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ASIA PACIFIC FOUNDATION OF CANADA
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# CANADIAN COMPANIES THAT DO BUSINESS IN INDIA: NEW LANDSCAPES, NEW PLAYERS AND THE OUTLOOK FOR CANADA

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# CANADIAN COMPANIES THAT DO BUSINESS IN INDIA: NEW LANDSCAPES, NEW PLAYERS AND THE OUTLOOK FOR CANADA

Douglas Goold

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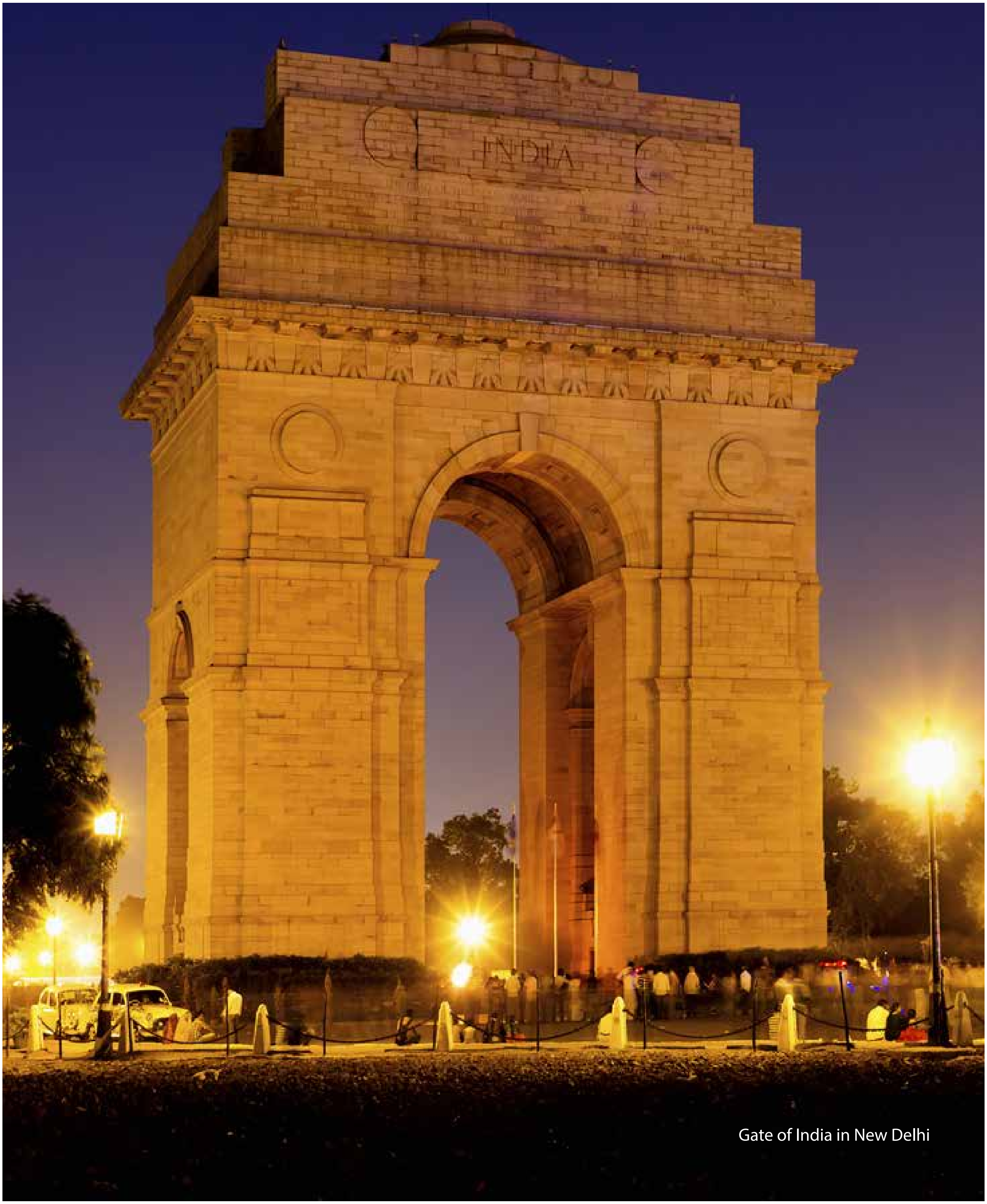


Gate of India in New Delhi

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# FOREWORD

It has been five years since Douglas Goold first tapped into the conduit of business activities connecting Canada and India with his case study, *Doing Business in India: Success, Failure and the Prospects for Canada*. Returning to the field to interview business leaders and officials in Canada and India, including executives from many of the same companies he spoke with in 2010, Goold has again plumbed the depths of this unique bilateral relationship to better understand Canadian companies doing business in the world's most populous and energetic democracy.

How much has this relationship changed in the past five years? Looking at the numbers, Goold argues that it has changed significantly. He points to billion-dollar private-equity deals originating in Canada, a trebling of the number of Canadian companies and organizations registered in the Indian capital, and one of the highest growth rates in the world (projected at 7.2%) just prime for engagement by entrepreneurially-minded Canadian firms.

But just as interesting is the story that lies between the lines of Goold's new study, *Canadian Companies That Do Business in India: New Landscape, New Players and the Outlook for Canada*. That is where we discover the dial on Canada-India relations has really moved, in the less measurable areas of trust, confidence and new beginnings.

Goold's first report was created when India was beginning to run into some heavy weather, the result of the global financial crisis, the political stasis of two weak coalition governments and the onset of high-profile corruption scandals, starting with the Commonwealth Games in October 2010. Despite these problems, prospects were beginning to improve for Canadian businesses.

But the bilateral climate really improved after the 'bringing into force' of the civil nuclear cooperation agreement in 2013, a result of Prime Minister Harper's State Visit in 2012. With a few deft strokes of a pen, two countries buried 40 years of troubled history set in motion by India's 1974 and 1998 nuclear tests, which were enabled by Canadian technology and uranium.

Brightening this horizon even further is the arrival in Canada on April 14, 2015, of Indian Prime Minister Narendra Modi for the first official bilateral visit of an Indian Prime Minister since 1973. This is significant as it is coming within the first year of Modi assuming the leadership of India and it recognizes the strong support of the Canadian Government for his policies and programs while he was Chief Minister of Gujarat.

PM Modi has already made significant strides in his quest for national reform, cooperative federalism and a reinvigoration of India's manufacturing sector as part of his 'Make in India' campaign to provide meaningful work to the 13 million young people expected to enter the Indian workforce every year for the next decade.

The impacts of these changes in the Canada-India relationship—the burying of old hatchets, political stability and meaningful reform in India, and the prospect of increased economic linkages with Canada in nuclear and other sectors—resonates through the testimonials of the business and government leaders interviewed in Goold's study.

Despite the common problems of doing business in an emerging market, Canadian businesses are approaching India more confidently. Resilience, growth and renewed trust underscore the Canada-India relationship, and that is reflected in the report that follows.

Stewart Beck,
President and CEO, Asia Pacific Foundation of Canada
& Former Canadian High Commissioner to India

# AVANT-PROPOS

Depuis la première étude de cas de Douglas Goold sur les débouchés des activités économiques entre le Canada et l'Inde intitulée *Doing Business in India: Success, Failure and the Prospects for Canada*, cinq années se sont écoulées. Reprenant la méthode des entretiens avec des chefs d'entreprise et des représentants au Canada et en Inde, dont des hauts cadres de plusieurs des mêmes entreprises dont il avait obtenu des entretiens en 2010, Goold a de nouveau étudié à fond cette relation bilatérale unique, afin de mieux comprendre les sociétés canadiennes qui font des affaires dans la démocratie la plus peuplée et la plus dynamique du monde.

À quel point et en quoi cette relation a-t-elle changé au cours des cinq dernières années? En analysant les données quantitatives, Goold soutient qu'elle a nettement changé, évoquant des transactions de capital-investissement de plus d'un milliard de dollars émanant du Canada, le triplement du nombre d'entreprises et d'organisations canadiennes inscrites dans la capitale et l'un des taux de croissance les plus élevés du monde (devant atteindre 7,2 %) idéalement propice pour les sociétés canadiennes ayant l'esprit d'entreprise.

Mais l'histoire qu'on peut lire entre les lignes dans la nouvelle étude de Goold, intitulée *Canadian Companies That Do Business in India : New Landscape, New Players and the Outlook for Canada*, présente tout autant d'intérêt. Car on y découvre en quoi les relations entre l'Inde et le Canada ont véritablement évolué, dans les domaines moins mesurables de la confiance, de l'assurance et des nouveaux départs.

Le premier rapport de Goold avait été rédigé alors que l'Inde commençait à nager dans des eaux fort troubles en raison de la crise économique mondiale, d'une stagnation politique entraînée par deux faibles gouvernements de coalition et le début d'une succession de scandales de corruption très médiatisés, à commencer par celui des Jeux du Commonwealth en octobre 2010. Malgré ces problèmes, les débouchés des entreprises canadiennes commençaient à s'améliorer.

Le climat bilatéral s'est toutefois véritablement amélioré après « l'entrée en vigueur » de l'entente de coopération nucléaire civile de 2013, résultant de la visite officielle deu premier ministre Harper en 2012. En quelques traits de stylo, les deux pays ont enterré 40 années d'un passé tumultueux déclenché par les essais nucléaires de l'Inde en 1974 et 1998, à l'aide de technologies et d'uranium canadien.

Puis, l'arrivée au Canada le 14 Avril 2015 du premier ministre indien Narendra Modi, pour la première visite officielle d'un premier ministre indien depuis 1973, a le potentiel d'améliorer la relation bilatérale encore davantage. Cette visite est importante car elle arrive dans la première année du mandat de Modi à la tête de l'Inde et vient souligner le soutien qu'il a eu du gouvernement du Canada pour ses politiques et programmes alors qu'il était ministre en chef du Gujarat.

Le ministre Modi a déjà réalisé des progrès importants en matière de réforme nationale, de fédéralisme coopératif et de revitalisation du secteur manufacturier indien, dans le cadre de sa campagne Fabriqué en Inde pour fournir des emplois viables aux 13 millions de jeunes qui devraient faire leur entrée sur le marché du travail indien tous les ans pendant la prochaine décennie.

Les répercussions de ces changements à la relation Canada-Inde – l'enterrement de vieilles haches de guerre, la stabilité politique et la réforme pertinente en Inde, ainsi que la possibilité de relations économiques accrues avec le Canada dans le domaine du nucléaire et d'autres secteurs – ressortent dans les témoignages des dirigeants des sphères économique et gouvernementale interviewés dans l'étude de Goold.

En dépit des problèmes courants associés aux affaires dans un marché émergent, les entreprises canadiennes présentent des projets en Inde avec plus d'assurance. La résilience, la croissance et la confiance renouvelée sous-tendent la relation Canada-Inde. Le rapport qui suit en fait état.

Stewart Beck
Président et chef de la direction, Fondation Asie Pacifique du Canada
& ancien Haut-commissaire du Canada en Inde.

# EXECUTIVE SUMMARY

This study outlines and assesses the experience of Canadian companies that do business in India, and provides advice to corporate executives and to policy-makers. It is unique because it is based largely on face-to-face, on-the-record interviews with business leaders and officials in Canada and in India.

Little has been written on the subject since the author's 2010 study for the Canadian International Council, *Doing Business in India: Success, Failure and the Prospects for Canada.*[1] The current study builds on the former and provides a five-year metric for comparisons. The author interviewed executives from some of the same companies in both 2010 and 2015, including Scotiabank, Sun Life Financial, McCain Foods Ltd., Brookfield Asset Management Inc., LEA Group Holdings Inc. and R.V. Anderson Associates Ltd. Each is still conducting business in India, and each is doing well.

There have been some very significant, encouraging developments. Big, smart Canadian money has been making waves and setting an example for others over the past 18 months, led by the C$235 billion Canada Pension Plan Investment Board (CPPIB).

Three of the top five private equity deals in India in 2014, totalling US$1.3 billion, were Canadian. The CPPIB, Brookfield and Fairfax Financial Holdings Ltd. alone have recently invested almost C$4.5 billion, a sharp contrast to the official investment figure of C$613 million for 2013, the latest number available. The number of Canadian companies and organizations that registered with the Canadian High Commission in New Delhi has mushroomed to almost 700, triple the number in 2010.

The political landscape in India has changed dramatically over the past five years, making the timing ideal for such a study. After two weak coalition governments and a succession of corruption scandals, India elected its first majority government in 30 years in the spring of 2014. Interviews reveal that there is widespread belief, or at least hope, that the Bharatiya Janata Party (BJP) government under Prime Minister Narendra Modi will restore India's position as a leading emerging economy and deliver on its pro-business platform. While it is very early days for the BJP government, India is again being favourably compared by some to China, including at the 2015 World Economic Forum in Davos, Switzerland.

The opportunity in India is vast, and Canada is well positioned to be responsive to India's agenda, which includes better infrastructure, energy security, food security, education and skills development, and long-term investment from abroad.

[1] Douglas Goold, *Doing Business in India*, Canadian International Council, November. 2010. Also see Danielle Goldfarb, The Conference Board of Canada, Tool Kit for Growth Markets, *Hottest Prospects for Canadian Companies in India*, April 2013.

# RÉSUMÉ


Cette étude décrit et évalue l'expérience d'entreprises canadiennes qui font des affaires en Inde. Elle formule également des conseils à l'intention des cadres d'entreprises et des décideurs. Unique en son genre, elle repose en grande partie sur des entretiens face à face officiels avec des chefs d'entreprise et des représentants au Canada et en Inde.

Rares ont été les textes publiés sur le sujet depuis l'étude de l'auteur, publiée en 2010 par le Conseil international du Canada et intitulée *Doing Business in India: Success, Failure and the Prospects for Canada*.[1] La présente étude tire parti de l'étude antérieure et présente des paramètres quinquennaux aux fins de comparaison. En 2010 et en 2015, l'auteur a interviewé des dirigeants de certaines des mêmes entreprises, notamment la Banque Scotia, la Financière Sun Life, McCain Foods Ltd., Brookfield Asset Management Inc., LEA Group Holdings Inc. et R.V. Anderson Associates Ltd. Chacune fait toujours des affaires avec l'Inde et s'en porte bien.

Il s'est produit des développements très importants et encourageants. Au cours des 18 derniers mois, de grands investisseurs canadiens avisés ont fait des vagues et donné l'exemple à d'autres, et l'Office d'investissement du Régime de pensions du Canada (OIRPC), fort de ses 235 milliards $ CA, menait le bal.

Trois des cinq plus importantes transactions de capital-investissement conclues en Inde en 2014, d'un total de 1,3 milliard $ US, étaient canadiennes. À eux seuls, l'OIRPC, Brookfield et Fairfax Financial Holdings Ltd. ont récemment investi près de 4,5 milliards $ CA, un contraste net par rapport à l'investissement officiel de 613 millions $ CA pour 2013, soit le dernier montant disponible. Passant à près de 700, le nombre d'entreprises et d'organisations canadiennes qui se sont inscrites auprès du Haut-commissariat canadien à New Delhi a monté en flèche. Il s'agit du triple par rapport à 2010.

Au cours des cinq dernières années, le paysage politique de l'Inde a changé de manière spectaculaire, et le moment était idéal pour une telle étude. Après deux faibles gouvernements de coalition et une succession de scandales de corruption, l'Inde a élu au printemps 2014 son premier gouvernement majoritaire depuis 30 ans. Les entretiens révèlent une opinion répandue, ou à tout le moins l'espoir, que le gouvernement du Parti Bharatiya Janata (PBJ), sous la direction du premier ministre Narendra Modi, rétablira la position de l'Inde en tant qu'économie émergente majeure et respectera sa plateforme favorable aux entreprises. Même si le gouvernement du PBJ n'en est qu'à ses débuts, l'Inde est de nouveau favorablement comparée par certains à la Chine, notamment lors du Forum économique mondial 2015 de Davos, en Suisse.

Les débouchés en Inde sont considérables et le Canada est bien placé pour être attentif au programme d'action de ce pays, qui comprend une meilleure infrastructure, la sécurité énergétique, la sécurité alimentaire, l'éducation et le développement des compétences, ainsi que l'obtention d'investissements à long terme de l'étranger.


[1] Douglas Goold, « Doing Business in India », le Conseil international du Canada, novembre 2010. Voir également Danielle Goldfarb, Le Conference Board of Canada, trousse d'outils pour les marchés en croissance, « Hottest Prospects for Canadian Companies in India », avril 2013.

# ACKNOWLEDGEMENTS

For their assistance, I would like to thank Stewart Beck, recently Canada's High Commissioner in India and now president and CEO of the Asia Pacific Foundation of Canada (APF Canada), and Kasi Rao, vice-president of APF Canada's Toronto office. Kasi was extremely supportive and invaluable for contacts and ideas.

For ideas and contacts in India, I would also like to thank Akhilesh Mishra, Consul General of India in Toronto, and Pankaj Mehra, co-lead, multicultural banking at Scotiabank. I am also very grateful to all who agreed to be interviewed.

The views expressed in this document, and any errors, are entirely my own.

Douglas Goold, PhD

April 2015

# PART I: CONTEXT

## INDIA OVERVIEW

### The Importance of India

India is one of the world's most important developing powers and a priority market for Canada. With 550 million voters going to the polls in the 2014 elections, it is the world's largest democracy – an element of commonality with Canada. It is the world's second-most populous country, and is widely expected to become the first in the coming decade or so. It has a global culture, encompassing food, dance and Bollywood, and is strategically positioned, bordering on Bangladesh, China, Myanmar, Nepal and Pakistan. It is a civilian and military nuclear power and the world's biggest purchaser of arms. India is also a rival of and major trading partner with China, with which it conducts almost US$80 billion a year in bilateral trade. In sum, India is a major part of the tectonic shift in global power from west to east.

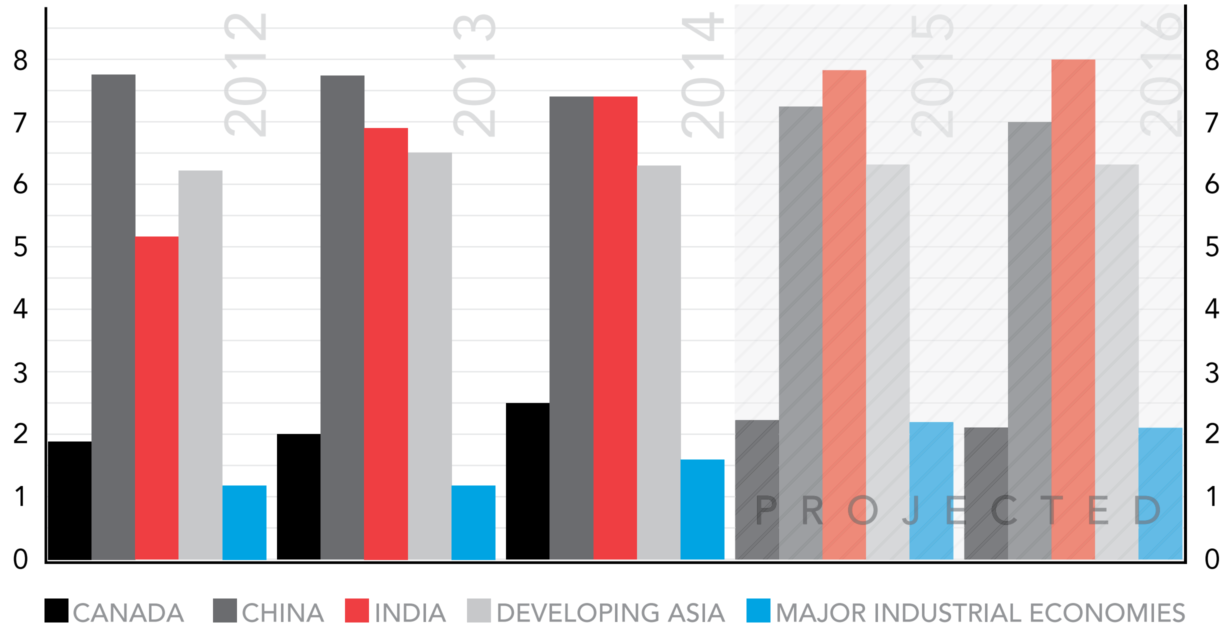
### India as an Economic Power

India has really only been taken seriously as a globally important developing power since 1991, when a balance of payments crisis led to reforms and the end of the 'Licence Raj.' Significantly, this was a dozen years after then-president Deng Xiaoping began a successful reform program in China. India got another boost in 2001 when Goldman Sachs launched the concept of the BRIC countries, predicting that the four largest developing powers – Brazil, Russia, India and China – could lead global growth over the following half-century.

India seemed to legitimize its new status with annual growth levels that – at 7% to 9% – were for many years second only to China's, though both countries have experienced a slowdown in recent years.

However, in his February 2015 budget, Indian Finance Minister Arun Jaitley said he expected 2014-15 growth to be 7.4%, confidently

## Annual GDP Growth (% per year)




Notes: Developing Asia refers to the 45 members of the Asian Development Bank.
Major industrial economies comprise the United States, the Euro area, and Japan.
Data for Indis is recorded on a fiscal year basis. For India, the fiscal year spans the current year's April through next year's March.

(Sources: Asian Development Bank, OECD)

adding that "[a]iming for a double-digit rate seems feasible very soon." Using India's newly introduced method of calculating GDP, the International Monetary Fund (IMF) projects a slightly lesser rate for the 2014-15 fiscal year, at 7.2% – still one of the highest rates in the world.

That the enthusiasm – perhaps unrealistic enthusiasm – for India has returned is shown by IMF managing director Christine Lagarde. In a speech she made in New Delhi in mid-March 2015, Lagarde said that, given India's new confidence and reforms, its economy is set to overtake the combined economies of Germany and Japan by 2019, on a purchasing power parity basis.[2] Meanwhile, The Economist ran a cover story entitled "India's economy: A chance to fly," with the subhead, "India has a rare opportunity to become the world's most dynamic big economy."[3] After outlining how the emerging economies had gone from hope to gloom, the article concluded that, "[a]mid the disappointment one big emerging market stands out: India."

India has its advantages. It has long been a global leader in information and communications technologies (ICT); it has a very young population, with a median age of 25, providing it with a "demographic dividend"; its people have an entrepreneurial spirit; and it is a democracy with the rule of law, a vibrant free press and widespread use of English. It also has a vast market for most goods and services.

Less happily, India continues to rank poorly as measured by most generally accepted

[2] "India's GDP will be bigger than Japan, Germany combined in 4 years: IMF," *Economic Times*, March 16, 2015.

[3] "India's economy: A chance to fly," *The Economist, February 21, 2015.*

international metrics, and has shown no improvement since 2010.

- The World Bank's *Ease of Doing Business Index* is perhaps the most important metric for Canadians doing business in India. It measures 10 areas, including starting a business, obtaining construction permits, getting electricity, paying taxes and enforcing contracts. India is ranked a dismal 142nd out of 189 countries, the worst of the BRIC countries and even worse than in 2010, when it placed 122nd. Prime Minister Narendra Modi wants to improve his country's standing to 50th place or higher.

- Corruption is a problem in all countries, but particularly developing countries. India ranks 85th on Transparency International's *Corruption Perceptions Index 2014*, behind only South Africa in its peer group but unimproved from five years earlier. Interestingly, China, in spot 100, is among the countries with the biggest decline, despite its government's vigorous and visible anti-corruption campaign.

- Contrary to what one might expect, India is dead last among the BRICs in the *Global Innovation Index*, ranking 76th. This is far below its position five years earlier (41st) and merits study. The standout is China, in 29th place, which, aside from Malaysia in 33rd place, is the only upper middle income country in Asia approaching the top 25. The 2014 report notes that countries that are doing better are depending more on technology transfer than on research and development.

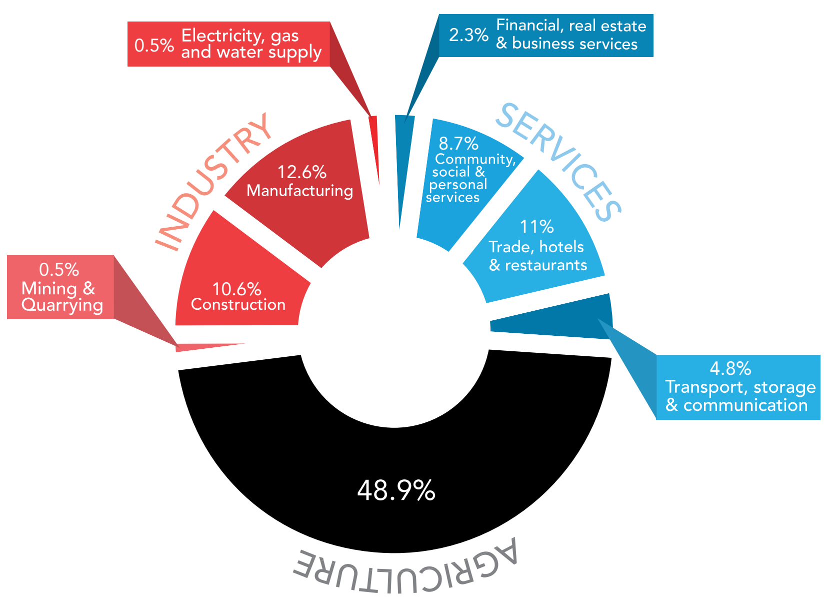
- The UN Development Programme's *Human Development Index* is a broad measure of health, education and standard of living. Russia placed highest among the BRIC countries, China in the middle, and India at the bottom in 135th spot, one below where it was five years earlier. Separately, while the percentage of people living in poverty in India in 2012 (21.9%) was just half of what it was in 1994, life expectancy was still only 66 years and the child mortality rate remains extremely high (41.4 per 1,000 live births), and quadruple what it is in China.

In the space of a decade, the focus of India's economic rise has gone from euphoric to disappointing to a buoyant outlook on economic growth. The most recent budget tabled in February 2015 – the first full budget of the new Modi government – has received positive reviews, despite the absence of 'big bang' reforms. It is seen to be directionally correct in tackling some big issues, like the infrastructure deficit (such as creating the new US$11.3 billion infrastructure fund), and in its pragmatic approach to reducing the fiscal deficit over three years rather than two as per previous plans. The plan to reduce corporate taxes by five per cent and the implementation of a GST by spring 2016 are widely interpreted as significant confidence-building measures.

Above all, Prime Minister Modi's stated commitment to a pro-reform agenda has mobilized interest within India and abroad. The rapid and steep decline in oil prices has been characterized by Reserve Bank of India Governor Raghuram Rajan as "a $50-billion windfall" for the Indian economy, effectively arresting the inflationary pressures that were prevalent over the last decade. On a broader front, the disbanding of the Planning Commission (the central national policy body) and the new emphasis on 'co-operative federalism' combine to signal a business-friendly turning point. Mr. Modi's objective of substantially addressing and improving India's standing in the aforementioned World Bank's *Ease of Doing Business Index* will be watched closely in the years ahead.

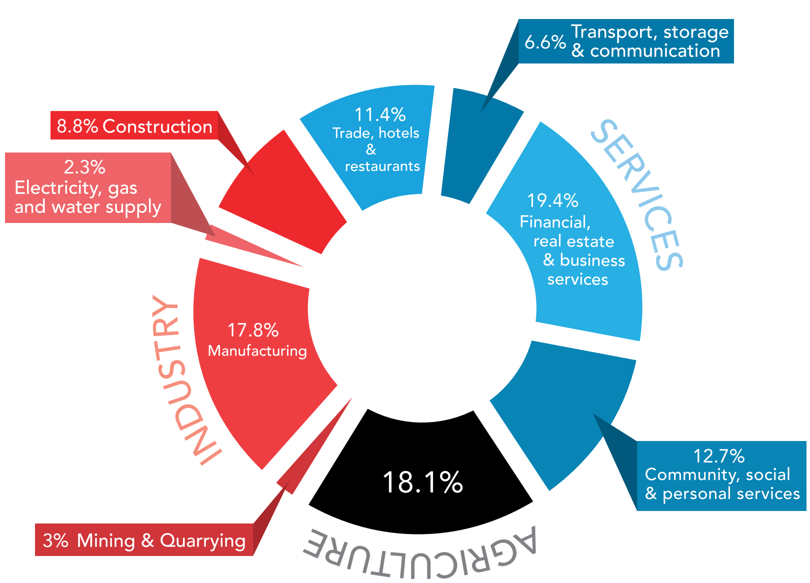
The goal of increasing the manufacturing sector's share of the economy with the 'Make in India' initiative, as well as the plan to establish 100 smart cities, will be important for India's economic growth. Canadian businesses – institutional investors in particular – see the prospect of short-term horizons converging with long-term ones.

Employment share of Indian Economy by Sector (2011)




(Source: Indian Budget 2015)

Share of Indian Economy by Sector (Average 2011-2013)




(Source: Indian Budget 2015)

## INDIA-CANADA RELATIONS

### Contemporary Overview

Relations between Canada and India are very good, and have been since the signing of a Nuclear Cooperation Agreement in 2010 resolved the long-festering nuclear issue (Canada felt betrayed when India carried out a nuclear test in 1974 using technology Canada had provided; India conducted further controversial tests in 1998). Indian prime minister at the time Manmohan Singh was the only G20 leader to be honoured with an official dinner during his visit to Toronto for the G20 summit in June 2010, and Prime Minister Stephen Harper made trips to India in 2010 and 2012. In early 2014, Governor General David Johnston completed a very successful visit to India around the themes of entrepreneurship, innovation, and education, at which time an Audiovisual Coproduction Agreement was signed. The country is also of key importance to federal agencies such as Export Development Canada, which had business volume of C$1.9 billion in India in 2014, where it assisted 299 companies.

As a senior official in the Department of Foreign Affairs, Trade and Development phrased it in an interview, "Since the prime minister's visits in 2010 and 2012 and the completion of the Nuclear Cooperation Agreement, there has been a sea change in the relationship."

However, much of the real action has shifted to the provinces, which have proven to be increasingly proactive in engaging India:

- Provinces employ combinations of strategies to grow their economic linkages with India including formal on-the-ground presences at the Canadian High Commission and Consulates, plus a mixture of agents, advisors and representatives.

- More than 40% of Canada's exports to India – C$1 billion – come from a single province: Saskatchewan. India is a key market for the province's potash and pulses, through Regina-based AGT Food and Ingredients Inc. (formerly Alliance Grain Traders), which provides lentils for dal, a staple of the Indian diet.[4] Saskatchewan-based Cameco Corp. is poised to supply uranium to the country, which has 21 operating reactors and is planning to build dozens more with help from Russia, France and the United States – and potentially Canada. In recent years, India has also been the province's second-biggest source of immigrants at 10%, just behind the Philippines. And Saskatchewan Premier Brad Wall completed his second trade mission to India in November 2014.

- British Columbia is the second-largest exporter, and more than 5% of the province's residents have South Asian heritage. Premier

[4] Rashi Khilnani, "The 18,700-kilometre journey of a Canadian lentil," *Report on Business Magazine, September 26, 2013.*

Christy Clark led a trade delegation to the subcontinent in October 2014 to promote areas including: natural gas and other resources, film, educational links and clean technology.

- Ontario is also active in India, with trade missions in 2007 and 2009 focusing on clean technology. Many of Canada's most prominent companies in India are based in Ontario, including Sun Life Financial, McCain Foods and Scotiabank.

The Indian diaspora in Canada has become a positive and effective force in Canadian politics. It totals more than a million, or roughly 3% of the population – about the same as the Chinese diaspora. Most of it is split between Toronto and Vancouver, with the largest components from Punjab and Gujarat. It is one of the largest Indian diasporas in the world on a per-capita basis. Indo-Canadians played a very significant role in the last federal election, helping the government achieve its first majority, largely through ridings in the west of the Greater Toronto Area, such as Mississauga and Brampton.

The Pravasi Bharatiya Divas (PBD) conference, or 'day of overseas Indians,' is a major Government of India-sponsored event that had only been held outside of India four times when it took place in Toronto in 2011. The Indo-Canadian community is very active and is represented by at least five high-profile groups: the Canada-India Business Council; the Indo-Canada Chamber of Commerce; the recently formed Canada Indian Foundation; TiE, the global entrepreneurship group; and the IIT (Indian Institutes of Technology) Alumni Canada. In India, the Indo-Canadian Business Chamber is active in five cities.

World's 15 Largest Economies (2013)


DATA IN $US TRILLION

| | | |
|---|---|---|
| 1 | UNITED STATES | $16.77 |
| 2 | CHINA | $9.24 |
| 3 | JAPAN | $4.92 |
| 4 | GERMANY | $3.73 |
| 5 | FRANCE | $2.81 |
| 6 | UNITED KINGDOM | $2.68 |
| 7 | BRAZIL | $2.25 |
| 8 | ITALY | $2.15 |
| 9 | RUSSIAN FEDERATION | $2.10 |
| 10 | INDIA | $1.88 |
| 11 | CANADA | $1.83 |
| 12 | AUSTRALIA | $1.56 |
| 13 | SPAIN | $1.39 |
| 14 | SOUTH KOREA | $1.30 |
| 15 | MEXICO | $1.26 |

(Source: World Bank)

There were problems between Canada and India over the 1985 bombing of Air India Flight 182, which killed all 329 passengers, and over members of the diaspora who favoured an independent Punjabi state called Khalistan, but those issues are largely past. The two countries have an ongoing dialogue on security through an annual Strategic Dialogue and the Canada-India Joint Working Group on Counter-Terrorism, created in 1997 and about which little has been revealed.

Punjabi is the fourth most commonly spoken language in Canada, and – famously – is being used for broadcasts of NHL hockey games.

## Lack of Knowledge of India and Lack of Travel

While these factors speak to the importance of India to Canada, and of the potential for substantial and fruitful engagement with it, India still remains an unknown country to many Canadians, and to others around the world. When many people think of India, they don't get far beyond the British colonial period, Gandhi, the Taj Mahal, a hot climate, spicy food, and poverty – a picture that doesn't fully reflect the modern reality. Of course the same dated thinking is also true of China, with many people stuck on the pre-reform era under chairman Mao Zedong.[5]

One reason for this is the rapid pace of change in both those countries, with reform beginning in China in 1978 and in India in 1991. A second is the lack of travel to India, apart from the diaspora. Despite its heavily marketed Incredible India campaign, India has not attracted tourists in significant numbers. In 2013, India had only seven million tourists, compared with 56 million for China; France remained the world's most popular international tourist destination, welcoming 83 million tourists.

Of course, knowledge of one another improves when the flow of travel is reciprocal. In 2014, the number of overnight arrivals to Canada from India increased 19.3%, more than any other country except China (at 28.8%), to 176,000. But that number pales in comparison to the 454,000 arrivals from China. That is probably because the Chinese have more money to spend and because China put its imprimatur on travel to Canada in 2009 when, at long last, it granted the country Approved Destination Status. In February 2015, Tourism Toronto announced that in 2014 China had, for the first time, become the city's leading overseas source of tourists, surpassing the United Kingdom.[6]

The number of Canadians going to India and the number of Indians coming to Canada should soon increase, given Air Canada's announcement that it plans to restore direct flights between the two countries (for the first time in many years) beginning in late 2015. There will be four flights a week between Toronto and Delhi, and they will

[5] See Paul Evans' excellent *Engaging China: Myth, Aspiration, and Strategy in Canadian Policy from Trudeau to Harper (University of Toronto Press, 2014).*

[6] Tourism Snapshot, Canadian Tourism Commission, November 2014, Vol. 10, Issue 11; Media Release, *Toronto sets new record for tourism*, February 12, 2015, Tourism Toronto.

be the first to use the Boeing 787-9, which has a seating capacity close to 300. By comparison, there are 18 direct weekly flights between Vancouver and Beijing, and 10 between Toronto and Beijing, as well as links with other Chinese cities.

## What APF Canada Polling Reveals

This lack of cross-cultural familiarity is echoed in the Asia Pacific Foundation of Canada's annual *National Opinion Poll: Canadian Views on Asia*, based on an online survey of close to 3,500 adults conducted by Angus Reid Public Opinion. The 2014 poll concluded that, despite the growing importance of Asia and of Canada's increased investment and trade with the continent, Canadians' support for engagement with Asia is in decline. While only 20% of respondents said that India was of "high importance" to Canada's prosperity, that was higher than for the other BRIC countries except China (at 35%), and China is Canada's second-largest trading partner. Also discouraging was the coolness Canadians feel toward India (only 12% of respondents reported 'warm feelings' toward the country), although there was greater sentiment for India than China (for which only 10% had 'warm feelings'). Support for free trade agreements with most Asian countries is low, as opposed to agreements with more traditional trade partners such as Australia or the European Union, with support for an agreement with India coming in at 38%, marginally ahead of China.

Though the explanation for these results is not completely clear, it appears that Canadians' support for engaging with other countries is more the result of feelings of political familiarity and comfort than of a rational assessment of economic opportunities. That might explain why, for example, respondents saw Australia as twice as important as South Korea to Canada's prosperity, even though South Korea is a far larger trading partner.

## Business

In recent years, there has been growing interest in infrastructure, food security, and energy security, with Canada able to provide much of what India desperately needs in each case. There is excitement around the prospect of exporting oil and liquefied natural gas (LNG) to India, most likely from the east coast, though the dramatic drop in prices may have changed the equation, at least for the time being. The first Canadian shipment of heavy crude oil was sent to India in late 2013, where it was successfully tested at the refineries of Reliance Industries Ltd. in Gujarat on India's west coast.

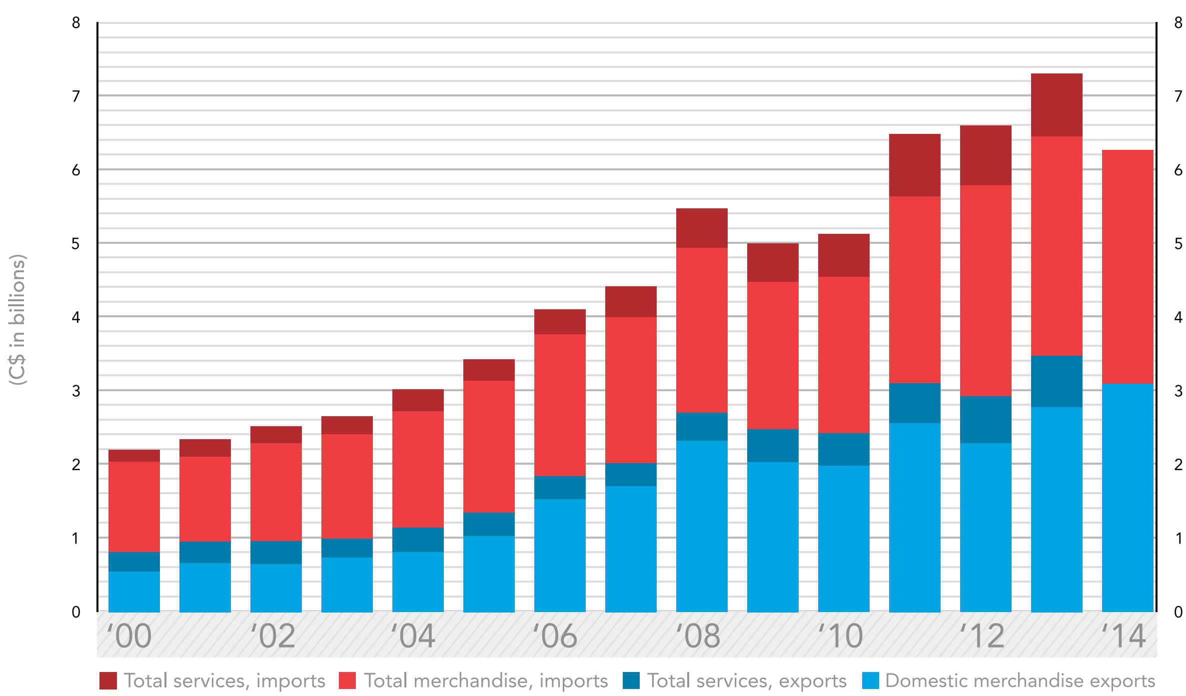
Sectors such as higher education and efforts toward building skills and competencies have become vastly more important since 2010. India has also made great strides in science, technology and innovation. Initiatives such as IC-IMPACTS (the India-Canada Centre for Innovative Multidisciplinary Partnerships to Accelerate Community Transformation and Sustainability), a collaboration among the universities of Toronto, Alberta and British Columbia established through the Networks of Centres of Excellence of Canada, have enhanced research collaboration between the two countries. There are literally dozens of existing memoranda of understanding between Canadian and Indian institutions, yet, sadly, few have led to fruitful co-operation.

## Trade and Investment

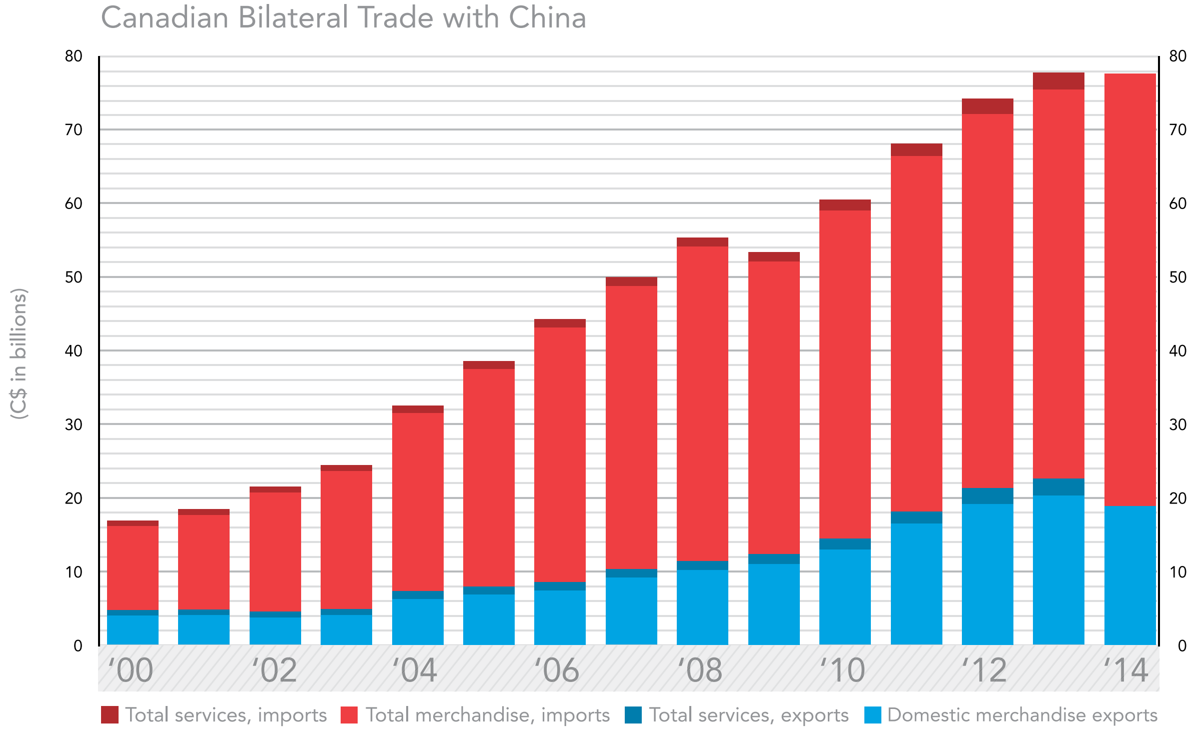
According to Statistics Canada, bilateral merchandise trade between Canada and India in 2014 was a modest C$6.3 billion, equally balanced between the two countries, with Canadian exports not surprisingly led by commodities. By comparison, trade between Australia and India is triple that amount, while US-India trade surpassed US$100 billion in 2014. In June 2012, prime ministers Harper and Singh set a goal of C$15 billion in bilateral trade by 2015 – a target that clearly won't be met, at least under current accounting practices.

Indian investments in Canada (C$3.8 billion in 2013) vastly outweigh Canadian investments in India (C$613 million), a glaring discrepancy upon which both Indian and Canadian ministers

Canadian Bilateral Trade with India




Notes: Total Services data for 2014 is currently unavailable
(Source: Industry Canada)

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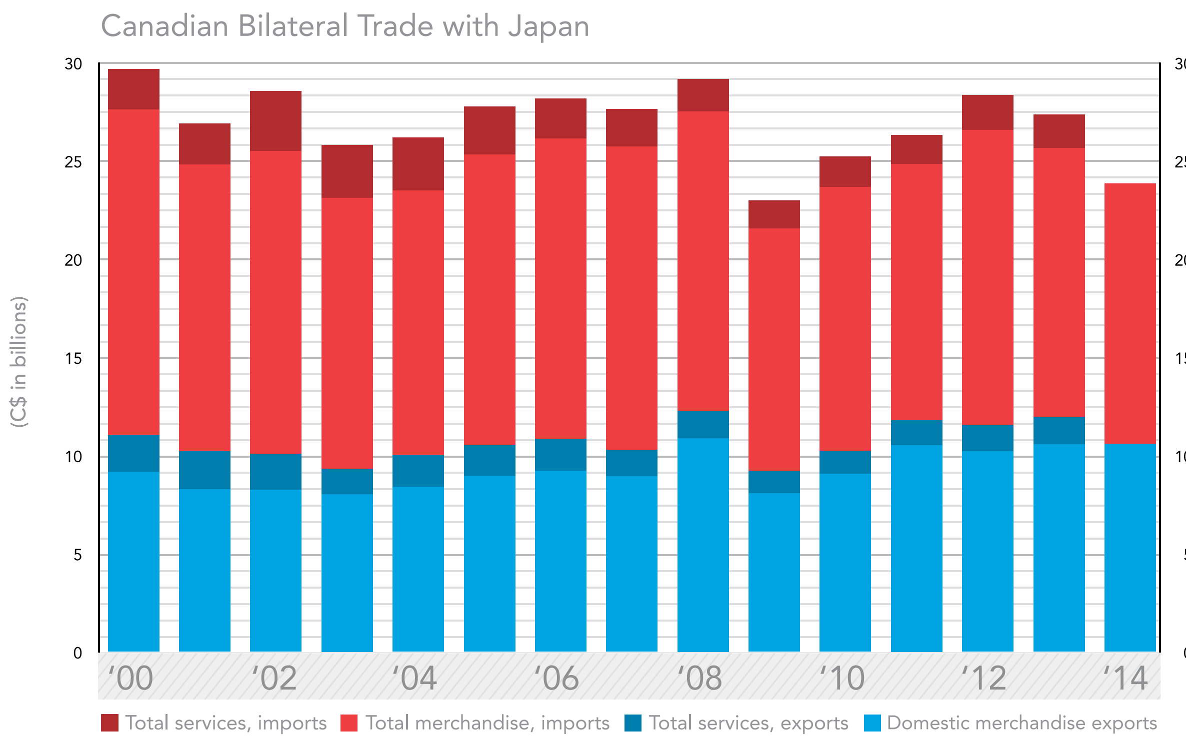


Notes: Total Services data for 2014 is currently unavailable
(Source: Industry Canada)

have remarked.[7] These numbers appear to be greatly underreported, an important issue that is discussed later in this report.

## CEPA and FIPA

Canada and India have been negotiating a Comprehensive Economic Partnership Agreement, or CEPA, since 2011. Their target deadline of the end of 2013 has long passed, which is not unusual for complex trade negotiations.[8] Despite years of trying, and ongoing talks with a number of Asian powers, a trade agreement with India would only be Canada's second with an Asian country. A deal was reached with South Korea in March 2014, after seven years of negotiations.

India has long been one of the Harper government's priority markets. The High Commission in New Delhi has a staff of 400, more than any other diplomatic mission apart from Washington, and there are consulates in Bengaluru (previously known as Bangalore), Chandigarh, Mumbai, and Kolkata as well as trade offices in Ahmedabad, Chennai, Hyderabad, and Kolkata.

Prime Minister Modi will visit Canada in April 2015. Incredibly, it will be the first official visit of an Indian prime minister since Indira Gandhi visited in 1973, when she asserted that India was "not interested in becoming a power, major or minor, and certainly not a nuclear power."[9]

The ninth round of CEPA negotiations took place in March 2015, following the previous round in June 2013. Mr. Modi is said to want to announce something during his visit to Canada, so there has been a lot of informal negotiation recently in order to make that possible. Meanwhile, the Indian government is working on a new trade strategy.

At the outset, Canada favoured a much more ambitious deal that included areas such as intellectual property and government procurement, but India resisted. Hence, any deal that is concluded is likely to be closer to a traditional goods and services free trade agreement than something bolder or more comprehensive. A major sticking point for both sides has been visas for professional workers, which would allow easier access for Indian IT workers to come to Canada, and for Canadian bankers, architects and other professionals to go to India. There are also disagreements over services.

In 2009, the two countries signed a Foreign Investment Promotion and Protection Agreement (FIPA), but the deal has not been ratified because the Indian government, concerned about state-

[7] For example, during a call between Canadian International Trade Minister Ed Fast and the just-appointed Indian Commerce and Industry Minister Nirmala Sitharaman, "India, Canada keen to move forward on proposed FTA," *The Economic Times, May 30, 2014.*

[8] See Douglas Goold and Amitendu Palit, "Why a Canada-India trade deal is within reach," *The Globe and Mail*, August 6, 2014; Amitendu Palit and Douglas Goold, "Hastening to agree: Time is ripe to conclude FTA talks with Canada, which could reinvigorate others," *Indian Express*, July 22, 2014.

[9] Indira Gandhi, "Democracy in India," The Empire Club of Canada, Toronto, June 20, 1973.

investor dispute clauses, is reviewing its policy towards such agreements. Mr. Modi is said to be keen to sign that as well during his visit to Canada.

Canada's chief trade negotiator, Don Stephenson, has pointed out that the fact that the two US$1 trillion economies only have bilateral trade of C$6 billion a year means that "virtually all trade is potential trade." A CEPA would have economic as well as symbolic value.

The 2010 *Canada-India Joint Study Group Report* concluded that a trade liberalization agreement could produce GDP gains of US$6 billion to US$15 billion for Canada and US$6 billion to US$12 billion for India, with exports increasing by 39% to 47% for Canada and 32% to 60% for India. A senior Indian official said in an interview in January 2015 that an agreement would be a win-win for both countries. It would also provide India with access to a NAFTA partner and could stand as a template for a much more important agreement with the United States.

# PART II: THE STUDY

## WHY INDIA?

India is a divisive country for many outsiders – they either embrace it or reject it, whether they are tourists or businesspeople. It has immense, largely unrealized potential and many wonderful qualities, but not even the Indian government pretends that it is an easy country in which to do business.

One of Canada's most astute observers is Mayank Ashar, one of few executives to have held senior positions in both Canada and India. He was executive vice-president at Suncor Energy Inc. from 1996 to 2008 and president of Irving Oil Ltd. from 2008 to 2013, and he has been on the board of Teck Resources Ltd. since 2007. He is currently managing director and CEO of the hugely successful, Gurgaon-based Cairn India Ltd., one of the fastest-growing energy companies in the world, responsible for an extraordinary 28% of India's crude oil production.

As someone who has been a top executive in both countries, how would he compare doing business in Canada to doing business in India? Mr. Ashar replied as follows:

"I was pleasantly surprised by the transition to India. The language inside the company is universally English. The language of discussion with state and central governments is English. While the understanding of other languages and cultures is helpful, remarkably, 98%-plus of the discussion takes place in the English language. So, for a Canadian business, this is noteworthy compared to other Asian countries.

"The operational and financial discussion inside the company is similar to that in Calgary, Toronto or Houston. The expats have no difficulty in communications – languages, concepts, and best practices. The best business practices and standards are well entrenched in large corporations – governance, CSR (Corporate Social Responsibility), IFRS (International Financial Reporting Standards), SOX (*Sarbanes-Oxley Act*), and the SEC (Securities and Exchange Commission).

"The industry associations, think tanks, media and other institutions are well organized and provide support to the companies. Industry conferences are frequent and well attended. Presentations and Q&As are usually in English only. The international consultants and vendors are well represented and are able to assist companies as required. The CSR program is vigorous."

Mr. Ashar then listed what he called "areas in transition." They include state-owned enterprises (as in China) and the regulation of the price of some commodities, including natural gas and power, which, in his view, distorts price signals. He pointed out that India has a "more expansive" regulatory structure than in Canada, designed to protect those with low incomes, adding: "There is an inherent tension between the need for new foreign capital investment and the transition path from the old quasi-regulated environment. It is a journey." Finally, Mr. Ashar believes that "there is a clear recognition among all stakeholders – from the farmer or the taxi driver to the prime minister – that GDP growth is essential for poverty reduction."

India has been a particularly tough market in recent years. While it weathered the 2008-09 recession better than other countries (in part because it is less connected to the international economy than most other powers) it faced major terrorist attacks on Mumbai in November 2008 that killed 164 people and injured hundreds more. However, business executives to a person said they believed that terrorism had become a universal phenomenon, and the Mumbai attacks reflected that and nothing more. Not a single executive interviewed said he or she would leave India as a result of the attacks.

Less happy for business was the experience of the coalition government of then-prime minister Manmohan Singh, particularly his second term from 2009 to 2014. Amidst a welter of scandals, there was policy paralysis. The reform agenda stalled. A number of executives said that business became more difficult than it had been five years earlier.

Take the experience of LEA Group Holdings Inc., consulting engineers and planners based in Markham, Ontario, with expertise in roads and highways. LEA has 1,100 employees in India, all of them Indian.

"The national government virtually stopped," said chair and CEO John Farrow. Thanks to accusations of corruption and other problems, the plan to build a national network of super highways slowed significantly, and fewer contracts were being let, he said.

LEA's solution was to go international. "One of the things we have done, which has been innovative and successful, has been to take expats from the developed countries and team them with Indians and win projects in East Africa – in Ethiopia, Uganda, Kenya, and Tanzania."

Not that LEA has abandoned India. "There is an awful lot of infrastructure to be built," particularly the urban infrastructure, where the deficit is "enormous," said Mr. Farrow, noting that he put together a business plan for Mumbai for the World Bank with a price tag of US$40 billion over 15 years.

## IS THERE A NEW DAWN UNDER PRIME MINISTER NARENDRA MODI?

The abject failure of the last coalition government helps explain the enthusiasm for the first majority government in 30 years under Narendra Modi, a strong-willed and charismatic leader.

His election campaign was remarkable, particularly for someone who was 63 at the time. He travelled 300,000 kilometres and attended almost 6,000 events, many of them through holographic technology that allowed him to 'appear' at as many as 100 villages simultaneously. With 550 million Indians voting and a turnout of 66 per cent – India's highest ever – he received more votes than any other leader in history anywhere in a free election. Narendra Modi even has almost 28 million 'likes' on his Facebook page.

His aura of invincibility, however, was dealt a blow in February 2015 by the shocking results of elections in Delhi. The upstart Aam Aadmi Party (AAP, the 'common man' party), under the populist former bureaucrat Arvind Kejriwal, crushed the BJP and decimated the Congress Party (which didn't win a single seat), winning 67 out of 70 seats in the state's Legislative Assembly.

There is also optimism in Indian business circles because of admiration for Raghuram Rajan, who, in 2013, was appointed the governor of the central bank, the Reserve Bank of India. Mr. Rajan, the former chief advisor in the Ministry of Finance and a professor at the University of Chicago's Booth School of Business, is also widely respected internationally.

As for Mr. Modi, typical is the comment of World Bank Group president Jim Yong Kim when he met the new prime minister in New Delhi in July 2014: "The meeting with the prime minister is one of the most inspiring I've had in my two years in this job . . . India is trying to do some really aspirational things and it's trying to do it at a huge scale very quickly."[10] Canadian business leaders who have met with Mr. Modi report that he is very pro-business and very efficient, typically emailing a 'to do' list to them shortly after the conclusion of a meeting.

Nonetheless, Narendra Modi is a controversial figure. He came to national prominence as the Chief Minister of Gujarat, the state northwest of Mumbai on the Arabian Sea, from 2001 to 2014. He has been a member of the Rashtriya Swayamsevak Sangh, or RSS, a right-wing Hindu nationalist organization, since childhood. He was also widely criticized for his role in the 2002 Gujarat riots, which led to the deaths of more than a thousand people, most of whom were Muslims. While he has been unapologetic, there have been a number of investigations and each has cleared him of any direct responsibility.

The US and Britain denied Mr. Modi visas when he was Chief Minister of Gujarat. A senior Foreign Affairs official said in an interview that the then-Chief Minister of Gujarat never asked Canada for a visa and was never denied one (although the

[10] "Transcript of Press Conference with World Bank Group President Jim Yong Kim in New Delhi," The World Bank, July 23, 2014.

Chief Minister came close to visiting Canada).

The official continued, "The High Commissioner of the day [Stewart Beck] reached out to the Chief Minister of Gujarat at the Vibrant Gujarat trade powwow. Citizenship and Immigration Minister Jason Kenney was there, and the High Commissioner of Canada was up on the stage, and Chief Minister Modi was up there, and people were chanting, 'Canada, Canada, Canada.'" The official pointed out that two important Canadian companies, Bombardier Inc. and McCain Foods Ltd., have facilities in Gujarat.

In January 2015, India's *Economic Times* referred to Canada as "a country which stood by him when the rest of the Western world had shunned the then Gujarat Chief Minister following the 2002 riots."[11]

Mr. Modi is widely believed to have been responsible for turning Gujarat into one of India's most prosperous states, though there are some skeptics.[12] Vibrant Gujarat, now being dubbed "the Davos of the east," is a business summit held every two years with the aim of winning investment to the state. It has attracted billions of dollars worth of projects and has quickly become the country's most important event of its kind. Narendra Modi was again the key figure at Vibrant Gujarat in January 2015, this time as prime minister. Canada has been a national partner since 2013.

Mr. Modi is the only Indian prime minister with a humble background – he is the son of a tea seller. As Chief Minister, he lived alone in modest circumstances and has a reputation for being incorruptible.

In his first months in power, Mr. Modi has impressed many with his pro-business instincts and his decisiveness. His motto has been, "Less government, more governance." He has appealed to investors to come to India to sell and to manufacture as part of his 'Make in India' program. The tone of government has changed as he has leaned on the bureaucracy to show up for work on time and to avoid corrupt practices. There is even a website, www.attendance.gov.in, that details how many officials show up for work on a particular day.


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On a recent day, for example, 127 employees out of 132 at the Song and Drama division of the Ministry of Information and Broadcasting were on the job. The Indian work day starts at 10:00am; the average time of arrival for the 102,924 government employees registered on the site was 9:26am and the average time of departure was 5:47 pm, a little more than an eight-hour day. About 60% of employees arrived between 9:00 and 10:00am, 28% arrived before 9:00am, and the remainder snuck in after 10:00am.

[11] Dipanjan Roy Chaudhury, "Prime Minister Narendra Modi to visit Canada in second half of the year," *Economic Times, January 9, 2015.*

[12] See, for example, Mayank Mishra, "Did Narendra Modi make Gujarat Vibrant?" *Business Standard*, July 20, 2013; Jayant Sriram, Kaushik Deka and Uday Mahurkar, "Gujarat Model: Will it Work for India?" *India Today*, April 14, 2014.

Canadian businesspeople report that rather than go out for lunch with officials, they are now asked to meet them over coffee or tea in their offices. A recent news story profiled a government worker in New Delhi who was finally fired in 2015 after failing to show up for work for 24 years.[13] Because the prime minister lacks a majority in the upper house, he has pushed through legislation amidst controversy by way of ordinance in key areas such as insurance and land acquisition, where for years reform has been promised but not delivered.

While virtually everyone interviewed said that Modi was "just what the country needs," not everyone is convinced the good news will continue. There is widespread fear among both Canadians and Indians that expectations are too high, as with President Obama in 2008, and the problems too intractable. "There is exuberant optimism, almost uncalled for," said Didar Singh, secretary general of the Federation of Indian Chambers of Commerce and Industry (FICCI). Some also harbour worries about the future of communal issues under a Modi government and about his tough stance towards Pakistan. To his credit, however, Modi invited all the members of the South Asian Association for Regional Cooperation to his inauguration, and everyone accepted.

Certainly, if Modi is able to deliver even part of what he promises, doing business *with* India and *in* India should become easier. If he is able to bring in a GST, as he plans to by April 2016, India's GDP could increase by an estimated 1% to 2% a year.

[13] "Government fires employee who skipped work for 24 years," Reuters, New Delhi, January 8, 2015.

## EASE OF DOING BUSINESS, CORRUPTION, AND OTHER ISSUES

"Doing business in India is characterized by what's called 'VUCA,'" Vikas Mittal, managing director of McCain Foods India, said in an interview in New Delhi. "That's 'volatile, uncertain, complex and ambiguous.' It is really difficult to manoeuvre in an environment that is so fluid, so dynamic, so volatile and so ambiguous. I think that is what differentiates India, and, to a large extent, the emerging markets. So how to navigate it is really the trick."

As we will see below, it can be navigated, as McCain and other companies have shown.

The list of problems is a familiar one, including an entrenched bureaucracy, rampant corruption and inadequate infrastructure. Many companies, including Sun Life Financial and IMAX Corp., mentioned having to deal with a thicket of regulations, as discussed later in this report. Canadian officials in India referred to the 'Inspector Raj,' for example, Indian officials would arbitrarily strand Canadian foodstuffs for alleged safety violations on Indian docks. Other issues included tax problems and payment delays.

Mr. Modi is the first prime minister to focus on these problems. At the end of December 2014, the prime minister and much of his cabinet spent a day with senior officials from various ministries, alongside representatives from the Confederation of Indian Industries (CII) and FICCI, looking at how to make it easier to do business. Even the country's notorious labour laws, which make it almost impossible to dismiss anyone, are being assessed. None of the problems will be easily solved, and will require a buy-in from the states and municipalities. Ideally, India's states will be motivated to improve business conditions in an effort to woo investment, following the successful


example of Gujarat (famously, Tata Motors moved its production of the Nano, which attracted attention as the world's cheapest car, from West Bengal to Gujarat because of a land dispute involving the state government, run at the time by the Communist Party).

Like most businesspeople operating in India, Mr. Mittal of McCain has encountered corruption, as he has in the other jurisdictions in which he has worked – Yemen, Saudi Arabia, Kenya, Tanzania, Uganda, Ethiopia, and Singapore.

"Corruption is everywhere and [what is important] is what you choose to do with it. McCain is very clear. We have a code of conduct, and there are laws in India and Canada, and we are just going to be true to those laws. If that means the business is going to suffer, so be it."

One can get a sense of the scope and nature of corruption by reviewing www.ipaidabribe.com. A recent analysis on the site showed Bengaluru registering by far the most bribe reports of any city. And across the country, the police have an overwhelming lead amongst departments taking bribes.

Even the government acknowledges the scope of the problem. The people of India "wanted the scams, scandal and corruption Raj to end," Finance Minister Jaitley said in his budget speech in February 2015.

Two important government initiatives have helped move things in the right direction. First was the 2010 introduction of the unique identification (UID) plan, under the guidance of former Infosys executive Nandan Nilekani. Every Indian who wants one can get a 'unique identity' number that allows for the direct transfer of government benefits, thereby avoiding middlemen and the corruption often entailed in using them. Almost 650 million people have already signed up. Second, Prime Minister Modi announced a plan in August 2014 to provide bank accounts for 75 million households by 2018. While the average account only holds about C$1, it allows the poor to bypass moneylenders, who often charge usurious rates.

## FIVE YEARS ON: SMART MONEY PULLS THE TRIGGER

One way to gauge success is to look at where the 'smart money' is headed. In 2010, smart money in the form of large Canadian pension funds and savvy companies such as Brookfield Asset Management were eyeing India, but had yet to pull the trigger. They have now invested. Why have they done so, and what are their plans for the future?

## The Canada Pension Plan Investment Board

In Canada, money doesn't get any bigger – or much smarter, for that matter – than the Canada Pension Plan Investment Board (CPPIB). The plan manages C$235 billion on behalf of the 18 million Canadians – probably every Canadian who is reading this – who contribute to the Plan or benefit from it. The 10-year annualized real rate of return (that is, the rate after inflation) was a solid 5.6% as of September 30, 2014. Since Canada only represents 3% of the world's markets, the CPPIB has to look abroad to invest. And look abroad it does – for 70% of its assets.

Asia is certainly top of mind, as president and CEO Mark Wiseman made clear in a speech in early 2015. "The world's fast-growing economies are the emerging markets of Asia," he told a Toronto audience.[14] "Yet, despite this stark reality, 90% of our current trade is with the OECD [Organisation for Economic Co-operation and Development], and less than 5% with China." The CPPIB hit a home run by investing in China's Alibaba in 2011, when it was very cheap to do so.

It is noteworthy that the pension plan opened its first office abroad in Hong Kong, rather than in London or New York. Mr. Wiseman noted that the CPPIB made its first direct investment in India in 2010, and "plans to continue to build our business" there, which includes opening an office in Mumbai later in 2015.

The CPPIB may believe Asia is the future, but it still has a long way to go in terms of investments in the region. It has only 15.2% of its assets invested in Asia Pacific – far below the benchmark – and a tiny amount invested in India.

[14] Mark Wiseman, "Planting Maples: Investing Internationally with Canada's Global Roots," Address to the Toronto Region Board of Trade Annual Dinner, January 26, 2015.

Investments in India, however, are on a sharp upward trajectory. In 2012, the CPPIB hired New Delhi-based Vikram Gandhi (formerly of Credit Suisse and Morgan Stanley) and his company, VSG Capital Advisors, to advise on investment opportunities in the country. In short order, the CPPIB has invested US$1.5 billion there. Tellingly, each investment has been with a well-established partner – most often a family firm with "skin in the game," as a well-placed observer phrased it.

There has been an infrastructure (toll road concession) agreement with Larsen & Toubro Ltd., India's largest engineering and construction concern; a strategic residential real estate deal with Piramal Enterprises Ltd.; an office building alliance with Shapoorji Pallonji Group; and a large public market investment in Kotak Mahindra Bank, a very successful private sector bank. These three areas – infrastructure, real estate and banking – are likely to figure again in the CPPIB's investments in India.

The pension plans' investments have not gone unnoticed. A June 2014 *Indian Express* story about a pickup in global pension investments singles out several CPPIB investments, commenting that the development "is being seen as a reaffirmation of the turnaround in investment sentiment."[15]

Insiders at the pension plan admit that India is not an easy country in which to operate because of cultural and institutional restraints, and say the economy and the markets are relatively thin. They have complained to senior officials that it is hard to make sustainable returns with the complex and onerous tax structure. More broadly, they do not see a resolution of any of the country's fundamental problems, such as unemployment, any time soon – Modi

[15] Anil Sasi, "Global pension funds back in India, sentiment upbeat," *Indian Express*, June 29, 2014.

or no Modi. They do, however, see long-term opportunities as the middle class expands. They are very vigilant about going too far out on the risk curve, and say that, while they are looking for good opportunities, "there is no compulsion to put any money to work in India."

The CPPIB has the advantage of being perceived as players on the ground rather than as investors who have flown in from Canada; being on the ground also provides an opportunity to read the local market and understand the risks first-hand. As for what the pension fund would like its position to be in India by 2020, "we want to make sure we are compensated for the risks we are taking," said an insider.

The CPPIB timed its investments in India wisely, which generated goodwill amongst prominent Indian businesspeople. "[The] CPPIB came in when everyone else was heading for the exits," commented a close observer based in Mumbai.

## Brookfield Asset Management Inc.

There is no smarter or larger private money in Canada than Brookfield Asset Management, which describes itself as a global alternative asset manager. It has over C$200 billion under management in four areas: renewable energy, property, infrastructure and private equity. The company has been around for a century, originally with investments in Brazil – first as Brazilian Traction, Light and Power Co. Ltd. and then as Brascan, a key part of the Toronto Bronfman family's vast empire.

Brookfield is lean, hungry and focused, with a global reach. Its signature properties in Canada include First Canadian Place and the Exchange Tower in Toronto, and Bankers Hall in Calgary. Based in Toronto, Brookfield has offices in New York, London, Rio de Janeiro, Dubai, Sydney, Hong Kong and Mumbai, and operations in more than 25 countries. In his recent quarterly reports, CEO Bruce Flatt saw the company's long-term opportunities – in what some would see as a contrarian spirit – in Europe (despite years of bad news), China (despite the recent slowdown), Brazil (despite the recent election results and slowing growth), and India.

Like all smart money, Brookfield is patient. In 2009, Brookfield's Anuj Ranjan and Devdatt Shah were figuring out how to proceed, with no "cast in stone" business plan. They had relocated from Canada to India the previous year and believed they needed to be on the ground to look for opportunities and local partners. It was also important, they said, for senior executives to go to India, as companies like J.P. Morgan had shown, so that "Indians begin to believe your commitment is real, and you develop knowledge based on real and perceived risks . . . You put your company's DNA into the country."

"India is different and far away," said Mr. Shah. "It is not like going to the UK or France." And Brookfield's senior executives, led by Mr. Flatt, did indeed go to India.

Brookfield did not make a move right away, but at the end of 2011 launched a US$100 million domestic real estate fund with Peninsula Land Ltd., the real estate arm of CPPIB partner Piramal Group.

In November 2014, with valuations more attractive, Brookfield acquired – without a partner – a portfolio of six office projects from London-listed Unitech Corporate Parks for US$800 million. The projects were developed for the high-growth IT sector (mostly in the Delhi area) and total 17 million square feet. Brookfield says it expects long-term returns of more than

15% on Unitech, “in line with expectations for our opportunistic funds.” The sale was India’s single biggest real estate deal in 2014.

Brookfield also has properties in Hyderabad and Chennai through its takeover of a property fund previously managed by AIG. And early in 2015, India’s *Economic Times* reported that Brookfield is also looking to establish a US$500 million Real Estate Investment Trust (REIT).[16]

Anuj Ranjan, now managing partner and India country head, said: “As foreign investors, we have gotten smarter as a group. Investors come in, they burn their fingers, and they complain that India is not an easy country in which to do business. But frankly, the deals that were being done in 2005 to 2008 were ridiculous,” with foreign investors ending up with bad Indian partners.

“Today, you look at Blackstone, you look at KKR [formerly Kohlberg Kravis Roberts & Co.], you look at us, or you look at operating companies like McCain and Cadbury – everybody is doing fine, but the approach has changed.” Brookfield is now doing things itself, including getting regulatory approval of deals and being active on the ground. “You can’t do business in India sitting in London or New York or Singapore; you have to do India business sitting in India.”

[16] Sachin Dave, “Canada’s Brookfield Looks to Set Up $500-m REIT Here,” *Economic Times*, January 20, 2015.

Mr. Ranjan sees greater opportunity working with the top families than with some other big players. He says there is much less capital around than in 2010, so the top 10% of Indian firms (in terms of quality and ethics) are now keen to do deals. He cited the example of Brookfield Multiplex, Brookfield’s construction arm, forming a partnership with Tata Projects: “A very high-quality brand, and Tata is a great group.”

Asked how India compared to the other BRIC countries in which Brookfield did business, Mr. Ranjan said: “We have been in Brazil 100 years. We are like Tata in India. In Brazil, we are a local company, people know us, and we have a lot of local heritage and relationships. So we probably would always find doing business in Brazil easier than doing business in India.” He added that foreign investment really only started in India in 2005, but has been in Brazil – where the capital markets are much deeper – for 25 years.

“China, on the face of it, would appear much easier to do business in than India. Things work quicker. In India, there is rule of law, but it takes time. In China, it is very difficult to do stuff without a local partner. In India, we managed to buy 17 million square feet and become the fourth-largest owner of office space in the country with no partner.”

As for the future, “We understand India much better today than we did five years ago, but we don’t have any set plan to invest ‘X’ dollars in the next few years.” While real estate has been the global focus of Brookfield’s investments so far, “Over the long term, I absolutely see us in India investing across all our asset classes – whether it be power, infrastructure or private equity.”

The local presence remains a key, and Mr. Ranjan, who is from Edmonton, remains domiciled in Mumbai. “We have 110 people in India, and everyone except me is Indian.” He repeated a view heard elsewhere that, thanks to investments by the CPPIB and other major Canadian players, “today, Canadians are the heroes.”

Brookfield now has a portfolio of about US$1 billion in India and it is clear that this investment is no flash in the pan. “We increased our allocation of capital over the previous 18 months to Brazil, China, India, and Europe,” Mr. Flatt wrote in his letter to shareholders in November 2014. “We believe that this will continue for years to come.”

## Fairfax Financial Holdings Ltd.

Toronto-based Fairfax Financial is a very successful, iconic, financial services holding company that focuses on property, casualty insurance and reinsurance, and investment management. It was founded in 1985 by Prem Watsa, the current chair and CEO, who was born in Hyderabad and is often referred to as the Warren Buffett of Canada. Fairfax is famous for big, high-risk, contrarian bets, such as its recent investments in Blackberry Ltd. and Greece’s Eurobank. In most cases, the bets have paid off.

According to Mr. Watsa’s 2014 annual letter to shareholders,[17] Fairfax has achieved remarkable results since its founding, with a compound annual increase in book value per share of 21.3% and a compound annual return on the common stock of 19%.

The company operates in Eastern Europe, the Middle East and Brazil, and has been particularly successful in Asia, including India. Fairfax owns 26% of ICICI Lombard General Insurance Ltd., a joint venture with ICICI Bank, India’s largest private bank and another success story. ICICI Lombard is the biggest private-sector, general insurance company in India.

Fairfax has increased its investment in India in recent years. In 2012, it purchased a 77% interest in Thomas Cook (India) Ltd., the well-known leisure travel group, for approximately US$150 million. Since then, Thomas Cook (India) has acquired IKYA Human Capital Solutions, which claims to be the fastest-growing human resources company in India, and Sterling Resorts, a time-share and membership resort company in India. “Sterling will be a long-term beneficiary of the burgeoning middle class in India,” explains the 2014 letter to shareholders.


Fairfax made an even stronger bet on India in November 2014 when it announced that, for the first time in its 30-year history, it would launch a new investment holding company, Fairfax India, focused solely on the potential of Indian business. Fairfax contributed US$300 million in exchange for multiple voting shares as its part of approximately US$1 billion in commitments to the new enterprise.

“We believe India will be transformed by the

[17] http://www.fairfax.ca/files/2013%20Shareholders%20Letter%20(final%20from%20Printers)_v001_m402d2.pdf. Accessed on February 13, 2015.

business-friendly government of Prime Minister Modi, and Fairfax India – with our resources and expertise in India developed over the last 15 years – will be well positioned to make excellent, significant, long-term investments in businesses with experienced and ethical management teams," commented Mr. Watsa.

Fairfax India Holding Corp. began trading on the Toronto Stock Exchange in mid-January 2015. Fairfax's vote of confidence in India is particularly noteworthy given the fact that Mr. Watsa has a famously negative view of the world economy. "We remain concerned about the financial markets and the economic outlook in this global deflationary environment," Mr. Watsa said on a conference call in February 2015 to discuss Fairfax's record earnings the previous year.[18]

## Sun Life Financial

It might seem odd to list a second insurance company under 'smart money,' but what Sun Life Financial has accomplished with patience in India is widely admired by officials, competitors and the business community at large. After years of waiting, it looks like Sun Life and its international competitors will finally have the opportunity, as foreign direct investors, to increase their stakes in their Indian operations to 49% from 26%. The Modi government initially passed the long-delayed legislation by emergency decree to bypass opposition in the upper house of Parliament, the Rajya Sabha, but finally won over the upper house in mid-March 2015.

Sun Life, which manages C$640 billion in assets globally (as of the end of 2013), has a very long history in India, beginning in 1892. In the 1950s, however, foreign insurance companies were shown the door when the sector was nationalized. Sun Life returned in 1999, and succeeded in attracting a dream joint-venture partner, the Aditya Birla Group, one of the most prized family-owned enterprises. Mumbai-based Birla Sun Life provides insurance products through Birla Sun Life Insurance, which has 85,000 advisors and 10,000 employees, and investment and wealth-management services through Birla Sun Life Asset Management Co.

"We have a profitable business in a growing market," summarized Kevin Strain, the Hong Kong-based president of Sun Life Financial Asia, in an interview. Mr. Strain pointed to India's young demographic, its growing GDP per person – and, with it, growing insurance penetration – and the fact that the company has had a good management team on the ground that has been together for at least 10 years. He also praised local staff for being technically adept as well as great at analytics (on neighbourhoods, for example) and execution. India is producing a substantial profit while Sun Life's operations in China, a much newer market for the company, hope to break even in 2015.

Not that it has been easy in recent times. There have been hundreds of regulatory changes over the last few years, leading to shrinkage in the whole industry, and it has been a challenge to establish a footprint across such a large and diverse country.

There have been problems with fraudsters who have targeted Sun Life and other companies with false death certificates and insurance claims, though fraud "is no worse in India than in other countries in Asia," said Mr. Strain. The company has dealt with the problem by strengthening its underwriting, its use of investigators and data analytics. He added that the company terminates employees who are found to be involved in corrupt practices: "If you don't keep a black-and-

[18] Michael Chu, "Prem Watsa bets big on deflation, 'concerned' about financial markets," BNN, February 13, 2015.

white reputation, you are going to be targeted."

As for an increase in the foreign direct investment cap, "We would see it as a good investment now. [The legislation] has got to go through a process. But it's profitable business in a growing market, in a business we know, with a management team we like, with a partner we like – so owning more of that we see as a good thing. Increasing to 49% would be the goal." This would require negotiating with the company's joint-venture partner, Birla.

"The Birlas are a great partner," Mr. Strain continued. "They have a great reputation, they have good brand recognition, they are fair to deal with – so the Birlas are about as good as you can get."

Five years earlier, Sun Life president Kevin Dougherty held out the same investment goal, saying that Sun Life was more interested in expanding its Indian operations than in making a profit.

As for growth in India, "Products are easy to create and easy to copy," said Mr. Strain. "It is really the distribution that is the key. It is getting the distribution right in the multiple cultures, and finding the right way to talk about what we are doing."

Insurance sales in India are higher than in any of the other Asian countries in which Sun Life operates. However, because of the regulatory changes and the contraction of the market, Mr. Strain estimated sales are about half of what they were in 2010, even though Birla Sun Life has about the same market share. "Yet our confidence in the country from a long-term perspective hasn't changed," he said. Changes in regulatory policy (on commissions, for example) were not unreasonable, but perhaps happened too quickly, he added.

Sun Life Financial Asia had 2014 earnings of C$182 million, up from C$150 million the previous year, "primarily driven by business growth and investing activities from insurance contract liabilities," according to a press release of February 11, 2015. Meanwhile, Birla Sun Life Asset Management surpassed the one-trillion-rupee mark, about C$20 billion, in assets under management during 2014.

## Caisse de depôt et placement du Québec

The Montreal-based Caisse de depôt et placement du Québec, which manages the assets of public and private pension and insurance funds in Quebec, is another colossus. It had assets under management of C$215 billion as of mid-2014, making it Canada's second-largest pension fund. Unbeknownst to most Canadians, its real estate arm, Ivanhoé Cambridge, manages one of the 10 largest real estate portfolios in the world.

In part because the Caisse has a mandate to contribute to Quebec's economic development, it has a much smaller global footprint than the CPPIB, with three-quarters of its investments in Canada and the United States. It does not break out Asia as a region, but notes it has about 3% of its assets between Japan and Australia. The Caisse has an office in Beijing and appointed a Singapore-based managing director for Asia Pacific in 2014, announcing plans to "eventually open branches in Mumbai, India, and Sydney, Australia."

"We opened a New Delhi office seven or eight years ago to get a taste of the country and to meet people. We haven't done anything beyond that," said Denis Couture, executive vice-president, public and international affairs, with Ivanhoé Cambridge. Ivanhoé Cambridge made a small investment in funds but didn't find a suitable partner – as key for the Caisse as for the CPPIB

– and was not impressed with the returns. The company looked at shopping centres in India but encountered corruption, a slow legal system, problems with land title, and accounts that were not always transparent.

But now, said Couture, with a long-term perspective and very substantial assets, "You can't ignore China and India." Moreover, Ivanhoé Cambridge has also done well in recent years in Brazil, another BRIC power. "In India, we want clarity, integrity, and decent returns," which means returns that are greater than those in Canada to compensate for the higher risk, he said.

The question is, what is the point of entry? The company needs to find a good partner, Mr. Couture said, but "the way in the door is not obvious." Sun Life showed it can be done: "Sun Life worked at it for 15 years. They got there early, hired local, got a good partner [Aditya Birla Group], and made a tremendous effort to adjust."

One option, Mr. Couture concluded, would be to partner with two or three global institutional investors, such as Norway's pension fund, the Abu Dhabi Investment Authority or China Investment Corporation. "That way, we can do our due diligence and we are not alone."

A local observer suggested that foreign pension plans might find the going tougher in future because there are only so many great deals to be had with the key families, which means the funds may eventually be forced to take greater risks. The irony is, of course, that many of the families that have been successful over many generations don't need capital and don't need partners.

Meanwhile, other large Canadian pension plans from Western and Central Canada have been "sniffing around" India. As one source in India colourfully phrased it, "money is circling."

## Summary and Implications for Investment Numbers

Smart money has its advantages, as we can see from these five examples. First, they play a long game: they have enough time and resources to wait for opportunities, and no compulsion to invest a certain amount of capital by a certain time, or even to invest at all. Second, they all believe they need to be on the ground, rather than make decisions in an office tower thousands of kilometres away. Third, if they are going to partner, they are going to partner with established players that have proven themselves over many business cycles and many generations – players like the Birla or Tata families, for example.

The investments of the CPPIB have been critically important to Canada's reputation in government and business circles in India, and stand as a huge vote of confidence for other Canadian businesses in India's future. According to India's *Business Standard*, three of the top five equity deals in India in 2014 were Canadian: Brookfield's investment in Unitech, the CPPIB's investment in Kotak Mahindra Bank, and the CPPIB's deal with Larsen & Toubro Infrastructure Development Projects Ltd.[19]

It is widely believed that the trade numbers cited earlier in this report greatly understate the reality. They do not include services such as education and tourism, and they do not include goods that go through third-party countries, for tax or other reasons, such as diamonds that are processed in Antwerp, Belgium.

The understatement may be even greater with the investment numbers, which appear to reflect only the investment of long-established players

[19] "A snapshot of PE activity & deals," *Business Standard,* November 6, 2014.

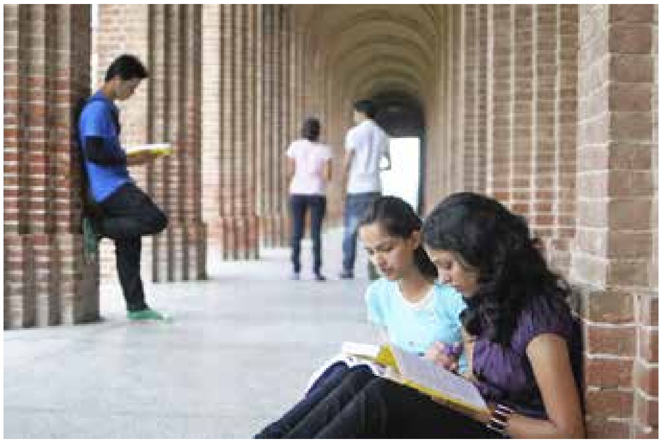
like McCain and Bombardier (the latter has facilities in Gujarat to meet the rail needs of India, including the multi-year expansion of the Delhi metro system). Part of the explanation is the time lag, given the enormous investments that Canadian enterprises have poured into India in just the last 18 months, but part of it appears to be the way the numbers are calculated. Even a rough calculation suggests that the CPPIB has recently invested US$1.5 billion in India, and Brookfield and Fairfax about US$1 billion each, for a total of almost C$4.5 billion – apart from anything Sun Life might soon invest to almost double its stake in its joint venture with the Aditya Birla Group. These three investments alone dwarf the latest official number of C$613 million for Canadian investment in India for 2013.

## GROWTH STRATEGIES AND STORIES

The big, smart money has certainly got the attention of officials and businesspeople in India and Canada in recent months, with their well-funded votes of confidence. But there are many other companies and institutions that are doing well in India in less-visible ways – or are not doing as well as they would like but see huge potential and are staying the course.

**Scotiabank** remains the only Canadian bank with a continuous presence in India, concentrating exclusively on corporate and commercial lending and a bullion business that is still strong, despite the fall in gold prices. The bank supports Canadian clients entering the Indian market and Indian clients entering Canada.

It is also the only Canadian financial institution participating in the Student Partners Program, an administrative framework designed to ease the application process for Indian students intending to study at a Canadian college or institute. The program is implemented in partnership between Canadian visa offices in India and Colleges and Institutes Canada, and has greatly increased the number of study permits for Indian students studying in Canada. Nearly 14,000 students used the program in 2014. Indian students are able to open a Canadian Scotiabank account from India after purchasing a C$10,000 GIC, which the bank hopes will build long-term customer relationships.



In 2005, Scotiabank tried to acquire The Bank of Punjab, which had 150 retail branches, but was blocked by the Reserve Bank of India because of ownership restrictions. Scotiabank has recently reduced its Indian network from five branches to three, saying that it can best serve its clients electronically from its base in Mumbai.

Asked where the bank would like to be by 2020, vice-president and country head (India) Sanjeev Mittal said he would like to be serving his larger corporate clients better. As for the option of pursuing retail banking, in which his predecessor expressed interest in 2010, Mr. Mittal said, "The bank has clearly decided in Asia on a wholesale bank strategy. It is a pocket of strength."

**McCain Foods Ltd.** is a success story in India, as it has been in so many markets around the world. It has taken over and hugely upgraded (from a state of some decrepitude) the same building in Delhi in which it was located in 2010.

"The big headline on McCain Foods India is growth," country head Vikas Mittal said. "We are twice the size we were five years back," even though India is a country without a history of frozen foods. "We are evangelists of the frozen food revolution."

The company has expanded its plant in Gujarat and has "Indianized" its whole food portfolio, which includes Indian specialties such as masala fries and aloo tikki sandwiches.

Mr. Mittal said the market is small but growing; broadly speaking, it is the top 10% of households in the largest urban areas that have the most freezers – a major constraint – and are the most receptive retailers and consumers.

The company took years to train farmers close to the plant to grow the kind of potatoes it needs to make frozen french fries. The effort paid off, since McCain is now the sole supplier of potatoes to McDonald's restaurants in India.

India serves as a regional hub, and exports 15% of its tonnage to South Africa, the Middle East, Southeast Asia, and potentially even Canada. Yet India itself remains the key target because of its large and unpenetrated market, Mr. Mittal said.

**R.V. Anderson Associates Ltd.** is a Toronto-based consulting engineering firm that has been in India since 1993. It established an office in Mumbai the following year in partnership with a local company, PHE Consultants. Like a number of others, its president thinks it is harder to do business in India now than it was in 2010. Since 2007, it has had a profitable contract for the engineering work on a US$1.2-billion wastewater treatment program for Mumbai, but there have been many delays, changes in regulations and turnover of bureaucrats.

"It is the most competitive place in the world," said Ken Morrison, who recently announced his plan to retire after more than 25 years as president. "However, we attribute our success in Canada to our Indian experience."

Echoing the view he expressed in an interview in 2010, Mr. Morrison said R.V. Anderson is "not aggressive" and has "no aspirations to build up a workforce" in India because the company's local partners supply the bulk of the labour. He said he expected the firm would bid on work for the Ganga Action Plan, designed to clean up the Ganga (Ganges) River, and for the Delhi-Mumbai Industrial Corridor.

In 2014, R.V. Anderson maintained its gold-standard status of one of the country's best-managed companies.

Meanwhile, John Farrow, CEO of **LEA Group Holdings**, the consulting engineers with expertise in roads, said, "Our growth strategy is to do more design and construction supervision in (as opposed to between) urban areas; to expand our urban planning work beyond the four major urban centres of Delhi, Mumbai, Hyderabad and Ahmedabad into the other urban centres; to expand our service offerings to include water and railways; and lastly, to use Indian expertise internationally," specifically in Africa and other areas close to India, such as the Central Asian 'stans' Mr. Farrow explained that railways are finally attractive because the rail sector is being liberalized, while water projects are an opportunity because it is a resource in such high demand.

Kanata, Ontario-based **TaraSpan Inc.** helps high-tech companies with market-entry services and technology in India. Under the chairmanship of veteran technology entrepreneur Terry Matthews, it has expanded rapidly in India since its beginning in 2005. “Our solutions enable global companies to accelerate and de-risk their business growth in India and Indian companies to enjoy the benefits of market-leading technology solutions from the world,” says the company’s website.

Since 2005, TaraSpan has expanded from two employees in Ottawa to more than 100 staff and in offices in Ottawa, Montreal, the United Kingdom, and Gurgaon, Mumbai, Pune and Bengaluru in India. Services include market entry strategies, including assessing products in the Indian market; global services delivery, including software development and quality assurance services; and the ‘TaraCloud,’ including talent development. The company sells and represents technology products in areas such as unified collaboration, e-learning and customer experience management to Indian companies. Globally oriented clients include Radisson, Wipro, the British Council, Citizens Bank, IBM and Swissôtel Hotels & Resorts.

“We have become much more proactive and much more knowledgeable about what the market is looking for,” explained CEO and co-founder Mike Manson. “We are moving towards more comprehensive solutions. Our next evolution as a services company is cloud-based solutions.”

He points to human resources as an area of particular opportunity, including recruiting, retention, skills development, middle-management training and performance management. The opportunity is great because of demographics and because, “historically, India has thrown people at the HR problem as opposed to putting technology to work.” For example, TaraSpan has done well with language training for call centres in India.

Asked why TaraSpan is in India but not in China, Mr. Manson replied: “My board asks me that question at least once a year. To be honest, the opportunity in India by itself is big enough to create a substantial company with TaraSpan, and China has a very, very different business culture than India.”

Meanwhile, Vijendra Gairola, a graduate of York University’s Schulich School of Business and former head of Export Development Canada in Mumbai, and Raj Narula, a co-founder of TaraSpan, have set up a new Mumbai-based business advisory company called **InCa Synergies** for Canadian companies in India. As Mr. Gairola explained it, “It is like TaraSpan but for non-tech companies,” adding that he and his partner “have skin in the game” and have already attracted a lot of interest.

International growth is important to **IMAX Corp.**, the entertainment technology company that got its start with a multi-screen film installation at Expo 67 in Montreal. In 2014, more than 70% of IMAX signings were for international theatres. China is doing particularly well, with 62 new theatres in 2014 and a 40% increase in revenue growth over the previous year. The Toronto area-based company has a total of 934 theatres in 62 countries.

India has been a frustrating experience, though the potential remains. There, IMAX has grown to five theatres from two over the past decade. By comparison, Indonesia has ten and Malaysia eight.

In an interview in Bengaluru, Preetham Daniel, director of sales for India and Southeast Asia, outlined a number of problems: India has been slow to complete shopping malls (which are common locations for IMAX theatres), and in some cases funding has run out. There has also been a tough state regulatory environment. At the same time, there has been lots of innovation in some theatres, such as SMS (text message) bookings, digitized screens, and even Porsche-designed seats and Japanese-style toilets.

"We have two IMAX theatres installed in Chennai that could open their doors to the public tomorrow," said Mr. Daniel. "But for the last two years they have been shut only because we have not been able to get government approval."

Some state governments put caps on show prices (typically 120 rupees, or C$2.40, plus tax) and no one wants to change them, and they may also control the number of shows, he said. It's frustrating because people are willing to pay more and it's tough to recover the investment (around C$1 million for an IMAX theatre) when ticket prices are so low. "There are challenges at every given point," he said.

According to Mr. Daniel, IMAX needs 10 to 12 screens in India to achieve a critical mass and allow the company to play Hollywood films, which is the content that drives IMAX.

Asked why IMAX persists in India, Mr. Daniel replied: "India has huge potential," as shown by the numbers. For example, the number-one player in Indonesia has 800 screens while the number-one player in India has 470, even though India has a far larger population. "You have to be patient, but patience sometimes runs out. We've been in this country for 10 years."

Few Canadian companies can claim a larger share of Canadian history than **Aecon Group Inc.**, the Toronto- and Calgary-based construction and infrastructure development concern that was started by Scottish immigrants in Hamilton, Ontario, in 1877.

The C$3 billion corporation has played a role in a host of iconic projects including the St. Lawrence Seaway, the CN Tower, Toronto Pearson International Airport, the Halifax Shipyards and the Vancouver SkyTrain. Aecon also does international work, which includes airports in Prague, Czech Republic; Budapest, Hungary; and Quito, Ecuador. But its approach is opportunistic – typically with someone coming to the company with an idea, said John M. Beck, executive chair and board member since 1963.

Aecon is not doing work in India, though Canadian officials say they would very much like it to be there. The company had a long, unhappy experience in the country, a combination of very bad luck with nature and difficult experiences with partners and officials.

It began in 1993 with a US$500-million contract to lead a consortium to build the Nathpa Jhakri hydroelectric project in northern India. There was a litany of problems: a massive rockslide and a flood featuring a 15-metre wall of water, corruption, frequent turnover among officials, changes in design, the financial problems of a partner, lengthy legal battles, a seven-year delay to the project, and payment issues that dragged on until 2012, making it Aecon's longest project ever. "Things that were supposed to happen once in 100,000 years happened twice in a few years," Mr. Beck said in an interview, referring to the natural disasters. As for the whole project, "It was a perfect storm."

Ironically, however, he said India "is the most open, most attractive country in the world for our services today." India has more than a billion people, a rising middle class and a need for basic infrastructure such as power, "which is exactly what we do." A further irony is that the troublesome project was ultimately successful – the completed hydroelectric plant has the highest capacity of any in India.

Mr. Beck said that as long as Canada is booming, there is little incentive to do work abroad. But when Canada starts to soften, Aecon will be looking abroad again, with the US being the natural first stop.

Mr. Beck said he would only return to India if three conditions were met: first, if Aecon didn't have to deal with government in India; second, if the company had a credible Indian partner; and third, if he could work with the Canadian government, whose work he praised. "If we go anywhere internationally, we want to be tied at the hip to the Canadian government, in one way or another – some government agency, EDC [Export Development Canada], CCC [Canadian Commercial Corp.], that can exert what I call 'muscle' if we need it."

## OPPORTUNITIES

### Smart Cities

Even Mr. Beck sees opportunities for Canadian companies to do infrastructure work in India, and, as we have seen, companies such as LEA Group and R.V. Anderson continue to do well. Although Prime Minister Modi is scrapping India's five-year plans (which are a legacy of its adherence to the Soviet model), the current plan, which runs to 2017, calls for US$1 trillion in infrastructure spending – an indication of the scale of what is needed. In its February 2015 budget, the Modi government proposed an annual increase in infrastructure spending of US$11.3 billion, with Finance Minister Arun Jaitley admitting that, "It is no secret that the major slippage of the last decade has been on the infrastructure front." Anyone visiting India can quickly see that virtually all forms of infrastructure need help, apart from a few new, good airports such as those in Delhi, Hyderabad and Bengaluru.

Prime Minister Modi understands the need, and has plans for 100 smart cities, both new and existing, at the centre of his agenda. The details of what is envisioned will be available when the government completes a white paper, but it will include improved infrastructure, high-speed corridors between major cities, and advanced ICT for government and business.

What is clear is that a long list of international suitors, including the Australians, the Japanese, the British, the Gulf States and the Americans, are already lining up, and Canada needs to be among them. In the wake of President Obama's visit to Delhi, three teams of Americans and Indians are drafting plans to develop three smart cities in three states: Uttar Pradesh, Rajasthan and Andhra Pradesh.

Certainly, 2015 began on a positive note when a three-member Canadian infrastructure consortium, consisting of Edmonton-based Stantec Inc., Vancouver-based Minaean International Corp. and Montreal-based WSP Global Inc., signed a memorandum of understanding at Vibrant Gujarat with the Gujarat Infrastructure Development Board to develop the Dholera Special Investment Region along the key Delhi-Mumbai Industrial Corridor.

“Our goal is to expand this expertise across India,” Canada’s recently installed High Commissioner Nadir Patel said in an interview in reference to the consortium and the smart cities initiative. “Not only to take on a couple of cities like others are doing, but to share our expertise and knowledge to a number of cities in India.”[20]

Half a dozen of those interviewed pointed to a particular opportunity for Canadian companies in Andhra Pradesh, a southern state whose capital is Hyderabad, which has attracted a lot of international players for its excellence in ICT. Canadian officials have talked to the state’s recently elected Chief Minister Chandrababu Naidu. The opportunity derives from the state’s recent division in two, creating a new state called Telangana. It plans to turn the city of Vijayawada on the Krishna River into its new capital.

As John Farrow of LEA Group phrased it in an interview in December 2014, “This new state has been in place for less than six months and two very entrepreneurial nations are already on the ground,” referring to the Netherlands and Singapore, the latter of which is preparing a master plan for the new capital. “This is a unique opportunity for the Government of Ontario to partner with two new states. You don’t get this opportunity very often. You have got to appreciate the scale here. The new state of Telangana has 60 million people.”

Akhilesh Mishra, the Indian Consul General in Toronto, also believes that the new capital is a major opportunity that would “give Canada a much-needed profile in India.” The opportunities range from highways, ports, water and sewage to clean tech and e-governance.

## Education and Building Skills

Education, including building skills, is another obvious area of opportunity for Canada. Historically, however, we have not done as well as our American, British or Australian competitors, and some-high profile initiatives, such as the Schulich School of Business plan to build a campus in Hyderabad, have proven frustrating. The regulatory environment is restrictive, right down to the number of books required in a library. One story has it that the autobiography of Virgin Group founder Richard Branson, *Losing My Virginity,* was removed from a library for what was thought to be inappropriate content. Nonetheless, the opportunity is vast, given the relatively poor state of Indian education and the government’s ambitious plans to build large numbers of new colleges and universities.

[20] Nayanima Basu, “Interview with Canadian high commissioner to India,” *Business Standard*, March 17, 2015.

"There is a huge amount of interest in Canada," a Canadian official in India said, referring to student recruitment, faculty exchanges and research partnerships. "I can't keep track of it." There are about 40,000 Indian students across Canada, contributing both culturally and economically – each student typically spends between C$25,000 and C$40,000 a year.

One interesting example is Centennial College, the oldest publicly funded college in Ontario. Centennial is an applied arts and technology institution with four campuses in Toronto and more than 16,000 full-time students. Of its 5,000 international students, 2,800 are from India, the largest number from any country. Indian students are attracted to Centennial because of its range of programs, focus on applied learning, and large Indian enrolment.

## Energy

Canada has a historic opportunity to help meet the enormous energy needs of India, as well as the rest of Asia, but it is doing far less than it could be to make that happen. There is an extremely high correlation between GDP and energy needs, and India's GDP has been rising rapidly. As it is, 70% of India's fossil fuel needs are met by expensive imports. If the country doesn't take greater advantage of clean technology and renewables, which were highlighted in the February 2015 budget, its default energy source is high-ash coal, which can only make a severe environmental problem worse.[21]

Canada has opportunities in India right across the energy spectrum, with expertise in clean technology, smart grids, nuclear, oilfield

services, and technologies such as well testing, pipeline integrity, and horizontal drilling. However, margins are tighter and the regulatory environment more complex than in some competing markets, such as Indonesia.

Then there is the complex, politically charged prospect of moving Canadian oil by pipelines to the Pacific or Atlantic coasts and shipping it to refineries in India – most likely to the Reliance Industries facilities in Gujarat, which like the heavy bitumen from the oil sands because it delivers high profit margins. India "would buy oil from Canada in a heartbeat to diversify supply," said a Canadian official based in Delhi, pointing to India's reliance upon the less politically stable Middle East and Iran.

As for LNG, "The Indian appetite for gas is virtually infinite," said Cairn India's CEO Mayank Ashar. "It is a once-in-a-decade or -half-century opportunity for Canada."

Mr. Ashar and many observers believe TransCanada's Energy East pipeline option from Alberta to New Brunswick makes the most sense

[21] "Mobilizing energy assets" is a research theme of the Asia Pacific Foundation of Canada, which continues to publish good work on the subject. See www.asiapacific.ca/publications/energy-environment.

politically and logistically for both oil and LNG. As former High Commissioner to India Stewart Beck phrased it, “We should get our act together and make Atlantic Canada an energy hub.”

Relatively few Canadian companies, however, have taken advantage of the energy opportunity in India.. For example, there are only three Canadian exploration and production companies active in India and ten equipment and service providers. Ironically, the most successful at finding natural gas, Niko Resources Ltd., a partner with heavyweight Reliance Industries, does not receive help from the Canadian government. This is a result of its guilty plea for corruption in Bangladesh under Canada’s Corruption of Foreign Public Officials Act, quite apart from the fact that it has provided a very unpredictable ride for investors (the share price has plunged from more than $100 in 2011 to 50 cents in 2015). Sources say that some of the biggest players, such as Husky Energy Inc., have looked at India and decided to take a pass.

There is also a gap on nuclear, despite India’s ambitious plans for the sector, an operational Canada-India Nuclear Cooperation Agreement, and a bilateral working group. Canada has decades of nuclear experience and lots of capacity, with the Organization of Canadian Nuclear Industries representing 190 Canadian suppliers and 10,000 skilled workers.

There have been ambitions to work with India on reactors, possibly for third-party countries, encompassing new build, refurbishment, training, research collaboration, and design. However, there is plenty of competition already in place, including the US, Japan, France and Russia – the latter two with state backing. There is also a stumbling block in the form of the critically important liability issue, with India understandably stung by the memory of the 1984 tragedy of Bhopal, where a gas leak at a pesticide plant claimed as many as 16,000 lives and caused more than 500,000 injuries. While India remains unwilling to change the 2010 Civil Liability for Nuclear Damage Act, it was able to reach an understanding on the issue with the US during President Obama’s visit to Delhi at the beginning of 2015.[22]

There is also the prospect of exporting uranium to India. India has a lot of thorium, an alternative mineral, but very little uranium, and it is looking for security of supply. Cameco, the Saskatoon-based producer of high-grade uranium, has had an office in Hyderabad since 2009. It hopes to sell uranium to India, just as it has started selling the mineral to China.

[22] See “Frequently Asked Questions and Answers on Civil Liability for Nuclear Damages Act 2010 and related issues,” Ministry of External Affairs, Government of India, February 8, 2015.

# PART III: RECOMMENDATIONS

For this project I interviewed in India and in Canada upwards of 30 business and government leaders active in the Canada-India space. My conversations covered a range of business sectors, strategies and specific on-the-ground company experiences, not all of which could be included in the preceding pages. The recommendations for Canadian business and Canadian governments that follow are distilled from the full breadth of project interviews.

## FOR CANADIAN BUSINESS

### 1. Understand that India is unique and be sensitive to Indian ways of doing things:

Its cultures, histories and ways of doing business are much different from those of Canada. And because India is being courted by everyone, we must make the adjustment. A few sample views:

- Sreekumar Nair, Confederation of Indian Industry: "It definitely doesn't work like the western world."
- Mike Manson, TaraSpan: "You have to adapt to India, India is not going to adapt to you."

We need to learn to read the signals in the Indian context. For example, 'yes' may not mean 'I agree,' but simply, 'I hear what you are saying.'

Advised LEA Group's John Farrow: "Be clear and unambiguous. You can't play the same game. Better to be Canadian and say it like it is, politely."

**2. Be patient, and think and plan long-term:** Vikas Mittal of McCain Foods: "You won't crack the market in three years. We were in India in 1998 and didn't get a plant until 2006." And before that, McCain spent years training Indian farmers to grow the type of potatoes required to make french fries.

Mayank Ashar of Cairn India was explicit in his advice that Canadian business leaders not underestimate India's long-term potential, particularly those in charge of large companies.

He advised looking ahead to 2030 or 2050 to put together a well-considered plan for both China and India. "If you say, 'I will wait,' it will be too late," as happened with many companies in China, he said.

**3. Relationships and a good local partner are critical, so get experience working together:** You need to prove your commitment to India and to build trust, particularly at the highest level. Senior people need to visit frequently. Your CEO may have to commit to three or more years of travel, and even then it may take time to yield results. Trust is more important than a written agreement, which can be time-consuming to enforce.

You need a good, on-the-ground Indian partner who knows how business is done locally and has a network. Anuj Ranjan of Brookfield observed: "Don't try to do business from afar. Do business with local Indians."

India's Consul General in Toronto, Akhilesh Mishra, feels passionately that too many business delegations go to India without a single proposal to put on the table. Put forward a proposal, even a modest one, to an Indian partner and start working together to build trust and gain experience. "We need to get going," he stressed.

**4. Focus:** Given the vastness and complexity of India, and the fact that the culture, laws and taxes – and the overall ease of doing business – can vary from state to state, focus is required. Concentrate on a few states or even cities.

**5. Your product or services:** Be prepared to meet "very exacting" requirements. Ken Morrison of R.V. Anderson said: "They know they are a big target market and say, 'Give us what we want or we don't want you.'" Do you fully understand the project, can you help solve their problem, and can you bring the right people to the table?

**6. Price:** Be ready to drastically reduce your prices. The Indian market is fiercely competitive on price. In exchange for razor-thin margins, you have volume – in a market that dwarfs every market in the world except China.

**7. "Negotiate fiercely"** advised Brookfield's Ranjan.[23] Indian businesspeople are extremely tough negotiators and can negotiate down to the last dime. Mr. Ranjan said in 2011 that Brookfield spent up to a year negotiating agreements in India.

But views differ on the most effective way to proceed. One Indo-Canadian working for a large Canadian multinational in Mumbai said Indians will respect you if you are willing to walk away. "I have got much more that way. All is forgiven once signed," he said. A Delhi source countered that if Indians don't get what they want, they may walk away from a deal for good.

**8. Be realistic about the cost of doing business.** Flights to and from India, as well as hotels, are expensive. There may be tax holdbacks and it can be tough to collect a final payment. Your software may not be supported in India and have to be replaced. Labour is costly and may include mandatory bonuses and many days off. It is difficult to dismiss people and severance is generous. Interest rates are high and there are restrictions on moving money in and out of the country. As with most emerging markets, be prepared not to make money for the first few years.

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[23] See "Deal-making in emerging markets: Lessons learned. A conversation with Brookfield Asset Management," PwC, December 2011.

9. Leverage the diaspora whenever possible. According to Akhil Tyagi of the Ontario government, Indo-Canadians understand the market, "and know how not to do business in India." For example, Indians believe in hierarchy, so you shouldn't jump the gun or be aggressive. Mr. Tyagi also said including Indo-Canadians in a delegation sends the right signal and they will be more familiar with the culture.

Interestingly, both the new US envoy and new Canadian High Commissioner, who presented their credentials on the same day, are of Indian origin. High Commissioner Nadir Patel observed: "While it is not essential, I would say that having a common heritage is an asset. It gives me an extra edge and extra bonus. I converse with Prime Minister Modi in Gujarati."[24]

10. Consider using India as a hub for your business. McCain Foods exports 15% of its tonnage from India, and the rail equipment that Bombardier manufactures in Gujarat is sold both to domestic clients and to global markets. SNC Lavalin does work for Iraq out of India because it is cheaper. Mary Barra, CEO of General Motors, was in Pune in September 2014 to oversee the beginning of the export of Chevrolets to Chile (she predicts India will be one of the world's three largest auto markets by 2020). The hub strategy also fits in nicely with Mr. Modi's 'Make in India' initiative.

11. Take advantage of the service of Canadian governments including the High Commission, consulates, trade offices, provincial representatives and Export Development Canada (EDC). Those interviewed were all but unanimous in their praise of government services – particularly for help in finding appropriate partners, providing quality leads and making introductions. EDC has a good reputation for its insurance and financial products, and helps 70% to 80% of all exports to India, one of the agency's key markets. Buyer payment default is EDC's number one product, says Mark Bolger, the export credit agency's senior representative for Asia.

12. Wave goodbye. If you can't deal with India's unique culture and complexity, or you don't have patience, India is not the market for you, so don't go.

## FOR CANADIAN GOVERNMENTS

1. Send the A team to signature events in India if you want to make a lasting impression. The Japanese, the British, the Dutch, and the Americans – in the form of Secretary of State John Kerry – all sent senior ministers to Vibrant Gujarat in 2015, which featured Prime Minister Narendra Modi. Canada sent a delegation of 150 business leaders but no senior minister, an omission that was privately criticized by Canadian officials.

2. Complete negotiations for the Comprehensive Economic Partnership Agreement (CEPA), and sign the Foreign Investment Promotion and Protection Agreement (FIPA), the investment agreement completed in 2009, to signal Canada is serious about India and to take advantage of the economic benefits that will follow. Once done, move forward on other important areas such as intellectual property and procurement. The onus will then fall on the private sector to take advantage of the improved economic framework negotiated by Ottawa.

[24] Dipanjan Roy Chaudhury, "I converse with PM Modi in Gujarati: Nadir Patel, Canadian High Commissioner to India," *Economic Times*, February 2, 2015.

3. Brand Canada more effectively and consistently through advertisements, promotions and events. Centennial College's Suchita Tirkey Pereira in Bengaluru said, "If I walk into a secondary school in India, they want to hear about Canada before they hear about Centennial. I wish there was more Canada." Ms. Pereira said Indians have a positive image of the country, but know very little about it; students think polar bears roam the streets. She added that the Americans, British and Australians are far more aggressive marketers, even though countries like Australia don't offer anything that Canada doesn't.

4. Work to bring the prime ministers together as often as possible. There is nothing more effective than the meeting of top leaders to strengthen personal ties at the highest level, improve the relationship, and get things done. There has been no bilateral visit of an Indian Prime Minister to Canada between that of Indira Gandhi in 1973 and Narendra Modi's in April 2015. Mr. Modi visited Washington in September 2014 and boldly invited President Obama to be the chief guest at India's 66th Republic Day celebrations in New Delhi four months later, making him the first US president to attend the event. The result was a continuation of the progress made on a whole range of issues, including regional security, smart cities, economic co-operation, space and defence, clean energy, nuclear and even climate change.

*Note: All images in this report are sourced from Thinkstock Photos unless otherwise stated. All graphics are created by Fei Lauren*

# PART IV: CONCLUSION

Between 2010 and 2015, the Canada-India landscape has changed significantly. Relations between the two countries have improved markedly, particularly with the conclusion of a Nuclear Cooperation Agreement in 2010 that finally put to rest the longstanding chill over the sensitive nuclear question. A Comprehensive Economic Partnership Agreement, which will strengthen ties and increase trade and investment between the two powers, is within reach. India remains a priority market for Canada, and the government of Prime Minister Stephen Harper remains deeply committed to the relationship, particularly given the growing political influence of the Indian diaspora. The provinces have also greatly stepped up their involvement in the subcontinent. The Government of India values the relationship, though at times is frustrated that it has not yielded greater results. Certainly the opportunity is vast, with Canada well positioned to provide what India so desperately needs: better infrastructure, energy security, food security, education and skills development, and long-term investment from abroad.

Like most emerging economies, India is not an easy country in which to do business – a situation that the Modi government is keen to improve. Still, most of the established Canadian players in India, such as McCain Foods, TaraSpan, and LEA Group, are doing well. In the last year or two, big, smart money – led by the CPPIB, Brookfield and Fairfax – have committed billions to the market, a development that has attracted favourable attention from senior Indian officials and businesspeople.

The biggest change – and the one that holds the most hope – is the establishment of the first Indian majority government in 30 years under the focused, hard-charging Narendra Modi. Though it is early days, the signs are positive that the country will once again justify its status as a fast-growing developing power. That can only confirm India's status as a country that deserves the attention of Canadian business and provides rewards for patient investors.

In 2010, the then-head of the Confederation of Indian Industry, Tarun Das, said that Canada and India "have come a long way together since the 1998 nuclear test in India. There is a very good feeling about Canada here. You should cash in on it." His sentiment remains as relevant now as it was then.

# SELECT LIST OF INTERVIEWS AND CONVERSATIONS IN INDIA AND CANADA

Ashar, Mayank: Managing Director and CEO, Cairn India, Gurgaon

Bagchi, Soumen: Joint Secretary, Energy Security, Investment and Trade Promotion, Ministry of External Affairs, New DelhiBale, Richard: Consul General, Consulate General of Canada, Mumbai

Beck, John M.: Executive Chairman, Aecon Group Inc.

Beck, Stewart: President and CEO, Asia Pacific Foundation of Canada, and former Canadian High Commissioner to India

Bhandari, Amit: Fellow for Energy and Environment Studies, Gateway House: Indian Council on Global Relations, Mumbai

Bolger, Mark: Chief Representative for Asia, Export Development Canada

Couture, Denis: Executive Vice-President, Public and International Affairs, Ivanhoé Cambridge

Daniel, Preetham: Director of Sales, India and Southeast Asia, IMAX Corp., Bengaluru

Dunn, Gordon: CEO, REC Renewable Inc.

Farrow, John: Chair and CEO, LEA Group Holdings Inc.

Frank, Sidney: Consul General, Consulate General of Canada, Bengaluru

Gairola, Vijendra: Partner and Co-Founder, InCa Synergies, Mumbai

Ghosh, Saibal: Trade Commissioner, High Commission of Canada to India, New Delhi

Iyer, Sriram: President and CEO, ICICI Bank Canada

MacArthur, Peter: Director General, South, Southeast Asia and Oceania Bureau, Department of Foreign Affairs, Trade and Development

Manson, Mike: Co-Founder and CEO, TaraSpan Inc.

Mehra, Pankaj: Co-Lead, Multicultural Banking, Scotiabank

Mishra, Akhilesh: Consul General of India, Toronto

Mittal, Sanjeev: Vice-President and Country Head (India), Scotiabank, Mumbai

Mittal, Vikas: Managing Director, McCain Foods India Pvt. Ltd., New Delhi

Morrison, Kenneth: President, R.V. Anderson Associates Ltd.

Nair, Sreekumar: Regional Director – Americas/CIS/Israel/Turkey, Confederation of Indian Industry, New Delhi

Parrott, Brian: Senior Trade Commissioner, High Commission of Canada to India, New Delhi

Pereira, Suchita Tirkey: Manager, South Asia Office, Centennial College, Bengaluru

Ranjan, Anuj: Managing Partner and India Country Head, Brookfield Asset Management, Mumbai

Sarangi, Santosh Kumar: Joint Secretary, Ministry of Commerce and Industry, Department of Commerce, New Delhi

Singh, Dr. A. Didar: Secretary General, Federation of Indian Chambers of Commerce and Industry, New Delhi

Singhal, Rajrishi: Senior Geoeconomics Fellow, Gateway House: Indian Council on Global Relations, Mumbai

Strain, Kevin: President, Sun Life Financial Asia, Hong Kong

Tyagi, Akhil: International Market Consultant, South Asia, Ministry of Citizenship, Immigration and International Trade, Government of Ontario

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