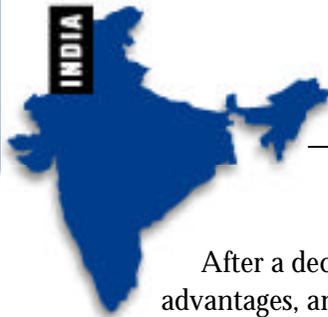


There is a growing dichotomy in the way the world sees India, brought about by ten years of rapid political, economic and social change. On the one hand, there is the India of increasing political stability and potential for economic growth which is quickly integrating into the global economy; on the other, a nuclear-armed India with genuine security concerns in South Asia, yet having the potential to bring about greater peace and security in the region. Although Indo-Canadian

economic relations have strengthened in recent times, Canada is currently running the risk of shaping its policy around the first India at the expense of the second. It would be in Canada's interest to develop a more coherent, and consistent, policy towards India, which would better reflect the country's complex political and economic developments. Failure to do so might adversely affect relations between the two countries at an important period in India's transformation.



Living with the Two Indias

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After a decade of reforms, there are many signs that India is ready to accept the advantages, and risks, of economic globalization. The closed economic policies set in the Nehru era have gradually given way to a greater acceptance of foreign trade and investment. The Bharatiya Janata Party (BJP) government of Atal Bihari Vajpayee has been very open to business, continuing the economic reforms begun by its recent predecessors. The BJP government has taken advantage of political stability, a luxury that the previous Congress and United Front coalition governments of the 1990s did not have, to push for financial restructuring, to promote industrial growth, and to contain inflation. The BJP came to power promising to triple foreign investment in India, and many state governments have openly begun competing with each other for investor capital. In addition, over the past ten years, India's extensive and restrictive import licensing rules have been stripped away to the point that by April of next year, all foreign goods are due to be imported without restraint and in any quantity once customs duties have been paid.

There are, however, many obstacles to foreign investment remaining. The state budget, unveiled on February 29, was harshly criticized by the Indian business community for being too timid, especially in the areas of subsidy reductions and taxes. Excessive bureaucracy and corruption also hamper economic growth, a problem that might worsen as central power is increasingly devolved to state governments, some of which are ill equipped to handle the extra responsibilities. Poorer states, such as Uttar Pradesh and Orissa, still rely heavily on clientilistic practices that have stifled development. Even in the more prosperous regions bureaucracy and corruption remain serious problems. Furthermore, India continues to face the challenge of providing for a rapidly growing population, which recently crossed the one billion-person mark. In the early decades of this century, India is expected to surpass China as the most populous country in the world.

High-tech in India gains respect...	<p>Nevertheless, there are many reasons for optimism. Nowhere is India's improving economy more visible than in the high-technology sectors. For the past 20 years, this area has grown from an isolated phenomenon to become a crucial part of the Indian economy. The hub of this new economy is in Bangalore, but there are clusters of companies in other cities such as Hyderabad, Mumbai, Chennai and Delhi, providing computer software and related services, which generated a total of 176 billion rupees (C\$5.9 billion) in revenue during 1999. As a result, southern provinces such as Karnataka, Andhra Pradesh and Tamil Nadu are becoming the most popular growth zones for business. More than a few Indian computer companies have enjoyed international success, such as Infosys, which provides business software and maintenance to international corporations; Wipro, an information technology firm that is presently India's largest company in market capitalization; and Hotmail, a Web-based email system that was eventually sold to Microsoft for US\$400 million. What differentiates India's high-tech areas from those in other parts of Asia is that they sprang into being without assistance from the central government, in contrast to the more meticulously planned technology zones in other countries, such as Malaysia's Multimedia Supercorridor. The success of India's high-tech industries can be attributed to many factors, including a large pool of educated workers (most of whom are proficient in English, still the <i>lingua franca</i> of the computer industries), low labour costs, and the émigré Indians who have returned to their home country.</p>
...and Canadian firms begin to take notice	<p>Canadian companies have begun to recognize the potential of Indian high-tech, as companies based in this country such as Nortel, TrueSpectra and Softlight have already begun building partnerships in India. As well, Indian information technology workers have been coming to Canada under a special immigration pilot program implemented in September 1999. With the blessing of Industry Canada, Indian information technology companies Infosys, Wipro, TCS, BFL, and Pentafour have already opened offices in Canada, with more being enticed to use Canada as a jumping-off point for the North American markets. There are also possibilities for Canada to help with the rush to provide more of the Indian population with Internet and cable access, as such a revolution will require a very thorough modernization of India's communications infrastructure.</p>
New opportunities exist for Canada-India cooperation...	<p>The traditional economy, however, is not being ignored, as "bricks and mortar" companies such as Alcan and Canadian Pacific have also signed agreements with Indian firms over the past year. When Canadian Secretary of State (Asia-Pacific) Raymond Chan made a one-day visit to India in May 1999, he acknowledged India's growing economy, pointed to Canada's involvement in developing India's power sector, and expressed his hopes for future Indo-Canadian joint ventures. The membership of both Canada and India in the Group of Twenty (G20) forum, which was created last year to promote informal dialogue on joint economic issues with an eye to enhancing global financial stability, is another valuable outlet for economic cooperation between Ottawa and New Delhi.</p>
...but the relationship still needs improvement	<p>However, in order to get a full picture of the direction in which Indo-Canadian relations are heading, it is necessary to look beyond the India of economic growth and development to another India; one which is developing an increasingly important strategic role in Asia, especially in light of its nuclear tests. Canada is having a much harder time reaching an understanding with this India, and until Ottawa does so, the relationship between the two countries is unlikely to reach its full potential.</p>

Canada and a Nuclear India

India's nuclear tests have had many consequences...

After two years, the international community is coming to grips with the repercussions from India's nuclear tests, which not only shook up security relations in South Asia, but also called into question the ability of existing nuclear weapons protocols and agreements to continue to contain the proliferation of such weapons. Contrary to the conventional wisdom of the time, India's decision to test five nuclear devices at Pokhran in May 1998 was by no means a spontaneous act. Tests had been planned for at least as far back as 1995, when India refused to go along with most of the international community and sign an indefinite extension of the Nuclear Nonproliferation Treaty (NPT). The reasons for this refusal were those New Delhi had always used to justify developing nuclear weapons: that the nonproliferation regimes, including the NPT, were incompatible with India's precarious security situation, with the country sandwiched between one recognized nuclear power (China), and one suspected of being an unrecognized one (Pakistan, which also refuses to recognize most international nuclear agreements). Moreover, it was India's view that the NPT merely froze the international nuclear status quo, allowing the five recognized nuclear powers to retain their arsenals with little threat of punishment, while forbidding developing countries from developing such weapons as a defensive option. In short, the NPT, along with the Comprehensive Test Ban Treaty (CTBT), which India declined to observe, represented a so-called "nuclear apartheid."

...and security concerns persist

The period immediately before the 1998 tests saw many security developments that strengthened India's resolve to carry out the tests. These included mounting evidence that China was supplying Pakistan with missile and other military technology; Beijing's developing defence relationship with nearby Myanmar; and ongoing evidence that Islamabad was continuing work on its own nuclear bomb. On May 11 and 13, 1998 India conducted its first nuclear tests since 1974. Pakistan followed with its own tests of perhaps six nuclear devices (the true number remains in dispute) on May 28. The US and many other countries, including Canada, swiftly placed both countries under economic sanctions.

Recent Important Dates

November 1997

The United Front coalition government under Inder Kumar Gujral falls after the Congress Party withdraws its support.

March 1998

A coalition Indian government led by the Bharatiya Janata Party and headed by Atal Behari Vajpayee takes office following national elections in early March.

May 1998

India tests five nuclear warheads in the Rajasthan desert, marking the first time the country detonates nuclear weapons since its "peaceful nuclear explosion" in 1974. Pakistan counters with its own tests less than a month later.

December 1998

The United States lifts remaining economic sanctions imposed on India and Pakistan in May in response to their nuclear tests.

May 1999

Pakistani-backed guerrillas capture Indian bases in Kashmir and begin shelling the town of Kargil.

October 1999

Outgoing Prime Minister Vajpayee and BJP-led coalition win India's 3rd general election in three-and-a-half years.

December 1999

Kashmiri hijackers of an Indian Airlines aircraft surrender, releasing all 155 hostages, in exchange for the release of three Muslim militants from Indian jails.

March 2000

US President Bill Clinton visits India, marking a warming of relations between the two countries.

Why did India test? Many explanations have been put forward to account for India's actions. These include the desire by the then-recently-elected BJP to promote India as an emerging major power, and to also bolster public support for the Vajpayee government. As well, the tests served to remind both Beijing and Islamabad that India would be prepared to take nuclear measures to ensure its defence, if necessary. Other domestic reasons included the strengthening of India's defences at a minimal cost, and to maintain civilian control over national nuclear policy. Finally, India hoped that the tests would prompt a serious re-evaluation of the purpose and effectiveness of global disarmament regimes.

Canada's response to the tests Canada, already sensitive to India's nuclear program since it was revealed that Canadian Deuterium-Uranium (CANDU) nuclear technology was used to provide the plutonium for India's "peaceful nuclear explosion" in 1974, was among those countries that condemned India's testing. Canada supports the current international view, codified in United Nations Security Council Resolution 1172 (1998), that both India and Pakistan should not be granted formal nuclear status in accordance with NPT guidelines, and that both countries should renounce their nuclear programs and become adherents of both the NPT and the CTBT. As well, Canada imposed a range of sanctions on both India and Pakistan, many of which are still being applied two years later. These include a ban on all military exports to the two countries; opposition to non-humanitarian loans to India and Pakistan by the World Bank; and a freeze on all non-humanitarian development assistance to both states.

The current lack of global recognition of both countries' nuclear status has placed them in an international legal limbo, since it is clear that nuclear programs exist on the subcontinent, but their lack of formal recognition precludes any attempts to bring their respective programs under international norms. The May and June 1999 Kargil battles in the disputed territory of

Canada's-India Trade, 1999 Top 10 Exports and Imports

Canadian Imports from India			Canadian Exports to India		
		%			%
1	Knitted or crocheted apparel	15.9	Paper and paperboard		18.3
2	Apparel not knitted or crocheted	14.3	Wood pulp and other pulp		17.4
3	Pearls, precious stones/metals etc.	7.1	Edible vegetables, roots and tubers		14.6
4	Cotton	6.7	Fertilisers		10.6
5	Iron and Steel	6.5	Salt, sulphur, lime, earth, stone, etc.		8.4
6	Organic chemicals	4.4	Boilers, mechanical appliances, etc.		5.1
7	Coffee, tea, spices etc.	3.9	Electrical machinery and parts		4.7
8	Other textile articles	3.4	Optical/photographic equipment, etc.		4.5
9	Carpets, textile floor coverings	2.5	Rubber and rubber articles		3.5
10	Articles of iron or steel	2.5	Iron and Steel		2.7
	Top 10 as % of Total Imports From India	67.2	Top 10 as % of Total Exports To India		89.6
	Indian Imports as % of Total Cdn Imports	0.32	Indian Exports as % of Total Cdn Exports		0.12
	Change in Total Imports from India 98/99	3.0	Change in Total Exports to India 98/99		-6.4

Adapted from Statistics Canada, Imports by Country, January-December 1999, Catalogue No. 65-006-XPB. Ottawa: Minister of Industry, 2000. Statistics Canada, Exports by Country, January-December 1999, Catalogue No. 65-003-XPB. Ottawa: Minister of Industry, 2000.

<p>The problems of India's nuclear ambiguity</p>	<p>Kashmir suggest neither side is likely to reach for the nuclear option in solving this chronic dispute. However, possession of the bomb by both sides has also not automatically led to greater restraint on the use of violence. Moreover, as long as both countries remain outside international nuclear regimes, the potential for proliferation and possible misuse of both countries' nuclear stockpiles remains a serious issue. The US has recognized this problem in the wake of President Clinton's visit to India in March 2000. Although the American position on paper is similar to Canada's, Washington has shown more willingness to encourage dialogue as a means of limiting the threat of regional nuclear proliferation. During meetings between Clinton and Vajpayee, both sides agreed to halt further nuclear testing and make joint efforts to address the security issues of the region and to develop security policies accordingly. This approach has thus far proven effective in warming Indo-American relations and laying the groundwork for an evolving strategic partnership between Washington and New Delhi. In contrast, Canada's more rigid approach to Indian relations might shut it out of future Indian economic and diplomatic initiatives.</p>
<p>Why Indian disarmament is unlikely</p>	<p>While Canada should continue to encourage India and Pakistan to move toward disarmament, it should do so with the understanding that making such demands, without also acknowledging the considerable security and political obstacles to doing so, may accomplish very little. A few countries have abandoned their nuclear programs, but only in cases of an improved security environment to the level where nuclear weapons programs were no longer efficacious (South Africa, Brazil and Argentina) or when programs were inherited from the old Soviet Union and dismantled for economic and strategic reasons (Ukraine, Kazakhstan and Belarus). Neither scenario exists in South Asia. As long as India believes that its security and political interests are being served by maintaining the nuclear option, unconditional demands from the international community will be no more useful than they were in 1974. Even though neither country can afford an expensive arms race, the security threats perceived by both India and Pakistan are real. The situation in Pakistan is compounded by militia activity in Kashmir and the risk of Islamic fundamentalists seeking to further destabilize the Pakistani government.</p>
<p>Is there a better solution?</p>	<p>Rather than pushing for unconditional disarmament on India, it is in Canada's interest to recognize New Delhi's still uncertain security situation. As US President Clinton noted in his March 22 speech to the Indian parliament, "if India's nuclear test shook the world, India's leadership for nonproliferation can certainly move the world." There have been some positive signs that India is willing to address the issue of nonproliferation, one of which was the Lahore Declaration, signed by the leaders of India and Pakistan in February 1999, which includes an agreement by both sides to work toward nuclear nonproliferation and to strengthen confidence-building measures on the subcontinent. However, both sides are still far from peaceful co-existence.</p>
<p>Should a nuclear India be recognized?</p>	<p>A policy alternative for Canada, albeit a controversial one, would be to allow India to be formally recognized as a state which possesses nuclear weapons, contingent on India's willingness to become subject to the same international laws as the existing five nuclear powers. This recognition would provide India with a sizable carrot to induce it to accept the provisions of the NPT, the CTBT, and other guidelines that regulate the development and transfer of nuclear technology. However, there are many problems with this approach. First, the move may be perceived, not without cause, as a reward to India for its "bad behaviour". The formalized admittance of India into the "nuclear club" might provide an incentive for other nuclear threshold states, such as North Korea, Iran and Iraq, to continue their nuclear programs in the hopes of receiving the same favourable treatment. Second, there is the question of whether Pakistan should also be accepted as a nuclear state, a move which could</p>

displease India and which would be seen to further undermine the nonproliferation regimes. The main concern is that since Pakistan's military coup, neither the current government in Islamabad, nor its successor, might be trustworthy in following nonproliferation guidelines, even if it was accepted as a nuclear power. Finally, there is no guarantee that recognizing a nuclear India would have a pacifying effect on the overall strategic situation in South Asia.

Canada can play a more positive role

Nevertheless, in the wake of the rapprochement with India in recent months by both the US and other countries, it is clear that Ottawa's strategic relationship with New Delhi is becoming increasingly dated and perhaps counterproductive. Canada still has an important role to play in strengthening security in this region, one that President Clinton infamously called "the most dangerous place in the world." Both bilateral and multilateral avenues exist for Canada to encourage greater confidence building and dialogue between the major powers of the region. Canada and India have common security concerns on which joint consultation could be useful in areas such as regional economic stability; the precarious security situation in Central Asia; the problem of arms and drug smuggling; and peacekeeping issues, as both countries have been highly visible providers of personnel and equipment for United Nations missions. Although India, like Pakistan, has discouraged international involvement in the Kashmir issue, Canada can still lend its voice to the global insistence that the issue be resolved peacefully and fairly. However, as long as Canada retains its uncompromising stance on India's nuclear tests and its aftermath, the prospects for Canadian strategic cooperation with India will remain muted.

The need for a reassessment

India is a developing power, both politically and economically, and for many years it has shown the potential to play a more prominent role in the international system. It has only been within the past decade, however, that much of India's potential has begun to be realized. Canada has accomplished much in strengthening its ties with India during this period, but far more needs to be done for the two countries to better understand each other in order for the relationship to further develop. Canada must accept that today's India has two distinct sides, both of which are equally important. While India may be a growing economy in the wake of ongoing political and financial reform, it is also facing distinct and important security issues. These two Indias cannot be separated, or approached on one side without an understanding of the other.

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