

Agricultural and Manufactured Goods

India maintains a large number of restrictions related to balance-of-payments ("negative list"), affecting both agricultural and manufactured goods. The list includes banned items (e.g. offal and animal tallow) and restricted items that require an import licence. A large number of items were removed from this list in the 1997 budget and subsequent annual export/import policy, but more than 2700 tariff lines remain. However, as mentioned above, India has agreed to gradually phase out these restrictions by 2003. Canada will monitor the process.

In addition, the non-transparent licensing system lends itself to inconsistent decisions and circumvention. The purported intent of this system is to protect Indian companies in sensitive sectors such as agriculture and food. However, the effect of these policies on the Indian economy is to permit both public- and private-sector firms to operate inefficiently with little or no competition, and to limit the quality and quantity of goods available to Indian consumers. Tariffs remain high on many items.

Additionally, India continues to increase tariff rates as a means of compensating for decreases in tax revenue. In September 1997, India added a 3% temporary tariff increase on all products. To date, this increase has not been removed.

INVESTMENT

Although FDI has been growing by more than 50% a year since reform began in 1991, India maintains a list of more than 50 sectors, where approval for investments up to 51% of ownership is automatic, if certain other conditions (such as location and performance requirements relating to imports of equity and new equipment) are met. All other investments must be approved by the Foreign Investment Promotion Board, and investments of over R\$3 billion (C\$120 million) or those that may have major (undefined) policy implications must be approved by a Cabinet committee. Foreign investment is prohibited in some service industries. Investment in other sectors is limited to a maximum of 49% foreign equity. Up to 100% foreign ownership is permitted for certain areas, including export-oriented firms, energy, high technology and infrastructure, but approval for such ownership is not guaranteed. The procedures for obtaining investment approvals are often non-transparent.

A foreign investor can own a property for use in carrying out business transactions only with the permission of the Reserve Bank of India or state industrial developmental corporations. Generally, foreign investors must bring foreign exchange into the country for purchase or rental of property. Neither rental income nor the proceeds from a property sale can be remitted outside India at any time, unless the investor is a non-resident national or a person of Indian origin. Legislation for the protection of intellectual property, particularly patents in areas of interest to Canadian investors, is weak.

Canada is negotiating a Foreign Investment Promotion and Protection Agreement with India which, over time, will address these issues and will provide a more stable investment climate.

INDONESIA

Overview

Indonesia is Canada's largest export market in Southeast Asia and one of the largest destinations of Canadian direct investment in Asia. In 1997, two-way trade in goods reached \$1.57 billion with \$769.2 million of exports to Indonesia and \$808.6 million of imports. Wheat is Canada's single largest export to the market. Canadian oil and gas, and mining firms have considerable investments in Indonesia, and Canadian goods and services' exports in these sectors are growing. Deregulation of the telecommunications sector has opened up good opportunities in this market of over 200 million people.

Canada's Market Access Priorities for 1998

On January 15, 1998, the Government of Indonesia signed a Memorandum on Economic and Financial Policies (MEFP) with the IMF. The MEFP commits Indonesia to a program of market-based reforms that has far-reaching implications for Canadian goods and services exporters, through a renewed commitment by Indonesia to trade reform. Notwithstanding these recent developments, import licences, a limitation on distribution, and complicated bureaucratic procedures that raise the cost of transactions continue to serve as barriers to Canadian exporters.