

Canada – India Centre for Excellence (CEIC)

A SHORT POLICY BRIEF

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Doing Business in the 21st Century: Canada – India Economic linkages

The CICE'S brief policy review provides an overview of the Canada-India economic linkages and examines key questions facing contemporary India. It is based on in-depth analysis with the objective of policy relevance.

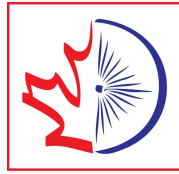
Summary

The world economy is changing and so is the Indian economy – the economy is harnessing trade and investment liberalization to capture new market opportunities at home and abroad to achieve sustainable economic prosperity. Our analysis shows that bilateral economic links between Canada and India have grown rapidly in recent decades, but remain *weak*. India needs a faster focus on improving digital connectivity; improving global competitiveness and physical connectivity by creating new airports, metro rail networks, highways and roads; and universal access to health care, power, education and financial services. Canada can help achieving these objectives in many ways e.g. as a collaborator in infrastructure development; as a market for Canadian commodities and value-added products and services; and as an outsourcing centre and links to global supply chains.

The main purpose of this study is to provide an overview of the Canada – India economic linkages. The discussion is organized in three parts: First, a sketch of the Canadian and Indian economies; Second, Canada – India trade linkages; and Third, Canada – India foreign direct investment (FDI) linkages.

Part 1: Canadian and Indian Economies at a Glance

The economy of India is the 7th largest economy in the world measured by nominal GDP and the third largest by purchasing power parity (PPP). The long term growth prospects of the Indian economy are positive due to “demographic dividend” – its young population and increasing integration into the global economy. According to the OECD, the Reserve Bank of India (RBI) expects the growth to be 7.4 per cent for the current financial year 2015-16. India has one of the fastest growing service sector in the world with annual growth rate of 9%.



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A recent study by Price Waterhouse (Future of India, 2016) suggests that India has potential to become a US \$5.6 trillion economy in 20 years – the 3rd largest economy after U.S. and China.

Whereas the Canadian economy is growing at a slow pace. It fell into a mild recession in the first half of 2015, as low oil prices and a swing in inventories overwhelmed an otherwise healthy economy. Unemployment rate approached close to 7%. Real GDP growth has been cut to 1.3%, partly reflecting the impact of Alberta fires. The Canadian economy is expected to advance by 2% in 2017, in part due to post wild-fire reconstruction and government stimulus (TD Economics, June 16, 2016).

India's real GDP per worker grew at an average rate of 6.3% in 2015; much stronger than Canada's 0.2%. Despite this faster growth, India's productivity level is only around 20% of Canada's. India has one of the fastest growing service sector in the world with annual growth rate of 9%.

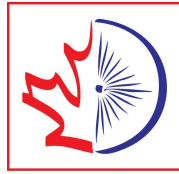
Part 2: Canada – India Trade Linkages

Before 1991, India's trade linkages with Canada were very weak as India's international trade was subject to steep import tariffs, licences, quotas and export taxes. After 1991, India has progressed towards a free-market economy with substantial reduction in barriers to trade and foreign direct investment (FDI). As a result from 1990 to 2015, Canada's trade with India grew faster than with rest of the world. Total merchandise trade between India and Canada grew at 10.7% per year. Canada's imports from India grew more quickly (11.6%) than its exports to India (10%). A key factor contributing to India's remarkable growth in trade was boom in services, particularly ICT services exports.

Canada's top five exports to India include: vegetables, fertilizers, paper, aircraft and precious stones. In contrast, India's exports to Canada are more widely dispersed. Its top commodity exports in 2011 were organic chemicals, precious stone, iron and steel articles, and apparel and accessories. A noteworthy feature of Canada's exports to India is the importance of small-and medium-sized enterprises (SMEs). The data shows over 1,500 Canadian enterprises exported to India in 2013 (Statistics Canada; Rao and Tapp, "The Potential to Grow Canada-India Economic Linkages" IRPP Study, 2015). Canada's trade with India is currently much less developed than that with countries like the U.S., China, Mexico, the UK and Japan.

Part 3. Canada - India Foreign Direct Investment (FDI) Linkages

FDI provides a powerful stimulus to economic growth and job creation. The stock of FDI has increased more than fivefold since 1990. Over 1990 – 2015, the share of inward FDI from the world has increased more than fivefold since 1990. During this period, although the US share has decreased somewhat (from 64% to 54%), Asia's share has increased slightly from 6% to 10%. Bermuda is Canada's largest source of inward investment in the other North America



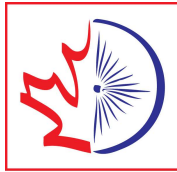
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region which accounts for a 46% share in the region. Over the period 1990 to 2014, Canada's outward FDI intensity (defined as share outward FDI in GDP) increased from 15% to 40%.

During 2000 – 2010, India received US \$ 178 billion as FDI. The top five countries in FDI inflows were Mauritius, Singapore, USA, UK and Netherlands. However, the FDI links between India and Canada remained very *weak*. In 2015, Canadian outward FDI (stock) To India was Can \$ 0.934 billion, just 0.1% of Canada's world total. In contrast, *inward* FDI (stock) from India to Canada increased substantially during the year 2015 to Can \$3.1 billion, which was worth 0.4% of Canada's total. Since 2007, *FDI inflow* from India to Canada has increased substantially. Canada has become a *net* importer of FDI from India.

Part 4: The Way Ahead

- Our Analysis shows that bilateral economic links between Canada and India have rapidly grown in recent decades, but remain weak. There remains significant potential to strengthen these links for mutual benefits to both economies. To harness this potential would require significant efforts and cooperation both by India and Canada.
- Canada, as a partner in the global knowledge economy, needs to pay more attention to India. According to World Bank's growth outlook, India is expected to grow around 8% in 2017. Canada has strong social ties with India because of its large India diaspora; a common business language, similar legal frameworks, and democratic federal governance structures.
- India needs to make progress in terms of doing business – presently, it ranks poorly (130/189 days) relative to countries such as Canada, China, Mexico, and Brazil. It also faces challenges in areas such as: starting a business, dealing with construction permits, taxes, enforcing contracts, and resolving bankruptcies.
- Although India holds R&D facilities for 20% of all Fortune 500 companies, it will require a significant increase in R&D spending.
- India needs faster focus on investment in education, health and other dimensions related to human capital, improving digital connectivity and global competitiveness, and physical connectivity by creating new airports, metro rail networks, highways and roads; and universal access to health care, power, education, and financial services.
- Canada can help achieving these objectives in many ways e.g. as a collaborator in infrastructure development, as a market for Canadian commodities and value-added products and services; and as an outsourcing centre and link to global supply chains.
- Key areas of opportunity for Canadian companies exist in sectors such as food security (agri-food, and food processing), energy security, infrastructure (engineering services), automotive, education, innovation, and clean technology.
- While there exist many bilateral agreements between Canada and India in different sectors of the economy, a comprehensive partnership agreement (CEPA) may offer



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significant potential to build on and grow current economic relationship between the two countries.