
THE INDIA OPTION FOR CANADIAN BUSINESS

(Check against delivery)

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1. INTRODUCTION

DESPITE THE ECONOMIC SLOWDOWN IN MUCH OF CANADA OVER THE LAST TWELVE MONTHS, IT'S STILL A BIG WORLD OUT THERE AND IT WILL CONTINUE TO GET BIGGER: EVEN WITH THE GLOBAL DOWNTURN, GLOBAL GDP WILL BE OVER \$60 TRILLION THIS YEAR, ACCORDING TO THE IMF. IT WAS \$36

TRILLION FIVE YEARS AGO, AND \$29 TRILLION FIVE YEARS BEFORE THAT. THE USA IS A \$15 TRILLION DOLLAR ECONOMY TODAY: IT WAS \$8.6 TRILLION DOLLAR ECONOMY 10 YEARS AGO. CHINA WENT FROM BEING AN CAPITAL POOR, TECHNOLOGY PRIMITIVE AND AUTARCHIC ECONOMY TO THE CENTER OF GLOBAL MANUFACTURING FOR CONSUMER GOODS AND A \$3.8 TRILLION PROTO-SUPERPOWER IN LESS THAN TWO GENERATIONS.

CANADA HAS DOUBLED THE SIZE OF ITS ECONOMY IN THE PAST DECADE.

I THINK THAT COMPANIES BOTH LARGE AND SMALL HAVE TO KEEP THESE LONG TERM TRENDS IN MIND WHEN CONSIDERING THEIR FUTURE AND THEIR OPTIONS BEYOND CANADA'S BORDERS. SOMEBODY IN THE ENTERPRISE – THE BOARD, THE CEO, THE EXECUTIVE COMMITTEE, THE VP FOR MARKETING, HAS BE THINKING 5 AND 10 YEARS AHEAD.

AT THE SAME TIME, IT MUST BE RECOGNIZED THAT COMPANIES OPERATE AT THE MICRO-ECONOMIC LEVEL, AT THE MARKET LEVEL. CANADIAN COMPANIES THAT OPERATE BEYOND OUR BORDERS KNOW THAT THERE ARE GREAT BUSINESS OPPORTUNITIES IN GERMANY AND MALAYSIA AND THE US AND CHINA, BUT MOST ENTERPRISES CAN'T BE EVERYWHERE. THEY HAVE TO MAKE CHOICES.

CANADIAN COMPANIES HAVE DIFFERENT REASONS TO EXPAND INTERNATIONALLY: DEVELOPING NEW EXPORT MARKETS IS AN OBVIOUS OBJECTIVE FOR MANY, BUT THERE ARE MANY OTHER REASONS TO SEEK OPPORTUNITIES ABROAD: TO DEVELOP NEW PRODUCT LINES, SUCH AS IN THE PHARMACEUTICAL INDUSTRY; OR TO FIND OPPORTUNITIES LESS AVAILABLE AT HOME, SUCH AS WITH ENGINEERING SERVICES, WHO NEED INFRASTRUCTURE PROJECTS IN LESS DEVELOPED COUNTRIES; OR TO OBTAIN A BETTER RETURN ON INVESTMENTS IN MARKETS GROWING MUCH FASTER THAN OUR OWN.

WHERE TO GO TO SEEK-OUT THESE OPPORTUNITIES IS NOT AN EASY DECISION TO MAKE. THERE IS ONLY SO MUCH FUNDING FOR LONG-TERM PLANNING AND DEVELOPMENT, THERE ARE LOTS OF BUSINESS OPPORTUNITIES, SO YOU WANT TO CHOOSE YOUR OPTIONS WISELY.

IN ORDER TO DO SO, YOU HAVE TO STAY INFORMED.

2. INDIA AND OPPORTUNITY

MY PURPOSE IS TO INFORM YOU ABOUT INDIA AS A BUSINESS OPPORTUNITY. IT IS NOT MY OBJECTIVE TO INSIST THAT YOU DO BUSINESS WITH INDIA, WITHOUT WHICH YOU WILL NOT BE

ABLE TO GUARANTEE YOUR FUTURE. STRATEGIC DECISIONS ARE FOR BUSINESSES THEMSELVES TO MAKE.

BUT I CAN TELL YOU THAT THINGS OF SIGNIFICANCE ARE HAPPENING IN INDIA AND THAT YOU SHOULD BE CONSIDERING WHAT THIS GROWING ECONOMY CAN MEAN FOR YOU, IF NOT NOW, THEN IN THE FUTURE.

INDIA IS NOT CHINA; IT DOESN'T POSE EITHER THE SAME CHALLENGES OR OFFER THE SAME OPPORTUNITIES. INDIA IS NOT A GLOBAL MANUFACTURING POWER AND IS NOT LIKELY TO BE IN ANY REALISTIC PLANNING HORIZON. INDIA IS STILL A REMARKABLY AUTARCHIC ECONOMY, WITH ITS EXTERNAL SECTOR – EXPORTS AND IMPORTS – EQUIVALENT TO LESS THAN 40% OF ITS GNP – CHINA'S EXPORTS ALONE ARE GREATER THAN 40% OF GDP. BUT IT IS BIG AND GROWING ECONOMY, AND DESTINED TO BECOME MUCH BIGGER. LIKE BRAZIL AND POSSIBLY RUSSIA, IT WILL JOIN THE EU, THE USA, JAPAN AND CHINA AS ONE OF THE PILLARS OF THE GLOBAL ECONOMY. IT ISN'T THERE YET, BUT ITS COMING.

LET ME TELL YOU WHY I BELIEVE THAT.

3. WHAT IS DRIVING INDIA ECONOMY?

THERE ARE MANY REASONS FOR THE SPECTACULAR EMERGENCE OF INDIA. MOST IMPORTANTLY THEY INCLUDE

THE CONVERGENCE OF INDIA'S REMARKABLE ENTREPRENEURIAL SPIRIT, LIBERATED BY THE ECONOMIC REFORMS SINCE THE EARLY 1990s; THE GROWTH OF CORPORATE INDIA AND THE ACCUMULATION OF INVESTMENT CAPITAL; THE MASSIVE AVAILABILITY OF FOREIGN CAPITAL FOR BOTH PORTFOLIO AND DIRECT INVESTMENT; THE EASE AND ENTHUSIASM WITH WHICH INDIAN ENTREPRENEURS GRASPED THE OPPORTUNITIES PRESENTED BY THE NEW INTERNET AND COMMUNICATIONS TECHNOLOGIES; THE AVAILABILITY OF ABUNDANT AND WELL EDUCATED HUMAN RESOURCES, ESPECIALLY IN SOUTH AND CENTRAL INDIA; THE CONNECTIONS ENTREPRENEURS AND THEIR STAFFS ESTABLISHED WITH THE HIGH TECH, BUSINESS SAVVY OF THE VAST INDIAN DIASPORA, ESPECIALLY IN THE UNITED STATES AND CANADA. THIS WAS A SET OF CIRCUMSTANCES MADE IN HEAVEN AND THE INDIANS HAD THE BRAINS AND THE WHEREWITHAL TO EXPLOIT THEM TO WORLD CLASS LEVELS.

THIS IS THE INDIA OF THOMAS FRIEDMAN AND BILL EMMOTT AND THE OTHER FLAT EARTHERS, AND IT IS ALSO THE INDIA THAT IS SUSTAINING, EXCEPTIONALLY, A 5% TO 6% POSITIVE GROWTH RATE EVEN IN THE CIRCUMSTANCES THAT PREVAIL IN THE LAST HALF OF 2009.

THERE ARE MANNY MACRO FACTORS AT PLAY.

SIZE MATTERS.

THERE ARE 15 ECONOMIES IN THE WORLD WITH OUTPUT GREATER THAN ONE TRILLION DOLLARS: THE LARGEST IS THE UNITED STATES, AT ABOUT \$15 TRILLION; JAPAN IS SECOND, AT \$4.5 TRILLION. CHINA'S GDP THIS YEAR WILL EXCEED \$3.8 TRILLION. THE 12TH TRILLION DOLLAR ECONOMY IS THAT OF INDIA. CANADA IS \$1.6 TRILLION, NECK AND NECK WITH SPAIN.

IT'S USEFUL TO THINK OF INDIA NOT AS A SINGLE ECONOMY, BUT AS THREE INTERCONNECTED ECONOMIES. INDIA IS A \$350 BILLION DOLLAR INDUSTRIAL ECONOMY, A SERVICES ECONOMY APPROACHING \$700 BILLION, AND A \$200 BILLION DOLLAR AGRICULTURAL AND RESOURCE ECONOMY, IN OTHER WORDS IT'S BELGIUM PLUS SWITZERLAND PLUS THE CZECH REPUBLIC.

GDP GROWTH

THE COMBINED INDUSTRIAL, SERVICE AND AGRICULTURAL ECONOMIES OF INDIA, AS A WHOLE, HAD QUARTERLY GDP AT FACTOR COSTS GROWTH RATES OF ANYWHERE BETWEEN 7% AND 9.5% DURING 18 QUARTERS BETWEEN 2004 TO 2008. GROWTH IN THE MANUFACTURING SECTOR VARIED FROM 7.5% TO 12.5% DURING THE SAME PERIOD, AND SERVICES BY 8% TO 14%. WE ASSOCIATE THESE RATES WITH THOSE OF CHINA AND, IN THE 70s, 80s AND 90s, JAPAN, KOREA AND TAIWAN, AND THE SOUTH EAST ASIA.

LEADING BUSINESSES

BEHIND THESE MACRO NUMBERS ARE OF COURSE REAL COMPANIES, TENS OF THOUSANDS OF THEM, OPERATING SINCE THE MID-'90s IN A LARGELY LIBERALIZED MANUFACTURING SECTOR, LEAD BY THE FAMOUS ENTREPRENEURIAL FAMILIES SUCH AS THE TATAs, THE BIRLAs, THE AMBANIs, THE MITTALs, THE RUIAs, THE JINDALs, THE SINGHs AND SO ON AND SO FORTH , FORTY OR FIFTY OR SO MULTI-BILLIONAIRE FAMILY AND INDUSTRIAL GROUPINGS WHO POSSESS THE WEALTH, THE CONNECTIONS AND THE ABILITIES TO INTEGRATE LARGE ENTERPRISE SECTORS AND MOBILIZE CAPITAL TOWARDS EXISTING AND NEW COMPANIES IN AREAS SUCH AS TELECOMMUNICATIONS, AUTOMOTIVE, ENERGY, TRANSPORTATION, INFRASTRUCTURE AND THE MEDIA.

ENTREPRENEURIAL DRIVE

YOU CAN'T QUANTIFY THIS COMPLETELY BUT ANYONE WHO KNOWS INDIANS IN CANADA WILL NOT NEED TO BE PERSUADED THAT MANY INDIANS POSSESS A CULTURAL PROPENSITY TO ENTREPRENEURSHIP EQUAL TO THAT IN OTHER BUSINESS CULTURES. FROM THE GREAT FAMILIES THROUGH THE NEW INDUSTRIALISTS TO THE EXPANDING SERVICE SECTOR TO THE KIDS SELLING KNOW-OFFS ON THE

STREETS, CIRCUMSTANCE, DISPOSITION AND REGULATORY LIBERALIZATION CONTINUE TO DRIVE THE EXPANSION OF THE BUSINESS SECTOR. FOR EXAMPLE, THERE WERE 60,000 LICENSED BUSINESS ESTABLISHMENTS IN 2000: THERE ARE ALMOST THREE TIMES THAT NUMBER IN 2009. IF A POSITION IN THE INDIAN ADMINISTRATIVE SERVICE, THE BUREAUCRACY, WAS THE DREAM OF ALL UNIVERSITY GRADUATES IN YEARS PAST, THE IAS MUST NOW COMPETE WITH BUSINESS FOR THE BEST MINDS AND THE MOST AMBITIOUS GRADUATES. THE INDIAN GOVERNMENT, RECOGNIZING THIS, RECENTLY ANNOUNCED THE OPENING OF 7 NEW BUSINESS SCHOOLS.

SERVICE GROWTH IN ICT/BPO

DURING THE LAST DECADE AND A HALF, INDIA ALSO DEVELOPED A REMARKABLY ADVANCED AND COMPETITIVE SERVICES SECTOR, FOCUSED INITIALLY ON PROVIDING BACK OFFICE SUPPORT FOR RAPIDLY GLOBALIZING COMPANIES IN NORTH AMERICA AND EUROPE, IN EVERYTHING FROM INFORMATION MANAGEMENT AND ACCOUNTING TO CUSTOMER SERVICES THROUGH INDIA'S UBIQUITOUS CALL CENTERS. THOMAS FRIEDMAN AND OTHERS HAVE WRITTEN EXTENSIVELY ABOUT THIS. NO POLITICIAN'S VISIT TO INDIA IS COMPLETE WITHOUT A STOP AT INFOSYS OR WIPRO OR TATA CONSULTING SERVICES – ALL OF WHOM, BY THE WAY, HAVE LARGE OFFICES AND OPERATIONS IN CANADA, AS DOES MAHINDRA SATYAM AND REPLICON.

HOWEVER LARGE, ACCOUNTING FOR 4.5% OF GDP AND \$40 BILLION IN EXPORTS, IT MUST BE ADMITTED THAT ICT IS ONLY ONE NICHE AMONG MANY IN ANY 21ST CENTURY ECONOMY. INDIA HOWEVER IS DEVELOPING ADDITIONAL NICHES, WHICH ARE IMPACTING GLOBALLY. PHARMACEUTICALS IS ONE, AS IS EVIDENT IN THE LARGE NUMBER OF INDIAN PHARMACEUTICAL COMPANIES NOW OPERATING IN CANADA. VOCATIONAL TRAINING, POWER AND INFRASTRUCTURE DEVELOPMENT ARE OTHER VERY IMPORTANT AND RAPIDLY GROWING NICHE SECTORS.

IT IS ALREADY EVIDENT THAT INDIA WILL BECOME THE GLOBAL SMALL CAR MANUFACTURER AND EXPORTER. TATA MOTOR'S NANO IS ALREADY IN PRODUCTION, AND EXPORTS WILL BEGIN NEXT YEAR. HYUNDAI WILL EXPORT 300,000 SMALL CARS FROM INDIA OVER THE COURSE OF THIS YEAR, AND MARUTI-SUZUKI IS NOT FAR BEHIND. TOYOTA MOTORS, FORD AND GENERAL MOTORS ARE NOW OR IN THE NEAR FUTURE PRODUCING AND EXPORTING SMALL SIZED CARS FROM INDIA. NISSAN IS BUILDING A PLANT EXCLUSIVELY FOR EXPORTS.

DEMOGRAPHICS

INDIA HAS A GREAT DEMOGRAPHIC PROFILE, ALMOST A PERFECT TRIANGLE, A NATURAL POPULATION GROWTH RATE OF OVER 1.5%, WITH A SURFEIT OF YOUNG PEOPLE, A YOUTH

BULGE OF FUTURE PRODUCERS AND CONSUMERS – 65% OF THE POPULATION IS UNDER 35, AND HALF OF THESE ARE UNDER 25 – WHICH PROVIDES THE OPPORTUNITY FOR INDIA, AS THEY SAY, TO GET RICH BEFORE IT GETS OLD, THE CAVEAT BEING THAT THEY HAVE TO EDUCATE THEIR YOUTH BETTER THAN THEY ARE DOING.

AN EMERGING MIDDLE CLASS

INDIA HAS A GROWING MIDDLE CLASS, OVER A QUARTER OF A BILLION CONSUMERS WHOSE ECONOMIC EXPECTATIONS HAVE BEEN FIRED UP BY THE LAST TWO DECADES OF IMPROVED ECONOMIC PERFORMANCE, MOST NOTABLY IN THIS DECADE.

I CAN'T HELP BUT MENTION THE IMPACT OF HOPE AND PERSONAL ASPIRATIONS. EVERY OPINION SURVEY CONFIRMS WHAT ANECDOTAL EVIDENCE MAKES CLEAR: INDIANS, ESPECIALLY THE AFFLUENT AND THE MIDDLE CLASS, AS WELL AS THE CONNECTED RURAL DWELLERS, ARE MORE CONFIDENT ABOUT THEIR FUTURE. HAVING LIVED IN ASIA MOST OF MY PROFESSIONAL LIFE, I CAN ASSERT THAT THERE IS NOTHING LIKE NATIONAL SELF-CONFIDENCE IN THE FUTURE TO DRIVE AN ECONOMY, AT LEAST FOR A WHILE. I SAW THIS FIRST HAND IN JAPAN IN THE 70s AND 80s AND IN CHINA A DECADE AGO. I NOW SEE IT IN INDIA.

INFRASTRUCTURE

TO SAY THAT INADEQUATE INFRASTRUCTURE IS TO STATE THE OBVIOUS, BUT IT IS ALSO TRUE THAT INFRASTRUCTURE IS IMPROVING. INFRASTRUCTURE DEVELOPMENT CAN BE PAINFULLY SLOW AND DEVELOPMENT PLANS ARE RARELY FULFILLED IN ALL OF THEIR ASPECTS, BUT \$190 BILLION IN INFRASTRUCTURE HAS BEEN PUT IN DURING THE LAST 5 YEARS. ALL WEATHER ROADS ARE IN PLACE AND NEW ONES ARE BEING BUILT; THE NEHRU NATIONAL URBAN RENEWAL PROGRAM HAS PUMPED ALMOST \$10 BILLION IN MAJOR CITIES AND ITS RESULTS ARE VISIBLE; NEW PORT FACILITIES, ARE OPENING ON BOTH EAST AND WEST COASTS; BANGALORE AND HYDERABAD HAVE NEW AIRPORTS, AND NEW DELHI AND MUMBAI WILL HAVE NEW FACILITIES WITHIN TWO YEARS. NOT ONLY DOES THIS DETERMINED EXPANSION PROVIDE BUSINESS OPPORTUNITIES: IT ALSO MAKES BUSINESS MORE EFFICIENT AND CREATES OPPORTUNITIES WHERE NONE PREVIOUSLY EXISTED.

RURAL SECTOR

EVEN THE RURAL SECTOR – THE TRADITIONAL DRAG ON INDIAN ECONOMIC PERFORMANCE FOR MANY STRUCTURAL REASONS, AS WELL AS BECAUSE OF ITS DEPENDENCE ON THE MONSOONS - IS EXPERIENCING SUSTAINABLE GROWTH

TRENDS THAT WILL BRING IMPROVEMENTS TO THE LIVELIHOOD OF 70% OF INDIA'S POPULATION.

THE GROWTH RATE FOR THE AGRICULTURAL SECTOR DURING IN THE TWO YEARS FROM '05 TO '07 HAS AVERAGED 4.7%, ALMOST DOUBLE THE RATE OF PREVIOUS DECADES, AND CONTINUING FOUR CONSECUTIVE YEARS OF POSITIVE, STRONG GROWTH. MOBILE PHONES, ROADS AND INFORMATION THROUGH THE MEDIA ARE HAVING AN IMPACT ON THE PSYCHOLOGY OF RURAL DWELLERS, IN WAYS THAT RESEMBLE THE IMPACT OF LIBERALIZATION ON THE URBAN POPULATION BEGINNING IN THE 1990s.

ALL OF THESE FACTORS HAVE SUBSTANTIALLY BOOSTED SPENDING POWER AND INTENTIONS: THE RURAL CONSUMER MARKET IS ONLY SLIGHTLY SMALLER THAN ITS URBAN COUNTERPART: 49% VS. 51%. CELL PHONE CARRIER AIRTEL'S NEW SUBSCRIBER BASE IS 60% RURAL. CURRENTLY, THERE ARE 91MM RURAL SERVICE SUBSCRIBERS THROUGHOUT INDIA, AND 225MM IN URBAN AREAS. MARUTI'S AUTOMOBILE SALES ARE NOW 8.5% RURAL, VERSUS 2.5% 5 YEARS AGO.

MACRO-ECONOMIC TRENDS

FINALLY, THERE ARE SIGNIFICANT AND FAVORABLE MACRO ECONOMIC FACTORS AT PLAY: A HIGH PUBLIC/PRIVATE SAVINGS RATE – 37.7% IN 2008, INCLUDING 24% SAVINGS RATES AMONG HOUSEHOLDS; SIGNIFICANT ROOM FOR CREDIT PENETRATION: FOR EXAMPLE, ONLY A SMALL PERCENTAGE OF HOMEOWNERS HAVE MORTGAGES; HIGH AND RISING WORKER TO DEPENDENTS RATIO; RAPID GROWTH IN EMPLOYMENT IN THE ORGANIZED SECTOR – NOW ACCOUNTING FOR 18.5MM WORKERS (A THIRD OF WHICH ARE EMPLOYED BY GOVERNMENT); AND LOW LEVELS OF MIDDLE CLASS ACCOUTREMENTS, PRINCIPALLY AUTOMOBILES, AT ABOUT 15 PER 1,000 PEOPLE, VS. ABOUT 30 IN CHINA.

IMPACT OF THE DOWNTURN

THIS IS NOT TO SAY THAT INDIA DID NOT SUFFER SOME OF THE EFFECTS OF THE ECONOMIC DOWNTURN: IT DID. THE SENSEX INDEX OF STOCKS LOST MORE THAN TWO THIRDS OF ITS VALUE. INDUSTRIAL PRODUCTION DECLINED, AS DID REAL ESTATE SALES AND CONSTRUCTION, EXPORTS OF TEXTILES AND LUXURY ITEMS, AND SERVICES EXPORTS AS WELL, INCLUDING IN THE IT SECTOR. JOBS WERE LOST. FINANCIAL MARKETS WERE AFFECTED BY THE WITHDRAWALS BY FOREIGN INSTITUTIONAL INVESTORS FROM INDIAN EQUITY MARKETS.

BUT, AS IN CANADA, THE BANKING SECTOR WAS NOT SERIOUSLY AFFECTED BY THE DOWNTURN, GIVEN A REGULATORY FRAMEWORK THAT PUT LIMITS ON THE INTERNATIONAL EXPOSURE OF INDIAN BANKS.

THE GOVERNMENT'S STIMULUS PACKAGES WENT WELL BEYOND THE INFUSION OF \$55 BILLION IN THE ECONOMY, TO INCLUDE A \$14 BILLION LOAN WAIVER AND HIGHER SUPPORT PRICES FOR FARMERS; EXPANDED EMPLOYMENT GUARANTEE SCHEMES IN RURAL AREAS; PAY REVISIONS FOR GOVERNMENT EMPLOYEES; AND TAX CUTS FOR THE GENERAL POPULATION.

NOW, IN THE FALL OF 2009, MOST INDICATORS ARE RISING, INCLUDING PORTFOLIO AND CAPITAL INVESTMENT, FDI IS INCREASING, QUARTERLY OPERATING PROFITS IN MANUFACTURING WERE UP 17.5% IN Q1. BY MID-SEPTEMBER OF THIS YEAR, THE MARKET HAS REGAINED 87% OF ITS LOSSES. THE GDP GROWTH RATE FOR FISCAL '09/'10 IS VARIOUSLY PROJECTED TO REACH 5.5% TO 6.5%, THE GOVERNMENT PROJECTING THE HIGHER FIGURE, PEOPLE LIKE GOLDMAN SACHS AND CITIGROUP AT THE LOWER LEVEL.

4. THE BOTTOM LINE

THE BOTTOM LINE IS THAT THE TREND LINES I'VE DESCRIBED ABOVE HAVE CREATED A VIRTUOUS CIRCLE OF GROWTH IN THE 5% TO 7% RANGE, THAT CAN SAFELY BE EXPECTED TO CONTINUE WELL INTO THE FUTURE. ECONOMIC GROWTH IS NOW THE DEFAULT MODE IN INDIA.

IT IS STILL A LARGELY DOMESTIC DRIVEN MACHINE, ONE THAT DEPENDS LESS ON INTERNATIONAL MARKETS, MORE ON DOMESTIC DEMAND – IN INDIA, IT'S DEMAND THAT DRIVES SUPPLY – MORE ON IMPORTS OF NEW TECHNOLOGIES AND CAPITAL GOODS AND RESOURCES.

THE BIGGEST CHALLENGE FOR INDIA IS WHETHER IT CAN MOVE FROM 6% TO 7% GROWTH TO SOMETHING CLOSER TO A SUSTAINED 9% PLUS, THE KIND OF TRANSFORMATIVE GROWTH THAT FUELS CHINA. INDIA AT 5% WILL KEEP AHEAD OF ITS DEMOGRAPHICS AND THE GROWTH IN RISING EXPECTATIONS – 13 MILLION INDIANS ENTER THE LABOR FORCE EVERY YEAR – BUT IT WILL TAKE MUCH LONGER TO ACHIEVE THE KIND OF ECONOMIC MASS THAT IS A DOMESTIC AND INTERNATIONAL GAME CHANGER.

IN ORDER TO GET TO THAT POINT, INDIA WILL HAVE TO IMPROVE SUBSTANTIALLY THE QUALITY OF THE EDUCATION OF ITS BLUE COLLAR WORK FORCE, RAISE LITERACY RATES, IMPROVE HEALTH CARE, AND REFORM ADDITIONAL PARTS OF ITS ECONOMY, IN PARTICULAR INCREASING FOREIGN

PARTICIPATION IN INSURANCE SERVICES, AGRICULTURAL PRODUCTION AND DISTRIBUTION, RURAL INFRASTRUCTURE. IT WILL ALSO HAVE TO OPEN UP ITS RESOURCE AND RETAIL SECTORS TO GREATER INTERNATIONAL PARTICIPATION, THROUGH FDI.

BUT NO MATTER HOW YOU CUT IT, THIS IS GOING TO BE A TOP TEN ECONOMY – TOP FIVE IS YOU MEASURE ON A PPP BASIS – LARGELY LIBERALIZED IN THE MANUFACTURING SECTOR, HIGHLY ENTREPRENEURIAL, DESPERATE FOR NEW TECHNOLOGIES, NEW PARTNERSHIPS, NEW INVESTMENT AND NEW OPENINGS ON THE WORLD. AND THE TRACK RECORD IS NOW IN PLACE TO MAKE THESE AMBITIONS PLAUSIBLE, AND THE OUTCOME INEVITABLE.

5. GIVEN THESE FEATURES, HOW IS CANADA DOING IN INDIA?

IN 2008, OUR BILATERAL TRADE IN GOODS AND SERVICES WAS IN THE ORDER OF \$4.6 BILLION, WITH CANADIAN EXPORTS AT \$2.4 BILLION, UP BY 25% OVER 2007, THANKS TO THE INCREASE IN POTASH PRICES, AND DIRECT SALE OF DIAMONDS. INDIAN EXPORTS TO CANADA INCREASED BY 10%, TO \$2.2 BILLION, THE INCREASE IN ORGANIC CHEMICALS, MOSTLY FOR THE PHARMACEUTICAL INDUSTRY, IRON AND

STEEL PRODUCTS, AND ELECTRICAL MACHINERY OF VARIOUS TYPES.

FOR THE COMPANIES ENGAGED IN THE BUSINESS, THIS IS ALL GOOD NEWS. WE CAN HOPE THAT CURRENT ECONOMIC CIRCUMSTANCES DO NOT DEPRESS THESE NUMBERS IN 2009.

BUT LOOKING AT THE BIG PICTURE, GIVEN THAT CANADA AND INDIA TOGETHER PRODUCE ALMOST \$3 TRILLION IN GOODS AND SERVICES IN A YEAR, THESE TRADE NUMBERS ARE NOT LARGE, EVEN AS THEY ARE GROWING.

OUR RELATIVE POSITIONS, DESPITE BEING LARGE ECONOMIES AND THE BELIEF THAT OUR ECONOMIES HAVE GREAT COMPLEMENTARITY, ARE NOT IMPRESSIVE EITHER: ACCORDING TO THE WORLD TRADE ATLAS, in 2007, CANADA WAS INDIA'S 28TH EXPORT DESTINATION, AND 33RD SOURCE OF IMPORTS. INDIA WAS OUR 13TH MARKET, AND OUR 22ND SOURCE OF IMPORTS.

6. STRUCTURE OF CANADA/INDIA TRADE

CANADA'S EXPORTS TO INDIA CAN BE DIVIDED AMONG THE FOLLOWING: AGRICULTURAL GOODS; INDUSTRIAL INPUTS, AND MANUFACTURED GOODS.

AGRICULTURAL PRODUCTS

IN 2008, 17% OF OUR EXPORTS WERE IN AGRICULTURAL PRODUCTS – MOSTLY PULSES FROM THE PRAIRIES.

THESE EXPORT OPPORTUNITIES AROSE BECAUSE OF SHORTAGES IN INDIA, WHICH ALLOWED IMPORTS OF PRODUCTS WHOSE ENTRY IS NORMALLY RESTRICTED. GIVEN INDIA'S RESTRICTIVE AGRICULTURAL PRODUCT IMPORT POLICIES, OUR OPPORTUNITIES IN AGRICULTURE ARE DETERMINED BY THE WEATHER AND SCARCITY. EXPANDED MARKET OPPORTUNITIES ALSO DEPEND ON SOME VERY BASIC CHANGES IN INDIA'S DOMESTIC AGRICULTURAL POLICIES – MOVING FROM SUBSIDIES TO DIRECT BENEFITS TO RURAL HOUSEHOLDS, PROVIDING ADEQUATE INFRASTRUCTURE – INDIAN AGRICULTURE CAN LOSE UP TO 40% OF ITS OUTPUT, DEPENDING ON THE CROP, AND ONLY 2% OF TOTAL OUTPUT IS PROCESSED. THERE IS AN URGENT NEED TO DIMINISH THE NUMBER OF RENT SEEKING MIDDLE MEN. MUCH OF THIS WOULD BE HELPED BY ADDITIONAL MARKET OPENING AND COMPETITION, THROUGH MULTILATERAL TRADE LIBERALIZATION, OR AGGRESSIVE AND STRATEGIC USE OF FTAs TO STIMULATE EFFICIENCIES. BUT WE ARE VERY FAR FROM THAT PROSPECT.

INPUTS INTO AGRICULTURE AND INDUSTRY

ABOUT HALF OF CANADA'S EXPORTS ARE NON-AGRICULTURAL INPUTS FOR INDIAN AGRICULTURE AND

INDUSTRY, I.E. FERTILIZER, PULP, IRON AND STEEL, NICKEL, AND SO FORTH.

HERE, DEMAND IS MORE DIRECTLY DETERMINED BY THE OVERALL PERFORMANCE OF THE INDIAN ECONOMY. STRONG PUBLIC AND PRIVATE INVESTMENT VIRTUALLY GUARANTEES A GROWING MARKET FOR ENERGY AND STEEL AND OTHER METALS AND MINERALS, NOT TO SPEAK OF CONSTRUCTION MATERIALS, MACHINERY AND OTHER INPUTS. SO CANADA AND OUR EXPORTS HAVE A STAKE IN THE PERFORMANCE OF THE INDIAN ECONOMY OVERALL, GIVEN THE DEMAND IT CREATES FOR HALF OF WHAT WE EXPORT TO THAT COUNTRY.

NOTHING IS GUARANTEED HOWEVER. GIVEN THAT MOST OF THESE INPUTS ARE TRADED OPENLY ON INTERNATIONAL MARKETS AND ARE THUS PRICE SENSITIVE, CANADIAN SUPPLIERS MUST REMAIN COMPETITIVE IF THEY ARE TO MAINTAIN AND GROW THEIR MARKET SHARES. THE FACT THAT CANADA IS SO WELL ENDOWED WITH THESE PRIMARY PRODUCTS, PARTICULARLY IN METALS AND MINERALS AND FOREST PRODUCTS, CAN MAKE OUR PRODUCERS NATURAL PARTNERS IN THE SUPPLY OF INPUTS THAT INDIA REQUIRES FOR SUSTAINABLE GROWTH. DISTANCE FROM MARKET IS A FACTOR, AS THE RISE AND FALL IN FREIGHT RATES IMPACTS DIRECTLY ON THE COMPETITIVENESS OF CANADIAN SUPPLIERS. BUT IN TIGHT MARKETS, CANADIAN PRODUCERS ARE IN A POSITION OF STRENGTH, BECAUSE OF THE

AVAILABILITY OF RAW MATERIALS, TECHNICALLY ADVANCED EXTRACTION AND PRIMARY PROCESSING CAPABILITIES, ACCESS TO SOPHISTICATED FINANCING ARRANGEMENTS AND GLOBAL MARKETING EXPERIENCE.

NOT TO BE NEGLECTED IS THE FACT THAT THESE LATTER STRENGTHS ARE ALSO EXPORTABLE, AS INPUTS ACCOMPANYING INVESTMENT PLAYS, AND AS SERVICES TO CANADIAN AND NON-CANADIAN ENTERPRISES NEEDING TECHNICAL AND OTHER SKILLS IN THE PURSUIT OF THEIR OWN PROJECTS.

HIGH TECHNOLOGY GOODS AND SERVICES FOR MODERNIZATION OF THE INDIAN ECONOMY

IN 2008, THIRTY PERCENT OF OUR EXPORTS CAN BE DESCRIBED AS NON-COMMODITY MANUFACTURED GOODS, UP FROM A 25% SHARE THE PREVIOUS YEAR. THESE MANUFACTURED PRODUCTS HAVE ROUGH EQUIVALENTS FROM OTHER SOURCES. BUT WHERE IP AND OTHER HIGH VALUE CONTENT, THEIR DESIGN, SUPPORT SERVICES AND SO FORTH PROVIDE THE COMPETITIVE EDGE. OUR SUCCESSFUL COMPANIES SUPPLY THE ICT INDUSTRIES, AERONAUTIC AND SPACE INDUSTRIES, OPTICAL EQUIPMENT, THE PHARMACEUTICAL INDUSTRY, AUTO PARTS, ENVIRONMENTAL GOODS AND SERVICES, EVEN MEDIA AND ENTERTAINMENT.

ENGINEERING SERVICE EXPORTS AND EXPORT OPPORTUNITIES ARE MULTIPLYING, TIED TO INDIA'S THIRST AND NEED FOR INFRASTRUCTURE OF ALL KINDS. INDIA'S AMBITIONS MOSTLY RUN AHEAD OF ITS CAPACITY TO DELIVER, BUT THINGS ARE HAPPENING.

8. INVESTMENT FLOWS

BUT EXPORTS ARE ONLY ONE PART OF THE PICTURE. EQUALLY SIGNIFICANT IN THE LONG RUN ARE THE INVESTMENT FLOWS THAT CHARACTERIZE THE CANADA/INDIA RELATIONSHIP. BEAR IN MIND THAT INDIA IS THE WORLD'S THIRD RECIPIENT OF FDI, FOLLOWING CHINA AND THE USA.

THE PRINCIPAL FLOWS OF FDI INTO INDIA ORIGINATE IN THE USA, SINGAPORE, THE UK, THE NETHERLANDS AND JAPAN. THEY TARGET VERY SPECIFIC SECTORS: SERVICES, PRIMARILY ITC; COMPUTER SOFTWARE AND HARDWARE; CONSTRUCTION; TELECOMS; REAL ESTATE; POWER ; THE AUTO SECTOR; METALLURGICAL INDUSTRIES; AND OIL AND NATURAL GAS.

THESE SECTORAL FLOWS ARE CONSISTENT WITH CANADIAN INVESTMENT TO DATE. DOZENS OF CANADIAN COMPANIES HAVE A PERMANENT PRESENCE IN INDIA THROUGH FDI. YOU

WOULD EXPECT BOMBARDIER TO HAVE PRODUCTION FACILITIES IN INDIA AND YOU WOULD BE RIGHT. CAE SUPPLIES SIMULATORS AND HAS A TRAINING FACILITY. SNC HAS 1,500 ENGINEERS IN INDIA, AND WAS RECENTLY AWARDED THE MANAGEMENT OF MUMBAI'S INNER CITY TRAIN AND SUBWAY EXPANSION. FOUR SEASONS HAS A HOTEL IN BOMBAY AND IS PLANNING STEADY EXPANSION, INCLUDING IN DELHI AND HYDERABAD. FAIRMONT IS ALSO LOOKING AT THE MARKET. SUN LIFE HAS A CENTURY LONG ASSOCIATION WITH INDIA, AND IS PARTNERED WITH BIRLA. AND RIM'S BLACKBERRIES ARE BECOMING UBIQUITOUS AMONG THE BUSINESS AND JET SETS. NIKO RESOURCES OF CALGARY IS ONE OF THE MOST SUCCESSFUL NATURAL GAS OPERATORS IN INDIA, IN ASSOCIATION WITH RELIANCE INDUSTRIES.

THIS IS MORE THAN MATCHED BY INDIAN INVESTMENTS IN CANADA. I'VE ALREADY MENTIONED THE ESSAR GROUP. IT HAS INVESTED \$1.8 IN DEBT AND EQUITY IN ALGOMA STEEL. HINDALCO, OF THE BIRLA GROUP, ACQUIRED NOVELIS AND THUS IS A MAJOR PLAYER IN ALUMINUM PRODUCTION AND MANUFACTURING. TATA CONSULTING IS ESTABLISHED THROUGHOUT CANADA. OTHER COMPANIES THAT YOU MAY OR MAY NOT HAVE HEARD ABOUT HAVE PUT SUBSTANTIAL INVESTMENTS IN CANADA: JUBILANT ORGANOSYS, \$185MM IN BIOTECHNOLOGY; TRANSWORKS LTD, \$125MM IN IC; THE ADITYA BIRLA GROUP IN VARIOUS ENTERPRISES.

THE OIL AND NATURAL GAS COMPANY OF INDIA IS STUDYING INVESTMENT OPPORTUNITIES IN THE OIL SANDS, SOMETHING WHICH MAY BE ADVANCED GIVEN THE LARGE CHINESE INVESTMENTS IN THE SECTOR. IN RESOURCES, INDIA WATCHES CHINA VERY CLOSELY.

IN THE BIOTECHNOLOGY SECTOR, APOTEX, STEM CELL THERAPEUTICS AND FYTOKEM PRODUCTS HAVE INVESTMENT OPERATIONS IN WESTERN CANADA.

THERE ARE MANY EXAMPLES OF OUTRIGHT ACQUISITIONS, JVs, MERGERS, GREENFIELD AND BROWN FIELD DIRECT INVESTMENTS, AS WELL AS S&T COLLABORATION.

A SECOND BOTTOM LINE

THIS REVIEW OF TRADE AND INVESTMENT DEMONSTRATES THAT WHEN LOOKING AT OPPORTUNITIES TO WORK WITH INDIAN ENTERPRISES, CANADIAN COMPANY PERSPECTIVE SHOULD BE AS BROAD AS POSSIBLE. COMPANIES SHOULD BE CONSIDERING BOTH THE IMPORT AND THE EXPORT OF GOODS AND SERVICES; INVESTMENTS, DIRECT OR IN PARTNERSHIP IN BOTH INDIA AND CANADA, SCIENCE AND TECHNOLOGY COLLABORATION, AND THE MYRIAD OTHER WAYS THAT BUSINESS CAN GROW AND IMPROVE THEIR COMPETITIVENESS.

9. CHALLENGES AND RISKS

RISKS ARE INHERENT IN ALL OPPORTUNITIES, NO LESS SO IN A BUSINESS ENVIRONMENT THAT DIFFERS MARKEDLY FROM THAT OF NORTH AMERICA AND EUROPE.

IN INDIA, AS IN EVERY DEVELOPING COUNTRY, THERE IS THE STANDARD, GARDEN VARIETY OF BUSINESS ISSUES AND RISKS THAT REQUIRE A COMPANY'S UNDIVIDED ATTENTION: FORMAL AND INFORMAL INVESTMENT RESTRICTIONS IN SPECIFIC SECTORS, INTELLECTUAL PROPERTY PROTECTION, SANITARY AND PHYTOSANITARY REGULATIONS, TARIFFS AND NON-TARIFF BARRIERS, IMPORT REGULATIONS AND LICENSING, LABELING, STANDARDS, TARIFFS, TAXES AND EXCHANGE CONTROLS.

INDIA HAS BECOME A MODERN ECONOMY TO BE RECKONED WITH, BUT IT ALSO HAS A LONG TAIL OF POVERTY AND UNDERDEVELOPMENT. THE MOST RECENT UNDP HUMAN DEVELOPMENT INDEX RANKS INDIA 134TH OUT OF 177 COUNTRIES. CHINA IS 92ND, BRAZIL 75TH. APPROXIMATELY 80% OF THE POPULATION LIVES ON LESS THAN \$2 PER DAY. UNLIKE IN CHINA, SAY, WHERE POVERTY AND UNDERDEVELOPMENT IS LARGELY COMPARTMENTALIZED OUTSIDE THE MAJOR CITIES, IN INDIA, IT'S RIGHT THERE, IN YOUR FACE, AS SOON AS YOU LEAVE THE AIRPORT, IMPOSSIBLE TO IGNORE.

INFRASTRUCTURE IS IMPROVING, ESPECIALLY IN THE COASTAL AREAS, BUT IT IS STILL VERY HIT AND MISS. PORT FACILITIES ARE A PRIORITY FOR THE GOVERNMENT. THE NAVI MUMBAI CONTAINER PORT FACILITIES ARE SMALL BUT AS GOOD AS YOU WILL FIND ANYWHERE, AND THE COASTAL ROAD NETWORK IS EXTENSIVE. FOR EXPORTERS OF PRIMARY AND SEMI-MANUFACTURED BULK PRODUCTS, INFRASTRUCTURE IS NOT A LARGE ISSUE.

BUT FURTHER IN COUNTRY, INFRASTRUCTURE IS AN ISSUE. IT CAN SERIOUSLY AFFECT YOUR R.O.I. IF THE COSTS OF GETTING YOUR PRODUCTS TO MARKET CAN'T BE CONTROLLED.

CORRUPTION IS A PROBLEM – INDIA IS DOWN THERE WITH CHINA, BRAZIL, MEXICO AND PERU, RANKED AT 70TH AND BELOW, ACCORDING TO TRANSPARENCY INTERNATIONAL. PAYING MONEY TO GET THINGS MOVING IS ILLEGAL IN INDIA AS IT IS IN CANADA. GETTING DOCUMENTS SIGNED AND DECISIONS MADE CAN BE A CHALLENGE.

THE WORLD BANK'S COMPARATIVE CHECK LISTS ON THE REGULATORY ENVIRONMENT PREVAILING IN THE WORLD'S ECONOMIES. PRODUCED EVERY YEAR, THESE LISTS PROVIDE INSIGHTS INTO THE TYPE OF RISKS THAT COMPANIES CAN

FACE WHEN OPERATING IN DIFFERENT MARKETS,
ESPECIALLY IN DEVELOPING COUNTRIES.

THEY ILLUSTRATE ANOTHER ANGLE ON THE BUSINESS ENVIRONMENT IN INDIA AND THEY SUPPORT THE COMMON SENSE UNDERSTANDING THAT INDIA HAS A LEGAL SYSTEM WITH WHICH CANADIANS ARE MORE FAMILIAR AND, ON BALANCE, CAN MORE EASILY ACCESS. THEY DEMONSTRATE THAT ARBITRATION IS EASIER IN INDIA THAN IN OTHER COUNTRIES, GIVEN COMMONALITY OF LANGUAGE AND BUSINESS PRACTICES. INTELLECTUAL PROPERTY IS BETTER PROTECTED IN INDIA THEN SAY, IN CHINA, FOR REASONS RELATED TO THE LEGAL ENVIRONMENT AND THE STRUCTURE OF THE ECONOMY, TOWARDS SERVICES RATHER THAN MANUFACTURING OF CONSUMER GOODS.

10. RISK ASSESSMENT MADE EASIER

THE GOVERNMENT OF CANADA IS WORKING IN VARIOUS WAYS TO IMPROVE THE BUSINESS ENVIRONMENT THAT CANADIAN COMPANIES FACE IN INDIA.

TO SMOOTH RELATIONS WITH THE AGRICULTURAL AND ENVIRONMENT SECTORS, THE GOVERNMENT OF CANADA HAS SIGNED MEMORANDA OF UNDERSTANDING WITH INDIA'S RESPECTIVE MINISTRIES, TO PROVIDE CONNECTIONS AND INSIDE VIEWS ON GOVERNMENT POLICIES WHICH CAN BE OF USE TO BUSINESS.

CANADA AND INDIA HAVE INITIALED A FOREIGN INVESTMENT PROTECTION AND PROMOTION AGREEMENT, WITH IMPLEMENTATION FOR THE NEAR FUTURE.

WE ARE NEGOTIATING A NUCLEAR COOPERATION AGREEMENT THAT WILL PROVIDE OPENINGS FOR OUR URANIUM INDUSTRY, AS WELL AS SUPPLIERS OF GOODS AND SERVICES IN THE NUCLEAR ENERGY SECTOR, MAYBE EVEN AN EVENTUAL SALE OF CANDU REACTORS.

FOLLOWING THE ADVICE OF THE CONFEDERATION OF INDIAN INDUSTRIES AND THE CANADIAN COUNCIL OF CHIEF EXECUTIVES, THE CANADIAN AND INDIAN GOVERNMENTS HAVE AGREED TO DISCUSS WHAT WE ARE CALLING A

COMPREHENSIVE ECONOMIC PARTNERSHIP AGREEMENT. THE SUBSTANCE AND SCOPE OF THAT AGREEMENT REMAIN TO BE DEFINED. THE INDIANS HAVE NOW SIGNED FTAs WITH ASEAN AND WITH SOUTH KOREA. THEY ARE NEGOTIATING WITH JAPAN. WHETHER CANADA/INDIA CAN LEAD TO AN FTA REMAINS TO BE SEEN.

WE HAVE EXPORT DEVELOPMENT CANADA ON THE GROUND IN INDIA. IN 2008, EDC BOOKED \$1.7 BILLION IN INDIA, INCLUDING DIRECT FINANCING OF INDIAN COMPANIES TO THE TUNE OF ALMOST \$700 MILLION.

CANADIAN AND INDIAN BANKS ARE ALSO PRESENT, WITH SCOTIA IN THE LEAD WITH 6 BRANCHES IN INDIA. HERE IN CANADA, THE STATE BANK OF INDIA AND ICICI ARE IN TORONTO, CALGARY AND VANCOUVER.

OUR TRADE COMMISSIONERS ARE STATIONED IN EIGHT OF INDIA'S LARGEST CITIES: NEW DELHI, MUMBAI, HYDERABAD, BANGALORE, CHENNAI, KOLKATA, CHANDIGARH AND, MOST RECENTLY, AHMEDABAD. WE CAN ASSIST YOU IN PREPARING YOUR COMPANY TO DEAL WITH INDIA, ASSESS MARKET POTENTIAL, PROVIDE YOU WITH QUALIFIED CONTACTS, AND ASSIST IN PROBLEM SOLVING.

SO THERE ARE PEOPLE THAT CANADIAN COMPANIES CAN TALK TO, AND FROM WHOM THEY CAN COLLECT THE KIND OF

ADVICE THAT YOU NEED 'TO THREAD THE NEEDLE', AS MY FRIEND AT BAIN AND COMPANY PUTS IT, TO ASSEMBLE ALL OF THE PIECES THAT COMPANIES NEED TO DO BUSINESS IN INDIA. IN OTHER WORDS, RISK ASSESSMENT IS BECOMING EASIER TO PURSUE.

CONCLUSION

IF DOING BUSINESS WAS EASY, WE WOULD ALL BE RICH. FIRMS MUST DETERMINE THEIR OBJECTIVES, ASSEMBLE AND DEVELOP THEIR ASSETS, TARGET THEIR MARKETS, IDENTIFY OPPORTUNITIES AND MINIMIZE RISKS. THIS IS A CHALLENGE ANYWHERE, IN CANADA AND ABROAD. THERE ARE AMPLE EXAMPLES OF SUCCESS IN THESE ENDEAVORS, INCLUDING IN INDIA.

ONLY THE FIRMS THEMSELVES CAN DETERMINE IF DOING BUSINESS IN INDIA CAN MEET THEIR BOTTOM LINE OBJECTIVES. WHAT IS CERTAIN IS THAT MORE AND MORE CANADIAN COMPANIES FIND THAT 'FIT', TO THEIR PROFIT AND BENEFIT.

JOSEPH CARON
CANADIAN HIGH COMMISSIONER
NEW DELHI, INDIA
FALL 2009

