Industry Canada Industrie Canada

Trade and Investment Monitor

2004

Special Feature: Emergence of India as a Global Economic Force -- Opportunities and Challenges to Canada

Prepared by Micro-Economic Policy Analysis Branch
Industry Canada

Canada

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Section A
Canada's Trade Performance in 2003: An Overview

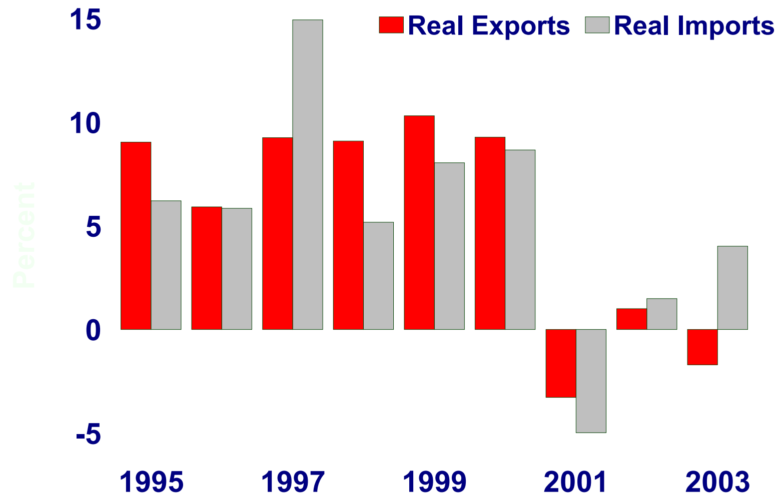
Highlights

- After Canada's exports and imports increased in real terms slightly in 2002, real exports declined by 1.7 percent in 2003. However, in 2004, both real exports and imports of goods and services increased at a healthy pace, between 5 to 8 percent.
- Exports to the United States fell by 4.8 percent in 2003, the third annual decline from their peak level in 2000.
- Canada's market share in the US continued to drop, as it had been doing, since 2001, while the US total merchandise imports rose by a record 8.8 percent in 2003.
- Large exporters have continued to dominate Canada's exports both in volume and value and have been increasing their share in recent years.
- Canadian exports continued to diversify into non-resource-based manufactures, although substantial contributions came from the oil and gas sector and the agriculture and forestry industries.

Canadian real exports declined in 2003

- In 2003, Canada's exports were affected by a significant appreciation of the Canadian dollar and a substantial slowdown in global economic growth.
- Consequently, real exports of goods and services declined by 2.4 percent to about $440 billion, after a modest rise in 2002.
- In 2003, imports of goods and services (in real terms) increased somewhat to $406 billion, up 4 percent from a year ago.
- Despite a significant deterioration in Canada's cost competitiveness, due to a sharp appreciation of the Canadian dollar, in the first three quarters of 2004, compared to the same period in 2003, real exports of goods and services increased by 5 percent, and imports by 8 percent

Annual Growth of Real Exports and Real Imports of Goods and Services, 1997 prices (Percent)



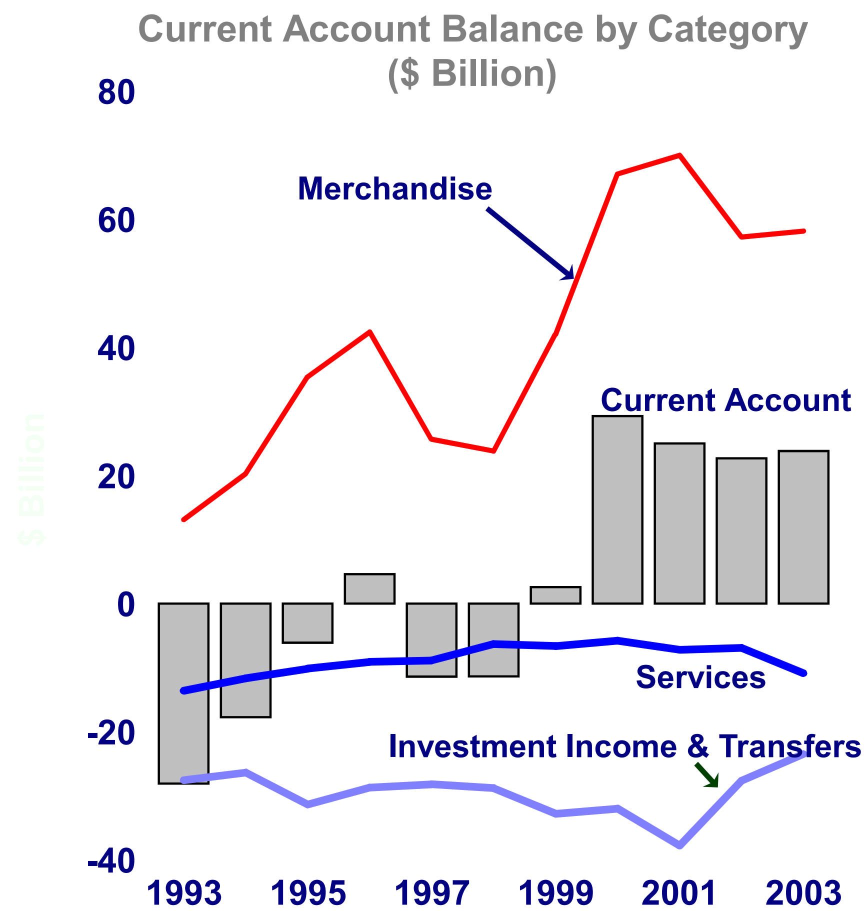
Real Exports and Imports of Goods and Services ($ Billion, in 1997 prices)

Year	Exports	Imports
1995	304.7	275.9
1997	348.6	331.3
2001	445.6	385.5
2002	450.6	391.1
2003	439.8	406

Source: Compilations based on Statistics Canada data

The current account surplus increased slightly

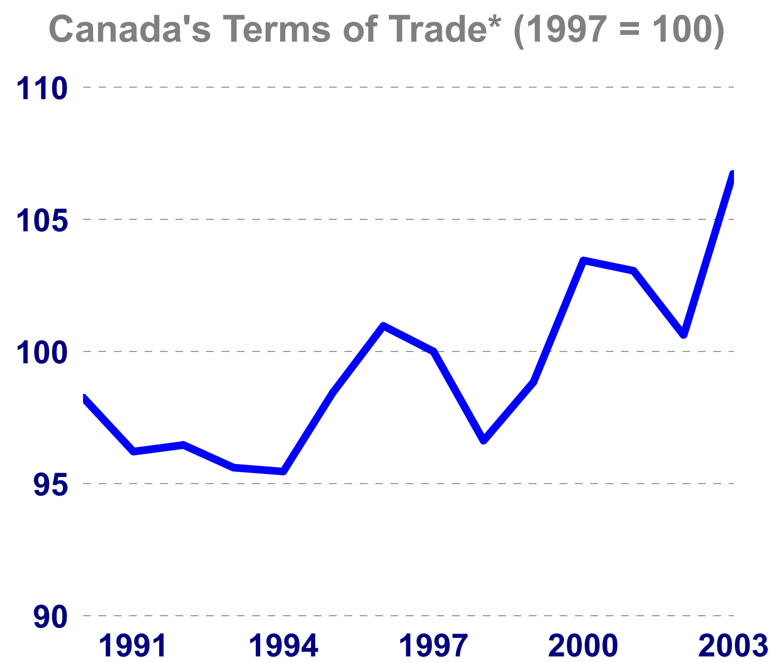
- After a sharp decline in 2002, Canada's merchandise trade account surplus recovered slightly to $58.2 billion in 2003.
- The service account continued to post a deficit, which increased to $10.8 billion in 2003 from $7 billion in 2002.
- The deficit on investment income and transfer account was reduced by $4 billion to $23 billion in 2003.
- As a result, the current account surplus increased to $23.8 billion in 2003 from $22.6 billion in 2002.
- In the first three quarters of 2004, merchandise trade surplus averaged $17.5 billion, compared to $14.7 billion during the same period in 2003.



Source: Compilations based on Statistics Canada data

The terms of trade improved...

- The appreciation of the Canadian dollar was reflected in widespread decline in import prices.
- In addition, real commodity prices continued to increase in 2003.
- As a result, Canada's terms of trade improved again in 2003.



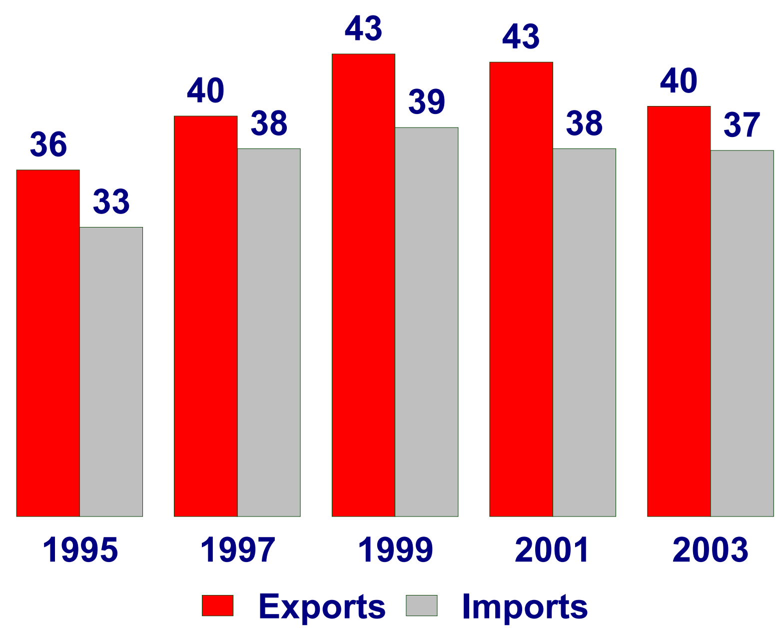
*The terms of Canada's international trade defined as the ratio of our export prices to import prices

Source: Compilations based on Statistics Canada data

Canada's trade orientation dipped in 2003

- The ratio of Canada's real merchandise exports relative to GDP fell to 40 percent in 2003 compared to 43 percent in 2001.
- Similarly, the ratio of real merchandise imports to GDP declined by one percentage point in 2003.

Ratios of Real Merchandise Exports and Imports to GDP, 1997 prices (Percent)



Source: Compilations based on Statistics Canada data

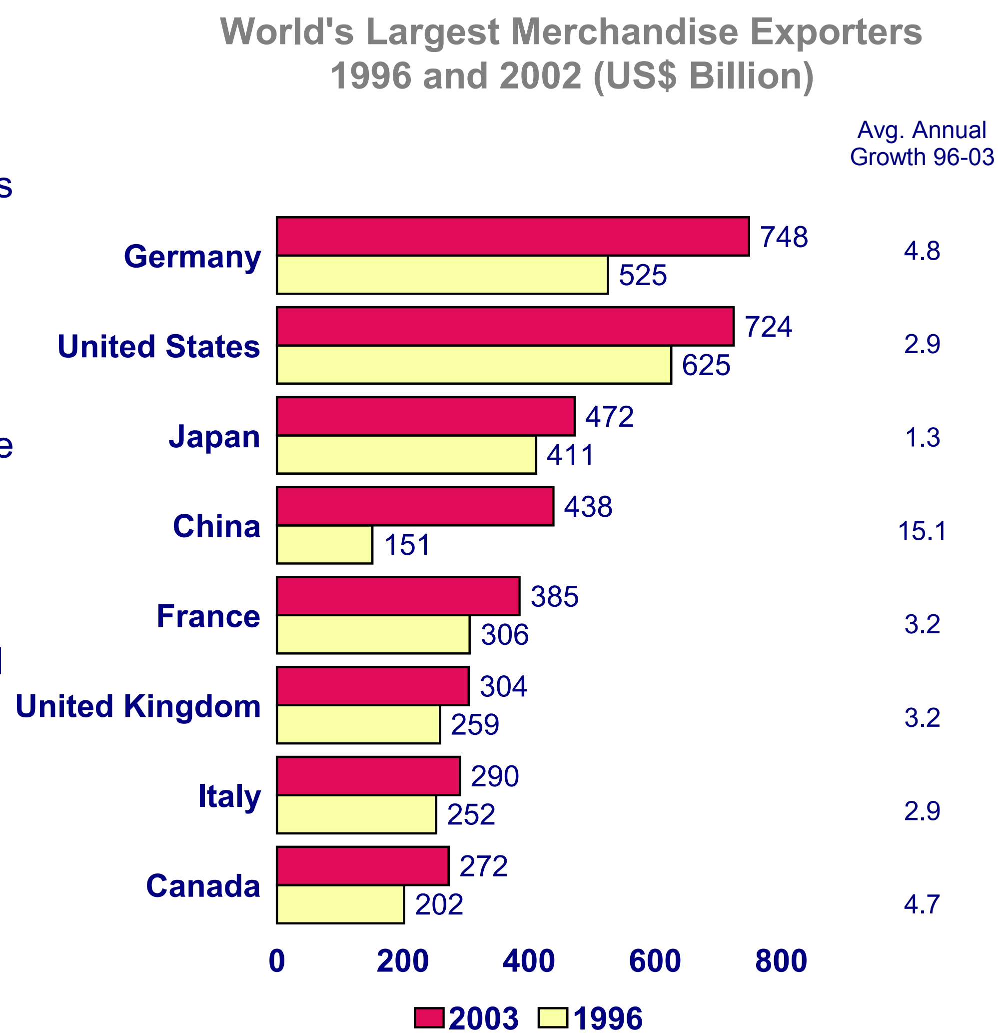
Canada's share of G-7 and world exports continued to slip

- Canada's share of merchandise exports by the G-7 countries fell from 8.9 percent in 2002 to 8.5 percent in 2003 and our share of world exports declined from 3.9 percent to 3.6 percent.
  - By contrast, Germany and France managed to increase their shares within the G-7 countries.
- Canada's share of G-7 exports is still well above levels of the early 1990s, but has been loosing ground since 2000. The emergence of China and India, as well as the growing importance of France and Germany, explain the fall in Canada's share of global exports.

Source: Compilations based on data from the World Trade Organization

Canada is the 8th largest merchandise exporter in the world

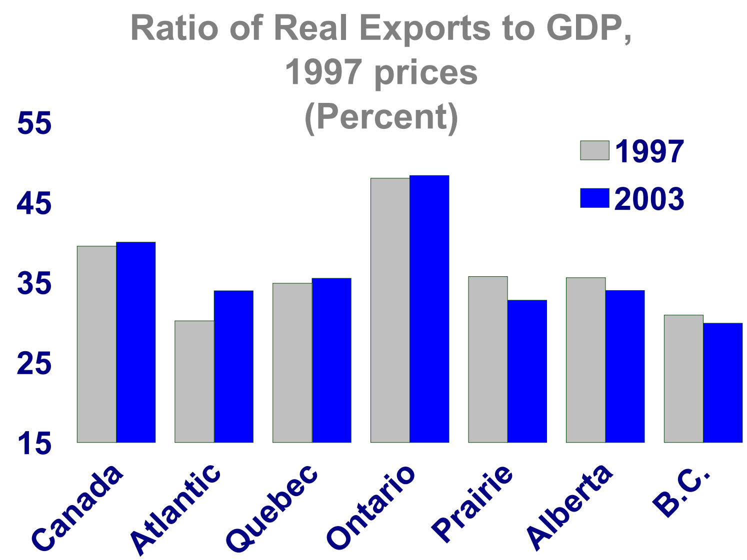
- Canada trails other G-7 countries and China in total value of merchandise exports.
- China is now the fourth largest exporter in the world. China registered an impressive average export growth of over 15 percent annually over the last decade.
- At its current pace, China will surpass Japan next year and will claim the number three spot.

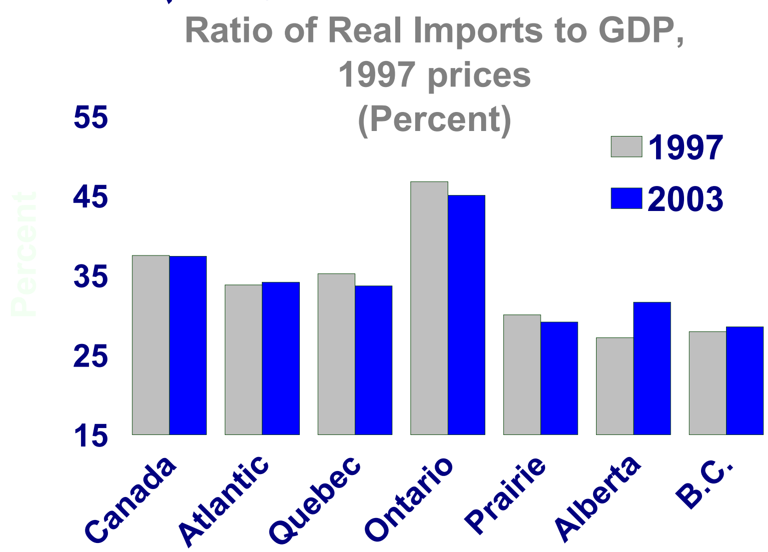


Source: World Trade Organization

Western Canada's export orientation fell in 2003

- Ontario remained, by a considerable margin, the most trade-oriented province.
- The Atlantic provinces experienced the most rapid growth in export orientation over 1997-2003.
- Alberta recorded the highest growth in import orientation, unmatched by any other province.

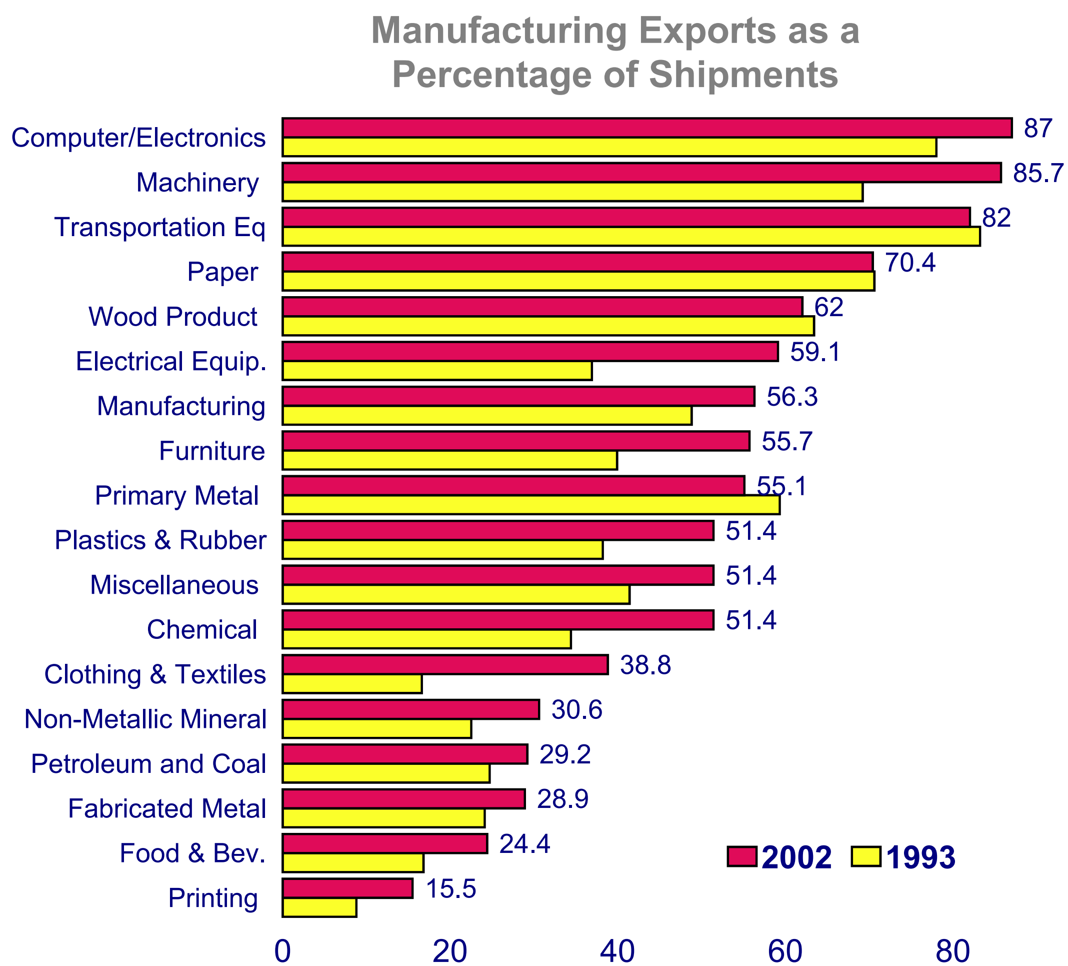




Source: Compilations based on Statistics Canada data

Export orientation is up in most manufacturing industries

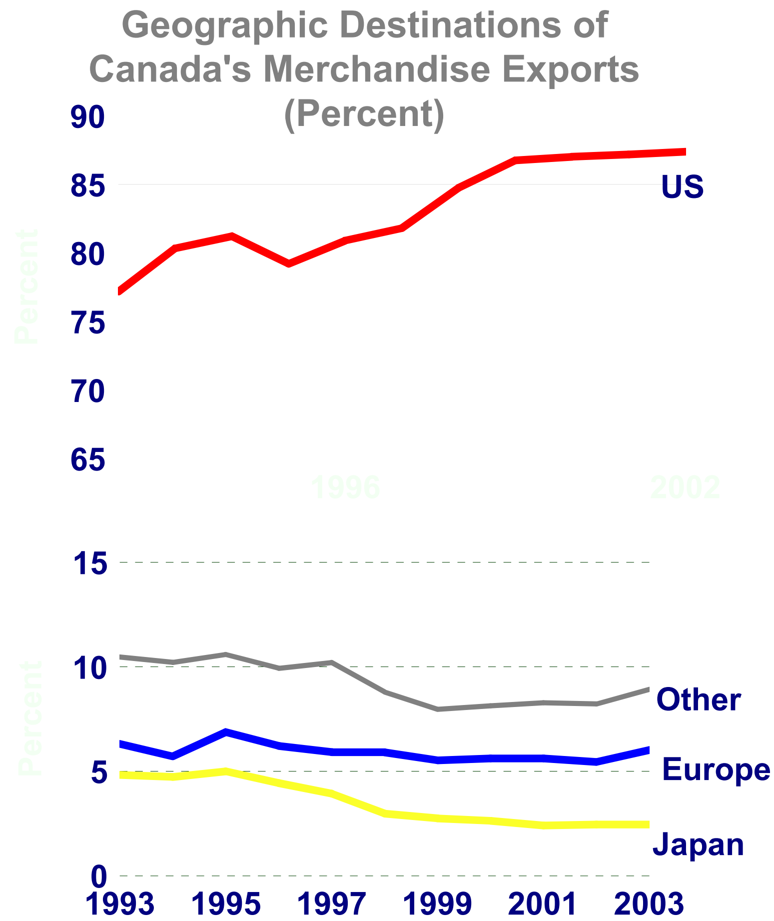
- Nearly every industry experienced an increase in export orientation over the 1990s.
  - Only a few industries registered a decline in export orientation.
- Computer and electronics, machinery, electrical equipments, furniture, plastic and rubber, chemicals, and clothing & textiles experienced the largest increase in export orientation over the 1990s.



Source: Compilations based on Statistics Canada data

The US has remained the most important destination for Canada's exports

- Since 1990, the US share of Canadian merchandise exports has increased by more than 12 percentage points from less than 75 percent in 1990 to more than 87 percent during 2001 to 2003.
    - Canada-US trade relations went through another year of challenges: the softwood lumber dispute and Canadian beef exports.
- The European Union, Canada's second largest trading partner, purchased $24.2 billion worth of goods from Canada in 2003.
- Canada's exports to Japan amounted to just under $10 billion in 2003.

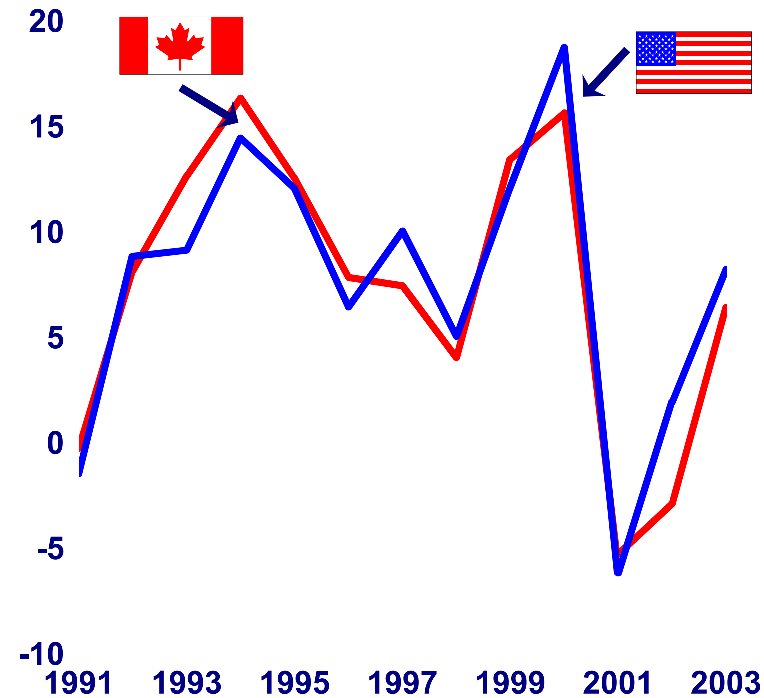


Source: Compilations based on Statistics Canada data

Canada's exports to the US have tracked fairly closely on the US total imports. . .

- Exports to the United States fell by 4.8 percent in 2003, the third successive annual decline from their peak level in 2000.
- On the other hand, in 2003, Canadian merchandise exports to the UK and China increased by 37.2 percent and 15.3 percent, respectively.
- The correlation between the growth rate of total US merchandise imports and Canadian merchandise exports to the US has been very strong since 1990.

Growth Rate of Total U.S. Merchandise Imports and Canadian Merchandise Exports to US (Percent)

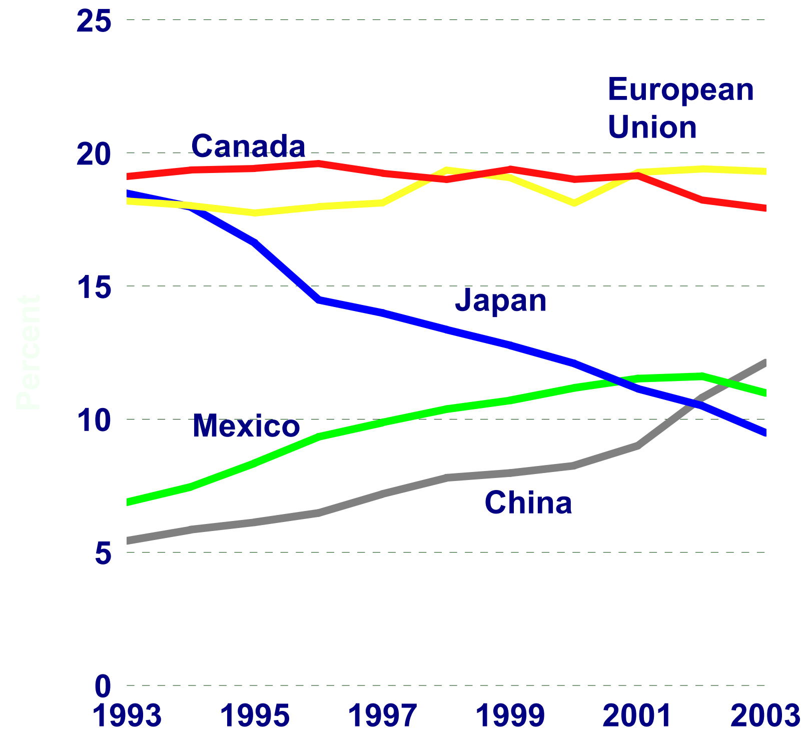


Source: Compilations based on data from US International Trade Commission

...at the same time, Canada lost market share in the US

- Canada's share of US imports has averaged about 19 percent during the 1990s. By 2003, the share had fallen to slightly under 18 percent.
- Over the same period, the shares of Mexico and China increased dramatically.
  - China's share more than doubled, rising from 5.4 percent in 1993 to nearly 12.1 percent in 2003, surpassing Japan and Mexico in importance.
  - Mexico's share of US imports increased from 6.9 percent in 1993 to more than 10.9 percent in 2003.

Distribution of US Imports
(Percent)



Source: Compilations based on U.S. ITC data

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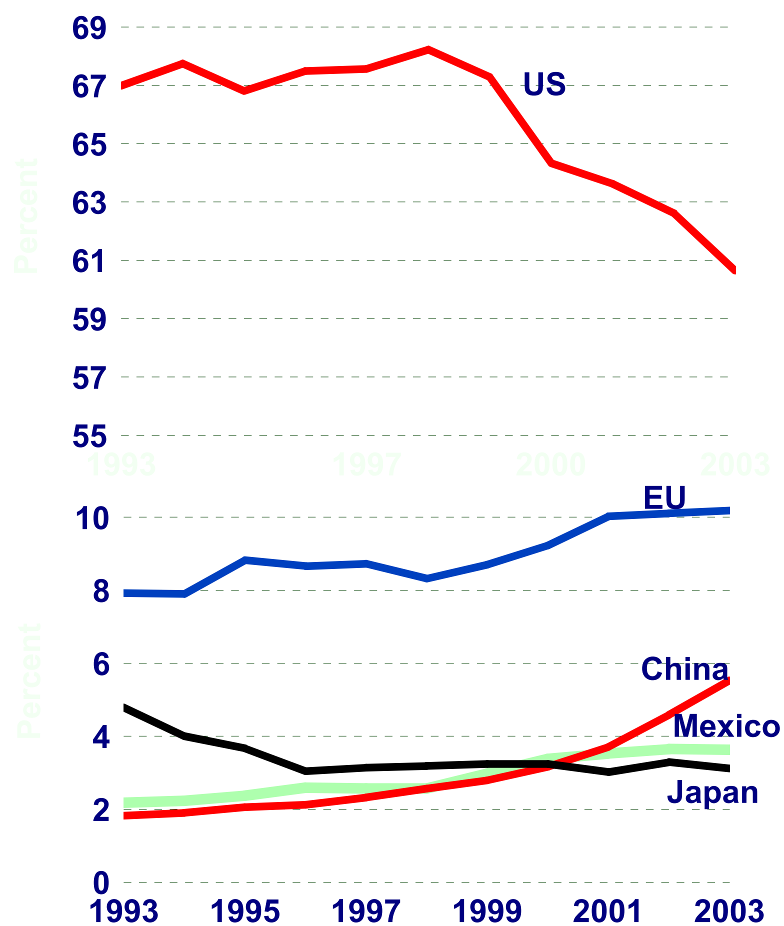
The US share of Canadian imports continued to decline in 2003

- Unlike exports, the US share of Canada's total merchandise imports remained stable in the early 90s around 67 percent. Since 1998, the US share has dropped significantly to the current level of 61 percent in 2003.
- The EU share of Canadian merchandise imports has been steady at 10 percent.
- On the other hand, China continued to increase its share of Canadian merchandise imports. China's share increased from less than 2 percent in 1993 to 5.5 percent in 2003.
- Imports from Mexico, and from India and other Asian economies have also increased steadily over the past five years.

Geographic Distribution of Canada's Merchandise Imports (Percent)



Source: Compilations based on Statistics Canada data

Non-resource-based manufactured exports have continued to slide

- Oil and gas accounted for 15 percent of Canada's total merchandise exports. In 2003, exports of energy products increased by 23 percent to $61 billion due to the rise of energy prices.

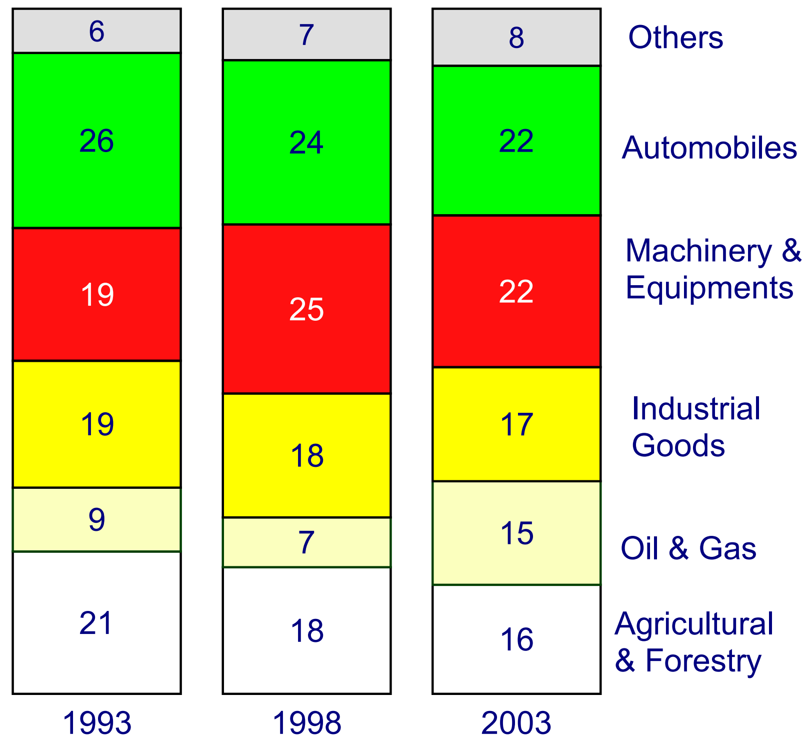
- Machinery and equipment and automobiles each accounted for 22 percent of Canada's merchandise exports in 2003.

  - However, machinery and equipment exports continued their three-year downward slide, falling by 8 percent to $89 billion in 2003.

  - Similarly, automobile exports declined to $87 billion from $97 billion in the previous year.

- The share of industrial goods and agricultural and forestry products accounted for 17 percent and 16 percent, respectively.

Distribution of Canada's Merchandise Exports by Industry (Percent)



Source: Compilations based on Statistics Canada data

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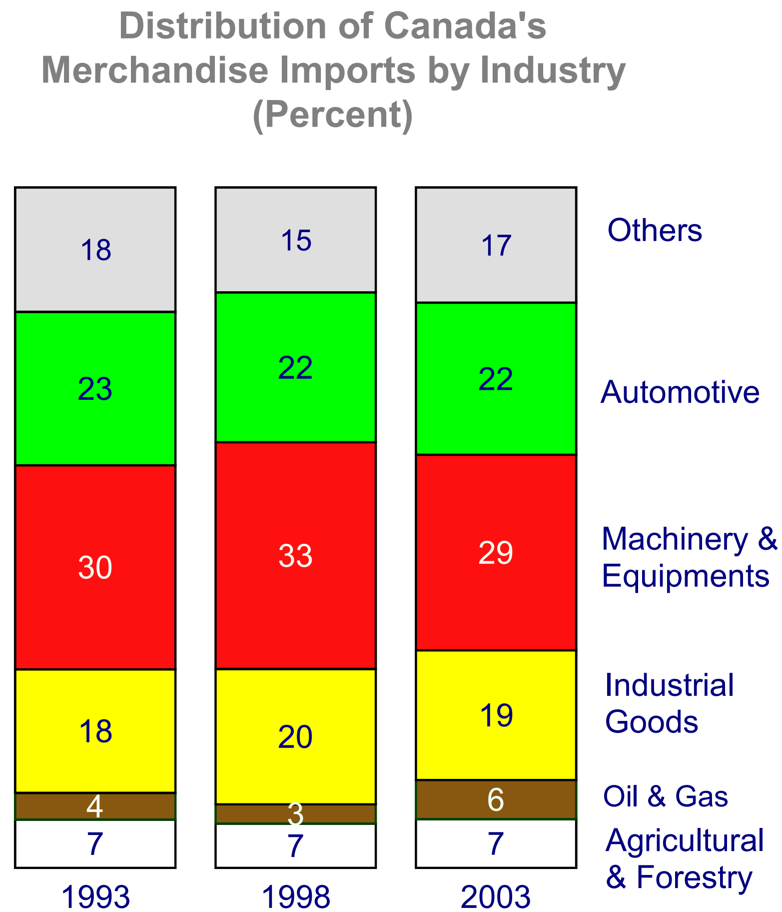
Machinery and Equipment remained the most important import category

- Unlike exports, there has not been a significant change in the broad industry composition of Canadian merchandise imports over the past decade.
- Machinery and equipment imports accounted for 29 percent of total Canadian merchandise imports; automotive accounted for 22 percent; and industrial goods accounted for 19 percent in 2003.
- The remaining 30 percent of our imports came from oil and gas, agricultural and forestry products,and industrial miscellaneous goods.



Source: Compilations based on Statistics Canada data

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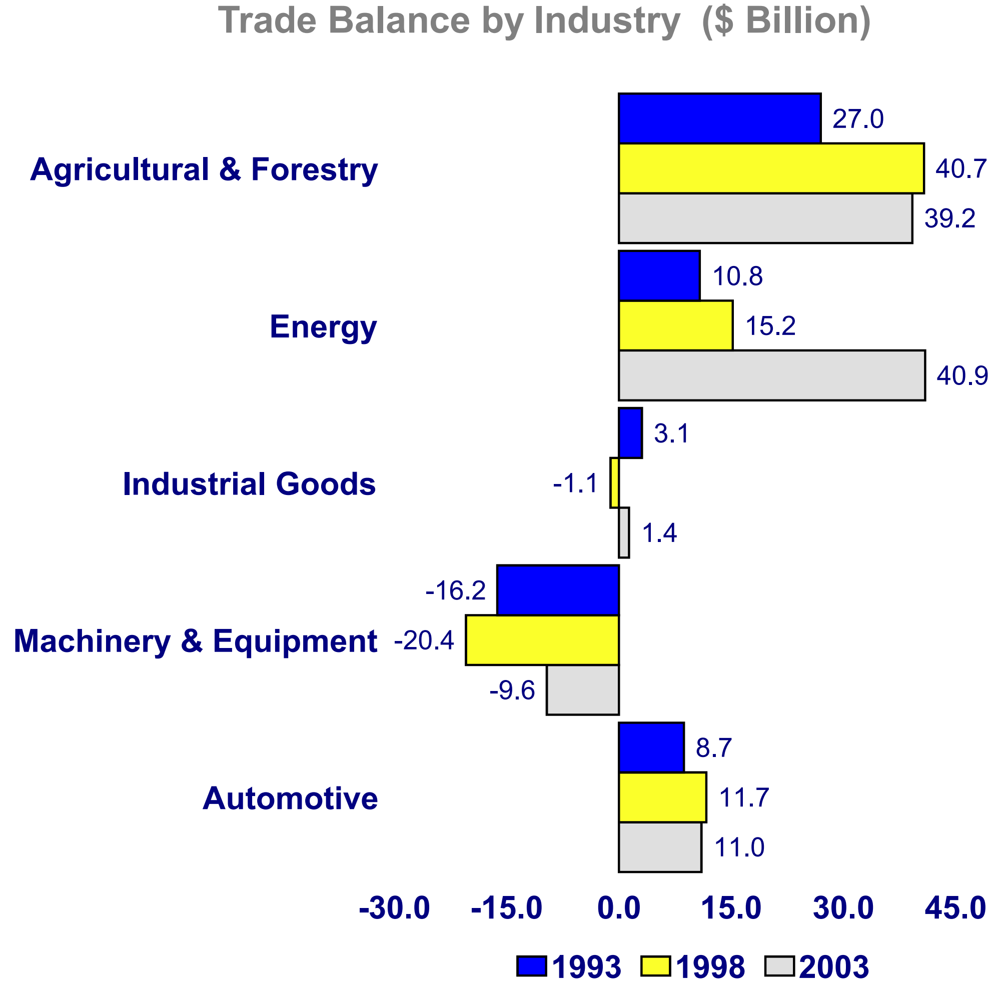
Canada's comparative advantage in resources and resource-based products has continued to deepen

- In 2003, Canada registered a trade surplus in almost all major sectors except machinery and equipment industries.
- The energy sector's trade surplus reached $41 billion in 2003, followed by $39 billion of trade surplus in the agricultural and forestry industries, while the automotive sector recorded a substantial $11 billion of trade surplus.
- On the other hand, the Machinery and equipment sector registered a deficit of $9.6 billion in 2003, compared to a $20.4 billion shortfall in 1998.

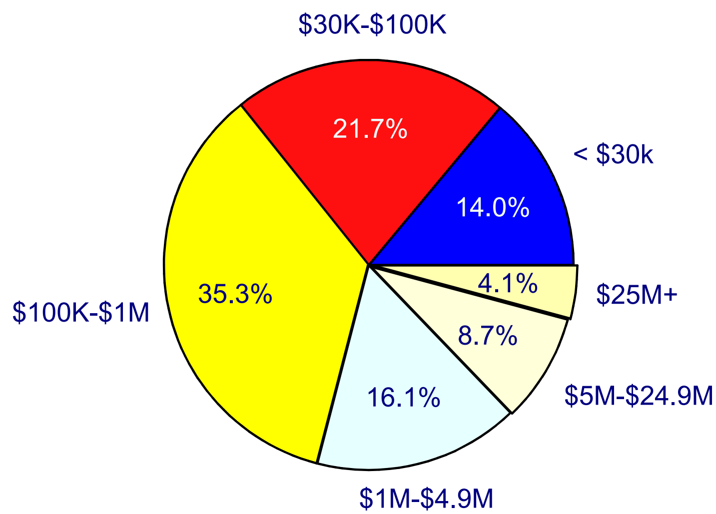


Source: Compilations based on Statistics Canada data

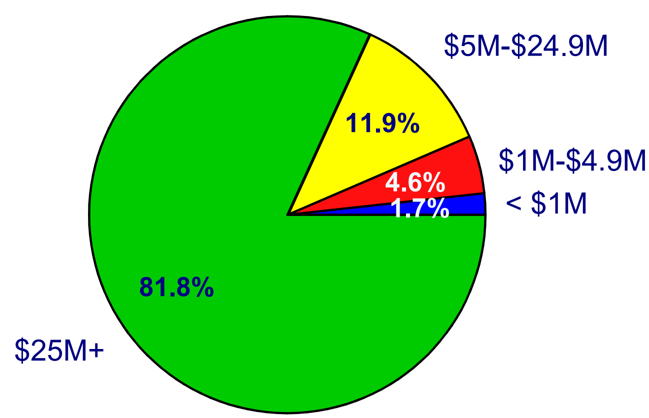
A few large exporters account for the majority of Canada's exports...

- Exporters that export more than $25 million annually accounted for only 4 percent of all exporters in Canada in 2002, but represented 82 percent of the total value of merchandise exports.
  - In 2002, the 50 largest exporters accounted for half of Canada's total merchandise exports, up from 46 percent in 1995.
- On the other hand, exporters that exported less than $1 million annually made up over 71 percent of the exporter population in Canada in 2002, while accounting for only 1.7 percent of total exports.

Share of Exporters by Value of Exports, 2002



Share of Exports by Value of Exports, 2002



Source: Compilations based on Statistics Canada data

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...while half of exporters were associated with manufacturing

- In 2002, nearly 47 percent of all exporters were in the manufacturing sector while about 23 percent of all exporters were in wholesale trade.
- The remaining 30 percent of exporters came from the rest of the economy.

Source: Compilations based on Statistics Canada data

Section B
Trade in Services

Highlights

- The share of services in Canada's total trade remained stable. In 2003, Canada's real services exports were worth $58.2 billion, down 6 percent in real terms from previous the year; while real services imports into Canada were valued at $62 billion, remaining stable in real terms.
- Canada ranked last among G-7 countries in the importance of service exports or imports in its trade and is considerably lower than the world's averages.
- The U.S. has continued to be the dominant destination for Canadian service exports as well as the major source of service imports to Canada.
- Commercial services accounted for the bulk of Canada's services trade.
- Insurance and management services accounted for a quarter of all commercial service exports while communication, construction and insurance services accounted for half of the imports of commercial services into Canada

The share of services in total trade remained stable

- Between 1993 and 2003, services trade grew at a solid average annual rate of 6.3 percent for exports, but only 2.2 percent for imports.

- Growth of merchandise trade outpaced that of services trade. Consequently, the share of services in Canada's trade fell steadily until 2000, but has risen somewhat since.

  - The ratio of services exports relative to total exports has been more or less steady at around 13 percent since 1993.

  - In 1993, services as a share of Canada's total imports stood at 21 percent, and fell to 14 percent in 2000, but rebounded slightly to 15.1 percent by 2003.

- The trade deficit in services fell from a peak of $8 billion in 1997 to $3.6 billion in 2003.

Real Exports and Imports of Services (C$ Billion)

Year	1997	2000	2002	2003
Exports	45.2	57.4	60.6	58.4
Imports	53.5	58.9	58.7	62

Source: Compilations based on Statistics Canada data

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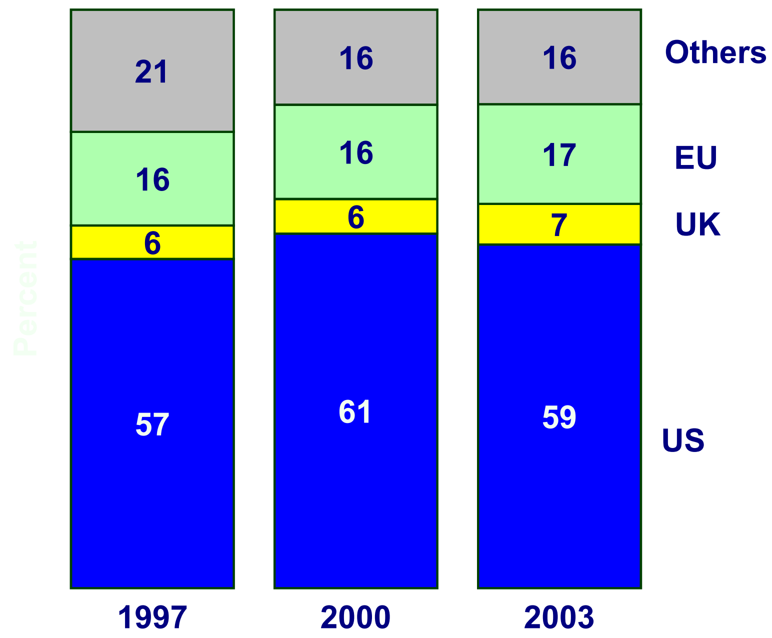
The US has continued to be the dominant destination for Canadian service exports...

- As with merchandise trade, the US has remained the dominant destination for Canada's service exports.
  - In 2003, the US accounted for 59 percent of Canada's services exports, increasing by 2 percentage points between 1997 and 2003.
- The share of Canadian services exports bound for the EU (excluding the UK) has been more or less constant at 16 to 17 percent.
- The rest of the services exports went to the other destinations -- mostly the UK., the Caribbean (where Canada has considerable financial investments) and South America.

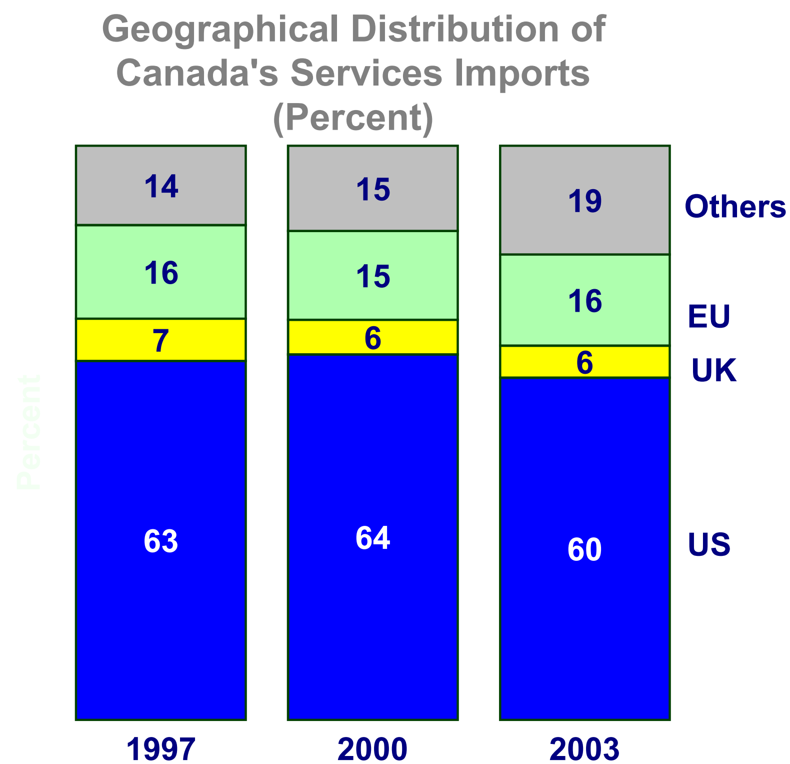
Geographical Distribution of Canada's Services Exports (Percent)



Source: Compilations based on Statistics Canada data

...as well as the main source of service imports

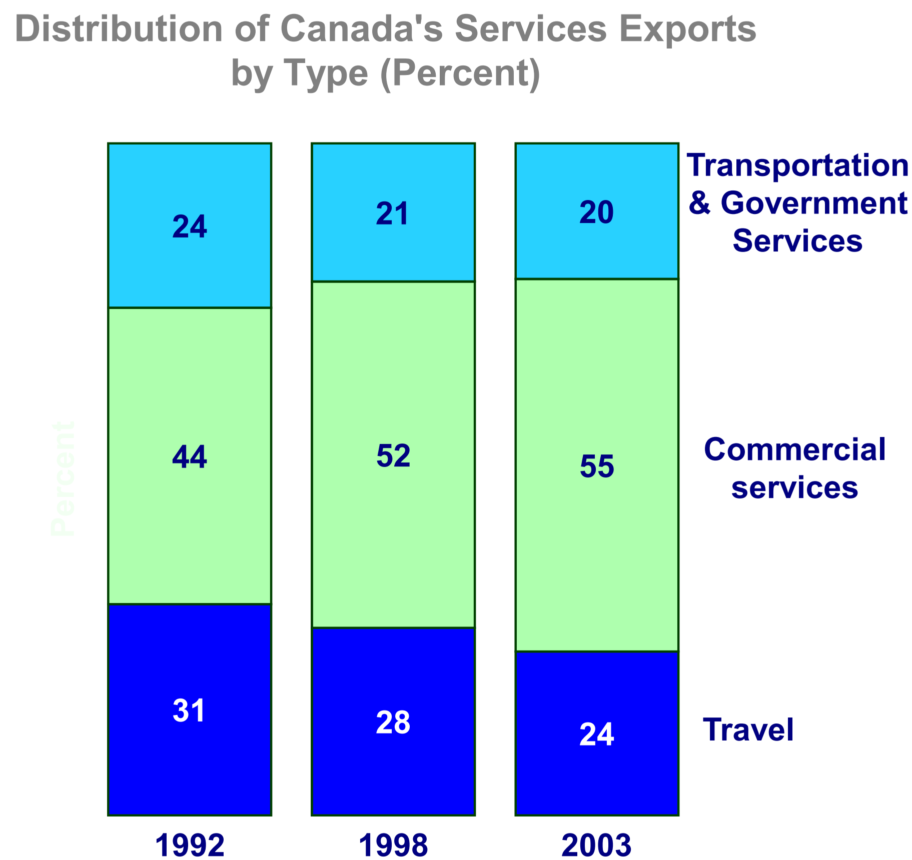
- Again, the US accounted for the lion's share of Canada's services imports at 60 percent in 2003, down from 63 percent in 1997.
- The EU's (excluding the UK) share has remained at 16 percent since 1997, while the United Kingdom accounted for 6 percent.



Source: Compilations based on Statistics Canada data

Commercial services has been the largest and fastest growing category of services exports...

- Between 1992 and 2003, the share of commercial services in total services exports increased by 11 percentage points, reaching 55 percent in 2003.
- The importance of travel, on the other hand, declined by 7 percentage points.

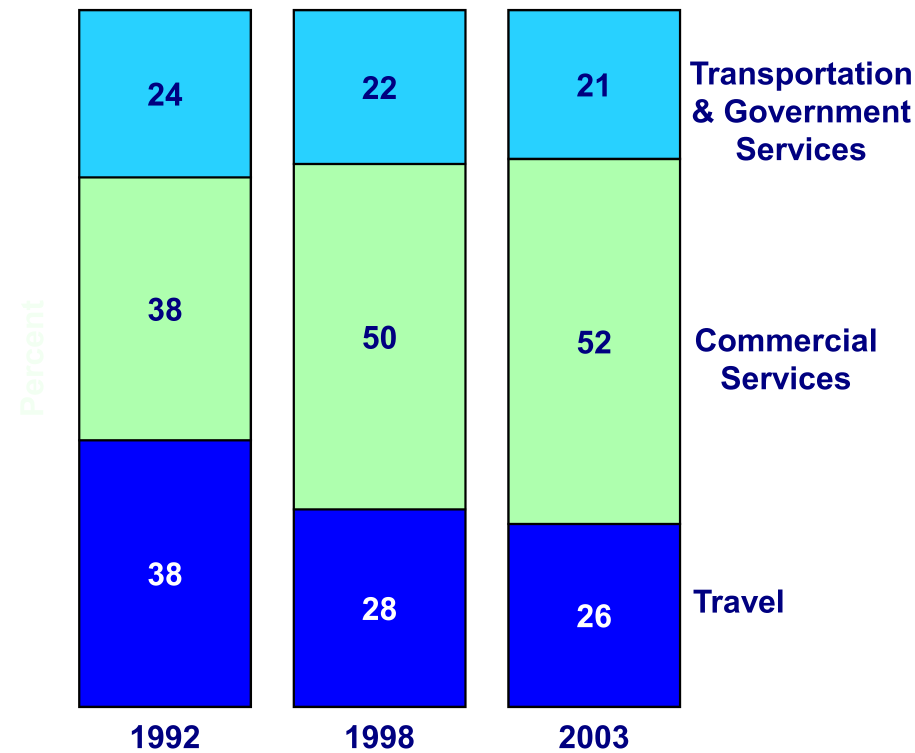


Source: Compilations based on Statistics Canada data

...and the same was true for services imports

- The importance of commercial service imports also rose a great deal in the last decade, from 38 percent of service imports in 1992 to 52 percent in 2003.
- The increased share of commercial service imports came mostly at the expense of travel services, which fell from 38 percent to 26 percent.
- The share of imports of transportation and government services has declined by 3 percentage points.

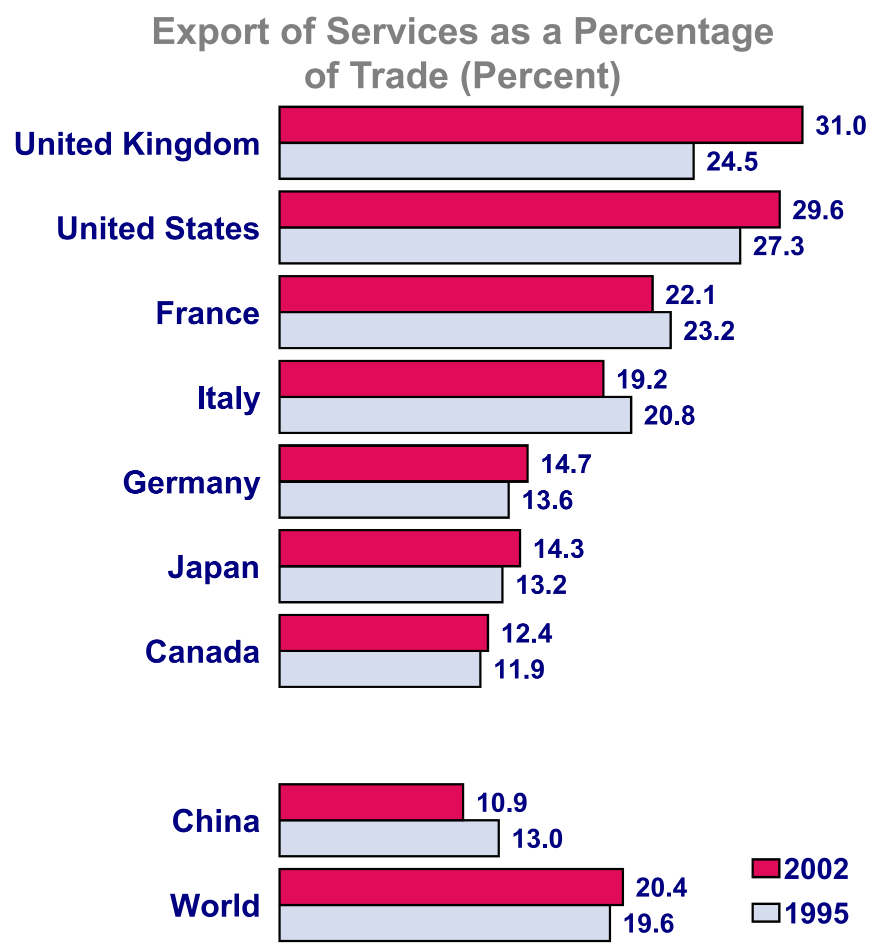
Distribution of Canada's Service Imports by Type (Percent)



Source: Compilations based on Statistics Canada data

The UK and the US lead the G-7 in service exports...

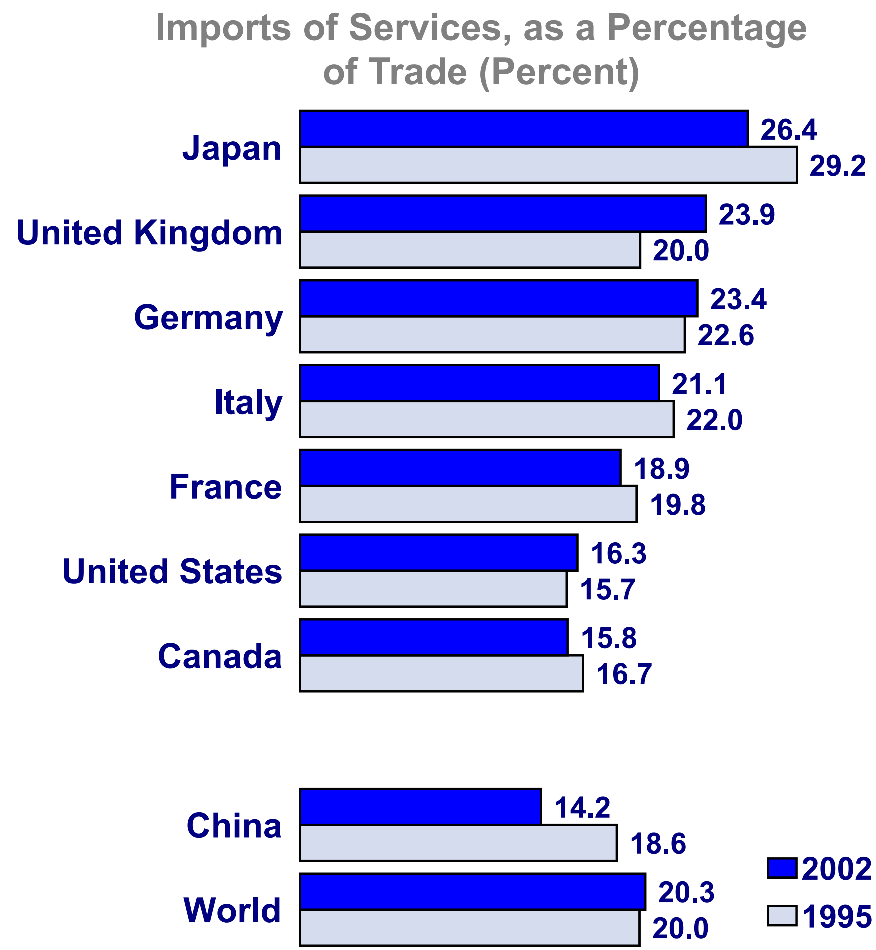
- The UK is by far the largest exporter of services at 31 percent of its total trade in 2002, an increase of 6 percentage points since 1995.
- Canada ranked last among the G-7 countries in the importance of service exports in its total trade, and is considerably lower than the world average.



Source: UNCTAD

...whereas Japan led in service imports

- As with services exports, Canada ranked the last in service imports among the G-7 countries in 2002.
- In 2002, the US share of service imports (16 percent) was considerably smaller than its share of service exports (29.6 percent). As a result, the US has a large surplus in services trade, while it posted a large deficit in merchandise trade.

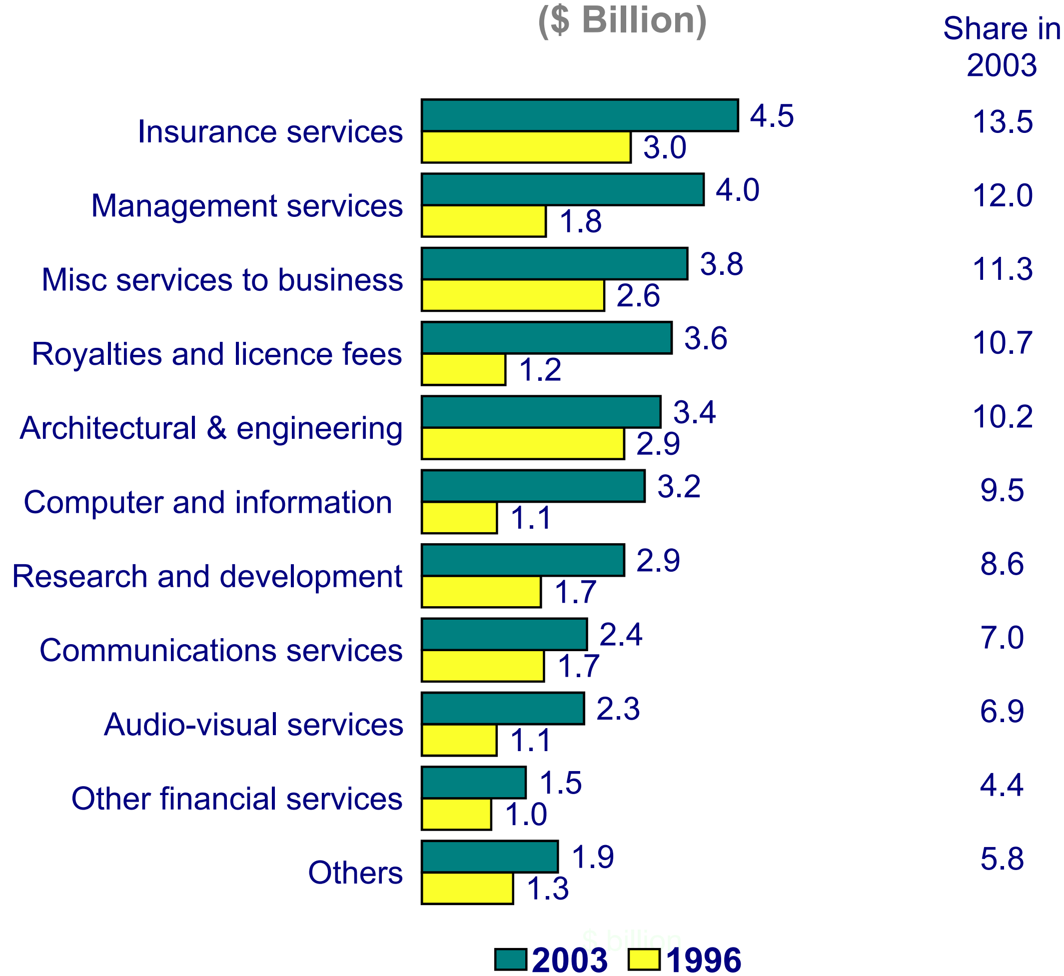


Source: UNCTAD

In 2003, export of insurance and management services accounted for a quarter of Canada's commercial service exports---

- Close to 40 percent of Canada's exports of commercial services were in insurance, management, and miscellaneous services to business.
- Royalties and licence fees has been the fastest growing category of service exports, more than tripling i value between 1996 and 2003.
- Over the same period, exports of computer and information services, management services, and audio-visual services more than doubled.

Exports of Commercial Services by Category ($ Billion)

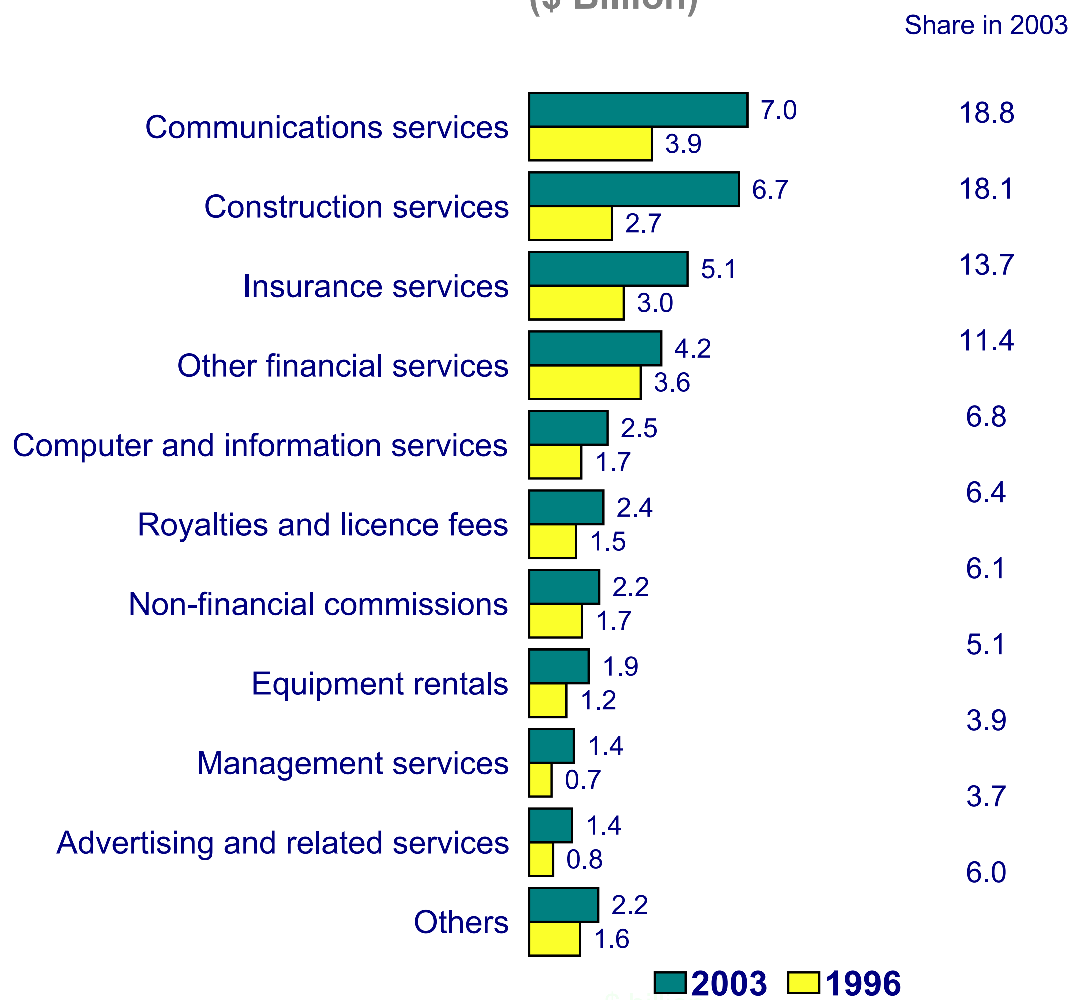


Source: Compilations based on Statistics Canada data

...while communication, construction and insurance services accounted for half of commercial service imports into Canada...

- In 2003, more than half of commercial service imports were communication, construction and insurance services.
  - These three service industries have been the fastest growing areas of commercial service imports.
- Other important commercial service imports include financial services, and other computer and information services.

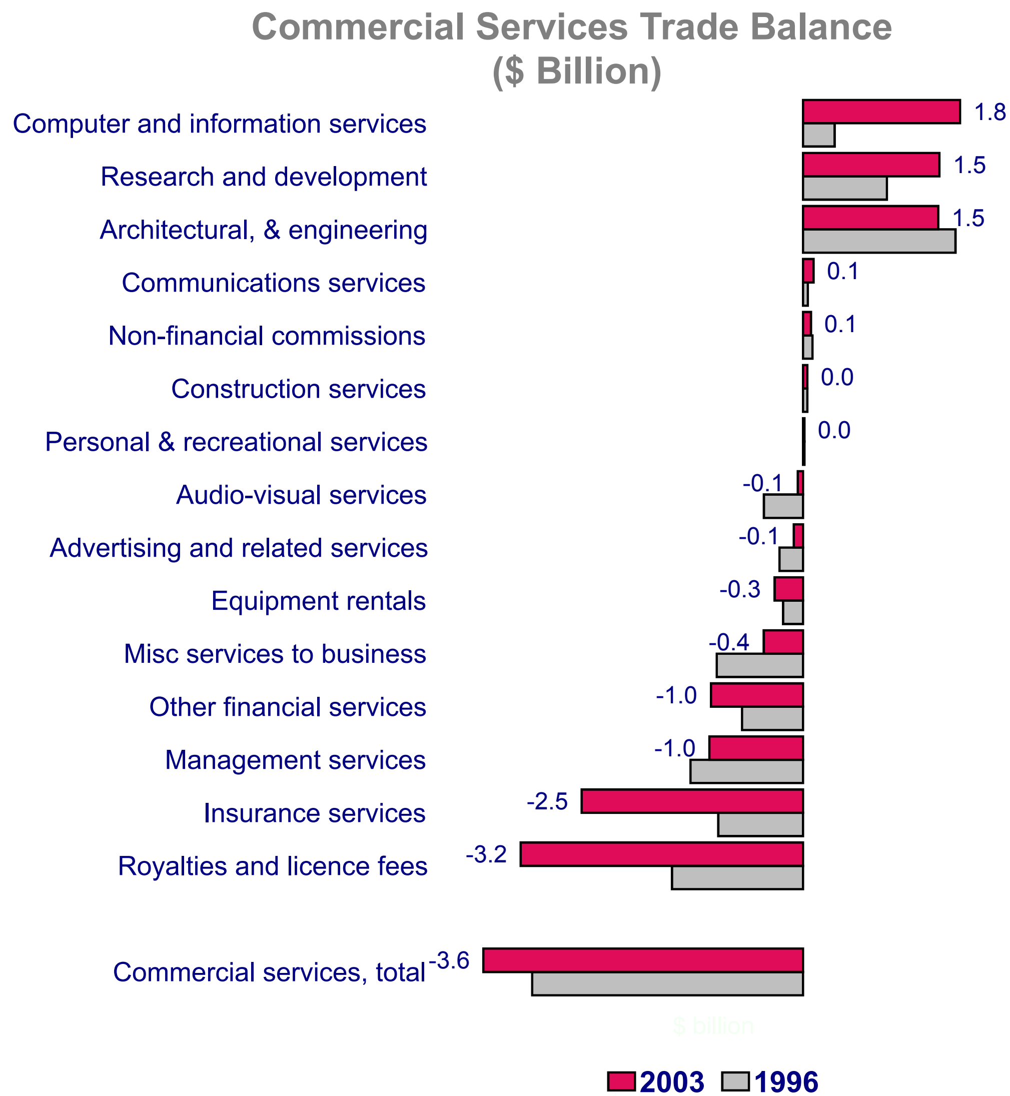
Imports of Commercial Services by Category ($ Billion)



Source: Compilations based on Statistics Canada data

... and the largest deficit was in royalties and licence fees

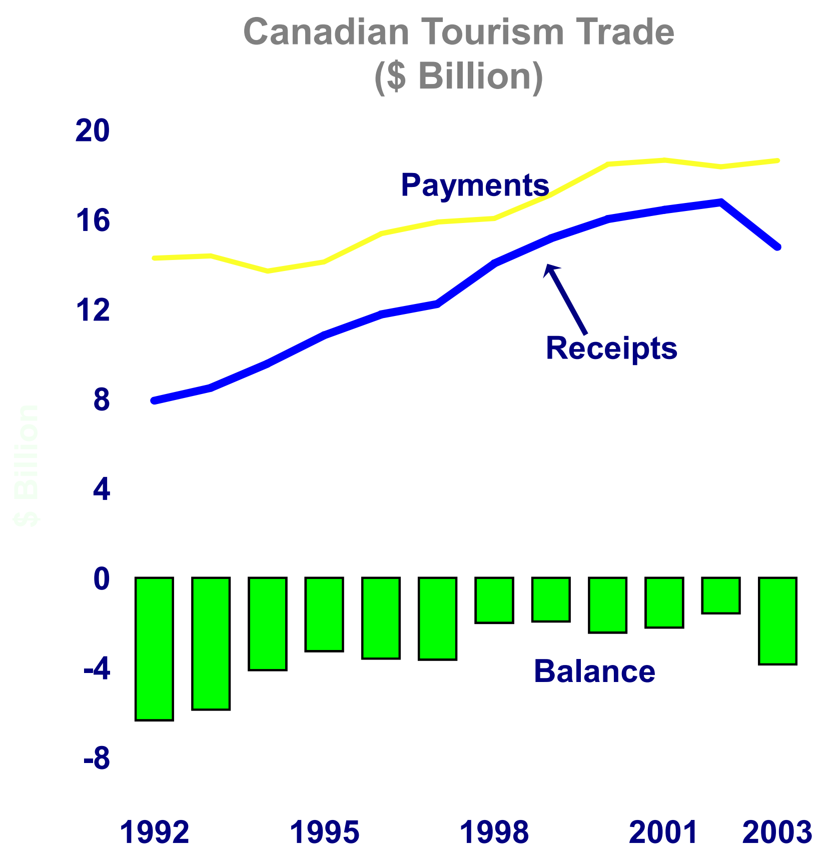
- Canada ran a trade surplus in three service industries: computer and information services, research and development, and architectural and engineering services.
- Canada still runs a large deficit in royalties and licence fees, insurance, and management and other financial services.



Source: Compilations based on Statistics Canada data

Canada's travel deficit increased in 2003

- The travel services receipts declined dramatically in 2003 from the year before due to SARS and a significant appreciation of the Canadian dollar.
- But, travel spending by Canadians abroad grew between 2002 and 2003.
- Nevertheless, Canada's travel deficit declined from $6.4 billion in 1992 to $3.9 billion in 2003, due to the faster rate of growth travel receipts compared with travel spending.



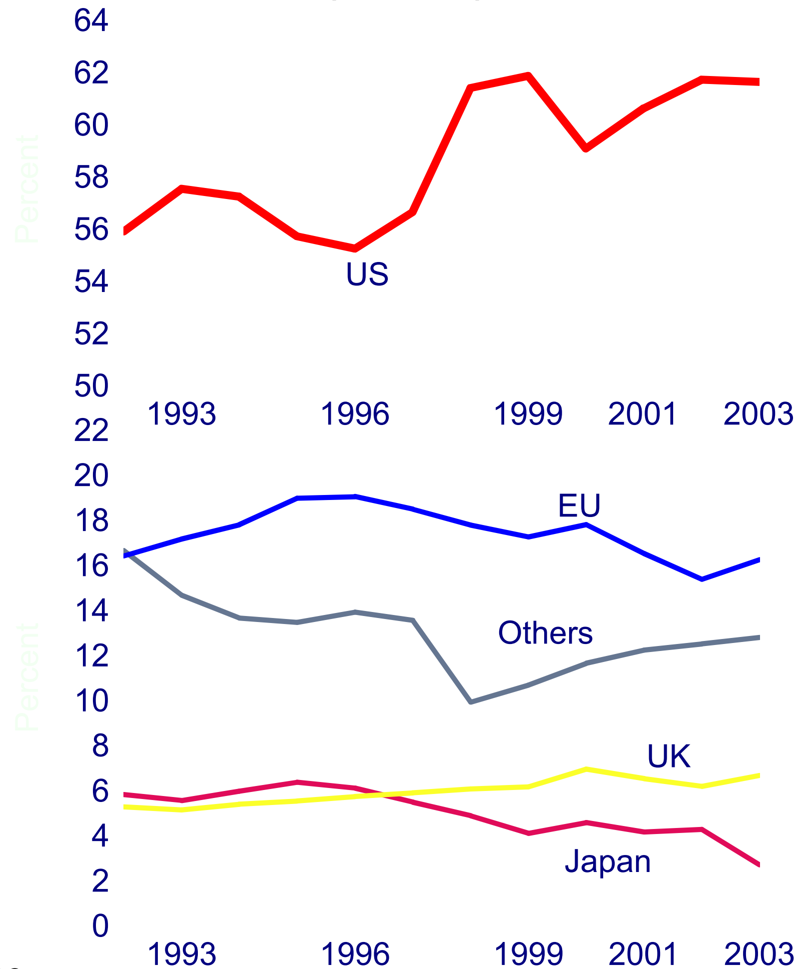
Source: Compilations based on Statistics Canada data

The importance of the US in travel spending in Canada increased since 2000

- Over the last decade, the US has been the dominant source of travel spending by foreigners in Canada. It accounted for 60 percent of travel spending in Canada in 2003.

- European countries (including the UK) accounted for more than 23 percent.

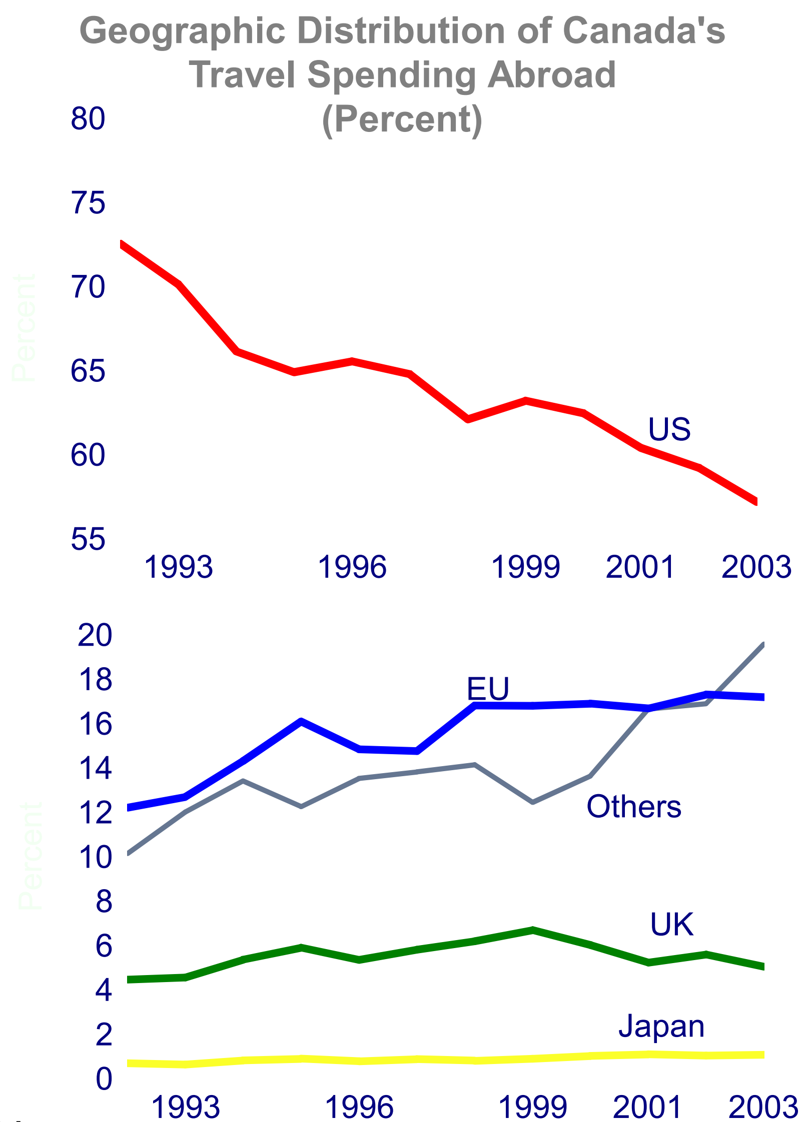
Geographic Distribution of Foreign Spending on Travel in Canada (Percent)



Source: Compilations based on Statistics Canada data

...while the US share in Canadian travel dollars has steadily declined.

- Although 57 percent of Canadian tourism dollars were spent in the US in 2003, the share was down from 72 percent in 1992.
- Canadians increasingly spent more of their tourism dollars in Europe and elsewhere in the world.
- Japan's share has remained more or less steady for the last 10 years.



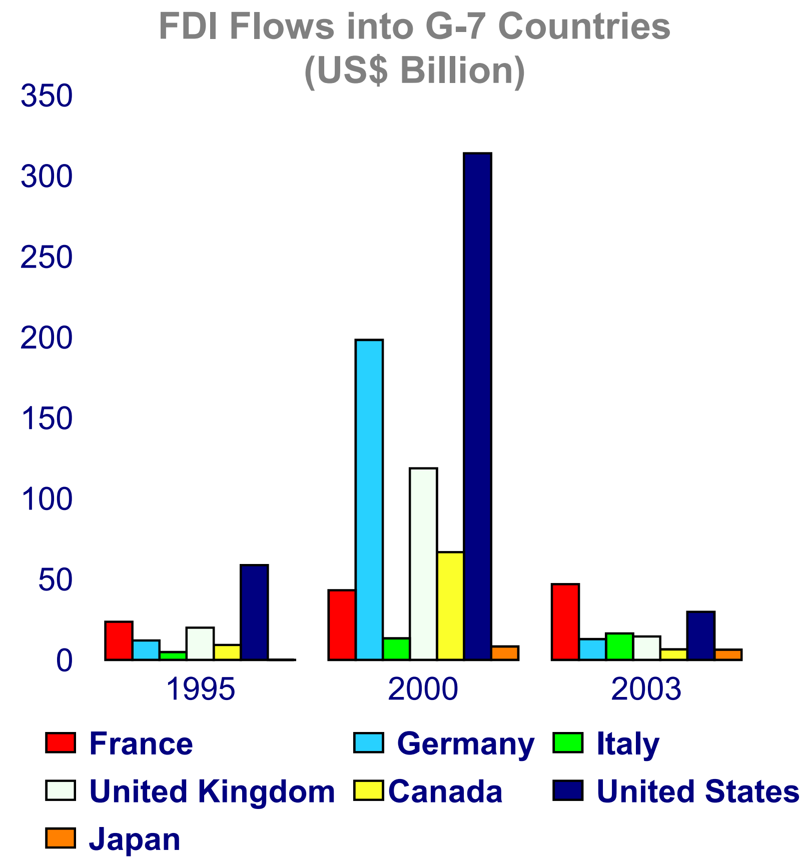
Section D
Foreign Direct Investment

Highlights

- Canada's inward and outward Foreign Direct Investment (FDI) flows continued to decline from their peak levels in 2000.
- The accumulated stock of foreign direct investment in Canada increased to $357.6 billion in 2003, while the stock of Canadian outward FDI declined from $429.6 billion in 2002 to $399.1 billion in 2003.
- The US accounts for over 60 percent of Canada's total inward foreign direct investment stock, but only about 40 percent of Canada's outward FDI stock.
- There has been a resurgence of inward investment in Canada's resource sector, while outward investments continue to be directed toward the Finance & Insurance sectors.

FDI flows into G-7 countries were down again in 2003

- Foreign direct investment into most G-7 countries except France has slowed considerably since the investment boom of the late 1990s. Slow economic recovery, sluggishness in Mergers and Acquisitions (M&As), and outflows of intra-company debt were the main reasons for the continued decline.
- The first six months of 2004 saw an upsurge in announced M&As, suggesting a more positive scenario for the second half of that year

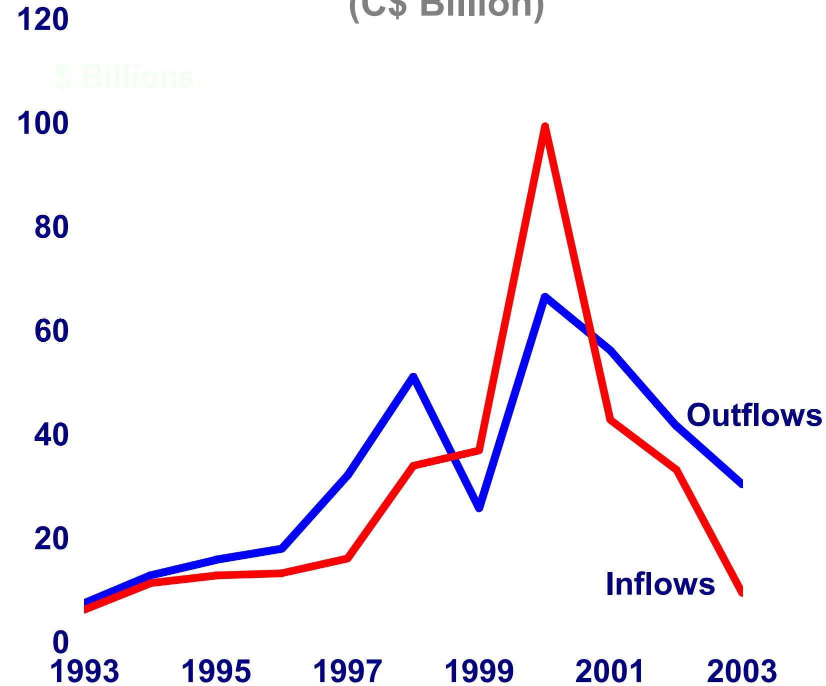


Source: UNCTAD

Canada's inward and outward FDI flows continued to fall in 2003...

- FDI inflows to Canada fell to $9.2 billion, compared to $33 billion in 2002.
- Similarly, Canada's outflow of direct investment fell to $31 billion in 2003, from $41.5 billion a year earlier.
  - FDI outflows once again surpassed inflows in 2003.

FDI Inflows and Outflows in Canada (C$ Billion)

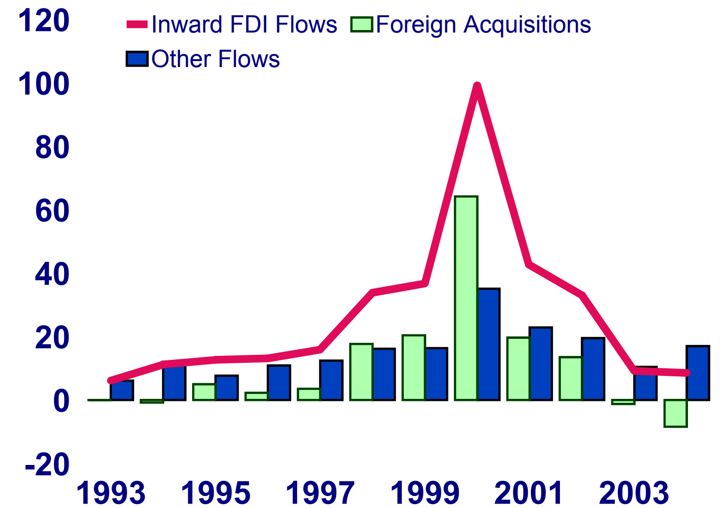


Source: Industry Canada compilations based on Statistics Canada data

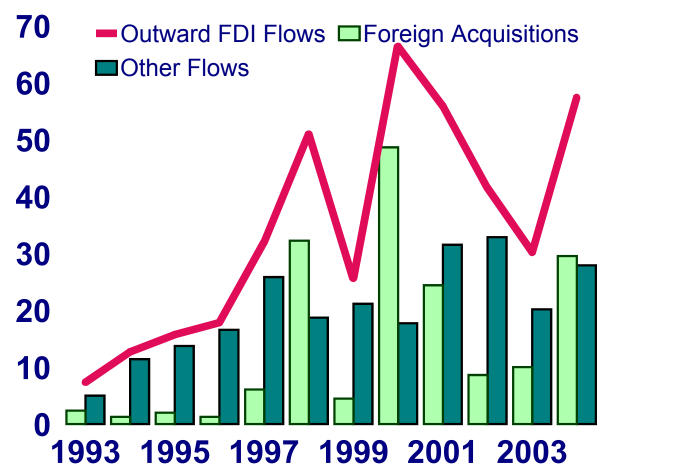
...driven largely by a sharp decline in cross-border M&As

- A decline in the sales of existing interests in Canada to non-residents was mainly responsible for the drop in FDI flows into Canada in 2003.
  - Nearly 70 percent of the decline in FDI inflows can be attributed directly to tthis source.
- Similarly, a decline in Canadian acquisitions of existing assets abroad was the main reason for the reduction in FDI outflows.

Inward FDI Flows and Foreign Acquisitions in Canada ($ Billion)



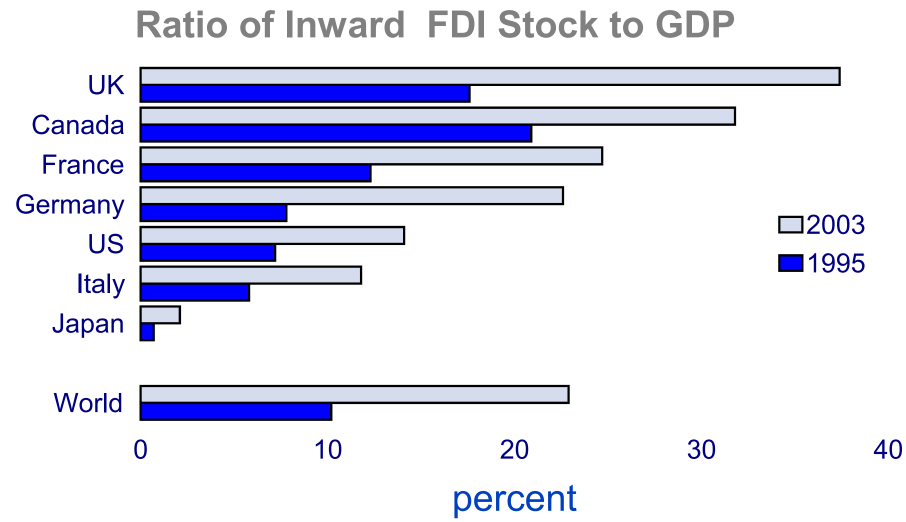
Outward FDI Flows and Acquisitions Abroad from Canada ($ Billion)

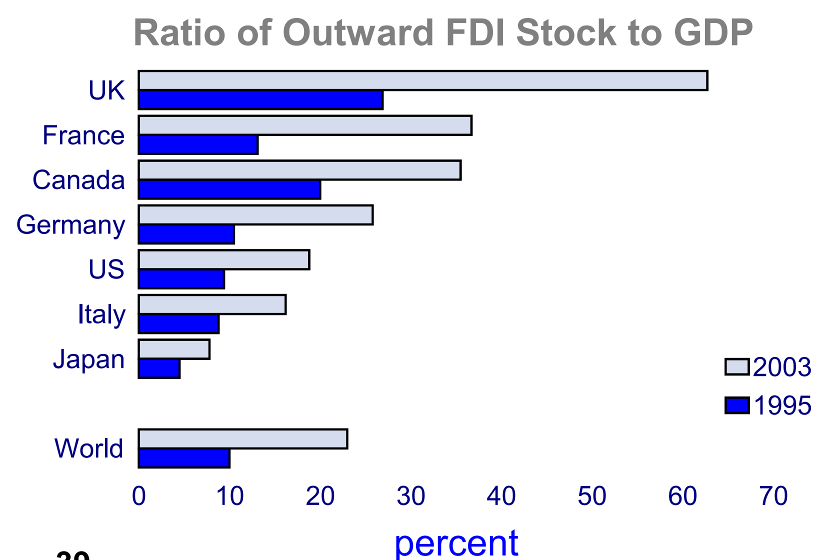


Source: Compilations based on Statistics Canada data

Canada's foreign investment orientation far outstrips the G-7 and world averages

- In 2003, the ratio of inward FDI stock to GDP in Canada reached almost 32 percent, compared to about 20 percent in 1995.
  - This is more than the G-7 countries' average of 20.6 percent in 2003.
- Similarly, outward FDI stock to GDP in Canada reached 35 percent in 2003, compared to 20 percent in 1995.
  - The UK has the highest ratio of outward and inward FDI to GDP among the G-7 countries.





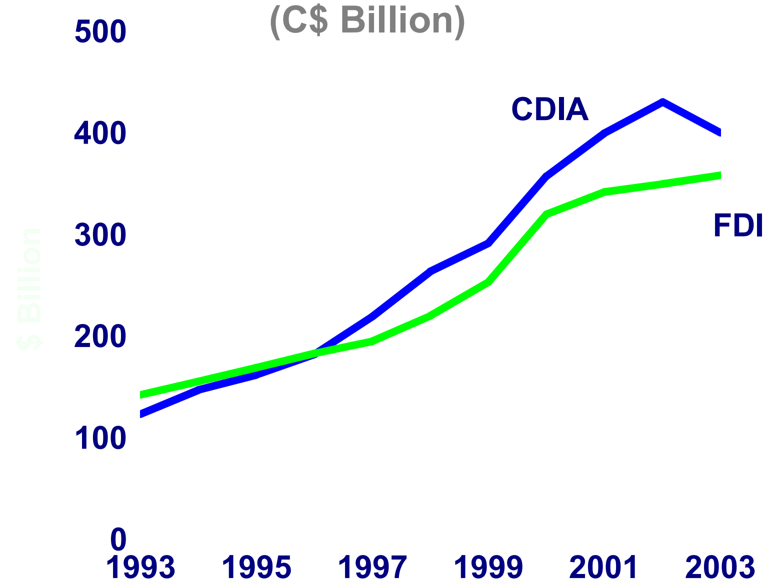
Source: UNCTAD

Industry Canada Industrie Canada

Foreign direct investment in Canada increased in 2003

- The stock of foreign direct investment in Canada increased to a record level of $357.6 billion in 2003, up from $348.9 billion in 2002.
- However, the stock of Canadian outward FDI declined from $429.6 billion in 2002 to $399.1 billion in 2003, down 30.5 billion.
  - The decline in outward stock was mainly due to the downward valuation of the outward FDI stock. The sharp appreciation of the Canadian dollar in 2003 may have contributed significantly to this re-valuation.
- In the first three quarters of 2004, the inward FDI stock averaged $363.1 billion, a 2 percent increase from the same period in 2003. Likewise, the outward FDI stock increased by 11 percent.

Canada's Direct Investment Abroad (CDIA) and Foreign Direct Investment Stocks in Canada (C$ Billion)



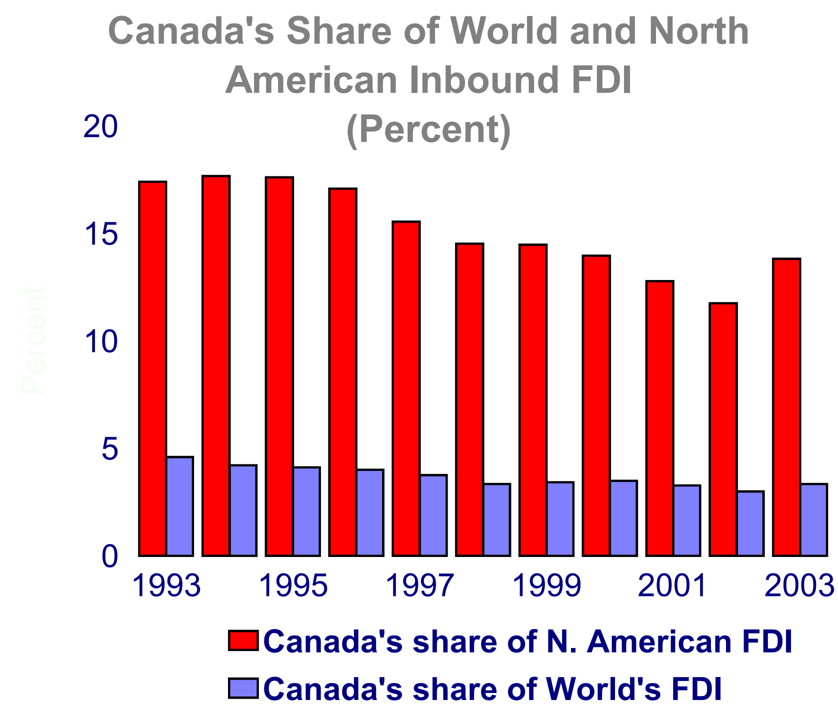
Foreign Direct Investment Stocks (C$ Billion)

	1995	2000	2002	2003
CDIA	161.2	356.5	429.6	399.1
FDI	168.2	316.1	348.9	357.6

Source: Compilations based on Statistics Canada data

Canada's share of North American and global inward FDI stocks have dropped in the past decade

- Although Canada's share of North American inbound FDI increased slightly in 2003, the share has dropped steadily from 17 percent in 1993 to 13 percent in 2003.
  - Over the same period, the US share has increased by 2 percentage points, from 76 percent to over 78 percent.
  - Mexico's share has increased from 6.6 percent in 1993 to 8.3 percent in 2003.
- Similarly, Canada's share of global inbound FDI has declined from 4.6 percent in 1993 to slightly over 3 percent in 2003.



Source: UNCTAD

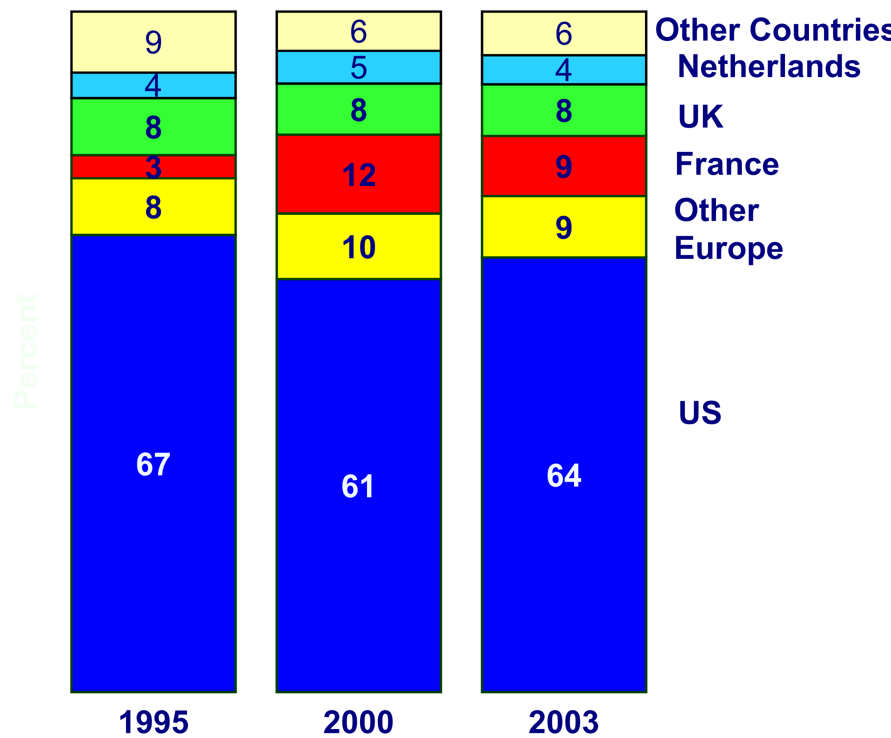
The US still accounts for over 60 percent of Canada's inward foreign direct investment stock ...

- The US share of Canada's FDI stock has remained steady at 64 percent since 2000.

- Europe's share amounted to 30 percent of the inward FDI stock in Canada in 2003, up from 23 percent in 1995.

  - France's share of Canada's inward FDI stock has increased considerably from 3 percent in the 1995 to 9 percent in 2003, while the UK's share remained constant at 8 percent.

Geographic Distribution of the Inward FDI Stock in Canada (Percent)

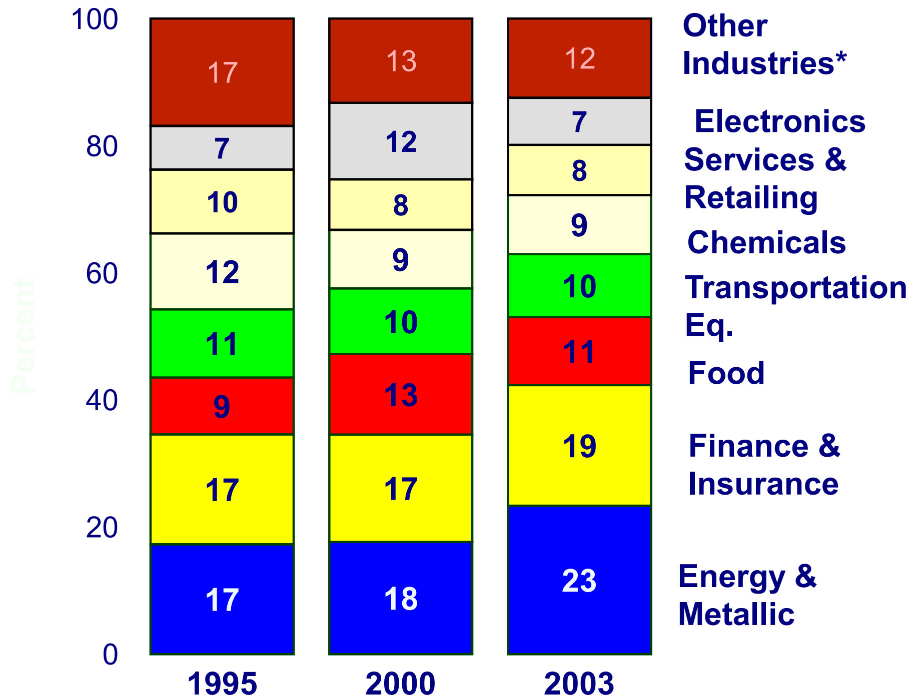


Source: Compilations based on Statistics Canada data

... and resource-based and financial industries have increased in importance

- There has been a resurgence of FDI into Canada's resource sector in recent years, likely spurred by higher energy prices. There are many M&As in Canada's oil patch and a consolidation in other resource industries like mining.
  - The share of energy and metallic minerals increased from 18 percent in 2000 to 23 percent in 2003.
- Similarly, between 2000 and 2003, the share of the finance and insurance sector increased by two percentage points, reaching 19 percent.
- On the other hand, the share of the electronic industry fell from 12 percent in 2000 to 7 percent in 2003. Similarly, the share of the food industry declined by 2 percentage points.

Industry Distribution of inward FDI Stock (Percent)

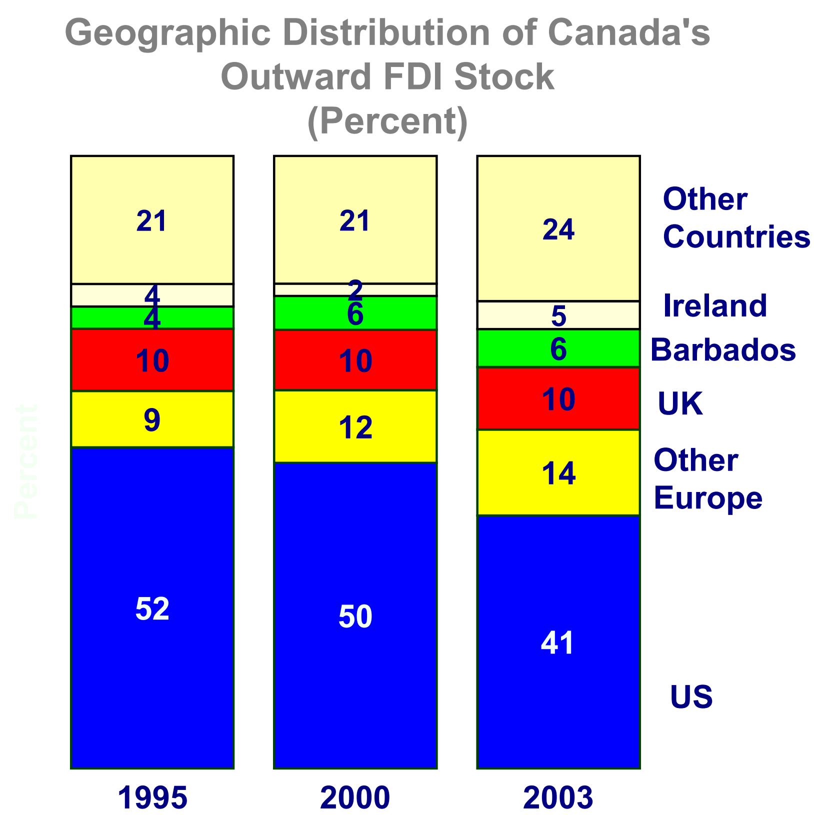


* Includes machinery, wood, construction and related activities, and Communications

Source: Compilations based on Statistics Canada data

Canada's outward FDI stock continues to move into non-US destinations...

- The US is still an important destination for Canadian investment abroad, but its importance has declined steadily in the last decade — in 2003, the US accounted for just 41 percent of Canadian FDI abroad, compared to 55 percent in 1995.
- The UK share of Canada's FDI abroad has remained constant around 10 percent in 2003; whereas the shares of other European countries increased by 5 percentage points between 1995 to 2003.
- "Other countries," mainly in Asia, experienced an increase in their share from 21 percent in 1995 to 24 percent in 2003.



Source: Compilations based on Statistics Canada data

Industry Canada Industrie Canada

...and is increasingly concentrated in finance and insurance

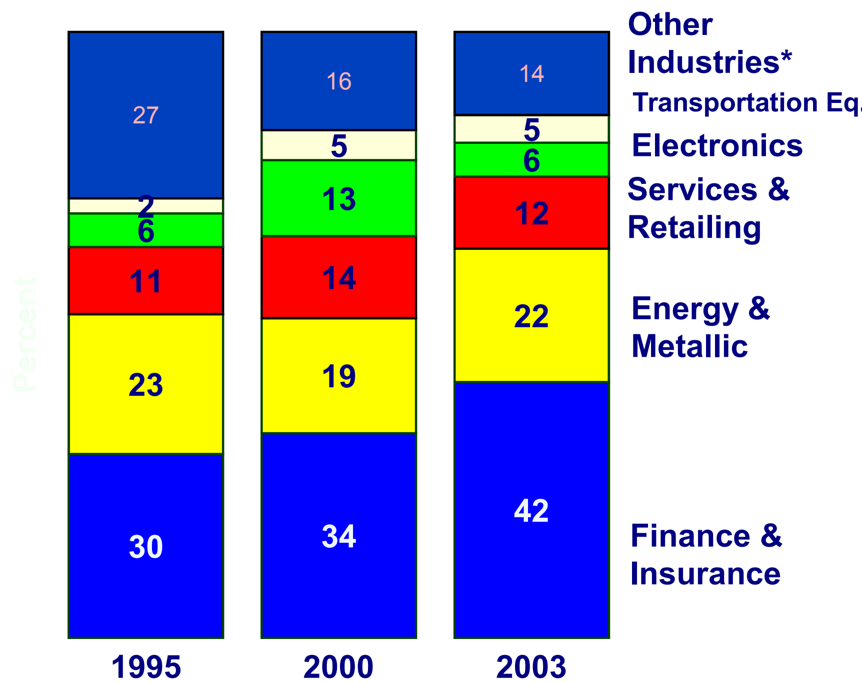
- The share of finance & insurance in Canada's total outward FDI stock has steadily increased since the mid 1990s. Between 1995 and 2003 it jumped 12 percentage points to 42 percent.

- The share of energy and metallic minerals in Canada's total outward FDI stock has increased by 3 percentage points since 2000.

- In 2003, the electronics industry accounted for 5 percent of Canada's outward FDI stock, compared to just 2 percent in 1995.

- On the other hand, the share of "Other Industries" fell from 27 percent in 1995 to 14 percent in 2003.

Industry Distribution of CDIA Stock (Percent)



* Includes Food, Beverages and Tobacco, Construction and related activities, and Communications

Source: Compilations based on Statistics Canada data

Part II
Emergence of India as a Global Economic Force: Opportunities and Challenges for Canada

Foreword

- Since 1991, India has undergone major economic reforms, consisting of opening up the economy to more foreign trade and investment, and dismantling the industrial licensing system. During the past 15 years or so, India's growth rate has picked up, foreign exchange reserves have increased considerably, and the information technology sector has taken-off, making India a major economic player on the global scene. These develoments have led to a worldwide interest in the Indian economy, not previously witnessed since the time of India's independence.

- However, India still faces many formidable challenges, such as persistent poverty and inequalities, sustainability of large government deficits, the longer-term future of the information-communication-technology sector boom, and political and social tensions.

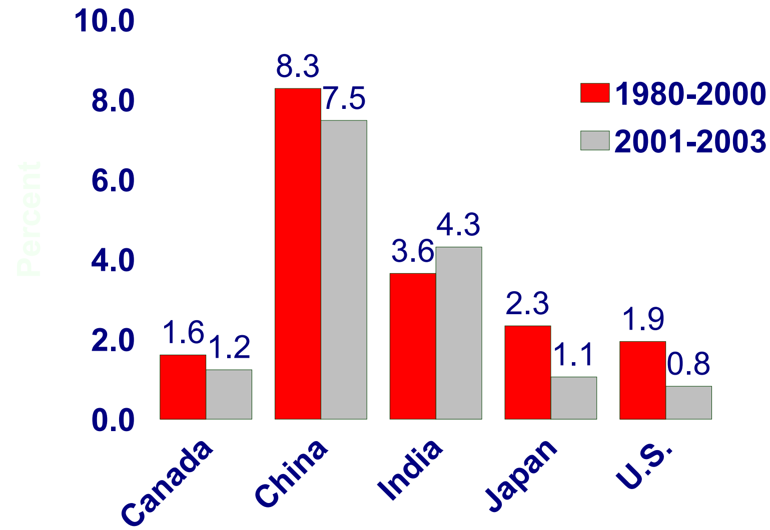
- The focus of this special section on India is to provide a broad medium- to longer-term perspective on the Indian economy, its role in the world economy and potential opportunities and challenges for Canadian business.

Overview of the Indian Economy

India's economy is the fourth largest in the world in purchasing power

- Measured in terms of market exchange rate, India's GDP in 2003 was only US$ 599 billion; but, on a purchasing power parity (PPP exchange rate) basis, India's GDP was close to U$3.1 trillion in 2003, making it the world's fourth largest economy after the US, China, and Japan.
- Nevertheless, its per capita GDP on a PPP basis was only US$ 2,908, equal to only 9.5 percent of the Canadian level.
- From 1980 to 2003, India's real GDP per capita growth averaged more than 3.6 percent per year, surpassed only by China and the East Asian countries.

GDP Per Capita Growth Rate (constant 1995 US$)

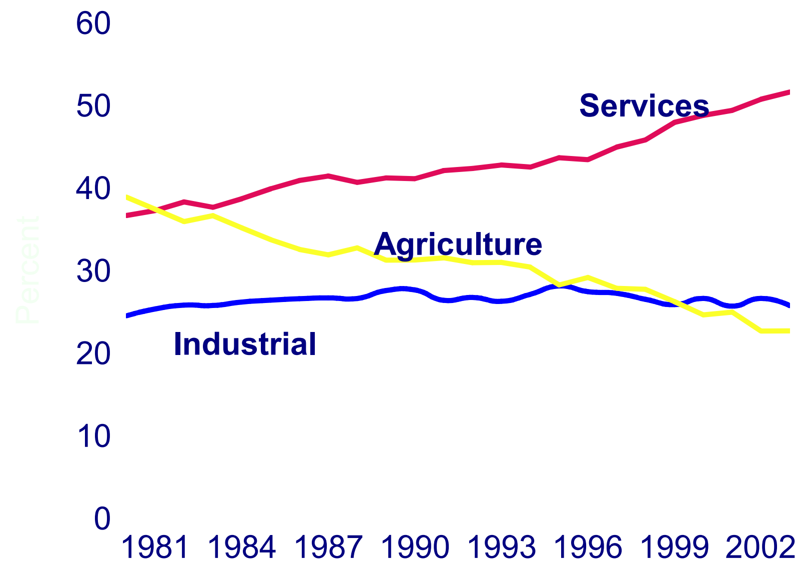


Source: The World Bank

India's economy is shifting toward services...

- The service sector now accounts for more than half of India's GDP, 52 percent in 2003. It has gained at the expense of the agricultural sector.
- The agricultural sector share of GDP steadily fell from 39 percent in 1980 to 23 percent in 2003. Over the same period, the industrial sector share has remained steady at 25 percent.
- The growing importance of the service sector in the Indian economy seems to indicate a structural shift toward specialization in the production and exportation of services.

Composition of India's Nominal GDP (Percent)

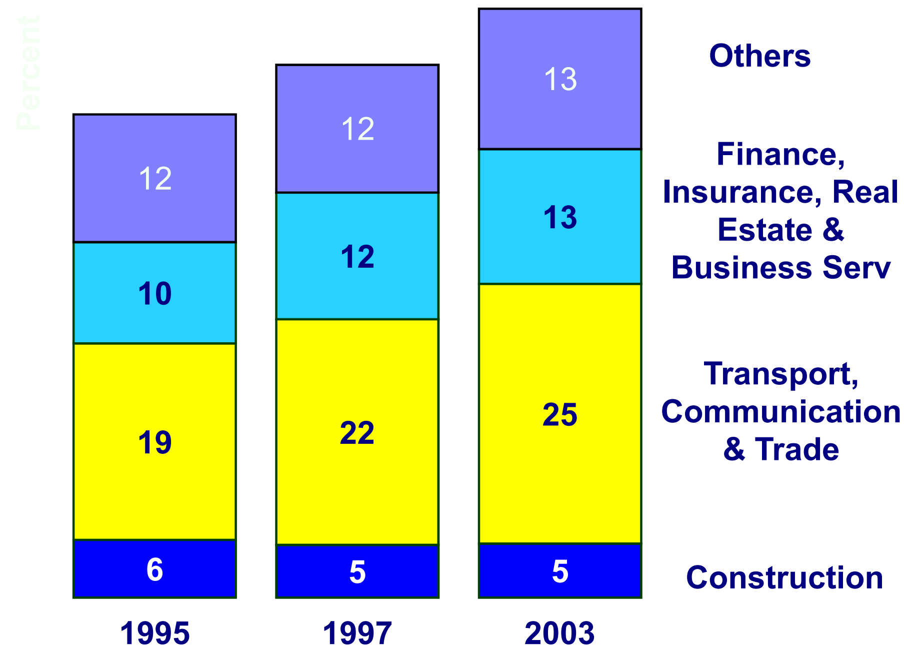


Source: The World Bank

...and it has been the principal driver of the Indian economy

- Real GDP of the service sector grew at annual rates of 7.2% and 8.2% in 2002 and 2003, respectively.
    - Within the service sector, transport, communication and trade accounted for 25 percent of overall GDP in 2003, compared to 19 percent in 1995. Finance, insurance, real estate and business services accounted for roughly 13 percent, a 3 percentage points increase since 1995. Information and Telecomunication services contributed more than three percent of India's GDP in 2003.

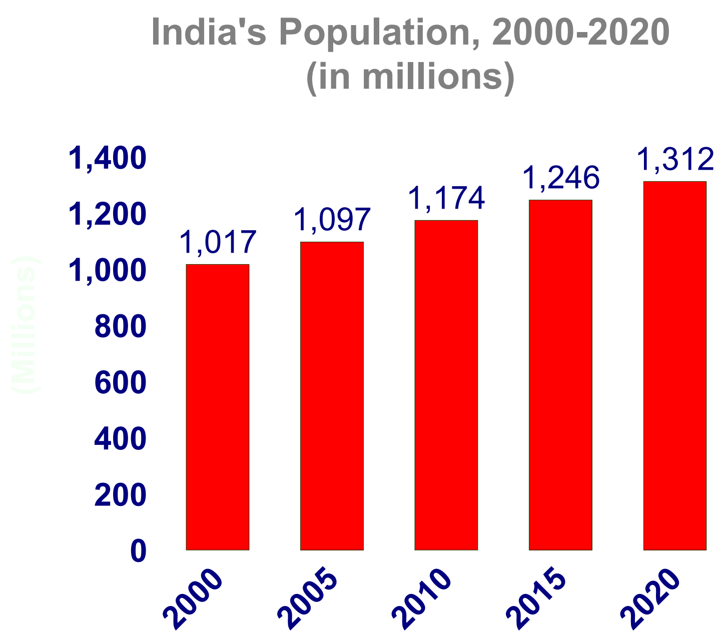
Share of Service Sector to GDP*
(percent)



*GDP at 1995 prices
Source: Reserve Bank of India

India has the second largest population in the world

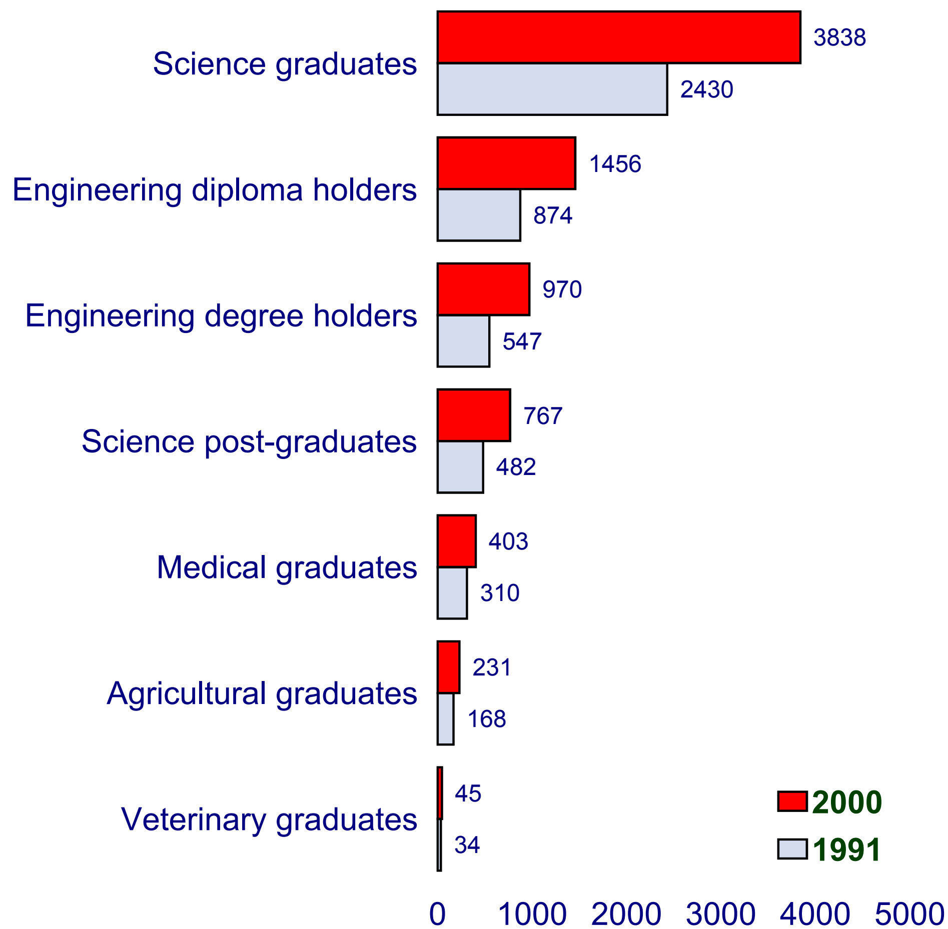
- The United Nations projects that India's population will increase from the present level of 1.09 billion to over 1.3 billion by 2020.
- India's working age (15 to 65 years old) population is likely to rise by 83.4 million by 2010 from the current 674.4 million.
- The rising working age population should be able to generate additional savings and stimulate physical capital accumulation.
- The large pool of labour could also support industrial growth without putting excessive pressure on real wages; and it could also increase the demand for consumer goods and services.



India has a large pool of skilled workers...

- Between 1991 and 2000, the stock of Science and Technology (S&T) personnel grew from 4.8 million people to 7.7 million, a 60 percent increase in less than ten years!
- Almost half of these were graduates in science (such as mathematics, chemistry, biology and physics), and engineers registered the largest growth.
- In addition, more than three-quarters of a million Indians have post-graduate degrees in the sciences.

Estimated Stock of S&T Personnel (Thousands)

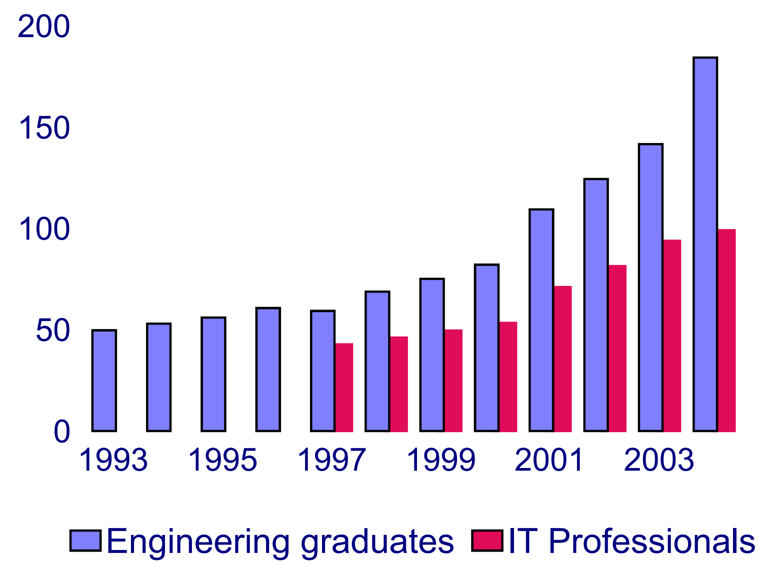


Source: IAMR, New Delhi

...and an abundant number of high quality engineering graduates ready to enter the workforce

- India's key advantage is the availability of an abundant pool of skilled, high quality engineering graduates.
  - Available estimates indicate that India generated about 185,000 engineering graduates and diploma holders in 2004; of these, about 90,000 were IT professionals.
  - In addition, the formal education system is supplemented by thousands of private training institutes across the country, which provide specialized computer training.

Number of Engineering Graduates & IT Professionals (Thousands)



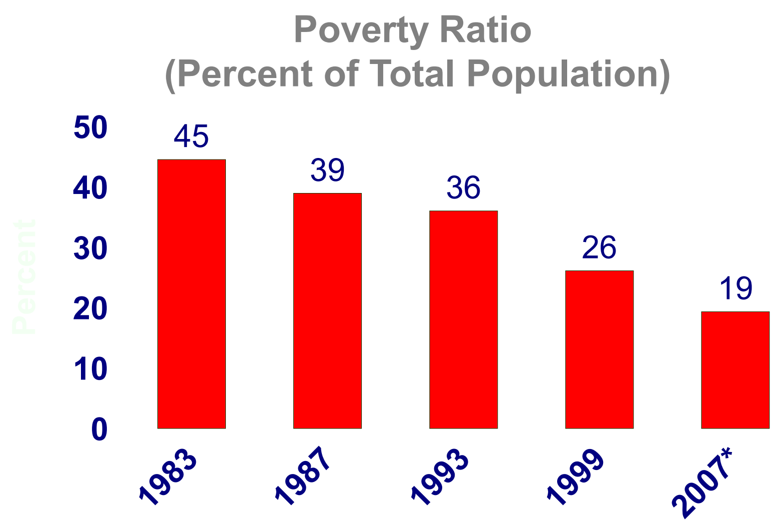
Source: NASSCOM

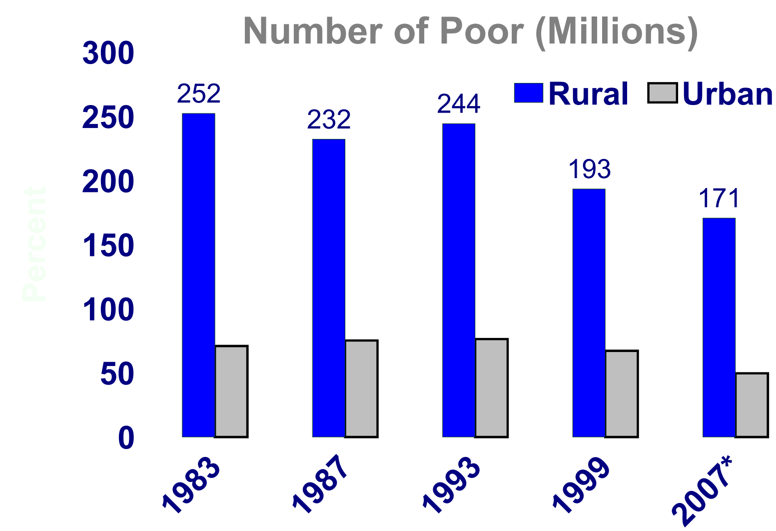
On the down side, poverty is still a major problem in India

- The poverty ratio in India has declined dramatically in the last two decades. The proportion of people living in poverty declined from 45 percent in 1983 to 26 percent in 1996, and the ratio is expected to be below 20 percent in 2007.

- However, according to Indian government estimates, India still had 260 million people (26.1 percent of the population) living below the poverty line at the end of 1990s.

- Although poverty has declined dramatically in absolute levels, significant income disparities still remain.
  - About 75 percent of the poor live in rural areas.
  - In 1999-2000 Bihar and Orissa continued to be the two poorest States.



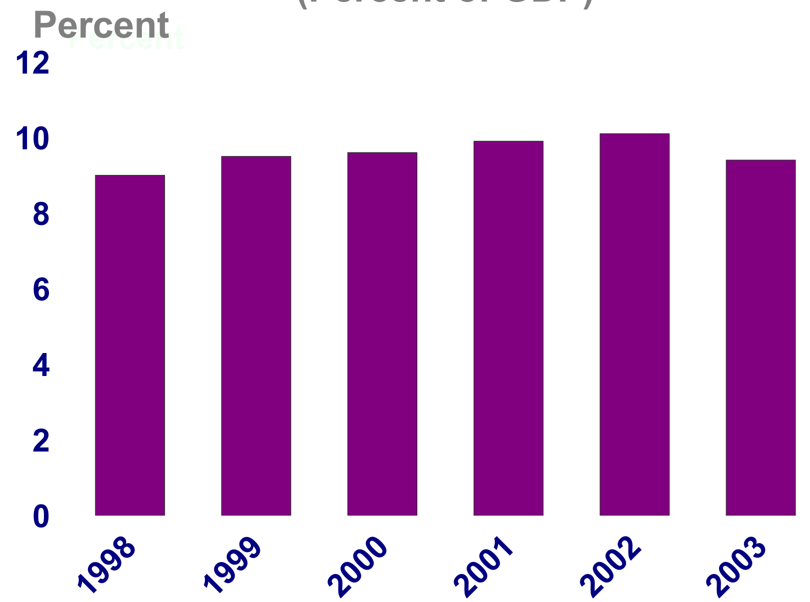


*estimated
Source: Ministry of Finance, India

Fiscal deficits remain a concern...

- One of the serious concerns about the Indian economy has centered on the budgetary position of the federal and state governments; In 2003, the consolidated fiscal deficit of the government sector reached 9.4 percent of GDP.
- Such a high deficit level could potentially act as a brake on economic growth by raising real interest rates and diverting expenditure from productive uses to debt servicing.

Indian Governments* Deficits (Percent of GDP)



* both Central and state levels

Source: India's Ministry of Finance

...and India's physical infrastructure is poor

- Physical and knowledge infrastructure constitute the backbone of any economy. There is a substantial gap between rising demand and the availability of basic infrastructure. India not only lags behind the developed countries, but also its developing-country peers.
- In addition, an increase in domestic penetration of IT services, for instance, needs expansion of broadband linkages in telecommunication. Global competitiveness of the manufacturing sector requires better road and port facilities.
- Furthermore, India's institutional infrastructure remains weak; red tape and corruption are common.

Indicators of Basic Infrastructure

	India	China	Canada
Telephone subscribers*	47	299	1081
Internet users*	16	42	570
Personal Computers*	9	27	657
Road paved (% of total roads)	46	22	100
Human development index (2000)	0.6	0.7	0.9

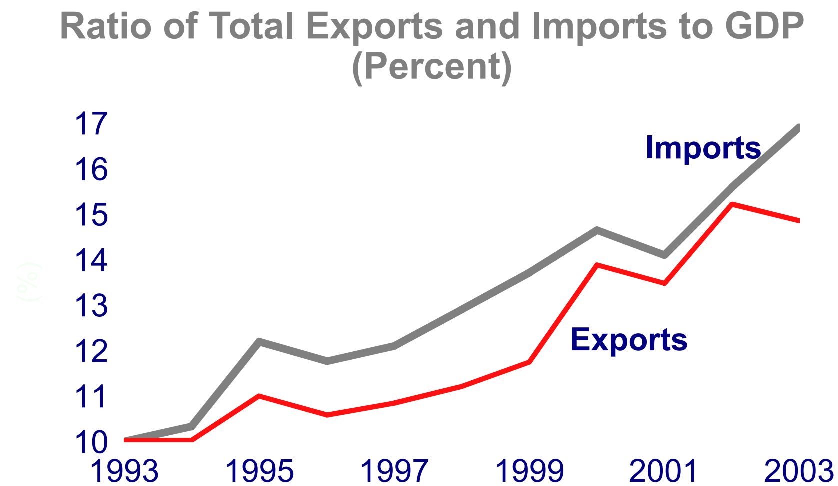
Note: * per 1000 people in 2002
Source: World Bank and World Competitive Yearbook 2003

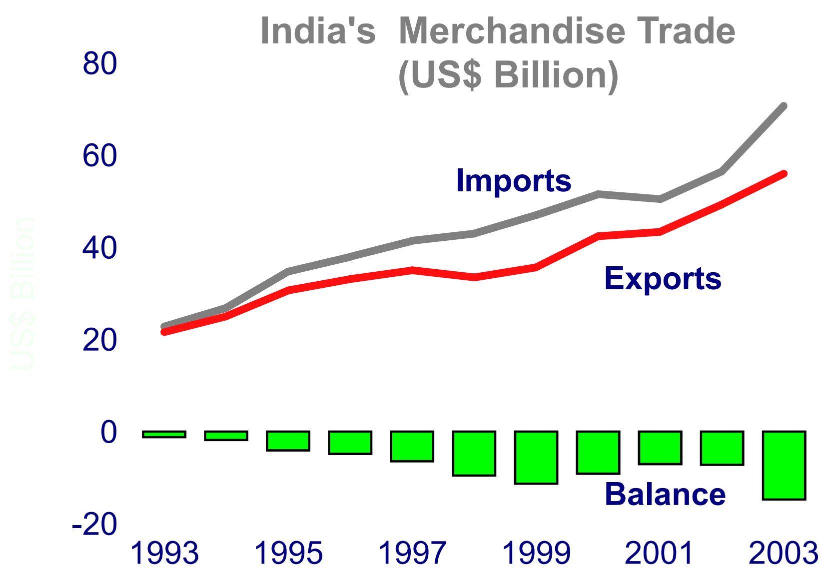
India's Role in World Trade and Investment

India's total trade has steadily increased...

- Between 1993 and 2003, the share of exports of goods and services in India's GDP has increased to 15 percent in 2003 from only 10 percent in 1993. The import penetration also increased dramatically, reaching 17 percent of GDP in 2003.

- During the same period, India's merchandise exports increased by more than 150 percent, reaching US$56 billion in 2003. And merchandise imports more than tripled, reaching US$71 billion in 2003.



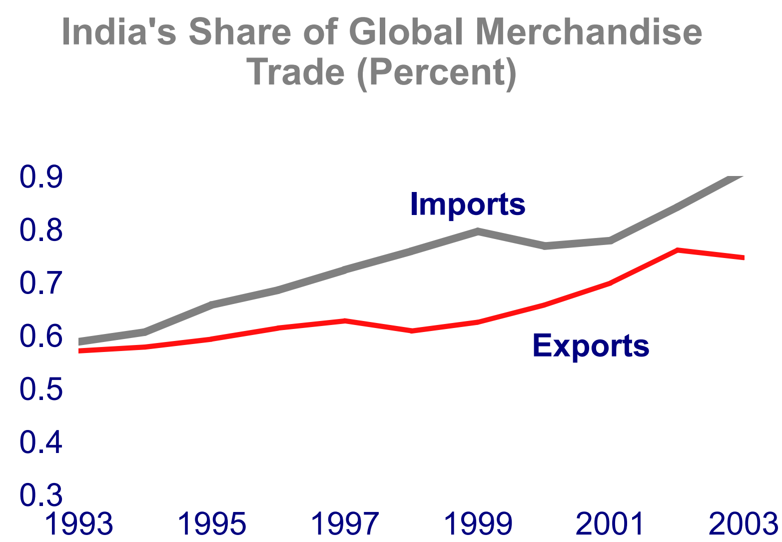


Source: World Trade Organization

Industry Canada Industrie Canada

...but India's share of world trade is still relatively small

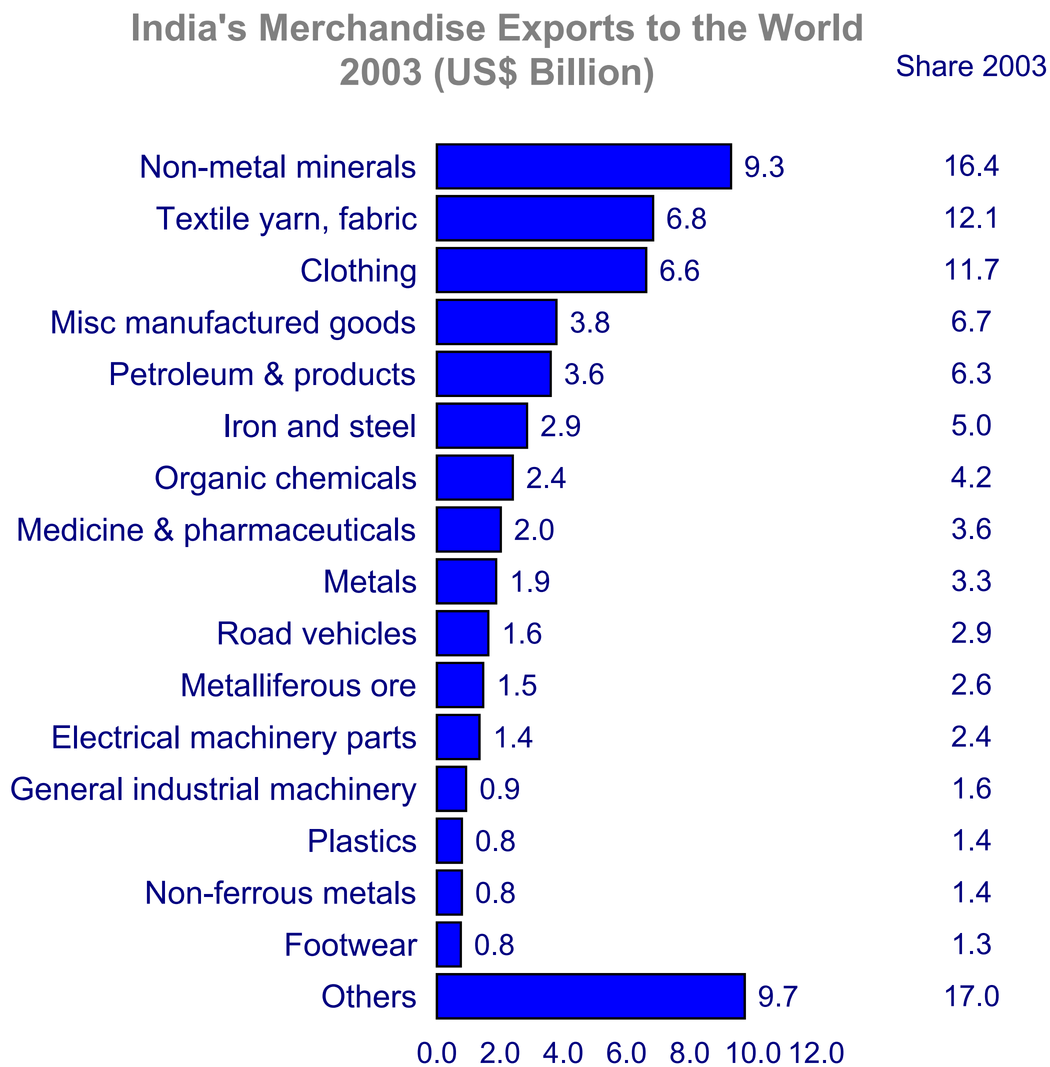
- As a share of world merchandise trade, India's trade is small. In 2003, it was the world's 31st largest merchandise exporter and 24th largest importer.
  - In 2003, India's share of world merchandise exports was 0.75 percent, up from 0.57 percent in 1993; while its import share rose to 0.9 percent.



Source: World Trade Organization

Textiles and clothing, and non-metal minerals accounted for over 40 percent of India's exports...

- Other major Indian exports include miscellaneous manufactured goods, petroleum and products, iron and steel, and organic chemicals.
  - India's pharmaceutical exports increased to US$2 billion in 2003 from US$485 million in 1993, an increase of over 300 percent.

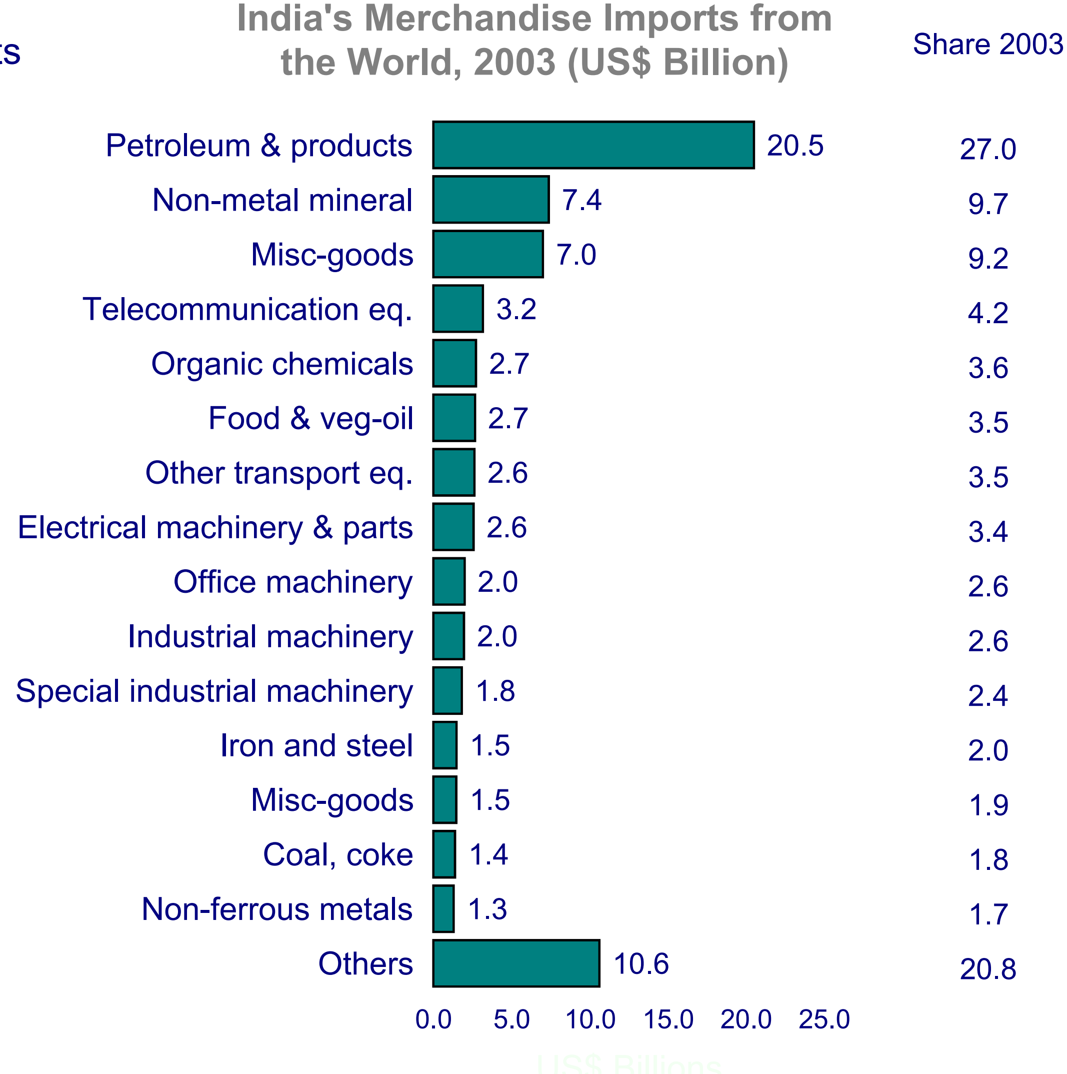


Source: United Nations

...whereas petroleum products represent over a quarter of India's imports

- In 2003, India's top three imports were petroleum & products, non-metal minerals, and miscellaneous goods. They accounted for 45 percent of India's total imports.
- Another 20 percent of India's imports came from high-tech manufactured products, telecommunication equipment, chemicals, transportation equipment, electrical and machinery industries.

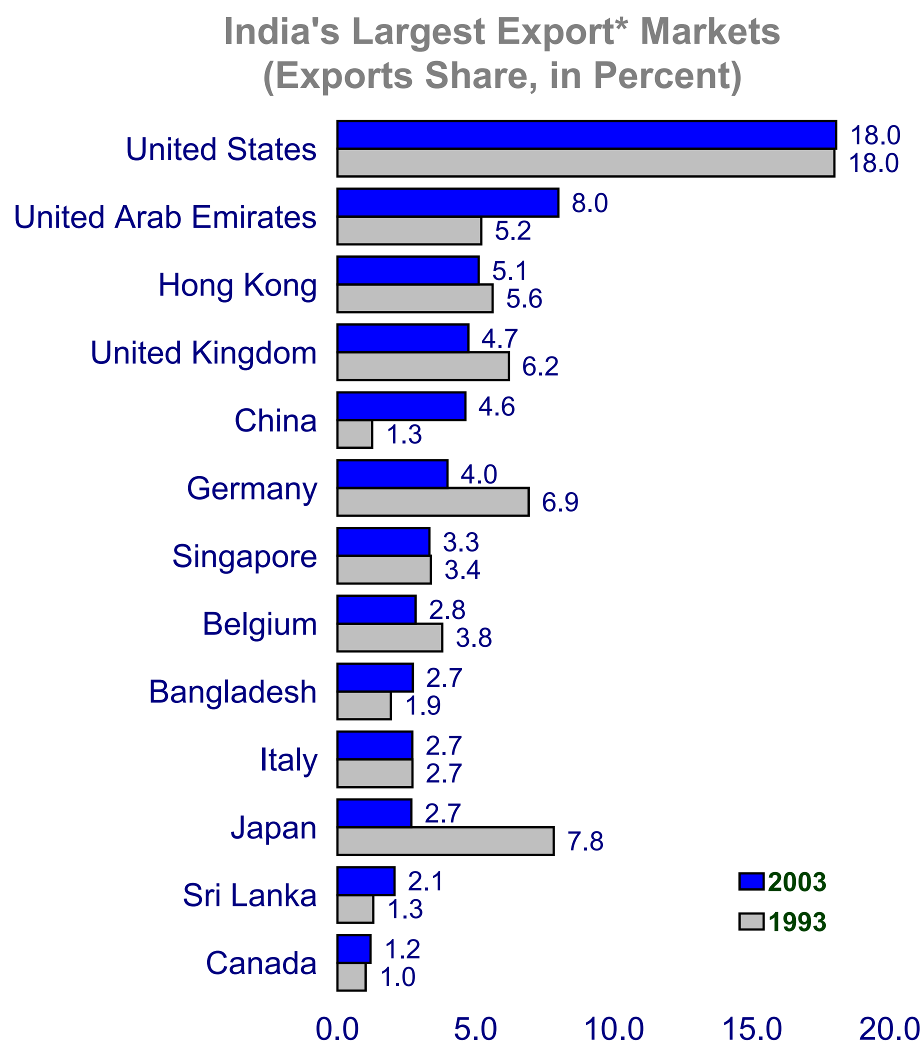
India's Merchandise Imports from the World, 2003 (US$ Billion)



Source: United Nations

The United States is India's largest export market

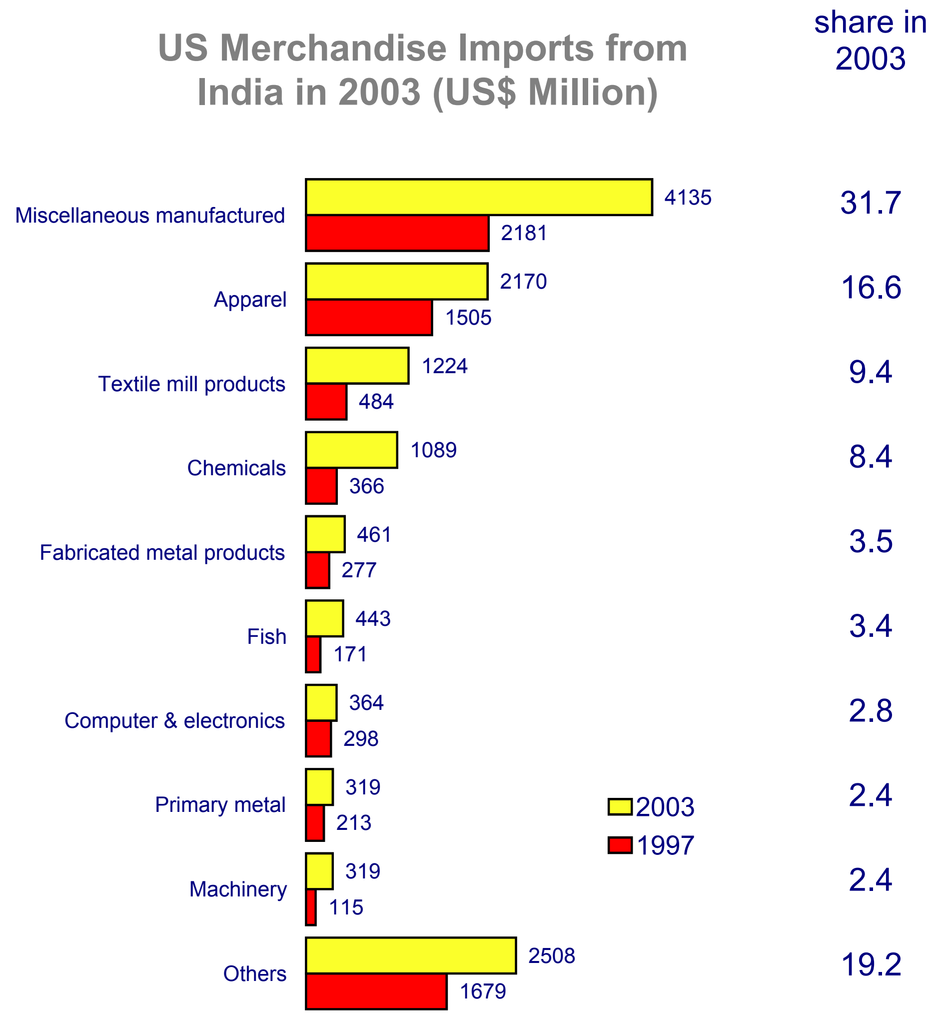
- In 2003, the US accounted for 18 percent of India's total merchandise exports, unchanged since 1993.
- China is becoming an important export market for India -- China's share in India's exports has more than tripled since 1993, reaching 4.6 percent in 2003.
- Canada accounted for only 1.2 percent of India's total merchandise exports in 2003.



* merchandise
Source: United Nations

India exports to the US are mostly labour-intensive manufactured goods

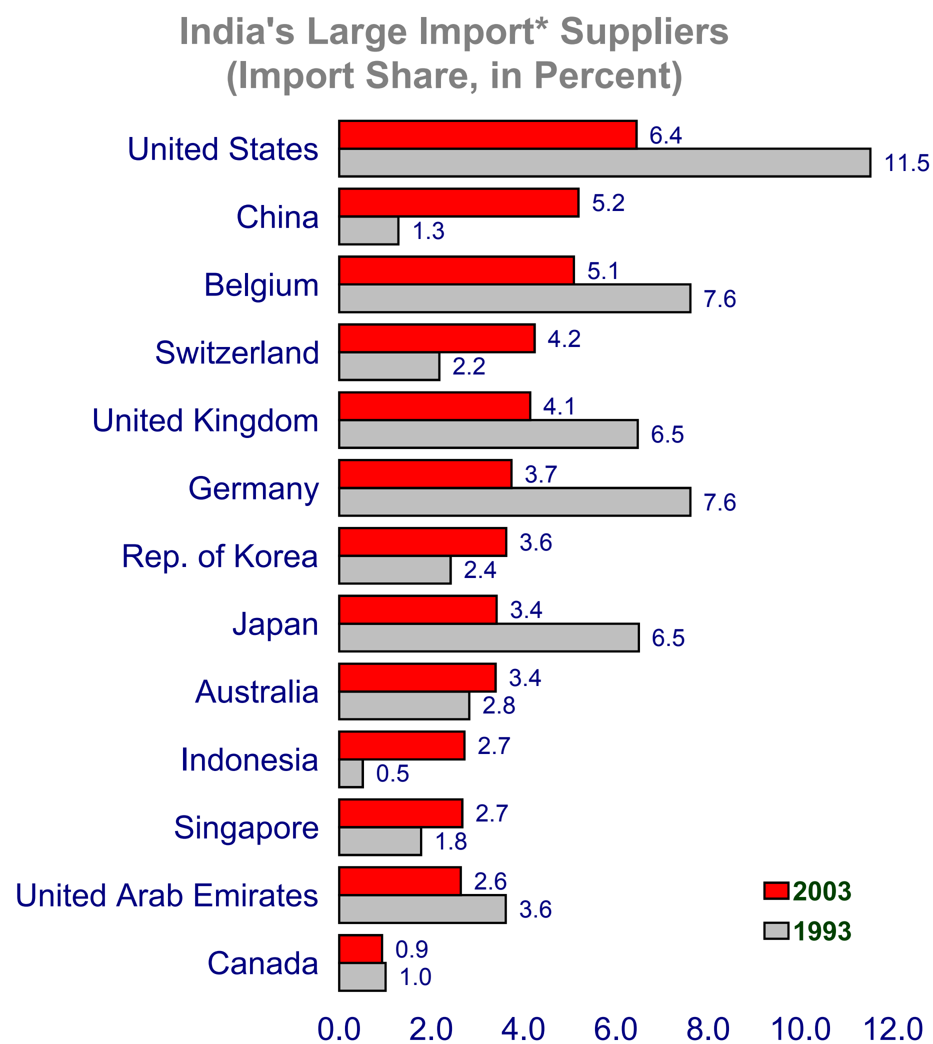
- Clothing and textiles accounted for more than 25 percent of Indian merchandise exports to the US market.
- The remaining major US imports from India include miscellaneous manufactured goods(32%), and chemicals (8.4%).



Source: U.S. International Trade Commission

India imports are diversified across many countries

- In 2003, India's top five sources of imports were the US, China, Belgium, Switzerland, and the UK They accounted for about a quarter of India's total imports.
- In 2003, the US accounted for 6.4 percent of India's total merchandise imports, almost a 50 percent reduction from a decade ago.
- Similarly, developed countries such as Belgium, the UK, Japan, Germany and Canada experienced declines in their market shares in India.
  - Like exports, Canada supplied less than one percent of India's imports in 2003.
- On the other hand, China and the East Asian countries increased their market shares.

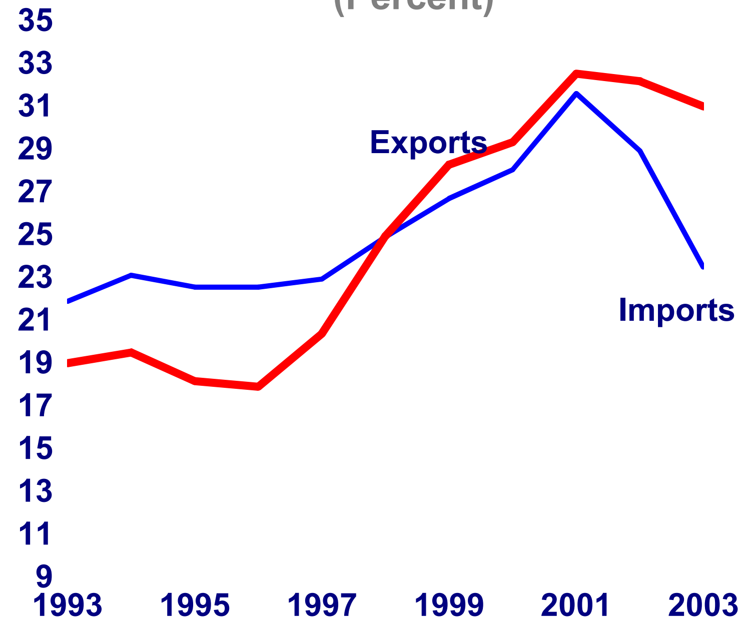


* merchandise
Source: United Nations

The importance of services in India's trade has increased

- Between 1993 and 2003, service exports grew at a solid annual rate of 17.6 percent , compared to 13.5 percent for service imports.
- Services' share of India's total exports increased to 32.4 percent in 2001, and dropped slightly in the next two years to 30.9 percent in 2003. This decline in exports could be attributed to the weakness in the global economy during that period.
- Similarly, the share of service imports increased to over 31.5 percent in 2001, but fell sharply thereafter, to 23.4 percent in 2003.

Share of Services in Total Trade (Percent)



Exports and Imports of Services (US$ Billion)

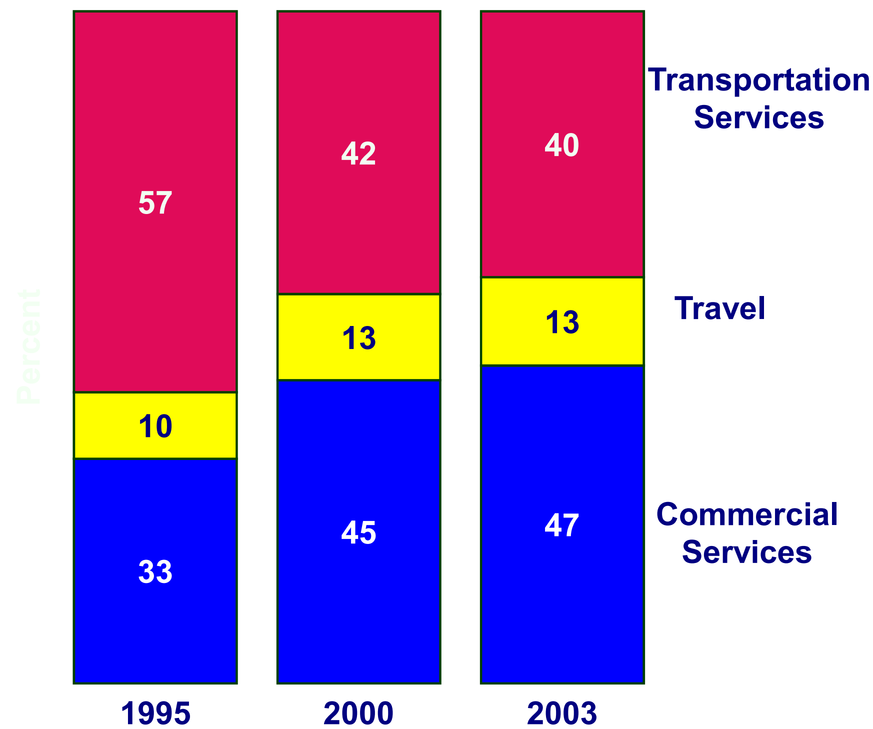
Year	1993.0	1998.0	2000.0	2003.0
Exports	5.0	11.1	17.5	25.0
Imports	6.4	14.2	20.0	21.6

Source: World Trade Organization

Commercial service imports edged out transportation service imports...

- The importance of commercial services in total service imports rose sharply in the last decade, from 33 percent in 1995 to 47 percent in 2003.
- On the other hand, the share of transportation services fell from 57 percent in 1995 to 40 percent in 2003.

Distribution of India's Service Imports by Type (Percent)

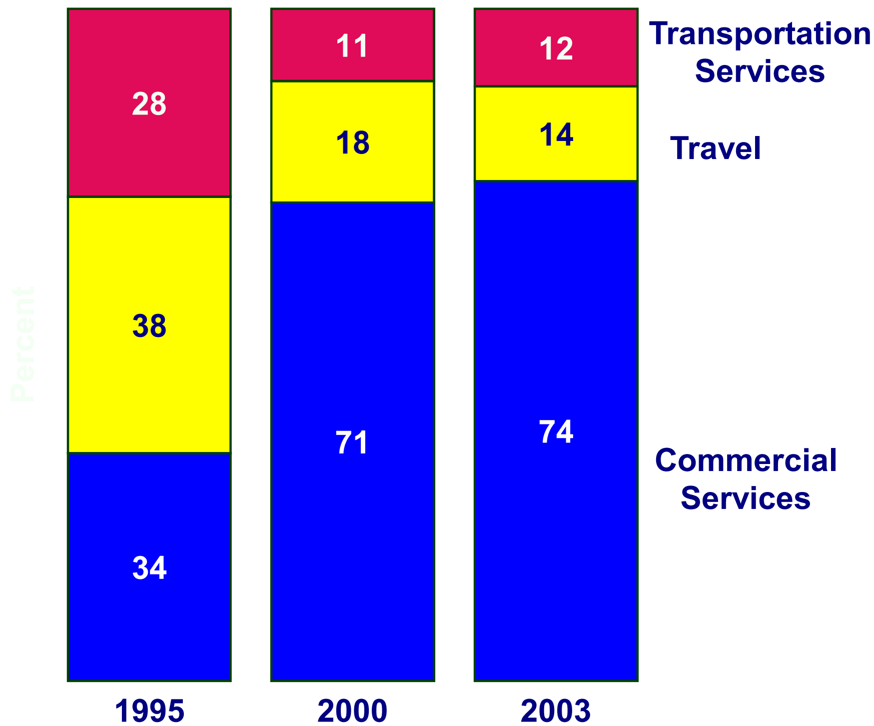


Source: World Trade Organization

... and are also the largest and fastest growing category of service exports

- Between 1995 and 2003, the share of commercial services in total service exports has more than doubled, reaching 74 percent in 2003.
  - India exported about US$18.6 billion of commercial services in 2003, compared to only US$2.3 billion in 1995.
- Meanwhile, the relative importance of all other service categories such as travel and transportation services declined sharply over this period.

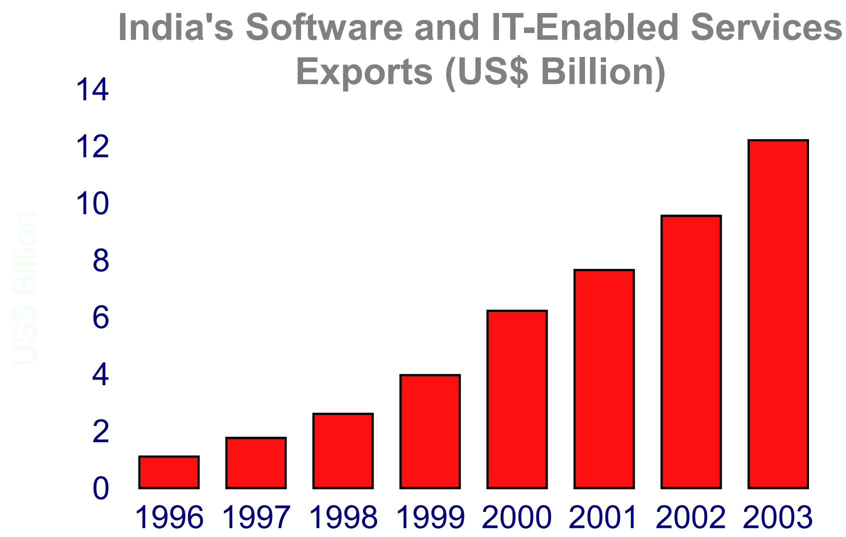
Distribution of India's Service Exports by Type (Percent)

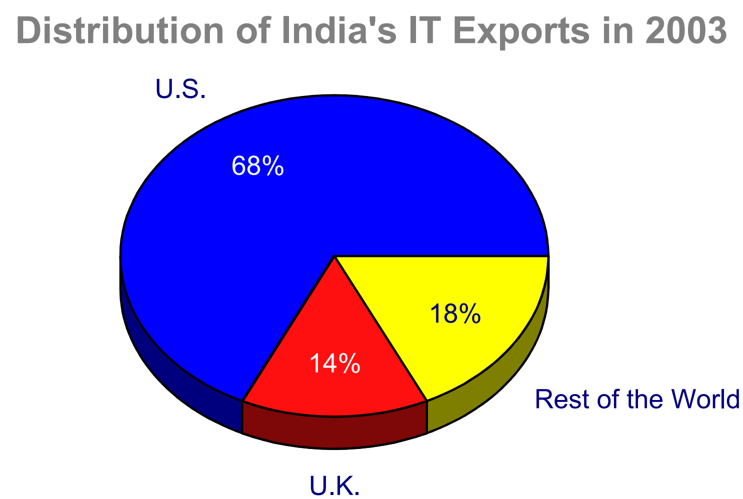


Source: World Trade Organization

Software and IT-enabled services are engines of services export growth

- The value of exports of software and other IT-enabled services jumped from US$1.1 billion in 1996 to US$12.2 billion in 2003.
  - While software exports accounted for the lion's share (70 percent) of these exports, IT-enabled services emerged as an increasingly important component, with exports of US$3.6 billion in 2003.
- In 2003, 68 percent of India's software and service exports went to the United States, another 14 percent to the United Kingdom, and the remaining went mostly to Germany, France, China, Taiwan, and South Korea.





Source: World Investment Report, 2004

A large number of foreign affiliates operate IT-enabled services in India

- The total number of foreign affiliates in IT-enabled services in India reached 102 in 2002.
- IT-enabled services companies from OECD countries are offshoring customer care, finance, human resources, billing and payment services, and general office administration to India.
- Foreign Transnational Corporations (TNCs) played a critical role in the expansion India's exports of back-office services. They have provided capital, knowledge and expertise, new knowledge infrastructure, and access to new markets and fostered the formation of new companies.

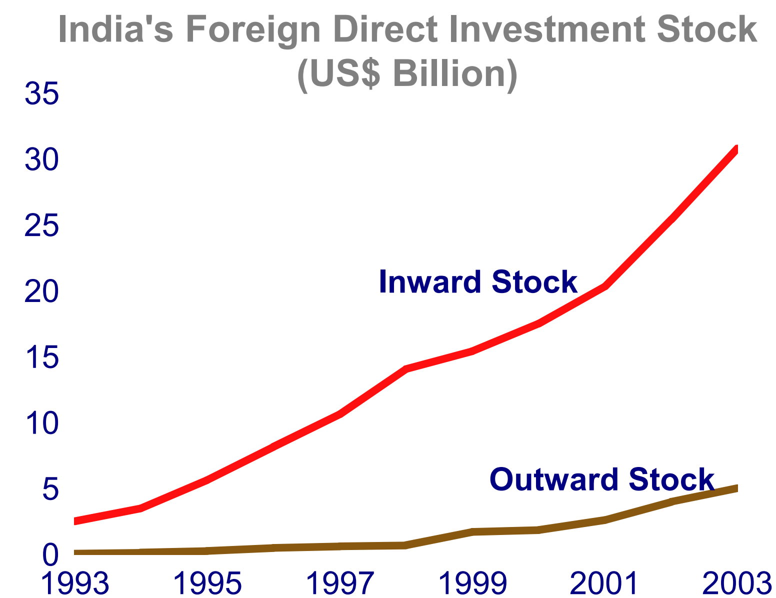
Leading Foreign Affiliates in India's IT-Enabled Service, 2003-2004

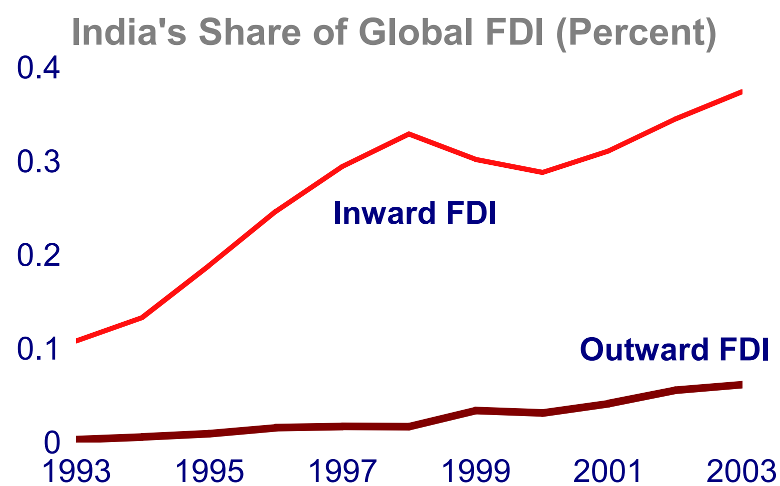
Company	Service lines
Accenture	IT support, HR and procurement management
American Express	Data management, IT services, staffing, payroll services
AOL	Customer support, back-office operations
Dell	Customer support services
EDS	Data entry, payroll, credit cards, and loans
GE Capital	IT helpdesk; server services
HSBC	Account transactions, general accounting, credit card services and processing
JP Morgan Chase	Transaction processing
Standard Chartered	Banking operations, global HR support, IT helpdesk

Source: World Investment Report, 2004

Foreign direct investment in India has risen dramatically since 1990

- In 2003, India's inward stock of FDI increased to US$30.8 billion, from $2.5 billion in 1993, an average annual growth rate of 28 percent.
  - India's share of global FDI stock jumped from 0.1 percent in 1993 to over 0.4 percent in 2003.
- Similarly, India's outward FDI also increased a great deal -- from a mere US$63 million in 1993 to more than US$5 billion in 2003.



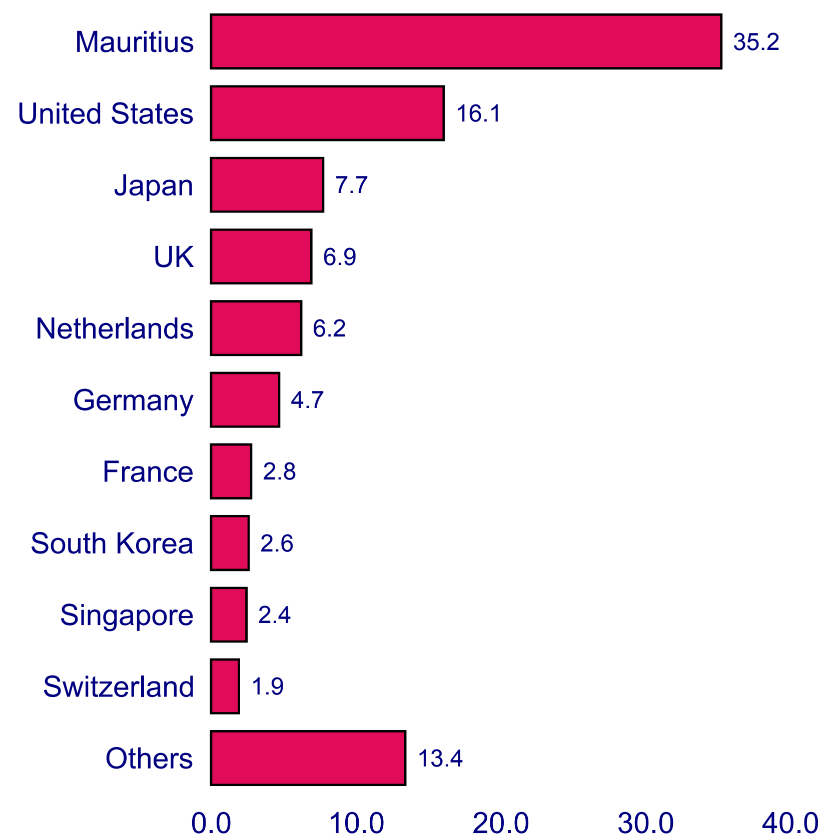


Source: World Investment Report, 2004

After Mauritius, the US is India's second largest source of FDI

- On average, from 1991 to 2003, the United States is India's second largest source of FDI after Mauritius*, accounting for 16 percent of total FDI flows to India.
- At the same time, a considerable amount of FDI inflows into India came from other developed countries such as Japan, the UK, Netherlands, Germany, and France.

Shares of Top Investing Countries in FDI Inflows (1991 to March 2004, in Percent)



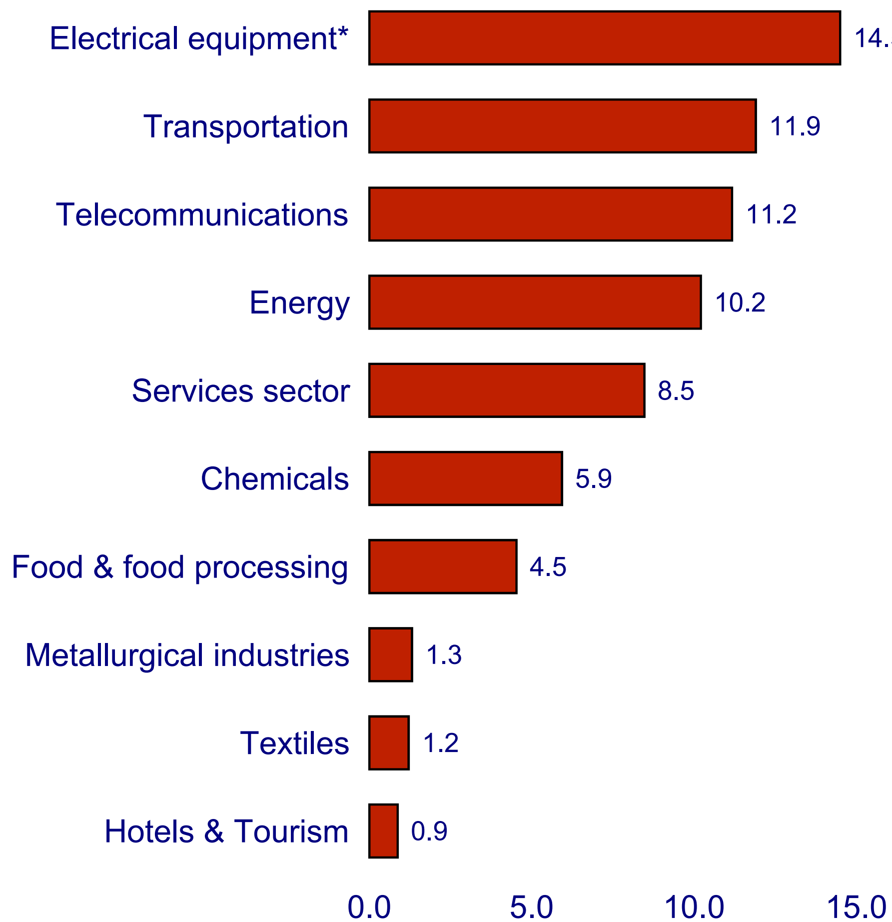
Note: * Many foreign firms invest in India through Mauritius for tax purposes.

Source: Economic Survey of India: 2003-2004

FDI restrictions have been liberalized

- India's regime for Foreign Direct Investment has been considerably simplified and liberalized, and is now open to foreign investment with the exception of specific areas (e.g. railways, print media, retail and agriculture).
- Information and communication technology (ICT) industries (electrical and telecommunication) have attracted a one-quarter of cumulative FDI inflows since 1991.
- FDI inflows into transportation, and business services industries accounted for 12 percent and 8.5 percent, respectively.
- The services sector, on average, accounted for 8.5 percent of FDI inflows between 1991 and 2004.

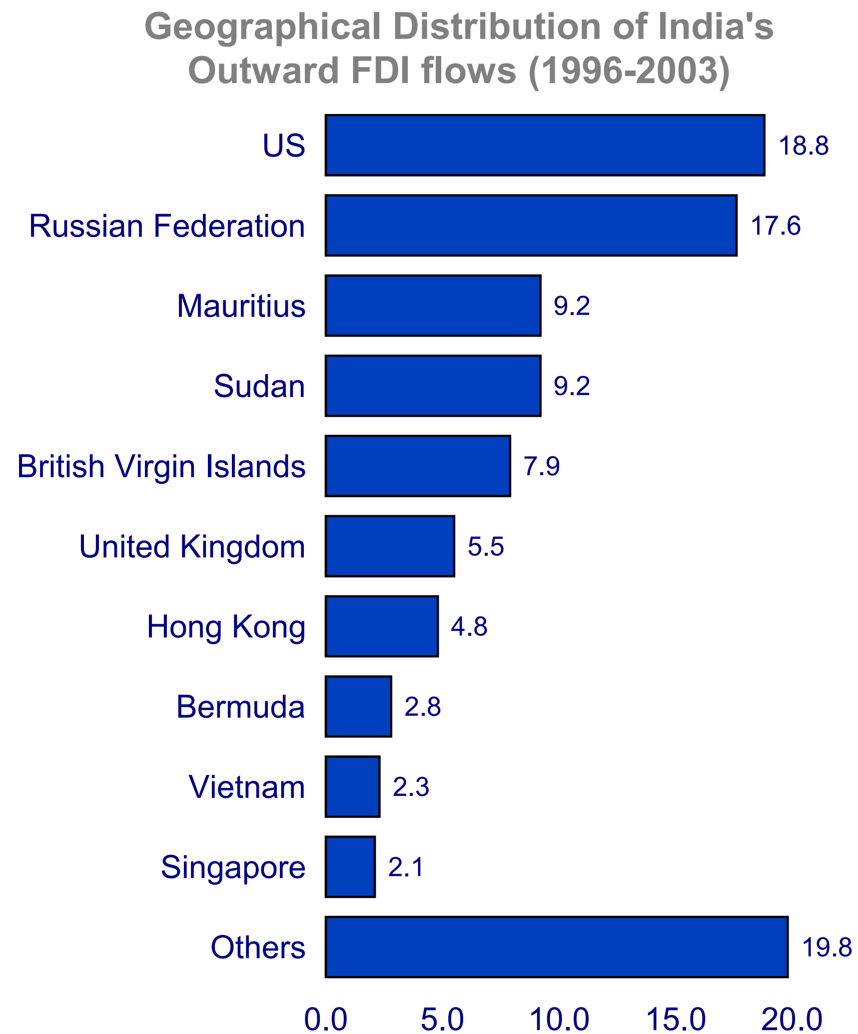
Composition of FDI Inflows into India (1991 to March 2004)



Note: *includes computer software and electronics.
Source: Economic Survey of India: 2003-2004

The US and the Russian Federation are the top recipients of India's outward FDI flows

- The US is the most important destination for India's outward FDI. Its share accounted for 19 percent of India's total outward FDI flows over the past seven years.
- The Russian Federation was next with 18 percent, that due mainly to acquisitions in the oil and gas industries.
- Overall, about half of India's total outward FDI has gone to developing countries, such as Mauritius, Sudan, British Virgin Islands, Hong Kong, Bermuda and Vietnam.



Source: UNCTAD

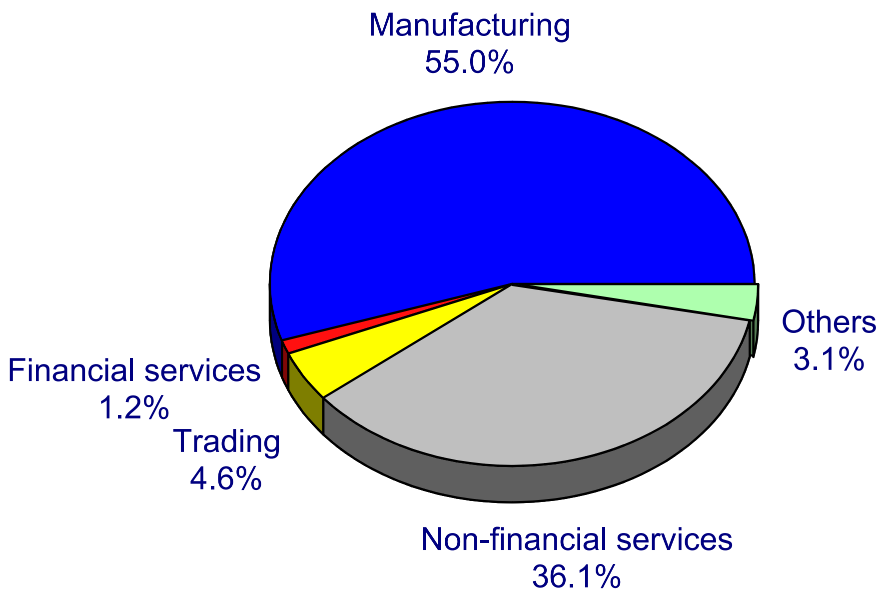
The manufacturing sector accounted for 55 percent of India's outward FDI flows

- The manufacturing sector accounted for nearly 55 percent of India's outward FDI flows between 1999 and 2003; followed by non-financial services which accounted for 36 percent.

- FDI in IT services has begun to grow rapidly. The growing technological capabilities of Indian firms and their rising exports, particularly in IT services and the pharmaceutical sector, are driving India's outward FDI growth.

- Securing natural resources (oil, gas and mining) is also becoming an important driver of India's outward FDI.

Sectoral Distribution of India's Outward FDI flows in 1999 through 2003



Source: UNCTAD

The top 15 Indian software and related service companies have all invested abroad, almost exclusively in developed countries

Rank	Company	Exports (US$, millions)	Foreign affiliates
1	Tata Consultancy Services	963	Canada, China, Singapore, U.S.
2	Infosys Technologies Ltd	750.7	UK, US
3	Wipro Technologies	590.5	US
4	Satyam Computer Services Ltd	424.4	US
5	HCL Technologies Ltd	324.3	Singapore, UK
6	Patni Computer Systems Ltd	193.6	UK, US
7	Mahindra British Telecom Ltd	134.5	China
8	iFlex Solutions	125.7	Indonesia, US
9	HCL Perot Systems Ltd	95.1	Germany, Singapore, UK, US
10	NIIT Ltd	90.3	Germany, Switzerland, US
11	Polaris Software	77.8	Germany, US
12	Birlasoft Ltd	73.4	Belgium, China, Germany, Japan, Netherlands, Singapore
13	Mphasis BFL Ltd	71.1	Japan, Sweden, United Kingdom, US
14	Pentasoft Technologies Ltd	62.8	Germany, United Kingdom
15	Hexaware Technologies Ltd	54.6	Bermuda, Ireland, Netherlands, US

Source: UNCTAD

Canada-India Economic Relations

Canada-India Economic Relations: Summary

- India is Canada's largest trading partner in South Asia. Canada has been actively promoting conditions conducive to increased trade and investment resulting in record exports of C$765 million to India in 2003. However, as India ranks only as Canada's 18th largest export market, there is clearly room for growth.

- Our Prime Minister identified India as one of the new emerging markets with significant opportunities for Canadian trade and investment in areas like information and communication technologies, transportation, biotechnology, insurance and banking.

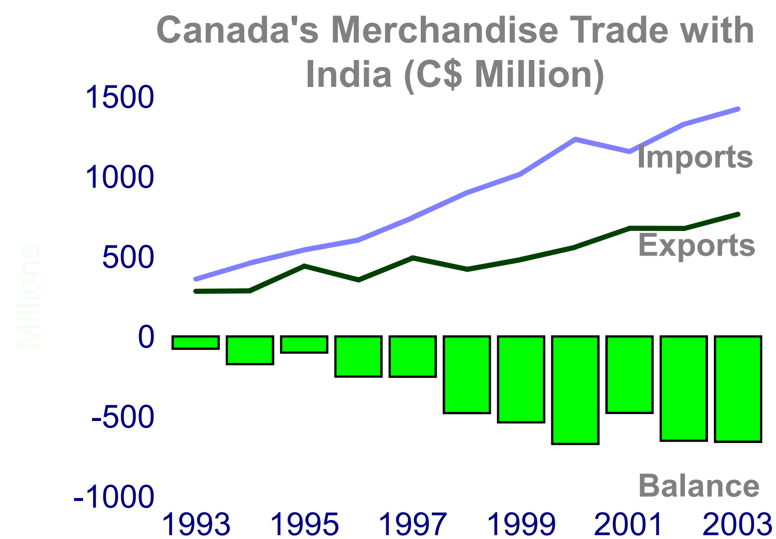
- India's exports to Canada in 2003 were C$1.4 billion. As in previous years, India registered a high trade surplus with Canada.

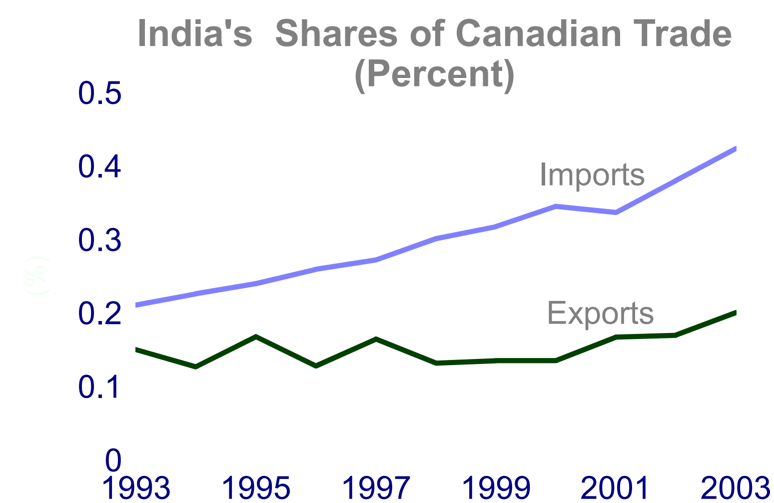
- On the investment side, Canadian FDI stock in India reached C$144 million in 2002, while India's FDI stock in Canada increased from C$18 million in 1999 to C$29 million in 2002.

Canada imports from India twice as much as it exports there

- Between 1993 to 2003, India's exports to Canada increased three-fold, reaching C$1.4 billion in 2003. Canadian exports to India also increased considerably from C$282 million in 1993 to C$764 million in 2003.
    - India has registered a growing trade surplus with Canada, from C$76 million in 1993 to C$659 million in 2003.
- Despite the rising importance of India to Canada, India's share of Canadian trade is still only about 0.3 percent.

Source: Statistics Canada





Almost 70 percent of Canadian merchandise exports to India are resource-based products...

- In 2003, the paper industry accounted for 31 percent of Canada's exports to India. Agriculture, mining and oil accounted for another 34 percent.

- Non-resource-based exports are dominated by computer and electronics, machinery, and transportation equipment.

- Between 1993 and 2003, the shares of paper, agriculture, mining and oil, computer and electronics, and transportation equipment in Canada's exports to India increased considerably.

- On the other hand, primary metals and machinery experienced a small decreases in their shares.

Source: Statistics Canada

...while Canada's merchandise imports from India, by contrast, are mostly labour-intensive products.

- Imports from India have been dominated by textiles and clothing. In 2003, clothing and textile products constituted about 38 percent of Canada's merchandise imports from India.

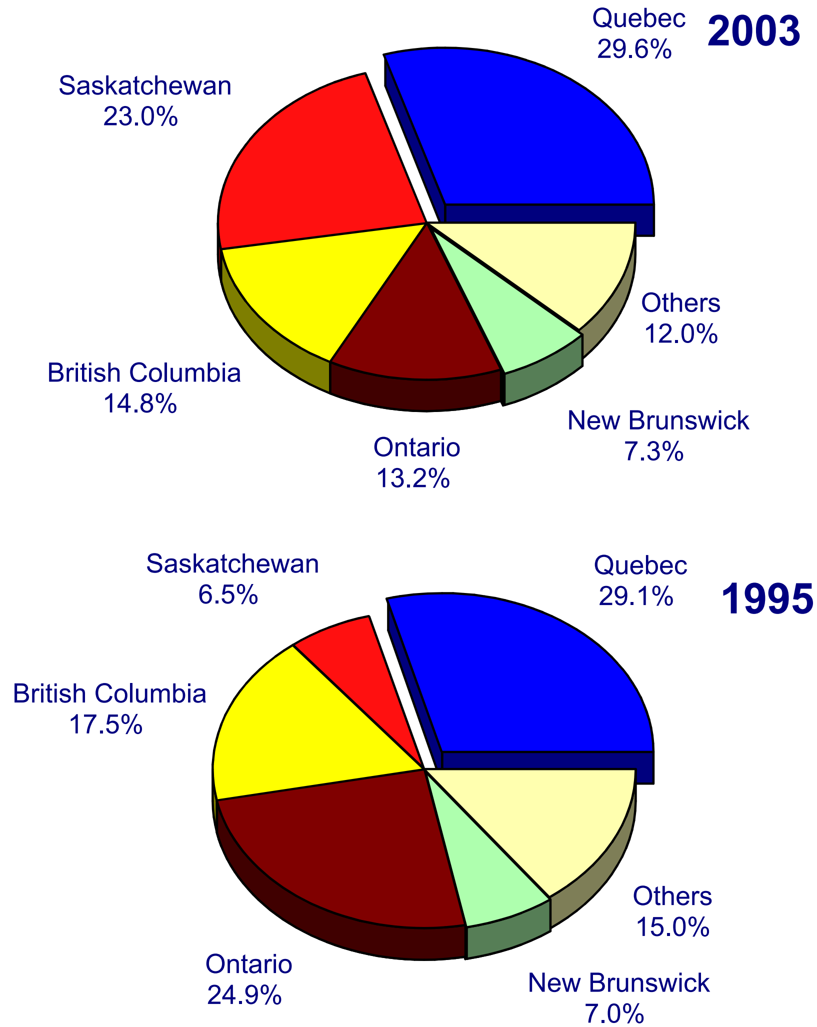
- Canada also imports other goods like food and agricultural products, chemicals and miscellaneous consumer products.

Source: Statistics Canada

Quebec dominates Canada's merchandise exports to India...

- Quebec accounted for the largest portion of Canadian merchandise exports to India, with 30 percent in 2003.
- Saskatchewan was the second largest exporter, its share increasing to 23 percent in 2003 from 6.5 percent in 1995.
- Ontario accounted for only 13 percent of Canada's merchandise exports to India, down nearly 12 percentage points from its share in 1995.
- British Columbia's export share declined slightly to 15 percent from 17 percent in 1995.
- New Brunswick's share of merchandise exports to India remained the same at 7 percent.

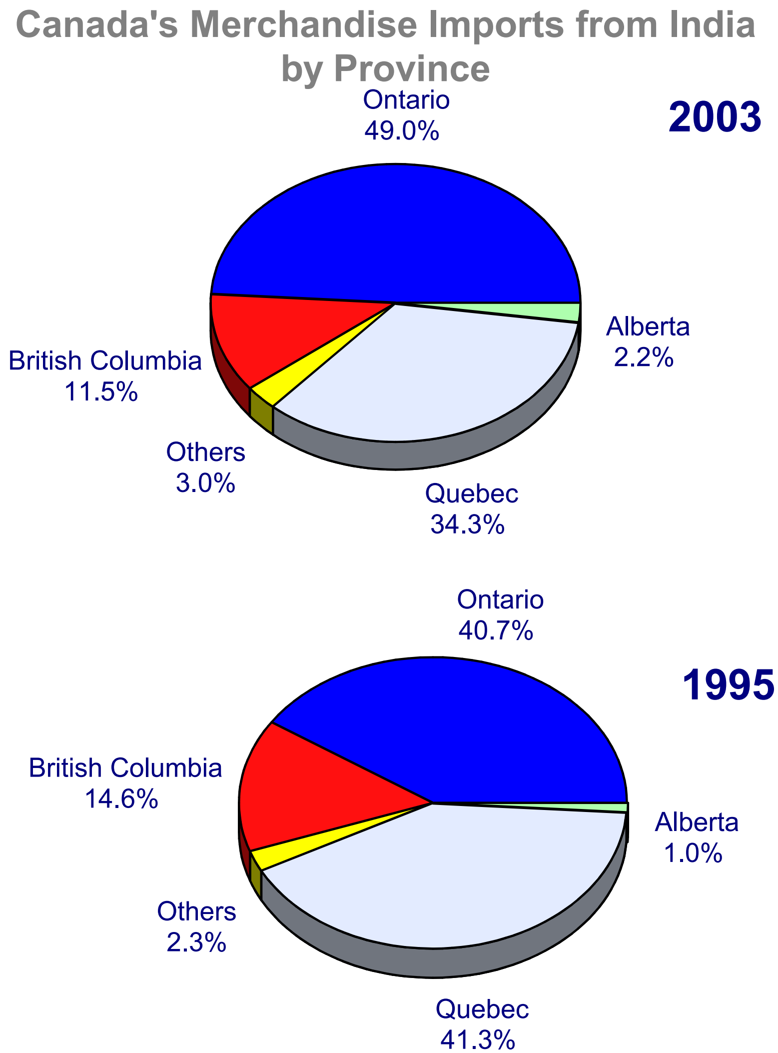
Canada's Merchandise Exports to India by Province



Source: Statistics Canada

…while Ontario accounts for half of Canada's merchandise imports from India

- In 2003, 49 percent of Canada's merchandise imports from India were destined for Ontario, an increase of 8 percentage points since 1995.
- Quebec's share in Canada's merchandise imports from India declined from 41 percent in 1995 to 34 percent in 2003.
- British Columbia's share fell from 15 percent in 1995 to 12 percent in 2003.
- The other provinces' shares have remained relatively small and stable.



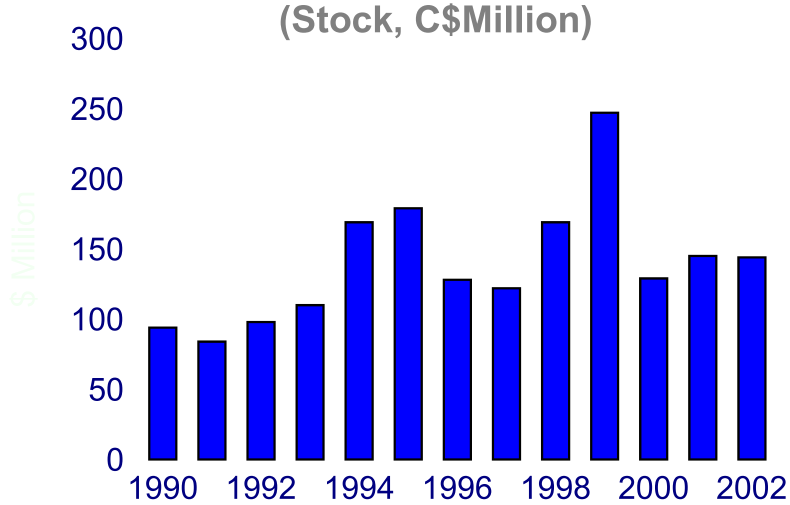
Source: Statistics Canada

Industry Canada Industrie Canada

The FDI linkages between Canada and India are relatively weak

- Canada's foreign investment in India has been relatively small. Canada's stock of FDI in India amounted to less than $150 million in 2002.
- Canada's interests are major in five areas: power & energy, equipment & services; oil and gas; environmental products & services; telecommunications & information technology; and the financial and insurance.
- India's FDI in Canada by contrast increased sharply from $18 million in 1999 to $29 million in 2002.

Canada's Direct Investment in India (Stock, C$Million)

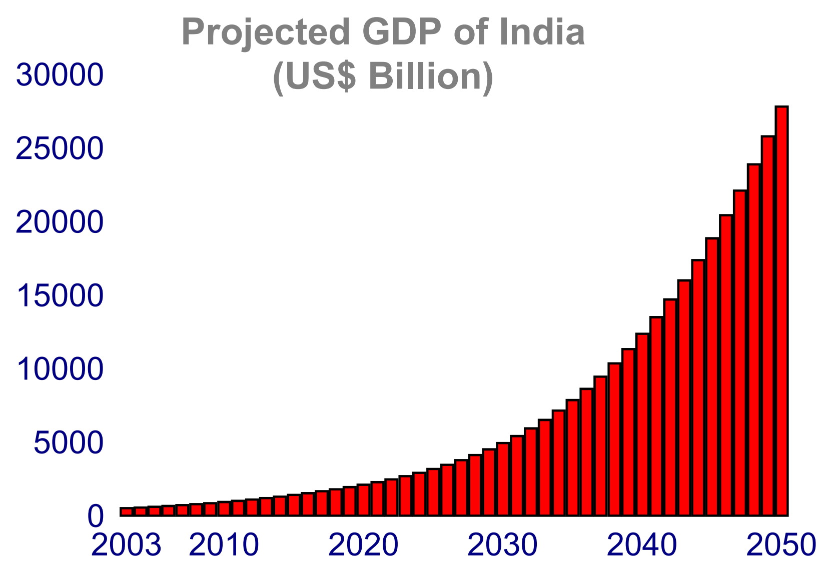


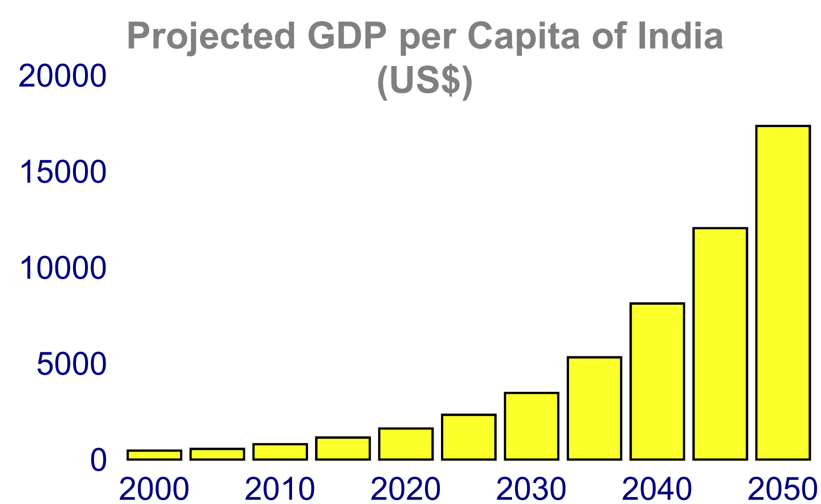
Source: Statistics Canada

India Awakening:
Future Opportunities and Challenges to Canada

By 2020, India's GDP per capita will likely triple

- According to projections by Goldman Sachs, India's GDP could reach US$2.1 trillion by 2020, $7.8 trillion by 2035, and $29 trillion by 2050.
  - India's GDP would surpass that of Italy and France by 2020, Germany by 2025 and Japan by 2035.
  - GDP per capita would also triple by 2020; even by 2025, India's average real income would be only about 25 percent of the Canadian level.

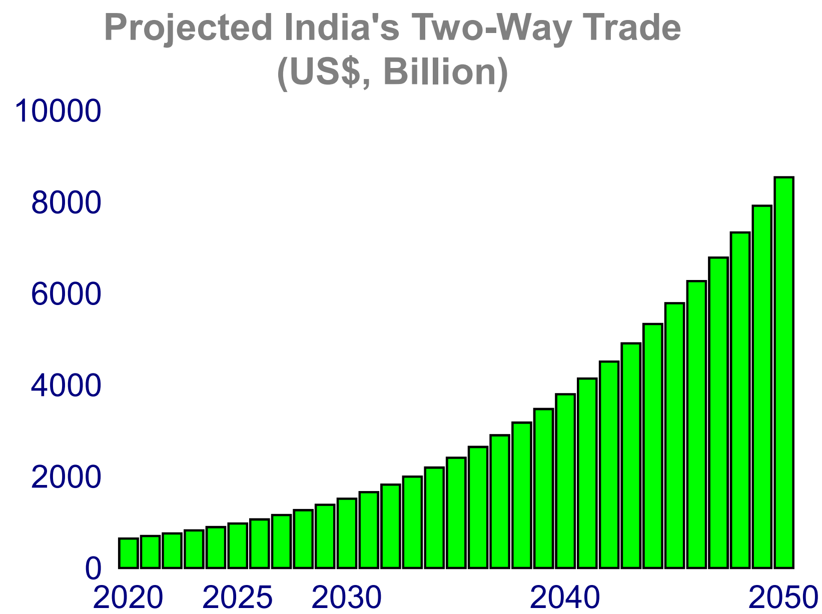




Source: Dreaming with BRICS: The Path to 2050, Goldman Sachs

...and two-way trade could potentially reach US$646 billion

- Using the same projections of GDP by Goldman Sachs, and even at the current level of India's trade-to-GDP ratio of 30.7 percent for the next 50 years, the following scenarios might emerge:
  - By 2020, India's two-way trade would reach US$646 billion;
  - By 2030, India's two-way trade would be around US$1.5 trillion; and
  - By 2050, India's two-way trade might potentially reach US$8.5 trillion.



Expansion of the economy provides opportunity for Canadian businesses...

A place to do business

A place to tap large reservoir of skilled-knowledge workers

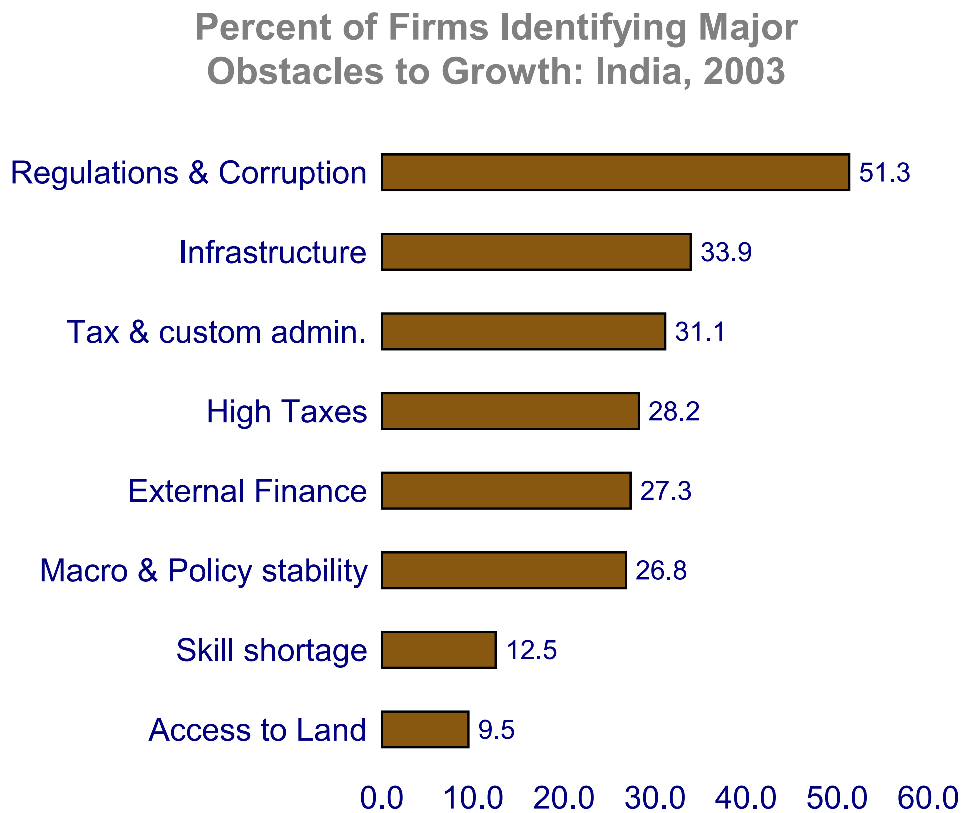
A place to invest

A place to market Canadian expertise and products

A place to seek raw materials

...however, significant challenges remain...

- According to a World Bank survey, over 51 percent of the businesses surveyed identified regulations and corruption are major problems in India.
- Another 34 percent of those surveyed identified lack of infrastructure as an impediment to growth.
- High taxes and high government debt and deficits remained serious concerns to businesses as well.



Source: World Bank

...and the cost of doing business is relatively large in India

A comparison of business environments in 2004

Category	Indicators	India	China	OECD Ave
Starting a business	Number of procedures	11	12	6
	Time (days)	89	41	25
	Cost (% of income per capita)	49.5	14.5	8
Hiring and Firing Workers[1]	Difficulty of Hiring Index	33	11	26.2
	Rigidity of Hours Index	20	40	50
	Difficulty of Firing Index	90	40	26.8
	Rigidity of Employment Index	48	30	34.4
	Firing costs (weeks of wages)	79	90	40.4
Registering Property	Number of procedures	6	3	4
	Time (days)	67	32	34
Getting Credit	Legal Rights Index (range 1 to 10)	4	2	6.5
	Credit Information Index (1 to 6)	0	3	5
Protecting Investors[2]	Disclosure Index	4	4	5.6
Enforcing Contracts	Number of procedures	40	25	19
	Time (days)	425	241	229
Closing a Business	Time (years)	10	2.4	1.7
	Recovery rate (cents on the dollar)	12.5	35.2	72.1

[1]Each index assigns values between 0 and 100, with higher values representing more rigid regulations.

[2]The degree to which investors are protected through disclosure of ownership and financial information. The index varies between 0 and 7, with higher values indicating more disclosure.

Source: World Bank

Conclusions

India's emergence as a major player will be beneficial to Canada

- India is still a developing country with GDP of only US$1,000 per capita, but with an estimated GDP of US$599 billion in 2003. Its economy is increasingly shifting toward services, with the service sector an engine of economic growth.

- India has the second largest population in the world, and a large reservoir of English-speaking, skilled knowledge workers. However, poverty is perhaps India's greatest challenge.

- For India to embark on an 8 to 10 percent annual GDP growth path, it needs to substantially:

  - liberalize its trade and investment regimes;
  - accelerate privatization of state firms;
  - cut red tape and crack down on corruption; and
  - boost spending on physical and human infrastructure.

Canadian firms need to focus on new and emerging opportunities in India

- India offers significant opportunities for Canadian trade and investment in areas of demonstrated Canadian expertise like resource and resource-based industries, information technology, transportation, biotechnology, and the insurance and banking sectors.
- The growing demand for infrastructure and other capital resources in India will increase investment opportunities for Canadian businesses.
- India's large pool of talented workers can help Canadian businesses to offshore some of their operations and move up the value chain.

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