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AMCHAM INDIA

INDIA AT $5 TRILLION

STRENGTHENING OPPORTUNITIES, REMOVING HURDLES

Gautam Chikermane
Ruchbah Rai
Rakesh Sinha
Tanushree Chandra

India at $5 Trillion

Strengthening Opportunities, Removing Hurdles

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The Observer Research Foundation
20 Rouse Avenue,
Institutional Area New Delhi,
India 110002.
contactus@orfonline.org
www.orfonline.org

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TABLE OF CONTENTS

FOREWORD: PARTNERING WITH INDIA TOWARDS THE $5-TRILLION GOAL 4
Ranjana Khanna

FOREWORD: A PARTNERSHIP GROUNDED IN THE FUTURE 6
Samir Saran

KEY FINDINGS 8

KEY RECOMMENDATIONS 9

I. INTRODUCTION 10

II. THE ORF-AMCHAM CEO SURVEY 13

III. CONCLUSIONS AND RECOMMENDATIONS 44

ANNEX: METHODOLOGY AND QUESTIONNAIRE 48

FOREWORD: PARTNERING WITH INDIA TOWARDS THE $5-TRILLION GOAL

Ranjana Khanna

The Indian economy grew to $1 trillion in 2004 and further to $2 trillion in 2014. In the past five years, the Indian economy experienced a 50-percent growth rate and saw unprecedented progress in innovation, manufacturing, digitisation and skilling. With the Government of India's initiatives and proactive emphasis on ease of doing business and inclusive growth, the Indian economy can reach $5 trillion even before 2025. The vision for the Indian economy to reach the $5-trillion mark by 2025, and $10 trillion by 2032, is definitely achievable. The tectonic shift in the global trade scenario could catapult the Indian economy on a high growth trajectory. The opportunity in the transforming global economic scenario can be a critical driver for this vision, and the thrust for an effective economic partnership with the world's largest economy could accelerate

the process. It is time to propel the Indian economy to achievable targets utilising the core competencies of the US industry and leverage positioning India in the global value chain.

The bilateral trade between India and the US has grown from $16 billion to $142 billion in the last two decades and is projected to reach $500 billion by 2025.The major drivers are technology and defence.

With the objective of achieving the target of India's growth to a $5-trillion economy, The American Chamber of Commerce (AMCHAM) and Observer Research Foundation (ORF) undertook a survey with US companies operating in India and are pleased to present the findings and recommendations. US companies have been operating in India since 1907 with the largest FDI and creating gainful employment for more than six million people. We have partnered extensively in India's inclusive growth story and in the Government of India's mission of accelerating its flagship programmes, Make in India, Digital India, and Skill India.

(Ranjana Khanna is Director General and CEO, American Chamber of Commerce in India.)

FOREWORD: A PARTNERSHIP GROUNDED IN THE FUTURE

Samir Saran

It is common today to assume that globalisation is in crisis. After all, its chief guarantors from the Atlantic communities are no longer evangelical about it, while its 21st-century proponents from Asia appear unable to fill the void. In an attempt to verify these assertions, AMCHAM and ORF undertook a survey of American companies with operations in India. The results give us cause for optimism.

First, there remains an enduring global commitment to enhance trade and economic ties, irrespective of temporary isolationist or unilateral tendencies. While economic nationalism is certainly the defining political zeitgeist of our times, commercial and financial interdependence cannot be easily undone. What we are seeing

today is a debate about the methods of economic engagement, not the trajectory itself.

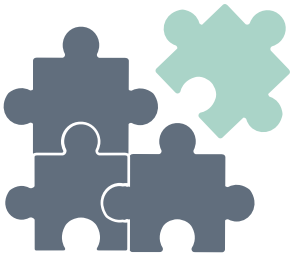
Second, India and the US are destined to be the two largest democratic economies by the middle of this century. Both countries will occupy this mantle as the global transition from the third industrial revolution to the fourth unfolds. It will therefore be incumbent upon India and the US to design and implement models of economic growth and development, and develop a new commercial and social ethic.

And third, it is clear that markets will have to respond to Sustainable Development Goals. The past few decades have made it clear that the public sector alone cannot enhance livelihoods and combat climate change. Financial capitals and international economic organisations will have to create new financial tools and regulatory frameworks to support investments in green technologies and sustainable urban infrastructure.

Authored by a team led by Gautam Chikermane – an astute commentator on the politics and economics of growth and globalisation –this ORF-AMCHAM report rises above the nitty gritty of commercial engagements and brings out the long-term economic thinking that defines India-US relations. There is much need for such scholarship and this report will be an important addition to the literature on the economic and political realities that are defining the India-US relationship.

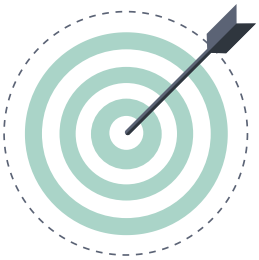
(Samir Saran is President, Observer Research Foundation)

KEY FINDINGS



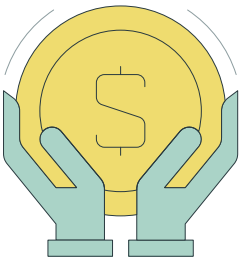
India-US relations have developed into a global strategic partnership.

These bilateral relations are based on a convergence of interests on various issues.



The Indo-Pacific relationship expands the strategic footprint of both India and the US.

Trade and commercial linkages for the past 70 years have built an important multi-faceted partnership.

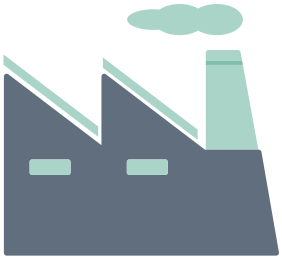


This partnership is only likely to grow and strengthen substantially, with India becoming an integral part of the global supply chain.

KEY RECOMMENDATIONS

India's State governments need to provide an enabling environment to attract companies into manufacturing.

Both the Union and State governments should develop infrastructure, particularly roads and ports.



The Union and State governments must take a policy leap of faith and rethink land laws to facilitate the setting up of industries.

The Union government should rework labour laws so that they get in tune with the rising, 21st-century India.

I.
INTRODUCTION

India is the world's fastest-growing large economy; in the next five years, it expects to be the world's fourth-largest economy, after Japan, with a GDP of $5 trillion from $2.7 trillion today. This growth momentum has been increasing – from 3.6 percent between 1962 and 1971, the average GDP growth rose to 5.3 percent between 1981 and 1991,when the economy began opening up.[1] It rose to 6.5 percent between 1992 and 1996, and further to 7.8 percent between 2003 and 2015.[2] At a projected rate of 6.1 percent for 2019 and 7 percent for 2020, India is expected to maintain its position as the world's fastest-growing economy.[3] It has set its sights on a GDP of $5 trillion in the next five years and $10 trillion by 2032.[4]

The US economy, meanwhile, at $20.9 trillion[5] is more than eight times India's size – is expected to grow by 2.4 percent,[6] adding about $500 billion to its GDP in 2019; the addition is greater than the entire economies of Austria, Norway and the United Arab Emirates, combined. To put this number in perspective, what the US will add in 2019 will be more than 16 percent of India's GDP, illustrating the

country's economic dynamism and technical innovation. This innovation, driven by a spirit of entrepreneurship, has unleashed the creative energies of American businesses and is the key to the US' growth.

The economic partnership between these two economies – the world's largest and the world's fastest-growing –is set to rise. For one, there has been a huge growth in India-US bilateral trade in goods and services over the past two decades: from $16.3 billion in 1999, it stood at $142.3 billion in 2018, representing an 8.7-fold jump or a compound annual growth rate of 12.1 percent.[7] Three trends indicate that the economic partnership will strengthen in the coming years: India's continuing GDP growth; an increased share of trade in this growth; and a rising share of US in India's trade. Indeed, US-India trade is projected to reach $375 billion by 2024, and on to $750 billion by 2032.

Overall India-US ties have historically been supported by five key dynamics. These drivers will remain in the future.

First, this is an alliance of values between the world's oldest democracy and the world's largest democracy. As a result, policymakers and business executives in the two countries understand the compulsions and the opportunities of functioning in a democratic set up, with ease of communication through the English language and strong people-to-people connections.

Second, this alliance is a cohesion of the essential elements of capitalism which encourages entrepreneurship and celebrates free enterprise. The currency of conversations, however, differ. While the US seeks urgency of speed, India is constrained by political and economic negotiations among its key constituencies.

Third, this is an alliance between two large markets – the world's second-largest and the world's third-largest. Both economies display a high consumption as part of their GDPs (70.7 percent for India; and 82.4 percent for the US).[8] They vary because of the size of consumption, which in turn maps itself around per capita GDP—India's $2,016 versus the US' $62,641 in nominal terms,[9] and $7,762 and $62,641 in terms of PPP (purchasing power parity).[10]

Fourth, this is an alliance between strategic partners, where the interests of the US and India merge to create an inclusive environment for the region and prevent any single

state to acquire domination either militarily or through state-sponsored terrorism. Such an alliance, whether formal or informal, was inevitable. The Indo-US relationship is not a mere abstract engagement based solely on shared values; rather, it reflects a real convergence of strategic interests and can serve as the anchor for peace, prosperity and stability from Asia to Africa and from the Indian Ocean to the Pacific Ocean.[11] The increasing convergence of US and Indian interests in the Indo-Pacific region can be a great opportunity to defend the rules-based international order.

Finally, these strategic and economic ties strengthen the two countries' defence relationship. In June 2016, the US gave India the unique designation of a 'Major Defence Partner'.[12] The designation seeks to elevate the US defence partnership with India, which in turn builds industry-to-industry ties. Once fundamental trust-building infrastructure is in place, it allows agreements such as the Logistics Exchange Memorandum of Agreement (LEMOA) in 2016, and Communications, Compatibility and Security Agreement (COMCASA) in 2018 to ride it.[13]

Standing on these five pillars, India-US relations are only set to grow stronger. Differences on trade and markets notwithstanding, the relationship is sustainable and will deepen further through significant and growing opportunities for commerce and a strong belief in finding solutions through dialogue and discussion. Collaboration in the areas of international negotiations such as nuclear priorities, defence, space and terrorism are also set to strengthen further.

This report looks ahead and envisions an India that is the world's third-largest economy, after the US and China, in a decade. It examines both the opportunities and the constraints that line the path towards these goals. Two methods are utilised in this report:

- First, a survey was executed covering US companies that are members of the American Chamber of Commerce. This is a quantitative as well as a qualitative survey.
- Second, based on the survey, this report conducted interviews with CEOs of US-based companies doing business in India, and captures their insights and concerns.

II.

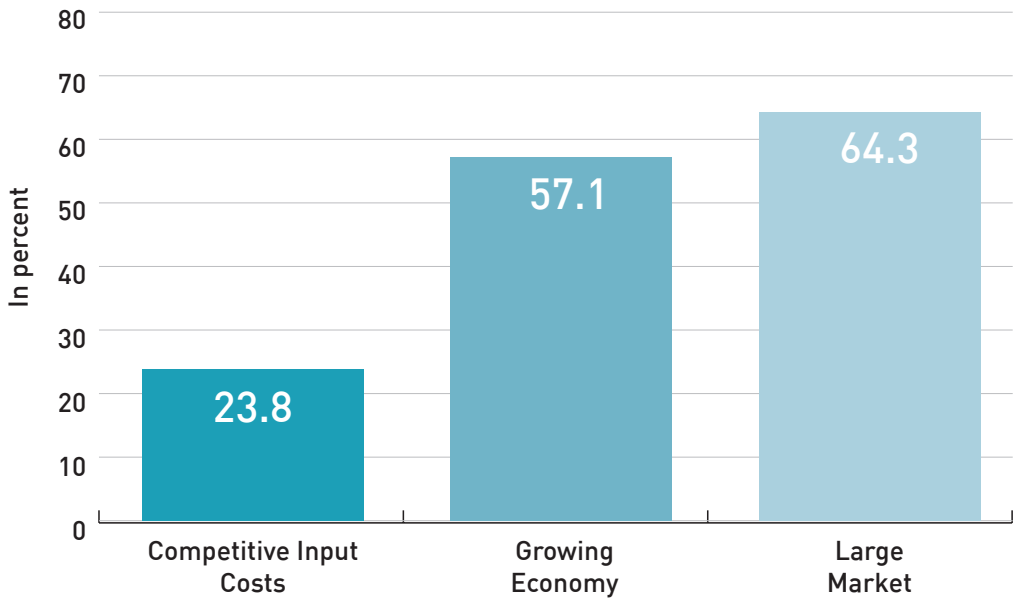
THE ORF-AMCHAM CEO SURVEY

Between September and December 2018, ORF conducted a survey of 42 CEOs of US-based companies operating in India. The survey had two parts: (1) a common questionnaire of 24 questions, some of them with sub-categories, that was answered by the CEOs; and (2) face-to-face interviews with 29 of the 42 respondents that aimed to obtain more insights based on their responses to the questionnaire.

Ten issues emerged from ORF's conversations with these US business leaders, ranging from infrastructure and entry reasons, to compliance and the future of India's markets. While some respondents lauded their India experience, others were more critical. Overall, however, the business leaders were optimistic about both their current presence in India and their prospects.

The following paragraphs outline some of the key responses to the ORF Survey.

Question 1: **WHAT BROUGHT YOU TO INDIA?**



Note: The percentages do not total 100 as respondents could give more than one answer.

At 7.0 percent-plus, India is today the world's fastest-growing large economy,[14] and with more than a billion citizens, the world's second-largest market. In terms of value, however, the market size is smaller than that of the US, China or the European Union (EU).

More than half the firms in the technology and allied services industry came to India to set up their operations to provide services in a growing economy. Nearly three out of every four manufacturing firms have set up operations to take advantage of India's growing market, thus targeting the incremental consumption pattern.

That said, some companies, particularly in the banking and financial services domains, said they set up operations keeping a long-term presence in mind, and not necessarily the current market size or growth potential.

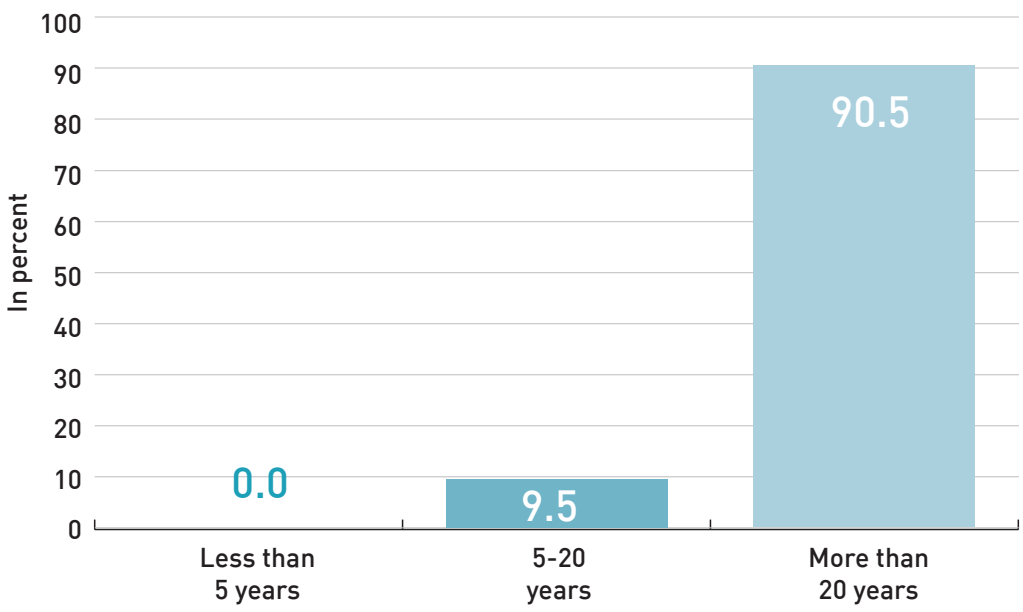
Given India's growth aspirations, the country's potential remains the

highest among very large economies (or the $2 trillion-plus nations). This implies an annual growth rate of around 10 percent. Such a high rate, while being possible, depends on how fast the government makes doing business in India easier, builds infrastructure upon which this growth can ride and unleashes the latent energies of India. It also depends on external factors, including but not restricted to, international growth rates.

Global partnerships in general and with US companies in particular, through collaborations and investments, can keep this growth going, and increase the economic stakes of foreign companies in India's growth story.

The desired jump in India's GDP growth to 10 percent-plus over the next 13 years may be steep, but it is not an impossibility. The seeds have been sown: for one, India was among the 'top 10 improvers' in World Bank's Doing Business Report for 2019,[15] rising to rank 63 from 77 as the government now hopes to enter the top 50 club.[16] This has helped to build confidence and going forward is likely to attract more investors.

Question 2: **HOW LONG DO YOU PLAN ON STAYING IN INDIA?**



Some CEOs said they were continuing to do business in India as they have a long-term outlook. They are sourcing labour and merchandise at competitive prices—something that other emerging economies have not been able to provide yet.

According to a PricewaterhouseCoopers (PwC) report, India has overtaken Japan to become the fifth most attractive market in 2018.[17] This is hardly unexpected in the context of the various policy reforms that have been initiated by India over the past decade. "The opportunity we see in India is that it is still not a fully penetrated market and it is a major corridor to other southeast Asian countries," one CEO said. What is needed is for more companies to set up manufacturing facilities in India. Given that states are now competing with each other to attract investments, there is scope for manufacturing in India to support markets of India.

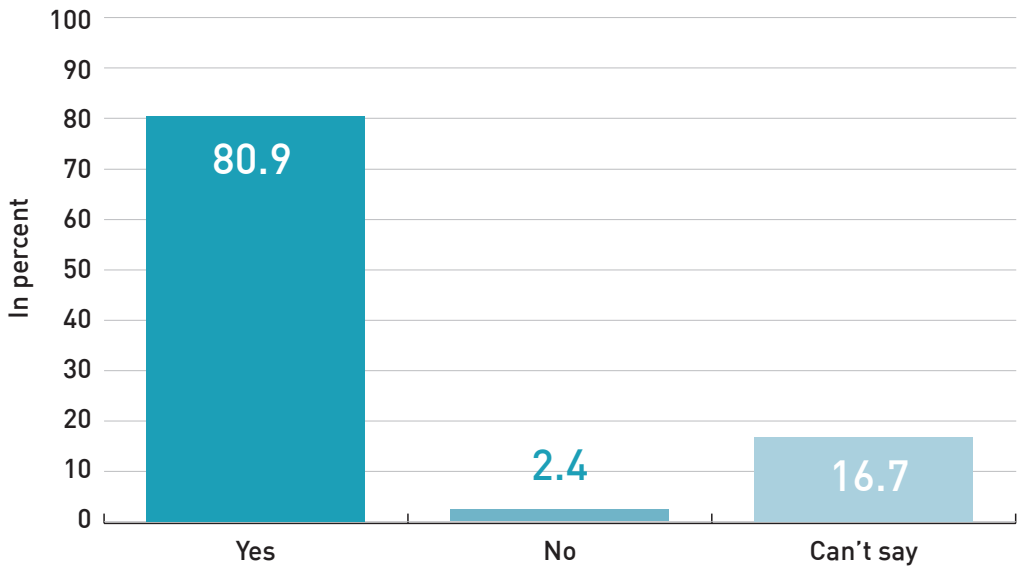
Some companies set up their businesses before independence and thus have a long-term commitment to the Indian market. Although companies do not want to deal with cumbersome bureaucratic rules and regulations, as well as other challenges like labour demands, corruption, underdeveloped institutions and inadequate physical infrastructure, all the 29 CEOs interviewed by ORF believed that they are able to derive greater dividends from focusing on local geographies.

While most CEOs are optimistic about the long-term potential of India, their headquarters are keeping a watchful eye on the country. In the short term, they are particularly concerned about the business uncertainty that is resulting from shifting policies, international trade tensions between the US and China, political unrest in certain geographies, and an overall slowing down of global economic growth, including in India.

From India's side, the recent policy reforms to strengthen exports and relations with international companies doing business in India has made companies optimistic about their strategies to localise services and products to the Indian customer.

"THE OPPORTUNITY WE SEE IN INDIA IS THAT IT IS STILL NOT A FULLY PENETRATED MARKET AND IT IS A MAJOR CORRIDOR TO OTHER SOUTHEAST ASIAN COUNTRIES"

Question 3: ARE YOU OPTIMISTIC OF THE FUTURE OF GROWTH OF YOUR BUSINESS AND INDUSTRY IN INDIA?



The responses to this particular question pivot around the ability of companies to execute targeted plans for future expansions. The job of policymakers is to address the fence-sitters and naysayers and display, through on-ground execution, a reason to be hopeful about growth in India.

India is projected to grow at 7 percent in 2020 according to World Economic Outlook.[18] This is due to important reforms been implemented in recent years, including the Goods and Services Tax,[19] the Insolvency and Bankruptcy Code,[20] and steps to liberalise foreign investment and make it easier to do business.

Looking ahead, renewed impetus to reform labour and land markets are necessary, along with further improvements to the business climate. While the business climate is on course and a new thinking on labour reforms has begun,[21] the tough reforms around land – crucial to infrastructure as well as industry – remain unclear.

When compared to other emerging economies, India might have the advantage of a large market size

but fails to promote itself as an investment destination because of political agendas and policies that do not nurture enterprise growth and wealth creation.

Due to regulatory and compliance bottlenecks, for instance, the offset policy that mandates foreign defence manufacturers to spend at least 30 percent of their contract expenditure in India has not been seamless.[22] "The DPSUs (defence public sector undertakings) have not adhered to the spirit of law licence infraction and legal processes," one CEO said. "They champion reverse engineering claiming that foreign OEMs are not necessary."

Another point of concern is the governmental preference to domestic companies over foreign ones. "The tendering process is a major problem," another CEO said. "Most projects are given to local OEMs (original equipment manufacturers) with the intent of Make in India, without any look at the kind of quality or global technology other companies are bringing in and can be used in joint ventures."

QUESTIONS:

- What are the different components of the business environment that need urgent attention or are not of concern?
- Has there been a change in these components in India over the last ten years?

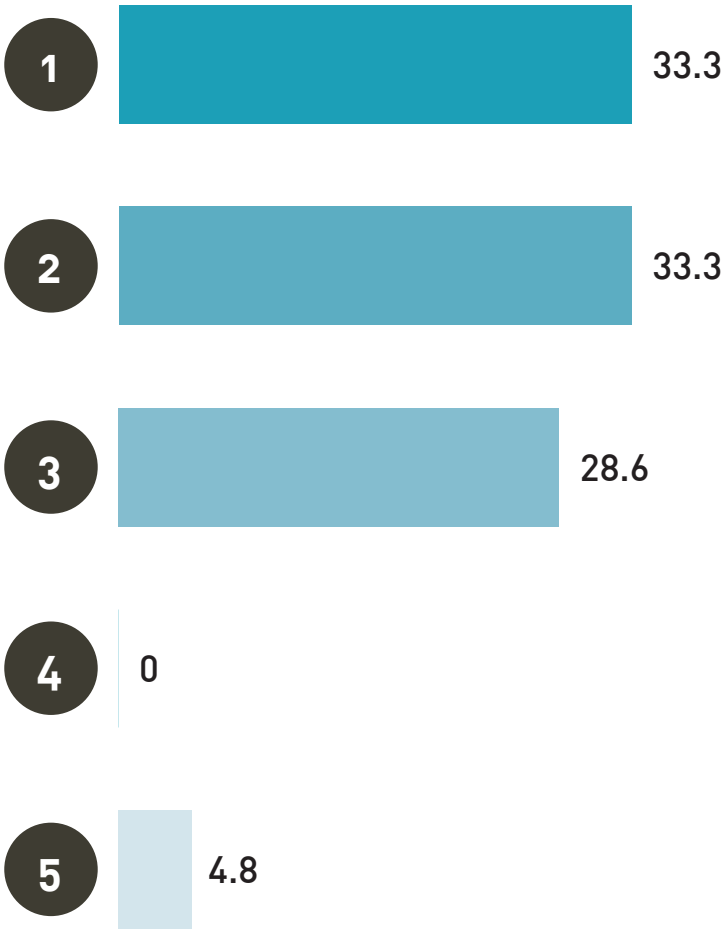
These two questions listed the following key components that impact doing business:

- Presence of quality infrastructure
- Ease of land acquisition
- Taxation policy
- Quality of bureaucracy
- Corruption in the government system
- Telecommunication facilities
- Availability of skilled labour

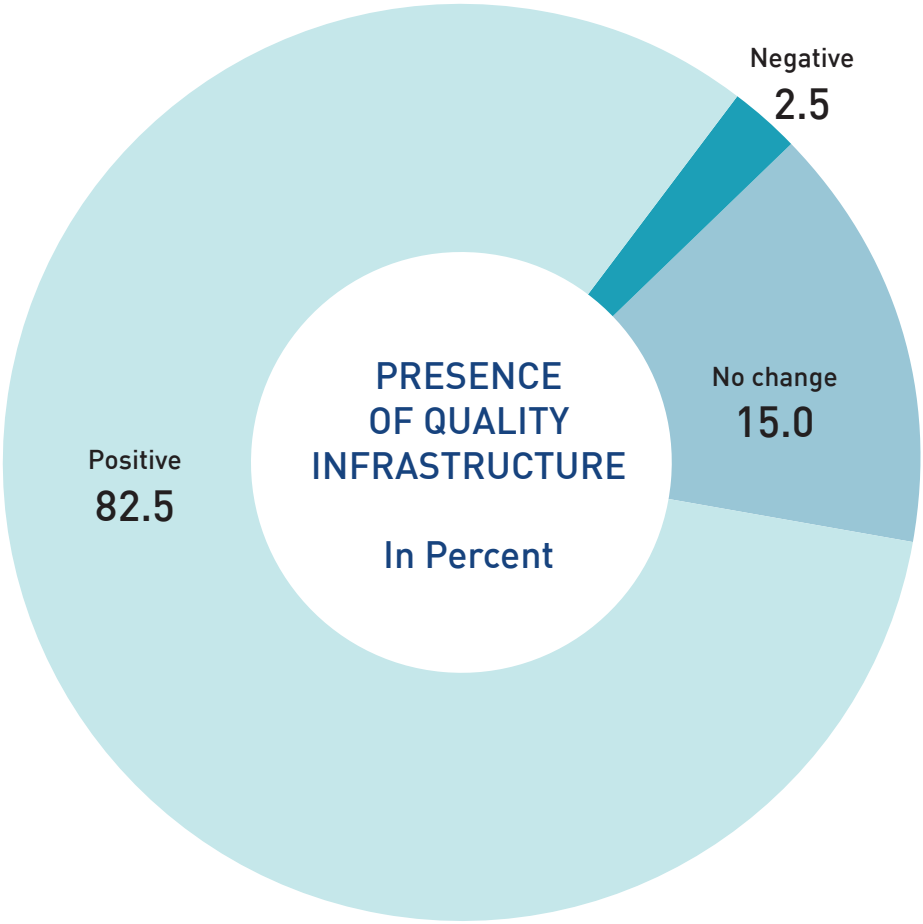
QUALITY INFRASTRUCTURE

Question 4: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE PRESENCE OF QUALITY INFRASTRUCTURE IN INDIA.**

PRESENCE OF QUALITY INFRASTRUCTURE (In Percent)



Question 5: **HAVE YOU SEEN A CHANGE IN THE PRESENCE OF QUALITY INFRASTRUCTURE IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



The responses of the CEOs run in parallel to the thrust – policy as well as financial – that the Indian government is giving to the infrastructure sector. In 2018, for instance, India aimed to invest Rs 5.97 trillion[23] in infrastructure to increase growth of GDP, connect and integrate the nation with a network of roads, airports, railways, ports and inland waterways and to provide good quality services to its people. Further, the importance of infrastructure came up in Vision 2030 for India in the Interim Budget 2019.[24] In its final Budget 2019, the government announced its intention to invest Rs 100 trillion in infrastructure over the next five years.[25]

The history of infrastructure policy has come a long way since the era of government-controlled framework, to a more coordinated effort through a public-private partnership. The change in regulatory bodies during this transition also led to more competition among public and private companies to ensure delivery and more transparency in the completion of a project. The number of infrastructure projects has increased sharply from five projects in 1991, costing Rs 52.3 billion to 385 projects with a value of Rs 25.5 trillion, within a 20-year period. This number fell to 208 projects worth Rs 7.5 trillion in 2017 compared to 1,174 projects worth Rs 48.5 trillion the previous year.[26] This lag is because of several hurdles, from the stages of proposal bidding to the execution. Often, policies or projects around infrastructure fail to get implemented either due to lack of planning, state control or politicisation around a project.

According to a survey conducted by World Economic Forum, the three biggest obstacles to infrastructure development in India are political and regulatory risk, access to financing, and macroeconomic instability.[27] This leads to time and cost overruns from conceptualisation of the project to administrative approvals and execution. There are five reasons for these time and cost overruns that companies—whether Indian or foreign—need to negotiate: technical factors, contractual delays, organisational or institutional challenges, vicious cycle of time delay pushing a cost overrun, and economic factors such as land acquisition.[28]

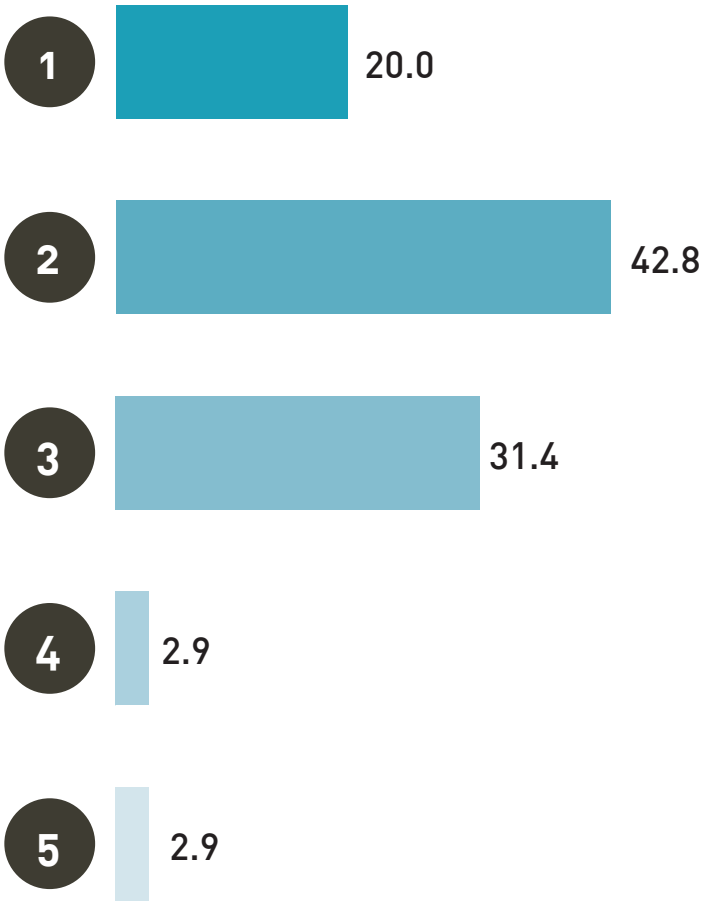
Not all infrastructure, however, is about signing mega contracts or delivering "extreme engineering". Often, it is the last mile that is the steepest. "Even though we are based in an industrial development zone, there are shortages of water every year," a CEO said. "We have to buy water from tankers. There are mafia that create hurdles and problems in accessing ground water because of permits. If such small investments cannot be managed, which are essential for any industry, how do we expect to bring in investments that are 100 times of that?"

THE NUMBER OF INFRASTRUCTURE PROJECTS HAS INCREASED SHARPLY FROM FIVE PROJECTS IN 1991, COSTING RS 52.3 BILLION TO 385 PROJECTS WITH A VALUE OF RS 25.5 TRILLION, WITHIN A 20-YEAR PERIOD.

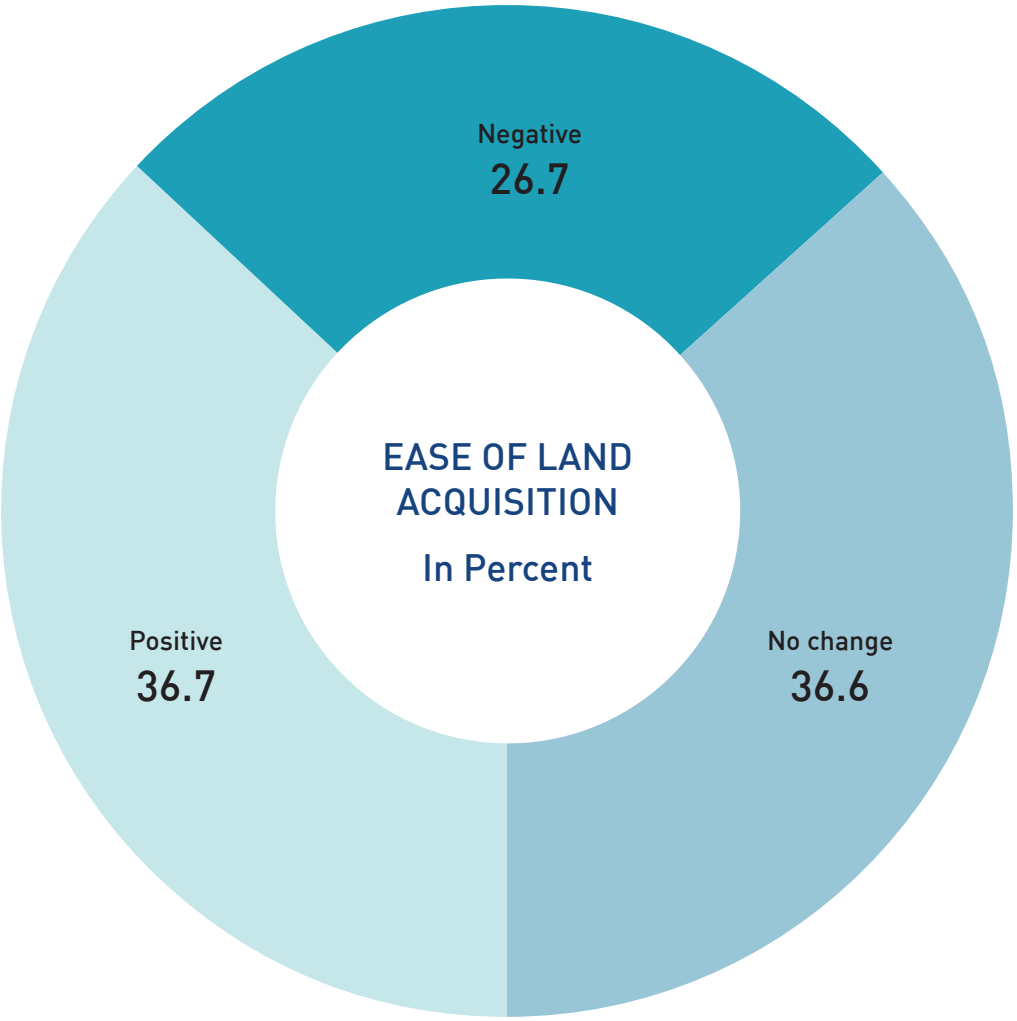
LAND ACQUISITION

Question 6: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE EASE OF LAND ACQUISITION IN INDIA.**

EASE OF LAND ACQUISITION



Question 7: **HAVE YOU SEEN A CHANGE IN THE EASE OF LAND ACQUISITION IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



One of the biggest hurdles in India's move towards infrastructure development relates to the difficulties in land acquisition. On an average, three out of five CEOs said that land acquisition is an area that creates major hurdles and needs urgent attention from the Indian government. While 26.6 percent of the respondents are of the opinion that land acquisition laws have not improved in the past 10 years, 36.7 percent have seen no change, and the rest have seen some improvements over the past 10 years.

Ownership of land is highly fragmented and there is no mechanism for price discovery. There are excessive negotiations with landlords that stall the implementation or execution of projects. Clearly, land acquisition laws—along with the lack of basic amenities—have an impact on whether or not businesses make plans for expansion.

"We have almost 70,000 farmers working with us but they don't own more than two acres of land due to ownership restrictions," a CEO said. "This is a major barrier not only mass manufacturing but also attaining the raw materials to do so."

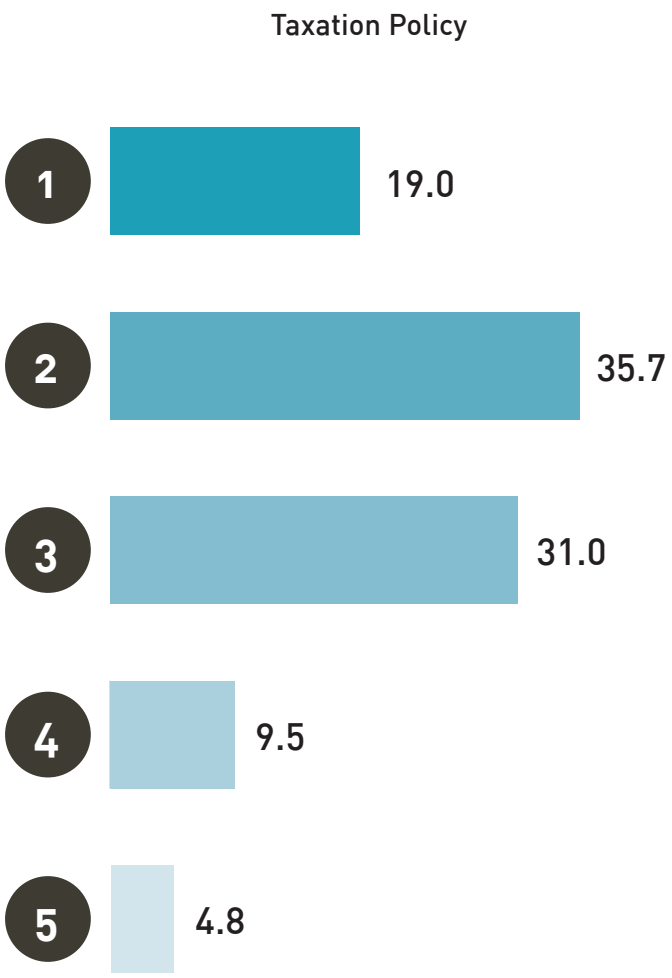
Going forward, given that India is going to see a rise in the amount of land to be acquired for infrastructure and industry, negotiating this compensation to farmers is going to place steep challenges before governments and private companies alike. Delays in land acquisition and in securing environmental clearances alone, caused the stalling Rs 4.3 trillion worth of projects, of which 60 percent were government ones.[29]

This is only one example of the conflict between infrastructure creation and politics. Unfortunately, it is not limited here; it also includes managing Centre-State relationships, bringing a greater specialisation among bureaucracies, carting technical expertise into the decision-making process, or simply communicating the benefits of infrastructure creation to the people with greater conviction.[30]

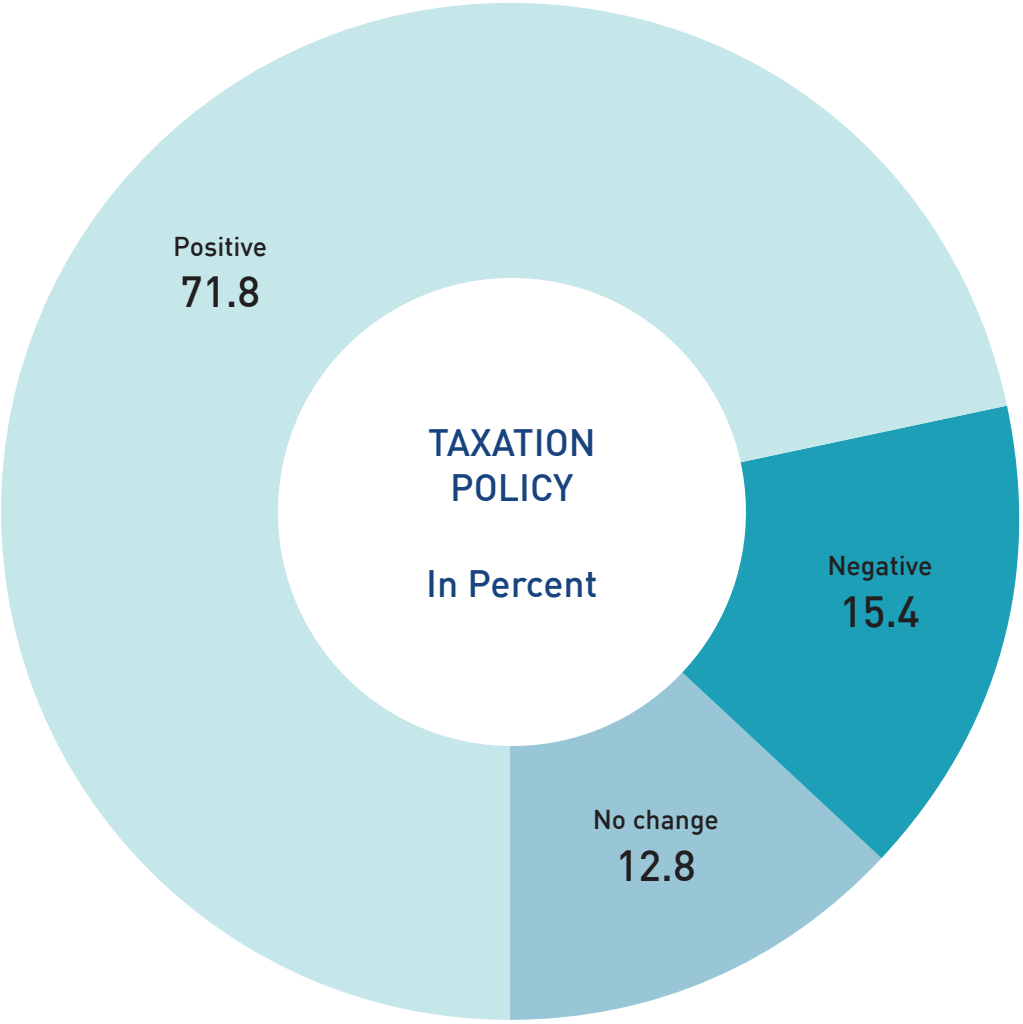
Problems in infrastructure do not only pose a challenge to industry creation; rather, on a day-to-day basis, gaps in infrastructure—specifically urban infrastructure—causes delays in the functioning of business. "From an infrastructure point of view, there are issues with power shortages and transportation," a CEO said. "Commute time increases, with no good roads or public transport."

TAXATION POLICIES

Question 8: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE TAXATION POLICY IN INDIA.**



Question 9: **HAVE YOU SEEN A CHANGE IN THE TAXATION POLICY IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



More than half of all respondents said that India's taxation policies need to be looked at urgently to ensure transparency and non-ambiguity.

The Goods and Services Tax (GST) – one of India's most complex economic legislations, involving one Constitutional amendment, four Central laws, 29 State laws and seven notifications for Union Territories – is one step in simplifying taxes. After the abrogation of Article 370 of the Indian constitution on 6 August 2019, GST will now be applicable to 28 Indian states and 9 Union Territories.[31] This law allows firms to create value for key business processes, including procurement, manufacturing, distribution, and logistics. With the introduction of GST, the slowdown of trucks, examination of goods and collection of octroi at inter-state check posts has ended. The imposition of a uniform tax rate on a product across the states has made these routine checks unnecessary, cutting down transportation time which has in turn led to increased savings.

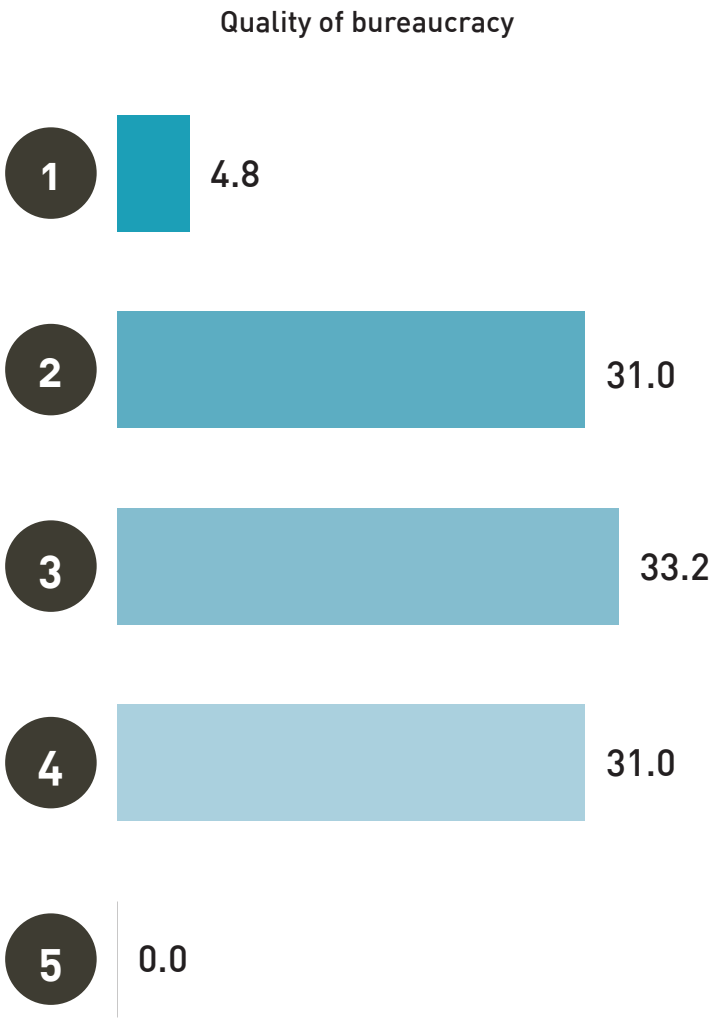
For some US-based companies, however, the GST does not help in facilitating inter-country business taxes. "GST has impacted us negatively because ours is a subsidised product," a CEO said. "We import at $400 dollars and sell it to farmers minus the subsidy. But we cannot claim tax credits on the subsidy and thus we lose $8-9 per tonne. The buying price is greater than our selling price. This needs to be fixed."

On the other hand, most CEOs had a positive view of GST and said that it has had no adverse impact on their business and, in fact, has hurt the unorganised sector. "It [GST] will consolidate the players and weaken the weak and strengthen the strong," a CEO said. The compliance burden on smaller firms was choking their businesses. Today, with easier norms, things have changed. "GST has helped in an indirect manner as it has brought a lot of unorganised players in the organised sector," one CEO said. "This way, we get a bigger market to sell to."

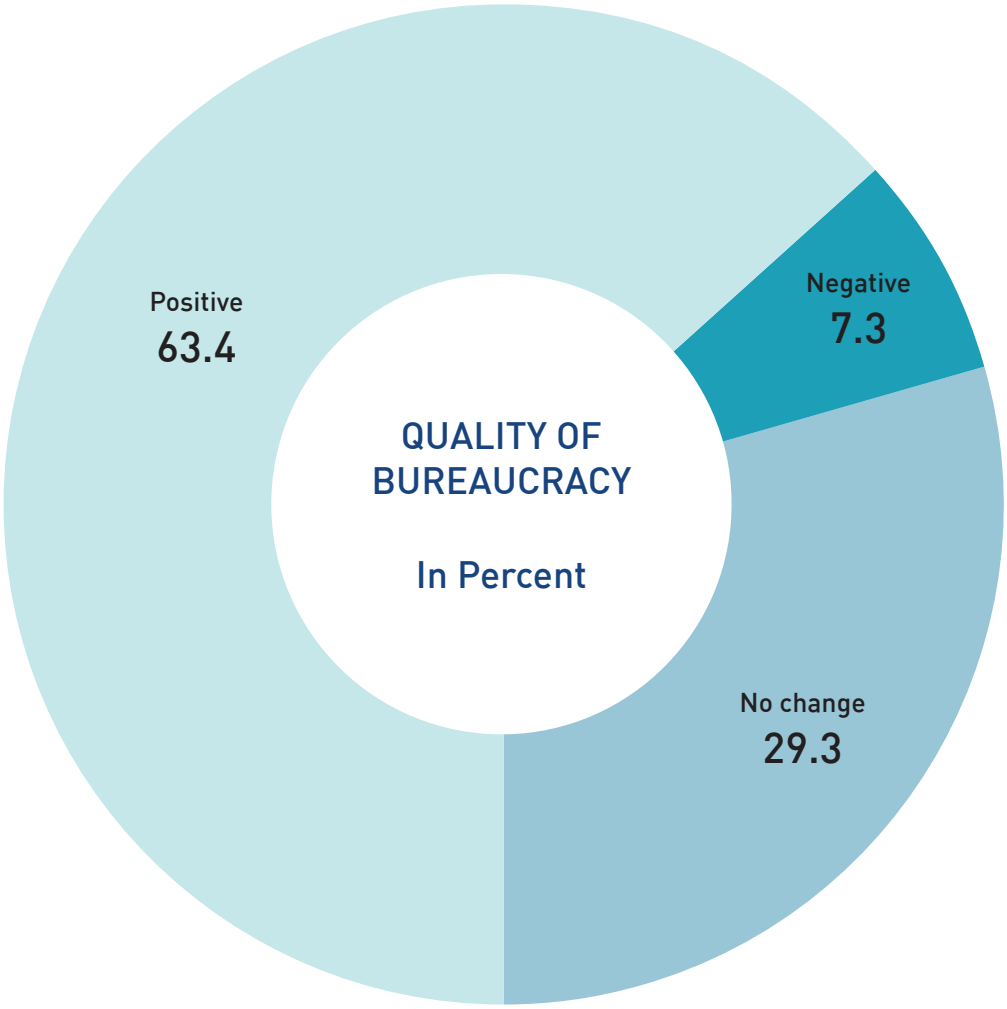
"WE IMPORT AT $400 DOLLARS AND SELL IT TO FARMERS MINUS THE SUBSIDY. BUT WE CANNOT CLAIM TAX CREDITS ON THE SUBSIDY AND THUS WE LOSE $8-9 PER TONNE. THE BUYING PRICE IS GREATER THAN OUR SELLING PRICE. THIS NEEDS TO BE FIXED."

THE BUREAUCRACY

Question 10: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE QUALITY OF BUREAUCRACY IN INDIA.**



Question 11: **HAVE YOU SEEN A CHANGE IN THE QUALITY OF BUREAUCRACY IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



The CEOs gave various reasons for the stagnancy, from arbitrary transfers of bureaucrats to lack of expertise. Most of them felt that the top bureaucracy is open to ideas and have the capacity to deliver outcomes. This cannot be said of the lower bureaucracy that the company offices or factories face.

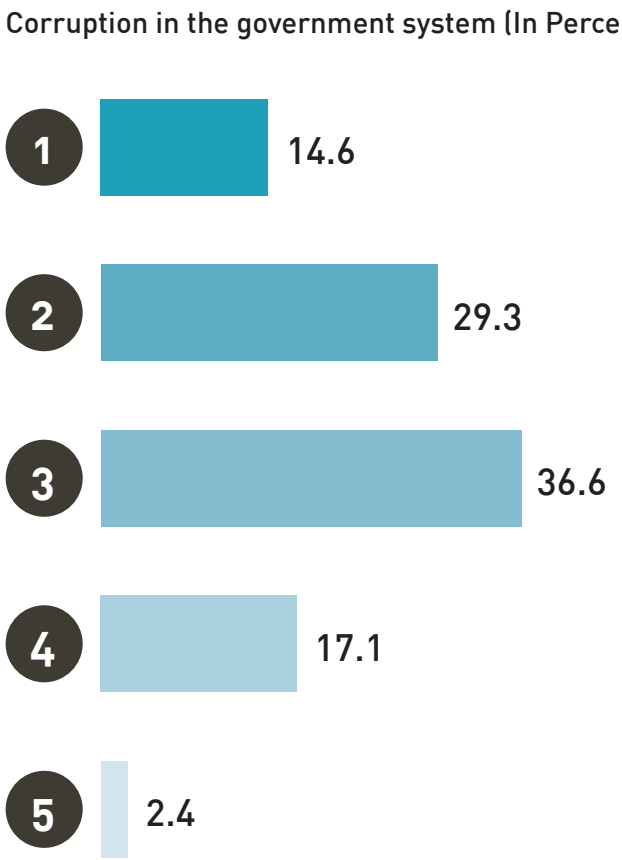
"We have to function in a zero-pollution area to make our products," a CEO said. "But there is the Factory Act that requires us to put a spittoon for workers. The inspector doesn't understand this. He goes by the letter of the law. His seniors do. But when we get a regulatory exemption

from the senior, the inspector feels slighted and gets other inspectors to harass us."

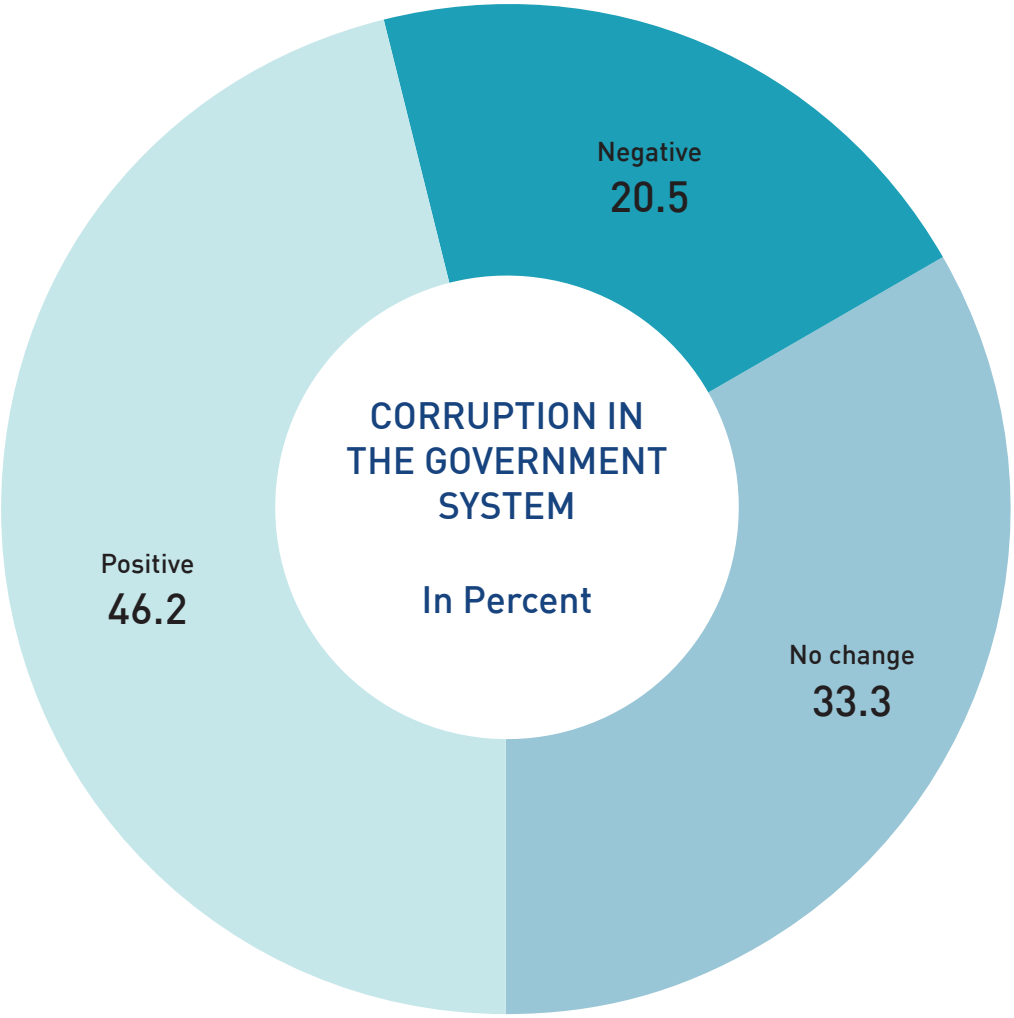
Civil servants have been fairly effective in preserving the overall Constitutional order but perform poorly in impartially implementing laws and policies at the individual level. It has performed badly in promoting economic growth or providing good public services.[32] The enforcement of laws has been quite erratic as also described by most of our interviewees, who described India's civil service as being characterised by inconsistent and arbitrary application of known policy, delays in decision-making, bribery and ineffectiveness of law enforcement.[33]

CORRUPTION

Question 12: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE LEVEL OF CORRUPTION IN INDIA.**



Question 13: **HAVE YOU SEEN A CHANGE IN THE LEVEL OF CORRUPTION IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



Close to half of the respondents, or 46.2 percent, said that there is a positive change in corruption levels in the past 10 years and must continue this way to ensure further improved business. Although this is reflected in improved scores on corruption, India's rank fell to 78 in 2018 from 76 in 2015 on the Corruption Perception Index (CPI).[34]

The consensus on corruption is that CEOs face more corrupt officials at the State rather than at the Centre, and down the line rather than at the top. "There is concentrated corruption at the lower levels," one CEO said.

If we step back from India and examine the idea of corruption and its impact on business, we find that the relationship is not direct – China has seen its corruption rankings worsen, to 87 from 72 over a decade,[35] but businesses continue to function.

"Corruption slows you down as there are certain laws we are governed by and even though we need quicker approvals, we do not entertain any sort of corrupt behaviour," another CEO said. "This causes delays."

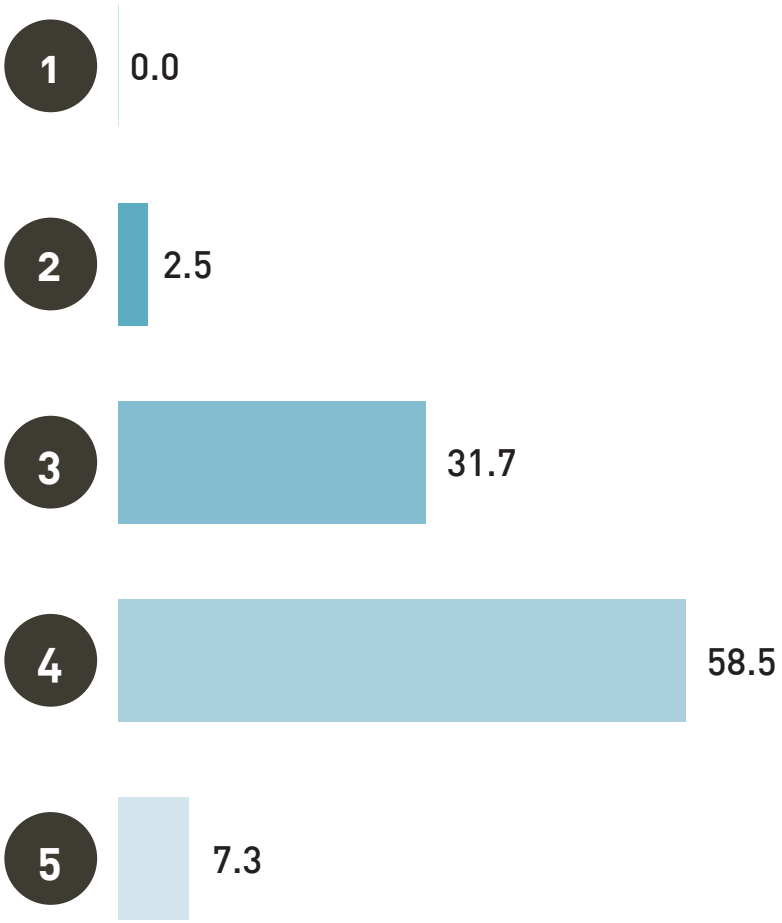
Despite Indian Parliament having enacted various laws to prevent corruption – defined as getting monetary or non-monetary benefits by a public servant through bribery – it has been an intrinsic part of India well before Independence, was institutionalised over the past seven decades, and threatens to continue for a long time. A mix of legal amendments and technology backed by stronger political will should catalyse change.

"CORRUPTION SLOWS YOU DOWN AS THERE ARE CERTAIN LAWS WE ARE GOVERNED BY AND EVEN THOUGH WE NEED QUICKER APPROVALS, WE DO NOT ENTERTAIN ANY SORT OF CORRUPT BEHAVIOUR," ANOTHER CEO SAID.

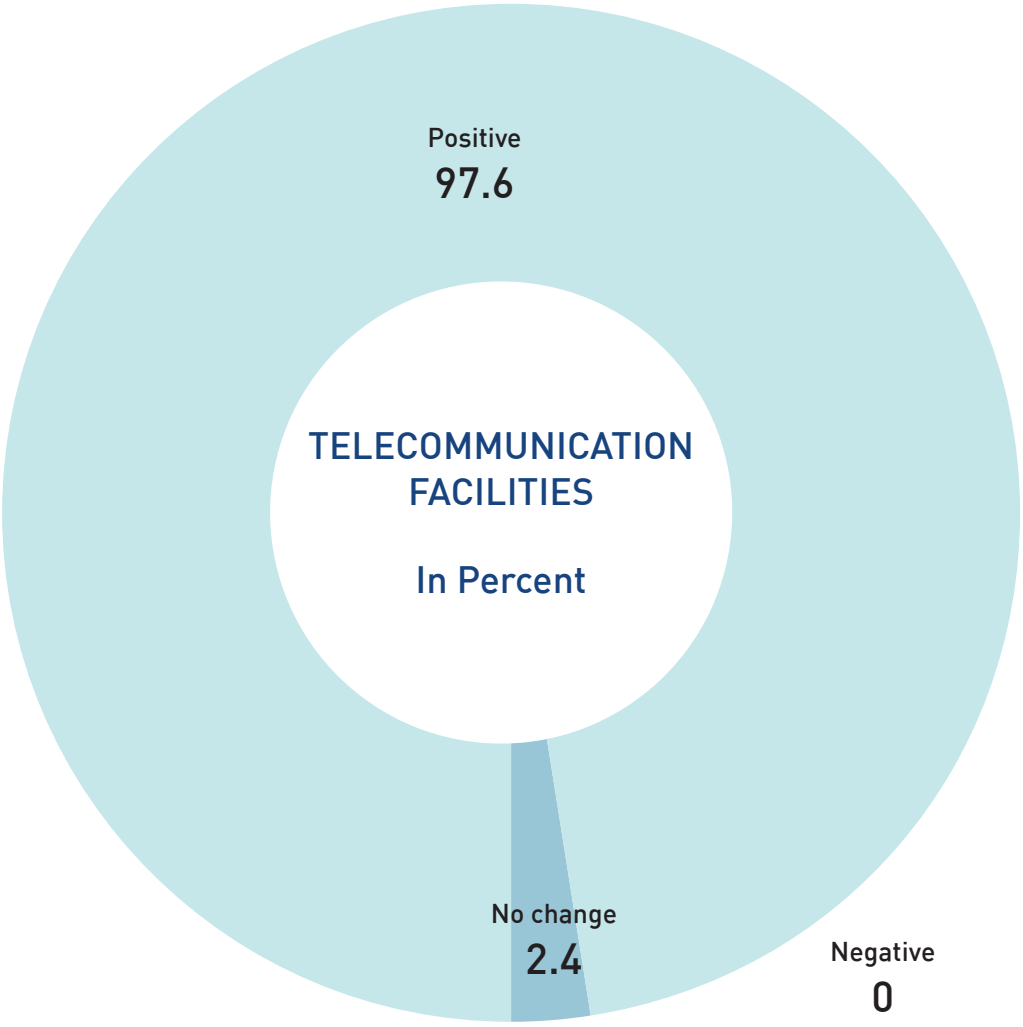
TELECOMMUNICATIONS

Question 14: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE TELECOMMUNICATION FACILITIES IN INDIA.**

Telecommunication facilities (In Percent)



Question 15: **HAVE YOU SEEN A CHANGE IN THE TELECOMMUNICATION FACILITIES IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



Almost all the respondents said that the telecommunications industry has improved over the last 10 years. This is because there have been significant leaps in the coverage and quality of telecommunications infrastructure in the country. The number of telecom subscribers has jumped over the past four years, from 970.9 million in 2014 to 1,197.9 million in 2018.[36] Within the same period, the growth in wireless connections has been higher—from

943.9 million to 1,176.0 million.[37]

When compared globally, India has pole-vaulted in the use of telecommunications technologies. What it lagged in fixed lines, with just 23 million fixed telephone subscriptions in 2017 compared to 120 million for the US and 194 for China,[38] it has more than made up for in mobile cellular subscriptions. Against China's 1.5 billion users, India has 1.2 billion users and the US, 0.4 billion.[39]

A conducive regulatory framework has enabled 100 percent FDI into the sector. This policy change can be seen with FDI inflows into this sector increasing from $1.3 billion in 2015 to $6.2 billion in 2017.[40] This infrastructure supports and catalyses efficiency in business through digital payment transactions through mobile (up 3.5-fold, from 168 million in 2016 to 600 million in 2018). At 3.4 billion GB per month, India is today the world's highest mobile data consumer.[41]

Recent research by a UK-based cable company showed that India has the cheapest mobile data rates at 0.26 dollars for a 1GB, compared to $9.89 in China or $7.38 in the US.[42] The research also stated that the reason it stood first among 230 countries is because of a young population having technological awareness, a high adoption rate and many competitors that make data cheap.[43]

Despite having an excellent mobile and broadband infrastructure, however, the perception of a few CEOs in certain states is different. "Telecommunications facilities is a huge challenge in Kolkata," one CEO said. "The infrastructure for all mobile phone networks is quite poor and there isn't enough infrastructure to support the number of increasing subscribers."

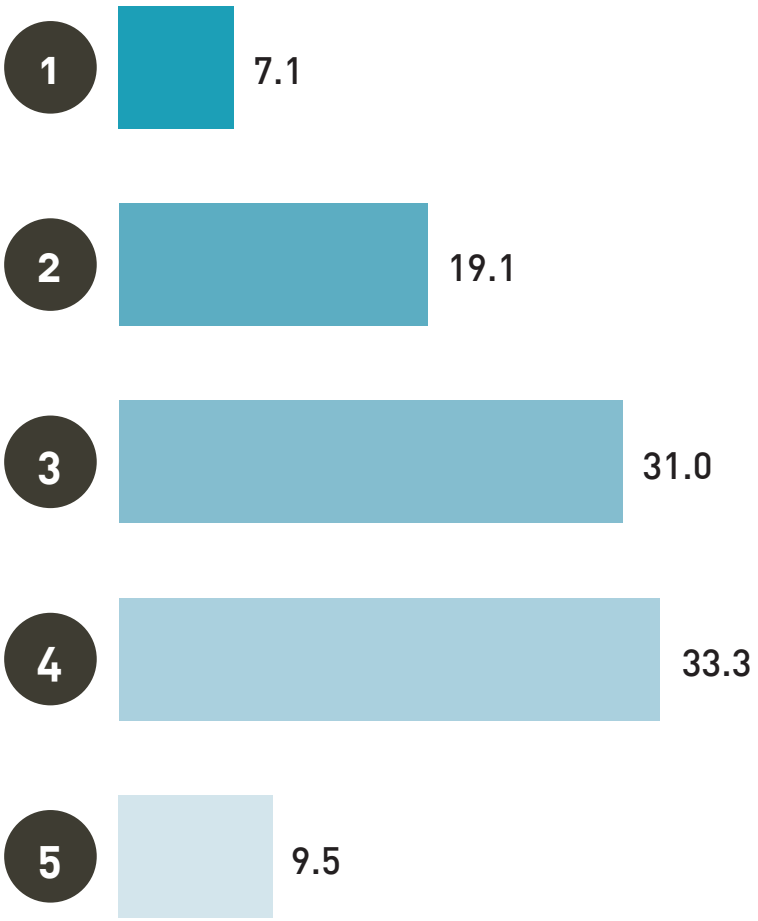
Further, reach is only the first step. "India is probably five to six years behind in the telecom industry compared to other developing countries," another CEO said. "Korea is far ahead, so is China. India is slower than a lot of Asian countries in terms of innovation, regulations, providing services and consumer experience."

In an industry that is growing fast in technology as well as in delivering access, the lag in introducing 5G services remains a concern for another CEO. "We have still not figured out how to bring in 5G even though China and the US have already started working in this spectrum, licencing and pricing."

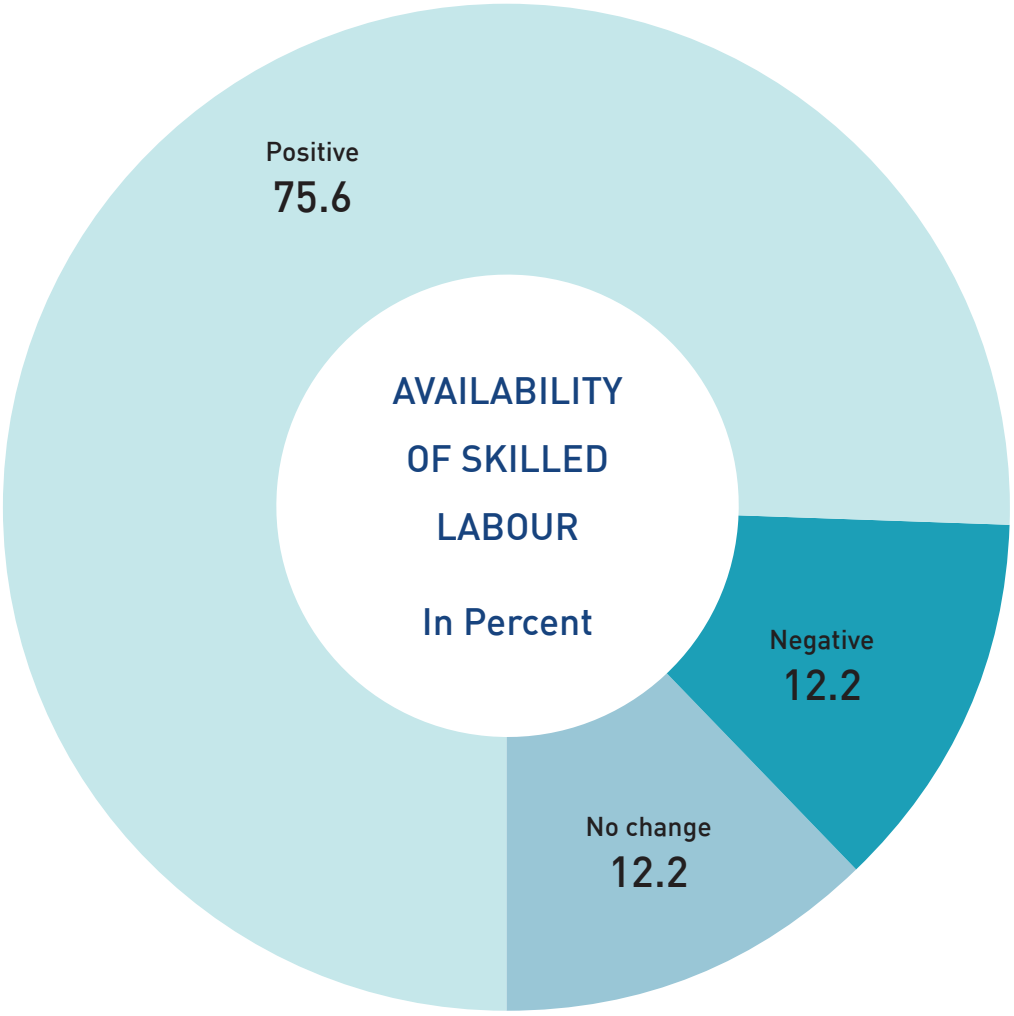
LABOUR

Question 16: **ON A SCALE OF 1-5, 1 DENOTING "NEEDS URGENT ATTENTION" AND 5 DENOTING "NO NEED FOR CONCERN AT ALL", RATE THE AVAILABILITY OF SKILLED LABOUR IN INDIA.**

Availability of skilled labour (In Percent)



Question 17: **HAVE YOU SEEN A CHANGE IN THE AVAILABILITY OF SKILLED LABOUR IN INDIA OVER THE LAST TEN YEARS? ANSWER WITH POSITIVE, NEGATIVE OR NO CHANGE.**



India being a labour-surplus country, finding labour is easy; talented labour, however, is more difficult to muster. Three-fourths of the CEOs said there is a positive change in skilled talent and managerial talent available in India. But there are two major issues that companies face under this head: labour laws and skills required to keep up with 21st-century needs.

First, the malaise in the country's labour laws is deeply rooted. There are 36 Central laws governing labour and several State laws. These laws have become counterproductive to the twin objectives of job creation and industrial peace, hurting the very same people it is meant to benefit. A weak commitment to implement labour laws and an ineffective industrial disputes machinery have been the major factors contributing to unsound industrial relations.[44]

These laws deter businesses from hiring labour. Given the rise of robotics and artificial intelligence, technology is the other risk. What is needed is a policy solution that delivers a balance between promoting the welfare of labour and protecting the interests of capital, all the while functioning under the market mechanism. The good news around positive change needs to continue.

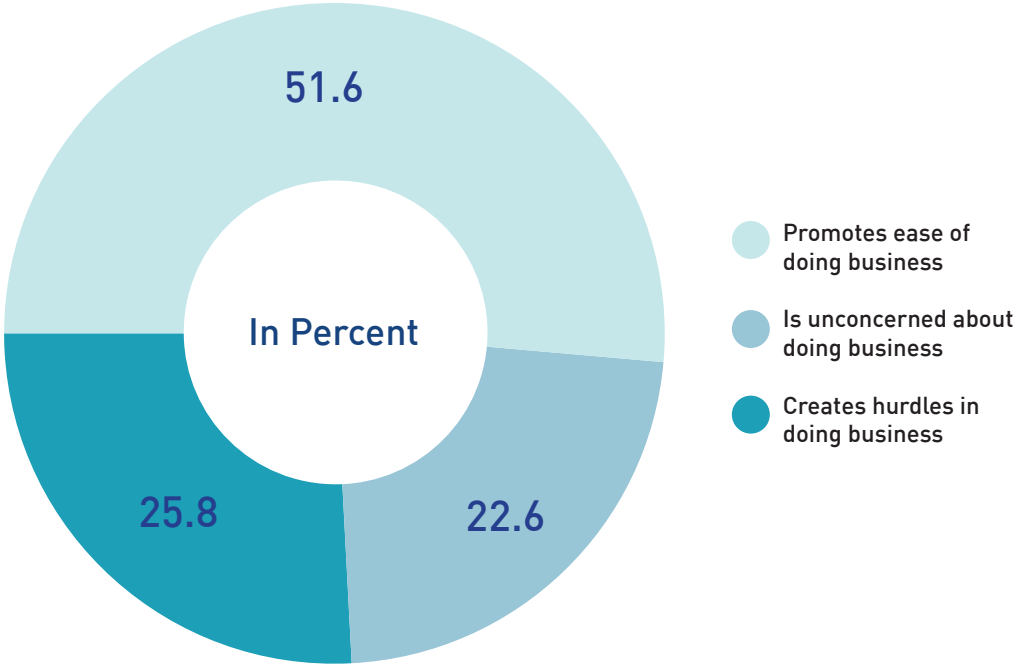
Second, there is a shortage of labour with specialised skills as there is high demand and takes a long time to train and skill them. With more than 54 percent of India's population below the age of 25 years, skills development programmes are important to make sure that the youth are employable. The workforce faces the "dual challenge of paucity of highly trained workforce, as well as non-employability of large sections of the conventionally educated youth, who possess little or no job skills".[45]

"Engineering colleges have mushroomed all over India but the quality has not increased in terms of education and infrastructure," a CEO said. "Only 20-25 percent of these graduates are employable. Middle managers are improving but global experience is needed for management positions in an MNC."

WITH MORE THAN 54 PERCENT OF INDIA'S POPULATION BELOW THE AGE OF 25 YEARS, SKILLS DEVELOPMENT PROGRAMMES ARE IMPORTANT TO MAKE SURE THAT THE YOUTH ARE EMPLOYABLE.

Question 18: **CHARACTER OF THE REGULATORY ENVIRONMENT**

THE REGULATORY ENVIRONMENT IN INDIA...



Among the various issues raised by the CEOs, banking was of utmost concern, specifically the clean-up of the twin problem of banks and corporate balance sheets. On a day-to-day basis, the problems are plenty.

"Regulatory changes in the banking system are becoming more bureaucratic with too many rules changing too fast," one CEO said. "The government fails to understand the multiplier effect of banking. We are still trapped in the era of socialist thinking. What we need is people from the industry to be part of the rule-making process."

The other process that needs rethinking is the L1 tender method, under which the lowest-cost contractor is given the job. "The total cost of ownership must move from L1 to a weightage of L1-T1-I1 (lifecycle, price, and innovation) which is critical to sensitive sectors," a CEO said. "Often, tenders are handed to local OEMs...influenced by political agendas."

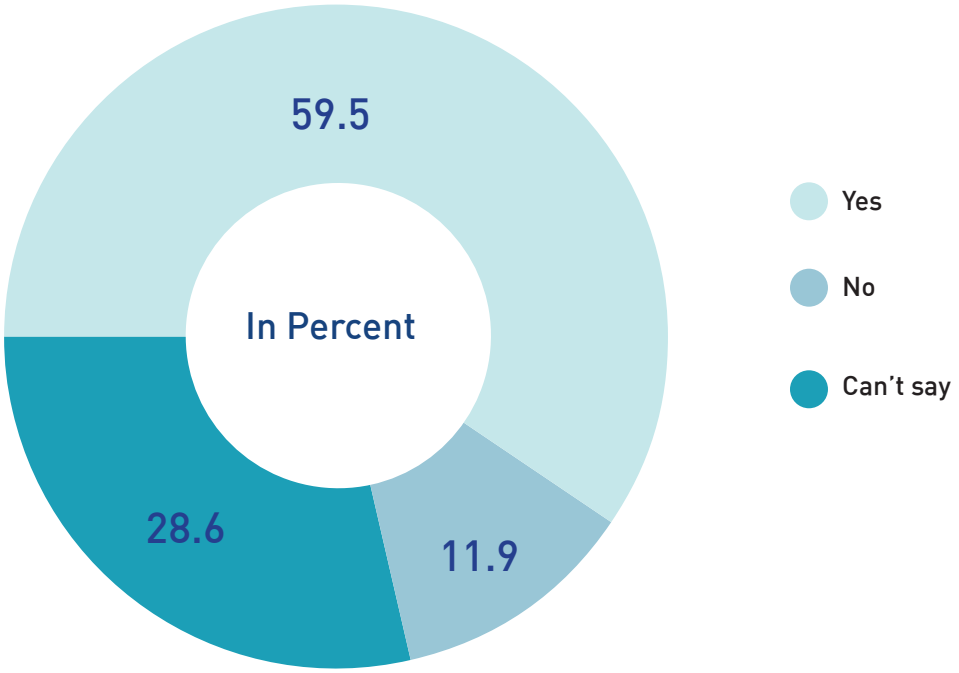
India being a labour-surplus country, finding labour is easy; talented labour, however, is more difficult to muster.

Another CEO gave an example of going through four chairmen, five executive directors, a regime change and six years before his request for proposal (RFP) was accepted. While a checks-and-balances system is a good idea, it needs to be speeded up. Multiplicity of regulators creates another challenge – inconsistent arbitration. Further, "for a subsidiary of a foreign parent, regulations create further restrictions," another CEO said.

Finally, rapidly-changing policies tend to bring policy uncertainty and introduces a sense of instability. "There is a customs duty issue for us," one CEO said. "When we set up a factory in India in 2013, there was 0 percent duty on raw material. The next year, they put a 10 percent duty. In the next four months, it fell to 5 percent. In the next budget cycle, it was brought back to 0 percent, only to increase it to 5 percent in the next budget. In two years, they have changed the duty on a primary raw material five times. Tariffs hurt, but flip-flop hurt even more. Constant changes are a red-flag by our headquarters."

Question 19: IS THERE ANY CHANGE IN THE BUSINESS ENVIRONMENT FOLLOWING THE GOVERNMENT'S 'MAKE IN INDIA' INITIATIVE?

Is there any change in the business environment following the government's 'Make in India' initiative?



The 'Make in India' programme aims at promoting India as an important investment destination and a global hub for manufacturing, design and innovation. There are 25 sectors that have been identified under this initiative, ranging from aviation to tourism and hospitality.[46]

One of the larger US-based technology firms working with OEMs to localise manufacturing, is getting government support and targeting village-level support to sell such technological ideas tweaked to the needs of India, at the farm-level.

All is not smooth, however. "The government needs to understand the difference between manufacturing and assembling," a CEO said. "Bringing in raw material for manufacturing should be looked at differently than raw components

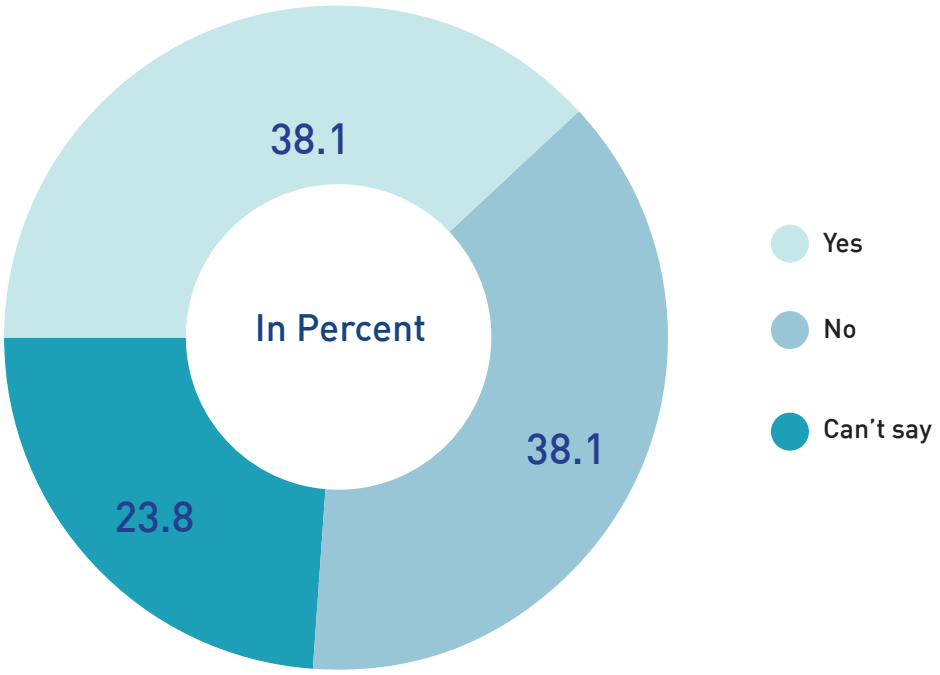
brought in for assembling. They tax raw materials as though they are components."

Another CEO said, "Make in India does not make sense with the Indian demand. For instance, in our industry we need a big critical mass but do not have the capability to deliver it. The public sector undertaking in our industry takes a year to issue the quotation for castings, which do not get manufactured on time, unless foreign firms keep it prepared, thus spending more money on inventory. And then, because of less time, they end up spending more on fully manufactured products."

"Make in India has not created manufacturing or jobs but only facilitated the ease of getting permits," another CEO said.

Question 20: DOES INDIAN POLICY ON CSR (CORPORATE SOCIAL RESPONSIBILITY) IMPACT THE BOTTOMLINE?

Does Indian policy on corporate social responsibility impact the bottomline?



Under Chapter IX, Section 135,[47] a company with a net worth of Rs 5 billion or more, or a turnover of at least Rs 10 billion, or a net profit of Rs 50 million or more will need to create a CSR Committee and spend "at least two percent of the average net profits of the company made during the three immediately preceding financial years," on social endeavours in every financial year.

The areas in which companies undertook CSR activities included education, community and economic development, and skill development.

Counterintuitively, the fact that in India it is mandatory for large companies to spend 2 percent of their net profits on CSR is not being seen as a burden. Several CEOs said that it is their firm's global mandate to spend on community and people development, and thus the mandatory policy does not in any way affect their profits.

That said, there are blemishes in the way the CSR scheme is being executed on the ground. "In Chennai, at the plant, officials said that we must spend the 2 percent within Tamil Nadu, mandating which project should be funded," a CEO said. "This way, we cannot make an impact. Some of these demands about where, when and how to spend the CSR money is getting out of bounds and we were thinking about taking the officials to court. But we decided against it because the legal system is so slow. In this way, they are literally arm-twisting and blackmailing us and sitting on our approvals till then."

On the other side, impact is an ambiguous concept. "Many companies are averse to signing multi-year projects," the head of an NGO we spoke to said. "But most social impact projects can make a change only after a couple of years and without having the company sign off on these, non-profits have to take the risk of funding these projects."

This finding is in tune with what CEOs are doing. "There are many projects that have a multi-year timeframe to yield results but we don't look at that," a CEO said. "What we look at is whether we can see an immediate impact."

III.

CONCLUSIONS AND RECOMMENDATIONS

India and the US have a unique opportunity to build a strategic relationship through shared economic interests built over a strong foundation of common democratic values. Together, these can potentially resolve some of the most critical problems faced by industry, governments and consumers.

The following are the major lessons that this analysis has derived from the survey of CEOs of US companies based in India.

1. More than four out of every five CEOs of US corporations said they set up business in India because of its large market and fast growing economy.

2. Almost all respondents – more than nine out of every 10 CEOs – said they plan to continue with their business activities in India for the next 20 years.

3. More than four out of every five CEOs said they are optimistic about the expansion of their business in India. In the extended interviews, some of them said this optimism exists despite

doubts about policy stability in certain sectors.

4. The three areas that need attention, according to the respondents, are infrastructure, land acquisition and taxation.

5. The four areas that do not need urgent attention are bureaucracy, corruption, telecommunications, and labour.

6. More than half of the CEO respondents believe that the government is trying to make doing business in India easier through regulatory interventions. However, a quarter of them said the government creates hurdles in doing business.

7. Almost three out of every five CEOs said that the government's Make in India initiative has brought change to the business environment.

In a nutshell, the respondents are of the view that India has witnessed radical changes to make a giant leap in expanding its economy over the past few years. Still, the country needs to undertake certain reforms to continue to ride this growth.

RECOMMENDATIONS

A $5-trillion strong economy has now become the Indian government's stated economic objective. There are three interventions[48] the government can make to push the country faster towards such a goal through manufacturing. First, financial: subsidies on capital, loans and risk covers. Second, fiscal incentives: tax exemptions or reductions that can be based on labour, capital or sales on the indirect side and reduced corporate taxes on the other. And third, enabling the smooth and inexpensive delivery of infrastructure inputs such as power, water or logistics to reduce costs and/or create a dependable supporting manufacturing environment. Governments, both the Union and those in the States, need to negotiate the thin line of these policy interventions to ensure growth.

1. Manufacturing happens in states and state governments need to bear the enabling burden, the returns from which are not only economic, through direct investments (foreign and domestic) and revenues, but political as well, in the form of

direct and indirect jobs. A new form of competitive federalism is needed, where states compete for investments on their terms. As far as foreign direct investments are concerned, the Union government can facilitate such interactions. Seeking a manufacturing sector growth rate of 12-13 percent to reach a gross state domestic product share of 25 percent by 2023-24, the Government of Maharashtra, for example, through the Maharashtra Industrial Policy 2019, is attempting to strengthen its manufacturing ecosystem and turn the state into a $1-trillion economy by 2025.[49] Likewise, Gujarat's Scheme for Incentive to Industries (General) 2016-2021 seeks to attract manufacturing to the state.[50]

2. Even though India has taken huge steps forward, infrastructure development, particularly of roads and ports, needs urgent attention the CEOs said. In specialised industrial economic zones, for instance, there are last-mile problems such as water and power, both of which need local permits. Companies need to negotiate these problems alongside rent-seeking by water tankers, or what one CEO called the "water mafia" that are embedded into the lower bureaucracy. India must rethink its infrastructure policy, keeping the market in mind. This means redesigning policies that leave room for a changing dynamic of financing patterns or technological disruptions and allowing contractual renegotiations where necessary. Shifting infrastructure building to a principles-based approach rather than a rules-based straitjacket may deliver outcomes. Finally, regulation of infrastructure too needs to be re-examined on two counts – first, ending the process of turning regulators into a monopoly of sinecures for retired bureaucrats; and second, creating a new balance between independence and accountability.

3. Industry needs land to set up its premises. There are two interrelated problems in this domain: One, the process of acquiring land is long and cumbersome; and two, this raises the price of land, making the business proposal unviable. The laws on land acquisition too have been made extremely stringent. Not just industry, even infrastructure development is facing hurdles. On the other

side, not all land is productive. The government needs to create a structure around which infrastructure, particularly roads, and large private industries such as steel plants can come up and create output, jobs and allied opportunities.

4. Despite labour laws not being seen as a hurdle by CEOs, India needs to fix the excessively large number of Acts of Parliament that regulate labour. At last count, there were more than 36 Central laws governing various aspects of labour, from minimum wages to safety. These need consolidation. The first step towards this has been taken. In tune with the recommendations of the Second National Commission on Labour, the government has initiated a move towards formulating four labour codes – wages, industrial relations, social security and welfare, and safety and working conditions – by amalgamating, simplifying and rationalising the relevant provisions of extant laws. This, however, is only the starting point. A 21st-century new India needs 21st-century new laws.

ANNEX

METHODOLOGY AND QUESTIONNAIRE

To arrive at a 360-degree look at the opportunities and the hurdles US companies face, we used a two-part process – a questionnaire and face-to-face interview. Both were answered by CEOs of the companies.

The CEOs were picked from diverse industries – manufacturing, retail, technology, banking, and others. CEOs of two non-profit organisations were also added to this collection, to receive a perspective on the community agendas of big corporates in a developing country like India.

QUESTIONNAIRE

The questionnaire has 24 questions and was designed to capture the main critiques and opportunities US companies see in the Indian business environment. The questions are organised along five thematic blocks.

- First, the company details.
- Second, the impact of different business

components and their influence on decisions to set up in India.

- Third, aspects related to policy responses.
- Fourth, the future of companies to compete globally.
- Fifth, community and corporate relations.

The questionnaire combined open-ended questions and multiple-choice questions with predefined answers offering respondents the possibility to choose and rank among several options or the possibility to grade on a "urgent" to "no concern" scale. For these questions, an optional space was provided to elaborate on the answer. This open part is considered of great importance for a Survey of this kind as it contributes to improving the interpretation of its overall results and provides with additional valuable material.

The total number of respondents was 42, of which 40 were CEOs of commercial enterprises and two of not-for-profits.

INTERVIEWS

The survey above was followed by a face-to-face interview with CEOs. Depending on the direction of the conversations, the length of these interviews was between 45 minutes and 2 hours.

The total number of CEOs interviewed was 29.

QUESTIONS AND RESPONSES

PART 1: THE COMPANY

1. Company name: _____

2. Industry (please tick one)
    a. Manufacturing
    b. Banking, financial services, insurance
    c. Infrastructure
    d. Retail
    e. Transport and logistics
    f. Technology and allied services

3. Is there a second industry that describes your area of business?_____

INDUSTRY	In Percent
Agricultural Services	4.8
Banking, financial services, insurance	9.5
Chemicals	2.4
Healthcare	4.8
Infrastructure	2.4
Manufacturing	38.1
Not for Profit	4.8
Retail	2.4
Technology and allied services	31.0
Total	100.0

4. Location and address: _____

5. Phone number of interviewee: _____

6. Email address of company contact:_____

7. When did your company start business?
   Month: _____ Year: _____

PART 2: THE COUNTRY

8. What brought you to India?

RESPONSES	In Percent
Competitive Input Costs	16.4
Growing Economy	39.3
Large Market	44.3
Total	100.0

9. On a scale of 1-5, 1 denoting "needs urgent attention" and 5 denoting "no need for concern at all", rate the different components of business environment of India mentioned below.

RESPONSES	1	2	3	4	5	Total
In percent						
Presence of quality infrastructure	33.3	33.3	28.6	0.0	4.8	100.0
Telecommunication facilities	0.0	2.5	31.7	58.5	7.3	100.0
Taxation policy	19.0	35.7	31.0	9.5	4.8	100.0
Availability of skilled labour	7.1	19.1	31.0	33.3	9.5	100.0
Access to capital	7.5	20.0	22.5	30.0	20.0	100.0
Innovation (ease of getting patents, R&D)	11.1	22.2	38.9	25.0	2.8	100.0
Environmental regulations	12.8	17.9	48.7	17.9	2.6	100.0
Regulatory framework	14.6	36.6	29.3	17.1	2.4	100.0
Ease of land acquisition	20.0	42.8	31.4	2.9	2.9	100.0
Quality of bureaucracy	4.8	31.0	33.3	31.0	0.0	100.0
Availability of advanced technology	2.4	11.9	42.9	35.7	7.1	100.0
Presence of raw-material suppliers	12.1	12.1	24.2	42.4	9.1	100.0
Ease of logistics	19.5	39.0	22.0	17.1	2.4	100.0
Stability and effectiveness of political system	2.4	23.8	40.5	28.6	4.8	100.0
Crime-free environment	4.8	23.8	50.0	19.0	2.4	100.0
Corruption in the government system	14.6	29.3	36.6	17.1	2.4	100.0
Availability of managerial talent	7.3	14.6	31.7	36.6	9.8	100.0
Power availability	0.0	26.8	34.1	26.8	12.2	100.0
Quality control measures	5.1	28.2	30.8	28.2	7.7	100.0

Effectiveness of legal system	26.8	29.3	26.8	7.3	9.8	100.0

10. Do you see a change in these components of the business environment in India over the last ten years? Answer with positive, negative or no change.

RESPONSES	POSITIVE	NEGATIVE	NO CHANGE	TOTAL
In percent				
Presence of quality infrastructure	82.5	2.5	15.0	100.0
Telecommunication facilities	97.6	0.0	2.4	100.0
Taxation policy	71.8	15.4	12.8	100.0
Availability of skilled labour	75.6	12.2	12.2	100.0
Access to capital	70.0	12.5	17.5	100.0
Innovation (ease of getting patents, R&D)	64.9	10.8	24.3	100.0
Environmental regulations	47.4	21.1	31.6	100.0
Regulatory framework	67.5	20.0	12.5	100.0
Ease of land acquisition	36.7	26.7	36.6	100.0
Quality of bureaucracy	63.4	7.3	29.3	100.0
Availability of advanced technology	89.2	2.7	8.1	100.0
Presence of raw-material suppliers	66.7	15.2	18.2	100.0
Ease of logistics	77.5	15.0	7.5	100.0
Stability and effectiveness of political system	67.5	12.5	20.0	100.0
Crime-free environment	41.0	25.6	33.3	100.0
Corruption in the government system	46.2	20.5	33.3	100.0
Availability of managerial talent	75.0	15.0	10.0	100.0
Power availability	81.6	7.9	10.5	100.0
Quality control measures	60.5	15.8	23.7	100.0
Effectiveness of legal system	28.2	30.8	41.0	100.0

11. How long do you plan on staying in India?

RESPONSES	In Percent
Less than 5 years	0.0
5-20 years	9.5
More than 20 years	90.5
Total	100.0

PART 3: THE SYSTEM

12. The regulatory environment in India...

RESPONSES	In Percent
Creates hurdles in doing business	25.8
Is unconcerned about doing business	22.6
Promotes ease of doing business	51.6
Total	100.0

13. What one specific change would you like from the government that will help in ease of doing business?

_____

14. Do you find the regulations for quality control in India in tune with standards in other countries?

RESPONSES	In Percent
Yes	29.3
No	36.6
Can't say	34.1
Total	100.0

15. Are you comfortable bringing in your cutting-edge technologies into India?

RESPONSES	In Percent
Yes	85
No	7.5
Can't say	7.5

Total	100.0

16. Is there any change in the business environment following the government's 'Make in India' initiative?

RESPONSES	In Percent
Yes	59.5
No	11.9
Can't say	28.6
Total	100.0

17. What are the three factors hindering India's competitiveness in the global economy?

_____

PART 4: THE FUTURE

18. What is the ability of firms operating in India (Indian or foreign) to compete in the global market, three years from now?

RESPONSES	In Percent
Can Compete	54.8
Easy to Compete	14.3
Tough to Compete	23.8
Very Easy to Compete	2.4
Very Tough to compete	4.8
Total	100.0

19. What is the ability of firms operating in India to be able to support high wages and salaries, three years from now?

RESPONSES	In Percent
Can Support	54.8
Easy	4.8
Tough	38.1
Very Tough	2.4

Total	100.0

20. Are you optimistic about the future of growth of your business and industry in India?

RESPONSES	In Percent
Yes	80.9
No	2.4
Can't say	16.7
Total	100.0

21. Are you considering relocating your business activities from India?

RESPONSES	In Percent
Yes	2.4
No	92.9
Can't say	4.8
Total	100.0

22. Which of the following factors play a critical role evaluating a country for doing business? Choose the top 5 factors. Then rank them from 1-5 – 1 being the most important and 5 being the least important.

Responses	1	2	3	4	5	Total
Low corruption and transparency	5	5	3	5	5	23
Lower regulations and supportive government policies	9	4	6	5	3	27
Quick approvals and effective bureaucracy	1	7	5	1	3	17
Better infrastructure and communication facilities	1	10	9	6	3	29
Larger availability of inputs like technology, labour and machinery	0	1	1	5	0	7
Bigger market to cater	13	3	2	0	4	22

Closeness to customers	0	1	0	1	0	2
Lower operating costs	1	3	2	3	4	13
Talented workforce	7	4	1	4	7	23
Lower taxes	0	1	1	2	1	5
Proximity to clusters, suppliers and related firms	0	1	2	1	1	5
Availability of capital	0	1	0	1	4	6
More access to natural resources	0	1	1	0	0	2
Currency and exchange rate factors	0	1	2	2	1	6

PART 5: THE COMMUNITY

23. Does Indian policy on corporate social responsibility impact the bottom line?

RESPONSES	In Percent
Yes	38.1
No	38.1
Can't say	23.8
Total	100.0

24. Which three key areas or communities does your company work with?

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Observer Research Foundation (ORF)
20, Rouse Avenue Institutional Area,
New Delhi - 110 002, INDIA
Ph. : +91-11-35332000 Fax : +91-11-35332005
E-mail: contactus@orfonline.org
Website: www.orfonline.org

AMCHAM INDIA

American Chamber of Commerce in India
PHD House, 4th Floor, 4/2, Siri Institutional Area,
August Kranti Marg, New Delhi – 110 016
Tel : +91-11-2652 5201/02 Fax: +91-11-2654 1222
Email: amcham@amchamindia.com
Website: www.amchamindia.com