

C. THE CANADA - INDIA ENVIRONMENT

I. Introduction

This section summarizes the Canada-India environmental considerations which will have an impact on the Canadian economic and trade development strategy. It examines the changes and opportunities in India: how the 'new' India has evolved, what general market potential exists and what economic reforms have taken place. It also describes Canada's trade links with India, both the government and private business development programs of Canadian and Indian organizations and the financial situation in India.

II. The New India

When the minority Congress (I) government of Prime Minister Narashimha Rao took office in June 1991, few expected the Prime Minister to survive politically for more than six months, or the government to last its full five year term. More than four years later, Prime Minister Rao has defied his critics. He remains at the helm of government, commanding a slim majority in Parliament. Although his party has faced setbacks in recent state elections which have created problems within the party, he is expected to contest the national election in 1996.

Prime Minister Rao introduced a program of economic, trade and industrial reforms in July 1991 as India teetered on the brink of bankruptcy for the first time in its post-independence history. Since that time, India has made a dramatic turn-around in its economic philosophy from an inward-looking planned economy based on import substitution to one based on a free market, more globally-oriented economy.

India has all but abolished its famous 'licence Raj' which frustrated exporters and potential investors alike; the Indian rupee is now fully convertible on both the trade and current accounts; and, more importantly, there is now a changing mind set that Indian industry can truly achieve world-class status. The pace and structure of reform can be attributed largely to Dr. Manmohan Singh, the Finance Minister, who steadfastly pursued his objective in the face of domestic opposition (including from within the Congress (I) party). His budgets reflected the need to find a balance between stimulating growth and responding to social pressures.

Although the Government's economic reform has been challenged, Prime Minister Rao has said there is no back tracking on the reforms introduced to date, and more reforms will follow. Given that both major parties are committed to the reform program, most analysts consider them irreversible. The increasingly positive foreign press on India's reform program and this country's sheer economic growth potential are attracting the attention of international business. As India realizes the benefits of foreign technology and capital, business and government will accept that innovation and risk are needed if India is to match the growth of its neighbours in the Association of South East Asian Nations (ASEAN).