Canada-India Trade Relations

There is enormous scope for Indo-Canadian commercial cooperation, both in the Indian market and jointly in the global economic village.

Canada's international trade strategy has taken a very positive approach to Canada-India trade. Both the *Focus-India Strategy* (based on extensive government/ private-sector consultations) and the planned visit in January 1996 of a large-scale business delegation led by Prime Minister Chrétien, reflect the priority Canada places on the Indian market, one destined to become increasingly important for Canadian business.

As the Indian economy improves, more Canadian companies are entering the market with local production bases and/or joint venture operations.

Concurrent with this is the fact that Canadian engineering firms are bidding on — and winning — large projects, either as consultants or project managers/ operators.

Canadian content in these projects runs into the hundreds of millions of dollars but is not always captured in the merchandise trade statistics.

These developments help explain Canada's lower export figures to India (down from $393 million in 1988 to $259 million in 1994 but significantly higher in the first eight months of 1995).

Trade, Investment Reforms

Since 1991, India has undertaken significant economic reforms to liberalize both trade and investment, moves that, to a certain degree, help improve market access.

In trade liberalization, for example, the government has increased the number of items on the "freely permissible" list of consumer goods imports and those which may be freely traded on Special Import Licences.

However, in view of the import restrictions contained in the "negative list of imports", the "peak rate" for import duty which, though reduced from 65 per cent to 50 per cent in 1995, is still too high. As well, numerous non-tariff barriers remain.

As for direct foreign investment in India, it is welcomed in virtually every sector — except defence and atomic energy. Salient features of the country's new foreign investment policies are:

- Foreign equity up to 100 per cent is allowed, subject to conditions.
- Automatic approval for foreign equity participation up to 51 per cent is granted in several key areas.
- The Foreign Investment Promotion Board (FIPB) has been set up in the office of the Prime Minister to speed the approval process.
- Foreign investors need not necessarily have a local partner.
- Free repatriation of profits and capital investment is permitted, except for a short specified list of consumer goods industries where it is subject to dividend balancing against export earnings.
- Use of foreign brand names/trade marks for sale of goods in India is permitted.
- Capital markets now are open to foreign institutional investors.
- Indian companies are permitted to raise funds from international capital markets.
- India, having signed the General Agreement on Tariffs and Trade (GATT), now is a member of the World Trade Organization (WTO).
- Corporate taxes have been reduced from 15 per cent to 10 per cent. Further progressive reductions are planned.
- Special investment and tax incentives are given for exports and certain sectors such as power, electronics and food processing.

Canadian direct investment is growing substantially. Since 1991, more than 85 Canadian companies have established some form of joint venture (in addition to those establishing sales agency relationships). This bodes well for an enhanced flow of Canadian goods and services.