



*INDIA AND CANADA
CLOSER ENGAGEMENT, DEEPER TIES*

*JOINT STATEMENT ON THE OCCASION OF
THE FIRST INDIA-CANADA CEO ROUNDTABLE*



*NEW DELHI
MARCH 13, 2007*

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Executive Summary

Canada and India have developed durable linkages based on decades of commercial, social and political exchanges. Since 2000, these bonds have grown stronger, but much more can be done to build a closer and more productive partnership. On March 13, 2007, business leaders from India and Canada met in New Delhi at the first *India-Canada CEO Roundtable* to focus on issues that require immediate attention and to begin to design a roadmap toward a more robust bilateral commercial relationship.

India-Canada CEO Roundtable participants recommended the establishment of ambitious targets -- *\$10 billion (U.S.) annually in goods trade and \$10 billion (U.S.) annually in services trade within the next five years*. It was also agreed that the two countries should also work to achieve *\$5 billion (U.S.) annually in bilateral investment flows within the next five years*.

Business leaders from India and Canada agreed on the need to enhance bilateral commercial relations. They identified 15 goods and services sectors as priorities, noting that each of these sectors offers tremendous potential for growth. Canada and India should work together to identify ways to increase bilateral flows in trade and investment in these sectors by *20 percent annually*.

Each country has advantages that could easily become significant opportunities for the other. India, for example, offers cost-competitiveness opportunities as well as great potential for the development of strategic alliances in third countries. Among Canada's advantages are its proximity and its preferential access to the United States market. Indian companies stand to benefit from enhanced relationships with Canadian-based companies that have extensive knowledge of and access to that market.

Indian business leaders identified the following barriers to doing business in and with Canada: high and peak tariffs that are imposed on products of export interest to India; technical barriers that have an impact on market access opportunities; investment limits and other barriers in the services sector that limit access to markets.

Similarly, Canadian business leaders identified a number of impediments to doing business in India. These include: high tariff and non-tariff barriers; onerous regulations such as sanitary and phytosanitary standards; various foreign investment restrictions; infrastructure challenges; and other outdated laws and standards.

India-Canada CEO Roundtable participants agreed on the need to create an enabling environment to facilitate more commercial exchanges. For this to happen, India and Canada must work at both the business and government levels to foster an environment of greater trust and partnership. This can be done over the medium and long term by addressing the barriers that businesses face in each other's markets. *India-Canada CEO Roundtable* participants stand ready to offer strategic and high-level advice in ongoing trade policy consultations.

Over the short term, the two countries need to outline a specific roadmap for growth in bilateral trade and investment flows through: brand promotion; the removal of barriers to the free flow of goods, services and investment; and the identification of specific platforms and sectors for greater interaction (including the potential for the Indo-Canadian community to act as a bridge for accelerated commercial, social and political exchanges).

India-Canada CEO Roundtable participants are convinced that the recommendations contained in this report will assist in achieving *the annual 20 percent growth target*.

In addition, Indian and Canadian business leaders at the *Roundtable* agreed that both governments should complete their negotiations toward a bilateral foreign investment protection and promotion agreement at the earliest opportunity.

Our medium to long-term objective is a comprehensive India-Canada framework agreement that effectively addresses the trade and investment barriers faced by companies from both countries. Such a framework would provide for: liberalization of trade in goods and services; liberalization of market access in services; greater protection of intellectual property rights; greater regulatory cooperation and more exchanges in key areas in the field of science and technology.

The Canadian Council of Chief Executives and the Confederation of Indian Industry agree to pursue in close cooperation the objectives and recommendations outlined in this joint statement.

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New Delhi
March 13, 2007

Introduction

The road to a solid, durable India-Canada economic relationship was established in the 1950s. Building on this foundation, the governments of Canada and India in 2003 announced a “*Partnership for the 21st Century*” to facilitate the flow of trade and people between both countries, enhance bilateral cultural and academic exchanges and strengthen international and regional peace and security.

Since then, the governments of India and Canada have worked to improve economic and trade cooperation. High-level official visits have contributed to the momentum toward deeper economic engagement between the two countries. In 2005, Canada and India reaffirmed their commitment to deepen the bilateral dialogue on global issues and to enhance cooperation in priority areas.

In early 2005, the Prime Ministers of India and Canada met to review bilateral relations and to discuss vital international and regional issues. They agreed to enhance the Canada-India partnership in a number of areas, including: support for a *CEO Roundtable* that would make recommendations for expanding economic ties; the conclusion of an investment promotion agreement; and measures to enhance bilateral trade and investment through trade missions and other mechanisms.

The *India-Canada CEO Roundtable* represents a key step toward fulfilling the undertaking by our Prime Ministers to enhance the bilateral partnership. The *Roundtable* provides an opportunity for constructive interaction among business leaders from India and Canada. This enhanced linkage should translate into increased commercial activity.

Our governments will need to work closely to create a positive environment to strengthen the economic partnership. It is important to capitalize on the commitment of business to improve trade and investment flows. The *India-Canada CEO Roundtable* can help achieve this objective.

In addition, the *CEO Roundtable* supports early conclusion of the Doha Round of negotiations at the World Trade Organization (WTO) and calls upon negotiators in both countries to engage and complete the Round in 2007. Any such agreement must include an ambitious package of trade liberalization initiatives across the main dimensions of the negotiations.

India-Canada Trade and Economic Alliance

India now represents about 0.5 percent of Canadian exports and less than one percent of Canadian imports. Canadian foreign direct investment (FDI) in India is similarly at low levels. India is currently the destination for less than half of one percent of Canada's total FDI outflows.

Goods: Total bilateral trade in goods reached a record C\$3.6 billion last year. Canada's exports to India are dominated by pulp and paper, newsprint, metals, and agricultural products. India is also a purchaser of Canadian aerospace products, telecommunications equipment and instruments.

India's exports to Canada include textiles and clothing, jewellery, diamonds, and chemicals, as well as a variety of manufactured items.

Total two-way trade in the nine months from January to September of 2006 was 24 percent higher than in the same period in 2005. Nevertheless, Canada's bilateral trade with India is still running at about 10 percent of Canada's total trade with China. Volatility in our trade flows remains an ongoing concern.

One problem that requires attention is the under-reporting of Canada-India trade and FDI flows. It is believed that about 15 percent of Canadian exports to India arrive in that country from other ports. The Asia-Pacific Foundation of Canada says that Canadian sales of services in India may be 2.5 times greater than official estimates and that Canadian investment in India may be more than twice as high as official estimates.

The fact that Indian exports to Canada are frequently trans-shipped through Hong Kong or Singapore also contributes to the under-reporting of our two-way trade.

Services: This sector offers great growth potential for both countries given their strong global presence in a number of areas.

Canadian services exports to India are today mainly in financial services (31 percent of total services exports to India), energy (28 percent), and information and communications technology (13 percent).

Investment: Our bilateral investment potential remains largely untapped but there are indications this may change dramatically. India is the 33rd largest source of foreign direct investment in Canada. Recently, FDI in Canada by Indian software companies has increased rapidly. Indian companies in the areas of life sciences and financial services are also investing in Canada to serve the North American market.

Canada has a modest presence in India, with total cumulative investment of \$204 million. (Canada's total investment abroad stood at \$510 billion in 2005.) India is the 42nd largest recipient of Canadian direct investment worldwide. The largest single source of Canadian investment in India is the consulting services sector, followed by financial services and oil and gas.

India-Canada CEO Roundtable participants recommend the establishment of ambitious targets for enhanced bilateral trade –\$10 billion (U.S.) annually in goods and \$10 billion (U.S.) annually in services within five years. The two countries should also work to achieve \$5 billion (U.S.) a year in bilateral investment flows by 2012.

Areas for Cooperation

The private sectors of both Canada and India must become more engaged in order to take advantage of important bilateral opportunities. Participants in this first *India-Canada CEO Roundtable* agreed that work should begin immediately to identify specific sectors where there is potential for significant growth.

Among the potential areas for greater bilateral engagement are:

- Aerospace
- Power (equipment and services)
- Oil and gas
- Environmental products and services
- Information and telecommunications technology
- Financial services
- Infrastructure development
- Environmental technology
- Education, civil society and cultural sectors
- Tourism
- Agriculture, agri-food, food processing and technology transfer
- Health services and bio-sciences
- Textiles and clothing
- Automobile manufacturing
- Advanced manufacturing and design

Recommendation: Each of these sectors offers tremendous potential for growth. Canada and India should work together to identify ways to increase bilateral flows in trade and investment in these sectors by 20 percent annually.

Building the Enabling Environment

Roundtable participants agreed that a series of actions should be identified to catalyze the potential for greater growth in our bilateral relationship. These actions could form the basis of a future economic partnership framework or cooperation agreement. It was agreed that such actions would be identified in time to be discussed at the next *India-Canada CEO Roundtable*.

Roundtable participants are committed to maintaining an active dialogue. The support and input of other representative business organizations will be sought to build on the success of this first *Roundtable*.

Both business groups support ongoing discussions by their respective governments to reduce and remove barriers to trade and investment in each other's markets either multilaterally or bilaterally. The private sector could play a more

constructive future role in ongoing dialogues such as the annual Secretary/Deputy Minister trade policy consultations.

Indian business leaders identified the following barriers to doing business in and with Canada: high and peak tariffs that are imposed on products of export interest to India; technical barriers that impact market access opportunities; investment limits and other barriers in the service sector that limit access to markets.

Canadian business leaders identified a number of factors that hamper market access to India, including: high tariff and non-tariff barriers; public sector red tape; inconsistent interpretation of rules; investment barriers; infrastructure challenges; outdated laws and standards; and a complex tax system.

Challenges faced by Indian Industry in Canada

Tariff peaks

In certain product categories, the Canadian government imposes tariffs that are high enough to constitute “tariff peaks”. Affected products include: textiles and clothing; vegetables; flowers; cigarettes; certain leather products (e.g. gloves other than those used for cricket or other sports); and certain footwear.

Tariff escalation

The WTO defines “tariff escalation” as a situation in which an importing country protects its processing or manufacturing industry by setting lower duties on imports of raw materials and components, and higher duties on finished products. In Canada, tariff escalation applies to some imported food, beverage, tobacco, textile and leather products. This limits the export of value-added products from India to Canada.

Barriers to trade in services

The Canadian government imposes restrictions on market access to certain service sectors based on national interest and concerns for political, economic and/or cultural sovereignty.

All three of these areas need immediate attention. Indian industry looks forward to a resolution of these issues so as to improve market access for Indian goods and services.

Challenges faced by Canadian Industry in India

Canadian companies face a number of obstacles in doing business in India. These include:

- bureaucratic red tape and inconsistent interpretation of rules across national and state levels (including rules affecting intellectual property);
- restrictive import regulations and internal policies;
- infrastructure shortcomings, including problems in distribution and transportation;
- a complex tax system and lack of transparency across government processes;
- a highly interpretive tax system.

As part of our ongoing bilateral discussions, *Roundtable* participants agreed on the need to more fully explore critical success factors for Canadian companies operating in India and Indian companies operating in Canada.

Conclusion

The benefits of an enhanced Canada-India business relationship go beyond the bilateral trade and investment statistics. Business leaders from both Canada and India also need to think more about how to work together in serving the needs of customers in other countries and in enhancing our competitiveness on the global stage. The challenge is to find creative ways of collaborating in each other's markets and around the world.

The business leaders who participated in this *Roundtable* agree that there is strong interest in strengthening our bilateral commercial and political ties. An important step toward an improved investment environment will be to conclude negotiations on an India-Canada Foreign Investment Protection Agreement as soon as possible.

By fulfilling the commitment to launch the *India-Canada CEO Roundtable*, business leaders from both countries have laid the cornerstone for improved commercial ties. As a next step, the Canadian Council of Chief Executives invited senior business leaders from India to visit Canada in the near future. This will provide an opportunity to discuss the challenges and opportunities in our bilateral relationship in greater detail.

Recommendations

India-Canada CEO Roundtable participants are convinced that the following recommendations will assist in achieving *the annual 20 percent growth target*.

For Canada:

- Increase awareness of Canadian goods and services in India (build a stronger “Canada brand”).
- Launch a sustained campaign to attract Indian investment to Canada, backed by a proactive and welcoming investment policy.
- Maximize Canada-India people to people linkages through better leverage of the Indo-Canadian community.
- Explore partnerships with Indian companies to address third-party markets.
- Promote India as a major investment destination in collaboration with industry associations and provincial governments.
- Expand the Canadian government’s trade network in India.
- Strengthen Canada-India educational linkages and encourage more Indian students to study in Canada.

For India:

- Increase awareness of Indian goods and services in Canada (build a stronger “India brand”).
- Step up efforts to attract Canadian investors in infrastructure areas such as roads, ports and energy.
- Improve trade facilitation at ports.
- Increase awareness of steps India has taken voluntarily to reduce trade barriers (“autonomous liberalization”), especially in the area of applied tariffs on industrial goods.
- Consider providing greater access to Canadian firms in select services sectors.

For Both Countries:

- Promote Canada as a key entry point to North America, and India as a key entry point to South Asia and the ASEAN countries.
- Improve awareness of bilateral agreements and Memoranda of Understanding (MOUs) in areas such as science and technology, and ensure that those agreements are designed to maximize the commercial benefits to both countries.
- Study the feasibility of a preferential trade agreement covering goods, services and investment.
- Where it makes sense, integrate existing supply chain linkages to partner more successfully in third countries.

For the Private Sectors:

- Agree that the first-ever *India-Canada CEO Roundtable* represents the beginning of a more robust high-level engagement between the private sectors of India and Canada.
- Acknowledge the need for greater dialogue between the public and private sectors of both India and Canada, and identify ways to foster the development of stronger commercial ties.
- Encourage our governments to work with their respective private sectors to increase trade and investment and promote collaboration in third countries.
- Communicate the results of an enhanced commercial dialogue to our respective public sectors through an annual meeting between government and business leaders.

Our medium to long-term objective is a comprehensive India-Canada framework agreement that includes all of the above elements and that effectively addresses the trade and investment barriers faced by companies from both countries. Such a framework would provide for: liberalization of trade in goods and services; liberalization of market access in services; greater protection of intellectual property rights; greater regulatory cooperation and more exchanges in key areas in the field of science and technology.