

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Form N-CSR  
January 10, 2011

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 811-22011

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

522 Fifth Avenue, New York, New York  
(Address of principal executive offices)

10036  
(Zip code)

Sara Furber  
522 Fifth Avenue, New York, New York 10036  
(Name and address of agent for service)

Registrant's telephone number, including area code: 212-296-6990

Date of fiscal year end: October 31, 2010

Date of reporting period: October 31, 2010

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Item 1 - Report to Shareholders

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

**Directors**

Michael E. Nugent

Frank L. Bowman

Michael Bozic

Kathleen A. Dennis

James F. Higgins

Dr. Manuel H. Johnson

Joseph J. Kearns

Michael F. Klein

W. Allen Reed

Fergus Reid

Stefanie V. Chang Yu

*Vice President*

Francis J. Smith

*Treasurer and Principal  
Financial Officer*

Mary Ann Picciotto

*Chief Compliance Officer*

Mary E. Mullin

*Secretary*

INVESTMENT MANAGEMENT

**Morgan Stanley**

**Emerging Markets Domestic**

**Debt Fund, Inc. (EDD)**

**Officers**

Michael E. Nugent

*Chairman of the Board and Director*

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Sara Furber

*President and Principal Executive Officer*

## **Investment Adviser and Administrator**

Morgan Stanley Investment Management Inc.

522 Fifth Avenue

New York, New York 10036

## **Custodian**

State Street Bank and Trust Company

One Lincoln Street

Boston, Massachusetts 02111-2101

## **Stockholder Servicing Agent**

Computershare Trust Company, N.A.

250 Royall Street

Canton, Massachusetts 02021

## **Legal Counsel**

Dechert LLP

1095 Avenue of the Americas

New York, New York 10036

## **Independent Registered Public Accounting Firm**

Ernst & Young LLP

200 Clarendon Street

Boston, Massachusetts 02116

For additional Fund information, including the Fund's net asset value per share and information regarding the investments comprising the Fund's portfolio, please call toll free 1 (800) 231-2608 or visit our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). All investments involve risks, including the possible loss of principal.

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Morgan Stanley

Investment Management Inc.

Investment Adviser

**Annual  
Report**

October 31, 2010

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Overview (unaudited)

## Letter to Stockholders

### Performance

For the year ended October 31, 2010, the Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") had total returns of 23.83%, based on net asset value, and 35.60% based on market value per share (including reinvestment of distributions), compared to its benchmark, the J.P. Morgan Government Bond Index Emerging Markets Global Diversified Index (the "Index"), which returned 19.81%. On October 31, 2010, the closing price of the Fund's shares on the New York Stock Exchange was \$17.29, representing a 6.9% discount to the Fund's net asset value per share. Past performance is no guarantee of future results.

### Factors Affecting Performance

- Toward the end of 2009, emerging market (EM) debt performance was supported by solid fundamentals. Economic recovery appeared to be underway and financial risks in the system were reduced. This was a period of consolidation in the wake of the financial crises of 2008, not only from an economic point of view, but also from an asset performance point of view with a more "normal" rate of return (that is, single-digit or low double-digit annualized returns).
- The first quarter of 2010 was a good period for fixed income assets, which were supported by a positive macro backdrop of benign economic data and unchanged monetary policy in the G-3. In addition, important policy decisions influenced global markets including the passage of health care reform in the U.S. and Europe's coordinated response to fiscal crises in its peripheral markets. Against this backdrop, EM debt strongly outperformed developed fixed income markets in the first quarter. This trend is expected to continue given emerging economies' more pronounced recovery and robust fundamentals. Flows into EM bonds reached record levels, bolstered by the outperformance of EM economies and by investors' search for higher-yielding assets.
- Financial markets were choppy during the second quarter of 2010, as investors focused on the unfolding crisis in peripheral Europe. Worries over a double-dip recession and banking sector struggles in the developed world, as well as tighter monetary policy in certain emerging market countries, overshadowed the generally strong fundamentals in the U.S. and most of the emerging world. While we believed problems in the developed markets should have limited impact in the emerging markets, we also believed that lingering uncertainty in financial markets would be increasingly likely to have a measurable impact on global macroeconomic performance, particularly on growth. That said, we viewed the movement toward normalization of monetary policy by several emerging market central banks as highlighting the relative strength of most emerging economies.
- During the third quarter of 2010, the performance of emerging market debt was driven primarily by economic and policy developments in the developed world, particularly expectation for policy responses (mainly quantitative easing) to continued economic uncertainty in developed economies. Emerging market central banks slowed the pace of interest rate hikes as growth softened from very robust levels and inflation remained stable. We think the risk that emerging market countries will adopt capital controls has risen. Brazil and Thailand raised taxes on capital inflows in the third quarter. However, emerging markets continued to benefit from strong portfolio inflows, a trend that we believe is likely to be longer lasting and structural than many previously thought.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

Overview (unaudited)

## Letter to Stockholders (cont'd)

- For the year ended October 31, 2010, the Fund outperformed the Index, mainly due to yield curve positioning in Mexico, Brazil, Indonesia and Turkey. Security selection in Colombian local debt also aided returns. Conversely, yield curve posture in Poland, Thailand and currency exposure in Mexico detracted from relative returns.

### Management Strategies

- We expect subdued growth in the developed world in 2010-11, as household and financial institutions continue to repair their balance sheets. Unresolved fiscal sustainability issues in the periphery of Europe and in some U.S. states could have an impact on risk appetite in the remainder of 2010 and in 2011. Additionally, uncertainty regarding the nature and magnitude of policy response to the lower than desired growth and inflation in the developed world is likely to continue affecting EM debt markets in coming months.
- However, our strategy remains predicated on a benign growth outlook for the emerging world in the fourth quarter of 2010 and in 2011, reflecting strong domestic growth, supportive terms of trade and large capital inflows. Policy rates, will in our view, remain lower for longer in the developed world, while we expect EM countries to hike rates at a slower pace than previously anticipated.
- The implementation of another round of quantitative easing (QE2) by the U.S. Federal Reserve (the Fed) may end up reducing real rates to near zero in the longer end of the U.S. Treasury curve, and could have an impact on both inflation and inflation expectations in the U.S. At the same time, there is a risk that this new round of monetary easing in the developed world could exert undue pressure on commodity prices and EM nominal exchange rates, exacerbating inflationary pressures in the EM world. In such an environment, more EM countries could impose harder capital controls to avoid a further appreciation of their currencies.
- The strong fundamentals in the emerging markets appear to be mostly priced in by the markets. Higher carry and continued portfolio flows (particularly after the Fed implementation of QE2) will support EM currencies. However, our valuation models point to many EM currencies being near fair value at current levels.

Sincerely,

Sara Furber  
President and Principal Executive Officer November 2010

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (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 provided by the Adviser (as defined herein) under the advisory agreement, including portfolio management, investment research and equity and fixed income securities trading. The Board also reviewed and considered the nature and extent of the non-advisory, administrative services provided by the Fund's Adviser under the administration agreement, including accounting, clerical, bookkeeping, compliance, business management and planning, and the provision of supplies, office space and utilities at the Adviser's expense. (The advisory and administration agreements together are referred to as the "Management Agreement.") The Board also compared the nature of the services provided by the Adviser with similar services provided by non-affiliated advisers as reported to the Board by Lipper, Inc. ("Lipper").

The Board reviewed and considered the qualifications of the portfolio managers, the senior administrative managers and other key personnel of the Adviser who provide the advisory and administrative 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 provided were necessary and appropriate for the conduct of the business and investment activities of the Fund and supported its decision to approve the Management Agreement.

### **Performance, Fees and Expenses of the Fund**

The Board reviewed the performance, fees and expenses of the Fund compared to its peers, as determined by Lipper, and to appropriate benchmarks where applicable. The Board discussed with the Adviser the performance goals and the actual results achieved in managing the Fund. When considering a fund's performance, the Board and the Adviser place emphasis on trends and longer-term returns (focusing on one-year, three-year and five-year performance as of December 31, 2009, or since inception, as applicable). When a fund underperforms its benchmark and/or its peer group average, the Board and the Adviser discuss the causes of such underperformance and, where necessary, they discuss specific changes to investment strategy or investment personnel. The Board noted that the Fund's performance was below its peer group average for the one-year period and since April 24, 2007 (the Fund's inception). The Board discussed with the Adviser the level of the advisory and administration fees (together, the "management fee") for this Fund relative to comparable funds advised by the Adviser and compared to its peers as determined by Lipper. In addition to the management fee, the Board also reviewed the Fund's total expense ratio. The Board noted that while the Fund's management fee was higher than its peer group average, the total expense ratio was lower than its peer group average. After discussion, the Board concluded that: (i) the Portfolio's performance was acceptable; (ii) the management fee, although higher than its peer group average, was acceptable given the quality and nature of services provided; and (iii) the total expense ratio was competitive with its peer group average.

### **Economies of Scale**

The Board considered the size and growth prospects of the Fund and how that relates to the Fund's total expense ratio and particularly the Fund's management fee rate, which does not include breakpoints. In conjunction with its review of the Adviser's profitability, the Board discussed with the Adviser how a change in assets can affect the efficiency or effectiveness of managing the Fund and whether the management fee level is appropriate relative to current and projected asset levels and/or whether the management fee structure reflects economies of scale as asset levels change. The Board considered that, with respect to closed-end funds, the assets are not likely



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## Investment Advisory Agreement Approval (cont'd)

to grow with new sales or grow significantly as a result of capital appreciation. The Board concluded that economies of scale for the Fund were not a factor that needed to be considered at the present time.

### **Profitability of the Adviser and Affiliates**

The Board considered information concerning the costs incurred and profits realized by the Adviser and its affiliates during the last year from their relationship with the Fund and during the last two years from their relationship with the Morgan Stanley Fund Complex and reviewed with the Adviser the cost allocation methodology used to determine the profitability of the Adviser and affiliates. The Board has determined that its review of the analysis of the Adviser's expenses and profitability supports its decision to approve the Management Agreement.

### **Other Benefits of the Relationship**

The Board considered other benefits to the Adviser and its affiliates derived from their relationship with the Fund and other funds advised by the Adviser. These benefits may include, among other things, "float" benefits derived from handling of checks for purchases and sales, research received by the Adviser generated from commission dollars spent on funds' portfolio trading and fees for distribution and/or shareholder servicing. The Board reviewed with the Adviser each of these arrangements and the reasonableness of the Adviser's costs relative to the services performed. The Board has determined that its review of the other benefits received by the Adviser or its affiliates supports its decision to approve the Management Agreement.

### **Resources of the Adviser and Historical Relationship Between the Fund and the Adviser**

The Board considered whether the Adviser is financially sound and has the resources necessary to perform its obligations under the Management Agreement. The Board also reviewed and considered the historical relationship between the Fund and the Adviser, including the organizational structure of the Adviser, the policies and procedures formulated and adopted by the Adviser 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 the Adviser has the financial resources necessary to fulfill its obligations under the Management Agreement and that it is beneficial for the Fund to continue its 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 shareholders to approve renewal of the Management Agreement for another year. In reaching this conclusion the Board did not give particular weight to any single factor referenced above. The Board considered these factors over the course of numerous meetings, some of which were in executive session with only the Independent Board members and their counsel present. It is possible that individual Board members may have weighed these factors differently in reaching their individual decisions to approve the Management Agreement.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Portfolio of Investments

*(Showing Percentage of Total Value of Investments)*

		Face Amount (000)	Value (000)
<b>FIXED INCOME SECURITIES (97.3%)</b>			
<b>Brazil (16.3%)</b>			
<b>Sovereign (16.3%)</b>			
Brazil Notas do Tesouro			
Nacional, Series F,			
10.00%, 1/1/14 - 1/1/17	BRL	477,658	\$ 263,809
<b>Colombia (3.8%)</b>			
<b>Sovereign (3.8%)</b>			
Republic of Colombia,			
9.85%, 6/28/27	COP	46,000,000	37,503
12.00%, 10/22/15		33,000,000	24,237
			61,740
<b>Egypt (1.9%)</b>			
<b>Sovereign (1.9%)</b>			
UBS AG Jersey Branch,			
12.60%, 2/22/17	EGP	175,300	30,265
<b>Hungary (10.7%)</b>			
<b>Sovereign (10.7%)</b>			
Republic of Hungary,			
6.75%, 2/24/17	HUF	13,796,620	70,146
7.25%, 6/12/12		776,500	4,055
8.00%, 2/12/15		18,329,840	98,247
			172,448
<b>Indonesia (12.0%)</b>			
<b>Corporate (0.3%)</b>			
Pindo Deli Finance			
Mauritius,			
Tranche A, Zero Coupon,			
4/28/15 (a)(b)(c)	\$	137	33
Tranche A, Zero Coupon,			
4/28/15 (a)(b)(c)(d)		1,391	341
Tranche B, Zero Coupon,			
4/28/18 (a)(b)(c)(d)		8,336	917
Tranche C, Zero Coupon,			
4/28/27 (a)(b)(c)(d)		2,227	50
Tjiwi Kimia Finance			
Mauritius Ltd.,			
Tranche A, Zero Coupon,			
4/28/15 (a)(b)(c)		627	157
Tranche A, Zero Coupon,			
4/28/15 (a)(b)(c)(d)		4,152	1,038

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Tranche B, Zero Coupon, 4/28/18 (a)(b)(c)(d)	9,360	1,825
Tranche C, Zero Coupon, 4/28/27 (a)(b)(c)(d)	998	35
		4,396

	Face Amount (000)	Value (000)
<b>Sovereign (11.7%)</b>		
Barclays Bank PLC, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17		
IDR	600,000,000	\$ 78,143
Credit Suisse, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/17/17		
	154,683,530	20,137
Deutsche Bank AG, Republic of Indonesia Government Bond, Credit Linked Notes, 11.00%, 12/15/20		
	60,000,000	8,406
11.50%, 9/23/19 (d)		
	235,000,000	33,501
12.80%, 6/22/21		
	150,000,000	23,278
JPMorgan Chase Bank, London, Indonesia Government Bonds, Credit Linked Notes, 10.00%, 7/19/17 (a)		
	192,525,000	25,132
		188,597
		192,993
<b>Malaysia (4.2%)</b>		
<b>Sovereign (4.2%)</b>		
Government of Malaysia, 3.83%, 9/28/11		
MYR	55,030	17,834
3.84%, 8/12/15		
	110,000	35,951
5.09%, 4/30/14		
	42,152	14,314
		68,099
<b>Mexico (16.6%)</b>		
<b>Sovereign (16.6%)</b>		
Mexican Bonos, 7.75%, 12/14/17		
MXN	515,924	46,733
8.00%, 12/17/15		
	101,200	9,107
9.50%, 12/18/14		
	360,000	33,740
10.00%, 12/5/24 - 11/20/36		
	1,628,375	178,572
		268,152
<b>Peru (1.0%)</b>		
<b>Sovereign (1.0%)</b>		
Peru Government Bond, 7.84%, 8/12/20		
PEN	37,745	15,844

The accompanying notes are an integral part of the financial statements.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Portfolio of Investments (cont'd)

*(Showing Percentage of Total Value of Investments)*

		Face Amount (000)	Value (000)
<b>South Africa (9.2%)</b>			
<b>Sovereign (9.2%)</b>			
Republic of South Africa,			
7.25%, 1/15/20	ZAR	938,200	\$ 128,940
8.00%, 12/21/18		140,000	20,363
			149,303
<b>Thailand (5.2%)</b>			
<b>Sovereign (5.2%)</b>			
Kingdom of Thailand,			
4.25%, 3/13/13	THB	1,597,940	55,609
5.25%, 7/13/13 - 5/12/14		795,100	28,653
			84,262
<b>Turkey (16.4%)</b>			
<b>Sovereign (16.4%)</b>			
Republic of Turkey,			
Zero Coupon, 5/11/11 -			
1/25/12	TRY	367,998	243,724
10.00%, 2/15/12		18,354	14,412
16.00%, 3/7/12		9,340	7,215
			265,351
<b>TOTAL FIXED INCOME SECURITIES</b>			
(Cost \$1,447,500)			1,572,266
<b>LOANS (2.1%)</b>			
<b>Colombia (1.0%)</b>			
<b>Corporate (1.0%)</b>			
MFI WWB Cali,			
12.50%, 2/28/11 (a)(c)(e)	COP	15,103,760	8,212
MFI WWB Popoyan,			
12.50%, 2/28/11 (a)(c)(e)		13,215,790	7,185
			15,397
<b>Kazakhstan (0.1%)</b>			
<b>Corporate (0.1%)</b>			
MFI KMF,			
15.50%, 2/28/11 (a)(c)(e)	KZT	315,247	2,093
<b>Mexico (0.8%)</b>			
<b>Corporate (0.8%)</b>			
MFI Finsol,			
14.00%, 2/28/11 (a)(c)(e)	MXN	161,685	13,094

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	Face Amount (000)	Value (000)
<b>Peru (0.2%)</b>		
<b>Corporate (0.2%)</b>		
MFI Confranz,		
10.40%, 2/28/11 (a)(c)(e)	PEN 8,671	\$ 3,099
<b>TOTAL LOANS (Cost \$35,681)</b>		33,683
<b>Shares</b>		
<b>SHORT-TERM INVESTMENT (0.6%)</b>		
<b>Investment Company (0.6%)</b>		
Morgan Stanley Institutional		
Liquidity Funds Money Market		
Portfolio Institutional Class		
(See Note F) (Cost \$9,674)	9,673,934	9,674
<b>TOTAL INVESTMENTS (100.0%) (Cost \$1,492,855)</b>		1,615,623
<b>LIABILITIES IN EXCESS OF OTHER ASSETS</b>		(269,954)
<b>NET ASSETS</b>		\$ 1,345,669

(a) Variable/Floating Rate Security Interest rate changes on these instruments are based on changes in a designated base rate. The rates shown are those in effect on October 31, 2010.

(b) Issuer is in default.

(c) Security has been deemed illiquid at October 31, 2010.

(d) 144A security Certain conditions for public sale may exist. Unless otherwise noted, these securities are deemed to be liquid.

(e) At October 31, 2010, the Fund held approximately \$33,683,000 of fair valued securities, representing 2.5% of net assets. These securities have been fair valued as determined in good faith under procedures established by and under the general supervision of the Fund's Directors.

The accompanying notes are an integral part of the financial statements.

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

Portfolio of Investments (cont'd)

Foreign Currency Exchange Contracts Information:

The Fund had the following foreign currency exchange contract(s) open at period end:

Counterparty	Currency to Deliver (000)	Value (000)	Settlement Date	In Exchange For (000)	Value (000)	Net Unrealized Appreciation (Depreciation) (000)
JPMorgan Chase	BRL 111,810	\$ 65,759	11/3/10	USD 64,806	\$ 64,806	\$ (953)
JPMorgan Chase	USD 65,233	65,233	11/3/10	BRL 111,810	65,759	526
JPMorgan Chase	ZAR 123,930	17,686	11/4/10	USD 17,580	17,580	(106)
JPMorgan Chase	USD 48,116	48,116	11/12/10	THB 1,443,730	48,144	28
JPMorgan Chase	USD 64,244	64,244	11/15/10	MYR 199,990	64,219	(25)
JPMorgan Chase	USD 72,047	72,047	11/22/10	RUB 2,195,230	71,060	(987)
JPMorgan Chase	TRY 90,270	62,632	11/29/10	USD 62,979	62,979	347
JPMorgan Chase	MXN 827,080	66,857	12/1/10	USD 66,598	66,598	(259)
JPMorgan Chase	BRL 111,810	65,356	12/2/10	USD 64,833	64,833	(523)
		\$ 527,930			\$ 525,978	\$ (1,952)

- BRL Brazilian Real
- COP Colombian Peso
- EGP Egyptian Pound
- HUF Hungarian Forint
- IDR Indonesian Rupiah
- KZT Kazakhstan Tenge
- MXN Mexican New Peso
- MYR Malaysian Ringgit
- PEN Peruvian Nuevo Sol
- RUB Russian Ruble
- THB Thai Baht



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TRY Turkish Lira

USD United States Dollar

ZAR South African Rand

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Portfolio of Investments (cont'd)

## Fair Value Measurement Information:

The following is a summary of the inputs used to value the Portfolio's net assets as of October 31, 2010. (See Notes A-5 to the financial statements for further information regarding fair value measurement.)

Investment Type	Level 1 Quoted prices (000)	Level 2 Other significant observable inputs (000)	Level 3 Significant unobservable inputs (000)	Total (000)
<b>Assets:</b>				
<b>Fixed Income Securities</b>				
Corporate Bonds	\$	\$ 4,396	\$	\$ 4,396
Sovereign		1,567,870		1,567,870
<b>Total Fixed Income Securities</b>		<b>1,572,266</b>		<b>1,572,266</b>
<b>Loans</b>				
<b>Short-Term Investment</b>				
Investment Company	9,674			9,674
<b>Foreign Currency Exchange Contracts</b>				
		901		901
<b>Total Assets</b>	<b>\$ 9,674</b>	<b>\$ 1,573,167</b>	<b>\$ 33,683</b>	<b>\$ 1,616,524</b>
<b>Liabilities:</b>				
<b>Foreign Currency Exchange Contracts</b>				
		2,853		2,853
<b>Total</b>	<b>\$ 9,674</b>	<b>\$ 1,570,314</b>	<b>\$ 33,683</b>	<b>\$ 1,613,671</b>

## Fair Value Measurement Information: (cont'd)

Following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value.

	Loans (000)
<b>Balance as of 10/31/09</b>	\$ 35,146
Accrued discounts/premiums	
Realized gain (loss)	(887)
Change in unrealized appreciation (depreciation)	3,425
Net purchases (sales)	(4,001)
Transfers in to Level 3	
Transfers out of Level 3	
<b>Balance as of 10/31/10</b>	\$ 33,683
The amount of total gains (losses) for the period included in earnings attributable to	\$ 3,425

the change in unrealized gains (losses)  
relating to assets and liabilities still held  
at Level 3 at 10/31/10.

**Portfolio Composition**

<b>Classification</b>	<b>Percentage of Total Investments</b>
Sovereign	97.0%
Other*	2.4
Short-Term Investments	0.6
Total Investments	100.0%

\* Industries representing less than 5% of total investments.

The accompanying notes are an integral part of the financial statements.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Financial Statements

	<b>October 31, 2010</b>
	<b>(000)</b>
<b>Statement of Assets and Liabilities</b>	
<b>Assets:</b>	
Investments in Securities of Unaffiliated Issuers, at Value (Cost \$1,483,181)	\$ 1,605,949
Investment in Security of Affiliated Issuer, at Value (Cost \$9,674)	9,674
Total Investments in Securities, at Value (Cost \$1,492,855)	1,615,623
Foreign Currency, at Value (Cost \$4,814)	4,818
Interest Receivable	37,692
Receivable for Lehman Brothers Closed Reverse Repurchase Transactions	3,268
Unrealized Appreciation on Foreign Currency Exchange Contracts	901
Receivable from Affiliate	2
Other Assets	688
<b>Total Assets</b>	<b>1,662,992</b>
<b>Liabilities:</b>	
Payable for Line of Credit	312,392
Unrealized Depreciation on Foreign Currency Exchange Contracts	2,853
Payable for Investment Advisory Fees	1,450
Payable for Custodian Fees	249
Payable for Professional Fees	136
Payable for Administration Fees	116
Payable for Stockholder Servicing Agent Fees	2
Other Liabilities	125
<b>Total Liabilities</b>	<b>317,323</b>
<b>Net Assets</b>	
Applicable to 72,431,536 Issued and Outstanding \$.01 Par Value Shares (100,000,000 Shares Authorized)	\$ 1,345,669
<b>Net Asset Value Per Share</b>	<b>\$ 18.58</b>
<b>Net Assets Consist of:</b>	
Common Stock	\$ 724
Paid-in-Capital	1,303,493
Distributions in Excess of Net Investment Income	(10,657)
Accumulated Net Realized Loss	(69,916)
Unrealized Appreciation (Depreciation) on:	
Investments	122,768
Foreign Currency Exchange Contracts	(1,952)
Foreign Currency Translations	1,209
<b>Net Assets</b>	<b>\$ 1,345,669</b>

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Financial Statements (cont'd)

	Year Ended October 31, 2010 (000)
Statement of Operations	
<b>Investment Income:</b>	
Interest from Securities of Unaffiliated Issuers (Net of \$270 Foreign Taxes Withheld)	\$ 133,933
Dividends from Security of Affiliated Issuer	28
<b>Total Investment Income</b>	133,961
<b>Expenses:</b>	
Investment Advisory Fees (Note B)	15,397
Administration Fees (Note C)	1,232
Custodian Fees (Note D)	1,144
Administrative Fees on Line of Credit (Note G)	1,135
Professional Fees	282
Stockholder Reporting Expenses	176
Commitment Fee (Note G)	126
Directors' Fees and Expenses	33
Stockholder Servicing Agent Fees	8
Other Expenses	393
<b>Expenses Before Non Operating Expenses</b>	19,926
Interest Expense on Line of Credit (Note G)	7,982
Interest Expense on Reverse Repurchase Agreements	97
Bank Overdraft Expense	@
<b>Total Expenses</b>	28,005
Rebate from Morgan Stanley Affiliate (Note F)	(16)
<b>Net Expenses</b>	27,989
<b>Net Investment Income</b>	105,972
<b>Realized Gain (Loss):</b>	
Investments Sold	22,578
Foreign Currency Exchange Contracts	(13,023)
Foreign Currency Transactions	2,227
Futures Contracts	(461)
<b>Net Realized Gain</b>	11,321
<b>Change in Unrealized Appreciation (Depreciation):</b>	
Investments	142,219
Foreign Currency Exchange Contracts	(177)
Foreign Currency Translations	851
Futures Contracts	881
<b>Net Change in Unrealized Appreciation (Depreciation)</b>	143,774
<b>Total Net Realized Gain (Loss) and Change in Unrealized Appreciation (Depreciation)</b>	155,095
<b>Net Increase in Net Assets Resulting from Operations</b>	\$ 261,067

@ Amount is less than \$500.

The accompanying notes are an integral part of the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Financial Statements (cont'd)

	Year Ended October 31, 2010	Year Ended October 31, 2009
	(000)	(000)
Statements of Changes in Net Assets		
<b>Increase (Decrease) in Net Assets</b>		
Operations:		
Net Investment Income	\$ 105,972	\$ 99,803
Net Realized Gain (Loss)	11,321	(91,724)
Net Change in Unrealized Appreciation (Depreciation)	143,774	338,396
<b>Net Increase in Net Assets Resulting from Operations</b>	261,067	346,475
Distributions from and/or in Excess of:		
Net Investment Income	(86,918)	(36,497)
Return of Capital		(54,324)
<b>Total Distributions</b>	(86,918)	(90,821)
Capital Share Transactions:		
Repurchase of Shares (0 and 853,200 shares)		(8,096)
<b>Net Decrease in Net Assets Resulting from Capital Share Transactions</b>		(8,096)
<b>Total Increase</b>	174,149	247,558
<b>Net Assets:</b>		
Beginning of Period	1,171,520	923,962
<b>End of Period (Including Distributions in Excess of Net Investment Income of \$(10,657) and \$(1,364))</b>	\$ 1,345,669	\$ 1,171,520

The accompanying notes are an integral part of the financial statements.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Financial Statements (cont'd)

	Year Ended October 31, 2010
	(000)
Statement of Cash Flows	
<b>Cash Flows From Operating Activities:</b>	
Proceeds from Sales and Maturities of Long-Term Investments	\$ 675,736
Purchase of Long-Term Investments	(745,326)
Net (Increase) Decrease in Short-Term Investments	5,143
Net (Increase) Decrease in Foreign Currency Holdings	(2,945)
Net Realized Gain (Loss) for Foreign Currency Transactions	(10,796)
Net Realized Gain (Loss) on Futures Contracts	(461)
Net Investment Income	105,972
<b>Adjustments to Reconcile Net Investment Income to Net Cash Provided (Used) by Operating Activities:</b>	
Net (Increase) Decrease in Receivables Related to Operations	(4,837)
Net Increase (Decrease) in Payables Related to Operations	(649)
Accretion/Amortization of Discounts and Premiums	(22,989)
Net Cash Provided (Used) by Operating Activities	(1,152)
<b>Cash Flows From Financing Activities:</b>	
Cash Received for Reverse Repurchase Agreements	127,273
Cash Paid for Reverse Repurchase Agreements	(134,838)
Cash Paid for Line of Credit	95,500
Cash Distribution Paid	(86,918)
Net Cash Provided (Used) for Financing Activities	1,017
Net Increase (Decrease) in Cash	(135)
<b>Cash at Beginning of Period</b>	<b>135</b>
<b>Cash at End of Period</b>	<b>\$</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Interest Paid on Line of Credit during the Period	\$ 7,679
Interest Paid on Reverse Repurchase Agreements during the Period	103

The accompanying notes are an integral part of the financial statements.

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Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Financial Highlights

*Selected Per Share Data and Ratios*

	Year Ended October 31,			Period from April 24, 2007 <sup>^</sup> to October 31, 2007
	2010	2009	2008	
<b>Net Asset Value, Beginning of Period</b>	\$ 16.17	\$ 12.61	\$ 20.47	\$ 19.10
Net Investment Income <sup>†</sup>	1.46	1.37	2.12	0.90
Net Realized and Unrealized Gain (Loss) on Investments	2.15	3.40	(7.49)	1.07
Total from Investment Operations	3.61	4.77	(5.37)	1.97
Distributions from and/or in excess of:				
Net Investment Income	(1.20)	(0.50)	(2.40)	(0.60)
Net Realized Gain			(0.09)	
Return of Capital		(0.75)		
Total Distributions	(1.20)	(1.25)	(2.49)	(0.60)
Anti-Dilutive Effect of Share Repurchase Program		0.04	(0.00) <sup>‡</sup>	
<b>Net Asset Value, End of Period</b>	\$ 18.58	\$ 16.17	\$ 12.61	\$ 20.47
<b>Per Share Market Value, End of Period</b>	\$ 17.29	\$ 13.75	\$ 9.70	\$ 18.93
<b>TOTAL INVESTMENT RETURN:</b>				
Market Value	35.60%	57.23%	(39.43)%	(2.46)%#
Net Asset Value(1)	23.83%	42.32%	(27.22)%	10.77)%#
<b>RATIOS, SUPPLEMENTAL DATA:</b>				
<b>Net Assets, End of Period (Thousands)</b>	\$ 1,345,669	\$ 1,171,520	\$ 923,962	\$ 1,501,063
Ratio of Expenses to Average Net Assets	2.28%+	2.20%+	2.80%+	3.24%*+
Ratio of Expenses to Average Net Assets Excluding Non Operating Expenses	1.62%+	1.58%+	1.59%+	2.21%*+
Ratio of Net Investment Income to Average Net Assets	8.61%+	9.60%+	11.90%+	8.88%*+
Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets	0.00%§	0.00%§	0.00%§	0.01%*
Portfolio Turnover Rate	42%	74%	130%	58)%#

<sup>^</sup> Commencement of Operations.

(1) Total investment return based on net asset value per share reflects the effects of changes in net asset value on the performance of the Fund during each period, and assumes dividends and distributions, if any, were reinvested. This percentage is not an indication of the performance of a stockholder's investment in the Fund based on market value due to differences between the market price of the stock and the net asset value per share of the Fund.

<sup>†</sup> Per share amount is based on average shares outstanding.

<sup>‡</sup> Amount is less than \$0.005 per share.

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# Not annualized.

\* Annualized.

+ The Ratios of Expenses and Net Investment Income reflect the rebate of certain Fund expenses in connection with the investments in Morgan Stanley affiliates during the period. The effect of the rebate on the ratios is disclosed in the above table as "Ratio of Rebate from Morgan Stanley Affiliates to Average Net Assets".

§ Amount is less than 0.005%.

The accompanying notes are an integral part of the financial statements.



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements

The Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. (the "Fund") was incorporated in Maryland on January 25, 2007 and is registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the "1940 Act"). The Fund's primary investment objective is to seek a high level of current income, with a secondary investment objective of long-term capital appreciation. The Fund seeks to achieve its investment objectives by investing, under normal circumstances, at least 80% of its managed assets in emerging markets domestic debt. To the extent the Fund invests in derivative instruments that the Adviser believes have economic characteristics similar to such securities, such investments will be counted for purposes of the Fund's policy described in the previous sentence. To the extent the Fund makes such investments, the Fund will be subject to the risk of such derivative instruments as described herein.

**A. Significant Accounting Policies:** The following significant accounting policies are in conformity with U.S. generally accepted accounting principles. Such policies are consistently followed by the Fund in the preparation of its financial statements. U.S. generally accepted accounting principles may require management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

**1. Security Valuation:** Bonds and other fixed income securities may be valued according to the broadest and most representative market. In addition, bonds and other fixed income securities may be valued on the basis of prices provided by a pricing service. The prices provided by a pricing service take into account broker dealer market price quotations for institutional size trading in similar groups of securities, security quality, maturity, coupon and other security characteristics as well as any developments related to the specific securities. Securities listed on a foreign exchange are valued at their closing price except as noted below. Unlisted securities and listed securities not traded on the valuation date for which market quotations are readily available are valued at the mean between the current bid and ask prices. Equity securities listed on a U.S. exchange are valued at the latest quoted sales price on the valuation date. Equity securities listed or traded on NASDAQ, for which market quotations are available, are valued at the NASDAQ Official Closing Price. Short-term debt securities purchased with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Directors (the "Directors") determines such valuation does not reflect the securities' market value, in which case these securities will be valued at their fair value as determined in good faith under procedures adopted by the Directors.

All other securities and investments for which market values are not readily available, including restricted securities, and those securities for which it is inappropriate to determine prices in accordance with the aforementioned procedures, are valued at fair value as determined in good faith under procedures adopted by the Directors, although the actual calculations may be done by others. Factors considered in making this determination may include, but are not limited to, information obtained by contacting the issuer, analysts, or the appropriate stock exchange (for exchange-traded securities), analysis of the issuer's financial statements or other available documents and, if necessary, available information concerning other securities in similar circumstances.

Most foreign markets close before the New York Stock Exchange (NYSE). Occasionally, developments that could affect the closing prices of securities and other assets may occur between the times at which valuations of such securities are determined (that is, close of the foreign market on which the securities trade) and the close of business on the NYSE. If these developments are expected to materially affect the value of the securities, the valuations may be adjusted to reflect the estimated fair

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

value as of the close of the NYSE, as determined in good faith under procedures established by the Directors.

**2. Reverse Repurchase Agreements:** The Fund may enter into reverse repurchase agreements with institutions that the Fund's investment adviser has determined are creditworthy. Under a reverse repurchase agreement, the Fund sells securities and agrees to repurchase them at a mutually agreed upon date and price. Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds from the sale of securities received by the Fund may decline below the price of the securities the Fund is obligated to repurchase. Reverse repurchase agreements also involve credit risk with the counterparty to the extent that the value of securities subject to repurchase exceed the Fund's liability under the reverse repurchase agreement. Securities subject to repurchase under reverse repurchase agreements, if any, are designated as such in the Portfolio of Investments.

At October 31, 2010, the Fund did not have outstanding reverse repurchase agreements.

The weighted average weekly balance of reverse repurchase agreements outstanding during the year ended October 31, 2010 was approximately \$16,450,000 at a weighted average weekly interest rate of 0.62%.

**3. Foreign Currency Translation:** The books and records of the Fund are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars at the mean of the bid and ask prices of such currencies against U.S. dollars last quoted by a major bank as follows:

investments, other assets and liabilities at the prevailing rate of exchange on the valuation date;

investment transactions and investment income at the prevailing rates of exchange on the dates of such transactions.

Although the net assets of the Fund are presented at the foreign exchange rates and market values at the close of the period, the Fund does not isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of the securities held at period end. Similarly, the Fund does not isolate the effect of changes in foreign exchange rates from the fluctuations arising from changes in the market prices of securities sold during the period. Accordingly, realized and unrealized foreign currency gains (losses) on investments in securities are included in the reported net realized and unrealized gains (losses) on investment transactions and balances.

Net realized gains (losses) on foreign currency transactions represent net foreign exchange gains (losses) from sales and maturities of foreign currency exchange contracts, disposition of foreign currencies, currency gains (losses) realized between the trade and settlement dates on securities transactions, and the difference between the amount of investment income and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized currency gains (losses) from valuing foreign currency denominated assets and liabilities at period end exchange rates are reflected as a component of unrealized appreciation (depreciation) on investments and foreign currency translations in the Statement of Assets and Liabilities. The change in unrealized currency gains (losses) on foreign currency translations for the period is reflected in the Statement of Operations.

A significant portion of the Fund's managed assets consist of securities of issuers located in emerging markets, which are denominated in foreign currencies. Such securities may be concentrated in a limited number of countries and regions and may vary throughout the year. Changes in currency exchange rates will affect the value of and

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

investment income from foreign currency denominated securities. Emerging market securities are often subject to greater price volatility, limited capitalization and liquidity, and higher rates of inflation than U.S. securities. In addition, emerging market issuers may be subject to substantial governmental involvement in the economy and greater social, economic and political uncertainty.

**4. Derivatives:** The Fund uses derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of another underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result. All the Fund's portfolio holdings, including derivative instruments, are marked to market each day with the change in value reflected in unrealized appreciation (depreciation). Upon disposition, a realized gain (loss) is recognized.

Following is a description of the derivative instruments and techniques that the Fund used during the period and their associated risks:

**Futures:** A futures contract is a standardized agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Futures contracts are bilateral agreements, with both the purchaser and the seller equally obligated to complete the transaction. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

**Structured Investments:** The Fund invested a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

investments to gain exposure to a permitted underlying security, currency or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to counterparty risk because the Fund is relying on the creditworthiness of such counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

**Foreign Currency Forward Contracts:** In connection with its investments in foreign securities, the Fund also entered into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date ("forward contracts"). A foreign currency forward contract is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Forward foreign currency exchange contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. A currency exchange contract is marked-to-market daily and the change in market value is recorded by the Fund as unrealized gain or loss. The Fund records realized gains (losses) when the contract is closed equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a forward or futures contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts.

**Over-the-Counter Trading:** Securities and other derivative instruments that may be purchased or sold by the Fund may consist of instruments not traded on an exchange. The risk of non-performance by the obligor on such an instrument may be greater, and the ease with which the Fund can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between bid and ask prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.

FASB ASC 815, "Derivatives and Hedging: Overall" ("ASC 815") is intended to improve financial reporting about derivative instruments by requiring enhanced



Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

disclosures to enable investors to better understand how and why the Fund uses derivative instruments, how these derivative instruments are accounted for and their effects on the Fund's financial position and results of operations.

The following table sets forth the fair value of the Fund's derivative contracts by primary risk exposure as of October 31, 2010.

Primary Risk Exposure	Statement of Assets and Liabilities	Foreign Currency Exchange Contracts (000)
<b>Assets:</b>		
Foreign Currency		
Contracts Risk	Receivables	\$ 901
<b>Liabilities:</b>		
Foreign Currency		
Contracts Risk	Payables	\$ (2,853)

The following tables set forth by primary risk exposure the Fund's realized gains (losses) and change in unrealized appreciation (depreciation) by type of derivative contract for the year ended October 31, 2010 in accordance with ASC 815.

### Realized Gain (Loss)

Primary Risk Exposure	Derivative Type	Value (000)
Foreign Currency	Foreign Currency	
Contracts Risk	Exchange Contracts	\$ (13,023)
Interest Rate Risk	Futures Contracts	(461)
	Total	\$ (13,484)

### Change in Unrealized Appreciation (Depreciation)

Primary Risk Exposure	Derivative Type	Value (000)
Foreign Currency	Foreign Currency	
Contracts Risk	Exchange Contracts	\$ (177)
Interest Rate Risk	Futures Contracts	881
	Total	\$ 704

All open derivative positions at period end, if any, are reflected on the Fund's Portfolio of Investments and the volume of these open positions relative to the net assets of the Fund is generally representative of open positions throughout the reporting period.

**5. Fair Value Measurement:** In accordance with FASB ASC 820 "Fair Value Measurements and Disclosure" ("ASC 820"), fair value is defined as the price that the Fund would receive to sell an investment or pay to transfer a liability in a timely transaction with an independent buyer in the principal market, or in the absence of a principal market the most advantageous market for the investment or liability. ASC 820 establishes a three-tier hierarchy to distinguish between (1) inputs that reflect the assumptions market participants would use in valuing an asset or liability developed based on market data obtained from sources

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independent of the reporting entity (observable inputs) and (2) inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in valuing an asset or liability developed based on the best information available in the circumstances (unobservable inputs) and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the Fund's investments. The inputs are summarized in the three broad levels listed below.

- Level 1 quoted prices in active markets for identical securities
- Level 2 other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

On January 21, 2010, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2010-06. The ASU amends Accounting Standards Codification 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques in Level 2 and Level 3 fair value measurements. The application of ASU 2010-06 is required for fiscal years and interim periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements, which are required for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The impact of this new guidance on the Fund's financial statements, if any, is currently being assessed by the Fund's management.

**6. Other:** Security transactions are accounted for on the date the securities are purchased or sold. Realized gains (losses) on the sale of investment securities are determined on the specific identified cost basis. Interest income is recognized on the accrual basis. Dividend income and distributions are recorded on the ex-dividend date (except for certain dividends which may be recorded as soon as the Fund is informed of such dividends) net of applicable withholding taxes, if any.

**B. Investment Advisory Fees:** Morgan Stanley Investment Management Inc. (the "Adviser" or "MS Investment Management") provides investment advisory services to the Fund under the terms of an Investment Advisory Agreement (the "Agreement"). Under the Agreement, the Adviser is paid a fee computed weekly and payable monthly at an annual rate of 1.00% of the Fund's average weekly managed assets.

**C. Administration Fees:** MS Investment Management also serves as Administrator to the Fund pursuant to an Administration Agreement. Under the Administration Agreement, the administration fee is 0.08% of the Fund's average weekly managed assets. Under a sub-administration agreement between the Administrator and State Street Bank and Trust Company ("State Street"), State Street provides certain administrative services to the Fund. For such services, the Administrator pays State Street a portion of the fee the Administrator receives from the Fund. Prior to May 24, 2010, JPMorgan Investor Services Co. ("JPMIS") provided certain administrative services to the Fund. For such services, the Administrator paid JPMIS a portion of the fee the Administrator received from the Fund.

**D. Custodian Fees:** State Street Bank and Trust Company (the "Custodian") and its affiliates serve as Custodian for the Fund. The Custodian holds cash, securities, and other assets of the Fund as required by the 1940 Act. Custody fees are payable monthly based on assets held in custody, investment purchases and sales activity and account maintenance fees, plus reimbursement for certain out-of-pocket expenses. Prior to May 24, 2010, JPMorgan Chase Bank, N.A. served as custodian for the Fund in accordance with the custodian agreement.

The Fund has entered into an arrangement with its Custodian whereby credits realized on uninvested cash balances were used to offset a portion of the Fund's expenses. If applicable, these custodian credits are shown as "Expense Offset" in the Statement of Operations.

**E. Federal Income Taxes:** It is the Fund's intention to continue to qualify as a regulated investment company and distribute all of its taxable income. Accordingly, no provision for Federal income taxes is required in the financial statements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

Dividend income and distributions to stockholders are recorded on the ex-dividend date.

The Fund may be subject to taxes imposed by countries in which it invests. Such taxes are generally based on income and/or capital gains earned or repatriated. Taxes are accrued and applied to net investment income, net realized gains and net unrealized appreciation as such income and/or gains are earned.

FASB ASC 740-10 "Income Taxes - Overall" sets forth a minimum threshold for financial statement recognition of the benefit of a tax position taken or expected to be taken in a tax return. Management has concluded there are no significant uncertain tax positions that would require recognition in the financial statements. If applicable, the Fund recognizes interest accrued related to unrecognized tax benefits in "Interest Expense" and penalties in "Other" expenses on the Statement of Operations. The Fund files tax returns with the U.S. Internal Revenue Service, New York and various states. Generally, each of the tax years in the four year period ended October 31, 2010, remains subject to examination by taxing authorities.

The tax character of distributions paid may differ from the character of distributions shown on the Statements of Changes in Net Assets due to short-term capital gains being treated as ordinary income for tax purposes. The tax character of distributions paid during fiscal 2010 and 2009 was as follows:

2010 Distributions		2009 Distributions	
Paid From:		Paid From:	
(000)		(000)	
Ordinary Income	Long-Term Capital Gain	Ordinary Income	Long-Term Capital Gain
\$ 86,918	\$	\$ 36,497	\$ 54,324

The amount and character of income and capital gain distributions to be paid by the Fund are determined in accordance with Federal income tax regulations, which may differ from U.S. generally accepted accounting principles. These book/tax differences are considered either temporary or permanent in nature.

Temporary differences are attributable to differing book and tax treatments for the timing of the recognition of gains (losses) on certain investment transactions, the timing of the deductibility of certain expenses and the recognition of premium amortization.

Permanent differences, primarily due to differing treatments of gains (losses) related to foreign currency transactions and premium amortization adjustment for certain securities sold, resulted in the following reclassifications among the components of net assets at October 31, 2010:

Undistributed (Distributions in Excess of) Net Investment Income (Loss) (000)	Accumulated Net Realized Gain (Loss) (000)	Paid-in Capital (000)
\$ (28,347)	\$ 28,346	\$ 1

At October 31, 2010, the components of distributable earnings for the Fund on a tax basis were as follows:

Undistributed Ordinary Income (000)	Undistributed Long-Term Capital Gain (000)
\$ 7,172	\$

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At October 31, 2010, the U.S. Federal income tax cost basis of investments was approximately \$1,518,838,000 and, accordingly, net unrealized appreciation for U.S. Federal income tax purposes was \$96,785,000 of which \$143,085,000 related to appreciated securities and \$46,300,000 related to depreciated securities.

At October 31, 2010, the Fund had a capital loss carryforward for U.S. Federal income tax purposes of approximately \$63,705,000 to offset against future capital gains of which \$30,134,000 will expire on October 31, 2016, and \$33,571,000 will expire on October 31, 2017. During the year ended

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## Notes to Financial Statements (cont'd)

October 31, 2010, the Fund had utilized capital loss carryforward for U.S. Federal income tax purposes of approximately \$35,336,000.

**F. Security Transactions and Transactions with Affiliates:** The Fund invests in the Institutional Class of the Morgan Stanley Institutional Liquidity Funds Money Market Portfolio (the "Liquidity Funds"), an open-end management investment company managed by the Adviser. Investment Advisory fees paid by the Fund are reduced by an amount equal to its pro-rata share of advisory and administration fees paid by the Fund due to its investments in the Liquidity Funds. For the year ended October 31, 2010, advisory fees paid were reduced by approximately \$16,000 relating to the Fund's investment in the Liquidity Funds.

A summary of the Fund's transactions in shares of the Liquidity Funds during the year ended October 31, 2010 is as follows:

Market Value October 31, 2009 (000)	Purchases at Cost (000)	Sales Proceeds (000)	Dividend Income (000)	Market Value October 31, 2010 (000)
\$ 7,565	\$ 346,907	\$ 344,798	\$ 28	\$ 9,674

During the year ended October 31, 2010, the Fund made purchases and sales totaling approximately \$701,757,000 and \$621,104,000, respectively, of investment securities other than long-term U.S. Government securities and short-term investments.

During the year ended October 31, 2010, the Fund incurred no brokerage commissions with Morgan Stanley & Co. Incorporated, an affiliated broker/dealer.

**G. Credit Facility:** The Fund will use the proceeds from the use of leverage to purchase additional securities consistent with the Fund's investment objectives, policies and strategies. The Fund has engaged JPMorgan Securities Inc. to arrange a syndicate of lenders to provide a revolving line of credit facility in the amount of \$275,000,000. Pursuant to the agreement among the parties, JPMorgan Chase Bank, N.A., as lender (the "Lender") has agreed to commit up to \$55,000,000 of the facility amount. The facility is expected to have the following terms and conditions, among others: The term of the facility is 364 days, which term may be extended under certain conditions. The loans under the facility will bear interest at a rate per annum, at the rate of LIBOR for the applicable interest period plus a spread. The loans will be secured by a fully perfected first priority lien on all of the assets of the Fund capable of being pledged. There will be a commitment fee on the unused portion of the facility in the amount of 0.50% of the average daily unused portion of the credit facility. Effective April 29, 2010 the credit facility has been amended. The Fund has engaged JPMorgan Securities Inc. to arrange a syndicate of lenders to provide a revolving line of credit facility in the amount of \$325,000,000 and increased to \$400,000,000 as of May 13, 2010. Pursuant to the agreement among the parties, JPMorgan Chase Bank, N.A. has agreed to commit up to \$75,000,000. The loans under the facility will bear interest at a rate per annum, at the rate of LIBOR for the applicable interest period plus a spread. The loans will be secured by a fully perfected first priority lien on all of the assets of the Fund capable of being pledged. There will be a commitment fee on the unused portion of the facility in the amount of 0.375% of the average daily unused portion of the credit facility. The average borrowings and interest rate for the year ended October 31, 2010 were approximately \$294,086,000 and 2.65%, respectively, during a period of 365 days. During the same period, the Fund incurred approximately \$7,982,000 in interest expense associated with the outstanding balances.

**H. Other:** On June 20, 2007, the Fund commenced a share repurchase program for purposes of enhancing stockholder value and reducing the discount at which the Fund's shares trade from their net asset value. For the year ended October 31, 2010, the

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

fund did not repurchase any of its shares. Since the inception of the program, the Fund has repurchased 886,200 of its shares at an average discount of 23.87% from net asset value per share. The Fund expects to continue to repurchase its outstanding shares at such time and in such amounts as it believes will further the accomplishment of the foregoing objectives, subject to review by the Directors.

**I. Results of Annual Meeting of Shareholders (unaudited):** On June 16, 2010, an annual meeting of the Fund's stockholders was held for the purpose of voting on the following matter, the results of which were as follows:

Election of Directors by all stockholders:

	<b>For</b>	<b>Withhold</b>
Frank L. Bowman	62,299,692	2,649,468
James F. Higgins	62,071,958	2,877,202
Manuel H. Johnson	62,302,764	2,646,396

**J. Indemnifications** The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Notes to Financial Statements (cont'd)

### **For More Information About Portfolio Holdings (unaudited)**

The Fund provides a complete schedule of portfolio holdings in its semi-annual and annual reports within 60 days of the end of the Fund's second and fourth fiscal quarters. The semi-annual reports and the annual reports are filed electronically with the Securities and Exchange Commission (SEC) on Form N-CSRS and Form N-CSR, respectively. Morgan Stanley also delivers the semi-annual and annual reports to Fund stockholders and makes these reports available on its public website, [www.morganstanley.com/im](http://www.morganstanley.com/im). Each Morgan Stanley fund also files a complete schedule of portfolio holdings with the SEC for the Fund's first and third fiscal quarters on Form N-Q. Morgan Stanley does not deliver the reports for the first and third fiscal quarters to stockholders, nor are the reports posted to the Morgan Stanley public website. You may, however, obtain the Form N-Q filings (as well as the Form N-CSR and N-CSRS filings) by accessing the SEC's website, [www.sec.gov](http://www.sec.gov). You may also review and copy them at the SEC's public reference room in Washington, DC. Information on the operation of the SEC's Public Reference Room may be obtained by calling the SEC toll free at 1(800) SEC-0330. You can also request copies of these materials, upon payment of a duplicating fee, by electronic request at the SEC's e-mail address ([publicinfo@sec.gov](mailto:publicinfo@sec.gov)) or by writing the public reference section of the SEC, Washington, DC 20549-0102.

In addition to filing a complete schedule of portfolio holdings with the SEC each fiscal quarter, the Fund makes portfolio holdings information available by periodically providing the information on its public website, [www.morganstanley.com/im](http://www.morganstanley.com/im).

The Fund provides a complete schedule of portfolio holdings on the public website on a calendar-quarter basis approximately 31 calendar days after the close of the calendar quarter. The Fund also provides Top 10 holdings information on the public website approximately 15 business days following the end of each month. You may obtain copies of the Fund's monthly or calendar-quarter website postings, by calling toll free 1(800) 231-2608.

### **Proxy Voting Policy and Procedures and Proxy Voting Record (unaudited)**

A copy of (1) the Fund's policies and procedures with respect to the voting of proxies relating to the Fund's portfolio securities; and (2) how the Fund voted proxies relating to portfolio securities during the most recent twelve-month period ended June 30, is available without charge, upon request, by calling toll free 1(800) 548-7786 or by visiting our website at [www.morganstanley.com/im](http://www.morganstanley.com/im). This information is also available on the SEC's web site at [www.sec.gov](http://www.sec.gov).





Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010

## Report of Independent Registered Public Accounting Firm

### **To the Stockholders and Board of Directors of Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.**

We have audited the accompanying statement of assets and liabilities of Morgan Stanley Emerging Markets Domestic Debt Fund, Inc., (the "Fund"), including the portfolio of investments, as of October 31, 2010, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2010 by correspondence with the custodian and brokers. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Morgan Stanley Emerging Markets Domestic Debt Fund, Inc. at October 31, 2010, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts  
December 21, 2010

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## Portfolio Management

The Fund is managed by members of the Emerging Markets Debt team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are Eric J. Baurmeister and Federico L. Kaune, each a Managing Director of the Adviser. Mr. Baurmeister has been associated with the Adviser in an investment management capacity since 1997 and began managing the Fund at its inception. Mr. Kaune has been associated with the Adviser in an investment management capacity since 2002 and began managing the Fund at its inception.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## Investment Policy

The Fund may use derivative instruments for a variety of purposes, including hedging, risk management, portfolio management or to earn income. Derivatives are financial instruments whose value is based on the value of another underlying asset, interest rate, index or financial instrument. A derivative instrument often has risks similar to its underlying instrument and may have additional risks, including imperfect correlation between the value of the derivative and the underlying instrument, risks of default by the other party to certain transactions, magnification of losses incurred due to changes in the market value of the securities, instruments, indices or interest rates to which they relate, and risks that the transactions may not be liquid. The use of derivatives involves risks that are different from, and possibly greater than, the risks associated with other portfolio investments. Derivatives may involve the use of highly specialized instruments that require investment techniques and risk analyses different from those associated with other portfolio investments. Certain derivative transactions may give rise to a form of leverage. Leverage associated with derivative transactions may cause the Fund to liquidate portfolio positions when it may not be advantageous to do so to satisfy its obligations or to meet earmarking or segregation requirements, pursuant to applicable SEC rules and regulations, or may cause the Fund to be more volatile than if the Fund had not been leveraged. Although the Investment Adviser seeks to use derivatives to further the Fund's investment objectives, there is no assurance that the use of derivatives will achieve this result.

Following is a description of the derivative instruments and techniques that the Fund may use and their associated risks:

*Futures.* A futures contract is a standardized agreement between two parties to buy or sell a specific quantity of an underlying instrument at a specific price at a specific future time. The value of a futures contract tends to increase and decrease in tandem with the value of the underlying instrument. Futures contracts are bilateral agreements, with both the purchaser and the seller equally obligated to complete the transaction. Depending on the terms of the particular contract, futures contracts are settled through either physical delivery of the underlying instrument on the settlement date or by payment of a cash settlement amount on the settlement date. A decision as to whether, when and how to use futures involves the exercise of skill and judgment and even a well conceived futures transaction may be unsuccessful because of market behavior or unexpected events. In addition to the derivatives risks discussed above, the prices of futures can be highly volatile, using futures can lower total return, and the potential loss from futures can exceed the Fund's initial investment in such contracts.

*Options.* If a Fund buys an option, it buys a legal contract giving it the right to buy or sell a specific amount of the underlying instrument or futures contract on the underlying instrument such as a security, currency or index, at an agreed upon price typically in exchange for a premium paid by the Fund. If a Fund sells an option, it sells to another person the right to buy from or sell to the Fund a specific amount of the underlying instrument or futures contract on the underlying instrument at an agreed upon price typically in exchange for a premium received by the Fund. A decision as to whether, when and how to use options involves the exercise of skill and judgment and even a well conceived option transaction may be unsuccessful because of market behavior or unexpected events. The prices of options can be highly volatile and the use of options can lower total returns.

*Swaps.* A swap contract is an agreement between two parties pursuant to which the parties exchange payments at specified dates on the basis of a specified notional amount, with the payments calculated by reference to specified securities, indexes, reference rates, currencies or other instruments. Most swap agreements provide that when the period payment dates for both parties are the same, the payments are made on a net basis (i.e., the two payment streams are netted out, with only the net amount paid by one party to the

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## Investment Policy (cont'd)

other). The Fund's obligations or rights under a swap contract entered into on a net basis will generally be equal only to the net amount to be paid or received under the agreement, based on the relative values of the positions held by each counterparty. Swap agreements are not entered into or traded on exchanges and there is no central clearing or guaranty function for swaps. Therefore, swaps are subject to credit risk or the risk of default or non-performance by the counterparty. Swaps could result in losses if interest rate or foreign currency exchange rates or credit quality changes are not correctly anticipated by the Fund or if the reference index, security or investments do not perform as expected. The Fund's use of swaps may include those based on the credit of an underlying security and commonly referred to as "credit default swaps." Where the Fund is the buyer of a credit default swap contract, it would be entitled to receive the par (or other agreed-upon) value of a referenced debt obligation from the counterparty to the contract only in the event of a default by a third party on the debt obligation. If no default occurs, the Fund would have paid to the counterparty a periodic stream of payments over the term of the contract and received no benefit from the contract. When the Fund is the seller of a credit default swap contract, it receives the stream of payments but is obligated to pay upon default of the referenced debt obligation.

*Structured Investments.* The Fund also may invest a portion of its assets in structured investments. A structured investment is a derivative security designed to offer a return linked to a particular underlying security, currency or market. Structured investments may come in various forms including notes, warrants and options to purchase securities. The Fund will typically use structured investments to gain exposure to a permitted underlying security, currency or market when direct access to a market is limited or inefficient from a tax or cost standpoint. Investments in structured investments involve risks including counterparty risk and market risk. Holders of structured investments bear risks of the underlying investment and are subject to counterparty risk because the Fund is relying on the creditworthiness of such counterparty and has no rights with respect to the underlying investment. Certain structured investments may be thinly traded or have a limited trading market and may have the effect of increasing the Fund's illiquidity to the extent that the Fund, at a particular point in time, may be unable to find qualified buyers for these securities.

*Foreign Currency Forward Contracts.* In connection with its investments in foreign securities, the Fund also may enter into contracts with banks, brokers or dealers to purchase or sell securities or foreign currencies at a future date ("forward contracts"). A foreign currency forward contract is a negotiated agreement between the contracting parties to exchange a specified amount of currency at a specified future time at a specified rate. The rate can be higher or lower than the spot rate between the currencies that are the subject of the contract. Forward foreign currency exchange contracts may be used to protect against uncertainty in the level of future foreign currency exchange rates or to gain or modify exposure to a particular currency. In addition, the Fund may use cross currency hedging or proxy hedging with respect to currencies in which the Fund has or expects to have portfolio or currency exposure. Cross currency hedges involve the sale of one currency against the positive exposure to a different currency and may be used for hedging purposes or to establish an active exposure to the exchange rate between any two currencies. Hedging the Fund's currency risks involves the risk of mismatching the Fund's objectives under a forward or futures contract with the value of securities denominated in a particular currency. Furthermore, such transactions reduce or preclude the opportunity for gain if the value of the currency should move in the direction opposite to the position taken. There is an additional risk to the effect that currency contracts create exposure to currencies in which the Fund's securities are not denominated. Unanticipated changes in currency prices may result in poorer overall performance for the Fund than if it had not entered into such contracts.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## Investment Policy (cont'd)

*Investments in Emerging Countries.* The Fund has amended its definition of an emerging country as follows:

An emerging country is any country that the International Bank for Reconstruction and Development (commonly known as The World Bank) or similar major financial institution has determined to have a low or middle economy or countries included in the Index. The Fund's definition of debt securities of corporate issuers in emerging countries is amended as follows:

The Fund's investments in debt securities of corporate issuers in emerging countries may include debt securities or obligations issued (i) by banks located in emerging countries or by branches of emerging country banks located outside the country, (ii) by a company whose principal securities trading market is in an emerging country, (ii) by a company who alone or on a consolidated basis derives 50% or more of its annual revenue from goods produced, sales made or services performed in emerging countries or (iii) by a company that is organized under the laws of, or has a principal office in, an emerging country.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## Dividend Reinvestment Plan

Pursuant to the Dividend Reinvestment Plan (the Plan), each stockholder will be deemed to have elected, unless Computershare Trust Company, N.A. (the Plan Agent) is otherwise instructed by the stockholder in writing, to have all distributions automatically reinvested in Fund shares.

Dividend and capital gain distributions (Distribution) will be reinvested on the reinvestment date in full and fractional shares. If the market price per share equals or exceeds net asset value per share on the reinvestment date, the Fund will issue shares to participants at net asset value or, if net asset value is less than 95% of the market price on the reinvestment date, shares will be issued at 95% of the market price. If net asset value exceeds the market price on the reinvestment date, participants will receive shares valued at market price. The Fund may purchase shares of its Common Stock in the open market in connection with dividend reinvestment requirements at the discretion of the Board of Directors. Should the Fund declare a Distribution payable only in cash, the Plan Agent will purchase Fund shares for participants in the open market as agent for the participants.

The Plan Agent's fees for the reinvestment of a Distribution will be paid by the Fund. However, each participant's account will be charged a pro rata share of brokerage commissions incurred on any open market purchases effected on such participant's behalf. Although stockholders in the Plan may receive no cash distributions, participation in the Plan will not relieve participants of any income tax which may be payable on such dividends or distributions.

In the case of stockholders, such as banks, brokers or nominees, that hold shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the stockholder as representing the total amount registered in the stockholder's name and held for the account of beneficial owners who are participating in the Plan.

Stockholders who do not wish to have Distributions automatically reinvested should notify the Plan Agent in writing. There is no penalty for non-participation or withdrawal from the Plan, and stockholders who have previously withdrawn from the Plan may rejoin at any time. Requests for additional information or any correspondence concerning the Plan should be directed to the Plan Agent at:

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.  
Computershare Trust Company, N.A.  
P.O. Box 43078  
Providence, Rhode Island 02940-3078  
1 (800) 231-2608





Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

October 31, 2010 (unaudited)

## U.S. Privacy Policy

### **An Important Notice Concerning Our U.S. Privacy Policy**

We are required by federal law to provide you with a copy of our privacy policy ("Policy") annually.

This Policy applies to current and former individual clients of certain Morgan Stanley closed-end funds and related companies.

This Policy is not applicable to partnerships, corporations, trusts or other non-individual clients or account holders, nor is this Policy applicable to individuals who are either beneficiaries of a trust for which we serve as trustee or participants in an employee benefit plan administered or advised by us. This Policy is, however, applicable to individuals who select us to be a custodian of securities or assets in individual retirement accounts, 401(k) accounts, 529 Educational Savings Accounts, accounts subject to the Uniform Gifts to Minors Act, or similar accounts. We may amend this Policy at any time, and will inform you of any changes to this Policy as required by law.

### **We Respect Your Privacy**

We appreciate that you have provided us with your personal financial information and understand your concerns about safeguarding such information. We strive to maintain the privacy of such information while we help you achieve your financial objectives. This Policy describes what nonpublic personal information we collect about you, how we collect it, when we may share it with others, and how others may use it. It discusses the steps you may take to limit our sharing of information about you with affiliated Morgan Stanley companies ("affiliated companies"). It also discloses how you may limit our affiliates' use of shared information for marketing purposes. Throughout this Policy, we refer to the nonpublic information that personally identifies you or your accounts as "personal information."

### **1. What Personal Information Do We Collect About You?**

To better serve you and manage our business, it is important that we collect and maintain accurate information about you. We obtain this information from applications and other forms you submit to us, from your dealings with us, from consumer reporting agencies, from our websites and from third parties and other sources. For example:

- We collect information such as your name, address, e-mail address, telephone/fax numbers, assets, income and investment objectives through application forms you submit to us.
- We may obtain information about account balances, your use of account(s) and the types of products and services you prefer to receive from us through your dealings and transactions with us and other sources.
- We may obtain information about your creditworthiness and credit history from consumer reporting agencies.
- We may collect background information from and through third-party vendors to verify representations you have made and to comply with various regulatory requirements.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## U.S. Privacy Policy (cont'd)

• If you interact with us through our public and private Web sites, we may collect information that you provide directly through online communications (such as an e-mail address). We may also collect information about your Internet service provider, your domain name, your computer's operating system and Web browser, your use of our Web sites and your product and service preferences, through the use of "cookies." "Cookies" recognize your computer each time you return to one of our sites, and help to improve our sites' content and personalize your experience on our sites by, for example, suggesting offerings that may interest you. Please consult the Terms of Use of these sites for more details on our use of cookies.

### **2. When Do We Disclose Personal Information We Collect About You?**

To provide you with the products and services you request, to better serve you, to manage our business and as otherwise required or permitted by law, we may disclose personal information we collect about you to other affiliated companies and to nonaffiliated third parties.

**a. Information We Disclose to Our Affiliated Companies.** In order to manage your account(s) effectively, including servicing and processing your transactions, to let you know about products and services offered by us and affiliated companies, to manage our business, and as otherwise required or permitted by law, we may disclose personal information about you to other affiliated companies. Offers for products and services from affiliated companies are developed under conditions designed to safeguard your personal information.

**b. Information We Disclose to Third Parties.** We do not disclose personal information that we collect about you to nonaffiliated third parties except to enable them to provide marketing services on our behalf, to perform joint marketing agreements with other financial institutions, and as otherwise required or permitted by law. For example, some instances where we may disclose information about you to third parties include: for servicing and processing transactions, to offer our own products and services, to protect against fraud, for institutional risk control, to respond to judicial process or to perform services on our behalf. When we share personal information with a nonaffiliated third party, they are required to limit their use of personal information about you to the particular purpose for which it was shared and they are not allowed to share personal information about you with others except to fulfill that limited purpose or as may be required by law.

### **3. How Do We Protect The Security and Confidentiality Of Personal Information We Collect About You?**

We maintain physical, electronic and procedural security measures to help safeguard the personal information we collect about you. We have internal policies governing the proper handling of client information. Third parties that provide support or marketing services on our behalf may also receive personal information about you, and we require them to adhere to confidentiality standards with respect to such information.

### **4. How Can You Limit Our Sharing Of Certain Personal Information About You With Our Affiliated Companies For Eligibility Determination?**

We respect your privacy and offer you choices as to whether we share with our affiliated companies personal information that was collected to determine your eligibility for products and services such as credit reports and other information that you have provided to

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## U.S. Privacy Policy (cont'd)

us or that we may obtain from third parties ("eligibility information"). Please note that, even if you direct us not to share certain eligibility information with our affiliated companies, we may still share your personal information, including eligibility information, with those companies under circumstances that are permitted under applicable law, such as to process transactions or to service your account. We may also share certain other types of personal information with affiliated companies such as your name, address, telephone number, e-mail address and account number(s), and information about your transactions and experiences with us.

### **5. How Can You Limit the Use of Certain Personal Information About You by our Affiliated Companies for Marketing?**

You may limit our affiliated companies from using certain personal information about you that we may share with them for marketing their products or services to you. This information includes our transactions and other experiences with you such as your assets and account history. Please note that, even if you choose to limit our affiliated companies from using certain personal information about you that we may share with them for marketing their products and services to you, we may still share such personal information about you with them, including our transactions and experiences with you, for other purposes as permitted under applicable law.

### **6. How Can You Send Us an Opt-Out Instruction?**

If you wish to limit our sharing of certain personal information about you with our affiliated companies for "eligibility purposes" and for our affiliated companies' use in marketing products and services to you as described in this notice, you may do so by:

- Calling us at (800) 231-2608  
Monday - Friday between 9a.m. and 6p.m. (EST)

- Writing to us at the following address:

Morgan Stanley Closed-End Privacy Department  
Harborside Financial Center, Plaza Two, 3rd Floor  
Jersey City, NJ 07311

If you choose to write to us, your written request should include: your name, address, telephone number and account number(s) to which the opt-out applies and should not be sent with any other correspondence. In order to process your request, we require that the request be provided by you directly and not through a third party. Once you have informed us about your privacy preferences, your opt-out preference will remain in effect with respect to this Policy (as it may be amended) until you notify us otherwise. If you are a joint account owner, we will accept instructions from any one of you and apply those instructions to the entire account. Please allow approximately 30 days from our receipt of your opt-out for your instructions to become effective.

Please understand that if you opt-out, you and any joint account holders may not receive certain Morgan Stanley or our affiliated companies' products and services that could help you manage your financial resources and achieve your investment objectives.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

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## U.S. Privacy Policy (cont'd)

If you have more than one account with us or our affiliates, you may receive multiple privacy policies from us, and would need to follow the directions stated in each particular policy for each account you have with us.

### **7. What if an affiliated company becomes a nonaffiliated third party?**

If, at any time in the future, an affiliated company becomes a nonaffiliated third party, further disclosures of personal information made to the former affiliated company will be limited to those described in Section 2(b) above relating to nonaffiliated third parties. If you elected under Section 6 to limit disclosures we make to affiliated companies, or use of personal information by affiliated companies, your election will not apply to use by any former affiliated company of your personal information in their possession once it becomes a nonaffiliated third party.

### **SPECIAL NOTICE TO RESIDENTS OF VERMONT**

**This section supplements our Policy with respect to our individual clients who have a Vermont address and supersedes anything to the contrary in the above Policy with respect to those clients only.**

The State of Vermont requires financial institutions to obtain your consent prior to sharing personal information that they collect about you with affiliated companies and nonaffiliated third parties other than in certain limited circumstances. Except as permitted by law, we will not share personal information we collect about you with nonaffiliated third parties or other affiliated companies unless you provide us with your written consent to share such information ("opt-in").

If you wish to receive offers for investment products and services offered by or through other affiliated companies, please notify us in writing at the following address:

Morgan Stanley Closed-End Privacy Department  
Harborside Financial Center, Plaza Two, 3rd Floor  
Jersey City, NJ 07311

Your authorization should include: your name, address, telephone number and account number(s) to which the opt-in applies and should not be sent with any other correspondence. In order to process your authorization, we require that the authorization be provided by you directly and not through a third-party.

### **SPECIAL NOTICE TO RESIDENTS OF CALIFORNIA**

**The following section supplements our Policy with respect to our individual clients who have a California address and supersedes anything to the contrary in the above Policy with respect to those clients only.**

In response to a California law, if your account has a California home address, your personal information will not be disclosed to nonaffiliated third parties except as permitted by applicable California law, and we will limit sharing such personal information with our affiliates to comply with California privacy laws that apply to us.



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Director and Officer Information

Independent Directors:

Name, Age and Address of Director	Position(s) Held	Since	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Directors††
Frank L. Bowman (65) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	August 2006		President, Statagic Decisions, LLC (consulting) (since February 2009); Director or Trustee of various Retail Funds and Institutional Funds (since August 2006); Chairperson of the Insurance Sub-Committee of the Compliance and Insurance Committee (since February 2007); served as President and Chief Executive Officer of the Nuclear Energy Institute (policy organization) through November 2008; retired as Admiral, U.S. Navy after serving 38 years on active duty including 8 years as Director of the Naval Nuclear Propulsion Program in the Department of the Navy and the U.S. Department of Energy (1996-2004); Served as Chief of Naval Personnel (July 1994-September 1996). Knighted as Honorary Knight Commander of the Most Excellent Order of the British Empire; Awarded the Officer de l'Orde National du Mérite by the French Government; elected to the National Academy of Engineering (2009).	98	Director of BP p.l.c.; Director of Naval and Nuclear Technologies LLP.; Director of the Armed Services YMCA of the USA and the Naval Submarine League.
Michael Bozic (69) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	April 1994		Private Investor; Chairperson of the Compliance and Insurance Committee (since October 2006); Director or Trustee of the Retail Funds (since April 1994) and Institutional Funds (since July 2003); formerly, Chairperson of the Insurance Committee (July 2006-September 2006), Vice Chairman of Kmart Corporation (December 1998-October 2000), Chairman and Chief Executive Officer of Levitz Furniture Corporation (November 1995-November 1998) and President and Chief Executive Officer of Hills Department Stores (May 1991-July 1995); variously Chairman, Chief Executive Officer, President and Chief Operating Officer (1987-1991) of the Sears Merchandise Group of Sears Roebuck & Co.	100	Director of various business organizations.

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2010 Annual Report

October 31, 2010 (unaudited)

Director and Officer Information (cont'd)

Independent Directors: (cont'd)

Name, Age and Address of Independent Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Directors††
Kathleen A. Dennis (57) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director	Since August 2006	President, Cedarwood Associates (mutual fund and investment management consulting) (since July 2006); Chairperson of the Money Market and Alternatives Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Retail Funds and Institutional Funds (since August 2006); formerly, Senior Managing Director of Victory Capital Management (1993-2006).	98	Director of various non-profit organizations.
Dr. Manuel H. Johnson (61) c/o Johnson Smick Group, Inc. 888 16th Street, N.W. Suite 740 Washington, D.C. 20006	Director	Since July 1991	Senior Partner, Johnson Smick International, Inc. (consulting firm); Chairperson of the Investment Committee (since October 2006) and Director or Trustee of the Retail Funds (since July 1991) and Institutional Funds (since July 2003); Co-Chairman and a founder of the Group of Seven Council (G7C) (international economic commission); formerly, Chairperson of the Audit Committee (July 1991-September 2006); Vice Chairman of the Board of Governors of the Federal Reserve System and Assistant Secretary of the U.S. Treasury.	100	Director of NVR, Inc. (home construction); Director of Evergreen Energy; Director of Greenwich Capital Holdings.
Joseph J. Kearns (68) c/o Kearns & Associates LLC PMB754 23852 Pacific Coast Highway Malibu, CA 90265	Director	Since August 1994	President, Kearns & Associates LLC (investment consulting); Chairperson of the Audit Committee (since October 2006) and Director or Trustee of the Retail Funds (since July 2003) and Institutional Funds (since August 1994); formerly Deputy Chairperson of the Audit Committee (July 2003-September 2006) and Chairperson of the Audit Committee of the Institutional Funds (October 2001-July 2003) and since August 1994 for certain predecessor Funds; CFO of the J. Paul Getty Trust.	101	Director of Electro Rent Corporation (equipment leasing) and The Ford Family Foundation.





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2010 Annual Report

October 31, 2010 (unaudited)

Director and Officer Information (cont'd)

Independent Directors: (cont'd)

Name, Age and Address of Director	Position(s) Held with Registrant	Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Independent Director**	Other Directorships Held by Independent Directors††
Michael F. Klein (52) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director since August 2006	Since August 2006	Chief Operating Officer and Managing Director, Aetos Capital, LLC (since March 2000) and Co-President, Aetos Alternatives Management, LLC (since January 2004); Chairperson of the Fixed Income Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Retail Funds and Institutional Funds (since August 2006); formerly, Managing Director, Morgan Stanley & Co., Inc. and Morgan Stanley Dean Witter Investment Management, President, Morgan Stanley Institutional Funds (June 1998-March 2000) and Principal, Morgan Stanley & Co., Inc. and Morgan Stanley Dean Witter Investment Management (August 1997-December 1999).	98	Director of certain investment funds managed or sponsored by Aetos Capital LLC. Director of Sanitized AG and Sanitized Marketing AG (specialty chemicals).
Michael E. Nugent (74) c/o Triumph Capital, L.P. 445 Park Avenue New York, NY 10022	Chairperson of the Boards since July 2006 and Director since July 1991	Chairperson of the Boards since July 2006 and Director since July 1991	General Partner, Triumph Capital, L.P. (private investment partnership); Chairperson of the Boards of the Retail Funds and Institutional Funds (since July 2006); Director or Trustee of the Retail Funds (since July 1991) and Institutional Funds (since July 2001); formerly, Chairperson of the Insurance Committee (until July 2006).	100	None.
W. Allen Reed (63) c/o Kramer Levin Naftalis & Frankel LLP Counsel to the Independent Directors 1177 Avenue of the Americas New York, NY 10036	Director since August 2006	Since August 2006	Chairperson of the Equity Sub-Committee of the Investment Committee (since October 2006) and Director or Trustee of various Retail and Institutional Funds (since August 2006); formerly, President and CEO of General Motors Asset Management; Chairman and Chief Executive Officer of the GM Trust Bank and Corporate Vice President of General Motors Corporation (July 1994-December 2005).	98	Director of Temple-Inland Industries (packaging and forest products), Director of Legg Mason, Inc. and Director of the Auburn University Foundation; formerly, Director of iShares, Inc. (2001-2006).
Fergus Reid (78)	Director since June	Since June	Chairman, Joe Pietryka, Inc.; Chairperson of the Governance Committee and Director or Trustee of the Retail Funds (since July 2003) and Institutional Funds	101	Trustee and Director of certain investment companies in the JPMorgan Funds complex managed by JP Morgan Investment

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c/o Joe  
Pietryka,  
Inc.  
85 Charles  
Coleman  
Blvd.  
Pawling, NY  
12564

1992

(since June 1992).

Management Inc.

2010 Annual Report

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Director and Officer Information (cont'd)

Interested Director:

Name, Age and Address of Interested Director	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Interested Director**	Other Directorships Held by Interested Director††
James F. Higgins (62) c/o Morgan Stanley Services Company Inc. Harborside Financial Center Plaza Two Jersey City, NJ 07311	Director	Since June 2000	Director or Trustee of the Retail Funds (since June 2000) and Institutional Funds (since July 2003); Senior Advisor of Morgan Stanley (since August 2000).	99	Director of AXA Financial, Inc. and The Equitable Life Assurance Society of the United States (financial services).

\* This is the earliest date the Director began serving the Retail Funds or Institutional Funds. Each Director serves an indefinite term, until his or her successor is elected.

†† This includes any directorships at public companies and registered investment companies held by the Director at any time during the past five years.

\*\* The Fund Complex includes all funds advised by Morgan Stanley Investment Management (as of October 31, 2010) that have an investment advisor that is an affiliated entity of MSIM (including but not limited to, Morgan Stanley Investment Advisors Inc. ("MSIA") and Morgan Stanley AIP GP LP). The Retail Funds are those funds advised by MSIA. The Institutional Funds are certain U.S. registered funds advised by MSIM and Morgan Stanley AIP GP LP.

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2010 Annual Report

October 31, 2010 (unaudited)

## Director and Officer Information (cont'd)

### Executive Officers:

Name, Age and Address of Executive Officer	Position(s) Held with Registrant	Term of Office and Length of Time Served*	Principal Occupation(s) During Past 5 Years
Sara Furber (35) 522 Fifth Avenue New York, NY 10036	President and Principal Executive Officer Equity and Fixed Income Funds	Since September 2010	President and Principal Executive Officer (since September 2010) of the Equity and Fixed Income Funds in the Fund Complex; Managing Director and Director of the Adviser and various entities affiliated with the Adviser (since July 2010). Formerly, Chief Operating Officer for Global Corporate and Investment Banking at Bank of America Merrill Lynch (January 2009 to April 2010); Head of Merrill Lynch & Co. Investor Relations (July 2007 to December 2008); with senior roles in Strategy and Business Development as well as within Merrill Lynch's Global Credit & Commitments organization prior to July 2007.
Mary Ann Picciotto (37) c/o Morgan Stanley Services Company Inc. Harborside Financial Center Plaza Two Jersey City, NJ 07311	Chief Compliance Officer	Since May 2010	Executive Director of the Adviser and various entities affiliated with the Adviser; Chief Compliance Officer of the Retail Funds and Institutional Funds (since May 2010); Chief Compliance Officer of the Adviser and Morgan Stanley Investment Advisors Inc. (since April 2007).
Stefanie V. Chang Yu (44) 522 Fifth Avenue New York, NY 10036	Vice President	Since December 1997	Managing Director of the Adviser and various entities affiliated with the Adviser; Vice President of the Retail Funds (since July 2002) and Institutional Funds (since December 1997). Formerly, Secretary of the Adviser and various entities affiliated with the Adviser.
Mary E. Mullin (43) 522 Fifth Avenue New York, NY 10036	Secretary	Since June 1999	Executive Director of the Adviser and various entities affiliated with the Adviser; Secretary of the Retail Funds (since July 2003) and Institutional Funds (since June 1999).
Francis J. Smith (45) c/o Morgan Stanley Services Company Inc. Harborside Financial Center Plaza Two Jersey City, NJ 07311	Treasurer and Principal Financial Officer	Treasurer since July 2003 and Principal Financial Officer since September 2002	Executive Director of the Adviser and various entities affiliated with the Adviser; Treasurer and Principal Financial Officer of the Retail Funds (since July 2003) and Institutional Funds (since March 2010).

\* This is the earliest date the Officer began serving the Retail Funds or Institutional Funds. Each Officer serves an indefinite term, until his or her successor is elected.





Item 2. Code of Ethics.

(a) The Trust/Fund has adopted a code of ethics (the Code of Ethics ) that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the Trust/Fund or a third party.

(b) No information need be disclosed pursuant to this paragraph.

(c) Not applicable.

(d) Not applicable.

(e) Not applicable.

(f)

(1) The Trust/Fund's Code of Ethics is attached hereto as Exhibit 12 A.

(2) Not applicable.

(3) Not applicable.

Item 3. Audit Committee Financial Expert.

The Fund's Board of Trustees has determined that Joseph J. Kearns, an independent Trustee, is an audit committee financial expert serving on its audit committee. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations, and liabilities imposed on such person as a member of the audit committee and Board of Trustees in the absence of such designation or identification.

Item 4. Principal Accountant Fees and Services.

(a)(b)(c)(d) and (g). Based on fees billed for the periods shown:

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## 2010

	Registrant	Covered Entities(1)
<b>Audit Fees</b>	\$ 86,800	N/A
<b>Non-Audit Fees</b>		
<b>Audit-Related Fees</b>	\$	\$
<b>Tax Fees</b>	\$ 3,380(2)	\$ 199,783(3)
<b>All Other Fees</b>	\$	\$ 154,883(4)
<b>Total Non-Audit Fees</b>	\$ 3,380	\$ 354,666
<b>Total</b>	\$ 90,180	\$ 354,666

## 2009

	Registrant	Covered Entities(1)
<b>Audit Fees</b>	\$ 86,800	N/A
<b>Non-Audit Fees</b>		
<b>Audit-Related Fees</b>	\$ 3,380(2)	\$ 109,924(2)
<b>Tax Fees</b>	\$	\$ 143,725(4)
<b>All Other Fees</b>	\$	\$ (5)
<b>Total Non-Audit Fees</b>	\$ 3,380	\$ 253,649
<b>Total</b>	\$ 90,180	\$ 253,649

N/A- Not applicable, as not required by Item 4.

(1) Covered Entities include the Adviser (excluding sub-advisors) and any entity controlling, controlled by or under common control with the Adviser that provides ongoing services to the Registrant.

(2) Audit-Related Fees represent assurance and related services provided that are reasonably related to the performance of the audit of the financial statements of the Covered Entities and funds advised by the Adviser or its affiliates, specifically data verification and agreed-upon procedures related to asset securitizations and agreed-upon procedures engagements.

(3) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the preparation and review of the Registrant's tax returns.

(4) Tax Fees represent tax compliance, tax planning and tax advice services provided in connection with the review of Covered Entities' tax returns.

(5) All other fees represent project management for future business applications and improving business and operational processes.



(e)(1) The audit committee's pre-approval policies and procedures are as follows:

**APPENDIX A**

**AUDIT COMMITTEE**  
**AUDIT AND NON-AUDIT SERVICES**  
**PRE-APPROVAL POLICY AND PROCEDURES**  
**OF THE**  
**MORGAN STANLEY RETAIL AND INSTITUTIONAL FUNDS**  
  
**AS ADOPTED AND AMENDED JULY 23, 2004,(1)**

**1. Statement of Principles**

The Audit Committee of the Board is required to review and, in its sole discretion, pre-approve all Covered Services to be provided by the Independent Auditors to the Fund and Covered Entities in order to assure that services performed by the Independent Auditors do not impair the auditor's independence from the Fund.

The SEC has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as the audit committee's administration of the engagement of the independent auditor. The SEC's rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved without consideration of specific case-by-case services by the Audit Committee (general pre-approval); or require the specific pre-approval of the Audit Committee or its delegate (specific pre-approval). The Audit Committee believes that the combination of these two approaches in this Policy will result in an effective and efficient procedure to pre-approve services performed by the Independent Auditors. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee (or by any member of the Audit Committee to which pre-approval authority has been delegated) if it is to be provided by the Independent Auditors. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by the Audit Committee.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers and provides a different period and states otherwise. The Audit Committee will annually review and pre-approve the services that may be provided by the Independent Auditors without obtaining specific pre-approval from the Audit Committee. The Audit Committee will add to or subtract from the list of general pre-approved services from time to time, based on subsequent determinations.

(1) This Audit Committee Audit and Non-Audit Services Pre-Approval Policy and Procedures (the Policy ), adopted as of the date above, supersedes and replaces all prior versions that may have been adopted from time to time.

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The purpose of this Policy is to set forth the policy and procedures by which the Audit Committee intends to fulfill its responsibilities. It does not delegate the Audit Committee's responsibilities to pre-approve services performed by the Independent Auditors to management.

The Fund's Independent Auditors have reviewed this Policy and believes that implementation of the Policy will not adversely affect the Independent Auditors' independence.

## **2. Delegation**

As provided in the Act and the SEC's rules, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

## **3. Audit Services**

The annual Audit services engagement terms and fees are subject to the specific pre-approval of the Audit Committee. Audit services include the annual financial statement audit and other procedures required to be performed by the Independent Auditors to be able to form an opinion on the Fund's financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit. The Audit Committee will approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Fund structure or other items.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval to other Audit services, which are those services that only the Independent Auditors reasonably can provide. Other Audit services may include statutory audits and services associated with SEC registration statements (on Forms N-1A, N-2, N-3, N-4, etc.), periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings.

The Audit Committee has pre-approved the Audit services in Appendix B.1. All other Audit services not listed in Appendix B.1 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

## **4. Audit-related Services**

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Fund's financial statements and, to the extent they are Covered Services, the Covered Entities or that are traditionally performed by the Independent Auditors. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with the SEC's rules on auditor independence, the Audit Committee may grant general pre-approval to Audit-related services. Audit-related services include, among others, accounting consultations related to accounting, financial reporting or disclosure matters



not classified as Audit services ; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements under Forms N-SAR and/or N-CSR.

The Audit Committee has pre-approved the Audit-related services in Appendix B.2. All other Audit-related services not listed in Appendix B.2 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

## **5. Tax Services**

The Audit Committee believes that the Independent Auditors can provide Tax services to the Fund and, to the extent they are Covered Services, the Covered Entities, such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the Independent Auditors may provide such services.

Pursuant to the preceding paragraph, the Audit Committee has pre-approved the Tax Services in Appendix B.3. All Tax services in Appendix B.3 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

## **6. All Other Services**

The Audit Committee believes, based on the SEC's rules prohibiting the Independent Auditors from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

The Audit Committee has pre-approved the All Other services in Appendix B.4. Permissible All Other services not listed in Appendix B.4 must be specifically pre-approved by the Audit Committee (or by any member of the Audit Committee to which pre-approval has been delegated).

## **7. Pre-Approval Fee Levels or Budgeted Amounts**

Pre-approval fee levels or budgeted amounts for all services to be provided by the Independent Auditors will be established annually by the Audit Committee. Any proposed services exceeding these levels or amounts will require specific pre-approval by the Audit Committee. The Audit Committee is mindful of the overall relationship of fees for audit and non-audit services in determining whether to pre-approve any such services.

**8. Procedures**

All requests or applications for services to be provided by the Independent Auditors that do not require specific approval by the Audit Committee will be submitted to the Fund's Chief Financial Officer and must include a detailed description of the services to be

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rendered. The Fund's Chief Financial Officer will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a timely basis of any such services rendered by the Independent Auditors. Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the Independent Auditors and the Fund's Chief Financial Officer, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Audit Committee has designated the Fund's Chief Financial Officer to monitor the performance of all services provided by the Independent Auditors and to determine whether such services are in compliance with this Policy. The Fund's Chief Financial Officer will report to the Audit Committee on a periodic basis on the results of its monitoring. Both the Fund's Chief Financial Officer and management will immediately report to the chairman of the Audit Committee any breach of this Policy that comes to the attention of the Fund's Chief Financial Officer or any member of management.

## **9. Additional Requirements**

The Audit Committee has determined to take additional measures on an annual basis to meet its responsibility to oversee the work of the Independent Auditors and to assure the auditor's independence from the Fund, such as reviewing a formal written statement from the Independent Auditors delineating all relationships between the Independent Auditors and the Fund, consistent with Independence Standards Board No. 1, and discussing with the Independent Auditors its methods and procedures for ensuring independence.

## **10. Covered Entities**

Covered Entities include the Fund's investment adviser(s) and any entity controlling, controlled by or under common control with the Fund's investment adviser(s) that provides ongoing services to the Fund(s). Beginning with non-audit service contracts entered into on or after May 6, 2003, the Fund's audit committee must pre-approve non-audit services provided not only to the Fund but also to the Covered Entities if the engagements relate directly to the operations and financial reporting of the Fund. This list of Covered Entities would include:

### Morgan Stanley Retail Funds

Morgan Stanley Investment Advisors Inc.

Morgan Stanley & Co. Incorporated

Morgan Stanley DW Inc.

Morgan Stanley Investment Management Inc.

Morgan Stanley Investment Management Limited

Morgan Stanley Investment Management Private Limited

Morgan Stanley Asset & Investment Trust Management Co., Limited

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Morgan Stanley Investment Management Company

Morgan Stanley Services Company, Inc.

Morgan Stanley Distributors Inc.

Morgan Stanley Trust FSB

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Morgan Stanley Institutional Funds

Morgan Stanley Investment Management Inc.

Morgan Stanley Investment Advisors Inc.

Morgan Stanley Investment Management Limited

Morgan Stanley Investment Management Private Limited

Morgan Stanley Asset & Investment Trust Management Co., Limited

Morgan Stanley Investment Management Company

Morgan Stanley & Co. Incorporated

Morgan Stanley Distribution, Inc.

Morgan Stanley AIP GP LP

Morgan Stanley Alternative Investment Partners LP

(e)(2) Beginning with non-audit service contracts entered into on or after May 6, 2003, the audit committee also is required to pre-approve services to Covered Entities to the extent that the services are determined to have a direct impact on the operations or financial reporting of the Registrant. 100% of such services were pre-approved by the audit committee pursuant to the Audit Committee's pre-approval policies and procedures (attached hereto).

(f) Not applicable.

(g) See table above.

(h) The audit committee of the Board of Trustees has considered whether the provision of services other than audit services performed by the auditors to the Registrant and Covered Entities is compatible with maintaining the auditors' independence in performing audit services.

Item 5. Audit Committee of Listed Registrants.

(a) The Fund has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act whose members are:

Joseph Kearns, Michael Nugent and Allen Reed.

(b) Not applicable.

Item 6.

(a) See Item 1.

(b) Not applicable.

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Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The Fund/Trust invests in exclusively non-voting securities and therefore this item is not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

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

**FUND MANAGEMENT**

**PORTFOLIO MANAGEMENT.** As of the date of this report, the Fund is managed by members of the Emerging Markets Debt team. The team consists of portfolio managers and analysts. Current members of the team jointly and primarily responsible for the day-to-day management of the Fund's portfolio are Eric J. Baurmeister and Federico L. Kaune, each a Managing Director of the Adviser.

Mr. Baurmeister has been associated with the Adviser in an investment management capacity since October 1997 and began managing the Fund at its inception. Mr. Kaune has been associated with the Adviser in an investment management capacity since April 2003 and began managing the Fund at its inception. Mr. Baurmeister and Mr. Kaune are co-portfolio managers. Certain other members of the team collaborate to manage the assets of the Fund, but are not primarily responsible for the day-to-day management of the Fund.

The composition of the team may change from time to time.

**OTHER ACCOUNTS MANAGED BY THE PORTFOLIO MANAGERS**

As of October 31, 2010:

Mr. Baurmeister managed seven registered investment companies with a total of approximately \$2.4 billion in assets; 19 pooled investment vehicles other than registered investment companies with a total of approximately \$2.4 billion in assets; and 13 other accounts with a total of approximately \$5.0 billion in assets. Of these other accounts, one account with a total of approximately \$133.4 million in assets, had performance-based fees.

Mr. Kaune managed seven registered investment companies with a total of approximately \$2.4 billion in assets; 19 pooled investment vehicles other than registered investment companies with a total of approximately \$2.4 billion in assets; and 13 other accounts with a total of

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approximately \$5.0 billion in assets. Of these other accounts, one account with a total of approximately \$133.4 million in assets, had performance-based fees.

Because the portfolio managers manages assets for other investment companies, pooled investment vehicles and/or other accounts (including institutional clients, pension plans and certain high net worth individuals), there may be an incentive to favor one client over another resulting in conflicts of interest. For instance, the Adviser may receive fees from certain accounts that are higher than the fee it receives from the Fund, or it may receive a performance-based fee on certain accounts. In those instances, the portfolio manager may have an incentive to favor the higher and/or performance-based fee accounts over the Fund. In addition, a conflict of interest could exist to the extent the Adviser has proprietary investments in certain accounts, where portfolio managers have personal investments in certain accounts or when certain accounts

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are investment options in the Adviser's employee benefits and/or deferred compensation plans. The portfolio managers may have an incentive to favor these accounts over others. If the Adviser manages accounts that engage in short sales of securities of the type in which the Fund invests, the Adviser could be seen as harming the performance of the Fund for the benefit of the accounts engaging in short sales if the short sales cause the market value of the securities to fall. The Adviser has adopted trade allocation and other policies and procedures that it believes are reasonably designed to address these and other conflicts of interest.

#### PORTFOLIO MANAGER COMPENSATION STRUCTURE

Portfolio managers receive a combination of base compensation and discretionary compensation, comprising a cash bonus and several deferred compensation programs described below. The methodology used to determine portfolio manager compensation is applied across all funds/accounts managed by the portfolio managers.

**BASE SALARY COMPENSATION.** Generally, portfolio managers receive base salary compensation based on the level of their position with the Adviser.

**DISCRETIONARY COMPENSATION.** In addition to base compensation, portfolio managers may receive discretionary compensation.

Discretionary compensation can include:

- Cash Bonus.
- Morgan Stanley's Long Term Incentive Compensation awards - a mandatory program that defers a portion of discretionary year-end compensation into restricted stock units or other awards based on Morgan Stanley common stock or other investments that are subject to vesting and other conditions.
- Investment Management Alignment Plan (IMAP) awards - a mandatory program that defers a portion of discretionary year-end compensation and notionally invests it in designated funds advised by the Adviser or its affiliates. The award is subject to vesting and other conditions. Portfolio managers must notionally invest a minimum of 25% to a maximum of 100% of their IMAP deferral account into a combination of the designated funds they manage that are included in the IMAP fund menu, which may or may not include the Fund. For 2008 awards, a clawback provision was implemented that could be triggered if the individual engages in conduct detrimental to the Adviser or its affiliates. For 2009 awards, this provision was further strengthened to allow Morgan Stanley to clawback compensation if Morgan Stanley realizes losses on certain trading positions, investments or holdings.
- Voluntary Deferred Compensation Plans - voluntary programs that permit certain employees to elect to defer a portion of their discretionary year-end compensation and notionally invest the deferred amount across a range of designated investment funds, including funds advised by the Adviser or its affiliates.

Several factors determine discretionary compensation, which can vary by portfolio management team and circumstances. In order of relative importance, these factors include:

- Investment performance. A portfolio manager's compensation is linked to the pre-tax investment performance of the funds/accounts managed by the portfolio manager. Investment performance is calculated for one-, three-, five- and ten-year periods measured against a fund's/account's primary benchmark (as set forth in the fund's prospectus), indices and/or peer groups where applicable. Generally, the greatest weight is placed on the three- and five-year periods.
-



- Revenues generated by the investment companies, pooled investment vehicles and other accounts managed by the portfolio manager.
- Contribution to the business objectives of the Adviser.
- The dollar amount of assets managed by the portfolio manager.
- Market compensation survey research by independent third parties.
- Other qualitative factors, such as contributions to client objectives.
- Performance of Morgan Stanley and Morgan Stanley Investment Management, and the overall performance of the investment team(s) of which the portfolio manager is a member.

SECURITIES OWNERSHIP OF PORTFOLIO MANAGERS

As of October 31, 2010, the portfolio managers do not own any shares of the Fund.

Item 9. Closed-End Fund Repurchases

**REGISTRANT PURCHASE OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares (or Units) Purchased</b>	<b>(b) Average Price Paid per Share (or Unit)</b>	<b>(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</b>
01-01-2010				
01-31-2010			N/A	N/A

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02-01-2010		
02-28-2010	N/A	N/A
03-01-2010		
03-31-2010	N/A	N/A
04-01-2010		
04-30-2010	N/A	N/A
05-01-2010		
05-31-2010	N/A	N/A
06-01-2010		
06-30-2010	N/A	N/A
07-01-2010		
07-31-2010	N/A	N/A
08-01-2010		
08-31-2010	N/A	N/A
09-01-2010		
09-30-2010	N/A	N/A
10-01-2010		
10-31-2010	N/A	N/A
11-01-2010		
11-30-2010	N/A	N/A
12-01-2010		
12-31-2010	N/A	N/A
Total	N/A	N/A

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Item 10. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 11. Controls and Procedures

(a) The Trust s/Fund s principal executive officer and principal financial officer have concluded that the Trust s/Fund s disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust/Fund in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, based upon such officers evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

(b) There were no changes in the registrant s internal control over financial reporting that

occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits

(a) The Code of Ethics for Principal Executive and Senior Financial Officers is attached hereto.

(b) A separate certification for each principal executive officer and principal financial officer of the registrant are attached hereto as part of EX-99.CERT.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Morgan Stanley Emerging Markets Domestic Debt Fund, Inc.

/s/ Sara Furber  
Sara Furber  
Principal Executive Officer  
December 16, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Sara Furber  
Sara Furber  
Principal Executive Officer  
December 16, 2010

/s/ Francis Smith  
Francis Smith  
Principal Financial Officer  
December 16, 2010

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