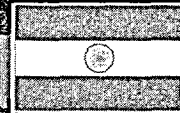


CANAD EXPORT



Focus on India

India: An Emerging Economic Giant

"In view of its market size, I do not think major Canadian companies can afford to stay out of India; nor should they ignore projections by the World Bank and others that foresee both India and China emerging as economic giants by the year 2010." — Stanley Gooch, Canada's High Commissioner to India.

Political Stability

India is the world's second most populous (over 900 million people) and seventh largest (3.3 million square kilometres) nation. The country is overwhelmingly rural, yet more than 50 million Indians live in the eight largest cities. India is geographically and culturally diverse; it officially recognizes 18 languages, and is home to six major religions.

An ancient land, India also is the world's largest democracy, has a stable government, and an educated, English-speaking elite with a well-established entrepreneurial tradition.

India is a federal republic with a parliament and president. Prime Minister Narasimha Rao has been head of the Congress Party, India's dominant political party, since the 1991 assassination of Rajiv Gandhi. Recently, party dissidents have emerged to challenge Mr. Rao's leadership.

The Prime Minister must reunite and re-energize his party to win another term. National elections are due by early 1996. Most observers, aware that all major parties support economic reform, believe the modernization and liberalization of India's economy will proceed — irrespective of which party forms the next government. Political risk to investors, therefore, is low to moderate, depending on the local situation.

Good Economic Performance

The Indian economy, powered by 14 per cent growth in the industrial sector, grew by 5.9 per cent in the first six months of 1995 (up from 4.3 percent in fiscal year 1994-95).

Although poverty and over-population remain enduring problems, it is the "other India", comprising a rapidly growing and dynamic middle class estimated at between 180 million and 250 million people, which represents India's best hope for the future.

Services sector growth of 5.7 per cent also was impressive.

The economy of Maharashtra, of which Bombay is the capital, has grown at a rate of 9 per cent. Neighbouring states, Gujarat and Karnataka, registered similar growth. Indeed, the November 13, 1995 issue of Fortune magazine claims that Bombay ranks eighth of world cities in growth potential.

In the huge agriculture sector, where public investment has stagnated and subsidies remain in place, growth dipped below 3 per cent; food grain production, however, remained strong and huge surplus stocks currently are held in storage.

Growth projections for fiscal year 1995-96 vary depending upon which economic indicator is highlighted. The less optimistic forecast focuses on political uncertainty, the high fiscal deficit and persistent double digit inflation. The government will be

hard-pressed to keep inflation, which has remained in double digits until recently, within politically acceptable limits.

In other areas, however, the economy has performed well and its prospects are brighter: food production and industrial output show strength; exports and foreign exchange reserves are in excellent shape; the foreign debt picture has improved; and foreign direct investment is grow-

ing solidly (although portfolio investment is down dramatically). Annual export growth of over 18 per cent exceeded the Commerce Minister's expectations, while imports grew at 28 per cent.

The negative trade balance is of little concern as the high level of imports underscores increased investment in imported capital goods.

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