

Trudeau's State Visit to India: Time to Leverage those People-to-People Connections

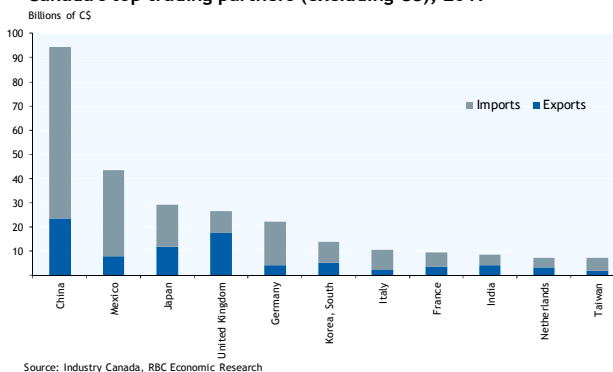


Canada's strong personal connections with India have yet to translate into meaningful economic ties. Justin Trudeau's upcoming state visit to India offers an opportunity to change that.

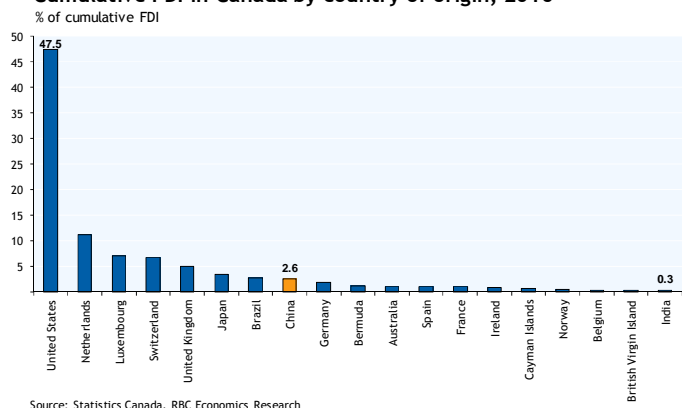
Canada's Economic Relationship with India: A Reality Check

A goal of Prime Minister Justin Trudeau's week-long state visit to India is to "strengthen Canada and India's close economic ties." While the two countries boast extensive person-to-person connections, close economic links are another matter. All of Canada's economic and trading relationships pale in comparison to that with the U.S., of course, but even excluding the U.S., India barely registers. Consider this: two-way trade between the two countries totaled about C\$8.3 billion in 2017—making India Canada's 10th largest trading partner, well behind China and Mexico but also Italy and South Korea. India took in less than 1% of Canada's total exports that year—not much more than France did, even though India has 20 times the population.

Canada's top trading partners (excluding US), 2017



Cumulative FDI in Canada by country of origin, 2016



About a quarter of Canadian exports to India in 2017 comprised dry peas, beans and lentils, reflecting India's status as the world's biggest importer and consumer of pulses. Even that business, worth close to C\$1 billion to Canadian farmers, has seen its share of tensions. India imposed a surprise 50% tariff on dry pea imports from Canada last November, later adding a 30% tariff on chickpeas and lentils, likely as part of an effort to support its own farmers.

Agricultural protections have been one of the key issues in Canada's talks with India on a Comprehensive Economic Partnership Agreement, which were launched with some fanfare in 2010 but have yet to show much progress. Meanwhile, the countries concluded a separate bilateral investment agreement a decade ago, but it has never been ratified. That helps explain why India's direct investment

in Canada amounted to less than C\$3 billion in 2016—a scant 0.3% of total foreign direct investment into Canada. Indeed, Indian FDI in Canada was less than that of Ireland, Norway or Belgium. Canadian FDI in India barely cracked the C\$1 billion mark. That's all the more notable considering India attracted more foreign direct investment in 2016 than any other country: some US\$62.3 billion.

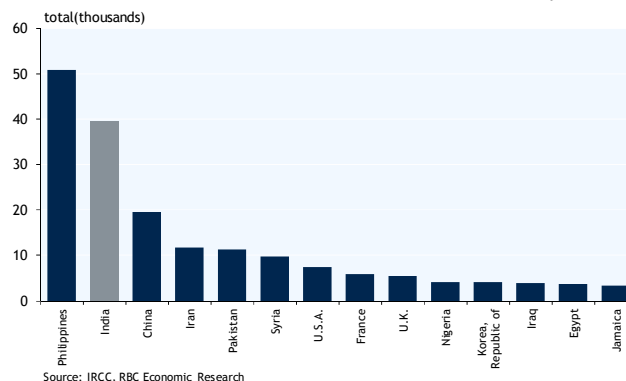


The Advantage that Canada Has Never Fully Exploited

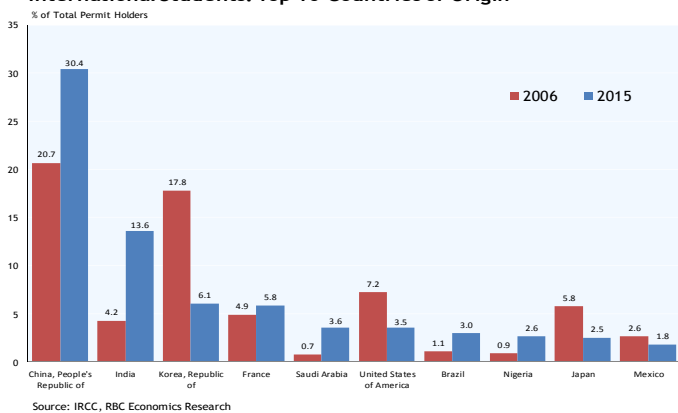
From these figures it would be easy to conclude that Canada and India don't have much of a relationship. But their human ties run deep. In the 2016 Canadian Census, about 1.4 million people identified as East Indian, reflecting mass immigration from the subcontinent that began in the 1960s and continues to this day. In 2015, Indian permanent residents in Canada totaled close to 40,000, or about 15% of the total—making India second only to the Philippines as a source of newcomers. And it's worth noting that there were four Indo-Canadians in Justin Trudeau's first 30-member cabinet.

For many, the path to Canadian residence starts with higher education. The number of Indian students jumped between 2006 and 2015 to stand at close to 15% of Canada's total international student population—second only to Chinese students. Half of all international students in Canada end up seeking permanent residence.

Permanent residents in Canada from source country 2015



International Students: Top 10 Countries of Origin



What's Changed? A Rising India

Canada's weak economic links and strong human links to India aren't really new—much the same could have been said when former Prime Minister Stephen Harper visited India in 2012, or years before that. What gives more urgency to Ottawa's current efforts to strengthen economic ties? India's growing economic clout.

The World Bank says India has lifted more than 100 million people out of poverty in recent decades. The country is pumping out STEM graduates and domestic consumption of smartphones and vehicles is booming.

Prime Minister Narendra Modi came to power in 2014 on the strength of his economic credentials—especially the growth rate in his home state of Gujarat. He has since moved to cut red tape, reform the country's tax system and boost foreign investment in Indian manufacturing. And tariffs on Canadian pulses notwithstanding, Modi has positioned himself as a champion of globalization—most recently in a January 2018 speech at Davos, where he called out the forces of protectionism.

The International Monetary Fund projects India's economic growth will hit 7.4% in 2018—a pace that would make it the world's fastest-growing major economy. The country is well on its way to ranking not just among emerging powers but world powers, full stop. Ottawa is wise to take notice.