

MORGAN STANLEY DEAN WITTER EMERGING MARKETS DEBT FUND INC  
Form N-CSRS  
July 06, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number 811-05921

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
(Exact name of registrant as specified in charter)

1221 AVENUE OF THE AMERICAS 5th FLOOR NEW YORK, NY  
(Address of principal executive offices)

10020  
(Zip code)

RONALD E. ROBISON

1221 AVENUE OF THE AMERICAS 5th FLOOR NEW YORK, NY 10020  
(Name and address of agent for service)

Registrant's telephone number, including area code: 1-888-378-1630

Date of fiscal year 10/31  
end:

Date of reporting period: 4/30/07

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. Section 3507.



ITEM 1. REPORTS TO STOCKHOLDERS.

The Fund's annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

---

**2007 Semi-Annual Report**

April 30, 2007

**Morgan Stanley**

**Morgan Stanley  
Emerging Markets  
Domestic Debt Fund, Inc.**

Morgan Stanley  
Investment Management Inc.  
Investment Adviser

---

**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.**

April 30, 2007 (unaudited)

**Investment Advisory Agreement Approval\***

**Nature, Extent and Quality of Services:** The Board reviewed and considered the nature and extent of the investment advisory services to be provided by the Investment Adviser under the Advisory Agreement, including portfolio management, investment research and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services to be provided by the Fund's Administrator under the Administration Agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Investment Adviser's expense. (The Investment Adviser and the Administrator together are referred to as the Adviser and the Advisory and Administration Agreements together are referred to as the Management Agreement. )

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who will provide the administrative and advisory services to the Fund. The Board determined that the Adviser's portfolio managers and key personnel are well qualified by education and/or training and experience to perform the services in an efficient and professional manner. The Board concluded that the nature and extent of the advisory and administrative services to be provided are necessary and appropriate for the conduct of the business and investment activities of the Fund.

**Performance Relative to Comparable Funds Managed by Other Advisers:** The Board considered that the Adviser plans to arrange for a public offering of shares of the Fund to raise assets for investment and that the offering had not yet begun. The Board concluded that, since the Fund had no assets to invest (other than seed capital that the Adviser will supply) and had no track record of performance, this was not a factor it needed to address at the present time.

**Fees Relative to Other Proprietary Funds Managed by the Adviser with Comparable Investment Strategies:** The Board noted that the Adviser did not manage any other proprietary funds with investment strategies comparable to those of the Fund.

**Fees and Expenses Relative to Comparable Funds Managed by Other Advisers:** The Board reviewed the proposed management fee rate and total expense ratio of the Fund as compared to the average management fee rate and average total expense ratio for funds, selected by the Adviser (the expense peer group ), managed by other advisers with investment strategies comparable to those of the Fund. The Board concluded that the Fund's proposed management fee rate and total expense ratio would be competitive with those of its expense peer group.

**Breakpoints and Economies of Scale:** The Board reviewed the structure of the Fund's proposed management fee schedule under the Management Agreement and noted that it does not include breakpoints. The Board considered that the Fund's potential growth was uncertain and concluded that it would be premature at this time to consider economies of scale as a factor in approving the Management Agreement.

**Profitability of the Adviser and Affiliates:** Since the Fund has not begun operations and has not paid any fees to the Adviser, the Board concluded that this was not a factor that needed to be considered at the present time.

**Fall-Out Benefits:** The Board considered so-called fall-out benefits to be derived by the Adviser and affiliates from their relationship with the Fund and the Morgan Stanley Fund Complex, such as commissions on the purchase and sale of Fund shares and float benefits derived from handling of checks for purchases and sales of Fund shares, through a broker-dealer affiliate of the Adviser. The Board concluded that the float benefits would be relatively small and that

the commissions would be competitive with those of other broker-dealers.

**Soft Dollar Benefits:** The Board considered whether the Adviser will realize any benefits from commissions paid to brokers who execute securities transactions for the Fund ( soft dollars ). The Board noted that the Fund will invest only in fixed income securities, which do not generate soft dollars.

**Adviser Financially Sound and Financially Capable of Meeting the Fund s Needs:** The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board concluded that the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement.

2

---

**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.**

April 30, 2007 (unaudited)

**Investment Advisory Agreement Approval\* (cont d)**

**Relationship Between the Fund and the Adviser:** The Board also reviewed and considered the proposed relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser that will be utilized for managing the Fund's operations and the Board's confidence in the competence and integrity of the senior managers and key personnel of the Adviser. The Board concluded that it is beneficial for the Fund to approve the relationship with the Adviser.

**Other Factors and Current Trends:** The Board considered the controls and procedures adopted and implemented by the Adviser and monitored by the Fund's Chief Compliance Officer and concluded that the conduct of business by the Adviser indicates a good faith effort on its part to adhere to high ethical standards in the conduct of the Fund's business.

**General Conclusion:** After considering and weighing all of the above factors, the Board concluded that it would be in the best interest of the Fund and its future stockholders to approve the Management Agreement, which will remain in effect for two years and thereafter must be approved annually by the Board if it is to continue in effect.

---

\* The Fund's investment advisory agreement was approved by the Board at meetings held on February 20th - 21st.

**Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.**

April 30, 2007 (unaudited)

**Portfolio of Investments**

*(Showing Percentage of Total Value of Investments)*

	<b>Face Amount (000)</b>	<b>Value (000)</b>
<b>DEBT INSTRUMENTS(49.3%)</b>		
<b>Argentina (4.2%)</b>		
<b>Sovereign (4.2%)</b>		