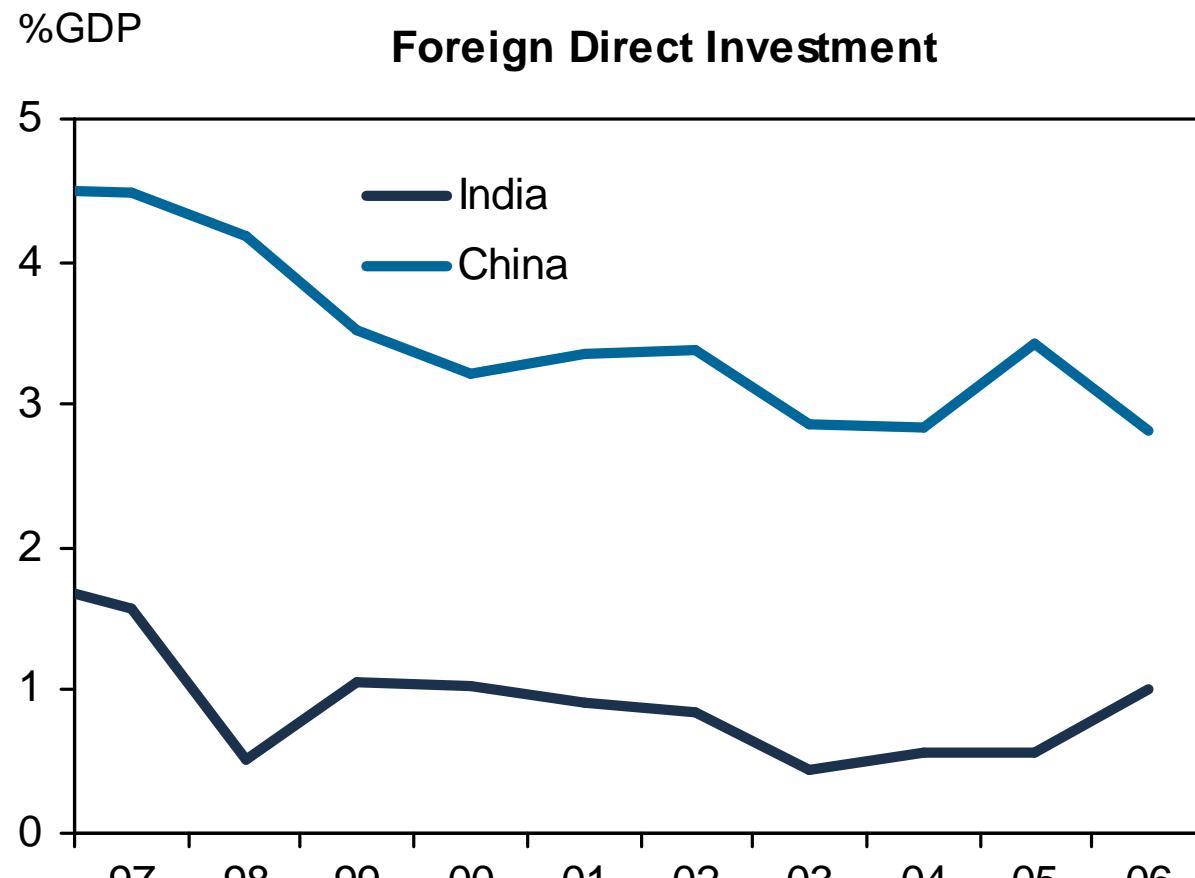




Developing Domestic Capital Markets to Finance Innovation Capacity in China and India

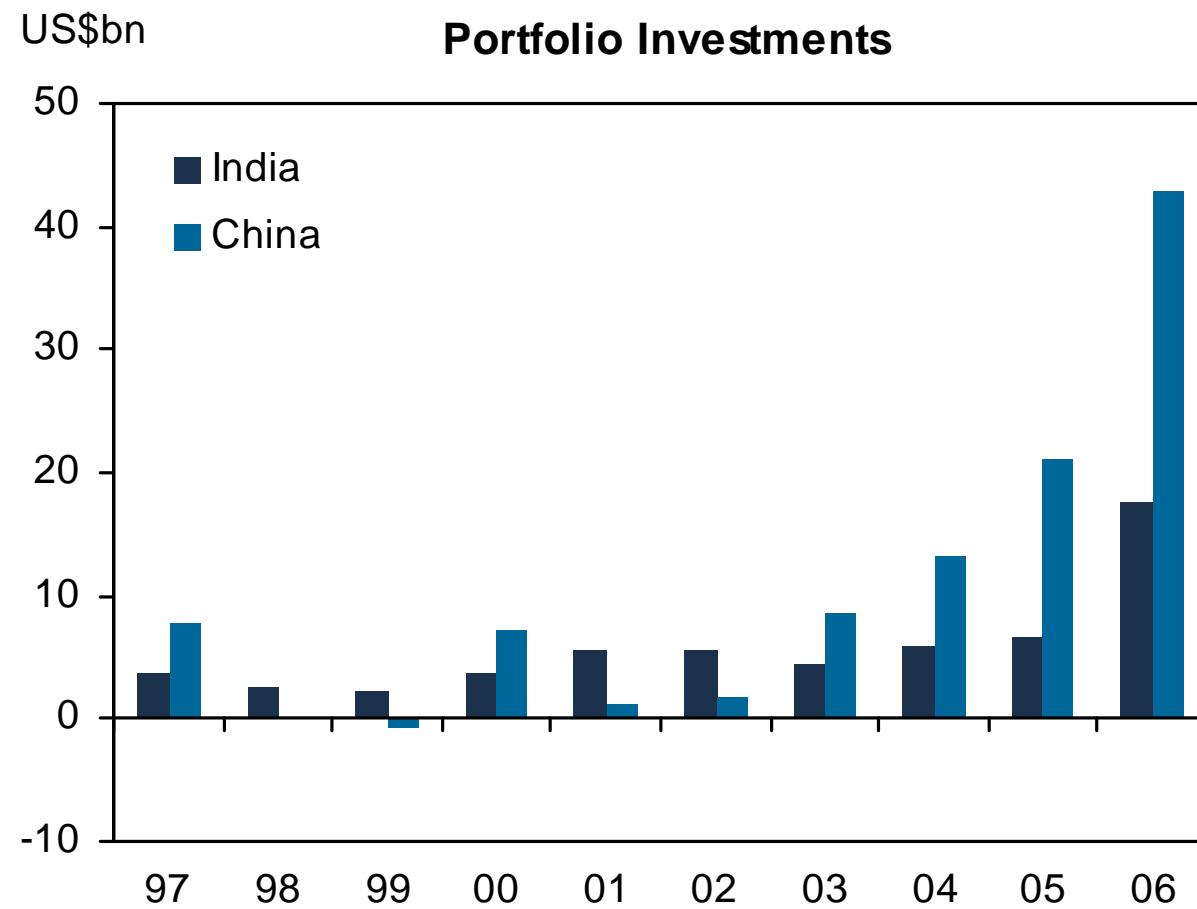
Sandra Lawson
Senior Global Economist
Goldman Sachs
September 24, 2007

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



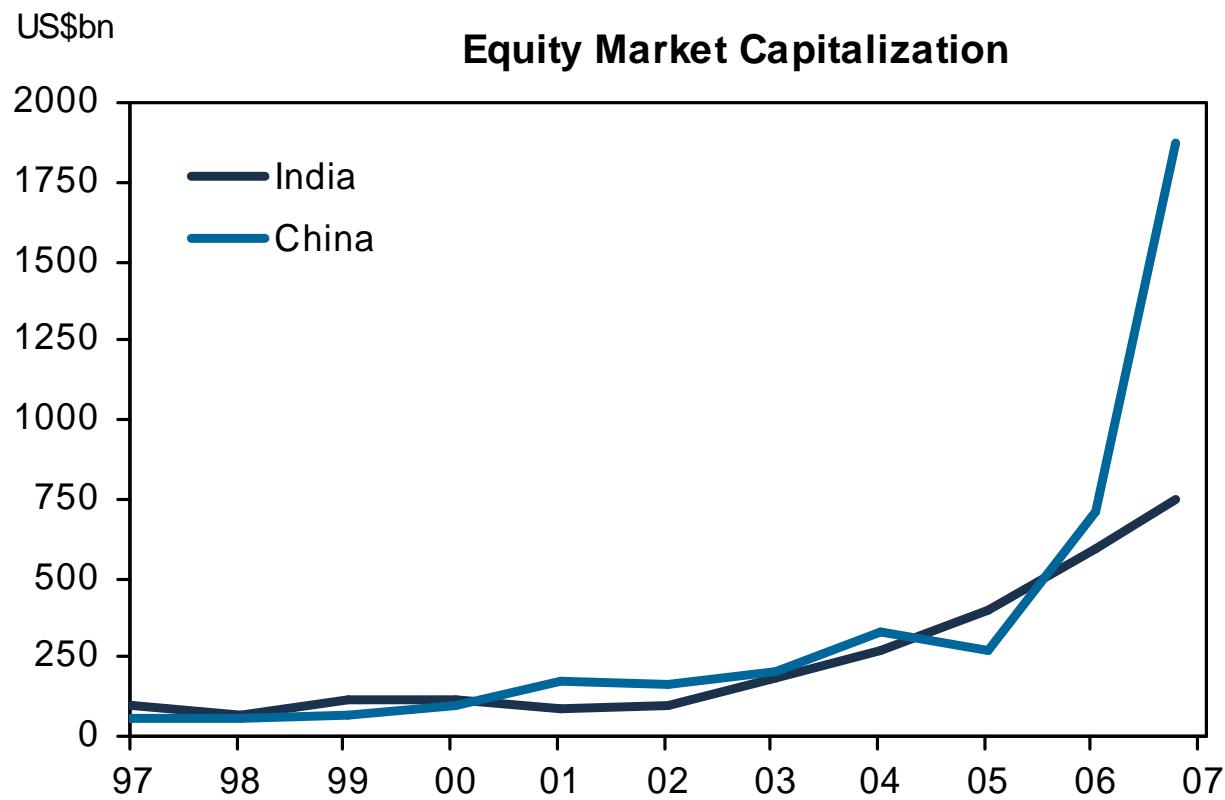
Source: IMF, National Statistical Sources.

Portfolio Investments Show a Steady Rise



Source: Reserve Bank of India, IMF

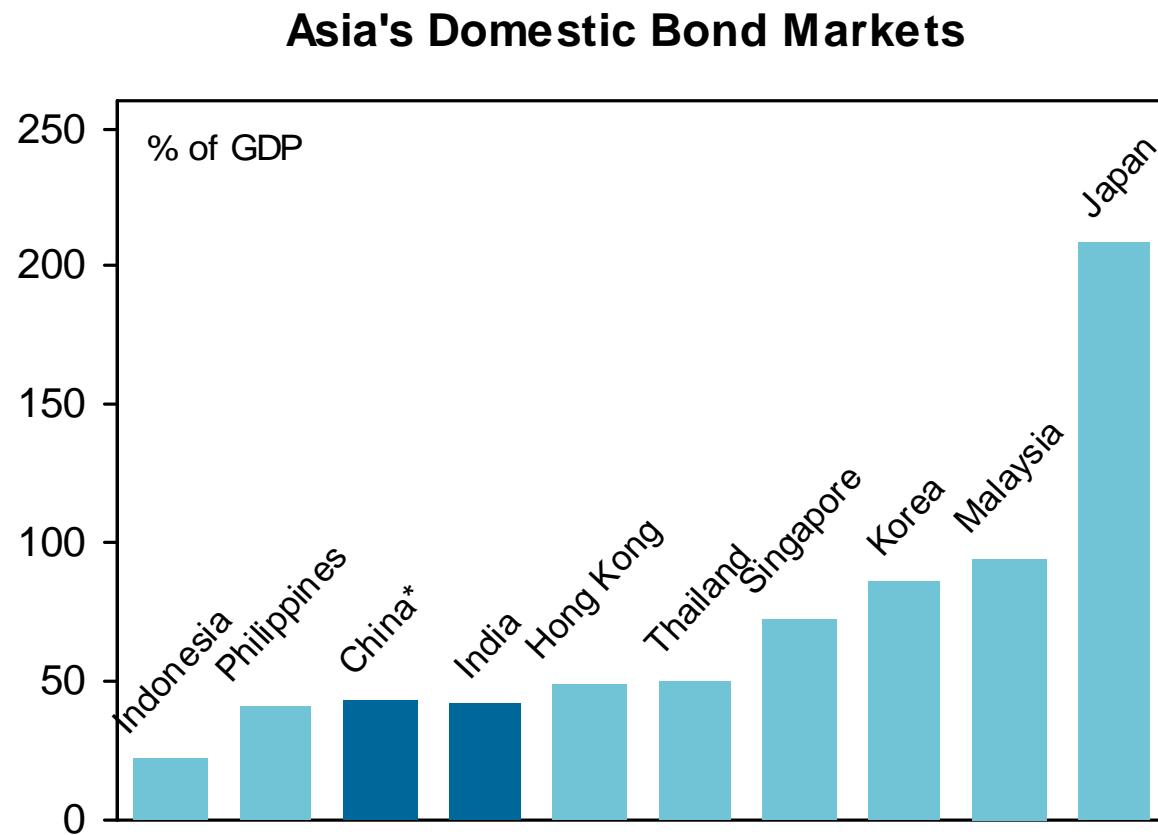
Domestic Support Underpins Equity Markets



* As of September 2007.

Source: Datastream

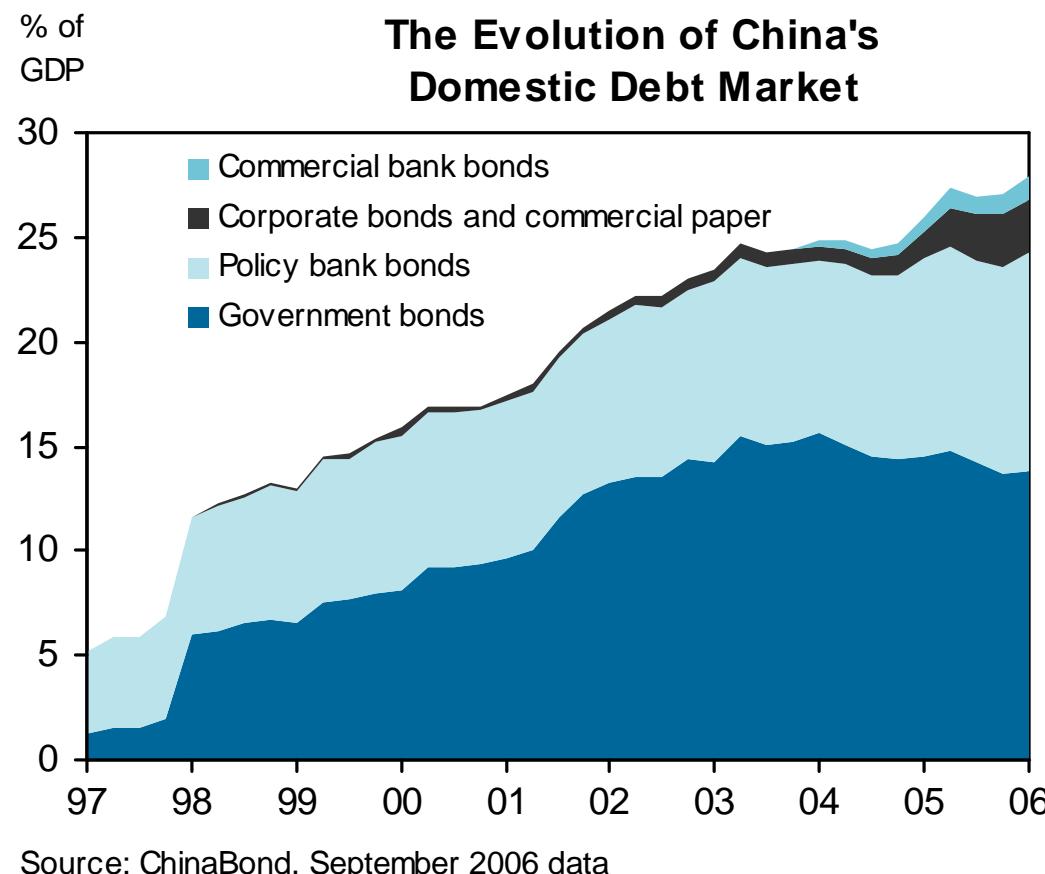
Across Asia, Debt Markets Play a Limited Role



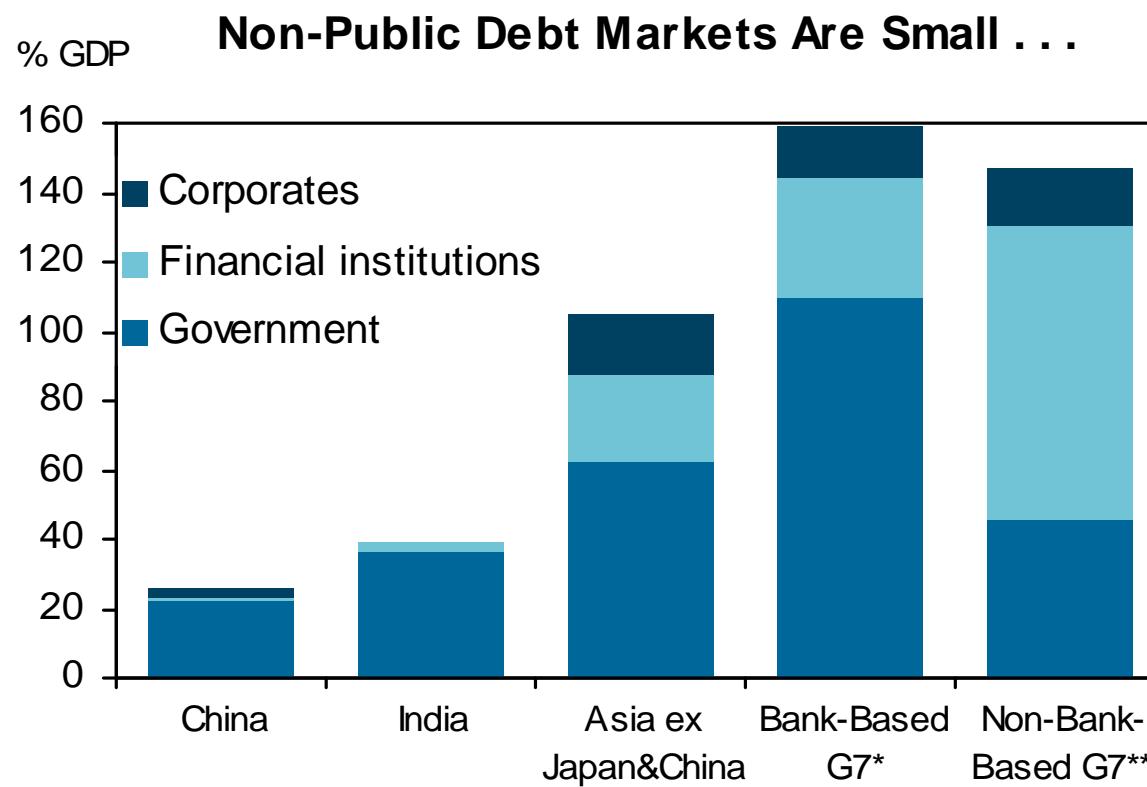
Source: BIS, Asian Bonds. 2006 data

* includes PBoC sterilization bills

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

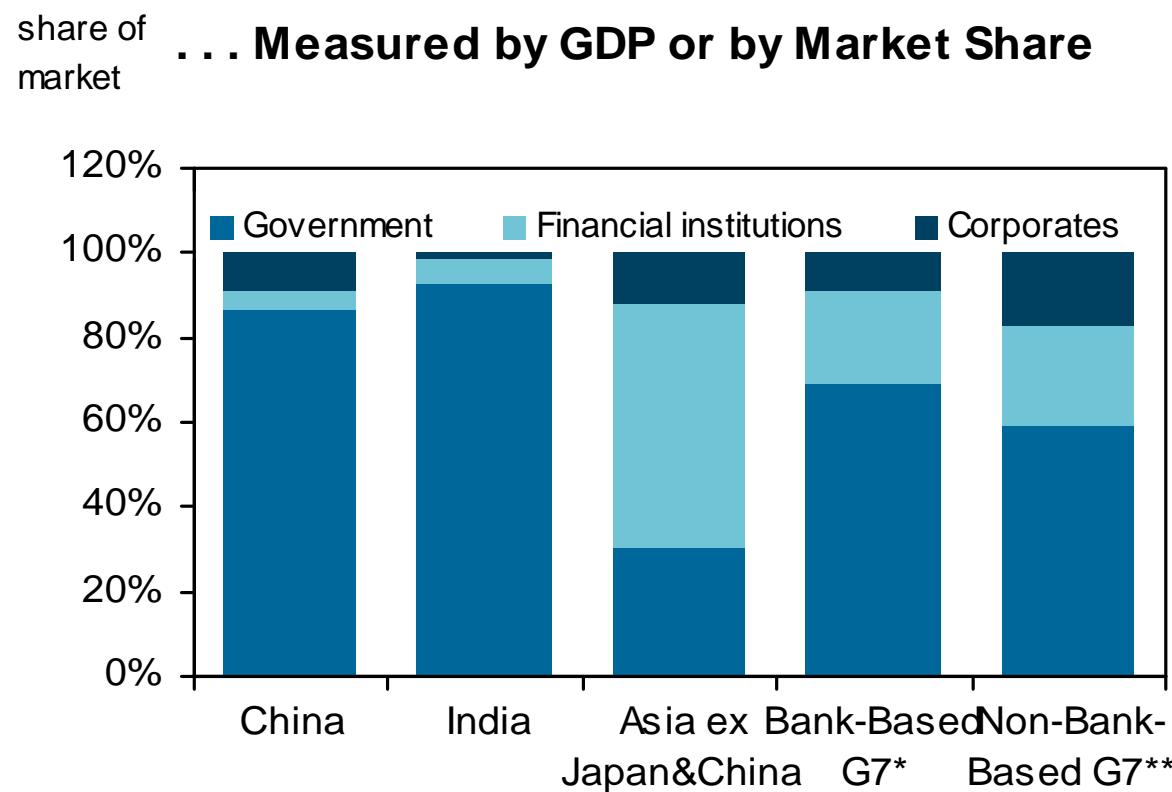


Disintermediation Is Limited . . .



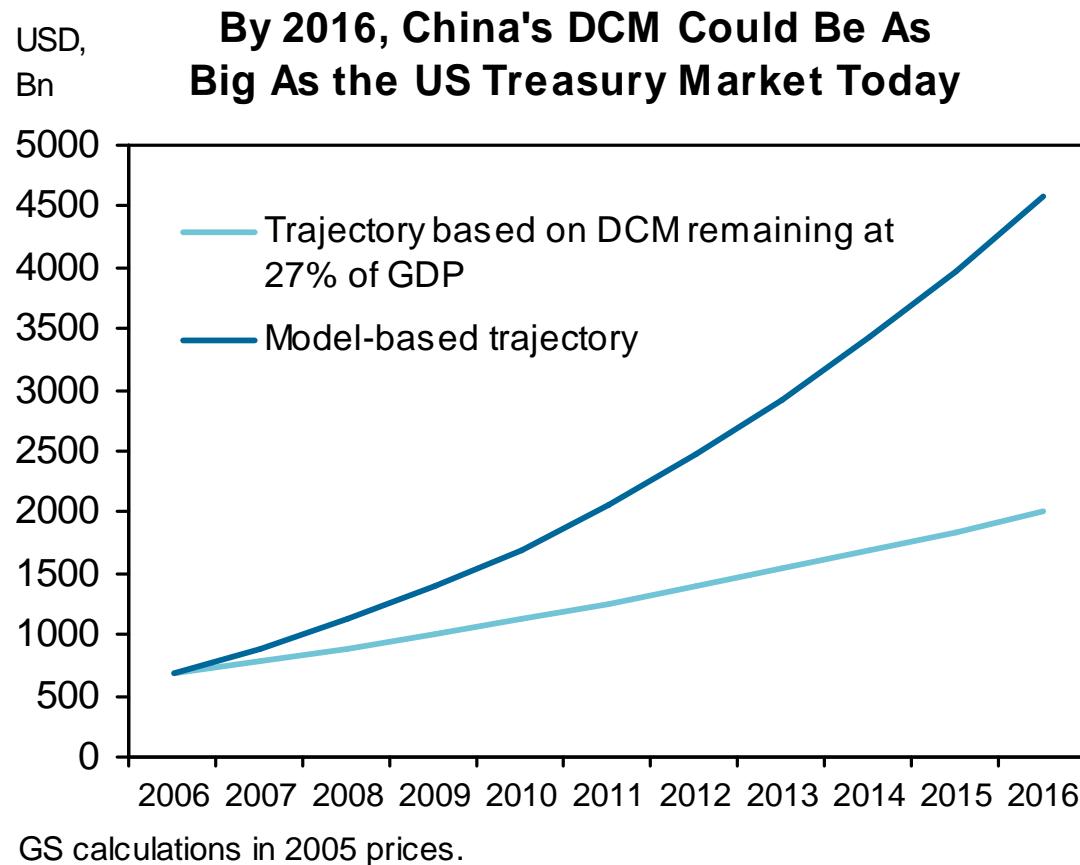
Source: BIS, GS calculations. Note: For China, government bonds include bonds issued by policy banks. Corporate bonds include commercial paper. *Japan, France, Germany and Italy. **US, UK and Canada.

... Forcing Banks to Rely on Bank Loans



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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