

Courting a reluctant partner in India

By Wendy Dobson, Citizen Special

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Prime Minister Stephen Harper's current visit to India will be applauded by the Indian diaspora and recognizes both India's economic rise and its ability to weather the global financial crisis. The visit has replaced mutual indifference with mutual interest.

While the United States will determine our economic future, diversification is good policy.

India's growing economic momentum and openness, the emergence of world-class Indian companies and its government's interest in free trade agreements argue for greater ambition in the bilateral relationship. The two countries share many of the same institutions, language of commerce and Canada has a sizeable Indian diaspora -- all factors that suggest two-way economic flows should be larger than they are.

Business ties are growing, but incrementally because governments need to facilitate mutual interests with a strategic framework.

Should Canada and India negotiate a free-trade agreement? Yes, either in services or across the board. A services FTA would exploit the remarkable successes of India's IT services exporters by helping large and small Canadian firms to increase their competitiveness and move to more sophisticated production at home. We have few explicit barriers to importing IT services or to investment inflows, but Indian firms in Canada are constrained by the talent shortage in engineering and technical skills, by conservative attitudes toward foreign service providers and government procurement practices.

A free-trade negotiation would also send a powerful signal of commitment to greater openness, transparency and non-discrimination to Canadian businesses interested in penetrating the Indian market and using India as a platform for their Asian operations. Currently the federal and provincial governments send conflicting signals. While provincial premiers and others enthuse about bilateral ties, their procurement departments are reluctant to use such firms even though they employ Canadians.

Would India be interested? Yes and no.

Yes because, since 1991, India has gradually eased restrictions on trade and investment to integrate into the world economy. Unilateral liberalization has been a slow and politicized process, but India's "Look East" policy has led to agreements for closer economic co-operation

with Singapore and ASEAN (the Association of Southeast Asian Nations) and overtures to South Korea and Japan.

A 2005 Chinese overture to India, however, has gone nowhere.

In the Americas, India has deals with both Mercosur (Argentina, Brazil, Paraguay and Uruguay) and Chile, while an FTA with the United States is regarded as "an idea whose time has not come." A deal with Canada, on the other hand, could be a significant strategic signal of India's potential importance to the North American economies.

No because we should have no illusions about India's determination to defend its narrow interests at any cost. India's deal with ASEAN has nearly 500 exceptions and its defence of its farmers caused the collapse of the Doha Round of trade negotiations in July 2008.

This ambivalence about foreign competition doesn't square with breathless visions of India as a great power, visions based on "First India's" stunning trade successes by companies with global reputations in IT services, auto parts, pharmaceuticals and engineering. The ambivalence is about "Second India," whose tiny firms and farms account for 90 per cent of employment, but remain small to avoid restrictive labour laws, bureaucratic meddling and rising employment costs as the number of workers grows, where 60 percent of the population still relies on agriculture and 40 per cent crowds into huge northern states where modern infrastructure lags, illiteracy is pervasive and workers lack the basic skills to be more productive.

India has a formidable domestic agenda, not least to generate modern-sector jobs for more than 200 million 15- to 24-year-olds during the next two decades. Harper should aim low and hope to deliver more than expected: any agreement's potential will be limited by the distortion in India's domestic markets. Beyond the bilateral strategy, Harper should also champion India's active participation in regional economic bodies such as APEC, and the G20, where it will face peer pressures for the deeper domestic reforms upon which the success of its global aspirations will ultimately depend.

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