

# INDIA TODAY

**W**ith the end of the Cold War and rapid Indian economic growth, India has been moving steadily toward integration into the global political mainstream. This has and will continue to change India as much as it will alter the nature of international politics and commerce. Canada is well-placed to take advantage of these changes, which will reap benefits in terms of our security, our prosperity and the expression of our values.

In 1991, the collapse of the Soviet Union combined with rising oil prices to create a monetary crisis in India, forcing it to reform the way it operated its economy. At that time, India's economy was largely controlled by the central government, with regulations extending even to the number of items an individual company could produce. This "licence Raj" stifled entrepreneurship and growth, and encouraged corruption. The reforms did away with much regulation, while lowering tariffs and promoting foreign investment. After the initial shock, reforms and the higher growth they engendered (between 6 percent and 7 percent in the past four years) have proven to be popular, and continue today.

Despite these reforms, there are still many barriers, both specific and systemic, to gaining access to Indian markets. In general, there is a lack of predictability and transparency in decision making and bid selection, and a continuing use of wide-ranging restrictions on the importation of consumer goods. A recent agreement between India and Canada will however see the phase-out of these restrictions by 2003. There are also barriers to Canadian investment in specific sectors such as power generation, telecommunications, financial services and insurance. Nevertheless, movement continues on all these fronts, and Canadian interest in investing in India remains high.

In nominal terms, the Indian economy is little bigger than Belgium's. Unlike Belgium, however, India is growing rapidly (its economy could double in size in the next 10 years) and its low starting point means that each marginal increase in per-capita income will lead to a considerable jump in demand

for capital and consumer goods. Furthermore, India's sheer size magnifies the effect that economic change will have on India's relative economic and political position in the world. In fact, these changes are already having an impact on India's relationships with other countries.

## Canada and India

For an increasingly export-oriented Canada, India's promise is particularly alluring. The Indian economy's need to upgrade its infrastructure capacity meshes with the special strengths of Canadian companies. The common use of the English language, as well as similar legal and administrative systems, give Canadians an advantage when trying to penetrate the Indian market. Almost 2 percent of Canadians now trace their ancestry to India, reinforcing the human bridge between Canada and India, and giving Canada an entrée into India denied to most of our competitors. More needs to be done, however, to convince Canadian companies to take advantage of the opportunities that India presents.

Politically, there are now a number of areas in which Canada and India share a common viewpoint. Enhanced trade is the most obvious area of agreement, but we also agree on the importance of Asian regional security, United Nations reform and the fight against international terrorism. Furthermore India and Canada have similar values with respect to democracy, human rights and good government (although not as yet on their advocacy abroad). Close political partnership between Canada and India is not unprecedented: during the 1950s, Canada was India's second-largest trading partner, and collaborated with India in the creation of the modern Commonwealth and a host of other international institutions.

## ECONOMIC OVERVIEW

### Indian Economic Position

The Ministry of Finance's 1996-97 Economic Survey presents a mixed picture of the economy. On

