

PROSPECTS FOR ENHANCING INDIA-CANADA ECONOMIC RELATIONS: TRENDS AND POTENTIAL



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Prospects for Enhancing India-Canada Economic Relations: Trends and Potential

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Executive Summary

Canada is the 8th largest economy globally, with a GDP of US\$ 2.2 trillion at current prices in 2022, and a population of around 38 million people, which is composed of major ethnic groups ranging from English to Europeans to Indians. The GDP per capita in current prices in 2022 is estimated at US\$ 56,794, which makes it a high-income country. As with other developed nations, Canada's economy is dominated by services sector (72.4% share in its GDP), followed by industrial sector (25.7%) and agricultural sector (1.9%).

International trade has been a key part of the Canadian economy since the time of early western settlers in the country. Total merchandise trade of Canada has increased from US\$ 901 billion in 2011 to an estimated US\$ 1.2 trillion in 2022. Merchandise exports are estimated to have surged to an all-time high of US\$ 596.9 billion in 2022 from US\$ 503.9 billion in 2021 and US\$ 450.4 billion in 2011, on account of higher commodity exports as global commodity prices soared on the back of post-pandemic recovery, and heightened global geopolitical uncertainties. Canada's imports have also increased from US\$ 450.6 billion in 2011 to US\$ 567.4 billion in 2022. Higher prices accounted for a significant part of the growth in imports in 2022.

Since 2009, Canada has been running a marginal trade deficit, with deficit peaking at US\$ 14.4 billion in 2020. With the resurgence in exports, Canada posted a trade surplus of US\$ 14.2 billion in 2021, which widened further to an estimated US\$ 29.6 billion in 2022. The sharp rise in the annual trade surplus was primarily on account of higher exports which were mostly driven by rising commodity prices.

The US was the major export destination for Canada, with 77% of Canada's exports directed to the country in 2022. Other major destinations for Canada's exports in 2022 were China (3.7% of total exports in 2022), followed by UK (2.3%), Japan (2.3%), Mexico (1.2%) and South Korea (1.1%).

Canada's imports from most of the major trading partners registered a double-digit growth in 2022. As in the case of exports, the US was largest source for Canada's imports, with a share of 49.1% in Canada's total merchandise imports in 2022. Other major import sources for Canada in 2022 were China (13.5% share in imports in 2022), followed by Mexico (5.5%), Germany (3%), Japan (2.3%), and South Korea (1.8%).

During 2022, mineral fuels and oils were the major exported items from Canada, with a share of 30.2% in total exports. Other major export categories in 2022 were vehicles other than railway and tramway (8.4%), machinery and mechanical appliances (6.3%), natural or cultured pearls (4%), and wood and its articles (3.3%).

In 2022, the major import product category of Canada was that of machinery and mechanical appliances, with a share of 14.1% in total imports in 2022. This was followed by products such as vehicles other than railway or tramway (13.9%), electrical machinery and equipment (9.3%), mineral fuels and oils (7.9%), and plastics and its articles (4%).

Canada's Services Trade

Services remain an important economic activity in Canada, and the country is a significant service exporter globally. However, Canada's share in global services exports has declined from 2% in 2010 over the years and remained stagnant at around 1.7%-1.8% since 2015. During 2021, Canada was the 17th largest global services exporter, accounting for 1.7% share in global services exports. It was the 16th largest importer of services during 2021, accounting for a share of 1.9% in global services imports as compared to a share of 2.6% in 2010.

The total trade in services has increased from US\$ 178.9 billion in 2010 to US\$ 208.7 billion in 2021, but remained lower compared to the pre-pandemic levels. Canada's services exports and imports both peaked in 2019 at US\$ 112.8 billion and US\$ 126.3 billion, respectively. Canada has been a net services importer with the deficit declining over the years.

Canada's services exports declined across all sectors registering a contraction of 16.7% during 2020, with the exceptions being financial services, charges for intellectual property rights, professional and management consulting services, and technical, trade-related business services. In 2021, services exports have undergone a recovery across all sectors, registering an average growth of 10.6% over 2020. Professional, consultancy and management services; travel; telecommunication; computer and information services; transport; financial services and technical, trade-related and other business services were the major sectors accounting for the largest share in Canada's services exports.

During 2020, Canada's overall services imports declined by 22.6% as compared to 2019 mainly due to fall in travel and transport services. Overall services imports by Canada recovered in 2021 by 7%. During 2021, transport; professional and management consulting services; charges for use of intellectual property; financial services; and technical, trade-related and other business services were the major services imported by Canada. However, travel services imports have further deteriorated compared to 2020.

The largest export destination for Canada's services exports was the US, accounting for more than half of the total services exports by Canada in 2020, followed by the European Union (EU) which accounted for over 10% of total services exports of Canada. The other major destinations for Canada's services exports include UK, China, India and France.

Professional and management consulting services; travel; transport; telecommunication, computer and information services; and technical, trade-related and other business services were the major services exports from Canada to the US, accounting for around 70% of total services exports to the country.

The US was also the largest import source for Canada's services imports, accounting for 55% of total services imports in 2020. The EU as a bloc supplied over 10% of total services imports by Canada in 2020. The other major import sources of Canada were UK, Hong Kong, Ireland, Germany and Japan. Travel; professional and

management consulting services; charges for use of intellectual property; transport; financial services; and technical, trade-related and other business services were the major services imports of Canada from the US, together accounting for over 86% of total services imports from the country.

Canada's Foreign Direct Investment

According to the World Investment Report 2022 by the UNCTAD, Canada was the 5th largest FDI recipient during 2021 as compared to being the 12th largest recipient in 2020. FDI in Canada increased by 157% to US\$ 60 billion, 30% above the 10-year average before the pandemic. Reinvested earnings reached a record US\$ 29 billion, from a meagre US\$ 3 billion in 2020. Equity flows rose by 50% to US\$ 25 billion, driven by a doubling of cross-border M&A sales to US\$ 29 billion. Sales, predominantly to multinational enterprises (MNEs) from the US, increased in extractive industries (US\$ 7 billion) and services (US\$ 14.5 billion), mainly in information and communication (US\$ 7 billion) and finance and insurance (US\$ 4 billion) sectors.

In terms of FDI outflows, Canada was the 6th largest investor in 2021, same as in 2020. Outward investment from Canada increased from US\$ 47 billion in 2020 to US\$ 90 billion in 2021. Among the G7 economies, Canada was the third largest investor during 2021, after Japan and the US. Canada does not restrict domestic investors from investing abroad except when recipient countries or businesses are subject to the government's sanctions.

Canada's Trade Agreements

Canada has over 15 trade agreements in place including- Canada-United States-Mexico Agreement (CUSMA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada and the European Free Trade Association (EFTA) FTA, etc., among others.

India and Canada launched a Comprehensive Economic Partnership Agreement (CEPA) negotiations in November 2010. The CEPA is envisaged to be a wide-ranging economic and trade agreement, covering trade in goods and services and addressing non-tariff barriers.

India-Canada Merchandise Trade

India-Canada bilateral ties are underpinned by shared values of democracy, pluralism, expanding economic engagement, regular high-level interactions and long-standing people-to-people ties. Bilateral merchandise trade between the countries, which stood at US\$ 3.3 billion in 2010, grew to US\$ 5.9 billion in 2015 and peaked at US\$ 7.2 billion in 2017. In 2017, imports from Canada were all time high at US\$ 4.8 billion (on account of increased imports of raw diamonds) and trade deficit was also biggest at US\$ 2.5 billion. In 2020, total trade came down to US\$ 5.6 billion from US\$ 6.8 billion in the previous year, on account of COVID-19 induced global economic disruptions. India's exports were, however, more resilient compared to imports from Canada.

Trade between both countries witnessed further momentum in 2021, with total trade reaching US\$ 6.3 billion in 2021, with exports of US\$ 3.6 billion and imports of US\$ 2.7 billion. India's merchandise trade surplus with Canada reached an all-time high of US\$ 841.6 million in 2021. In 2021, India was Canada's 14th largest export destination, 13th largest import source, and 13th largest trading partner overall.

India-Canada Services Trade

Canada's total services trade with India increased from US\$ 1.1 billion in 2010 to US\$ 5.5 billion in 2020 (as per latest data available). Canada maintained a services trade deficit with India initially, which later changed to a surplus since 2014, attributed to faster rate of increase in services exports from Canada as compared to services imports from India.

India was the 5th largest destination for Canada's services exports during 2020. The services exports of Canada to India have increased steadily over the last decade, from US\$ 0.5 billion in 2010 to US\$ 3.7 billion in 2020. Canada's services exports to India peaked in 2019.

With a share of 88.5%, travel services accounted for the largest share in Canada's total services exports to India in 2020 (latest data available). Other sectors which accounted for a major share of Canada's exports to India included other business services (4.2%) and transport (2.3%), among others.

In 2020, India was the 9th largest services supplier to Canada, with a share of 1.8% in Canada's total services imports. During 2010-2020, the total services imports from India have increased from US\$ 0.6 billion to US\$ 1.8 billion.

Canada's services imports from India consist mainly of commercial services with negligible share of government services. Telecommunication, computer and information services accounted for 41.3% of services imports from India (92.4% attributed to computer services), followed by other business services (38.1%) and travel (10.7%). In disaggregated terms, technical, trade-related and other business services accounted for 42.9% of the business services imports from India, followed by professional and management consulting services (29.2%) and research and development services (22.7%). Technical, trade-related and other business services cover architectural, engineering, scientific and other technical services, waste treatment and de-pollution, agricultural and mining services, operating leasing services, trade-related services and other business services.

India-Canada Bilateral Investments

According to Financial Times' fDi Markets database, during 2010-2021, total capital investment of India in Canada stood at a cumulative amount of US\$ 5.8 billion, in 103 projects by 66 Indian companies, and creating 16,989 jobs in Canada. In terms of capital investments, the largest share has been in software and IT services, followed by chemicals and metals, among others.

During 2010-2021, envisaged investment from Canada to India stood at a cumulative amount of US\$ 3.2 billion in 121 projects by 88 Canadian companies, resulting in 25,314 jobs in India. In terms of investments, the larger share has been in software and IT services sector, followed by metals, renewable energy and financial services, among others.

Opportunities for Enhancing India's Trade Relations with Canada

The study analyses opportunities for enhancing India's trade relations with Canada by using the revealed comparative advantage method. Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of

exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world trade scenario. It provides useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Further, in order to demonstrate the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency, Normalized Revealed Comparative Advantage (NRCA) index is calculated. NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1 means that the product has no export comparative advantage, while a value above 0 and less than 1 indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to Canada's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing export capabilities to Canada.

To identify the products based on their export competitiveness in Canada, a four-quadrant analysis has been prepared (**Table 1**). The four quadrants imply the following:

Product Champions (Product Import AAGR of Canada > World Import AAGR to Canada; Positive NRCA):

These products have the maximum potential, as Canada's import demand for these products has shown robust AAGR over the period 2015-21, while India's exports of these products to Canada are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to Canada and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in Canada.

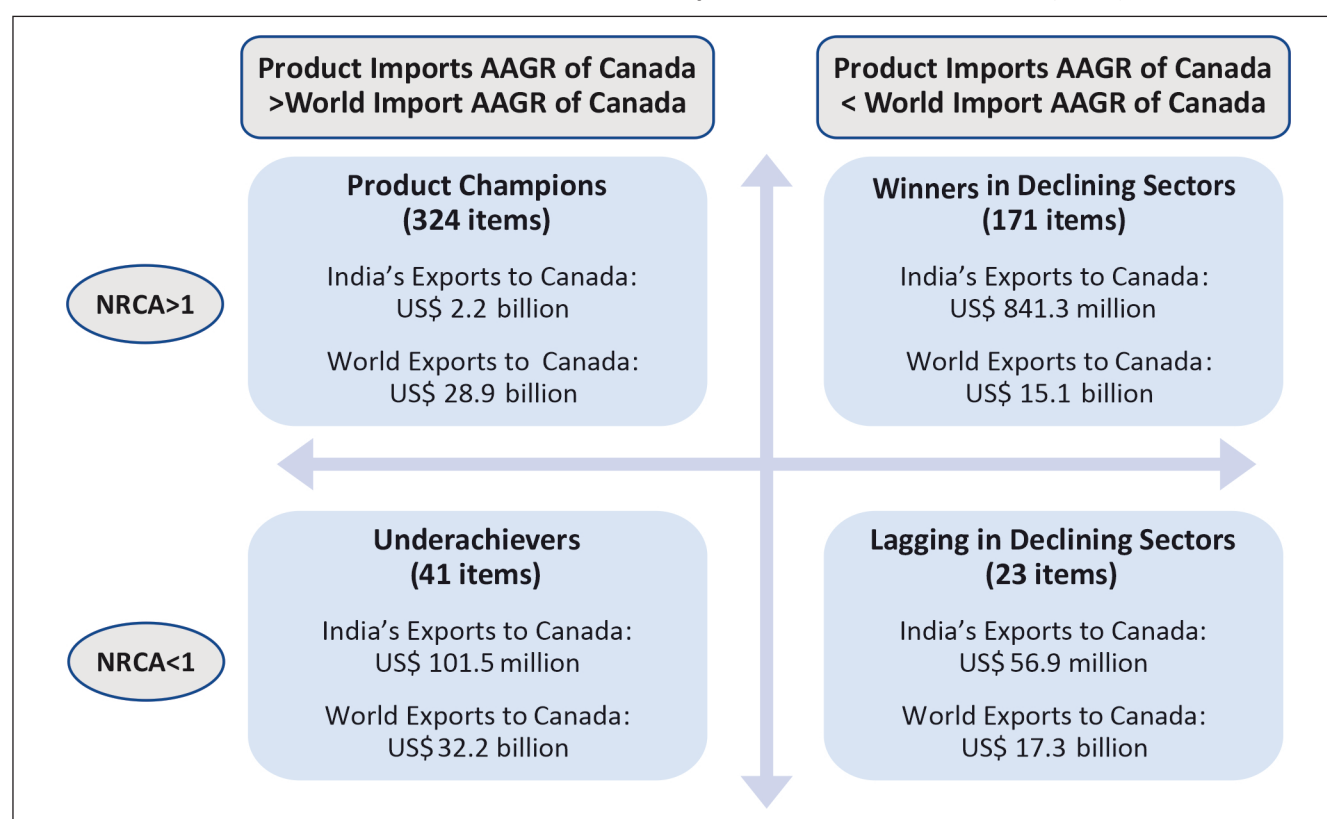
Underachievers (Product Import AAGR of Canada > World Import AAGR of Canada; Negative NRCA):

India does not have competitiveness in these products although their import demand has grown in Canada significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to Canada and further expand its bilateral ties with the country.

Winners in Declining Sectors (Product Import AAGR of Canada < World Import AAGR of Canada; Positive NRCA): India has competitiveness in these products, even though Canada's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of Canada < World Import AAGR of Canada; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in Canada during the period under consideration.

Table 1: Identification of Potential Exports from India to Canada (2021)



Source: ITC Trade Map and India Exim Bank Analysis

India's Tariff on Imports from Canada

There are 160 tariff lines (at 6-digit HS code level) that have effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 309.4 million in 2021. This corresponds to 11.4% of the total imports from Canada in 2021. Between tariff levels of 0.1% and 10%, the total imports amounted to US\$ 1.6 billion, corresponding to 60.2% of imports in 2021. Cumulatively, 90% of Indian imports from Canada faced an effectively applied tariff rate of less than 50% when exported to India. Products which faced highest effectively applied tariff imposed by India that are above 50% are in Chapters – HS-04, HS-07, HS-08, HS-09, HS-17, HS-21, HS-22, HS-87 and HS-95 (mostly agriculture products, beverage and auto and auto components).

Canada's Tariff on Imports from India

There are 2873 tariff lines (at 6-digit HS code level) which amounted to US\$ 2.9 billion imports in 2021, on which Canada imposes the effectively applied tariff of 0%. These products constitute 61.8% of Canada's imports from India in 2021. There are 1595 tariff lines amounting to US\$ 1.2 billion in the 0.1%-10% effectively applied tariff level category, which corresponded to over 24% of Canada's imports from India in 2021. So cumulatively, 86% of Canada's imports from India faced effectively applied tariff of less than 10% when

exported to Canada. 432 tariff lines faced effectively applied tariff ranging between 10.1%-20%, with the total import share of 13% in 2021.

Tariff Liberalization Analysis through Partial Equilibrium Model

Tariff liberalization remains an important aspect of any trade agreement. The study analyses upon the cases where the tariffs/ import duties could be reduced by India and Canada on each other's products to a certain level which could subsequently lead to rise in the level of bilateral trade between the countries.

An FTA/PTA is a change in the trade policy and thus, its impact has to be comprehended and studied in detail. The current analysis used the Single Market Partial Equilibrium Simulation Tool under the WITS-SMART Simulations Framework to understand the trade effect of an FTA between India and Canada.

Results of the Partial Equilibrium Analysis

Simulation: India cuts 85% Tariff on Imports from Canada; Canada cuts 95% Tariff on Imports from India

Case 1: Tariff Liberalisation by India on Imports from Canada - India cuts 85% of Tariff on all Products Imported from Canada

According to the SMART framework analysis, an 85% tariff cut by India on its imports from Canada would lead to a total trade effect of US\$ 373.5 million, implying that under preferential agreement, India's imports from Canada will increase by US\$ 373.5 million. In the total trade effect, total trade creation will constitute US\$ 237.9 million, which is the additional import due to fall in the price level subsequent to the fall in the tariffs. Total trade diversion will be US\$ 135.6 million, which is the increased trade from Canada away from the other partners due to the fall in the relative price levels post tariff liberalisation. Price effect is zero since the model has assumed infinite price elasticity. Similarly, in case of tariff liberalisation by India on Canada's exports, the overall change in the revenue for India will be a loss of US\$ 201.8 million.

Moreover, at 6-digit HS code, post tariff liberalisation, it is derived that 21.3% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by vegetables, leguminous; lentils, shelled, whether or not skinned or split, dried (HS-071340), followed by fertilizers, mineral or chemical; potassic, potassium chloride (HS-310420; 7.3%); containers (including containers for transport of fluids) specially designed and equipped for carriage by one or more modes of transport (HS-860900; 5%); newsprint; made of fibres obtained essentially by a chemi-mechanical process or of a weight, per m², of more than 57g but not more than 65g, in rolls or sheets (HS-480100; 4.8%) and diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set (HS-710231; 4.6%). Together, these 5 products accounted for 42.9% of the total trade effect after tariff liberalization.

Case 2: Tariff Liberalisation by Canada on Imports from India - Canada cuts 95% of Tariff on all Products Imported from India

According to the analysis, 95% tariff cut by Canada on its imports from India would result in a total trade effect of US\$ 547 million, implying that under the preferential agreement, Canada's imports from India will increase by US\$ 547 million. In the total trade effect, total trade creation would constitute US\$ 388.4 million, which is the additional imports by Canada from India due to fall in the price levels subsequent to fall in tariff

levels. Total trade diversion will be of US\$ 158.6 million, which is the increased imports from India away from the other partners due to the fall in the relative price levels post tariff liberalisation. Price effect is zero since the model has assumed infinite price elasticity. In case of tariff liberalisation by Canada on its imports from India, the overall change in the revenue for Canada will be a loss of US\$ 158.3 million.

At 6-digit HS code, post tariff liberalisation, it is seen that 42.3% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by railway or tramway coaches, vans and trucks; self-propelled, powered from an external source of electricity (HS-860310); followed by jewellery of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts (HS-711319; 5.6%), cotton bed linen cotton (not printed, knitted or crocheted) (HS-630231; 3.8%), kitchen and toilet linen; of terry towelling or similar terry fabrics, of cotton (HS-630260; 2.4%); and t-shirts, singlets and other vests; of cotton, knitted or crocheted (HS-610910; 1.9%). Together, these 5 products constitute 56% of the total trade effect after tariff liberalization.

Suggested Sectors for Negotiations

The composition of merchandise trade between India and Canada has changed significantly before and after the CEPA negotiations started in 2010. India's leading sectors of merchandise exports to Canada in 2010 were apparels, organic chemicals, pearls & precious stones, and articles of iron or steel. While India has remained a net importer with respect to merchandise trade with Canada in the last ten years, following are the sectors which have undergone notable changes.

Mobile Phones and Communication Apparatus

Canada's imports of mobile phones and communication apparatus registered a CAGR of 6.7% during 2010-2021 to reach US\$ 10.9 billion in 2021 from US\$ 5.4 billion. However, Canada's imports of the same from China grew at a higher CAGR of 12% during the same time. It is noted that in 2021, nearly 63.3% of Canada's import demand for mobile phones and communication apparatus was met by China alone, as against 37% in 2010.

During the same time, India's share in Canada's imports of mobile phones and communication apparatus has remained negligible in the range of 0.1% - 0.3%. As businesses realign their global supply chains in the post-pandemic world, backed by strong policy support, there exist opportunities for India to increase its exports of mobile phones and communication apparatus to Canada in the near term.

It is important to note that India's exports of mobile phones during 2010-2021 increased over three-folds. For communication apparatus too, India's exports registered a CAGR of over 30% during the same period. The proposed CEPA, in this regard, could play a critical role in channelizing investment inflows into India for manufacturing and export of mobile phones and communication apparatus.

Food and Beverages

Canola Oil

Canada is the largest exporter of Canola oil globally. It is to be noted that Canada exports more than 90% of its canola as seed, oil or meal to 50 markets around the world. While the import of canola seeds is not allowed in India as they are genetically modified, small quantities of canola oil are being imported for blending with other oils. The leading canola oil producers include Cargill, Louis Dreyfus Company, and Bunge.

It is important to note that even though the imports of Canola Seeds are banned in India, the import of GM canola oil is not. As a result, canola seeds imported from Canada are usually crushed in Dubai and the extracted oil is then exported to India. India's imports of canola or the rapeseed oil were recorded at US\$ 76.7 million in 2021 much higher than that was imported in 2010 (US\$ 9.8 million). It is to be noted that Canada's share in India's total imports of canola oil has risen significantly from 3.7% in 2010 to 21.4% in 2020 (2021 data not available), while that of the UAE has declined from 94.7% to 72.4% during 2010-2021.

Going forward, it is important to acknowledge that the India-Canada CEPA is likely to provide a growth opportunity to Canadian exporters of canola oil to gain a wider market share in India. While Canada accounted for 21.4% of India's imports of canola oil in 2020, the CEPA could also give Canadian exporters a significant edge over the exports from other countries like Germany and Russia.

Pulses

India is the largest producer and consumer of pulses in the world, contributing nearly 25% to the global output. However, consumption exceeds production and is therefore supported by imports. India was the largest importer of pulses globally, with a 15.7% share in global pulses imports in 2021.

On the other hand, Canada is the largest exporter of pulses, accounting for 22.4% of global exports of pulses. Canada was India's second largest import source for pulses in 2021, accounting for 19.6% of the total imports. However, India's import of pulses from Canada decreased from US\$ 540.7 million in 2010 to US\$ 411.9 million in 2021, while India's global imports of pulses increased from US\$ 1.9 billion in 2010 to US\$ 2.1 billion during 2021. India has a huge trade deficit in pulses globally, which increased from US\$ 1.7 billion in 2010 to US\$ 1.8 billion in 2021. India also has a huge trade deficit of US\$ 401.8 million with Canada for pulses in 2021, though down from US\$ 540.5 million in 2010.

India could also focus on product champions and underachievers, together these products categories have 365 items, as identified in the study and present immediate opportunity for India to increase merchandise trade with Canada.

Non-Tariff Measures in Goods Trade

As of December 2022, Canada has imposed 2319 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by Canada. SPS and TBT measures are among the mostly used NTMs, with 1424 SPS (74 in force and 1350 initiated) and 799 TBT (191 in force and 608 initiated). Canada has also adopted quantitative restrictions, tariff-rate quota, export subsidies, anti-dumping measures and countervailing measures, among others.

Services Trade Restrictiveness Index

The relative restrictiveness of services trade policy of India and Canada can be analyzed using the Services Trade Restrictiveness Index (STRI) developed by the OECD. The OECD database includes 22 services sectors for 38 OECD countries and few non-OECD countries including Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, Singapore, South Africa, Thailand and Vietnam. These countries and sectors represent over 80% of global trade in services. The STRI database contains information on trade restrictions and behind the border regulation in the following sectors:

-
- Computer services
 - Construction
 - Professional services (legal, accounting, engineering, and architecture)
 - Telecommunications
 - Distribution
 - Audiovisual services (broadcasting, motion pictures, sound recording)
 - Transport (air, maritime, road freight and rail freight)
 - Courier
 - Financial services (commercial banking, insurance)
 - Logistics services (cargo-handling, storage and warehouse, freight forwarding, custom brokerage)

The STRI score takes values between zero and one, with one indicating the most restrictive trade environment. The STRI also harmonises policy measures implemented by the countries across the 22 services sectors.

These policy measures are categorised under five policy areas:

- Restrictions on foreign ownership and other market entry conditions
- Restrictions on the movement of people
- Other discriminatory measures and international standards
- Barriers to competition and public ownership
- Regulatory transparency and administrative requirements

As stated by the OECD, the STRI database records regulations actually in force and does not take into account preferential agreements.

For Canada, among the sectors, air transport and courier services have the highest STRI values of 0.38 against the world average of 0.17 and 0.28, respectively. The other sectors with high STRI values are broadcasting (0.31), telecommunication (0.28), accounting services (0.22), and logistics (cargo handling) (0.22). All these sectors have a higher STRI when compared to their respective global averages in 2021, except for accounting services. The lowest STRIs are in rail freight transport (0.13), sound recording and legal services (0.15), logistics (freight forwarding), logistics (storage and warehouse) and road freight transport (0.16), commercial banking, computer services and maritime transport (0.17), all lower than their respective world averages. All 22 sectors of Canada have a STRI less than 0.5.

India has a STRI score above world average in all the 22 sectors. Among the sectors, rail freight transport has the highest STRI value of 1 (maximum STRI value), which is well above the world average of 0.32. The other two sectors with high STRI values are legal services (0.88) and accounting services (0.81). The services with STRI value around and above 0.5 are architecture services (0.65), air transport (0.54), courier services (0.54), insurance (0.52) and commercial banking (0.48). The lowest STRIs are in sound recording (0.23), computer services (0.24) and engineering services (0.24), against the world averages of 0.20, 0.22 and 0.24, respectively.

A comparison of India's STRIs with STRIs of Canada reveals that India is more restricted in services trade than Canada, mainly due to rail freight transport, legal and accounting services as against Canada's averages of 0.13, 0.15 and 0.22, respectively. However, Canada is comparatively restrictive in air transport, courier services, broadcasting, telecommunication, logistics (cargo handling), insurance, and distribution services trade as STRIs for these remain above the world averages in 2021. Thus, transport, logistics, legal, telecommunication, and accounting services are the potential sectors which are likely to provide comparative advantage to both India and Canada in case of liberalisation.

Barriers Faced by Indian Service Suppliers in Canada

Horizontal measures are cross-cutting restrictions across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector-specific measures, the horizontal measures make the whole sector restrictive. The Integrated Trade Intelligence Portal (I-TIP) database of WTO provides mode-wise horizontal measures impacting services sector. Currently, the database covers 31 service sectors in 76 economies.

Canada does not impose any horizontal restrictions across Mode 1, 3 and 4. The average visa processing time for Canada was found to be 20 days; cost to obtain a business visa for Indian citizen was found to be US\$ 155 and the number of documents needed to obtain a business visa were 15.

Also in Mode 4 (movement of natural persons), Canada imposes Economic Need Test (ENT) or Labour Market Test (LMT) requirements. These are the tests that condition access in Mode 4, upon the fulfilment of certain economic criteria. These economic criteria includes conditions like the work permit to foreigners can be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy, among others. Canada imposes LMT/ENT conditions on the following 2 categories of workers:

- Contractual service suppliers
- Independent professionals

Economic needs or Labor market tests are applicable with regard to contractual service suppliers and independent professionals where a Canadian entity has directly contracted the services of a foreign company, the employee of the foreign company performing the services in Canada requires a work permit. Such work permits are subject to a Labour Market Impact Assessment (LMIA) (except where services are carried out under a warranty or form part of the original sale, lease or rental agreement). As part of the LMIA, employers will be required to provide a variety of information about the position for which they want to hire a foreign worker, including the number of Canadians who applied for the position, the number of Canadians who were interviewed, and detailed explanations for why the Canadian workers considered were not hired.

Intra-corporate transferees are exempted from the ENT/LMT tests. Intra-corporate transferees fall under the exemption granted for business visitors, and therefore, no labour market testing applies to them.

Other than the above quantitative measures (for firms and natural persons) applied by Canada as conditions for market entry across sectors and modes, Canada imposes sector specific measures across Mode 1 (cross-border trade), Mode 2 (consumption abroad) and Mode 4 (movement of natural persons).

Potential Areas of Collaboration

India and Canada have been pursuing to enhance their bilateral relations through various mechanisms including Ministerial level – Strategic Trade and Energy Dialogues, Foreign Office Consultations, and sector specific Joint Working Groups. India and Canada have signed various MOUs in sectors including railways, transportation, civil aviation, skill development, uranium ore procurement, nuclear cooperation, ICT, energy, IPRs, higher education, science, and technology. An MoU was also signed between Invest India and the Investment Bureau, Global Affairs Canada on Investment Promotion and Facilitation. Indian companies in Canada are active in fields such as Information Technology, software, steel, natural resources, and banking sectors. Both the countries are exploring signing a Foreign Investment Promotion and Protection Agreement (FIPA). The study identifies sectors like energy (renewables including solar and clean energy including nuclear energy and hydrogen), agriculture and allied sectors (food processing, agricultural technology and equipment and fertilisers), electric vehicle ecosystem, infrastructure financing and advance manufacturing including artificial intelligence, sensors, robotics, ICT, and medical devices technologies as potential sectors for enhancing bilateral cooperation between India and Canada.

1

Canada: Brief Macroeconomic Background

Canada is located in the northern most part of North America, bordering the United States of America (the US) to its south. It is the second largest country in the world by landmass, behind Russia. The country has vast natural resources, sizable manufacturing base, and a vibrant seafood industry. It also has sizeable industrial mineral reserves, and is rich in minerals like gypsum, limestone, rock salt, potash, coal, bauxite, iron ore, nickel, zinc, copper, gold, lead, rare earth elements, molybdenum, potash, diamonds, silver, fish, timber, coal, petroleum, natural gas, and uranium. The country has the third largest proven oil and gas reserves, behind Venezuela and Saudi Arabia. Canada has the longest coastline in the world, making it one of the top seafood producers. It also has more fresh water than any other country in the world with at least two million lakes¹. More than 80% of the population lives in urban areas and vast majority of Canadians live within 300 km of southern border with the US.

Canada is the 8th largest economy globally, with a GDP of US\$ 2.2 trillion at current prices in 2022, and a population of over 38 million people², which is composed of major ethnic groups ranging from English to Europeans to Indians. The GDP per capita in current prices in 2022 was estimated at US\$ 56,794, which makes it a high-income country. As with other developed nations, Canada's economy is dominated by services sector (72.4% share in its GDP), followed by industrial sector (25.7%) and agricultural sector (1.9%)³.

With the onset of the COVID-19 pandemic, the Canadian economy contracted by 5.2% in 2020. The Canadian government was swift in its response to check the spread of virus and support the economy. The government assistance targeted support to health systems, direct aid to household and businesses, and liquidity support through tax deferrals, etc. Financial support by its central bank also eased out the sudden economic pressures created by the pandemic. As a result, the economy has rebounded strongly in 2021, with an estimated GDP growth rate of 4.5% in 2021 and an estimated 3.3% in 2022⁴. **Table 1.1** presents select macroeconomic indicators for Canada. According to the International Monetary Fund (IMF) (Article IV Country Report, October 2022), Canada has come through the pandemic relatively well and, as a commodity exporter, has been hit less hard than many other countries have been by the Russia-Ukraine conflict. Growth in real GDP is projected to slow down to 1.5% in 2023 before strengthening to 1.6% in 2024. Higher borrowing costs is likely to weigh on consumer spending while export growth moderates in the near term amid deteriorating conditions abroad (OECD Economic Outlook, November 2022).

¹ CIA World Factbook

² IMF WEO October 2022

³ World Development Indicators

⁴ IMF WEO October 2022

Table 1.1: Select Macroeconomic Indicators of Canada

Indicator	2010	2018	2019	2020	2021	2022 ^e	2023 ^f	2024 ^f
GDP (% change)	3.1	2.8	1.9	-5.2	4.5	3.3	1.5	1.6
GDP, current prices (US\$ bn)	1617.3	1725.3	1742.0	1645.4	1988.3	2200.4	2326.6	2420.7
GDP (PPP, US\$ bn)	1358.9	1869.8	1939.0	1859.7	2025.0	2240.4	2353.9	2441.8
GDP per capita, current prices (US\$)	47627.3	46625.9	46404.0	43306.6	52015.1	56794.0	59179.0	60745.3
Inflation, average consumer prices (%)	1.8	2.3	1.9	0.7	3.4	6.9	4.2	2.4
Current account balance (% of GDP)	-3.6	-2.4	-2.0	-1.8	0.0	0.5	-0.2	-0.4

Note: ^e- Estimates; ^f- forecast

Source: IMF WEO October 2022

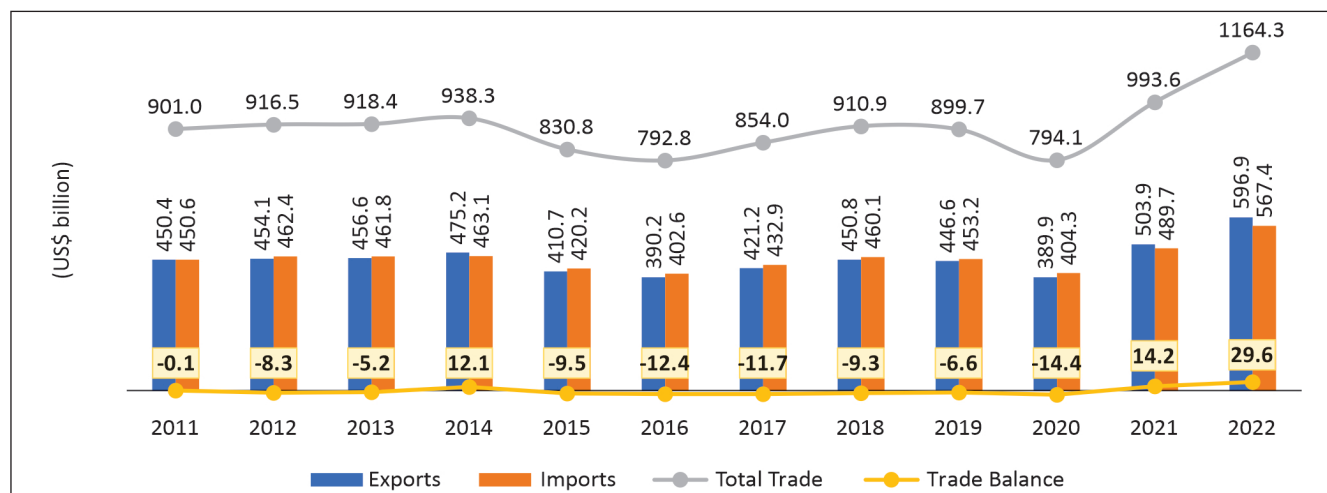
International Trade of Canada

International trade has been a key part of the Canadian economy since the time of early western settlers in the country. Canada signed the first General Agreement on Tariffs and Trade (GATT) in 1947 and joined the World Trade Organization (WTO) in 1994. To promote international trade, Canada has signed several trade agreements with countries across the world. In addition to US-Mexico-Canada Agreement (USMCA), Canada has 14 other free trade agreements in force as of 2020. These include the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), among others.

Canada was the 11th largest exporter globally in 2021. It is the world's largest producer and exporter of potash and exports more than 95% of production to over 50 countries. It is also the largest exporter of pulses, maple sugar and syrup, and wood and articles, 4th largest exporter of marine products, 5th largest exporter of hydrocarbon and 6th largest exporter of ores, slag and ash, globally in 2021. Canada is the largest supplier of energy (crude oil, petroleum products, natural gas, and electricity) to the US.

Total merchandise trade of Canada has increased from US\$ 901 billion in 2011 to an estimated US\$ 1.2 trillion in 2022 (**Chart 1.1**). Merchandise exports are estimated to have surged to an all-time high of

Chart 1.1: International Merchandise Trade of Canada



Note: 2022 figures are estimates. 2022 data is not available for all countries.

Source: ITC Trade Map and India Exim Bank Analysis

US\$ 596.9 billion in 2022 from US\$ 503.9 billion in 2021 and US\$ 450.4 billion in 2011, on account of higher commodity exports as global commodity prices soared on the back of post-pandemic recovery, and heightened global geopolitical uncertainties. Canada's imports have also increased from US\$ 450.6 billion in 2011 to US\$ 567.4 billion in 2022. Higher prices accounted for a significant part of the growth in imports in 2022. Since 2009, Canada has been running a marginal trade deficit, with deficit peaking at US\$ 14.4 billion in 2020. With the resurgence in exports, Canada posted a trade surplus of US\$ 14.2 billion in 2021, which widened further to an estimated US\$ 29.6 billion in 2022. The sharp rise in the annual trade surplus was primarily on account of higher exports which were mostly driven by rising commodity prices..

Canada - Trade Partners

Major Export Destinations

Canada's goods exports experienced strong expansions to most of its top trading partners in 2022. The US was the top export destination for Canada, with 77% of Canada's exports directed to the country in 2022. Canada's exports to the US witnessed a 21% growth in 2022, largely driven by increased exports of energy products such as crude oil. Other major destinations for Canada's exports in 2022 were China (3.7% of total exports in 2022), followed by UK (2.3%), Japan (2.3%), Mexico (1.2%) and South Korea (1.1%) (**Table 1.2**). While Canada mostly exports oilseeds and canola to China, gold is the major exports to UK.

Table 1.2: Major Export Destinations of Canada (US\$ billion)

Export Destinations	2011	2020	2021	2022	% Share in 2022
Canada's Global Exports	450.4	389.9	503.9	596.9	100.0
USA	331.8	286.4	380.1	459.9	77.0
China	17.0	18.8	22.4	21.9	3.7
UK	19.0	14.9	13.2	14.0	2.3
Japan	10.8	9.2	11.6	13.8	2.3
Mexico	5.5	4.6	6.5	6.9	1.2
South Korea	5.1	3.5	5.0	6.7	1.1
Germany	3.9	4.8	5.5	5.8	1.0
Netherlands	4.9	4.0	3.8	5.0	0.8
India	2.7	2.7	2.4	4.1	0.7
Belgium	2.4	1.9	3.2	3.5	0.6
Brazil	2.9	1.6	1.8	3.1	0.5
France	3.1	2.8	3.2	3.0	0.5
Norway	2.8	1.9	2.5	3.0	0.5
Switzerland	1.2	1.3	2.4	2.8	0.5
Hong Kong	3.0	1.4	2.8	2.6	0.4

Note: 2022 figures are estimates

Source: ITC Trade Map and India Exim Bank Analysis

Major Import Sources

Canada's imports from most of the major trading partners registered a double-digit growth in 2022. As in the case of exports, the US was largest source for Canada's imports, with a share of 49.1% in Canada's total merchandise imports in 2022. Other major import sources for Canada in 2022 were China (13.5% share in imports in 2022), followed by Mexico (5.5%), Germany (3%), Japan (2.3%), and South Korea (1.8%) (**Table 1.3**).

Table 1.3: Major Import Sources of Canada (US\$ billion)

Import Sources	2011	2020	2021	2022	% Share in 2022
Canada's Global Imports	450.6	404.3	489.7	567.4	100.0
USA	223.2	197.1	237.6	278.5	49.1
China	48.7	57.0	68.5	76.8	13.5
Mexico	24.8	22.3	26.7	31.1	5.5
Germany	12.9	12.9	15.1	17.2	3.0
Japan	13.2	10.1	12.3	13.1	2.3
South Korea	6.7	7.2	8.2	10.2	1.8
Vietnam	1.3	6.1	7.8	9.9	1.7
Italy	5.2	6.7	8.4	9.3	1.6
Taiwan	5.0	4.2	6.2	7.3	1.3
UK	10.4	5.8	6.3	6.6	1.2
Brazil	3.9	4.9	6.0	6.5	1.1
India	2.6	3.7	4.8	6.4	1.1
France	5.6	4.8	5.7	5.9	1.0
Switzerland	3.2	4.4	4.5	5.7	1.0
Netherlands	2.6	2.4	3.1	4.2	0.7

Note: 2022 figures are estimates

Source: ITC Trade Map and India Exim Bank Analysis

Canada's Trade – Commodity Analysis

Major Export Commodities

Canada's exports witnessed substantial growth in last two years, primarily driven by higher exports of natural resources. During 2022, mineral fuels and oils were the major exported item from Canada, with a share of 30.2% in total exports (**Table 1.4**). Other major export categories in 2022 were vehicles other than railway and tramway (8.4%), machinery and mechanical appliances (6.3%), natural or cultured pearls (4%), and wood and its articles (3.3%). The year 2022 also witnessed Canadian auto production recovering to pre-pandemic levels following years of supply disruptions. The table also presents the top three export destinations of these top export product categories.

Table 1.4: Canada's Major Export Items (US\$ billion)

HS Code	Product	2011	2020	2021	2022	% Share in 2022	Major Destinations of Exports in 2022 (% Share)
	Canada's Global Exports	450.4	389.9	503.9	596.9	100.0	USA (77%), China (3.7%), UK (2.3%)
27	Mineral fuels, oils and products of distillation	116.1	68.9	119.9	180.0	30.2	USA (90.3%), Japan (2.4%), China (1.6%)
87	Vehicles other than railway or tramway rolling stock, parts and accessories	52.9	46.2	45.8	50.3	8.4	USA (90.8%), Mexico (2.5%), China (1.2%)
84	Machinery, mechanical appliances and parts	31.4	28.8	33.0	37.7	6.3	USA (78.4%), Germany (1.9%), Australia (1.6%)
71	Pearls, precious or semi-precious stones, metals	24.8	22.9	24.7	23.9	4.0	UK (37.2%), USA (32.7%), Switzerland (9.5%)
44	Wood and articles of wood; wood charcoal	9.2	13.4	22.5	19.8	3.3	USA (86.7%), Japan (5.5%), China (2.4%)
39	Plastics and articles	12.3	12.4	16.9	17.3	2.9	USA (90.8%), China (1.6%), Mexico (1.2%)
85	Electrical machinery, equipment and parts	15.4	11.0	12.6	14.7	2.5	USA (73.4%), Mexico (2.3%), China (2.3%)
76	Aluminium and articles	9.9	8.3	12.2	14.2	2.4	USA (92.1%), Mexico (2.7%), Hong Kong (0.7%)
31	Fertilisers	8.1	5.2	6.6	13.7	2.3	USA (44.3%), Brazil (14.5%), China (8.6%)
26	Ores, slag and ash	9.0	9.9	13.3	11.5	1.9	China (25.6%), Japan (16.5%), South Korea (13.5%)

Note: 2022 figures are estimates

Source: ITC Trade Map and India Exim Bank Analysis

Major Import Commodities

In 2022, the major import product category of Canada was that of machinery and mechanical appliances, with a share of 14.1% in imports in 2022 (**Table 1.5**). This was followed by products such as vehicles other than railway or tramway (13.9%), electrical machinery and equipment (9.3%), mineral fuels and oils (7.9%), and plastics and its articles (4%). The table also presents the top three sources of these top imports.

Table 1.5: Canada's Major Import Items (US\$ billion)

HS Code	Product	2011	2020	2021	2022	% Share in 2022	Major Import Sources in 2022 (% Share)
	Canada's Global Imports	450.6	404.3	489.7	567.4	100.0	USA (49.1%), China (13.5%), Mexico (5.5%)
84	Machinery, mechanical appliances and parts	64.3	61.1	70.8	80.2	14.1	USA (43.3%), China (19.2%), Mexico (6.6%)
87	Vehicles other than railway or tramway rolling stock, parts and accessories	64.3	55.9	67.4	78.8	13.9	USA (62.4%), Mexico (12.4%), Japan (5.6%)
85	Electrical machinery, equipment and parts	45.5	39.5	46.2	53.0	9.3	China (33.6%), USA (24.1%), Mexico (10.4%)
27	Mineral fuels, oils and products of distillation	53.3	20.1	30.3	44.8	7.9	USA (76.6%), Saudi Arabia (6.2%), Netherlands (4.5%)
39	Plastics and articles	14.5	16.0	20.5	22.5	4.0	USA (67.4%), China (15.2%), Germany (2%)
30	Pharmaceutical products	12.5	14.3	18.5	20.0	3.5	USA (31.4%), Germany (11.9%), Ireland (8.7%)
71	Pearls, precious or semi-precious stones, metals	17.6	17.4	18.7	19.0	3.3	USA (33.3%), Peru (10.8%), Brazil (9.3%)
90	Optical, photographic, medical or surgical instruments	12.6	11.4	13.3	14.5	2.6	USA (42.4%), China (10.9%), Mexico (8.2%)
73	Articles of iron or steel	11.1	8.8	11.4	14.1	2.5	USA (42.6%), China (25.1%), Taiwan (4.2%)
72	Iron and steel	8.6	5.3	10.5	11.1	2.0	USA (46.0%), South Korea (6.3%), China (5.5%)

Note: 2022 figures are estimates

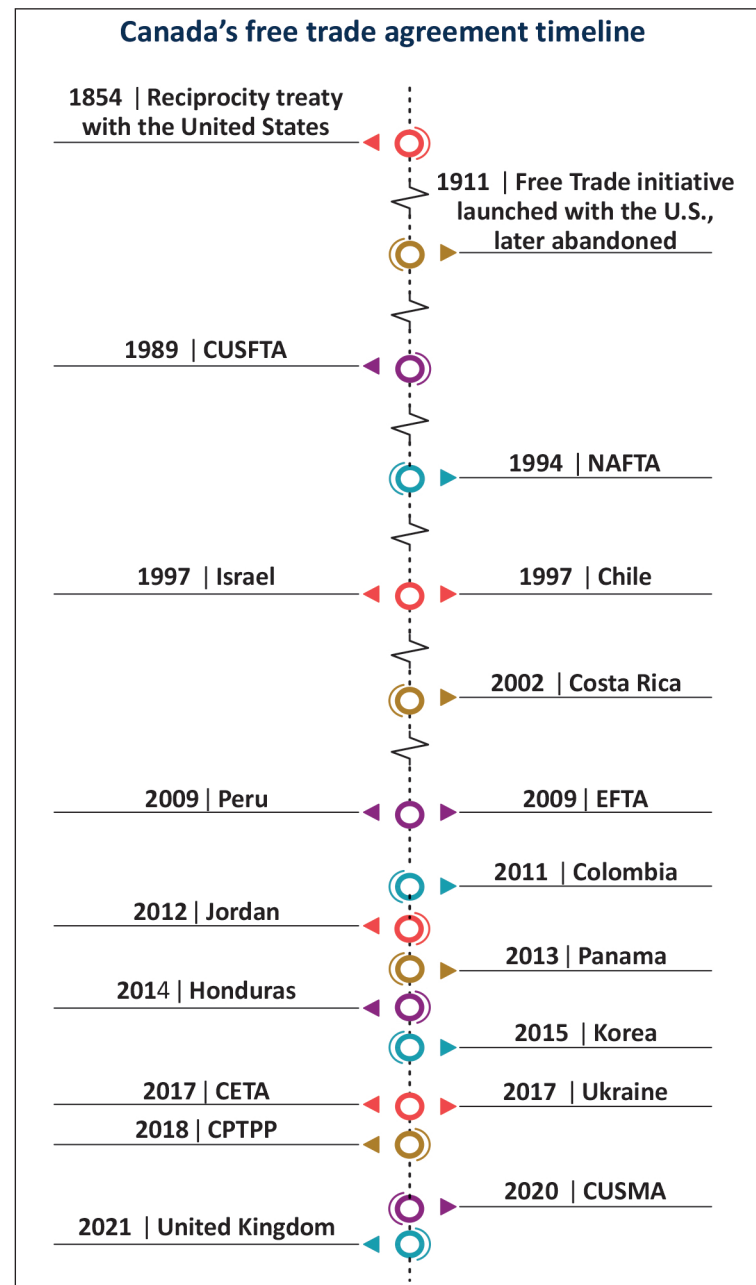
Source: ITC Trade Map and India Exim Bank Analysis

Canada and Free Trade Agreements

An important tool to support Canada's economic recovery is its vast network of free trade agreements (FTAs) that covers 61% of the world's GDP in 51 countries catering to 1.5 billion consumers. Canada has over 15 trade agreements in place including- US-Mexico-Canada Agreement (USMCA), also known as Canada-US-Mexico Agreement (CUSMA), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP),

Canada and the European Free Trade Association (EFTA) FTA, etc., among others. Canada's embrace of FTAs resulted in doubling of its bilateral trade with partner countries. These FTAs remained effective at lowering trade barriers and the overall costs of trade. India and Canada also launched Comprehensive Economic Partnership Agreement (CEPA) negotiations in November 2010. The CEPA is envisaged to be a wide-ranging economic and trade agreement, covering trade in goods and services and addressing non-tariff barriers.

Chart 1.2: Timeline of Canada's FTAs Entering into Force



Note: CUSFTA = Canada-U.S. Free Trade Agreement; NAFTA = North American Free Trade Agreement; EFTA = Canada-European Free Trade Association Free Trade Agreement; CETA = Canada-European Union Comprehensive Economic and Trade Agreement; CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership; CUSMA = Canada-United States-Mexico Agreement

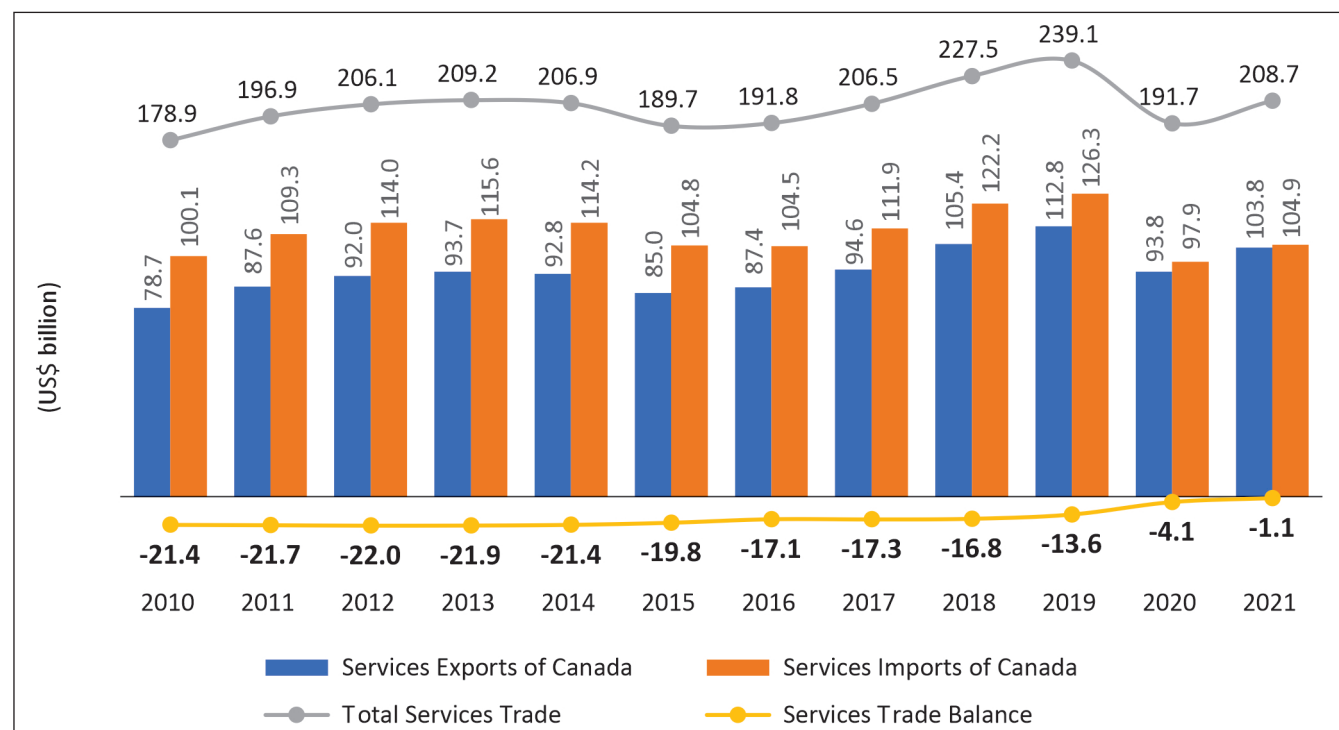
Source: Global Affairs Canada and India Exim Bank Analysis

Trade in Services

Services remain an important economic activity in Canada, and the country is a significant services exporter globally. However, Canada's share in global services exports has declined from 2% in 2010 over the years and remained stagnant at around 1.7-1.8% since 2015. During 2021, Canada was the 17th largest services exporter globally, accounting for 1.7% share in global services exports⁵. It was the 16th largest importer of services during 2021, accounting for a share of 1.9% in global services imports as compared to a share of 2.6% in 2010⁶.

The total trade in services has increased from US\$ 178.9 billion in 2010 to US\$ 208.7 billion in 2021, but remained lower compared to the pre-pandemic levels (**Chart 1.3**). Canada's services exports and imports both peaked in 2019 at US\$ 112.8 billion and US\$ 126.3 billion, respectively. Canada has been a net services importer, with the deficit declining over the years.

Chart 1.3: International Services Trade of Canada



Source: WTO and India Exim Bank Analysis

Canada's services exports declined across all sectors, registering a contraction of 16.7% during 2020 with the exceptions being financial services; charges for intellectual property rights; professional and management consulting services; and technical, trade-related business services (**Table 1.6**). In 2021, services exports have undergone a recovery across all sectors, registering an average of growth of 10.6% over 2020. Professional, consultancy and management services; travel; telecommunication, computer and information services; transport; financial services; and technical, trade-related and other business services were the major sectors accounting for the largest share in Canada's services exports.

⁵ Calculated from stats.wto.org

⁶ *ibid*

Table 1.6: Services Exports of Canada (US\$ billion)

Product/Sector	2010	2015	2019	2020	2021
Total Services Exports of Canada	78.7	85.0	112.8	93.8	103.8
Government goods and services	1.6	1.2	1.4	1.0	1.1
Commercial services	77.1	83.7	111.4	92.8	102.6
Goods-related services	1.4	1.6	2.3	1.7	1.5
Transport	12.4	12.2	14.0	10.2	11.8
Travel	17.6	20.3	29.8	13.5	13.1
Other Commercial Services	45.7	49.6	65.4	67.3	76.2
Construction	0.4	0.5	0.2	0.2	0.2
Insurance and pension services	1.9	1.3	1.3	1.3	1.6
Financial services	5.4	8.2	9.3	10.0	11.5
Charges for the use of intellectual property	2.8	4.1	6.8	7.2	8.5
Telecommunications, computer, and information services	8.4	7.3	11.9	11.7	13.0
Personal, cultural, and recreational services	2.3	2.4	4.3	4.3	5.2
Other business services	24.4	25.9	31.6	32.6	36.1
Research and development services	4.1	4.6	6.9	6.5	7.0
Professional and management consulting services	10.6	11.2	15.3	16.3	17.7
Technical, trade-related, and other business services	9.7	10.1	9.4	9.9	11.4

Source: WTO and India Exim Bank Analysis

During 2020, Canada's overall services imports declined by 22.6% as compared to 2019 mainly due to fall in travel and transport services. Overall services imports by Canada recovered in 2021 by 7%. During 2021, transport; professional and management consulting services; charges for use of intellectual property; financial services; and technical, trade-related and other business services were the major services imported by Canada (**Table 1.7**). However, travel services imports have further deteriorated in 2021 compared to 2020.

Table 1.7: Services Imports of Canada (US\$ billion)

Product/Sector	2010	2015	2019	2020	2021
Total Services Imports of Canada	100.1	104.8	126.3	97.9	104.9
Government goods and services	1.2	1.0	1.2	1.1	1.2
Commercial services	98.9	103.8	125.2	96.9	103.7
Goods-related services	0.2	0.9	0.8	0.5	0.4
Transport	21.6	20.6	24.6	17.3	21.1
Travel	31.7	33.8	35.3	12.1	7.7
Other Commercial Services	45.5	48.4	64.4	67.0	74.5
Construction	0.3	0.4	0.3	0.4	0.3
Insurance and pension services	4.7	3.8	3.9	4.0	4.5
Financial services	5.4	6.9	8.9	9.9	10.2
Charges for the use of intellectual property	9.7	10.7	13.1	13.7	16.3

Product/Sector	2010	2015	2019	2020	2021
Telecommunications, computer, and information services	4.7	5.2	7.9	8.0	8.5
Personal, cultural, and recreational services	2.1	1.9	3.0	3.3	3.8
Other business services	18.4	19.5	27.3	27.8	30.9
Research and development services	1.2	1.2	2.3	2.4	3.3
Professional and management consulting services	9.8	9.9	15.9	16.2	17.6
Technical, trade-related, and other business services	7.5	8.4	9.1	9.2	10.0

Source: WTO and India Exim Bank Analysis

The largest export destination for Canada's services exports in 2020 was the US, accounting for more than half of the total services exports by Canada, followed by the European Union (EU) which accounted for over 10% of total services exports of Canada, moderating from 16.5% in 2010. The other major destinations for Canada's services exports include UK, China, India and France (**Table 1.8**).

Professional and management consulting services; travel; transport; telecommunication, computer and information services; and technical, trade-related and other business services were the major services exports from Canada to the US, accounting for around 70% of total services exports to the country.

Table 1.8: Major Services Exports Destinations of Canada (US\$ billion)

Country	2010	2015	2019	2020	2021	% Share in 2020
World	78.7	85.0	112.8	93.8	103.8	100.0
USA	42.6	46.6	59.8	50.8	-	54.2
EU	13.0	8.9	15.9	-	-	10.3
UK	4.6	4.8	5.6	4.3	-	4.6
China	2.1	4.2	6.4	4.2	-	4.5
India	0.5	1.0	4.0	3.7	-	4.0
France	2.3	2.4	3.4	2.5	-	2.7
Germany	2.0	1.6	2.5	1.9	-	2.1
Ireland	0.6	0.7	1.8	1.7	-	1.8
Switzerland	1.3	1.7	1.7	1.5	-	1.6
Hong Kong	1.0	1.1	1.6	1.3	-	1.4
Mexico	0.8	0.9	1.7	1.2	-	1.3

Note: EU figures for 2020 are estimates

Source: WTO and India Exim Bank Analysis

The US was also the largest import source for Canada's services imports, accounting for 55% of total services imports in 2020. The EU as a bloc supplied over 10% of total services imports by Canada in 2020. The other major import sources of Canada were UK, Hong Kong, Ireland, Germany and Japan (**Table 1.9**). Travel; professional and management consulting services; charges for use of intellectual property; transport; financial

services; and technical, trade-related and other business services were the major services imports of Canada from the US, together accounting for over 86% of total services imports from the country.

Table 1.9: Major Services Imports Sources of Canada (US\$ billion)

Country	2010	2015	2019	2020	2021	% Share in 2020
World	100.1	104.8	126.3	97.9	104.9	100.0
USA	57.4	57.5	68.7	53.9	-	55.0
EU	15.6	12.9	19.5	10.5	-	10.7
UK	5.4	5.7	6.8	6.3	-	6.5
Hong Kong	3.0	3.3	4.1	3.2	-	3.3
Ireland	2.1	2.7	2.8	1.7	-	2.7
Germany	2.1	2.1	2.5	1.9	-	2.0
Japan	1.5	1.8	2.5	1.9	-	2.0
France	2.3	2.5	2.7	1.9	-	1.9
India	0.6	1.0	2.0	1.8	-	1.8
China	1.7	2.0	2.5	1.8	-	1.8
Mexico	2.1	2.7	2.8	1.7	-	1.8

Note: EU figures for 2020 are estimates

Source: WTO and India Exim Bank Analysis

Foreign Direct Investment in Canada: Current Trends

Canada, with its highly skilled labour force, strong macroeconomic fundamentals, strong legal protections, and abundant natural resources, provides an enabling environment for foreign investors. Canada ranked 15 out of 132 in Global Innovation Index (GII) 2022⁷, improving from the 16th rank in 2021, 17th rank in 2020 and 2019, respectively.

Canada has foreign investment promotion and protection agreements (FIPA) with 37 countries, including Uruguay, Ukraine, Venezuela, Trinidad and Tobago, Thailand, Slovakia, Tanzania, Serbia, Senegal, Russia, Romania, Poland, the Philippines, Peru, Panama, Mongolia, Mali, Lebanon, Latvia, Kuwait, Kosovo, Jordan, Hungary, Hong Kong, Guinea, Egypt, Czech Republic, Croatia, Côte d'Ivoire, Costa Rica, China, Cameroon, Burkina Faso, Benin, Barbados, Argentina, and Armenia⁸.

Canada emerged as the 2nd largest recipient of foreign direct investment inflows among the G7 economies during 2021, amounting to US\$ 60 billion after the US (US\$ 367.4 billion)⁹. The reinvested earnings component of FDI, i.e., profits retained in foreign affiliates by multinational enterprises (MNEs) accounted for the bulk of FDI growth in 2021 (50%), followed by mergers and acquisitions (M&A).

According to the World Investment Report 2022 by the UNCTAD, Canada was the 5th largest FDI recipient during 2021 as compared to being the 12th largest recipient in 2020. FDI in Canada increased by 157% to

⁷ World Intellectual Property Organisation

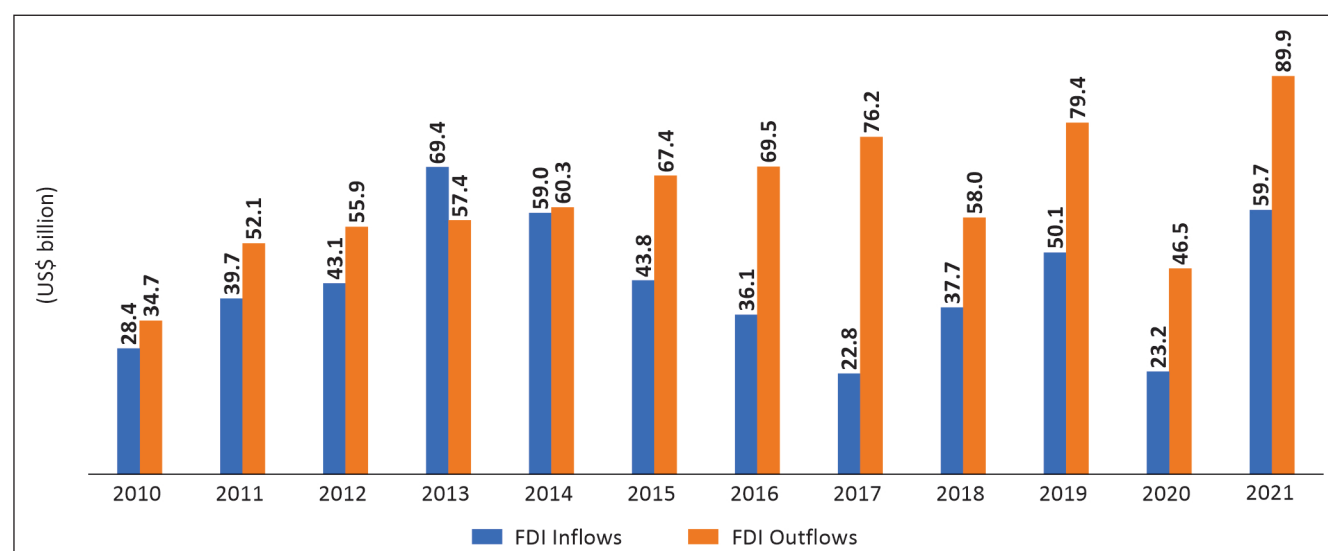
⁸ Map of Canada's trade and investment agreements, Government of Canada (international.gc.ca)

⁹ FDI Report 2021, Invest Canada

US\$ 60 billion, 30% above the 10-year average before the pandemic. Reinvested earnings reached a record US\$ 29 billion, from a meagre US\$ 3 billion in 2020. Equity flows rose by 50% to US\$ 25 billion, driven by doubling of cross-border M&A sales to US\$ 29 billion. Sales, predominantly to MNEs from the US, increased in extractive industries (US\$ 7 billion) and services (US\$ 14.5 billion), mainly in information and communication (US\$ 7 billion) and finance and insurance (US\$ 4 billion) sectors. The major investing countries during 2021 were the US, Netherlands, and UK.

In terms of FDI outflows, Canada was the 6th largest investor in 2021, same as in 2020. Outward investment from Canada increased from US\$ 47 billion in 2020 to US\$ 90 billion in 2021 (**Chart 1.4**). Among the G7 economies, Canada was the third largest investor during 2021, after Japan and the US. Canada does not restrict domestic investors from investing abroad except when recipient countries or businesses are subject to the government's sanctions.

Chart 1.4: Foreign Direct Investment Flows of Canada



Source: UNCTADStat and India Exim Bank Analysis

Envisaged Capital Investments into Canada

Notwithstanding the global slowdown due to the pandemic, according to the data by Financial Times, Canada received higher envisaged foreign capital investment in 2020 as compared to 2019. **Table 1.10** shows the trends in envisaged foreign capital investment, number of FDI projects and jobs created in Canada. According to the Financial Times' fDi Markets¹⁰, envisaged cumulative capital investment in the country out of total FDI projects during the period January 2010 to December 2021 stood at US\$ 247 billion, creating 363,707 jobs in the country.

¹⁰ fDi Markets tracks cross border investment in a new physical project or expansion of an existing investment which creates new jobs and capital investment. This data differs from official data on FDI flows as company can raise capital locally, phase their investment over a period of time, and can channel their investment through different countries for tax efficiency.

Table 1.10: Trends in Foreign Direct Investment Inflows to Canada

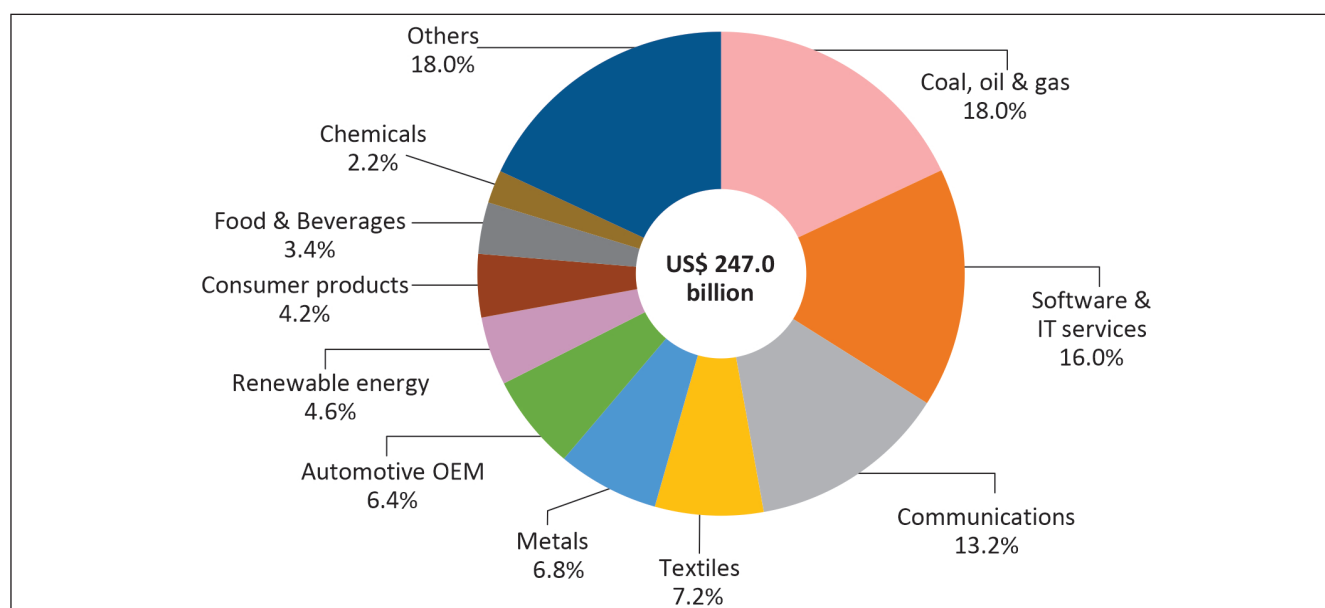
Year	Capital Expenditure (US\$ billion)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2010	19.7	338	33,816	289
2011	30.0	346	27,310	298
2012	12.9	336	25,274	303
2013	19.4	335	25,255	300
2014	18.6	455	30,363	353
2015	13.1	318	23,829	291
2016	11.5	309	25,662	278
2017	17.7	320	29,413	280
2018	51.7	410	40,505	342
2019	13.5	410	29,149	342
2020	17.3	323	34,844	288
2021	21.7	377	38,287	322
Total	247.0	4,277	3,63,707	2,978

Source: fDi Markets online database and India Exim Bank Analysis

Major Sectors Attracting Investment in Canada

According to the fDi Markets database, during 2010-2021, coal, oil and gas sector was the major recipient sector of capital investment in Canada, with an investment of US\$ 44.4 billion, followed by software and IT services and communications sectors, with investments amounting to US\$ 39.5 billion and US\$ 32.6 billion, respectively (**Chart 1.5**). In terms of number of projects, however, software & IT services sector is the major recipient (investments received in 910 projects during 2010-2021), followed by business services (541 projects), textiles (419 projects), and consumer products (305 projects).

Chart 1.5: Major Sectors Attracting Investment in Canada during 2010-2021



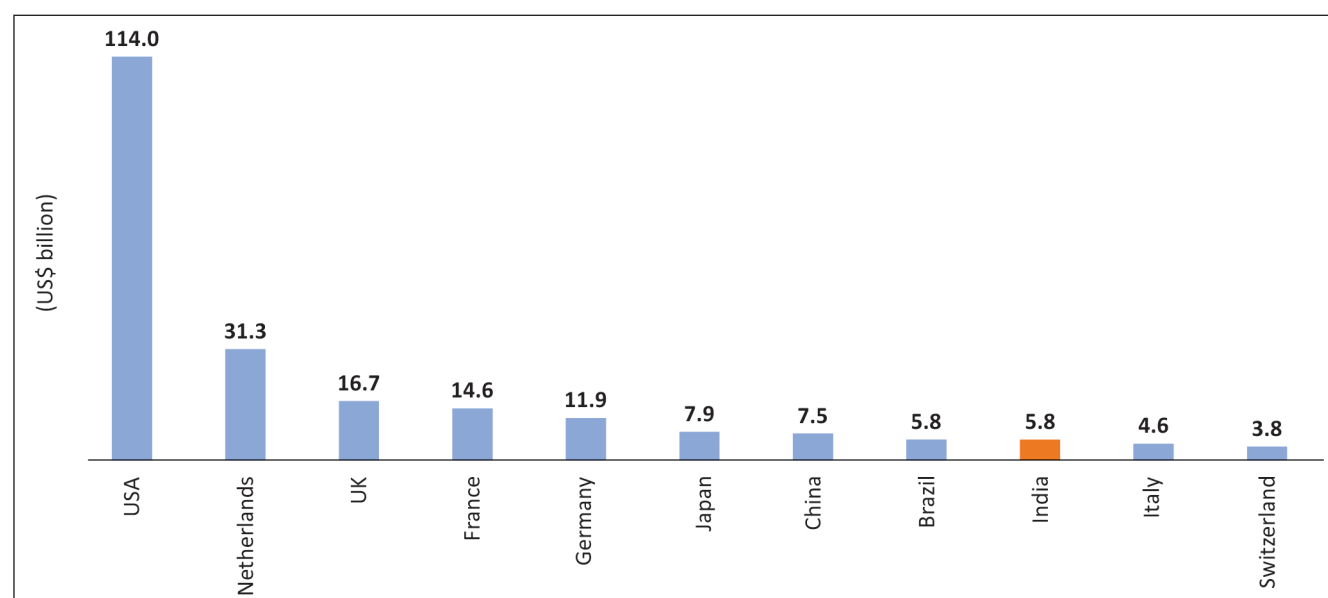
Source: fDi Markets online database and India Exim Bank Analysis

In terms of number of companies invested, it was again dominated by software & IT services (734 companies investing in the sector), followed by business services (425 companies), textiles (196 companies), and communication sectors (192 companies). In 2021, maximum capital investment went towards communications, software and IT services, automotive OEM, consumer products and pharmaceuticals.

Major Sources of Investment in Canada

The major investors in terms of FDI received in Canada during 2010-2021 are shown in **Chart 1.6**. The US was the largest investor in Canada during the period 2010-2021, contributing 46.1% of total FDI into Canada. The other major investors were Netherlands (12.7% of total inward FDI received by Canada), followed by UK (6.8%), France (5.9%), and Germany (4.8%). Of the total 4,277 investment projects took place in Canada during 2010-2021, the US invested in 2,084 projects, followed by UK in 362 projects, France in 336 projects, Germany in 230 projects, Switzerland in 129 projects and Japan in 123 projects. India was the 8th largest investor in terms of projects (103) during the same period. The top investors in 2021 include the US, UK, France, India, and Germany.

Chart 1.6: Major Investors in Canada during 2010-2021



Source: fDi Markets online database and India Exim Bank Analysis

Envisaged Capital Investments from Canada

According to fDi Markets database, envisaged cumulative capital investment from Canada for an aggregate 4,917 projects stood at US\$ 248.3 billion during 2010-2021, creating 565,107 jobs in FDI destination countries (**Table 1.11**).

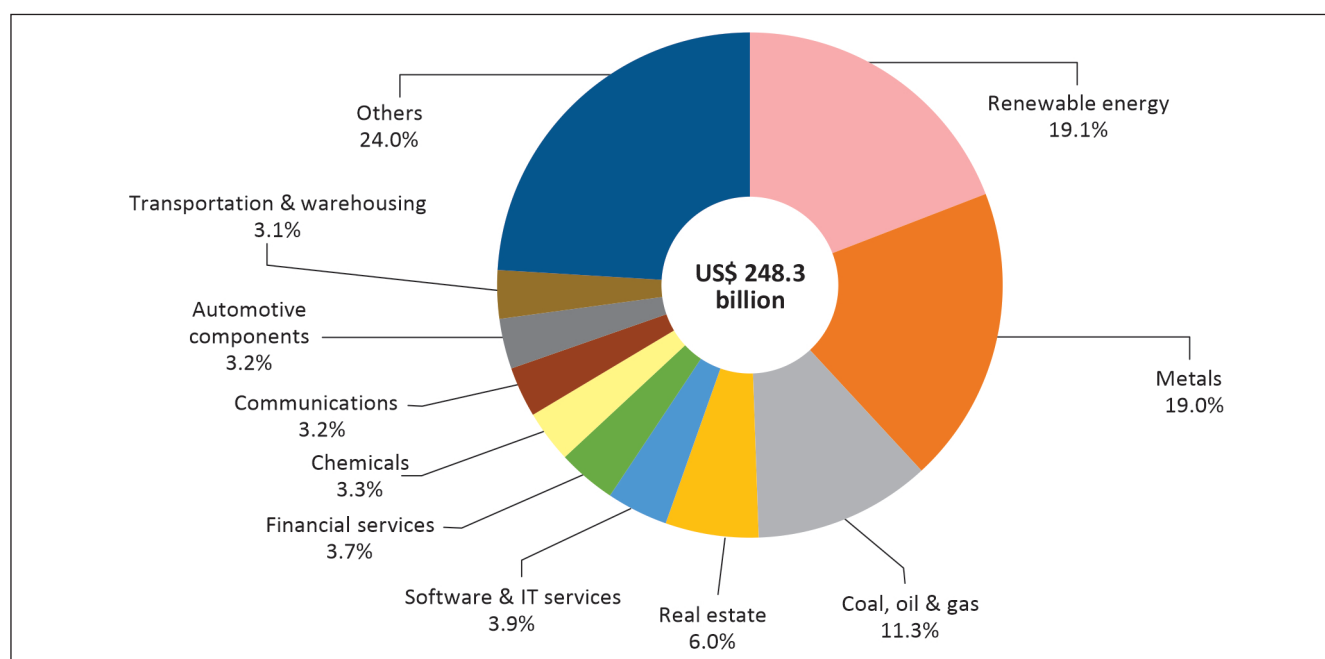
Table 1.11: Trends in Foreign Direct Investment Outflows from Canada

Year	Capital Expenditure (US\$ billion)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2010	20.2	327	43,568	234
2011	27.0	478	61,713	314
2012	22.2	416	45,553	280
2013	21.0	437	55,977	300
2014	27.6	439	60,185	311
2015	20.1	350	42,170	240
2016	16.7	372	44,860	260
2017	12.5	385	35,213	267
2018	20.5	459	50,501	325
2019	22.4	531	54,189	361
2020	17.7	312	29,408	249
2021	20.2	411	41,770	287
Total	248.3	4,917	5,65,107	2,330

Source: fDi Markets online database and India Exim Bank Analysis

In terms of sectors, renewable energy sector received maximum investment at US\$ 47.5 billion, with a share of 19.1% in total outward investment from Canada during the period 2010-2021, followed by metals (US\$ 47.2 billion), coal, oil & gas (US\$ 28.1 billion), real estate (US\$ 14.8 billion), software & IT services (US\$ 9.8 billion) and financial services (US\$ 9.3 billion) (**Chart 1.7**). In 2021, renewable energy sector received maximum investment, followed by real estate, communications and metals sectors.

Chart 1.7: Major Sectors Attracting Investment from Canada during 2010-2021

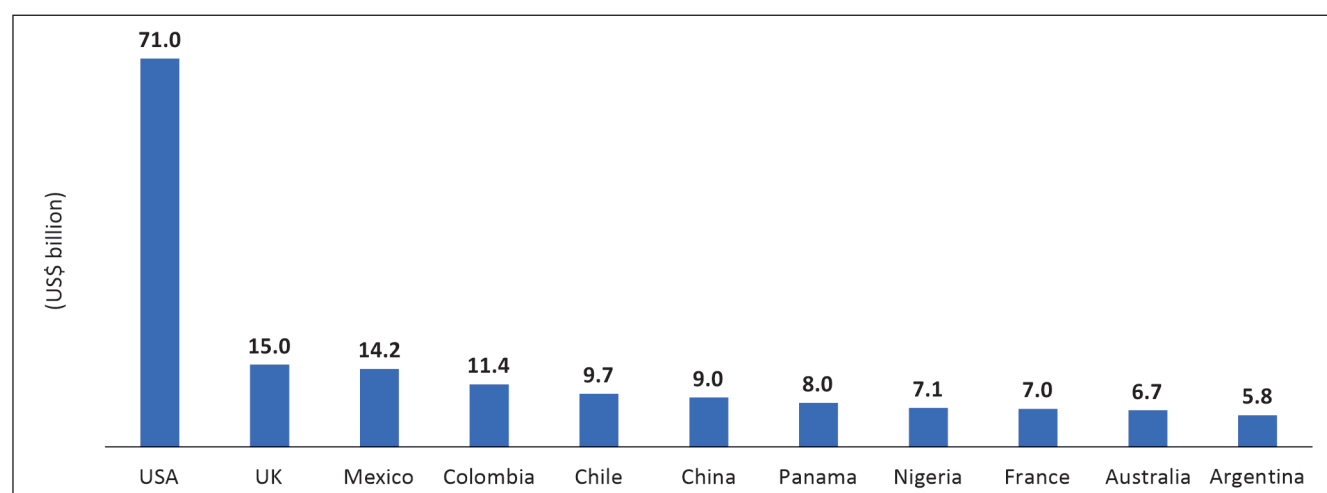


Source: fDi Markets online database and India Exim Bank Analysis

In terms of number of projects, however, software and IT services sector remain the major recipient (870 projects during 2010-2021), followed by business services (453 projects), financial services (382 projects), and metals (276 projects), while in terms of number of companies invested, it was again dominated by software and IT services (451 companies), followed by business services (243 companies), industrial equipment (184 companies), and metals sectors (174 companies).

The major destinations of Canada's outward investment during 2010-2021 include the US (28.6% of total value of outward investment by Canada), UK (6.1%), Mexico (5.7%), Colombia (4.6%), Chile (3.9%) and China (3.6%) (**Chart 1.8**). Of the total 4,917 projects, 1,862 projects went to the US, 379 projects to UK, 256 to France, 229 to Mexico and 228 projects to Germany during 2010-2021. During 2021, the US was the major investment destination of Canada, with a total capital expenditure of US\$ 8.0 billion (39.6% of total investment in 2021). Other major destinations in 2021 include UK, Romania, Taiwan, Germany and Argentina.

Chart 1.8: Major Investment Destinations of Canada during 2010-2021



Source: fDi Markets online database and India Exim Bank Analysis

General Preferential Tariff System¹¹

Canada's General Preferential Tariff (GPT) was brought into effect on 1 July, 1974 as part of a concerted international effort by industrialized countries to help developing countries expand their exports and thereby increase their foreign exchange earnings. Since its inception, the GPT rates and coverage have been modified several times. In 2003, the Government of Canada expanded the product coverage under the Least Developed Country Tariff (LDCT) to include essentially all goods, notably textiles, apparel, and footwear. The objectives sought under the LDCT are to reduce poverty in the world's poorest countries; to promote investment and development in the world's poorest countries; and to enhance economic development through the reduction of trade barriers by providing enhanced opportunities for access to the Canadian market. The Least Developed Country Tariff is the designation for LDC tariff rates under the GPT of Canada. The GPT rates range from duty free to reductions in the most-favored-nation rate, while the LDCT rates are duty-free. In 2013, Canada undertook a major review of the GPT, resulting in the graduation of 72 higher-income or trade-competitive countries as of January 1, 2015, and refocusing the program on countries most in need of this type of

¹¹ UNCTAD GSP Handbook on the Scheme of Canada, Third Edition, 2021

assistance¹². At the same time, Canada amended the LDCT rules of origin to ensure that the GPT changes have no effect on the ability of LDCs to continue to benefit from duty-free access into the Canadian market under the LDCT.

Canada-Bangladesh Trade Relations

Canada's commercial relationship with Bangladesh has grown significantly over the last decade. The value of bilateral merchandise trade has increased by more than four times from US\$ 462.1 million in 2004 to around US\$ 2.3 billion in 2021. During this period, Canadian merchandise exports to Bangladesh have increased over nine-fold. Canadian merchandise exports to Bangladesh were US\$ 793.2 million in 2021, of which close to 80% were agriculture items. Canadian merchandise imports from Bangladesh were US\$ 1.5 billion in 2021, and over 90% of imports were constituted by apparels¹³. Bangladesh has enjoyed duty-free market access to Canada, for most goods, since 2003, under the LDCT scheme.

Canada-Vietnam Trade Relations

Vietnam has been Canada's largest trading partner in the ASEAN region since 2015. In 2021, two-way merchandise trade between Canada and Vietnam totalled US\$ 8.4 billion, up from US\$ 431 million in 2004, comprised mainly of imports from Vietnam (approximately 94% of the total trade). Canada's merchandise exports to Vietnam in 2021 was valued at approximately US\$ 525.6 million and imports were valued at US\$ 7.8 billion. Canada and Vietnam are members of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP establishes duty-free access for trade in goods between Canada and Vietnam, along with the elimination of tariffs for Canada in crucial export areas. The agreement also serves to help Vietnamese consumers purchase high-quality products from Canada at affordable and reasonable prices. Canada has eliminated 94% of tariff lines for Vietnamese imports, and Vietnam has eliminated approximately 66% of tariff lines for Canadian imports. The priority areas in Vietnam for Canadian commercial interests are agriculture and agri-food, education, information and communication technologies, clean technology, infrastructure, aerospace, and life sciences¹⁴.

¹² Effective 1 January 2015, Canada withdrew entitlement to GPT from many countries including Brazil, Russia, China and India.

¹³ ITC Trademap

¹⁴ Canada International- Government of Canada

2

India-Canada Bilateral Trade and Investment Relations

India and Canada share a longstanding relationship, underpinned by shared values of democracy, pluralism, expanding economic engagement, regular high-level interactions and long-standing people-to-people ties. Canada is home to one of the largest communities of Indian origin, with approximately 4% of Canadians being of Indian heritage (1.4 million people), in addition to large number of Indian students undergoing education in Canadian Universities and Institutions. In recent years, both countries have been working to enhance bilateral cooperation in a number of areas of mutual importance. India remains a priority market for Canada. With Canada aiming to diversify its trade partners in the recent years, augmenting India-Canada trade and investment relationship hold great potential.

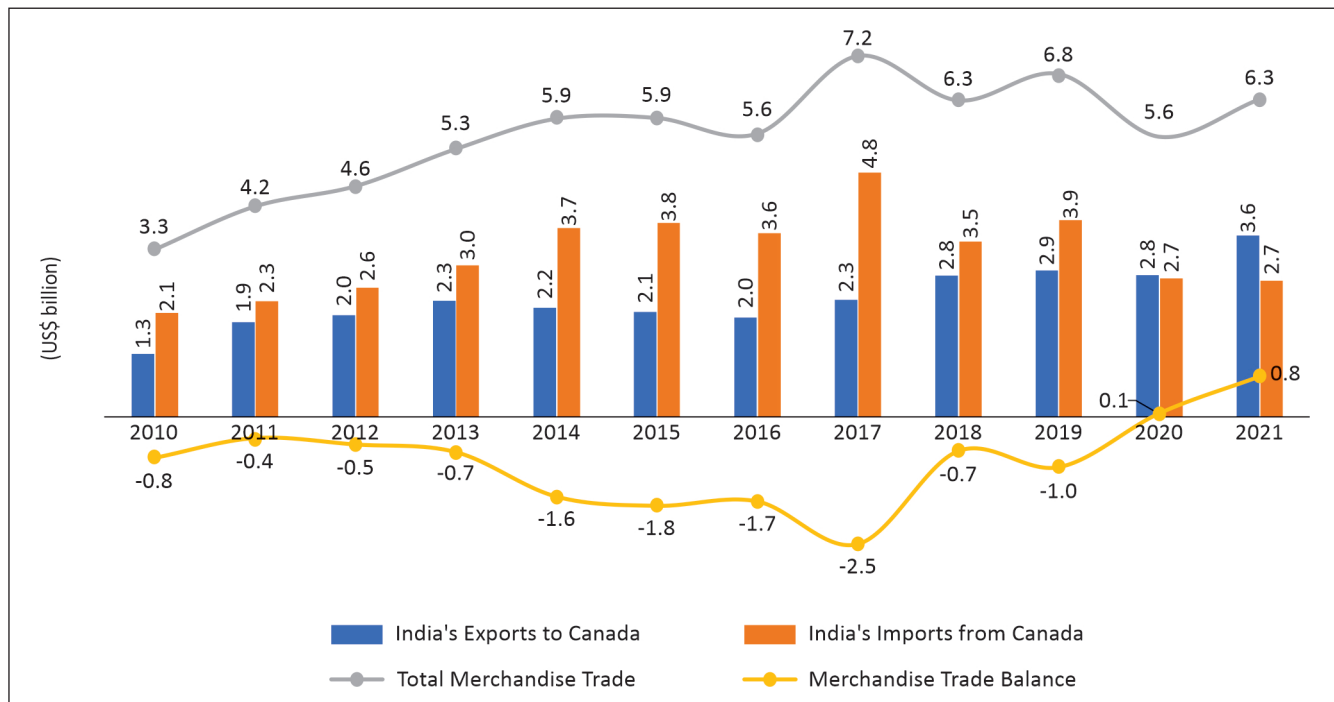
Trade in Goods

India and Canada bilateral trade in merchandise goods amounted to US\$ 1,093.3 million in 2001, with India's exports amounting to US\$ 576.7 million and imports amounting to US\$ 516.6 million in the same year. Merchandise trade almost doubled to US\$ 1,966.9 million by 2005. During this time, both exports and imports witnessed significant growth. Merchandise exports stood at US\$ 991.1 million, and imports stood at US\$ 975.7 million in 2005. During these years (2001-05), India ran a marginal trade surplus with Canada. Since 2006, India started witnessing a trade deficit with Canada, however, in 2020, India has again posted a marginal trade surplus with Canada.

Merchandise trade has since then grown consistently. It stood at US\$ 3.3 billion in 2010, US\$ 5.9 billion in 2015 and peaked at US\$ 7.2 billion in 2017. In 2017, imports from Canada were an all time high at US\$ 4.8 billion (on account of increased imports of raw diamonds) and trade deficit was also biggest at US\$ 2.5 billion. In 2020, total trade came down to US\$ 5.6 billion from US\$ 6.8 billion in the previous year, on account of COVID-19 induced global economic disruptions. India's exports were, however, more resilient compared to imports from Canada.

Trade between both countries witnessed further momentum in 2021, with total trade reaching US\$ 6.3 billion in 2021, with exports of US\$ 3.6 billion and imports of US\$ 2.7 billion. India's merchandise trade surplus reached an all-time high of US\$ 841.6 million in 2021 (**Chart 2.1**). In 2021, India was Canada's 14th largest export destination, 13th largest import source, and 13th largest trading partner overall.

Chart 2.1: India-Canada Bilateral Merchandise Trade



Source: ITC Trade Map and India Exim Bank Analysis

Moreover, Canada's share in India's global exports has come down from 1.3% in 2001 to 0.9% in 2021, while share of India in Canada's global imports has increased from 0.3% in 2001 to 1.0% in 2021 (**Chart 2.2**).

Chart 2.2: India's Trade with Canada vis a vis Global Trade (% Share)



Source: ITC Trade Map and India Exim Bank Analysis

India-Canada Merchandise Trade: Major Products

India's exports to Canada amounted to US\$ 3.6 billion in 2021. **Table 2.1** presents the top export items from India to Canada in the years 2018, 2019, 2020 and 2021. Pharmaceutical products, with a share of 10.2% in India's overall exports to Canada in 2021, were the top export items. Organic chemicals (7%), pearls, precious or semi-precious stones and metals (6.8%), articles of iron and steel (6.1%), machinery and mechanical appliances (5.5%), and other made-up textiles (5.4%) were the other major export product categories from India to Canada in 2021.

Table 2.1: India's Major Export Items to Canada (US\$ million)

HS Code	Product	2018	2019	2020	2021	% Share in 2021
	India's Exports to Canada	2798.6	2901.6	2812.1	3557.2	100.0%
30	Pharmaceutical products	249.2	269.9	350.2	363.7	10.2%
29	Organic chemicals	196.9	226.5	201.0	249.3	7.0%
71	Natural or cultured pearls, precious or semi-precious stones and metals	121.6	129.7	102.6	240.8	6.8%
73	Articles of iron or steel	287.1	335.0	339.1	217.8	6.1%
84	Machinery and mechanical appliances	200.6	228.6	154.9	195.2	5.5%
63	Other made-up textile articles; sets; worn clothing and textile articles	119.9	122.0	126.2	192.4	5.4%
72	Iron and steel	53.8	54.4	49.5	183.9	5.2%
39	Plastics and articles	97.1	104.3	101.6	149.5	4.2%
61	Articles of apparel and clothing accessories, knitted or crocheted	119.2	119.1	101.1	145.2	4.1%
03	Fish and crustaceans, molluscs and other aquatic invertebrates	108.6	96.2	109.6	136.1	3.8%
87	Vehicles other than railway or tramway rolling stock, and parts	220.6	162.5	116.5	111.9	3.1%
85	Electrical machinery, equipment and parts	58.8	60.5	55.9	87.8	2.5%
62	Articles of apparel and clothing accessories, not knitted or crocheted	120.1	103.9	74.7	86.4	2.4%
86	Railway or tramway locomotives, rolling stock and parts	1.4	2.6	18.8	82.0	2.3%
76	Aluminium and articles	29.4	24.0	37.9	71.1	2.0%

Source: ITC Trade Map and India Exim Bank Analysis

India imported merchandise goods worth US\$ 2.7 billion from Canada in 2021. Mineral fuels and oils (mainly coal and crude oil), with a share of 26.6% in 2021, were the top import items for India from Canada. Other major import items for India in 2021 were edible vegetable (15.2%), pulp of wood (11.6%), fertilizers (7.7%),

and iron and steel (5.1%). **Table 2.2** lists India's top imports from Canada for the years 2018, 2019, 2020 and 2021.

Table 2.2: India's Major Import Items from Canada (US\$ million)

HS Code	Product	2018	2019	2020	2021	% Share in 2021
	India's Imports from Canada	3478.1	3900.6	2744.7	2714.5	100.0%
27	Mineral fuels, mineral oils, and products of distillation	1072.3	1301.2	627.8	721.4	26.6%
07	Edible vegetables, certain roots and tubers	115.3	439.3	505.6	411.9	15.2%
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper	301.0	308.4	198.3	314.1	11.6%
31	Fertilisers	386.7	346.8	427.8	209.3	7.7%
72	Iron and steel	131.6	154.8	105.8	139.0	5.1%
84	Machinery, mechanical appliances and parts	203.1	184.9	125.0	134.5	5.0%
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	191.7	159.5	102.4	111.4	4.1%
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments	58.7	53.1	49.1	90.1	3.3%
71	Natural or cultured pearls, precious or semi-precious stones, precious metals	450.8	395.9	120.7	83.9	3.1%
76	Aluminium and articles	28.2	38.0	39.3	78.4	2.9%
85	Electrical machinery, equipment and parts	103.8	82.9	46.3	56.5	2.1%
75	Nickel and articles	26.1	23.2	39.1	50.3	1.9%
26	Ores, slag, and ash	166.3	116.3	127.3	45.7	1.7%
39	Plastics and articles	28.0	27.9	25.4	38.9	1.4%
63	Other made-up textile articles; sets; worn clothing and worn textile articles	21.1	21.9	16.3	29.0	1.1%

Source: ITC Trade Map and India Exim Bank Analysis

Product Destination Matrix

Table 2.3 maps Canada's global imports with India's export capabilities for the year 2021.

Table 2.3: Product Destination Matrix, 2021

Top Import Sources of Canada	HS Code (2 digit)	Product	Canada's Global Imports (US\$ bn)	India's Exports to Canada (US\$ bn)	India's Exports to Canada as % of Canada's Global Imports	India's Global Exports (US\$ bn)	Top Export Destinations of India
USA (48.5%), China (14%), Mexico (5.4%), Germany (3.1%), Japan (2.5%)		All Products	489.7	3.6	0.7%	394.8	USA (18.1%), UAE (6.4%), China (5.8%), Bangladesh (3.6%), Hong Kong (2.9%),
USA (43%), China (19.8%), Mexico (6.7%), Germany (5.1%), Japan (4.2%)	84	Machinery, mechanical appliances and parts	70.8	0.2	0.3%	24.2	USA (21.7%), Germany (5.4%), Thailand (4.6%), UK (4.4%), China (4.3%)
USA (60.7%), Mexico (11.4%), Japan (7.2%), South Korea (4.9%), Germany (4.4%)	87	Vehicles other than railway or tramway rolling stock	67.4	0.1	0.2%	18.9	USA (14.4%), Mexico (7.4%), South Africa (6.3%), Bangladesh (4.8%), Nepal (4.4%)
China (35.8%), USA (23.7%), Mexico (10.5%), Vietnam (5.8%), Japan (3.3%)	85	Electrical machinery, equipment and parts	46.2	0.1	0.2%	18.8	USA (17.9%), UAE (13.9%), China (5.2%), Germany (4.9%), UK (4.7%)
USA (73.6%), Saudi Arabia (5.7%), Nigeria (5.3%), Netherlands (3.5%), Colombia (1.4%)	27	Mineral fuels, oils and products of distillation	30.3	-	-	56.4	Singapore (9.9%), UAE (8.4%), USA (7.3%), Netherlands (6.9%), Australia (5.9%)
USA (67.7%), China (15.7%), Germany (2%), Mexico (1.8%), South Korea (1.5%)	39	Plastics and articles	20.5	0.1	0.5%	8.6	USA (16.3%), UAE (5.3%), China (4.8%), Nepal (3.9%), Italy (3.7%)
USA (33.6%), Peru (12%), Brazil (9.4%), South Africa (4.1%), Egypt (3.9%)	71	Pearls, precious stones and metals	18.7	0.2	1.1%	38.2	USA (37%), Hong Kong (24.9%), UAE (12.6%), Belgium (6.4%), Israel (3.8%)
USA (39.3%), Germany (12.9%), Switzerland (9.9%), Ireland (5.5%), Belgium (4.2%)	30	Pharmaceutical products	18.5	0.4	2.2%	19.5	USA (34%), South Africa (3.3%), UK (3.3%), Nigeria (2.9%), Russia (2.6%)

Top Import Sources of Canada	HS Code (2 digit)	Product	Canada's Global Imports (US\$ bn)	India's Exports to Canada (US\$ bn)	India's Exports to Canada as % of Canada's Global Imports	India's Global Exports (US\$ bn)	Top Export Destinations of India
USA (42.1%), China (10.9%), Mexico (8.1%), Germany (6.8%), Japan (3.8%)	90	Optical, photographic and medical apparatus	13.3	-	-	3.9	USA (18.9%), Germany (6.6%), France (6%), China (5.5%), Singapore (4.9%)
USA (45.8%), China (24.8%), Taiwan (4%), Mexico (3.2%), Germany (2.2%)	73	Articles of iron or steel	11.4	0.2	1.8%	8.4	USA (28.6%), Germany (5.1%), UK (5.1%), UAE (4.7%), Netherlands (3.2%)
USA (40.8%), Brazil (7%), South Korea (7%), Turkey (5.5%), China (5.3%)	72	Iron and steel	10.5	0.2	1.9%	21.2	Italy (10%), Belgium (7.2%), China (6.9%), Nepal (6.5%), Vietnam (6.5%)
China (44.1%), USA (24.9%), Mexico (7.9%), Vietnam (6%), Italy (2.9%)	94	Furniture, bedding and mattresses	9.9	0.1	1.0%	2.8	USA (47.2%), Netherlands (6.9%), Germany (6.7%), France (5.7%), UK (5.5%)
USA (37.1%), China (19.4%), Malaysia (8.9%), Japan (4.9%), Mexico (3.1%)	40	Rubber and articles	7.6	0.1	1.3%	4.5	USA (18.5%), Germany (7%), Brazil (4.4%), UK (3.7%), Netherlands (3.4%)
USA (45.6%), China (12.2%), Belgium (7.5%), Ireland (6.3%), India (4.2%)	29	Organic chemicals	7.3	0.2	2.8%	21.2	USA (14%), China (11.9%), Saudi Arabia (4.3%), Netherlands (4.3%), Germany (3.9%)
USA (72.3%), China (7.7%), Germany (3.3%), UK (2.7%), Japan (1.8%)	38	Miscellaneous chemical products	6.9	-	-	6.5	USA (19.6%), Brazil (18.6%), Japan (3.3%), China (3.1%), Bangladesh (2.5%)
USA (53.5%), France (11.9%), UK (7%), Mexico (6.1%), China (3.4%)	88	Aircraft, spacecraft and parts	6.5	-	-	1.1	USA (34.6%), France (17%), UK (9.9%), Singapore (8%), Germany (5.4%)

Note: “-” signifies nil or negligible, imports in c.i.f. and exports in f.o.b.

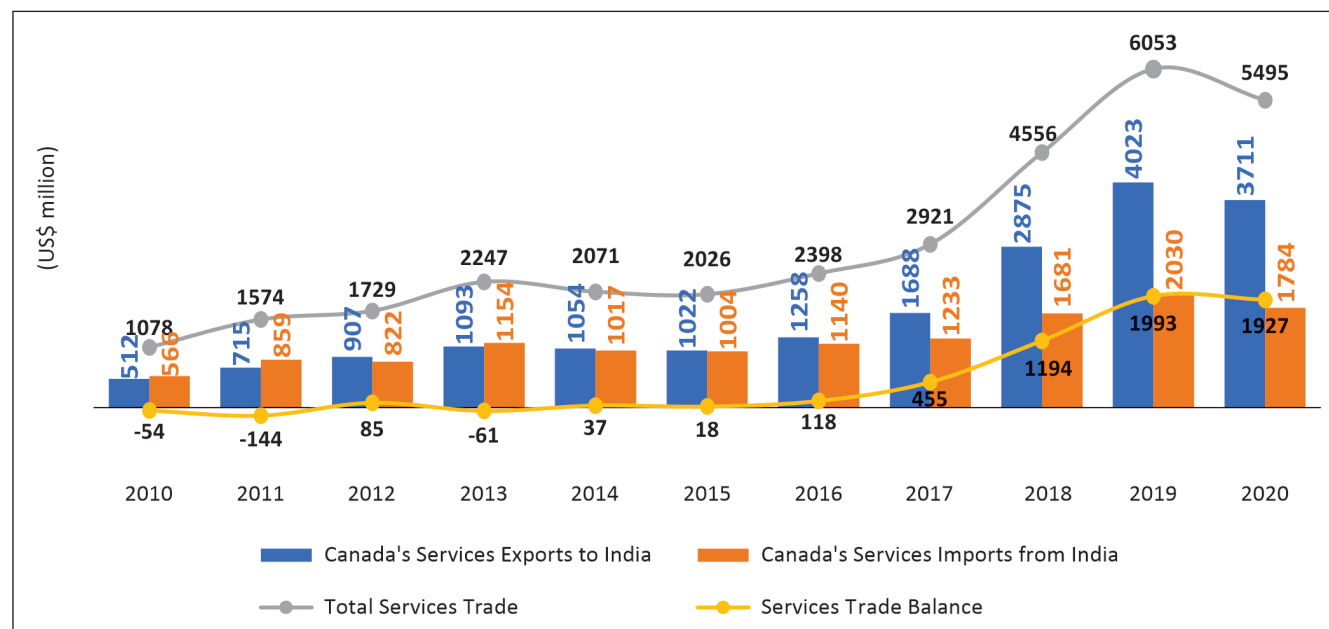
Source: ITC Trade Map and India Exim Bank Analysis

India-Canada Services Trade

Canada's total services trade with India increased from US\$ 1.1 billion in 2010 to US\$ 5.5 billion in 2020 (as per latest data available) **(Chart 2.3)**. Canada maintained a services trade deficit with India initially, which

later changed to a surplus since 2014, attributed to faster rate of increase in services exports from Canada as compared to services imports from India.

Chart 2.3: Canada's Services Trade with India



Source: WTO Database and India Exim Bank Analysis

Canada's Services Exports to India

India was the 5th largest destination for Canada's services exports during 2020. The services exports of Canada to India have increased steadily over the last decade, from US\$ 0.5 billion in 2010 to US\$ 3.7 billion in 2020. Canada's services exports to India peaked in 2019.

With a share of 88.5%, travel services accounted for the largest share in Canada's total services exports to India in 2020 (**Table 2.4**). Other sectors which accounted for a major share of Canada's exports to India included other business services (4.2%), and transport (2.3%), among others.

Table 2.4: Services Exports of Canada to India (US\$ million)

Product/Sector	2010	2015	2017	2019	2020
Canada's Services Exports to India	512	1022	1688	4023	3711
Government goods and services	33	37	46	48	26
Commercial services	479	985	1465	3975	3685
Goods-related services	3	14	17	-	-
Transport	88	92	96	116	84
Travel	309	769	1219	3641	3286
Other commercial services	79	109	133	175	-
Construction	1	6	-	-	-
Financial services	18	2	4	-	2

Product/Sector	2010	2015	2017	2019	2020
Charges for the use of intellectual property	4	10	18	20	21
Telecommunications, computer, and information services	17	34	33	11	11
Personal, cultural, and recreational services	3	4	8	20	-
Other business services	39	54	72	153	157
Research and development services	5	1	2	20	18
Professional and management consulting services	32	31	39	63	67
Technical, trade-related, and other business services	20	39	64	70	72

Note: “-” indicates not available or negligible

Source: WTO Database and India Exim Bank Analysis

Canada’s Services Imports from India

In 2020, India was the 9th largest services source to Canada, with a share of 1.8% in Canada’s total services imports. During 2010-2020, the total services imports from India have increased from US\$ 0.6 billion to US\$ 1.8 billion (**Table 2.5**).

Table 2.5: Services Imports of Canada from India (US\$ million)

Product/Sector	2010	2015	2017	2019	2020
Canada's Services Imports from India	566	1004	1233	2030	1784
Travel	91	106	106	453	191
Other commercial services	373	780	1000	1256	–
Construction	1	–	–	–	–
Insurance and pension services	–	–	–	–	1
Financial services	6	9	6	–	10
Charges for the use of intellectual property	1	1	5	15	15
Telecommunications, computer, and information services	171	485	567	731	736
Personal, cultural, and recreational services	10	19	16	24	-
Other business services	184	267	405	641	679
Research and development services	16	36	92	200	198
Professional and management consulting services	81	57	124	193	190
Technical, trade-related, and other business services	88	174	190	249	291

Note: “-” indicates not available or negligible

Source: WTO Database and India Exim Bank Analysis

Canada’s services imports from India consist mainly of commercial services with negligible share of government services. Telecommunication, computer and information services accounted for 41.3% of services imports from India (92.4% of which is attributed to computer services), followed by other business services (38.1%) and travel (10.7%). In disaggregated terms, technical, trade-related and other business services accounted for 42.9% of the business services imports from India, followed by professional and management consulting services (29.2%) and research and development services (22.7%). Technical, trade-related and other business services

cover architectural, engineering, scientific and other technical services, waste treatment and de-pollution, agricultural and mining services, operating leasing services, trade-related services and other business services.

India's Bilateral Investment with Canada

Over the years, several important structural reforms have been undertaken by the Government of India such as Goods and Services Tax (GST) reforms, programmes such as 'Make in India', 'Digital India', and 'Skill India', relaxing FDI norms across sectors such as defence, PSU oil refineries, power exchanges, stock exchanges, and telecom, in addition to improvements in the Ease of Doing Business, enhancing India's position as a major investment destination in the world.

While the cross-border investment flows between Canada and India have grown substantially during the last ten years, it remains modest when compared to the level of investment received by both the countries from rest of the world. Both the countries have been in negotiations to finalize a Foreign Investment Promotion and Protection Agreement (FIPA), which is expected to improve the investor sentiments through a framework of legally binding rights and obligations.

India's Investments in Canada

According to the Annual Report of 2021-22 of the Investment Canada Act, during 2021-22, India was the 9th largest investor in Canada, with 26 investments in the country. During 2020-21, India was the fifth largest investor in Canada, accounting for 23 investments, mainly in business and services industries, followed by other services and wholesale and retail trade¹⁵.

According to the data derived from the Ministry of Finance and the Reserve Bank of India (RBI), India's approved FDI outflows to Canada stood at US\$ 1.1 billion during the period April 2010-March 2022. The major sectors to which FDI outflows were approved during the period were manufacturing (38.1% of total approved investments), followed by financial, insurance and business services (37.3%), electricity, gas and water (7%), wholesale, retail trade, restaurants and hotels (6.7%) and agriculture and mining (5.9%).

To get a more meaningful understanding on the trends in Indian overseas investments, the study has drawn upon the data collated by the Financial Times through its online database tracking cross-border greenfield investment, viz. fDi Markets. According to Financial Times' fDi Markets, during 2010-2021, total capital investment of India in Canada stood at a cumulative amount of US\$ 5.8 billion, in 103 projects by 66 Indian companies, and creating 16,989 jobs in Canada (**Table 2.6**).

¹⁵ Annual Report 2021-22, Investment Canada Act, Innovation, Science and Economic Development Canada

Table 2.6: Summary of Capex, Projects, and Job Created in Canada by India

Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2010	1,095.8	8	1,733	7
2011	407.3	11	1,492	8
2012	1,453.9	8	1,534	7
2013	1.6	2	14	2
2014	334.3	9	919	9
2015	102.0	7	1,134	6
2016	57.4	11	2,117	8
2017	83.9	5	589	4
2018	311.3	9	1,179	8
2019	962.7	12	1,185	10
2020	97.4	7	784	6
2021	865.3	14	4,309	9
Total	5,772.9	103	16,989	66

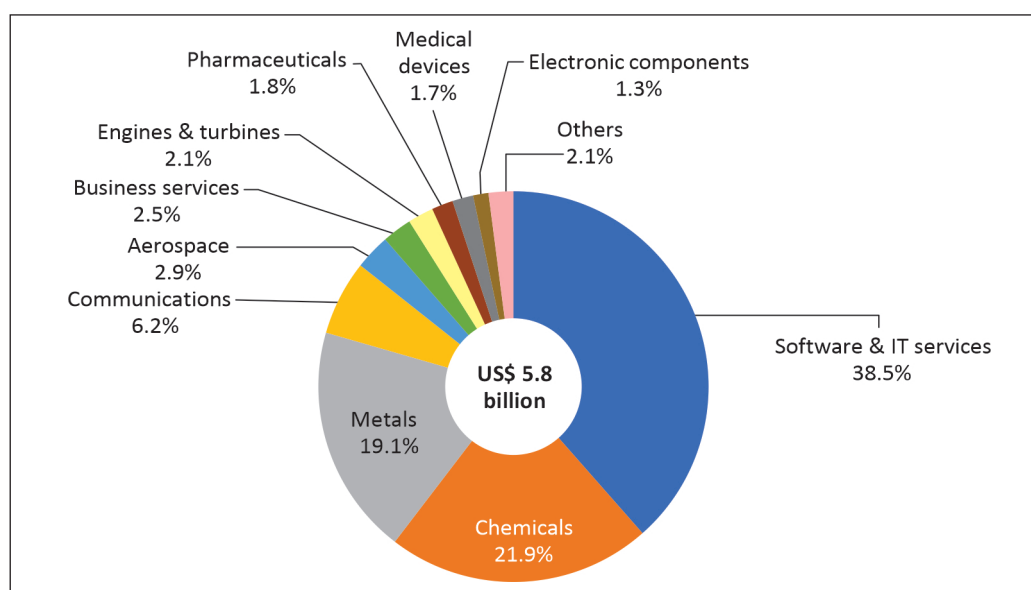
Source: fDi Markets online database and India Exim Bank Analysis

Sector-Wise Indian Investments in Canada

The highest number of projects in Canada by India during the decade (2010-2021) have been in software and IT services (41 projects), business services (31 projects), and chemicals, communications, financial services, and pharmaceuticals (4 projects each), among others.

In terms of capital investments, the largest share has been in the software and IT services sector (US\$ 2.2 billion or 38.5% of Indian investments to Canada), followed by chemicals (US\$ 1.3 billion or 21.9%), and metals (US\$ 1.1 billion or 19.1%), among others (**Chart 2.4**).

Chart 2.4: Major Sectors Attracting FDI from India in Canada (2010-2021)



Source: fDi Markets online database and India Exim Bank Analysis

Indian companies in Canada are active in the fields such as Information Technology, software, steel, natural resources and banking sectors. The major Indian companies in terms of capital investment in Canada during 2010 to 2021 were Indian Farmers Fertiliser Cooperative (IFFCO), Essar Steel, Tech Mahindra, Zoho, Infosys Technologies and HCL Technologies, among others. Major Indian companies present in Canada include TATA Consultancy Services, Aditya Birla Group, Wipro and Infosys.

Canada's Investments in India

The size and growth potential of Indian economy, along with availability of skilled labour, attracts increased FDI into India from Canada, making the country one of the leading G7 investors in India. According to data derived from Department for Promotion of Industry and Internal Trade (DPIIT), Government of India, Canada was the 20th largest FDI investor in India, with an investment of US\$ 2.5 billion during April 2000 to March 2022, accounting for 0.4% of total investments into India during the period. According to Invest India, services, infrastructure and energy together accounted for 53% of total FDI inflows from Canada to India.

According to Financial Times' fDi Markets, during 2010-2021, envisaged investment from Canada to India stood at a cumulative amount of US\$ 3.2 billion, in 121 projects by 88 Canadian companies, resulting in 25,314 jobs in India (**Table 2.7**).

Table 2.7: Summary of Capex, Projects, and Job Created in India by Canada

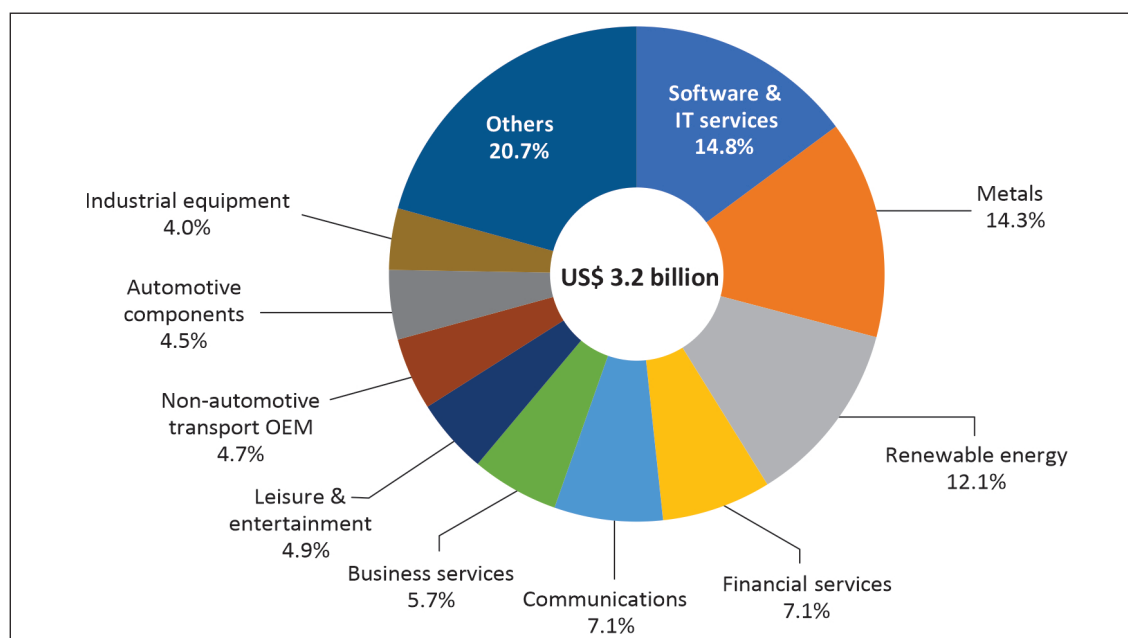
Year	Capital Expenditure (US\$ million)	No. of Projects	No. of Jobs Created	No. of Companies Invested
2010	98.8	6	2,080	6
2011	418.5	9	2,484	8
2012	322.6	11	2,376	9
2013	377.6	11	1,687	10
2014	488.3	15	3,907	14
2015	240.7	8	1,187	7
2016	432.4	18	2,739	15
2017	132.6	9	1,797	8
2018	202.1	12	1,699	9
2019	119.8	9	1,890	8
2020	60.4	4	880	3
2021	342.2	9	2,588	7
Total	3,235.9	121	25,314	88

Source: fDi Markets online database and India Exim Bank Analysis

Sector-Wise Investments into India from Canada

In terms of Canadian investments in India, the larger share has been in the sector of software and IT services (US\$ 480.5 million), metals (US\$ 461.4 million), renewable energy (US\$ 390.1 million), financial services (US\$ 231.1 million) and communications (US\$ 229.2 million) during 2010-2021 (**Chart 2.5**).

Chart 2.5: Major Sectors Attracting FDI from Canada to India (2010-2021)



Source: fDi Markets online database and India Exim Bank Analysis

More than 400 Canadian companies have a presence in India, and more than 1,000 companies are actively pursuing business in the Indian market. The major Canadian companies investing in India during 2010 to 2021 were SkyPower, AIM, Magnellan Aerospace, Bombardier, IMAX, Magna International and Mc Cain Foods, among others. Other Canadian companies present in India include Sun Life Financial Inc., IBI Group, CPP Investment Board, CDPQ, OMERS, Ontario Teachers' Pension Plan, British Columbia Investment Management Cooperation, Fairfax Financial Holdings Limited, Brookfield Asset Management Inc,¹⁶ etc. among others.

¹⁶ Invest India

3

Opportunities For Enhancing India's Trade Relations With Canada

The previous chapter has established the importance in terms of bilateral trade and investment for Canada and India. With high growth trajectory of India's trade and investment with Canada, there remains huge untapped potential in enhancing India's economic relations with Canada. The large number of Indian immigrants and students in Canada further strengthen the need to enhance this relationship. The ongoing talks for a trade agreement between the countries have set the stage for enhancing future bilateral partnership. However, an FTA will only be beneficial if there exists complementarity between the export supply of one country to the import demand of the other country.

Thus, it is important to assess the level of complementarity between India and Canada while analysing the feasibility of a prospective FTA between both the countries. The trade complementarity index (TCI) between two countries shows how well the structures of foreign trade of India and Canada fit to understand the utility of an FTA. The TCI measures the extent to which a country's export profile matches the import profile of the partner country, in the sense that what a country exports overlaps with what the other country imports and provides an indication of the prospects for enhanced trade flows. It is a normalized index, which takes values between 0 and 100, with higher values denoting greater complementarity. The TCI was first proposed by Kojima Kiyoshi and perfected by Peter Drysdale in 1967, and the major proponents of the TCI (Michaely, 1996; Yeats, 1998) argue that the higher the value of the trade complementarity index, the more favorable the outcome of a proposed FTA would be on its potential members.

The TCI between countries 'k' and 'j' is defined as:

$$TCI_{ij} = 100 (1 - \text{sum} (|m_{ik} - x_{ij}| / 2))$$

where,

x_{ij} : Share of good 'i' in Global Exports of Country 'j'

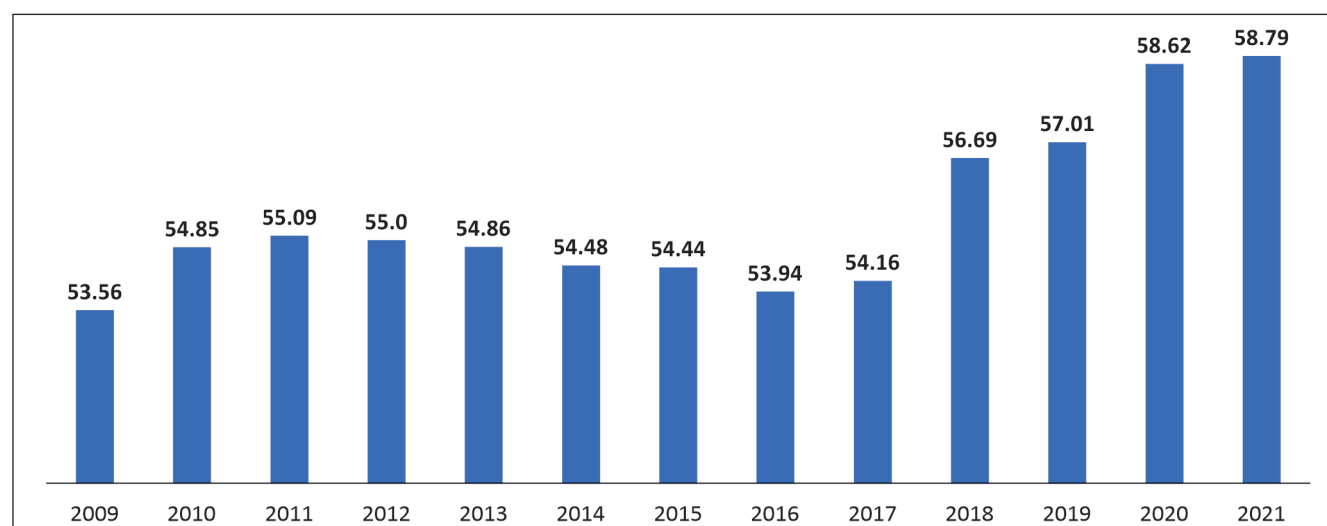
m_{ik} : Share of Good 'i' in Global Imports of Country 'k'

The index is zero when no goods are exported by one country or imported by the other and 100 when the export and import shares exactly match.

During the period 2009-2021, the complementarity index for profile of Indian exports to Canada's imports ranges from 53.56 to 58.79. This indicates a substantial complementarity in India's exports and Canada's imports. India's export profile matches with the import profile of Canada, which indicates that India's exports have a corresponding demand in Canada. The index records the highest value in 2021 at 58.79. Over the

years, the value of the index is rising which shows that India's export profile is converging towards Canada's import profile (**Chart 3.1**).

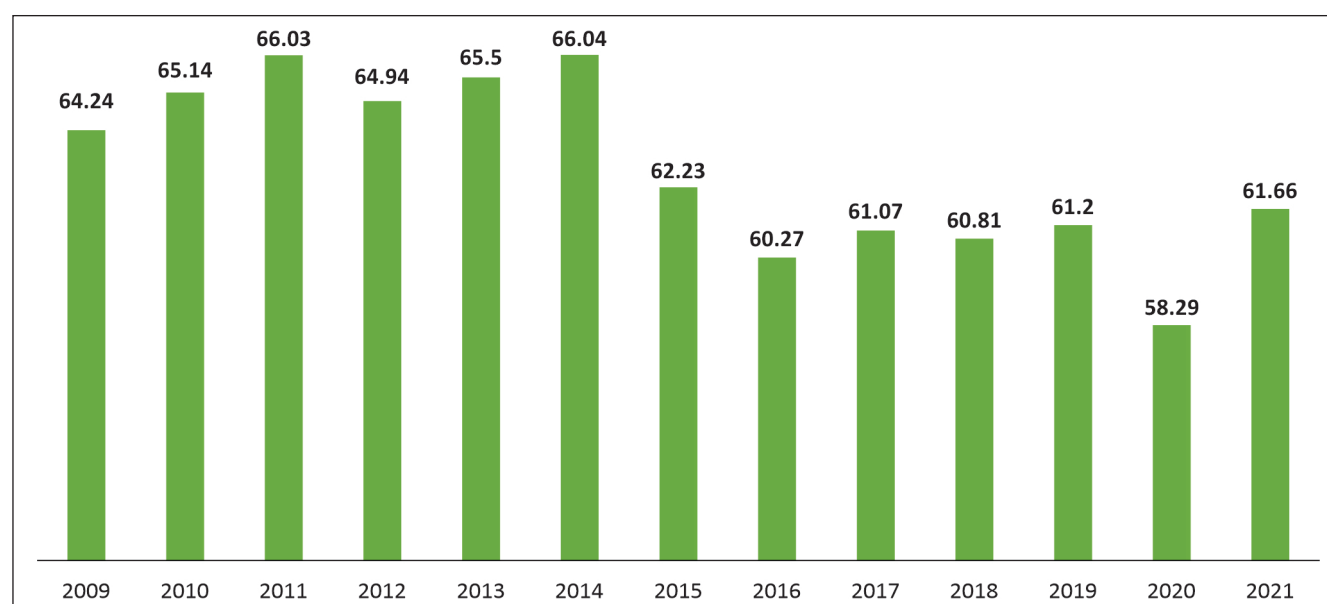
Chart 3.1: India's Merchandise Trade Complementarity with Canada



Source: WITS Database, World Bank and India Exim Bank Analysis

During the period 2009-2021, the complementarity index for the Canada's exports profile to India's imports ranges from 58.29 to 66.04. This indicates a substantial complementarity in Canada's exports and India's imports. Canada's export profile matches with the import profile of India which indicates that Canada's exports have a corresponding demand in India. The index was at its peak in 2014, at 66.04. However, over the years, the value of the index is seen to be moderating (**Chart 3.2**).

Chart 3.2: Canada's Merchandise Trade Complementarity with India



Source: WITS Database, World Bank and India Exim Bank Analysis

Revealed Comparative Advantage

Analysing the key products where India has comparative advantage and match it with Canada's import demand for these products are necessary while negotiating for an India-Canada FTA. Quantification of comparative advantage helps in identification of products where exports from India have been performing well, as also those where success has been limited, although opportunities are significant.

Revealed Comparative Advantage (RCA) is a measure which has been used extensively to help assess a country's export potential/competitiveness. It helps in identifying categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world trade scenario. It provides useful information about potential trade prospects with new partners. The basic assumption underlying the concept of revealed comparative advantage is that the trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects.

As per Balassa's (1965) measure, RCA index for country *i* for commodity *j* is:

$$RCA_{ij} = (x_{ji}/X_i) / (x_{jw}/X_w)$$

where,

x_{ji} : Exports of Commodity 'j' from Country 'i'

X_i : Total Exports from Country 'i'

x_{jw} : Total Exports of Commodity 'j' from World

X_w : Total Exports from World

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

Since the RCA analysis is used in regard to one country's export profile with reference to the world, the above formula of revealed comparative advantage has been modified to assess India's competitiveness in bilateral trade relations with Canada.

$$RCA_{ijc} = (x_{ijc}/X_{ic}) / (x_{wjc}/X_{wc})$$

Where,

x_{ijc} : India's Exports of commodity 'j' to Canada

X_{ic} : India's Total Exports to Canada

x_{wjc} : World Exports of commodity 'j' to Canada

X_{wc} : Total Exports from World to Canada

The Normalized Revealed Comparative Advantage (NRCA) index demonstrates the capability of revealing the extent of comparative advantage that a country has in a commodity with more precision and consistency. NRCA can be defined in the following manner.

$$NRCA_{ijc} = (RCA_{ijc} - 1) / (RCA_{ijc} + 1)$$

NRCA ranges from -1 to 1, with 0 as the breakeven point. That is, an NRCA value of less than 0 and greater than -1 means that the product has no export comparative advantage, while a value above 0 and less than 1 indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.

The export competitiveness of India has been mapped with respect to Canada's demand. This has been undertaken with a view to outline a market specific approach for exporters. An overarching analysis has been attempted to identify products from the industries for which India has existing export capabilities to Canada. These products are the potential export growth drivers from India to Canada and could suitably be targeted. The section also attempts to identify the products where India could focus on, to realize potentially higher values of exports to Canada, especially when considering that India already possesses manufacturing capabilities in these products. The objective of the exercise is to construct a product market matrix for products in demand in Canada, so that necessary actions and policies can be formulated in the direction to enhance exports of these potential products from India to Canada.

Following are the considerations in the analysis:

- **Time Period:** The time period considered for the analysis is 2015-2021.
- **Product Limit:** Only those products with a minimum export value of US\$ 1 million from India to Canada are considered in the analysis.
- **Parameters in Consideration:** The analysis in this section considers two major determinants of India's performance in Canada, namely, the NRCA for products, and Average Annual Growth Rate (AAGR) of world exports to Canada.

On the basis of these three considerations, a four-quadrant matrix is prepared for product identification. The four quadrants imply the following:

Product Champions (Product Import AAGR of Canada > World Import AAGR of Canada; Positive NRCA):

These products have the maximum potential, as Canada's import demand for these products has shown robust AAGR over the period 2015-21, while India's exports of these products to Canada are also competitive, reflected in positive NRCA values for such products. These are the products with maximum export potential to Canada and India needs to further expand its exports of these products in order to take advantage of its competitive position and achieve a greater market share in Canada.

Underachievers (Product Import AAGR of Canada > World Import AAGR of Canada; Negative NRCA):

India does not have competitiveness in these products although its import demand has grown in Canada significantly over the period under consideration. India can strive towards building capacities and capabilities in these identified products. These are the products in which India can diversify in the medium to long term to continue being a strategic trade partner to Canada and further expand its bilateral ties with the country.

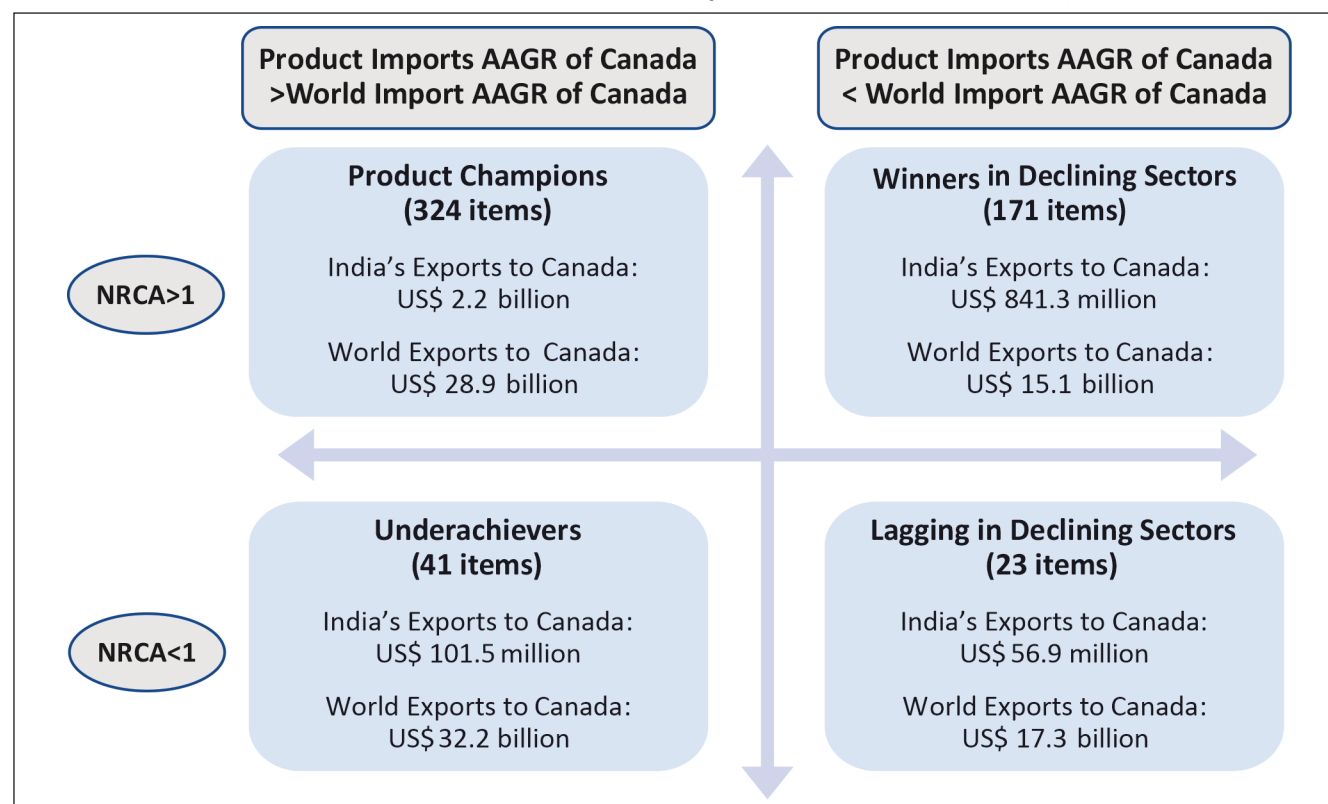
Winners in Declining Sectors (Product Import AAGR of Canada < World Import AAGR of Canada; Positive NRCA): India has competitiveness in these products, even though Canada's import AAGR for these products has been declining. These products may not have much demand in the future, and hence, scarce resources from these sectors could be diverted to other sectors where demand expectations are positive.

Lagging in Declining Sectors (Product Import AAGR of Canada < World Import AAGR of Canada; Negative NRCA): India does not have competitiveness in these products, and these sectors have also registered weak import demand in Canada during the period under consideration.

Product Identification Based on Competitiveness

To identify the products based on their export competitiveness in Canada, a four-quadrant analysis has been undertaken by calculating NRCA of Indian exported commodities to Canada and mapping them against the AAGR of global imports of Canada for all products. The quadrants are drawn by comparing the overall AAGR of global imports of Canada for all products during 2015-2021 (which was 3.1%), to the NRCA of India's exports to Canada during the same period. This exercise aims to identify products whose imports in Canada over the period 2015-2021 have performed better than the overall average of Canada for all products during this period, implying that the share of such products in the Canada's import basket has witnessed an increase, a reflection of their rising demand and dynamism. Out of the products with minimum exports of US\$ 1 million from India to Canada, 559 products have been identified with the total exports from India to Canada amounting to US\$ 3.2 billion while the total world imports to Canada in the same products stood at US\$ 93.6 billion in 2021 (Table 3.1).

Table 3.1: Identification of Potential Exports from India to Canada (2021)



Source: ITC Trade Map and India Exim Bank Analysis

Product Champions

Out of the 559 items at the HS 10-digit level, 324 items fell into category of product champions. The combined exports of these items from India to Canada were US\$ 2.2 billion in 2021, representing approximately 45.9% of India's exports to Canada in 2021. Major product champions are provided in **Table 3.2**.

Table 3.2: Top 10 Product Champions from India to Canada

HS Code	Product	India's Exports to Canada (US\$ million)	Share in India's Total Exports to Canada (%)	Global Imports of Canada (US\$ million)	Share in Global Imports of Canada (%)
7102390020	Diamonds, non-industrial, worked, of a weight >0.5 carat each	171.3	3.6%	311.8	0.1%
7113199000	Articles of jewellery and parts thereof of/o precious metal w/n plated/clad w precious metal	164.5	3.4%	1000.4	0.2%
3004900090	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	108.6	2.3%	855.0	0.2%
8603100000	Self-propelled railway or tramway coaches, vans and trucks, powered from an external source	94.7	2.0%	97.8	0.02%
0306170090	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns	69.6	1.5%	212.3	0.04%
1006300091	Semi-milled or wholly milled rice, whether or not polished or glazed	55.5	1.2%	173.8	0.04%
7102390010	Diamonds, non-industrial, worked, of a weight ≤0.5 carat each	50.2	1.1%	69.5	0.01%
3004900079	Medicaments for human use, in dosage	48.9	1.0%	2154.3	0.4%
3004900050	Medicaments, for human use, acting on the cardio-vascular system, in dosage	37.9	0.8%	474.8	0.1%
2933990090	Heterocyclic compounds with nitrogen hetero-atom[s] only	37.4	0.8%	165.3	0.03%

Source: ITC Trade Map and India Exim Bank Analysis

Winners in Declining Sectors

The total number of products in winners in declining sectors category is 171, with India's exports amounting to US\$ 841.3 million and constituting a share of 17.6% in India's exports to Canada in 2021. These are the products in which India has attained a significant share in Canada's import basket, but Canada's import demand for these products has been falling in the last five years (**Table 3.3**).

Table 3.3: Top 10 Products in Winners in Declining Sectors Category from India to Canada

HS Code	Product	India's Exports to Canada (US\$ million)	Share in India's Total Exports to Canada (%)	Global Imports of Canada (US\$ million)	Share in Global Imports of Canada (%)
2934990090	Nucleic acids and their salts, whether or not chemically defined; heterocyclic compounds	105.3	2.2%	492.2	0.1%
8708409900	Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more	44.8	0.9%	425.9	0.1%
2710199911	Aviation turbine fuel, kerosene type (type A)	38.2	0.8%	608.7	0.1%
0306170012	Frozen shrimps and prawns, even smoked, whether in shell or not, incl. shrimps and prawns	25.6	0.5%	34.2	0.01%
3921900090	Plates, sheets, film, foil and strip, of plastics, reinforced, laminated, supported	23.5	0.5%	373.0	0.1%
8708301900	Brakes and servo-brakes and their parts, for tractors, motor vehicles for the transport	19.2	0.4%	138.1	0.03%
8474900020	Parts for crushing or grinding machines	16.6	0.3%	185.7	0.04%
7113119000	Articles of jewellery & parts thereof of silver w/n plated/clad w/o prec metal	16.2	0.3%	202.1	0.04%
8708508900	Drive-axles with differential, whether or not provided with other transmission components	15.5	0.3%	385.8	0.1%
8481900090	Pts of blow-out preventers,safety valves for water heat/dom gas valves	14.6	0.3%	349.1	0.1%

Source: ITC Trade Map and India Exim Bank Analysis

Underachievers

This was followed by underachievers with 41 items with India's exports worth US\$ 101.5 million to Canada. These products constitute a minimal share of 2.1% in India's total exports to Canada, and are the products for which import demand in Canadian market are rising, but India does not have the required competitiveness in its exports (**Table 3.4**).

Table 3.4: Top 10 Products in Underachievers Category from India to Canada

HS Code	Product	India's Exports to Canada (US\$ million)	Share in India's Total Exports to Canada (%)	Global Imports of Canada (US\$ million)	Share in Global Imports of Canada (%)
8431490099	Parts of cranes, work-trucks, shovels and other construction machinery	9.6	0.2%	996.9	0.2%
8517620090	Machines for the reception, conversion and transmission or regeneration of voice, images	9.4	0.2%	4586.1	0.9%
8411910020	Parts of turbojets or turbopropellers	5.2	0.1%	2596.9	0.5%
3926909990	Articles of plastics	4.5	0.1%	1348.9	0.3%
2106909999	Food preparations	4.5	0.1%	753.5	0.2%
3902100090	Polypropylene in primary forms	4.4	0.1%	626.6	0.1%
8409910090	Parts suitable for use solely or principally with spark-ignition internal combustion piston	3.9	0.1%	416.8	0.1%
3822000030	Diagnostic or laboratory reagents on a backing, prepared diagnostic or laboratory reagents	3.7	0.1%	534.2	0.1%
1701140000	Raw cane sugar, in solid form, not containing added flavouring or colouring matter	3.5	0.1%	521.3	0.1%
3002200090	Vaccines, for human medicine	3.3	0.1%	2775.1	0.6%

Source: ITC Trade Map and India Exim Bank Analysis

The high range of exports under the category of declining sectors highlight the need for diversification to other sectors as well as industries which have greater scope for exports in the future. If the scarce resources are not diverted, then excess of supply to these sectors facing limited demand in Canadian market would result in further fall in the prices in the future. Thus, a significant shift needs to be made from the declining sectors to product champions in the short run and underachievers in the medium to the long run, in order to make efficient utilization of resources and to further enhance exports from India to Canada.

4

India's Proposed Trade Agreement with Canada: An Analysis

Canada and India launched a Comprehensive Economic Partnership Agreement (CEPA) negotiations in November 2010. The CEPA is a wide-ranging economic and trade agreement covering trade in goods and services and addressing non-tariff barriers. In this regard, it is to be noted that the bilateral trade between India and Canada has expanded considerably after the beginning of the CEPA negotiations. In recent years, the intensity of discussions has increased towards concluding the CEPA. In this context, this chapter examines the existing levels of tariffs between India and Canada. The chapter would further elucidate upon the various scenarios of tariff reduction in case of an FTA between the two countries. This analysis could help in disintegrating the impact of fall in the prices (as a result of fall in tariffs) and the subsequent changes in the tariff revenue of both the countries due to tariff cuts on their imports.

Tariffs and its Terminology¹⁷

Customs duties on merchandise imports are called tariffs. Tariffs give a price advantage to locally produced goods over similar goods which are imported, and they raise revenues for governments. The different types of tariff terminology and data used in the present analysis is as follows.

Most Favoured Nation Tariff

Most Favoured Nation (MFN) tariffs are what countries promise to impose on imports from other members of the WTO, unless the country is part of a preferential trade agreement (such as a free trade area or customs union). This means that, in practice, MFN rates are the highest (most restrictive) tariffs that WTO members charge one another. Some countries impose higher tariffs on countries that are not part of the WTO. In some rare cases, WTO members/GATT contracting parties have invoked the "Non-Application Clause" of WTO/GATT agreements and chosen not to extend MFN treatment to certain other countries.

Bound Tariff

Bound (BND) tariffs are specific commitments made by individual WTO member governments. The bound tariff is the maximum MFN tariff level for a given commodity line. When countries join the WTO or when WTO members negotiate tariff levels with each other during trade rounds, they make agreements about bound tariff rates, rather than applied rates.

Bound tariffs are not necessarily the rate that a WTO member applies in practice to other WTO members' products. Members have the flexibility to increase or decrease their tariffs (on a non-discriminatory basis)

¹⁷ Types of Tariffs by WITS, World Bank

so long as they don't raise them above their bound levels. If one WTO member raises applied tariffs above their bound level, other WTO members can take the country to dispute settlement. If the country does not reduce applied tariffs below their bound levels, other countries could request compensation in the form of higher tariffs of their own. In other words, the applied tariff (actual tariff) is less than or equal to the bound tariff in practice for any product.

The gap between the bound (committed and difficult to increase) and applied MFN rates is called the binding overhang. It is argued that a large binding overhang makes a country's trade policies less predictable. This gap tends to be small on average in developed countries and often large in developing countries.

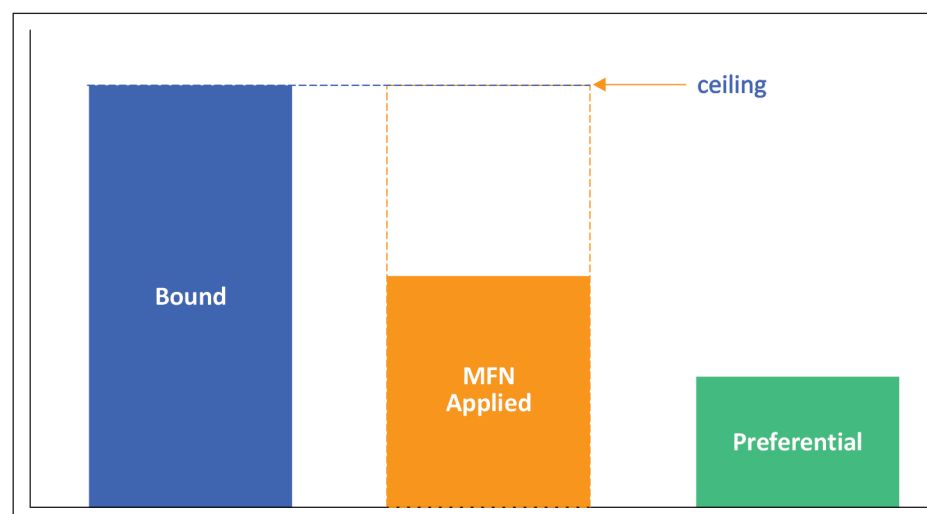
Effectively Applied Tariff

Effectively applied tariff (AHS) is the actual tariff imposed upon the country. WITS database of the World Bank uses the concept of effectively applied tariff which is defined as the lowest available tariff. If a preferential tariff exists, it will be used as the effectively applied tariff. Otherwise, the MFN applied tariff will be used. The importing country will apply the MFN tariff if the product fails to meet the country's rules that determine the product's country of origin.

Preferential Tariff

A Preferential tariff is one that falls under a preferential trade agreement, where countries make a deal in which they agree to charge a lower rate than the MFN rate. Virtually all countries in the world are part of at least one preferential trade agreement, under which they promise to give another country's products lower tariffs than their MFN rate. In a customs union (such as the Southern African Customs Union or the European Community) or a free trade area (e.g., NAFTA), the preferential tariff rate is zero on essentially all products. These agreements are reciprocal - all parties agree to give each other the benefits of lower tariffs. Some agreements specify that members will receive a percentage reduction from the MFN tariff, but not necessarily zero tariffs. Preferences therefore differ between partners and agreements. **Chart 4.1** depicts various types of tariffs.

Chart 4.1: Types of Tariffs



Source: WITS by World Bank

Many countries, particularly the developed ones, give developing countries unilateral preferential treatment, and not through a reciprocal agreement. The largest of these programs is the Generalized System of Preferences (GSP), which was initiated in the 1960s. The European Union, Japan, and the US offer multiple unilateral preference programs. The EU's Everything But Arms (EBA) program is one example.

India's Tariff on Imports from Canada

In the current analysis, the tariff at 6-digit HS code level is taken into consideration, using TRAINS based WITS data. Since there is no preferential agreement currently between India and Canada, the effectively applied tariff on Canada is the same as the MFN tariffs. Based on **Table 4.1**, it is quite evident that India has a very high binding coverage with binding on majority of its tariff lines except in few product categories (519 tariff lines at 6-digit HS Code) where bound duty is not specified. India's very high bound rates (the ceiling tariff) imply that India has a huge scope/ability to increase its tariff levels, well within its WTO agreed levels. Thus, India could decide its effectively applied tariff that it imposes on its importers.

Table 4.1: Bound Tariff Rates on India's Imports from Canada in 2021

(at HS 6-digit level)

Bound Tariff Rates (%)	Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
0-50	2,657	1,465.4	54.0
51-100	67	420.2	15.5
101-150	93	12.0	0.4
>150	2	0.005	–
Bound Duty not Specified	519	816.9	30.1

Source: WITS Database and India Exim Bank Analysis

It can be concluded that highest number of products (at 6-digit HS code) is under the bound tariff rate of 0%-50%, which amounted to total imports of almost US\$ 1.5 billion in 2021. Consequently, this category witnesses the highest number of tariff lines. Under the bound tariff rate of 51%-100%, there are over 67 tariff lines with total imports amounting to US\$ 420.2 million in 2021. The next category of high bound tariff rates of 101%-150% has 93 tariff lines with the total imports amounting to US\$ 12 million in 2021. These products are protected with high bound tariff rates based upon its sensitivity and domestic significance. There are only two tariff lines (HS-151800: Animal or vegetable fats and oils) having bound tariff rate of 300%, though these lines accounted for negligible levels of imports in 2021. Last category consists of 519 tariff lines, where there are no specified bound tariff rates.

Table 4.2: Effectively Applied Tariff on India's Imports from Canada in 2021*(at HS 6-digit level)*

Effectively Applied Tariff (%)	Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
0	160	309.4	11.4
0.1-5.0	287	827.4	30.5
5.1-10.0	3225	806.8	29.7
10.1-15.0	365	39.1	1.4
15.1-20.0	292	28.4	1.0
20.1-50.0	167	422.6	15.6
50.1-100.0	17	2.8	0.1
100.0-150.0	34	0.6	0.02
Unspecified	112	277.4	10.2
Total	4,659	2,714.5	100.0

Source: WITS Database and India Exim Bank Analysis

Table 4.2 disintegrates the simple average of the effectively applied tariff imposed by India on its imports from Canada. It is inferred from the previous table that the bound rates are very high in case of India, however, it is the effectively applied tariff that Canadian exporters face while exporting to India. There are 160 tariff lines (at 6-digit HS code) that have effectively applied tariff rate of 0%, which amounted to the total imports of US\$ 309.4 million in 2021. This corresponds to 11.4% of the total imports from Canada in 2021. Between tariff levels of 0.1% and 10%, the total imports amounted to US\$ 1.6 billion, corresponding to 60.2% of imports in 2021. Cumulatively, 90% of Indian imports from Canada face an effectively applied tariff rate of less than 50% when exported to India. Products which face highest AHS imposed by India that are above 50% are in Chapters – HS-04, HS-07, HS-08, HS-09, HS-17, HS-21, HS-22, HS-87, and HS-95 (mostly agriculture products, beverage and auto and auto components).

Canada's Tariff on Imports from India

The tariffs imposed by Canada on India's exports at 6-digit HS code level is analysed in this section. Canada, being a developed economy, has low MFN tariffs, thus promoting free and easy trade with its partners. Since India and Canada have no preferential trade agreement, the effectively applied tariff is same as the MFN tariff.

Table 4.3: Effectively Applied Tariff on Canada's Imports from India in 2021*(at HS-6 digit level)*

Effectively Applied Tariff (%)	Number of Tariff Lines	Total Imports (US\$ million)	Share in Total Imports (%)
0.0	2873	2,941.8	61.8
0.1-1.0	17	13.9	0.3
1.1-2.0	128	48.4	1.0
2.1-5.0	854	491.8	10.3
5.1-10.0	596	603.4	12.7
10.1-15.0	135	136.7	2.9
15.1-20.0	297	484.6	10.2
> 20.1	4	0.0003	0.0
Unspecified	41	43.3	0.9
Total	4,945	4,763.9	100.0

Source: WITS Database and India Exim Bank Analysis

Table 4.3 disintegrates the simple average of the effectively applied tariff imposed by Canada on India's exports. In comparison to India, the effectively applied tariff is low in the case of Canada, with the country being a developed economy. There are 2873 tariff lines (at 6-digit HS code level) which amounted to US\$ 2.9 billion in 2021, on which Canada imposed the effectively applied tariff of 0%. These products constitute 61.8% of Canada's imports from India in 2021. There are 1595 tariff lines corresponding to US\$ 1.2 billion in the 0.1%-10% effectively applied tariff level category, which corresponds to over 24% of Canada's imports from India in 2021. So cumulatively, 86% of Canada's imports from India faces effectively applied tariff of less than 10% when exported to Canada. 432 tariff lines face effectively applied tariff ranging between 10.1%-20%, with total import share of 13% in 2021. One product category, HS-100310, faced an AHS of 38.5% in 2021.

Table 4.4: Country Comparison of Effectively Applied Tariff Imposed by Canada in 2021*(at HS-6 digit level)*

Effectively Applied Tariff (%)	India			Bangladesh (GPT+LDC)			Mexico (FTA)			Vietnam (FTA)		
	Number of Tariff Lines	Imports (US\$ million)	Share in Imports (%)	Number of Tariff Lines	Imports (US\$ million)	Share in Imports (%)	Number of Tariff Lines	Imports (US\$ million)	Share in Imports (%)	Number of Tariff Lines	Imports (US\$ million)	Share in Imports (%)
0.0	2873	2941.8	61.8	1212	1487.0	98.9	4553	26554.0	99.99	3321	7397.8	94.4
0.1-1.0	17	13.9	0.3	58	1.9	0.1	-	-	-	38	9.0	0.1
1.1-2.0	128	48.4	1.0	39	3.5	0.2	-	-	-	27	134.8	1.7
2.1-5.0	854	491.8	10.3	83	9.1	0.6	14	1.1	0.004	55	201.5	2.6
5.1-10.0	596	603.4	12.7	21	1.2	0.1	-	-	-	17	96.2	1.2
10.1-15.0	135	136.7	2.9	-	-	-	-	-	-	3	0.01	0.0002
15.1-20.1	297	484.6	10.2	4	1.5	0.1	-	-	-	-	-	-
Above 20.1	4	0.0003	-	-	-	-	-	-	-	8	0.00001	0.0000001
Unspecified	41	43.3	0.9	-	-	-	5	1.0	0.004	5	0.01	0.0001
Total	4,945	4,763.9	100.00	1,417	1,504.2	100.0	4,572	26,556.1	100.0	3,474	7,839.3	100.0

Note: '-' implies nil or negligible

Source: WITS Database and India Exim Bank Analysis

Among the compared countries, total imports by Canada in 2021 was the highest from Mexico at US\$ 26.7 billion, followed by Vietnam at US\$ 7.8 billion, India at US\$ 4.8 billion and Bangladesh at US\$ 1.5 billion (imports are taken from Canada's point of view at c.i.f.).

While almost 100% of tariff lines were duty-free in case of Mexico, 98.9% in case of Bangladesh, 94.4% in case of Vietnam, only 61.8% of tariff lines remained duty-free for India.

Following observations are drawn on analysing the tariffs:

For Vietnam, highest tariffs were applicable for

- HS 160100 - Sausages and similar products, of meat and meat offal
- HS 640110 - Waterproof footwear incorporating a protective metal toecap
- HS 640199 - Other waterproof footwear (Wellington) no toe cap
- HS 640291 - Footwear covering the ankle, with outer soles and uppers
- HS 640340 - Other footwear, incorporating a protective metal toecap, with outer soles of rubber and plastics
- HS 570490 - Carpets of felt of textile materials, greater than 0.3 m²
- HS 640419 - Other footwear, sole rubber plastic, upper textile, not sport
- HS 640351 - Footwear, soles, uppers of leather, over ankle

In case of Bangladesh, highest tariffs were imposed on

- HS 670411 - Complete wigs
- HS 670419 - False beards, eyebrows and eyelashes, switches and the like, of synthetic textile materials
- HS 670420 - Wigs, false beards, eyebrows and eyelashes, switches of human hair
- HS 670490 - Wigs, false beards, eyebrows and eyelashes, switches and the like, of animal hair or textile
- HS 630710 - Floorcloths, dishcloths, dusters and similar cleaning cloths and products
- HS 240120 - Tobacco, partly or wholly stemmed or stripped
- HS 960340 - Paint, distemper, varnish or similar brushes (other than brushes of sub-heading 960330); paint pads and rollers

For Mexico, highest tariffs were imposed on

- HS 160210 - Homogenised preparations of meat and meat offal
- HS 210500 - Ice cream and other edible ice, whether or not containing cocoa, not containing milkfats or containing less than 3 percentage milkfats
- HS 160232 - Meat or offal of fowls of the species *Gallus domesticus*, prepared or preserved

For India, highest tariffs were imposed on 308 tariff lines (AHS $\geq 15\%$). These include mostly product categories belong to

- HS 61 - Articles of apparel and clothing knitted or crocheted
- HS 62 - Articles of apparel and clothing not knitted or crocheted
- HS 63 - Other made-up textile articles
- HS 64 - Footwear
- HS 100310 - Cereals; barley seed

Tariff Liberalisation Under a Trade Agreement

Tariff liberalization remains an important aspect of any FTA. This section will focus upon the cases where the tariffs/ import duties could be reduced by India and Canada on each other's products to a certain level, which could subsequently lead to rise in the level of bilateral trade between the countries.

An FTA/PTA is a change in the trade policy and thus, its impact has to be comprehended and studied in detail. The current analysis used the Single Market Partial Equilibrium Simulation Tool under the WITS-SMART Simulations Framework to understand the trade effect of an FTA between India and Canada. SMART is a partial equilibrium modelling tool used for market analysis, which focuses on one importing market and its exporting partners and assesses the impact of a tariff change scenario by estimating new values for a set of variables. The Armington model is the basis for the SMART simulation package of the WITS. Partial equilibrium implies that the analysis only considers the effects of a given policy action in the market(s) that are directly affected. The analysis does not account for the economic interactions between the various sectors in a given economy. In a general equilibrium setup, all sectors are simultaneously modelled and interact with each other.¹⁸

Assumptions of the Model

- **Price Taker:** The export supply of a given good by a particular country is related to the price that it fetches in the export market. The degree of responsiveness of the export supply to the changes in the export price is termed as the export supply elasticity. One of the assumptions of the SMART is the infinite export supply elasticity. The slope of the supply curve is infinite and world prices are exogenously given.
- **Imperfect Substitution:** There is an imperfect substitution between different import sources. The goods imported from two different countries, although similar are imperfect substitutes.

Under SMART modelling framework, tariff liberalization affects not only the price levels of composite good (aggregate consumption of that commodity), but also the relative price levels of that good from different countries. Thus, within the Armington assumption, the representative country maximizes its welfare through a two-stage optimization process. First stage is through change in total spending due to change in price index on a composite good, which is termed as import demand elasticity. Second stage is through the allocation of

¹⁸ WITS by World Bank

the chosen level of spending among the different sources/countries depending on its relative prices, which is termed as the substitution elasticity. To sum up, tariff liberalisation would lead to changes in the overall spending on that good (import demand elasticity) as well as the changes in the composition of the sourcing of that good among different import partners (substitution elasticity). Post tariff liberalisation, both these changes would affect the bilateral trade flow between the countries.

The output from the SMART framework decomposes these impacts on trade into trade creation effect and trade diversion effect. **Trade creation effect** is defined as the direct increase in imports following a reduction on the tariff imposed on a given good from the partner country. **Trade diversion effect** is defined as further increase in imports of that good from partner country due to the substitution, away from imports of other countries as these have become relatively more expensive. SMART also calculates the impact of the trade policy change (tariff liberalisation due to preferential agreement) on the tariff revenue, consumer surplus and the welfare of the importing country.

In the current analysis, following inputs have been fed in the SMART framework:

- **Product Selection Nomenclature:** The HS combined is the nomenclature used in the product selection. The HS combined nomenclature combines all current and historical revisions of HS. Products are selected by clusters up to 6-digit HS Code.
- **Time Period:** The considered time period for the analysis is 2021.
- **New Duty Rates:** Tariffs are reduced by the entered cut coefficient. For example, an 80% Linear cut will modify existing tariffs with $r_1 = 0.2 * r_0$ (with r_0 as the existing tariff and r_1 as the new tariff).
- **Import Demand Elasticity:** The corresponding values used in the analysis are system generated, which by default in SMART are the same for all reporters but may vary by product.
- **Export Supply Elasticity:** The SMART model assumes that an increase in demand for a given product due to tariff liberalization would always be matched by the producers and exporters of that good, without any impact on the price of the good. In the current analysis, the export supply elasticity value is taken as 99, based on the assumption that there will be no export supply constraint and the export supply is highly elastic. The main reason for using infinite elasticity is that SMART is a single country simulation tool, and one country is usually assumed to be too small with respect to rest of the world to have an influence on the general price levels.
- **Substitution Elasticity:** Import substitution elasticities define the degree of substitution between two goods from different countries. In SMART, the import substitution elasticity is considered to be 1.5 for each good by default, as the value should be greater than one, as consumption of the commodity will rise with the fall in the relative prices. Hence, there will be a positive shift in import demand towards the partner country away from the other countries (with whom no preferential agreement is signed).

Simulation: India cuts 85% Tariff on Imports from Canada - Canada cuts 95% of Tariff on all Products Imported from India

Case 1: Tariff Liberalisation by India on Imports from Canada

Reporting Country: India

Partner Country: Canada

India's Linear Tariff Cut of 85% on all Products Imported from Canada

Trade Effect

Increase in India's Imports – US\$ 373.5 million

Trade Creation – US\$ 237.9 million

Trade Diversion – US\$ 135.6 million

Revenue Loss – US\$ 201.8 million

Trade Effect

A tariff liberalisation by India on its imports from Canada would result in a trade effect, which can be decomposed into trade creation and trade diversion. According to the SMART framework analysis with the above-mentioned conditions and inputs, tariff liberalisation will lead to a total trade effect of US\$ 373.5 million, implying that under preferential agreement, India's imports from Canada will increase by US\$ 373.5 million. In the total trade effect, total trade creation will constitute US\$ 237.9 million, which is the additional import due to fall in the price level subsequent to the fall in the tariffs. Total trade diversion will be US\$ 135.6 million, which is the increased trade from Canada away from the other partners due to the fall in the relative price levels post tariff liberalisation. Price effect is zero since the model has assumed infinite price elasticity.

Moreover, at 6-digit HS code, post tariff liberalisation, it is derived that 21.3% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by vegetables, leguminous; lentils, shelled, whether or not skinned or split, dried (HS-071340), followed by fertilizers, mineral or chemical; potassic, potassium chloride (HS-310420; 7.3%); containers (including containers for transport of fluids) specially designed and equipped for carriage by one or more modes of transport (HS-860900; 5%); newsprint; made of fibres obtained essentially by a chemi-mechanical process or of a weight, per m², of more than 57g but not more than 65g, in rolls or sheets (HS-480100; 4.8%) and diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set (HS-710231; 4.6%). Together, these 5 products account for 42.9% of the total trade effect after tariff liberalization (**Table 4.5**).

Table 4.5: Products having Maximum Trade Effect Post Tariff Liberalisation by India on Imports from Canada

HS Code (6-digit)	Product	Trade Creation Effect (US\$ million)	Trade Diversion Effect (US\$ million)	Trade Total Effect (US\$ million)	Share in Total Trade Effect (%)
071340	Vegetables, leguminous; lentils, shelled, whether or not skinned or split, dried	52.4	27.1	79.5	21.3
310420	Fertilizers, mineral or chemical; potassic, potassium chloride	13.1	14.1	27.2	7.3
860900	Containers (including containers for transport of fluids) specially designed and equipped for carriage by one or more modes of transport	18.7	0.1	18.8	5.0

HS Code (6-digit)	Product	Trade Creation Effect (US\$ million)	Trade Diversion Effect (US\$ million)	Trade Total Effect (US\$ million)	Share in Total Trade Effect (%)
480100	Newsprint; made of fibres obtained essentially by a chemi-mechanical process or of a weight, per m ² , of more than 57g but not more than 65g, in rolls or sheets	10.0	7.9	17.9	4.8
710231	Diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set	10.3	6.7	17.0	4.6
761090	Aluminium; structures (excluding prefabricated buildings of heading no. 9406) and parts of structures, in heading no. 7610, plates, rods, profiles, tubes and the like	12.6	0.2	12.8	3.4
854370	Electrical machines and apparatus; having individual functions, not specified or included elsewhere in this chapter in heading no. 8543	8.8	0.6	9.4	2.5
470200	Wood pulp; chemical wood pulp, dissolving grades	4.1	5.1	9.2	2.5
270119	Coal (other than anthracite and bituminous), whether or not pulverised but not agglomerated	3.7	5.5	9.1	2.4
761300	Aluminium; containers for compressed or liquefied gas	7.5	0.6	8.1	2.2

Source: WITS Database and India Exim Bank Analysis

Revenue Effect

With tariff liberalisation, the tariffs will go down, impacting the revenue from the tariff. The impact can be both positive and negative. Negative Revenue (i.e., revenue loss) is generated when the direct impact of the fall in the tariff revenue post signing of the preferential agreement is greater than the positive tariff revenue generated due to the positive trade effect (trade creation and trade diversion). Positive Revenue is generated when the gain in tariff revenue due to positive tariff effect exceeds the loss in revenue due to tariff liberalisation. In case of tariff liberalisation by India on Canada's exports, the overall change in the revenue for India will be a loss of US\$ 201.8 million.

At 6-digit HS Code level, the major tariff revenue loss by India will be on vegetables, leguminous; lentils, shelled, whether or not skinned or split, dried (HS-071340); fertilizers, mineral or chemical; potassic, potassium chloride (HS-310420); newsprint; made of fibres obtained essentially by a chemi-mechanical process or of a weight, per m², of more than 57g but not more than 65g, in rolls or sheets (HS-480100); diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set (HS-710231) and wood pulp; chemical wood pulp, dissolving grades (HS-470200) (**Table 4.6**). Maximum positive revenue gain will be for undenatured ethyl alcohol; of an alcoholic strength by volume of 80% vol. or higher (HS-220710).

Table 4.6: Products having Maximum Tariff Revenue Loss Post Tariff Liberalisation by India on Imports from Canada

HS Code (6-digit)	Product	Negative Revenue Effect (US\$ million)
071340	Vegetables, leguminous; lentils, shelled, whether or not skinned or split, dried	-108.4
310420	Fertilizers, mineral or chemical; potassic, potassium chloride	-13.9
480100	Newsprint; made of fibres obtained essentially by a chemi-mechanical process or of a weight, per m ² , of more than 57g but not more than 65g, in rolls or sheets	-9.0
710231	Diamonds; non-industrial, unworked or simply sawn, cleaved or bruted, but not mounted or set	-5.3
470200	Wood pulp; chemical wood pulp, dissolving grades	-4.5
270119	Coal (other than anthracite and bituminous), whether or not pulverised but not agglomerated	-3.8
470500	Wood pulp; obtained by a combination of mechanical and chemical pulping processes	-3.2
631090	Rags; used or new, scrap twine, cordage, rope and cables and worn-out articles of twine, cordage, rope or cables, of textile materials; other than sorted	-3.1
901920	Therapeutic respiration apparatus; ozone, oxygen, aerosol therapy apparatus; artificial respiration or other therapeutic respiration apparatus	-2.9
760200	Aluminium; waste and scrap	-2.0

Source: WITS Database and India Exim Bank Analysis

Case 2: Tariff Liberalisation by Canada on Imports from India

Reporting Country: Canada

Partner Country: India

Canada's Linear Tariff Cut of 95% on all Products Imported from India

Trade Effect

Increase in Canada's Imports – US\$ 547 million

Trade Creation – US\$ 388.4 million

Trade Diversion – US\$ 158.6 million

Revenue Loss – US\$ 158.3 million

Trade Effect

According to the analysis, tariff liberalisation by Canada on imports from India would result in a total trade effect of US\$ 547 million, implying that under the preferential agreement, Canada's imports from India will increase by US\$ 547 million. In the total trade effect, total trade creation would constitute US\$ 388.4 million, which is the additional imports by Canada from India due to fall in the price levels subsequent to fall in tariff levels. Total trade diversion will be of US\$ 158.6 million, which is the increased imports from India away from the other partners due to the fall in the relative price levels post tariff liberalisation. Price effect is zero since the model has assumed infinite price elasticity.

At 6-digit HS code, post tariff liberalisation, it can be seen that 42.3% of the total trade effect (inclusive of trade creation and trade diversion) is accounted for by railway or tramway coaches, vans and trucks; self-propelled, powered from an external source of electricity (HS-860310); followed by jewellery of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts (HS-711319; 5.6%), cotton bed linen cotton (not printed, knitted or crocheted) (HS-630231; 3.8%), kitchen and toilet linen; of terry towelling or similar terry fabrics, of cotton (HS-630260; 2.4%); and t-shirts, singlets and other vests; of cotton, knitted or crocheted (HS-610910; 1.9%). Together, these 5 products constitute 56% of the total trade effect after tariff liberalization (**Table 4.7**).

Table 4.7: Products having Maximum Trade Effect Post Tariff Liberalisation by Canada on Imports from India

HS Code (6 digit)	Product	Trade Creation Effect (US\$ million)	Trade Diversion Effect (US\$ million)	Trade Total Effect (US\$ million)	Share in Total Trade Effect (%)
860310	Railway or tramway coaches, vans and trucks; self-propelled, powered from an external source of electricity	231.0	0.3	231.3	42.3
711319	Jewellery; of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts	19.9	10.9	30.8	5.6
630231	Bed linen; of cotton (not printed, knitted or crocheted)	12.0	8.6	20.5	3.8
630260	Kitchen and toilet linen; of terry towelling or similar terry fabrics, of cotton	6.0	7.2	13.1	2.4
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	2.6	7.8	10.3	1.9
680293	Granite; articles (other than simply cut or sawn, with a flat or even surface)	8.0	0.4	8.4	1.5
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles; of cotton, knitted or crocheted	2.6	5.4	8.0	1.5
630532	Sacks and bags; of a kind used for the packing of goods, of man-made textile materials, flexible intermediate bulk containers	2.6	3.7	6.4	1.2
940490	Bedding and similar furnishing articles; in heading no. 9404 (e.g. quilts, eiderdowns, cushions, pouffes and pillows)	2.2	3.5	5.7	1.0
610711	Underpants and briefs; men's or boys', of cotton, knitted or crocheted	1.8	3.5	5.3	1.0

Source: WITS Database and India Exim Bank Analysis

Revenue Effect

In case of tariff liberalisation by Canada on its imports from India, the overall change in the revenue will account for a loss of US\$ 158.3 million. At 6-digit HS Code level, the major products where Canada will be having tariff revenue loss is presented in **Table 4.8**.

Table 4.8: Products having Maximum Tariff Revenue Loss Post Tariff Liberalisation by Canada on Imports from India

HS Code (6 digit)	Product	Revenue Effect (US\$ million)
630231	Bed linen; of cotton (not printed, knitted or crocheted)	-13.4
711319	Jewellery; of precious metal (excluding silver) whether or not plated or clad with precious metal, and parts	-9.4
630260	Kitchen and toilet linen; of terry towelling or similar terry fabrics, of cotton	-8.7
610910	T-shirts, singlets and other vests; of cotton, knitted or crocheted	-6.5
860310	Railway or tramway coaches, vans and trucks; self-propelled, powered from an external source of electricity	-6.3
630532	Sacks and bags; of a kind used for the packing of goods, of man-made textile materials, flexible intermediate bulk containers	-5.6
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles; of cotton, knitted or crocheted	-4.5
610711	Underpants and briefs; men's or boys', of cotton, knitted or crocheted	-3.6
940490	Bedding and similar furnishing articles; in heading no. 9404 (e.g. quilts, eiderdowns, cushions, pouffes and pillows)	-3.2
630221	Bed linen; of cotton, printed, not knitted or crocheted	-3.0

Source: WITS Database and India Exim Bank Analysis

Thus, in case of a trade agreement between India and Canada, both countries will benefit from the additional demand generated for each other's goods and taking advantage of lower tariff, promoting trade. The level of trade effect, however, in reality depends on the level of tariff liberalisation and the products that are covered under the trade agreement.

Suggested Sectors for Negotiations

The composition of merchandise trade between India and Canada has changed significantly before and after the CEPA negotiations started in 2010. India's leading sectors of merchandise exports to Canada in 2010 were apparels, organic chemicals, pearls and precious stones, and articles of iron or steel. While India has remained a net importer with respect to merchandise trade with Canada in the last ten years, following are the sectors which have undergone notable changes.

Mobile Phones and Communication Apparatus

Canada's imports of mobile phones¹⁹ and communication apparatus²⁰ registered a CAGR of 6.7% during 2010-2021 to reach US\$ 10.9 billion in 2021 from US\$ 5.4 billion. However, Canada's imports of the same

¹⁹ HS 851712: Telephones for cellular networks "mobile telephones" or for other wireless networks

²⁰ HS 851762: Machines for the reception, conversion and transmission or regeneration of voice, images or other data, incl. switching and routing apparatus (excluding telephone sets, telephones for cellular networks or for other wireless networks)

from China grew at a higher CAGR of 12% during the same time. It is noted that in 2021, nearly 63.3% of Canada's import demand for mobile phones and communication apparatus was met by China alone, as against 37% in 2010.

During the same time, India's share in Canada's imports of mobile phones and communication apparatus has remained negligible in the range of 0.1% - 0.3%. As businesses realign their global supply chains in the post-pandemic world, backed by strong policy support, there exist opportunities for India to increase its exports of mobile phones and communication apparatus to Canada in the near term.

It is important to note that India's exports of mobile phones during 2010-2021 increased over three-folds. For communication apparatus too, India's exports registered a CAGR of over 30% during the same period. The proposed CEPA, in this regard, could play a critical role in channelizing investment inflows into India for manufacturing and export of mobile phones and communication apparatus.

Food and Beverages

Canola Oil

Canada is the largest exporter of Canola oil globally. It is to be noted that Canada exports more than 90% of its canola as seed, oil or meal to 50 markets around the world²¹. While the import of canola seeds is not allowed in India as they are genetically modified, small quantities of canola oil are being imported for blending with other oils. The leading canola oil producers include Cargill, Louis Dreyfus Company, and Bunge.

It is important to note that even though the imports of canola seeds are banned in India, the import of GM canola oil is not. As a result, canola seeds imported from Canada are usually crushed in Dubai and the extracted oil is then exported to India. India's imports of canola or the rapeseed oil²² were recorded at US\$ 76.7 million in 2021 much higher than that was imported in 2010 (US\$ 9.8 million). It is to be noted that Canada's share in India's total imports of canola oil has risen significantly from 3.7% in 2010 to 21.4% in 2020 (2021 not available), while that of the UAE has declined from 94.7% to 72.4% during 2010-2021.

Going forward, it is important to acknowledge that the India-Canada CEPA is likely to provide a growth opportunity to Canadian exporters of canola oil to gain a wider market share in India. While Canada accounted for 21.4% of India's imports of canola oil in 2020, the CEPA could also give Canadian exporters a significant edge over the exports from other countries like Germany and Russia. Currently, the tariffs on import of vegetable oils from Canada exceed 30% and to expand trade, the CEPA needs to eliminate the differential tariff structure that exists among oilseed products, which distorts the market and discriminates against certain imports. In addition, it is noted that the presence of non-tariff barriers in Canada's agri-food exports to India acts as a major obstacle, resulting in shipments being held up in-transit and proportionate increase in the costs associated with shipping.

Accordingly, the 'negative' and 'sensitive' lists from the Indian side might need to be framed carefully, keeping in mind the likely impact of the CEPA on India's food security and increased import dependence on Canada for vegetable oils.

²¹ Canola Council of Canada

²² HS 1514: Rape, colza or mustard oil and fractions thereof, whether or not refined, but not chemically modified

Pulses

India is the largest producer and consumer of pulses²³ in the world, contributing nearly 25% to the global output. However, consumption exceeds production and is therefore supported by imports. India was the largest importer of pulses globally, with a 15.7% share in global pulses imports in 2021.

On the other hand, Canada is the largest exporter of pulses, accounting for 22.4% of global exports of pulses in 2021. Canada was India's second largest import source for pulses in 2021, accounting for 19.6% of the total imports. However, India's import of pulses from Canada decreased from US\$ 540.7 million in 2010 to US\$ 411.9 million in 2021, while India's global imports of pulses increased from US\$ 1.9 billion in 2010 to US\$ 2.1 billion during 2021. India has a huge trade deficit in pulses globally, which increased from US\$ 1.7 billion in 2010 to US\$ 1.8 billion in 2021. India also has a huge trade deficit of US\$ 401.8 million with Canada for pulses in 2021, though down from US\$ 540.5 million in 2010.

Non-Tariff Measures in Goods Trade

According to the UNCTAD, non-tariff measures are generally defined as “policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.” A large number of domestic regulations meant to protect the environment, consumers, or workers are designed in such a way that they can potentially discriminate against foreign suppliers of goods or services. Indeed, there is some evidence that the reduction of tariffs has been accompanied by an increasingly discriminatory role of such regulations. The scope for these non-tariff trade measures (NTMs) is large, their nature is complex and constantly changing. This leads to challenges to ensure level playing fields between countries. Based on WTO classification, the different types of non-tariff measures used in the present analysis are defined below.

Sanitary and Phytosanitary Measures

Sanitary and Phytosanitary Measures (SPS) are measures that are applied to protect human or animal life from risks arising from additives, contaminants, toxins, or disease-causing organisms in their food; to protect human life from plant or animal-borne diseases; to protect animal or plant life from pests, diseases, or disease-causing organisms; to prevent or limit other damage to a country from the entry, establishment or spread of pests; and to protect biodiversity. These include measures taken to protect the health of fish, wild fauna, forests, and wild flora.

Technical Barriers to Trade

Technical Barriers to Trade (TBT) are measures referring to technical regulations and procedures of assessment of conformity with technical regulations, excluding measures covered by the chapter on sanitary and phytosanitary measures. A technical regulation is a document that sets out product characteristics or related processes and production methods, including the applicable administrative provisions, with which compliance is mandatory.

²³ HS 0713: Dried leguminous vegetables, shelled, whether or not skinned or split

Anti-Dumping Measures

Anti-Dumping Measures (ADP) are unilateral remedies which may be applied by a WTO member after an investigation and determination by that member, in accordance with the provisions of the Anti-Dumping Agreement, that an imported product is “dumped” and that the dumped imports are causing material injury to a domestic industry producing the like product.

Countervailing Measures

Countervailing Measures (CV) are the actions taken by the importing country, usually in the form of increased duties to offset subsidies given to producers or exporters in the exporting country.

Safeguard

Under Safeguard (SG), a WTO member restricts imports of a product temporarily to protect a specific domestic industry from an increase in imports of any product which is causing, or which is threatening to cause, serious injury to the industry.

Quantitative Restrictions

Quantitative Restrictions (QR) are prohibitions or restrictions other than duties, taxes or other charges applied by WTO members on imports or exports of goods, which can be made effective through quotas, import or export licences or other measures.

Tariff-Rate Quota

Tariff-Rate Quota (TRQ) allows for quantities inside a quota to be charged lower import duty rates, than those outside (which can be high).

State-Trading Enterprises

State-Trading Enterprises (STE) are defined as governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and/or import. The STE might be used to provide protection for the domestic market in a given product by setting resale prices of imports at very high levels, thus negating tariff concessions bound.

Export Subsidies

Export Subsidies (XS) are defined as “subsidies contingent on export performance, including the export subsidies listed in detail in Article 9 of Agreement on Agriculture”.

As shown in **Table 4.9**, as of December 2022, Canada has imposed 2319 NTMs towards the WTO members (including India), as well as bilaterally imposed on India by Canada. SPS and TBT measures are among the mostly used NTMs, with 1424 SPS (74 in force and 1350 initiated) and 799 TBT (191 in force and 608 initiated). Canada has also adopted quantitative restrictions, tariff-rate quota, export subsidies, anti-dumping measures and countervailing measures, among others.

Table 4.9: Non-Tariff Measures Imposed by Canada on India

Product	SPS	TBT	ADP	CV	SSG	SG	QR	TRQ	XS	STE
Total	1424	799	7	5		1	48	21	11	3
Measures without HS Code	596	286				1			1	
Live animals and products	521	22					9	14	4	2
Vegetable products	586	25					2	4	5	
Animal and vegetable fats, oils and waxes	270	13					4	1	1	
Prepared foodstuff; beverages, spirits, vinegar; tobacco	576	52					4	7	3	1
Mineral products	3	33					5			
Products of the chemical and allied industries	539	230					12	1		
Resins, plastics and articles; rubber and articles	7	80					4			
Hides, skins and articles; saddlery and travel goods							4			
Wood, cork and articles; basketware	11	9					4			
Paper, paperboard and articles	1	1					11			
Textiles and articles		9					4		1	
Footwear, headgear; feathers, artif. flowers, fans	1	1					4			
Articles of stone, plaster; ceramic prod.; glass	1	58		1			4			
Pearls, precious stones and metals; coin		1					8			
Base metals and articles	2	20	7	5			4			
Machinery and electrical equipment	230	240	1	2			7			
Vehicles, aircraft and vessels	2	77					11			
Instruments, clocks, recorders and reproducers		66					6			
Arms and ammunition	1						7			
Miscellaneous manufactured articles		74					10			
Works of art and antiques							4			

Note: Anti-dumping [ADP], Countervailing [CV], Quantitative Restrictions [QR], Safeguards [SG], Sanitary and Phytosanitary [SPS], Special Safeguards [SSG], State Trading Enterprises [STE], Technical Barriers to Trade [TBT], Tariff-rate Quotas [TRQ] and Export Subsidies [XS]

Source: I-TIP, WTO and India Exim Bank Analysis

5

Services Trade Potential between India and Canada: An Analysis

India's services sector is a key driver of the Indian economy, with a share of 52.7% in Gross Value Added (GVA) and a growth of 8.4% in the overall GDP growth in 2021-22. Growth in value added by services was severely impacted with a contraction of 7.8% in 2020-21 due to the pandemic. India's global services exports have more than doubled in the last decade from US\$ 117.1 billion in 2010 to US\$ 240.7 billion in 2021. India's share in global services exports have also increased from 2.9% in 2010 to 4% in 2021. According to the RBI, during 2021-22, services exports stood at US\$ 254.5 billion, surpassing the pre-pandemic levels of US\$ 213.2 billion in 2019-20. While many initiatives have been taken by the Government and Industry to accelerate services growth and trade, some inherent restrictions in the form of domestic regulations and procedures in India and domestic regulations in key markets impacting market access, have been affecting India's services exports.

Services Trade Potential between India and Canada

India has strong services trade relations with Canada. Canada's total services trade with India increased from US\$ 1.1 billion in 2010 to US\$ 5.5 billion in 2020. India was the 5th largest destination for Canada's services exports and the 9th largest services supplier to Canada during 2020.

A trade agreement will only be beneficial if there exists complementarity between the export supply of one country to the import demand of the other country. Analyzing services trade complementarity between India and Canada will reveal how well the structures of services trade of India and Canada fit to understand the utility of an FTA. Services Trade Complementarity Index (STCI) is a normalized index taking values between 0 and 100, with higher values denoting greater complementarity and more favorable outcome of a proposed FTA.

STCI between two countries 'k' and 'j' is defined as –

$$STCI_{ij} = 100 (1 - \text{sum} (|m_{ik} - x_{ij}| / 2))$$

where

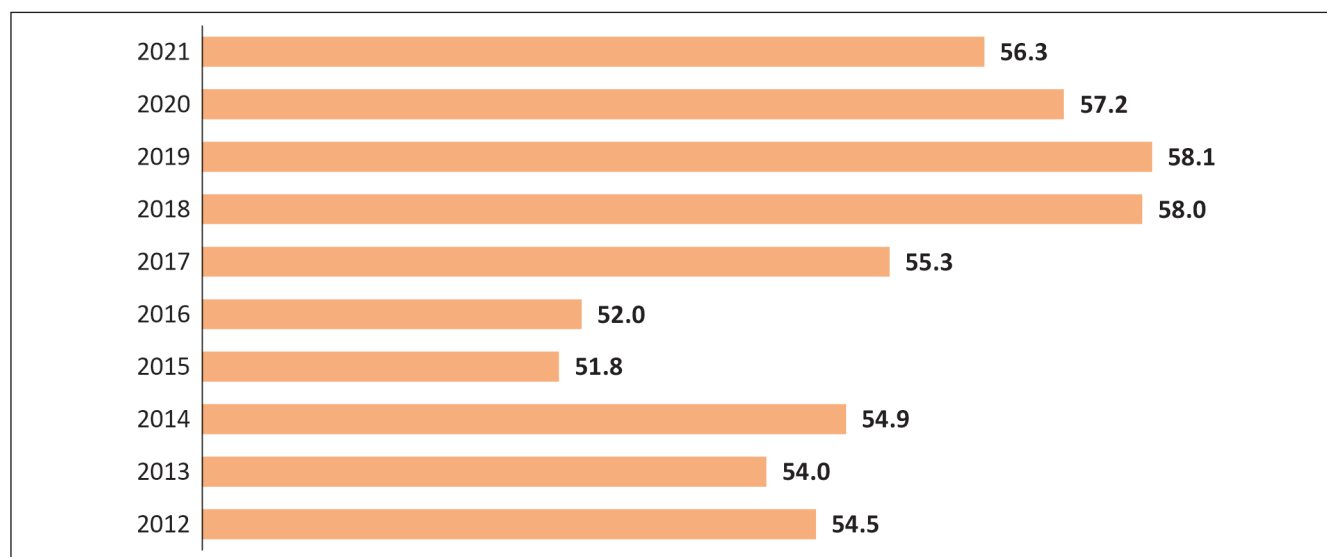
x_{ij} : share of product 'i' in global services exports of country 'j'

m_{ik} : share of product 'i' in global services imports of country 'k'

The index is zero when no services are exported by one country or imported by the other and 100 when the export and import shares exactly match.

During the period 2012-2021, the complementarity index for profile of Indian services exports to Canada's services imports ranges from 51.8 to 58.1 (**Chart 5.1**). This indicates complementarity in India's services exports and Canada's services imports. India's services export profile matches with the services import profile of Canada which indicates that India's services exports have a corresponding demand in Canada. The index shows the highest value in 2019 at 58.1. However, in 2021 the index fell to 56.3.

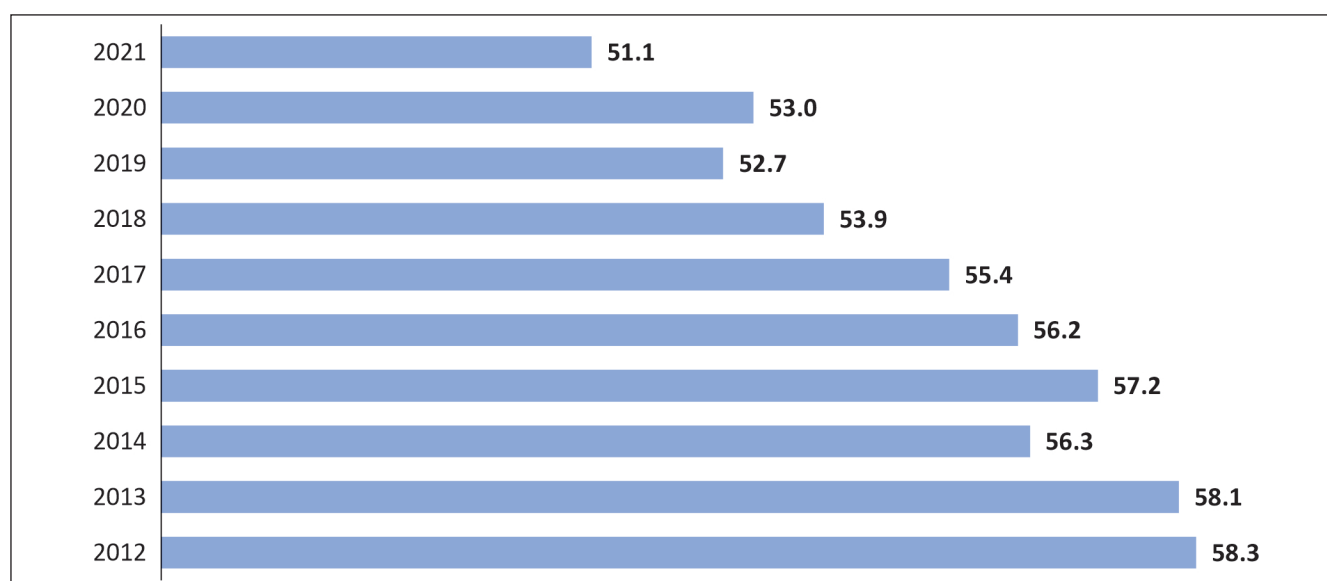
Chart 5.1: India's Services Trade Complementarity with Canada



Source: India Exim Bank's estimates based on WTO Stat

During the period 2012-2021, the complementarity index for Canada's services exports profile to India's services imports ranges from 51.1 to 58.3 (**Chart 5.2**). This indicates a complementarity in Canada's services exports and India's services imports. However, the value is declining. The index shows the highest value in 2012 at 58.3 and lowest value in 2021 at 51.1.

Chart 5.2: Canada's Services Trade Complementarity with India



Source: India Exim Bank's estimates based on WTO Stat

Services Trade Restrictiveness Index

The relative restrictiveness of services trade policy of India and Canada can be analyzed using the Services Trade Restrictiveness Index (STRI) developed by the OECD. The OECD database includes 22 services sectors for 38 OECD countries and few non-OECD countries including Brazil, China, India, Indonesia, Kazakhstan, Malaysia, Peru, Russia, Singapore, South Africa, Thailand and Vietnam. These countries and sectors represent over 80% of global trade in services. The STRI database contains information on trade restrictions and behind the border regulation in the following sectors:

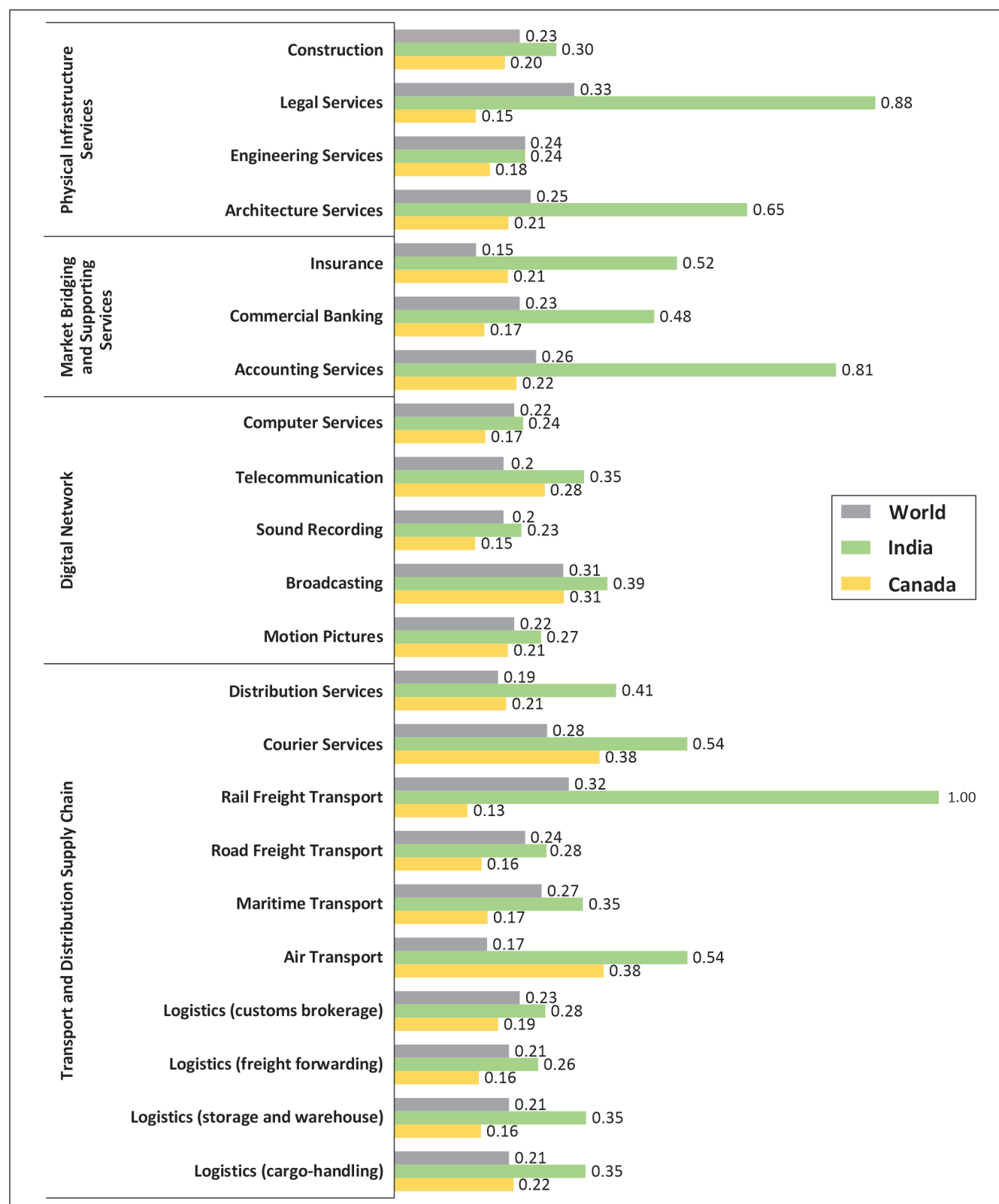
- Computer services
- Construction
- Professional services (legal, accounting, engineering, and architecture)
- Telecommunications
- Distribution
- Audiovisual services (broadcasting, motion pictures, sound recording)
- Transport (air, maritime, road freight and rail freight)
- Courier
- Financial services (commercial banking, insurance)
- Logistics services (cargo-handling, storage and warehouse, freight forwarding, custom brokerage)

The STRI score takes values between zero and one, with one indicating the most restrictive trade environment. The STRI also harmonises policy measures implemented by the countries across the 22 services sectors. These policy measures are categorised under five policy areas:

- Restrictions on foreign ownership and other market entry conditions
- Restrictions on the movement of people
- Other discriminatory measures and international standards
- Barriers to competition and public ownership
- Regulatory transparency and administrative requirements

As stated by the OECD, the STRI database records regulations actually in force and does not take into account preferential agreements. In **Chart 5.3**, the STRI values by sectors and policy area for India, Canada and World are given across 22 sectors for 2021.

Chart 5.3: Services Trade Restrictiveness Index for India, Canada and World in 2021



Note: The STRI indices take values between zero and one, one being the most restrictive. The STRI database records measures on a Most Favoured Nations basis. Preferential trade agreements are not taken into account. Air transport and road freight cover only commercial establishment (with accompanying movement of people).

Source: OECD STRI Database and India Exim Bank Analysis

As can be seen in the case of Canada, among the sectors, air transport and courier services have the highest STRI values of 0.38 against the world averages of 0.17 and 0.28, respectively. The other sectors with high STRI values are broadcasting (0.31), telecommunication (0.28), accounting services (0.22), and logistics (cargo handling) (0.22). All these sectors have a higher STRI when compared to their respective global averages in 2021, except for accounting services. The lowest STRIs are in rail freight transport (0.13), sound recording and legal services (0.15), logistics (freight forwarding), logistics (storage and warehouse), and road freight transport (0.16), commercial banking, computer services and maritime transport (0.17), all lower than their respective world averages. All 22 sectors of Canada have STRI less than 0.5.

India has STRI score above world average in all the 22 sectors. Among the sectors, rail freight transport has the highest STRI value of 1 (maximum STRI value) which is well above the world average of 0.32. The other two sectors with high STRI values are legal services (0.88) and accounting services (0.81). The services with STRI values around and above 0.5 are architecture services (0.65), air transport (0.54), courier services (0.54), insurance (0.52) and commercial banking (0.48). The lowest STRIs are in sound recording (0.23), computer services (0.24) and engineering services (0.24), against the world averages of 0.20, 0.22 and 0.24, respectively.

Based on the above analysis, a comparison of India's STRIs with STRIs of Canada reveals that India is more restricted in services trade than Canada, mainly due to rail freight transport, legal and accounting services as against Canada's averages of 0.13, 0.15 and 0.22, respectively. However, Canada is comparatively restrictive in air transport, courier services, broadcasting, telecommunication, logistics (cargo handling), insurance, and distribution services trade as STRIs for these remain above the world averages in 2021. Thus, transport, logistics, legal, telecommunication, and accounting services are the potential sectors which are likely to provide comparative advantage to both India and Canada in case of liberalisation.

Barriers Faced by Indian Service Suppliers in Canada: Horizontal Restrictions

Horizontal measures are cross-cutting restrictions across sectors. The restrictiveness of these measures automatically gets reflected in the sectoral STRI. As a result, even if a sector is less restrictive as per sector - specific measures, the horizontal measures make the whole sector restrictive. The Integrated Trade Intelligence Portal (I-TIP) database of WTO provides mode-wise horizontal measures impacting services sector. Currently, the database covers 31 service sectors in 76 economies.

According to WTO, the 4 modes of services trade are defined as:

Mode 1: Cross-border Trade

A mode of service supply or trade where services are supplied from the territory of one country into the territory of another. For example, a consumer in country B receives services from abroad (say country A) through its telecommunications or postal infrastructure. Such supplies may include consultancy or market research reports, tele-medical advice, distance training, or architectural drawings.

Mode 2: Consumption Abroad

A mode of service supply or trade where services are supplied in the territory of one country to the consumers of another. This mode of supply requires that the consumer of services move abroad. An example is traveling abroad to receive medical treatment or to enroll in an education program. Under this mode, nationals of A have moved abroad (say country B) as tourists, students, or patients to consume the respective services.

Mode 3: Commercial Presence

A mode of service supply or trade where services are supplied through any type of business or professional establishment, i.e., foreign direct investment, of one country in the territory of another. An example is the establishment of a branch of a foreign bank or of a franchising outlet in a foreign location. For example, the service is provided within country B by a locally-established affiliate, subsidiary, or representative office of a foreign-owned and controlled company of country A (bank, hotel group, construction company, etc.).

Mode 4: Movement of Natural Persons

A mode of service supply or trade where services are supplied by nationals of one country in the territory of another, requiring the physical presence of the service provider in the host country. This mode includes both independent service providers as well as employees of the services providers of another country. Examples include consultants, teachers and actors of one country supplying services through their physical presence in another country, or the managers of a multinational enterprise. In this mode, a foreign national also provides a service (say from country A) within country B as an independent supplier (e.g., consultant, health worker) or employee of a service supplier (e.g. consultancy firm, hospital, construction company).

These modes of supply require the movement of either the service itself (Mode 1), the service consumer (Mode 2) or the service supplier (Modes 3 and 4). As shown in **Table 5.1**, Canada does not impose any horizontal restrictions across Mode 1, 3 and 4. The last three rows highlight the administrative procedure and regulatory transparency involved in getting a business visa.

Table 5.1: Mode-wise Horizontal Restrictions on Services Sector Imposed by Canada

Mode	Category	Sub-category	Measure	Restrictions
1	Conditions on operations	Conditions on service supplier	International data transfer: distinction between countries/regions	No
3	Conditions on market entry	Other conditions on market entry	Acquisition and/or rental of land and real estate by foreigners restricted	No
3	Conditions on market entry	Other conditions on market entry	Rental of land and real estate by foreigners prohibited	No
3	Conditions on operations	Conditions on service supplier	International data transfer: distinction between countries/regions	No
3	Conditions on operations	Other conditions on operations	Limits on subsequent transfer of capital and investment	No
4	Conditions on market entry	Quantitative measures (for firms and natural persons)	Limit on share of foreigners employed in the domestic economy	No
4	Conditions on operations	Conditions on service supplier	International data transfer: distinction between countries/regions	No

Mode	Category	Sub-category	Measure	Restrictions
4	Administrative procedures and regulatory transparency	Administrative procedures	Average visa processing time (days)	20
4	Administrative procedures and regulatory transparency	Administrative procedures	Cost to obtain a business visa (USD)	155
4	Administrative procedures and regulatory transparency	Administrative procedures	Number of documents needed to obtain a business visa	15

Source: I-TIP Database, WTO and India Exim Bank Analysis

In Mode 4, Canada imposes Economic Need Test (ENT) or Labour Market Test (LMT) requirement. These are the tests that condition access in Mode 4, upon the fulfilment of certain economic criteria. These economic criteria includes conditions like the work permit to foreigners can be assigned if the open position cannot be filled by a person from the domestic labour market and the activity is in the economic and labour market interest of the economy, among others. Canada imposes LMT/ENT conditions on the following 2 categories of workers:

- Contractual service suppliers
- Independent professionals

Economic needs or Labor market tests are applicable with regard to contractual service suppliers and independent professionals where a Canadian entity has directly contracted the services of a foreign company, and the employee of the foreign company performing the services in Canada requires a work permit. Such work permits are subject to a Labour Market Impact Assessment (LMIA) (except where services are carried out under a warranty or form part of the original sale, lease or rental agreement). As part of the LMIA, employers will be required to provide a variety of information about the position for which they want to hire a foreign worker, including the number of Canadians who applied for the position, the number of Canadians who were interviewed, and detailed explanations for why the Canadian workers considered were not hired.

Intra-corporate transferees are exempted from the ENT/LMT tests and fall under the exemption granted for business visitors, and therefore, no labour market testing applies to them (**Table 5.2**).

Table 5.2: ENT/LMT Requirement on Services Sector Imposed by Canada

Sector	Measure	Restrictions
Legal services: Host country advisory services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Legal services: Host country representation services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Legal services: Home country law and/or third country law (advisory/representation)	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Accounting services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Auditing services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Wholesale trade services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Retailing services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Life insurance	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Non-life insurance	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Reinsurance and retrocession	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Maritime: Freight transportation	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No

Sector	Measure	Restrictions
Air passenger domestic	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Air passenger international	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Air freight domestic	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Air freight international	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Rail: Freight transportation	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Road: Freight transportation	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Maritime cargo-handling, storage, warehousing and container station depot services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Maritime intermediation auxiliary services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Fixed-line telecommunication services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Mobile telecommunication services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Internet services	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No
Commercial banking	ENT/LMT - Contractual service supplier	Yes
	ENT/LMT - Independent professionals	Yes
	ENT/LMT - Intra-Corporate Transferees	No

Source: I-TIP Database, WTO and India Exim Bank Analysis

Key Sensitivities in Services Sector of Canada which may be of Interest to India

Canada's major services imports from India consists of telecommunication, computer and information services and other business services, mainly technical, trade related and other business services and professional, management consulting services.

Financial Services²⁴

Canada requires financial institutions in the country to replicate and maintain in Canada any data related to the Canadian operations of the financial institution that is transferred outside of the country.

Telecommunications Services

Canada maintains a 46.7% limit on foreign ownership of certain existing suppliers of facilities-based telecommunication services, including the cable television industry, a major competitor for internet access services. In 2012, Canada made a small revision to this regime by allowing foreign investment of more than 46.7% in suppliers with less than 10% market share. In addition to foreign equity restrictions, Canada requires that Canadian citizens comprise at least 80% of the membership of board of directors of facilities-based telecommunication service suppliers.

Digital Localization

The Government of Canada has tabled Bill C-27, the Digital Charter Implementation Act, 2022 to strengthen Canada's private sector privacy law, create new rules for the responsible development and deployment of artificial intelligence (AI), and continue advancing the implementation of Canada's Digital Charter. Bill C-27 also proposes to establish the Personal Information and Data Protection Tribunal, which would play a major role in the enforcement of the Consumer Privacy Protection Act. It would also establish part of the existing privacy law that governs the use of electronic documents by the federal public sector as stand-alone legislation under the Electronic Documents Act.

Potential Services Sectors for Mutual Recognition Agreements

Mutual Recognition Agreements (MRAs) are bilateral agreements focussing on benefitting industries by providing easier access to conformity assessment, thereby facilitating wider market access and promoting trade. Mutual recognition agreements lay down the conditions under which one Party will accept conformity assessment results (e.g. testing or certification) performed by the other Party's designated conformity assessment bodies (CABs) to show compliance with the first Party's requirements and vice versa. Broadly, MRAs include relevant lists of designated laboratories, inspection bodies and conformity assessment.

Entering into MRAs could significantly expand the market access of India's exports (both goods and services) and lead to better price discovery in partner countries, especially the ones that are also the co-signatories to trade agreements. The MRAs with Canada could be focussed on areas like regulatory standards, conformity assessment, accreditation procedures, qualifications, visas and social security.

²⁴ 2021 National Trade Estimate Report on Foreign Trade Barriers, United States Trade Representative

In a general sense, mutual recognition implies that goods or services produced under a regulatory regime or rules in country A enjoy unhindered market access in country B, presumably having different rules. MRAs could be part of FTAs. MRAs facilitate the freer movement of people between the countries. MRAs are not expected to override local laws. Instead, the agreements are applicable only in accordance with prevailing laws and regulations of the host country.

In the case of India, talent and innovation can be one of the priorities. Canada could cooperate with India in order to foster the reciprocal mobility of students and researchers, and to consolidate networks of innovators and start-ups. MRAs pave the way for recognition of the professional bodies of one country by the other to institutionally access markets abroad. Furthermore, like in the case of India-UAE CEPA, Canada can move towards mutual recognition of education or experience obtained, and qualification requirements. Easing of procedures in sectors such as architecture, engineering, medical, nursing, accountancy, tourism and company secretaries could allow easier mobility of skilled professionals across the two countries.

Like in the case of India-Australia trade deal, Canada could agree for post-study work rights in a side letter to CEPA, which could extend access for STEM graduates. Canada could provide opportunities for former Indian students to live, study and work temporarily upon completion of a diploma or trade qualification (up to 18 months), bachelor degree (up to two years), masters degrees (up to three years) or doctoral degree (up to four years). An additional year could be made available for Indians who graduate with bachelor degrees in STEM and ICT with First Class Honors (from two to three years).

In the course of delivery of professional services, a short term visa is required and for that, there should be fair and transparent rules. More skilled visas could be provided for Indians to enable more people to work in Canada.

6

Potential Sectors for Enhancing Bilateral Cooperation

India and Canada have been actively pursuing to enhance their bilateral relations through various mechanisms including Ministerial level – Strategic Trade and Energy Dialogues, Foreign Office Consultations, and sector specific Joint Working Groups. India and Canada have signed various Memorandum of understandings (MOUs) in sectors including railways, transportation, civil aviation, skill development, uranium ore procurement, nuclear cooperation, ICT, energy, IPRs, higher education, science, and technology. An MOU was also signed between Invest India and the Investment Bureau, Global Affairs Canada on Investment Promotion and Facilitation. Indian companies in Canada are active in fields such as Information & Technology, software, steel, natural resources, and banking sectors. Both the countries are exploring signing a Foreign Investment Promotion and Protection Agreement (FIPA). Following are select potential areas of cooperation for bilateral trade and investment -

Energy

Energy has been a primary area of focus of India-Canada bilateral relations. Canada, being an advanced and resource-rich economy, offers a great opportunity for trade in energy. Canada has the world's third-largest proven oil reserves and could be an ideal partner for India, the fourth largest global energy consumer and a net importer of crude oil. Canada's clean and renewable energy technology could be useful in India's goal to have a well-developed renewable energy sector. Cooperation in oil and gas equipment and services sectors and in the renewable energy sector through investment in solar cells and modules manufacturing facilities would support in meeting India's energy security through increased exports of conventional and nuclear energy as well as clean and renewable energy technology by Canada. In February 2018, the scope of the Energy Dialogue was expanded to additionally include electricity, energy efficiency and renewable energy. Indian Oil Corporation has a 10% participating interest in a Liquid Natural Gas project in British Columbia.

- **Solar Energy**

According to the Invest India, India has the largest renewable energy capacity globally with more than 64 GW of installed capacity. The Production Linked Incentive (PLI) Schemes for high efficiency solar photovoltaic modules was announced (total outlay of Rs. 19,500 crore) to enhance India's domestic manufacturing capabilities and boost exports. Up to 100% FDI is allowed under the automatic route for renewable energy generation and distribution projects, subject to provisions of The Electricity Act, 2003. The Government of India has set targets to reduce India's total projected carbon emission by 1 billion tonnes by 2030, reduce the carbon intensity of the nation's economy by less than 45% by the end of the decade, achieve net-zero carbon emissions by 2070 and expand India's renewable energy installed capacity to 500 GW by 2030. Renewable energy has been one of the major areas of Canadian investments in India. Toronto-based SkyPower Global, a solar power development company, is responsible for the majority of the investment in alternative electricity

sector, having invested US\$ 665 million to build and operate 200-megawatt solar energy projects in Telangana through two transactions, one in 2015 and the other in 2016.

- **Nuclear Energy**

A Nuclear Cooperation Agreement (NCA) with Canada was signed by India in June 2010 and came into force in September 2013. The Appropriate Arrangement (AA) for the NCA was signed in March 2013, under which a Joint Committee on Civil Nuclear Cooperation was constituted. In April 2015, Department of Atomic Energy (DAE) and M/S CAMECO Inc. signed an agreement for supply of uranium ore concentrate to India during 2015-2020.

Among all the developing nations, India is the only one to have generated electricity using indigenously developed, demonstrated, and deployed nuclear reactors. India ranks third in terms of electricity production worldwide by producing 1207 TWh of electricity²⁵. Nuclear energy is the fifth-largest source of electricity for India. India also stands at seventh position in terms of the number of nuclear reactors, with over 23 nuclear reactors in 7 power plants across the country, which produces 6795 MW of nuclear power. With an aim to increase its atomic power contribution from 3.2% to 5% by 2031, a surge in the nuclear energy contribution in India will help the country move towards a more sustainable and economic future. India has 6.9 GW of installed nuclear capacity as of 2021, around 5.3 GW net capacity under construction and over 80 GW planned or proposed. The Indian government is dedicated to growing its nuclear power capacity as part of its huge infrastructure development program. The government expects nuclear capacity to reach about 22.5 GW by 2031. Moreover, the Indian government plans to source 25% of the country's electricity from nuclear energy by 2050, up from the current level of 2.5%. The slow pace of capacity addition in the nuclear sector has been due to requirement of huge upfront investments, among other factors²⁶.

- **Hydrogen**

Around 7 Mt Hydrogen is being used in India annually, with 45% used for refining, 35% for chemicals and almost 20% for iron and steel. India is the world's largest producer of steel using the Direct Reduced Iron (DRI) route consuming one-quarter of global hydrogen demand for this end use. Practically all hydrogen demand is met through domestic production based on fossil fuels, with natural gas accounting for three-quarters, coal for more than 15% and by-product from refineries making up the rest. Hydrogen use in India is expected to rise substantially in the next decade as population growth and greater prosperity necessitate increased food production (requiring ammonia) and new infrastructure (requiring steel). India's hydrogen demand is expected to grow close to 11 million tonne by 2030 (from the present 8.5 million tonne in 2021), with DRI-based steelmaking accounting for around 30% of this increase. The Indian government launched the National Hydrogen Mission (NHM) in 2021 to articulate the government's vision, intent and direction for hydrogen and to outline a strategy. The NHM will also explore policy action to support the use of hydrogen as an energy vector and develop India into a global hub for hydrogen and fuel cell technology manufacturing. India has also announced mandatory quotas for using renewable hydrogen in refining (10% of demand from 2023-24, increasing to 25% in the following five years) and fertilizer production (5% of demand from 2023-24, increasing to 20% in the following five years), with potential extension to steel industry in the near future. This will spur India to replace part of its current capacity for hydrogen produced from natural gas

²⁵ <https://www.ibef.org/blogs/india-s-nuclear-energy-boom>

²⁶ Nuclear energy in India: Small may not be beautiful, ORF, February 2022

(typically imported) with hydrogen from renewables while also creating new demand for locally produced hydrogen. India also announced plans for new developments in gas grid infrastructure, connecting major demand centres with ports to help the latter become major import/export hubs. The industry sector has also become involved, with some major companies (e.g. Arcelor Mittal, the Indian Oil Corporation, NTPC, Reliance Industries and the Solar Energy Corporation of India), announcing ambitious plans to develop projects for low-carbon hydrogen production. A global supply crunch of electrolyzers needed to produce green hydrogen and a lack of domestic manufacturers to make them pose a major challenge to India's ambitious targets to use the zero-carbon fuel.

India plans to manufacture 5 million tonnes of green hydrogen per year by 2030, half of the European Union's 2030 target of 10 million tonnes. Its green hydrogen target would require at least 10 GW of electrolyser capacity to split water into hydrogen and oxygen. India expects initial demand to mainly come from refiners and fertilizer firms, followed by steel industry and transport sector. India's refineries are expected to produce 38,000 tonnes of green hydrogen by 2025. India will initially import electrolyzers, and state-run refiners plan to form joint ventures with foreign companies manufacturing the equipment.

The US-based hydrogen electrolyser start-up, Ohmium, launched India's first green hydrogen electrolyser gigafactory at Bengaluru through its India subsidiary. The company has shipped its first unit of electrolyzer to the US from this India facility. Bharat Petroleum Corporation and the Bhabha Atomic Research Centre have collaborated to scale up alkaline electrolyser technology to produce green hydrogen. GAIL is planning to procure a large 10-megawatt electrolyser, capable of producing 4.5 tonne hydrogen per day. The Hyderabad-based Cleantech firm has signed an agreement with Belgian manufacturer of alkaline electrolyzers, John Cockerill, to develop market initiatives for green hydrogen electrolyzers in India.

Canada ranks 2nd on the Global Cleantech Innovation Index, 2023 after the US, with 12 companies in the Global Cleantech 100. India ranked 11th with one company in the list during the same year. Canada is already one of the top 10 global hydrogen producers and has strong competitive advantage in innovative hydrogen and fuel cell technologies.

Agriculture and Allied Sectors

Agriculture and agritech is another area of enhanced cooperation between India and Canada. Canada is one of the largest agricultural producers and exporters globally and India is major market for Canadian agricultural products. Canada's sustainable produce are highly trusted globally. It is also a global leader in agritech and a major exporter of fertilizers. The government of Canada has set a target of increasing its agri-food exports to at least US\$ 75 billion annually by 2025, and technology adoption and advancing digitization are widely accepted as the way forward for meeting this goal.

The bilateral MOU between India and Canada on agriculture cooperation was signed at the federal level in 2009. The first meeting of the Joint Working Group (JWG) set under this MOU was held in New Delhi in 2010, which led to the creation of three sub-groups on knowledge exchange in emerging technologies: animal development and agricultural marketing. A Joint Working Group for Pulses has been set up separately. India is the second largest producer of food grains, fruits, and vegetables and number one producer of milk. The Indian food and retail market is expected to reach US\$ 535 billion by 2025-26.

McCain Foods (India) is a wholly owned subsidiary of McCain Foods Limited in Canada. Since 1998, the company has been engaged in agriculture research and development (R&D) and in the development of the frozen food market in India. The company's products are used by leading fast-food chains, hotels, restaurants, catering companies and are popular for in-home consumption.

Canada is one of the largest global exporters of pulses, edible oils, and oilseeds. Both India and Canada have been discussing greater access of agricultural markets – Canadian pulses into India and access for Indian sweet corn, baby corn and banana into Canadian markets²⁷. Canada acknowledging Conformity Verification Body (CVB) status to APEDA (Agricultural and Processed Food Products Export Development Authority) could facilitate Indian organic exports to Canada.

Potential areas for Canada's investment in India could be in agricultural technologies, especially in the areas of farm mechanization, supply chain management and food processing. Canada being a harbinger of clean technology could further facilitate investments in agriculture infrastructure and logistics through clean technology. Agritech sector is attracting large scale investment in Canada in recent times. At the same time, India is witnessing an increased demand for consumer products supported by its growing middle class and changing tastes and demands due to increasing per capita income, standard of living, as well as a large number of foreign educated citizens. Similarly, a huge demand exists in the Canadian food and beverage sector for material inputs and ready for consumption retail products. A collaboration with Canadian firms could be leveraged by India to transfigure its existing agricultural production, food processing and food safety. Similarly, opportunities exist in agri-food supply chain logistics, mega food parks, agri infrastructure including cold storage, warehousing and transportation infrastructure and techniques.

During 2021, India was the third largest global importer of potash²⁸, with imports worth US\$ 4.8 billion. At the same time, Canada was the third largest exporter accounting for a global export of US\$ 5.9 billion. India accounted for 2.4% of Canada's global exports for potash at US\$ 139.6 million. Increasing exports to India from Canada can help to enhance Canada's role as a reliable partner for fertilizer supply and reorient India's dependence on China which accounted for more than 25% of India's imports in 2021.

Electric Vehicle Ecosystem

India holds a strong position in the international heavy vehicles arena as it is the largest tractor manufacturer, second-largest bus manufacturer, and third largest heavy trucks manufacturer in the world. The Electric Vehicle (EV) market is expected to grow at CAGR of 44% between 2020-2027 and is expected to hit 6.34 million-unit annual sales by 2027. A market size of US\$ 50 billion for the financing of EVs in 2030 has been identified. India's automotive industry is worth more than US\$ 100 billion, contributing 8% of the country's total exports

²⁷ Joint Statement issued at conclusion of the 5th India-Canada Ministerial Dialogue on Trade & Investment, PIB Press Release, Ministry of Commerce and Industry

²⁸ Potash includes

HS 3104 – Mineral or chemical potassic fertilisers (excluding those in tablets or similar forms, or in packages with a gross weight of <= 10 kg)

HS 2815 – Sodium hydroxide "caustic soda", potassium hydroxide "caustic potash"; peroxides of sodium or potassium

HS 3105 – Mineral or chemical fertilisers containing two or three of the fertilising elements nitrogen, phosphorus and potassium; other fertilisers (excluding pure animal or vegetable fertilisers or mineral or chemical nitrogenous, phosphatic or potassic fertilisers); animal, vegetable, mineral or chemical fertilisers in tablets or similar forms or in packages of a gross weight of <= 10 kg

and accounting for 2.3% of India's GDP. The industry is set to become the 3rd largest in the world by 2025. 100% FDI is allowed under automatic route in the automotive sector in India.

Canada is a leading global producer of many critical minerals including those used in advanced battery technologies – such as graphite, nickel, aluminium, copper, lithium, cobalt, manganese, and molybdenum, among others. Canada ranks 6th globally in terms of heavy-duty EV production, with major global OEMs investing in Canada. Battery electric vehicles are a critical element to achieve carbon neutrality. Canada is well-positioned to assume leadership across all 5 segments of the EV battery supply chain: mining and mineral processing; cathode and anode manufacturing and chemical precursors; battery manufacturing; electric vehicle manufacturing and parts supply; and battery recycling. Therefore, cooperation between the two countries in clean technologies especially in the electric vehicle ecosystems, including electric charging, battery storage technologies and EV drive motors can be a game-changer for both.

Infrastructure Financing

Canadian investors have been at the forefront of India's private equity and infrastructure investment landscape. Almost all major Canadian investors such as Ontario Teachers' Pension Plan (OTPP), Canada Pension Plan Investment Board (CPPIB), CDPQ, Public Sector Pension (PSP) Investments, Brookfield Asset Management, Fairfax, etc. have a presence in India across diverse sectors, including core infrastructure, real estate, renewables, telecom, banks, NBFCs, start-ups, etc, and across asset classes - direct private equity deals, alternatives, infrastructure investment trusts (InvITs), etc. In fact, Canadian institutions now own some of the largest infrastructure assets in India and reflect scale and long-term presence. Canadian Pension Funds and other major investment firms have pledged portfolio investments of over US\$ 50 billion in India.

Advanced Manufacturing

Advanced manufacturing, especially in the pharmaceutical and medical device sector, precision machining and robotics sectors could be another emerging area for cooperation between India and Canada. According to Invest Canada, the Canadian advanced manufacturing sector, which includes the fields of robotics, 3D printing and ICT technologies, benefits from one of the best R&D environments in the world, complemented by a skilled workforce. As a global leader in system integration, artificial intelligence (AI), sensors, machine vision and automation, Canada facilitates the seamless integration of Industry 4.0 solutions into manufacturing operations, with 44% of manufacturing through additive/3D technology.

The current market size of the medical devices industry in India is estimated at US\$ 11 billion, representing a sunrise sector of the Indian economy, and targeted to grow up to US\$ 50 billion by 2025. Presently, the sector remains import dependent and to increase domestic manufacturing capacity, 100% FDI has been allowed under automatic route for medical devices manufacturing in India. The Approach Paper on draft National Medical Policy 2022 aims to reduce import dependence of medical devices from 80% to below 30% in next 10 years. It aims to have a medical tech industry of US\$ 100-US\$ 300 billion, with a global market share of 10%-12% by 2047.

Canada's strengths in the MedTech sector include medical and diagnostic imaging, cardiovascular devices, and assistive and rehabilitative devices. According to Invest Canada, the country is shifting its focus towards emerging medical devices, and technologies such as robotic surgery, surgical simulation, mobile health, and

wearables are expected to experience significant growth. Therefore, advanced manufacturing in high-end diagnostic services, medical devices and medical consumables could emerge as new areas of cooperation for India and Canada.

Education and Skill Development: Skill development and training have always been accorded as a major area of cooperation between India and Canada, leading to several MOUs between Indian and Canadian educational institutions. Indians have always perceived Canada as a top-notch education destination. The country has several well-developed research institutions. In November 2019, Seneca College from Toronto signed MOUs with National Institute of Financial Management (Ministry of Finance), and GD Goenka University. In January 2022, IIT Ropar and the University of Saskatchewan, Canada have signed an agreement for academic collaboration through student and faculty exchange between the two institutions. Enhanced education and skills training through greater collaboration between Canadian and Indian educational and technical skills institutions are the way forward. Both Canada and India have good start-up ecosystems. Canada and India could combine their efforts in the development of knowledge based-capital, and Indian technical start-ups could get support from Canadian institutions.

Information and Communications Technology (ICT) and Technology Collaboration: Increased commercial research and development through India-Canada collaboration would drive innovation in technology and ICT sector in both countries. The 2017 Technology Summit in India was organized in partnership with Canada, where a call for industry led joint R&D projects having significant potential for commercialisation leading to product or process development in the areas of advanced manufacturing, clean technologies, smart cities and food and agro technologies supported by Department of Science and Technology (DST), India and the National Research Council of Canada was announced. India-Canada collaboration in scientific research could lead to community deployments and commercialisation, particularly in waste management and river clean-up programs in India. Both countries could use ICT technology as a value-chain enhancer.

Other priority sectors for increased cooperation between both countries could include aerospace, chemicals and plastics, life sciences, transportation and power infrastructure, and urban development projects.

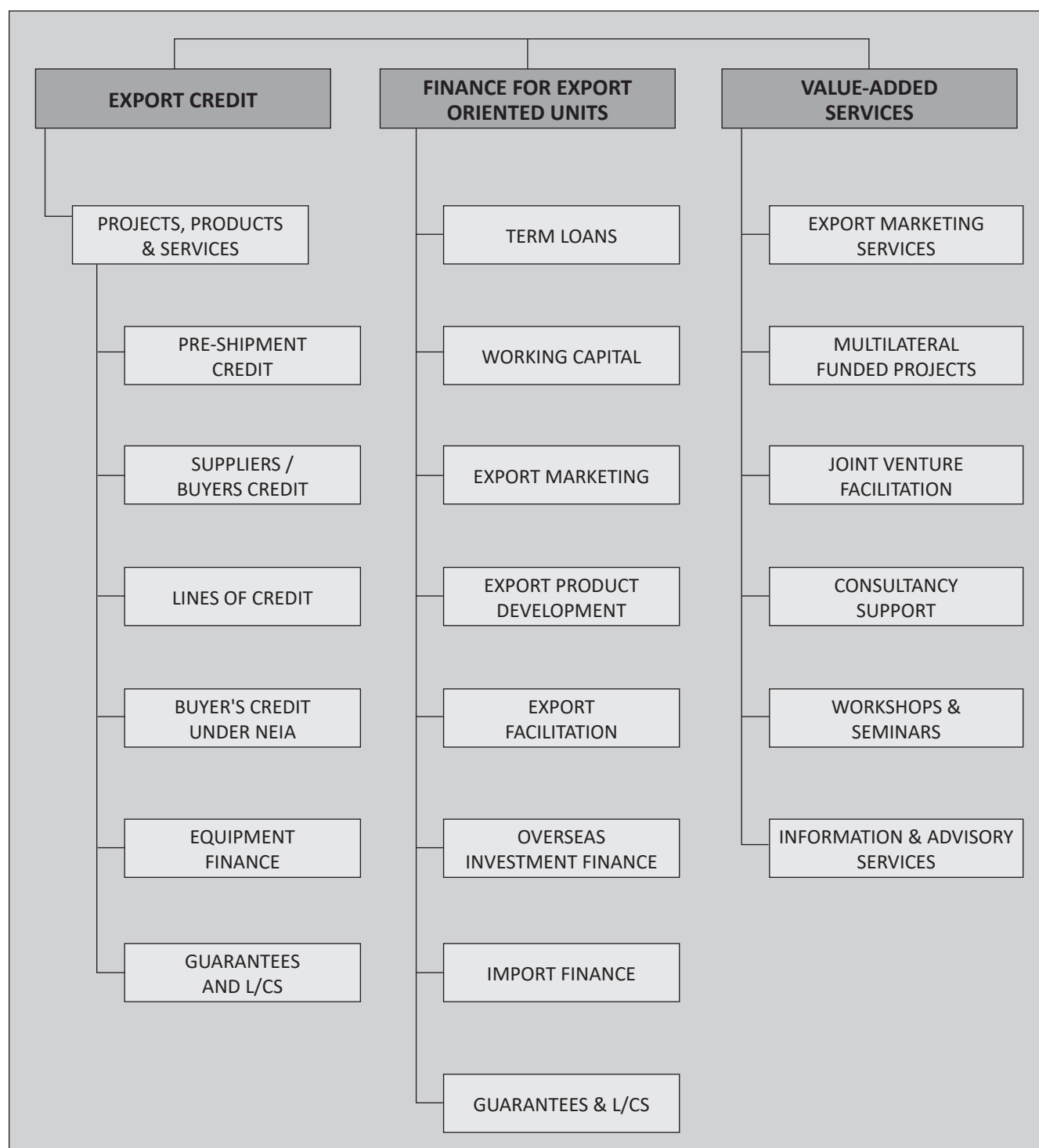
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