

# Intelligence MEMOS



From: Peter Hall  
To: International Trade Watchers  
Date: December 6, 2023  
Re: **INDIA: OPPORTUNITY LOST?**

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It couldn't be happening. Years of careful and painstaking cultivation of political, cultural and business relations with India suddenly seem in tatters.

A G20 summit in New Delhi in September where Canada seemed to be sidelined, followed by shocking and very public Canadian allegations of Indian wrongdoing on Canadian soil, quickly froze political relations and all but severed diplomatic ties. While there is a slow resumption of normalcy, the suddenness of these actions is troubling, in light of all that is at stake. While the implications are multifaceted, it is fair to say that for most Canadians, the immediately measurable impacts will be seen in the health of bilateral business. On that score, should we be worried?

While economic costs are not the only consideration, they do matter, and they could be substantial. Now the world's most populous – 1.43 billion – nation, India has the planet's fifth largest economy, according to the latest International Monetary Fund assessment. Per capita income is low, about one-fifth of China's, indicating vastly lower purchasing power, but also signalling enormous growth potential. Indeed, India is expected to be among the fastest-growing economies in the world, now and well into the future. India's middle class is expected to rise by 33 million people next year alone, and has the scope to repeat this for years to come.

Long known as a difficult place to do business, India is improving. The government is in the midst of implementing an ambitious economic reform agenda, including significant tax reforms and privatizations. According to the latest IMDS data, India had an impressive pre-pandemic business efficiency ranking. This retreated during the pandemic, but is back on the mend again, ranking 28<sup>th</sup> globally in 2022. Government red tape is another bugbear, but on government efficiency, IMDS has India up five spots to 45<sup>th</sup>.

Does Canada figure in India's story?

Absolutely. India is Canada's 10<sup>th</sup> largest merchandise trading partner. By merchandise export destinations, India is number nine. Imports are a bit behind that, ranking 12<sup>th</sup>. More impressive, however, is the growth. Pre-pandemic, export growth had been rising at an annual 12.4 percent since 2002. Not even China – in fact, none of Canada's larger trading partners – could compete with that.

Bilateral investment is also important. Canada has \$3.7 billion of assets in India, and that is growing by 15 percent annually, or nearly double the average growth of Canada's total international investments. India holds \$2.8 billion of assets in Canada, and this is growing at a whopping 25 percent. Between trade and investment, there is a lot of high-growth activity, and by extension, significant employment and economic spinoff activity in both countries.

And India's importance as a future trade and investment partner will only rise.

Raw resources are the mainstay of Canada's current merchandise exports to India. There's consistent double-digit annual growth in a wide range of minerals and also paper products. Key crops are high in the rankings, and show reasonably strong growth; however, these fluctuate with weather conditions, and are politically charged as they can from time to time compete with local product. At India's current stage of development, its appetite for Canadian raw resources should be strong for years.

The story doesn't end there. With India's robust growth path has come demand for higher value-added products. In 2002, Canada's aerospace exports to India were just 0.7 percent of the total. They are now 4.4 percent and annual average growth is above 20 percent; keep this up, and in just eight years, aerospace exports will be a top-five merchandise export to India. Pharmaceuticals are also climbing the rankings, and an agglomeration of machinery sub-categories is also in the top-10 list. These, in addition to a wide range of services, are exports that have great potential for explosive growth as India develops further.

Exports will be an increasingly important medium-term mainstay for Canada as it faces an already weak economy that will need years to resolve the twin challenge of sharply higher interest rates and soaring consumer indebtedness. Moreover, traditional export destinations, the backbone of our foreign trade, are not the fastest-growing of the world's export markets. Geopolitical concerns in other parts of the fast-growing world together with the scale of India's potential increase the appeal of longer-term export ties with India – provided our relations are strong and stable.

Clearly, economic considerations are just one reason why the recent rapid deterioration of our relations with India is alarming. The opportunity cost is massive, especially when looking into the future. The stakes are high, and our impetus should be directed toward resolving problems, including a resumption of long-standing trade discussions, currently paused for stock-taking.

*Peter Hall is CEO of Econosphere and Fellow-in-Residence at the C.D. Howe Institute.*

*To send a comment or leave feedback, email us at [blog@cdhowe.org](mailto:blog@cdhowe.org).*

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