



# CANADA-ASIA AGENDA

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Series Editor **Brian Job**

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## Building Stronger Ties between India and Canada: Better Late than Never

By David M. Malone

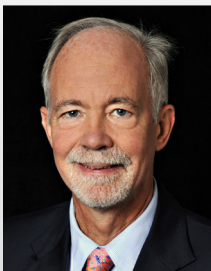
**Prime Minister Stephen Harper visits India this month at a time when Canada-India relations are on an upturn, with past tensions over nuclear issues resolved. For Canada, India's rapid economic growth offers the prospect of greatly increased business ties. For India, Canadian resources and access to the North American market hold great attraction. The Indo-Canadian community offers a bridge that both countries can use to develop closer cooperation.**

Prime Minister Harper travels to India later this month at a time of that country's emergence as a major global actor in the economic sphere. His engagement caps efforts to build more substance into government-to-government ties over recent years and should serve to encourage the Canadian private sector, much of which has viewed India with caution, to intensify its search for opportunities there.

Canada's earliest substantive involvement in India dates back to the external aid program that was born as a result of the Colombo Plan initiated in the early 1950s. For more than 20 years, much of this aid was focused on India. Canada saw many successes in India over the years through this involvement, supplemented, in the research field, by the work of the International Development Research Centre after 1970. Meanwhile, growing numbers of Indians were moving to Canada, which today hosts the largest Indian Diaspora community

of any Western country relative to the size of its overall population. This human bridge between India and Canada is the most solid foundation of the bilateral relationship, being viewed as highly successful in both countries. Consequently, most Indians admire what they know of Canada's society today.

But differences between the two countries over India's development of nuclear weapons in the 1970s (using nuclear material initially derived in part from Canadian technologies provided for peaceful purposes) and the support within Canada for a campaign to create an independent homeland for Sikhs, known as Free Khalistan, (culminating in the destruction of Air India flight 182 in June 1985 by a terrorist bomb) soured the relationship. Ties degenerated for many years into mutual disaffection.



### About The Author

David Malone is President of Canada's International Development Research Centre and was Canada's High Commissioner in India, 2006-2008. He is the author of *Does the Elephant Dance? Contemporary Indian Foreign Policy*, which will be published by Oxford University Press in 2011.



## The Contemporary Relationship

Around the turn of the millennium, perhaps not coincidentally after both India and Pakistan tested more nuclear weapons in 1998 -- making clear that the nuclear genie was well and truly out of the bottle in South Asia -- India and Canada tentatively re-engaged with each other. India's economic reforms, introduced under the duress of national insolvency in 1991, were proving both lasting and successful. It became increasingly clear that India, in spite of the continuing poverty afflicting millions of its people, was emerging as a substantial international economy.

Meanwhile, India's economic success was focusing minds within the country on its own inadequate supplies of the natural resources vital to a growing economy. Canada, on the other hand, was well endowed with these resources. Canada's free-trade agreement with the US was also attractive to Indian economic actors looking to invest and diversify in North America.

Almost unnoticed by most Canadians, India succeeded in boosting its rate of economic growth from a level barely exceeding population growth to the 6-8% range (eventually reaching 9% in 2007) that, sustained over time, should allow the country to grow its already quite large middle class (ranging anywhere from 35-350 million, depending on the definition used) and combat the continuing widespread poverty. The focus on indigenous science and technology capacity by first Prime Minister Jawaharlal Nehru has allowed India to emerge as a major player in frontier science, and in its application to information and other technologies. Joint scientific cooperation, equally funded by the governments of India and Canada, is today one of the most successful (if modestly scaled) aspects of the bilateral relationship. Most Canadians are unaware that any dollar the Canadian government is prepared to invest in various aspects of the relationship, will be matched by the government of India, which is much better funded than most Canadians imagine.

India's private sector, repressed during the harshest years of India's post-independence socialism, rebounded dramatically from the mid-1980s and today serves as a global pivot of financial and information services, and of innovative approaches to everything from automobile design (e.g. the \$2,500 Tata Nano) to luxury goods. Western countries have been courting India fiercely, none

more so than the US, which, working closely with New Delhi, engineered a thaw in India's nuclear isolation in 2008. Canada ultimately supported this effort, making it possible again to envisage Canada-India civilian nuclear cooperation, although a bilateral agreement to govern any such cooperation has yet to be achieved.

A few large Canadian firms have sunk deep (and profitable) roots in India, notably Scotiabank, Sun Life, Bombardier and SNC-Lavalin. Several smaller Canadian firms, including in the oil and gas sector, have also proved nimble and effective. But, overall,



The Tata Nano, with a rock-bottom price, is a current example of the surge of innovation in India's private sector.

Canadian firms have been slow to brave the rigours of doing business in India, fearing significant bureaucratic hurdles, government inefficiency and corruption. Meanwhile, Indian companies have invested heavily in Canada by setting up operations, as has Indian prime private retail bank, ICICI, or by taking over existing Canadian firms in the forestry, steel and pharmaceutical sectors.

Trade and investment figures with India are somewhat unreliable as much trade and investment flows indirectly to India through such third-party states as Mauritius and Sri Lanka that have preferential agreements with New Delhi. Official figures indicate that bilateral trade between India and Canada for 2008 amounted to \$4.52 billion, made up of \$2.32 billion in Canadian exports and \$2.20 billion in imports from India. This represents a 22.5% jump from the 2007 figures, including a whopping 35% increase in Canadian exports. The figures for 2009 are also promising: in spite of depressed global trade levels during the economic slump, from January

to August, while Canadian exports went down by 26% globally, Canadian shipments to India actually increased by 3%.

Thus, the economic relationship with India, while still modest, seems resilient. And our figures compare very well with those of the US relative to the size of its economy (although the latter is energetically laying the foundations for a great leap forward in commerce with India, notably in the military procurement field and through investment strategies that appear more aggressive than those of Canada).

Investment figures are more lop-sided between India and Canada than the statistics suggest, with Indian companies investing much more extensively here than Canadian firms have wanted to in India, particularly through outright takeovers of Canadian firms (which, curiously, are not counted in investment statistics and represent the bulk of recent Indian investment in Canada). Recent official figures indicate an increase in Canadian direct investment in India from \$644 million in 2007 to \$801 million in 2008, a 24% increase. Canadian direct investment in India for the four-year period from 2004 to 2008 shows growth of 274%. Indian direct investment in Canada is impressive, in 2008 standing at \$1.02 billion up from \$430 million in 2007. For the four year period from 2004 to 2008, Indian investment in Canada grew some 1,011%.

In investment, in relative terms, the US-India relationship significantly outstrips that of Canada and heavy US investment in India (at US\$16.1 billion) is probably a leading indicator of how trade will develop in years ahead.

There are reasons for the somewhat more cautious Canadian investment patterns. India has been highly protective of some sectors of its economy, including financial services, and its licensing requirements can create high barriers to entry. Prudence inspired by a lack of understanding of Indian business culture, including the often occult relationship between business and some

elements of government, is not irrational. That said, Canadian firms very profitably established in the country report that their main challenges have related to uncertain protection of intellectual property (in practice, rather than in law) and the high turnover of qualified staff.

India has survived the recent global economic crisis in remarkably healthy fashion, so the perhaps excessive caution of the Canadian private sector vis à vis the Indian market should now, as recent trade statistics suggest, subside -- all the more so as Export Development Canada has invested heavily in developing its network in India and as Canada's Trade Commissioner Service is now spread across the country in multiple locations.

### Higher Education

A huge opportunity for Canada lies just beyond our current reach, in the field of higher education. Indian students, currently face poor options at home beyond the small number of elite institutions that have acquired world fame -- the Indian Institutes of Management and Technology, a handful of science universities and several strong law schools. Very much focused on obtaining the best education possible, students are drawn to study abroad -- and increasingly have the means to pay their way. The US, Great Britain and Australia have all taken



Young people in India seek the best education possible, but are constrained by the limited number of elite institutions.

full advantage of this. Canada has lagged far behind, hosting fewer than 20% of the number of Indian students enrolled in Australia.

Our universities and colleges are keen to tap into this lucrative market, and one associated with significant international academic research opportunities, but they have discovered that their own and their provincial brands have little resonance in India, where we are systematically out-marketed by others. Canada's constitutional arrangements do not help: provinces have jurisdiction over education while the federal role is limited to funding research. The provinces compete with each other (rather pointlessly, as viewed from distant India) and the Federal government has held back -- although, a recent federal budget did allocate a modest sum to international marketing of Canadian higher education. The Shastri Indo-



India's greatest asset is the quality and determination of its human capital, but its potential remains to be developed.

Canadian Institute, funded by both India and Canada, has, over recent decades, done its best to create links between Indian and Canadian scholars, not least through academic exchanges.

However, Canadian institutions of higher learning need to think more broadly about India. It would be in the interest of many Canadian students to become acquainted with India as it is so well positioned to become one of the major global actors of the 21st century. Thus, beyond faculty relationships, which several Canadian universities have been successful in forging, student exchanges and joint degrees should also

be explored. For young Canadians, mostly intrigued by international opportunities, familiarity with India would be a tremendous asset in the global employment market. Reform in the Indian higher education sector, currently being discussed in New Delhi, could make initiatives in this area easier to implement than in the past, when foreign institutions were largely locked out of India.

The arts and culture have contributed a great deal to the relationship. Several Canadian authors originally from India, including Rohinton Mistry, M. G Vassanji and Anita Rau Badami, are much admired there, as are other Canadian writers with international reputations. The Toronto International Film Festival, having been the first global film meet to recognize Bollywood production as a major global phenomenon, is today the most important film festival for Indian film-makers. And Canadian film-makers, such as Deepa Mehta, while sometimes regarded as controversial in India, have made a major mark in the country. Canada is known to Indians, however indirectly, at least as much through our cultural production and their perceptions of our society (refracted through the experiences of the Indo-Canadian community) as through business successes or government agreements.

### India's potential

Freed from the shackles of excessive and counter-productive state control, India's economy is powering ahead, with growth rates by 2007 extending into the 9% range. Even during the global economic crisis of 2008-2009, India has achieved growth around the 5-6% level. Compounded well into the future, as seems likely, these rates should significantly enlarge the economy as a whole and greatly expand the relatively affluent middle class. The challenge of reducing the numbers of the poor and ultra-poor (who subsist on less than 50 cents a day) will remain, however, and India's greatest task will be to educate adequately, and to create jobs for, its swelling population of employable youth.

India's demography -- with currently well over one billion inhabitants -- could be extremely positive, as its economically active population is projected to remain a much larger fraction of the overall nation than, say, in China, well through 2050. That said, the demographic boon anticipated in India could readily turn into a demographic bomb unless educational opportunities improve radically. India's greatest asset is the quality

and determination of its human capital, but its potential remains to be developed, and the challenge of doing so is vast, with unknowable results today.

**Looking ahead**

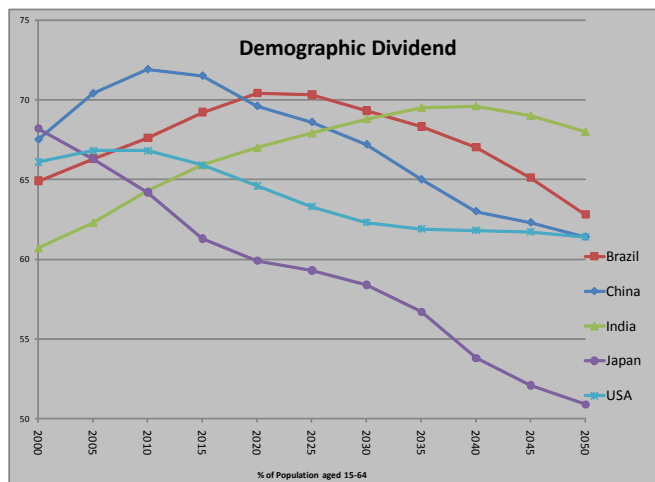
Prime Minister Harper's visit to India this month is good timing. The long-standing irritant in the government-to-government relationship – the supply of nuclear materials -- has been overcome. Canada's relationship with India in the field of agriculture and food security will likely continue to underpin significant Canadian grain and pulses exports to India. But we can do more by cooperating on agricultural research that would benefit the whole planet. Energy and environmental technologies represent another field of opportunity for bilateral cooperation. And the unfulfilled potential of Canadian participation in the higher education sector in India can be realized if and when governments in Canada at various levels, working with our universities and colleges, measure the economic dividends to be derived from India (and doubtless many other countries) in this sector and raise the priority accorded to higher education in our international economic agenda.

India's world-view focuses first and foremost on its own fractious immediate neighbourhood, including an economically dynamic but politically often tense relationship with China. Beyond, it is seeking to reposition itself as a major power in the new multi-polar geo-strategic and global economic dispensation. It, like Brazil, is bound to succeed. Countries like Canada -- however well thought of in India -- that are geographically distant and remote from great power politics will have to work much harder than in the past

to register in India. This is why Canadian politicians, business leaders and scholars seeking to raise Canada's or their own profiles globally will need to engage more systematically with India than they have in the past. The Canadian government has been working hard at this for some years. But the importance of government-to-government ties should not be overemphasized where market-oriented democracies

are involved. It is the Canadian private sector that needs to project itself in India, not governments.

For reasons of history outlined above, our two countries



Source - Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, <http://esa.un.org/unpp>

have been all too slow to engage fully. Canada is not alone. India's ties with other Western countries (notably the United States) have had their ups and downs also. But today, building on the human bridge that so many Indo-Canadians provide to their country of natural or cultural origin, Canadians can more easily develop links of all sorts with India.

**DO YOU WANT TO KNOW MORE?**

Impact of India's Economy on its Foreign Policy Since Independence, by David M. Malone and Rajeev Chaturvedy (<http://www.asiapacific.ca/en/research/impact-india%E2%80%99s-economy-its-foreign-policy-since-independence>).

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