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**CN TRADE RELATIONS FORUM
CANADA - INDIA:
THE FUTURE OF BUSINESS AND GLOBAL POLITICS**

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Canada-India: The Future of Business and Global Politics

Introduction

Let's begin by looking at India's potential and why India is important. There are a number of reasons India has been on our radar screens the last few years, really for the first time. It wasn't very long ago that when most people thought of India, they thought of a vast, hot, poverty-stricken country receiving a lot of aid.

But as some of you may know, India told a number of countries a few years ago that it didn't want their aid anymore. That was the end of the bilateral aid that Canada gave India through the Canadian International Development Agency (CIDA). How could India make this decision?

First, after years of an economic rate of growth rate of 3.0% to 3.5% (the "Hindu rate of growth"), India has at long last seen growth rates of 6.0% to 9.0%. There are a variety of reasons for this, but one reason is that India ended its tightly controlled "Licence Raj" in 1991. Also known as the "Permit Raj", this was the elaborate and restrictive licencing system with all its attendant regulations that governed business in India between 1947 and 1990.

The 1991 reforms were prompted by a severe balance of payments crisis and occurred 13 years after China instituted its reforms. Interestingly, the reforms were spearheaded by Manmohan Singh – the then finance minister and now prime minister – and Montek Singh Alluwalla, the current deputy head of the powerful planning commission.

India has weathered the recession far better than many other countries because of conservative lending practices and because it is a domestically-oriented economy, rather than an export economy. On a purchasing power parity basis, India is already the fourth largest economy in the world, and it will pass China as the world's most populous country sometime over the next few decades.

Second, India's geopolitical importance has increased, particularly in the wake of the civilian nuclear 123 agreement with the United States, formulated under President George W. Bush. Under this agreement, India agreed to separate its military and civil nuclear facilities, and all civil nuclear facilities would adhere to International Atomic Energy Agency (IAEA) safeguards. This, in effect, was the first acceptance of India as a nuclear power.

Why did the US go from condemning India for its nuclear tests, to accepting India as a nuclear partner, selling India high-tech weapons, and conducting joint exercises in the Indian Ocean? The US had an economic motive: a desire to sell nuclear reactors and nuclear services to the huge Indian market. There was also an unstated geopolitical reason: the US was worried about

China's military buildup and wanted a counterweight. The deal was pressed by the Indian diaspora in the US, which is far more powerful than the diaspora in Canada (even though it is proportionately far smaller).

Late last year, Canada announced it had reached a Nuclear Cooperation Agreement with India. Not surprisingly, companies such as the Atomic Energy Corporation Ltd. (AECL) and Saskatoon-based Cameco (which mines uranium) pressed for the agreement.

India is also on our radar screens because it is a BRIC (Brazil, Russia, India and China) country.¹The BRIC concept, created by Goldman Sachs, has received an enormous amount of publicity around the globe. It is important to note, however, that Goldman Sachs didn't say Brazil or India were better prospects than, say, Mexico, South Africa or Indonesia – it simply said their economies were larger than the other contending emerging economies. In my view, this is an odd grouping. One could argue that Russia is actually a declining rather than a rising power. When, for example, is the last time you bought a Russian product?

An Assessment: India's Potential

Let's briefly assess India's potential and its problems. I will do this by example.

First, guess how many cell phone subscribers Indian companies signed up for the single month of December, 2009? The answer is more than 19 million for that single month. Here is a second example. One of the executives I interviewed was Kevin Dougherty, the President of Sun Life Financial, one of Canada's biggest insurance companies. A third and final statistic. What is the size of India's anticipated infrastructure budget? More than half a trillion dollars in the country's eleventh, five year plan, which runs from 2007 to 2012.

Alongside this potential, India has many advantages, which include the widespread use of English, the rule of law, a strong entrepreneurial culture, expertise in information technology, a free press and a vibrant (if flawed) democracy. 700 million Indians voted in last year's presidential election. There is aDespite all this, India is a country with daunting problems, as anyone who has been there will have discovered in the first five minutes. India does poorly in many international rankings, such as those rating 'ease of doing business,' global competitiveness, corruption and human development. For example, on the United Nations Development Program's human development index, which attempts to assess a broad definition of well-being, India is ranked 134th, just ahead of Congo and Myanmar, and far behind the other BRIC countries.

¹ It is important to recognize is that Goldman Sachs in coining the phrase didn't evaluate emerging economies; it just chose the four biggest in 2000. They remain the four biggest today.

Canada-India Relations

Let me speak briefly about Canada-India relations. I mentioned the 30 year 'mutual sulk' over India's nuclear program. In my view, this was a mistake. Canada and India should have 'agreed to disagree,' and got on with other things.

Though India very much supports western and NATO efforts to bring stability to Afghanistan, cooperation seemed to be a non-starter. I was part of a delegation in 2008 that was told bluntly by the head of a prominent think tank in Delhi that NATO got itself into a mess in Afghanistan, and NATO could get itself out of that mess.

Education, however, looks more promising. When I walk around the University of Toronto campus, I see hundreds of Chinese students, which make up about a third of the U of T student body. But I see almost no Indians. My CIC colleague Ryan Touhey has researched how effectively the US, Britain and Australia have marketed themselves in India – while Canada has done very little. That may change. Recently, there have been many delegations from Canadian universities to India. There are also opportunities for the two countries in energy and the environment. Ontario Premier Dalton McGuinty's trip to India in December focused on what Ontario business could do on the renewable energy and environmental fronts. And, for example, R.V. Anderson Associates Ltd., a private engineering company based in Toronto, is designing and helping to rebuild the vast waste water system in Mumbai. With the completion of a nuclear cooperation agreement, Canadian companies can help India meet its civilian nuclear needs. India's energy needs are vast. There is a growing gap between supply and demand in a country which imports 70% of its fossil fuels, and whose main asset is high ash coal, which powers more than 50% of the country's electricity.

Doing Business in India

Not even the Indian government pretends that it is easy to do business in India. There is the legendary red tape, crumbling infrastructure, corruption and brutal competition in most sectors. But, as we have seen, there is also enormous potential. There are some remarkable stories. I mentioned Sun Life Financial.

Who knew that McCain Foods spent eight years in Gujarat talking to farmers and persuading them to grow the perfect potato for french fries, with just the right oblong shape and a starch content of 21% to 22%? The result? Canada's \$6 billion food company is now the sole supplier of frozen french fries to McDonald's India, and exports products like tandoori veggie nuggets – "the ultimate party snack" from India to Malaysia, the Middle East, South Africa, the UK, and ultimately, perhaps to Canada. Wouldn't that be ironic?

Certainly corporate Canada has traditionally shown little interest in India but that may be changing. Hot new players in India include Research in Motion, Fairmont Hotels, and Brookfield Asset Management, which is looking at opportunities in real estate, energy and infrastructure. The federal government has made India a priority, in part because India isn't China, with its Tibet, Taiwan and human rights issues. And in 2008, Export Development Canada provided funding of \$1.7 billion to India, up from only \$200 million in 2001.

Of course India has increasingly opened up since the reforms of 1991, and since the elections of 2008. Prime Minister Singh has a stronger mandate to continue the reform progress. So the big arrow points up.

India as a World Power?

Lastly, let's look at India's role in the world. India is the largest South Asian power and, by any measure, the most important regional power. India is not a global power, and it is not clear if it will become a global power or even wants to be one, though it is acquiring the ultimate symbol of global power, an aircraft carrier. Nor is it clear, to the Indians or to anyone else, what India as a global power would look like.

India certainly is the 'centrepiece of security' in South Asia, by far the most stable power in a very dangerous neighbourhood, with nuclear powers in all directions (India, Pakistan, China, and Russia, and with Iran a wannabe nuclear power). And India has the oldest and largest democracy in the region.

So Canada should support India whenever it can in international fora, whether in the G-20 or in its application to become a member of the UN Security Council or join APEC.

Let's look briefly at India and China, Pakistan and Afghanistan. India and China have become major trading partners, but they have a wary diplomatic relationship. They fought a war in 1962 over the north-east border, and remain in disagreement over that border.

Relations with traditional rival Pakistan are particularly unfortunate. As I wrote in the *National Post* in December, I worry whether India will continue to show restraint if there are further terrorist incidents that have their roots, or appear to have their roots, in Pakistan. I note that there was a story in the *Times of India* a couple of weeks ago saying that Pakistan-based Lashkar-e-Taiba (one of the largest and most active Islamist militant organizations in South Asia) had acquired 50 para-gliders from Europe and were preparing to launch suicide attacks on India. I had lunch with a high-level businessperson at the swanky Imperial Hotel in Delhi and casually mentioned to him that I understood he grew up in Pakistan. He looked alarmed, and replied, "I don't tell that to people here." It is worrisome when you have that kind of climate.

Finally, let us turn to Afghanistan, which I have visited with Canadian troops. There is a proxy war between India and Pakistan in Afghanistan. Pakistan is suspicious about India's \$1 billion commitment to Afghanistan, and

about the activities of India's consulates in that country. It is, hence, of no surprise that India has not been asked or offered to send troops to Afghanistan, even though the government supports the efforts of Canada and its allies. India wants a stable Afghanistan and is no friend of Muslim extremism.

Let me end on a personal note. I have been a cautious supporter of the Afghan mission, but I now believe it will not succeed, and that once NATO's troops are withdrawn, the country is likely to revert to its traditional strife.

Conclusion

Let me summarize. First, with the nuclear issue out of the way, relations between Canada and India will improve, though it is not clear if they will move beyond rhetoric towards a sustained focus on India – or any of the other BRICs, for that matter. That's because there is a lack of continuity in Canadian foreign policy, a lack of resources, and a lack of commitment, beyond concern for the US.

Second, India will do well economically, though the reform process will continue to move very slowly, and the country will not do as well as its most fervent advocates suggest.

Third and lastly, India will remain the strategic centrepiece of South Asia, warily watching the Chinese in the Indian Ocean and demanding that Pakistan control terrorist elements that cross into Afghanistan or into India itself.

On the economic front, my study recommends an ongoing engagement from the Canadian Prime Minister. Good politics and good business go hand in hand. There must be a sustained improvement in relations. Clarity on the nuclear question is required, in particular the future of AECL. S

Thank you very much.