Economic Security Outlook for India in a World of Growing Political Uncertainty

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Abstract

The research paper provided an analysis of India's economy, its domestic issues, and more importantly, its integration with the world economy. The paper described key factors in the nature of Indian participation in international division of labor, discussing both strengths and weaknesses that provide opportunities or dictate India's needs. The analysis of foreign direct investment inflows and outflows is provided, as well as India's trade partnerships: key sectors and key partners. The paper also discussed about the special economic zones in India. India's energy crisis is discussed, and countries that currently play a major role in mitigating that crisis are also presented. The article also pointed out general economic and social situations: as the service sector plays an extremely important role in the Indian economy, the quality and quantity of its labor force were also discussed, and so was the general business environment for domestic and foreign investors. The key points for India's economic security in the nearest future are suggested, and brief geopolitical factors that will shape the strategic choices of India are also presented. In conclusion, the paper presented an outlook on the current situations in India, key economic security priorities, India's international economic partnerships, and vision on strategic partnerships that will mitigate existing risks and promote healthy economic growth.

Keywords: **India, trade, special economic zones, FDI, labor, economic growth, GDP, reforms, energy crisis, South Asia, Make in India, India Vision 2020, geopolitics, regional, security**

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After getting independence from Britain in 1947, Pandit Jawaharlal Nehru put India on the path of industrialization by strengthening governmental sector and planning. As the result, in few years, all key industries that used to be monopolized were put under control of the government. There are three phases of modern economic development of India: Through the policy of protectionism, between 1950 and 1960, India built up import-substituting industries - international trade and investments were relatively open; between 1960 and 1990, the process of social and technological rebuilding in farming began (based on "green revolution"), along with the development of infrastructure, which lead to a drastic lack of domestic receipts and savings, thus in 1989, India became one of the largest developing countries - receivers of foreign aid; starting 1990, India moved towards export development and started to actively pursue a policy of open economy. One of the most effective reforms was the reform in financial sector, due to which banking industry gained more freedom and foreign banks started their operations in India. Reforms in business regulations allowed market (versus the government) to regulate business, opening up more opportunities for global integration.

Though India made a fair effort to make its economy self-sufficient, it is traditionally a trading country. Today's

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India, more than ever, realizes the necessity of extensive international cooperation in order to build up a strong economy. The current government of India (PM Modi's government) is promoting foreign investments and open trade because it is very clear that sustained economic growth of India today is impossible without international cooperation. In the same time India has a lot to offer to the world being one of the world's fastest growing economies.

India is the fourth largest economy in the world by purchasing power parity GDP, 25% of which is composed of export of goods and services, 169 in the world by GDP per capita, second largest labor force (Central Intelligence Agency [CIA], 2014). India has membership in BRICS, G20, WTO, G7+5 (previously known as G8+5), SAFTA, ASEAN, and many others. On the homefront, India still struggles with poverty and economic disparities (30% of population is below the poverty line), corruption, energy deficit, poor power generation and distribution systems, undeveloped transportation and agriculture infrastructure, unemployment issues and rural-to-urban migration accommodation.

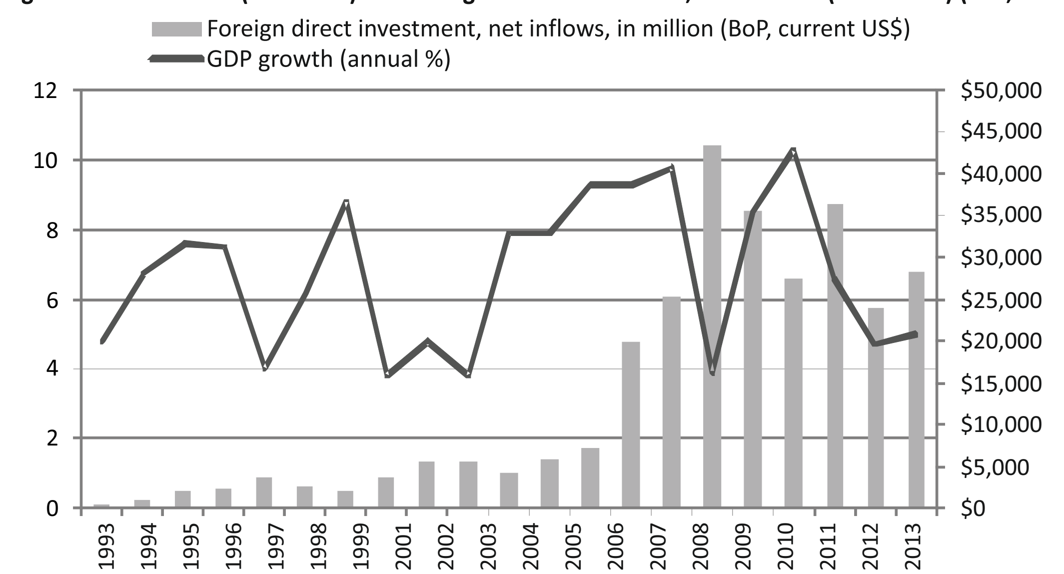
The conventional wisdom is that for India in order to achieve its economic potential it is necessary to solve the domestic issues. However, it is often omitted how much India depends on international relations and how important it is for India to be able to maintain strong bonds with reliable partners in order to achieve economic growth and continue finding strategical economic and political solutions on global arena.

Investing in India

India has always been a trading country - its business abilities has never been lost. For a long time India's national economy has worked to satisfy country's own needs, limiting its participation in international division of labor. However as India moved towards free trade and economic liberalization (in order to stimulate economic growth), trade reforms lifted up constrains in export-import operations. In 1995-1996 import tax was lowered dramatically, which allowed business to participate in international trade and motivated creation of alliances that strengthened internal India's market. Due to the reform that relaxed currency control and convertibility, today international joint enterprises can freely trade, invest and take loans, and create branches and subsidiaries.

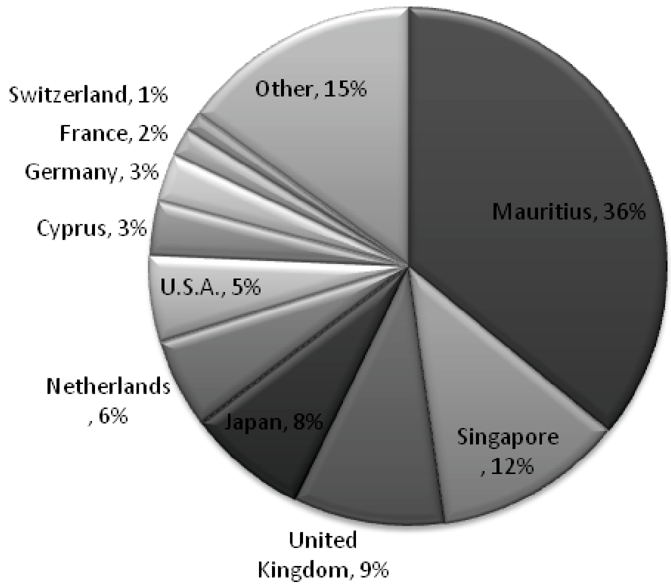
Nature of India's participation in international division of labor is defined by three major factors. First of all,

Figure 1. GDP Growth (Annual %) and Foreign Direct Investment, Net Inflows (in millions) (BoP, USD)



Source : The World Bank, n.d.-a; The World Bank, n.d.-b

Figure 2. Country-Wise FDI Equity Inflows from April 2000 to July 2014 (Percentile of Total Inflows)



Source : DIPP, 2014

continued utilization of its advantages on global arena, such as comparatively cheap labor force, availability of rich natural resources (iron, bauxites, gemstones), favorable climate that positively affects agriculture (tea, nuts, spices). Secondly, growing dependence of Indian economy on oil import (evaluated from 70% now to 85% in mid-term), that defines India's motivation to provide itself with dependable sources of oil and gas, including by the means of more active investment politics abroad. Third, broad usage of English that helps getting a special spot in international outsourcing of services and business processes based on information technologies.

Steady economic development and social progress in India have their input in growing importance of Asian region in world economics and politics. India is one of the most favorable places in South Asia for investments. Some of the most important factors that make India attractive for foreign investors are considered to be growing internal demand and on-going economic reforms.

India has a lot to offer: its growing influence in international institutions and free trade areas; it growing economy, that has been showing a relatively sustainable growth (see Figure 1); India has one of the largest populations in the world, also one of the youngest (about 50% of population is below the age of 25), which is an important factor in terms of labor competitiveness in the world of aging population (consider China as an “old place to go” or U.S. - one of the most influential investors with its rapidly aging population); rapidly growing consumer market (according to forecasts India is on the path of becoming one of the world's largest consumer markets by 2025) (Invest India, n.d.). Liberalization of intentional investment laws resulted in a considerably increased part of foreign direct investments (FDIs) in India. As shown on Figure 1, FDI inflows grow - in the past 10 years it has been accounted average 2% of GDP. However with its capacity and advantages, India is not even nearly meeting its potential. Though showing a considerable growth in the last 10 years, as of 2013 India is a 14 country of top 20 countries by FDI inflows, falling behind U.S., China, Russia, Hong Kong, Brazil, Singapore, Canada, etc (Arnett, 2014).

From April 2000 to July 2014 India received 338,522 million USD of FDI inflows, most of which (228,317 million USD) was FDI equity inflows (India Department of Industrial Policy&Promotion [DIPP], 2014).
Service sector (financial, banking, insurance, non-financial/business, outsourcing, R&D, courier, tech. testing and analysis) has brought the biggest amount of FDIs - 18% of total inflows, followed by construction

development -10%, telecommunication - 7%, computer software and hardware - 6%, drugs and pharmaceuticals – 6%, etc.

Over the years Mauritius has been an absolute and most stable FDI equity investor (with the exception of FY2013-2014 where Mauritius investment declined sharply) (DIPP, 2014; DIPP, 2012; DIPP, 2010). However it is important to note that in terms of investment in India Mauritius is known as Mauritius route, the jurisdiction channel used by foreign investors to invest in India by taking advantage of certain tax breaks. However most recently upcoming implementation of India's General Anti-Avoidance Rules (GAAR) has made investors wary of continuing business through Mauritius route (India Briefing, 2014).

Singapore is the second largest loyal investor, followed by U.K., Japan, Netherlands, and USA. USA is gradually losing its interest in India falling from position of investor number three to number four, and most recently investor number six. As United States is an absolutely leading country by the stock of foreign direct investment, it is unfortunate that the country is losing its interest in India's market. Figure 2 illustrates top 10 equity investors in India.

In September 2014, the Indian government launched a "Make in India" branding campaign aiming to find investments in 25 sectors, ranging from manufacturing to services (Sidhartha, 2014). The campaign aims not only on bringing foreign investors, but also on returning homegrown business invested overseas back, as Prime Minister, Mr. Narendra Modi explained: "FDI should mean First Develop India." India needs to keep developing market and improve business environment in order to start building more extensive and stable connections with largest world investors (U.S., U.K., Germany, France, Switzerland, Hong-Kong, Belgium, Japan, Canada, and the Netherlands).

Export and Import

As India keeps expanding opportunities for foreign investors (heavily relying upon those investments), it is crucial to build strong relationships with potential partners. August 2014, India approved raising the maximum amount of foreign ownership allowed in defense industry from previous 26% to 49%, as well as raising foreign ownership in railway industries to 100% (Sahu, 2014).

In order to arm one of the largest military forces in the world India has to rely on foreign help. According to Stockholm International Peace Research Institute India's import of major weapons rose by 111% between 2004 and 2008, increasing its volume of international arms imports from 7 to 14% (Pandit, 2014). U.S is the largest global major weapons supplier, followed by Russia, Germany, China, and France. SIPRI estimated that in 2009-

Table 1. Top Ten Countries Trading with India, Year 2013-2014 (in millions of USD)

Country	Export	Import	Total Trade	Trade Balance
CHINA P RP	14,824.36	51,034.62	65,858.98	-36,210.26
U S A	39,142.10	22,505.08	61,647.19	16,637.02
U ARAB EMTS	30,520.42	29,019.82	59,540.24	1,500.60
SAUDI ARAB	12,218.95	36,403.65	48,622.60	-24,184.69
SWITZERLAND	1,796.95	19,311.01	21,107.96	-17,514.06
GERMANY	7,515.81	12,932.41	20,448.22	-5,416.59
HONG KONG	12,731.74	7,322.20	20,053.93	5,409.54
INDONESIA	4,850.20	14,748.30	19,598.50	-9,898.09
IRAQ	918.03	18,520.86	19,438.89	-17,602.83
SINGAPORE	12,510.54	6,762.49	19,273.03	5,748.05

Source : India Ministry of Commerce&Industry, 2014

2013 largest arms suppliers to India were Russia (75% of imports) and U.S. (7%). August 2014, Defense Minister Jaitley revealed the statistics that in the past three years almost 40% of money spent in defense imports by India have gone to U.S., followed by Russia (30%), and France (14%) (Pubby, 2014) ; 25.2% of Indian GDP consists of exports (CIA, 2014). India is 19 country by export with largest export partners: European Union 16.8%, U.S. 12.8%, UAE 12.4%, China 5.1%, Singapore 4.7%, Hong Kong 4.1%, and 12 by import with largest import partners: European Union 11.1%, China 11.1%, UAE 7.7%, Saudi Arabia 6.7%, Switzerland 5.9%, US 5.1% (CIA, 2014; World Trade Organization [WTO], 2014) (see Table 1).

Consumer goods manufacturing – is a traditional field of Indian economy. India has a strong textile industry based on natural textiles. Out of all biggest countries – textile exporters, India's textile industry advantages from cost of raw materials and cost of labor force. The share of textile export grew significantly in the past 30 years, as well as office equipment, and telecommunications (WTO, 2011, pp. 102, 107, 125).

Special Economic Zones

India has a lot to offer to foreign investors. In 2005, in order to develop manufacturing industry, increase export, and attract foreign technology and investments, India enforced The Special Economic Zones Act (SEZ). Organizations working in SEZ have a range of tax and customs breaks. Specifically, they are free from paying income tax (fully in the first five years of working in SEZ), federal sales tax, service tax, dividend tax, variety of state taxes and fees. In addition SEZ allows opening of Indian banks that eases access of SEZ companies to financial resources. SEZ operates under special regime of customs-free import of goods from abroad and territory of India, in addition many procedures for export of goods by resident companies are eased. There are no quantity limitations for exported goods from SEZ to territory of India, however it does not have any customs breaks in comparison with usual import operations.

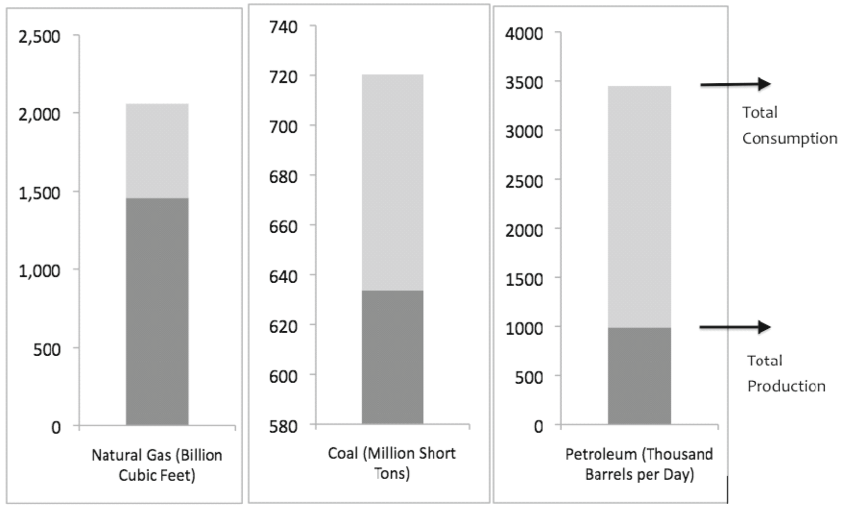
SEZ allows 100% of foreign investment participation automatically, without approval of Indian government. As of August 2014 there were 388 of notified SEZs in India with 3818 companies (Special Economic Zones in India, 2014a). In the first quarter of FY2014-2015 export from SEZ reached 19.5 billion USD (growth of 7.36% over the exports of the corresponding period of FY2013-14). In FY2013-2014 export from SEZ reached 80.2 billion USD (growth of 4% over 2012-13), which has constituted 25% of Indian export in 2013 (CIA, 2014). In 2012-2013 export from SEZ rose 31% over FY2011-2012. In the last 8 years volume of export in SEZ grew more than 15 times. Out of 192 export-oriented companies 93 work in information technology, others include biotech, textiles, pharma, and engineering, etc. (Special Economic Zones in India, 2014b). India relies on SEZs not only in terms of generating export, by also because SEZs of India provides employment to over a million people. As of June 2014 SEZ in India received 48.99 billions USD of total investments. SEZ has generated tremendous response among domestic and foreign investors, in order to keep it this way it is important for India to keep the positive social, economic and political environment to attract businesses.

Energy Crisis

However even with great exporting potential and investment opportunities driven by the cheap labor, rich natural resources, and favorable climate, Indian economy depends on import of oil, gas, and coal in the midst of growing energy crisis. India’s energy consumption is composed of: 53% using coal and lignite, 30% - oil, and 10% -gas (Sharma & Bahree, 2012). Shortages of coal, oil, and natural gas threaten to significantly compromise India's economic growth and increase imports of high-cost fossil fuels risking inflation. India risks not to be able to supply electricity to the third of population and enough fuel for 1.5 million new vehicles.

It is estimated (as of 2012) that India has 293.50 billion tonnes reserves of coal, 759.59 million tonnes of reserves of crude oil, and 1330.26 billion cubic meters (BCM) reserves of natural gas (India Ministry of Statistics and Programme Implementation, 2013, pp. i-iii, 1-3). Though India uses variety of resources for energy, coal will

Figure 3. 2012-2013 : India Energy Overview



Source : U.S. Energy Information Administration [EIA], 2013]

likely to continue dominate as 54% of the total installed electricity generation capacity is coal based, with the number reaching 70% in near future. Above all, Indian coal is not the best quality. Capacity for renewable energy such as wind, geothermal, solar, and hydroelectricity in India is scarce – 2%, nuclear holds 1%. Demand for coal projected to reach 980 MT during 2012-2017, whereas domestic production is expected to be 795 MT in the terminal year (2016-17). In order to meet the demand gap both imports and domestic coal production will need to grow at an average rate of 8% compared to about 4.6% in 2007-2012. The share of crude oil in production and consumption is expected to be 6.7% and 23% respectively by 2021-2022. Petroleum demand in the transport sector is expected to grow rapidly in the coming years (with increased use of vehicles). The country heavily relies on imports for the amount of its energy use, particularly crude petroleum. In 2007-2012 India experienced an overall energy deficit of 8.7% and peak shortage of 9%. Resources that are currently allocated to supply energy are not sufficient to narrow the gap between needs and supply.

Low effectiveness and environmental friendliness of Indian's energy industry is a restraining factor for foreign investments, as well as a restraining factor for attraction of highly qualified labor force. For India exploration and exploitation of energy, additions of capacity, clean energy alternatives, and energy sector reforms will be crucial for energy security. In the near future it most likely will be one of the top priorities. One of the most desirable solutions is improving energy efficiency. Before it is achieved India will need to continue closing the gap with imports. Figure 3 illustrates India's need for energy resources overview.

Petroleum liquids industry is still mainly owned by state-owned firms, though the sector is open and attracts some level of private and foreign investments (EIA, 2014). Indian national oil companies purchase stakes in oil fields located overseas to increase security of imported crude oil. India exports petroleum products and private sector has significant investments in the country's refining industry. In 2013 India began natural gas pricing reforms going to raise investments. Most of the natural gas reserves are located offshore and two largest dominating oil companies are state owned. State also retains a monopoly in the coal sector.
India is heavily relies on import of (EIA, 2014):

(1) Crude oil and petroleum products (fourth largest importer in the world). In twenty years the country increased total net oil imports from 42% to 71% in 2012, and the demand is projected to continue rising. The country's largest oil supplier is Saudi Arabia accounting for 20% of crude oil imports, in total around 62% comes from Middle East countries. The second largest source of oil is the Western Hemisphere (19%), with major source in Venezuela. Africa contributes to 16% of imports. For known political and social issues several countries, like Iran (import changed from 8.3% in 2011-2012 to 5.5% as the result of imposed sanctions), Libya, Sudan, and Nigeria are disruptive in supply, which makes India diversify crude oil sources. Because of the rising costs of Middle Eastern oil (compared to Western Hemisphere), the imports from Latin America have risen (primarily from Venezuela, Colombia, and Mexico). India is also a net exporter of petroleum product, investing in refineries designed for export. Primary destinations are Singapore, Saudi Arabia, UAE, and Netherlands. India is also targeting U.S. markets. However government strongly encourages supplying domestic markets before selling abroad.

(2) Natural gas (fourth largest importer of LNG). The country was self-sufficient in natural gas until 2004, after that it began to import liquefied natural gas (LNG) from Qatar. Qatar is India's single long-term supplier of natural gas (84% of total LNG imports to India). After performance issues in one of its production fields, India has become and active short term importer from Nigeria, Egypt and Yemen. India has been seeking different suppliers making short-term and long-term agreements with Australia's and United States' terminals, as well as various global suppliers in UK, France, Spain, and Russia, as well as investing in gas projects in Canada and Mozambique.

(3) Coal (third largest importer). Traditionally India is not a major importer of coal, however over decades it had to engage in imports in order to match the demand since coal is its major source of energy. The country's recent supply shortages forced significant increase of coal imports from several key exporting countries: Indonesia (55%), Australia (23%), and South Africa (14%).

Character of economic development is defined by structure and volume of existing natural resources. India is one of the countries whose agricultural potential is sufficient for self-supportability with provisions, and resources for its manufacturing sector. India has also an important place among developing countries in production of heavy manufacturing machinery and equipment.

Labor Force and Outsourcing

One of the definitive factors of India's development are demographic factors and current condition of labor force. The basic characteristic of Indian demographic potential is its population which directly defines quantity of labor force and consumer potential of the country, equally with opportunity of its future growth. Expansion of service sector is crucial of India's economy because it is one of the most promising areas of development of the country's international economic relations.

Despite its great potential in many areas, the basis of Indian economy is service sector, not agriculture or even manufacturing as it is commonly considered so. Even though the labor participation for agriculture is 49% out of 487 million-labor forces, its part in GDP is only 17.4%, however service sector (including tourist industry) provides 56.9% of receipts in country's budget (CIA, 2014). Leading positions of India in the area of international outsourcing must be supported by development of other areas, especially development of high tech products. Country has substantial labor sources of IT specialists, qualified engineers, and variety of technical specialists who speak English.

According to some estimates India takes first place in the world according to the level of engineer potential and forth place according to the volume of qualified labor force. In future it will attract investments in appropriate business fields that in its own turn will lead to an extensive improving of technological progress of the country. There are new dynamic urban IT and business process outsourcing centers developing all over the country. Cities like Bangalore, Chennai, Mumbai, and Hyderabad become centers for export of computer software and technical support - space of new modern Indian economy. Telecommunications are also growing.

Over the last years India's success in IT area became obvious. India has offices and IT centers of leading software organizations, like Microsoft, Oracle, Cisco systems, Samsung etc. However Apple despite doing business in the country, still has not established a full capacity office, citing higher potential for Apple in other countries and distribution difficulties based on operational differences between India and other countries in a very price-sensitive market (specifically contract model sales system that virtually does not exist in India) (Anwer, 2012).

Negative Factors

Though India is a valuable member of international economic and trade system, it heavily depends on other countries; its export structure proves India's developing nature. In addition to overcoming energy crisis, India needs to overcome a lot of social problems. Despite a lot of the country's advantages, participation in international market is also conditioned by the unsolved array of internal problems. Those problem also significantly complicate India's participation. Country's development must be inseparable from working towards solving social problems. Otherwise, any positive effect from current strategic changes will lead to minimum possible outcome with ongoing social pressure.

Today there are a lot of obstacles that India faces on the way of development – first of all, weak infrastructures. Indian ports of entry have big difficulties with transloading of multiplying export loads – there are problems with electricity and there are unsurfaced roads even in Bangalore, Indian fifth largest metropolitan area. In addition India has a high level corruption. Transparency International gives India rank 94 out 177 countries by corruption perception index, and score 36 out of 100 (Transparency International, n.d.).

The Indian economy is one of the most regulated economics of the world. System of licensing, quotas, permits, and variety of governmental inspection is heavily developed in the country. Absence of transparency in this system is a fertile soil for spread of corruption. Liberalization of economy after 1991 only partially decreased spheres of governmental regulation. Corruption in India is heavily spread in judicial and taxation systems, medicine, education, power distribution, telecommunications, railway service, social assistance system.

Large part of Indian population is still struggling with poverty. About 30% of population lives below poverty line (CIA, 2014). There is also an important aspect of "brain drain" from India to USA. Even considering large population, India cannot afford losing part of most qualified labor force.

Drop in rupee rate has a very negative influence on India. Since 2011 the drop towards USD was almost 30% compared to rates in 2014, considering strengthening of U.S. dollar such drop can be considered relatively stable, however it does indicate slower economic growth in the same time (dropping GDP growth rate). Local and foreign investors not as eager as before to invest in Indian economy. Indian corporations have complications getting governmental licences and permits for projects and more often invest abroad. FDIs are slowing down, export has been at relatively the same level for the last two years (Trading Economics, n.d.-a), consumer confidence index started decreasing since 2011 however it recently began to pick up (Trading Economics, n.d.-b).

Despite some recent complications that slowed down India's economy, it is important to point out relatively stable GDP growth rates of India in the past 20 years (GDP growth on the level of 5-10%).

India as an Investor

In September 2014, the largest international rating agency, Standard and Poor (S&P) restored its outlook on India to stable after 29 months it labeled India's outlook as negative (Mukherjee, 2014). New Modi's government with its business and economy friendly policies is gaining popularity, in addition India's external debt is relatively small, foreign exchange reserves are reasonable, and its current account deficit (CAD) is considered to be under control, though fiscal deficit is still high. Such outlook is projected to build confidence in both domestic area and as an investment destination.

Over the last years India has been actively investing in economies of other countries. From FY2003 to FY2013 total India's outbound FDI was 115,710 million of USD (in equities, loans, and guarantees invoked) (Care Ratings, 2014). India's outward FDIs started to gradually increase after moderate investment period between FY2003 (1,819 million USD) and FY2004 (1,934 million USD). In FY2007 (fist wave of financial crisis in 2007) rose significantly reaching all time high of 19,365 million USD in FY2009; the slight decline was noticed in FY2010 (15,144) and picked up back in FY 2011, going down since then reaching 7,134 million in FY13. As of March, 2014, it was projected that India's FY 2014 (April to January) outbound FDIs will be 10,215 millions USD, that amount excludes guarantees issued because though India issues significant amount of guarantees (19,079 millions USD in FY2014) their invocation is extremely insignificant compared to loan and equity investments.

Up to 2011 the leading investment sectors were manufacturing and financial insurance, real estate business and business services: from 2008 to 2011 those two sectors were absolute leaders by India's outbound FDIs (Reserve Bank of India, 2012). The trend has shifted in FY2014 (excluding guarantees issued): agriculture and mining sector accounted for 35%; manufacturing – 24%; financial, insurance and business services – 12%; transport, storage and communication services – 12%; etc. (Care Ratings, 2014). Including the guarantees issued, transport, storage and communication services attracts the most India FDIs (30%), followed by manufacturing (25%) and agriculture (16%). However the amount of guarantees invoked will be very small.

From 2008 to February 2012 Singapore, Mauritius, Netherlands has been absolute leaders in terms of FDIs received from India (total of 14, 11, and 6.54 billions of USD respectively from 2008 to 2012, including equities, loans, and guarantees invoked). In FY2014 India's FDIs in form of equities and loans were majorly divided between: British Virgin Islands – 31%; Netherlands – 11%, Mauritius and Singapore – each around 10%; USA – 8.8%; Azerbaijan – 7.9%; etc. However including guarantees issued in FY2014 Netherlands and Singapore are the countries that still attract the largest amount of investments from India, Mauritius and British Virgin Island now compete for the third place.

India Vision 2020

Report of the committee "India Vision 2020" issued in 2002 introduced five main sectors which integrated interrelation must provide regime of self-sufficient economic growth (India Planning Commission, 2002). In the report few major areas of desirable change are pointed out: agriculture, development of infrastructure with reliable electric power, education and healthcare, information and communication technology, strategic areas that include international economic activity and growth of defense technologies. Since the report was issued a lot has changed in India, but the key concerns has not changed. In the world of uncertainty as India still struggles with a lot of economic issues it is important for the country to adopt wise international strategies as it depends largely on international trade and economic relations.

The report acknowledges that "India's progress over the next 20 years will be intimately linked to events within the region as well as around the world." (India Planning Commission, 2002, p.11).

The report envisioned several key factors that will keep playing a significant role in India's economic security in the near future:

- Economic and diplomatic vulnerability of India with rising dependence on energy imports, as well as pressure on energy prices;
- Increase and aging of global population increase demand for goods and services, foreign capital flows, and global labour force (especially OECD countries labour shortages);
- Emphasized role of technological evolution and sophisticated engineering: increased production capabilities instead of cheap labor force, especially in manufacturing industries and services sector;
- General growth of world trade and services sector;
- Growing geopolitical influence of Asia, in the same time increased competition with China;
- Regional instabilities and India's border and ideological conflicts.

These key factors determine India's prospectives for the pace and nature of economic growth. The grand strategy for enhancing India's economic security in the first half of the 21 century goes along with long lasting yet deviating geopolitical issues, which for the year of 2014 are not surprising and majorly predictable: Europe is striving to stand strong in attempts to preserve its fading economic strength, Middle East is struggling through power tensions (as well as highest concentration of extremism and violence in the territory covering majority of South Asia, Middle East, and most of the African continent), growing ambitions and political uncertainty of continental Asia despite regional integration and shared economic growth, global power's continued race over reaching out to diplomatically diverse Latin America with its rising self-confidence on global economic arena, with the worlds most stability achieved in the beginning of 21 century in several countries (United States, Canada, Australia, Japan, Hong Kong, United Kingdom, and Alemannic countries), United States still manages to dominate (though in the light of internal problems of U.S. and many recovering economics, the world is projected to grow more multipolar). In addition geopolitics of energy resources will keep shaping political climate as more countries become dependent.

Conclusion

India is striving not only to transform "a weak agrarian economy into a modern multi-dimensional economic enterprise," but also to reshape itself into a modern democracy (India Planning Commission, 2002, p.86).

Technology will matter greatly because in coming years - India will not be able to rely only on cost of its labor. Services and goods sector play major part in India's economy and as technology evolution intensifies India will need to fit in order to compete successfully. The opportunity for growth and competition will present itself with generally growing world consumer market (at the minimum - Indian textile, agriculture, and outsourcing), aging of population and labor shortages (especially US and Europe) – one of the largest and youngest populations of India will undoubtedly be an advantage, even over aging China (especially considering internal problems and security concerns that ruin investment environment). Evolution of labor quality will also mean social evolution for India: higher career and employment opportunities, decreased potential for emigration, less poverty.

Developing infrastructure will serve as another major point of improving investment environment for India – both weak infrastructure and undergoing energy crisis are already disruptive for business processes. Due to unfortunate link between energy market and political and security risks, it would be wise for India to diversify its import of energy resources and continue building partnerships with more secure producers – overcoming energy crisis will be crucial for India.

With new government, given potential and achieved success, India will need to overcome its weaknesses by integrating deeper with the beyond-the-region allies in order to gain the ground as a global business hub rather than simply one of the largest consumer markets. For India it makes most sense to build its prosperity by expanding its linkage to the countries that bring most technology, investment, business, and democratic values. Building strong regional partnerships not only as part of economic growth but also in order to overcome many security threats (extremism and border threats) will undoubtedly keep playing a special role as India's broader "neighborhood" is world's most concentrated territory of violence.

In the big picture of world trade India will keep being far less involved with its immediate neighbors in South Asia than with its East and Southeast Asia partners. India has deep economic relations with China, Hong Kong, Singapore, Indonesia, Japan – being part of such influential (both regionally and globally) combination of shared economic growth is extremely important for India, both in terms of building stronger economy and affirming itself as a solid national power. India is cemented to the East – four largest trading partners (China, Singapore, Hong Kong, Indonesia; China is the largest trading partner with India, majorly by import to India), two largest and most loyal investors (Singapore and Japan), and one largest investment destinations (Singapore) are located in East and Southeast Asia. Half of Indian coal import comes from Indonesia. Despite relatively moderate political uncertainty, it makes most sense for India to keep developing partnership with the region, especially to work towards more investment cooperation with Hong Kong.

On the opposite side there is Middle East and Africa. Middle East is very important for India - three largest trading partners are located there (UAE, Saudi Arabia, Iraq). Africa constitutes large part of Indian imports. For India, the significance of Middle East and Africa also lies in energy imports. More than half of its oil imports India receives from Middle East (Saudi Arabia is the largest), Qatar is a single largest long-term supplier of natural gas, significant part of its coal imports come from South Africa. Even considering the role of the region in global energy supply, India will be forced to work more towards diversifying energy imports and finding consistent suppliers beyond the "neigborhood". Continued tensions over Iran's nuclear program, Shia-Sunni power conflicts, extremism (accession of ISIS presents a very considerable threat), many African countries still undergoing political identity crisis – all of that will keep bringing risks into sensitive area of Indian economic security. Libya, Sudan, and Nigeria has already been disruptive in energy supplies to India, imports from Iran decreased significantly within one year.

India has reached out to suppliers in Russia, Australia, and Europe (UK, France, Spain). It is also exploring rising energy market in Western Hemisphere, which is the second largest source of oil for India, with major source in Venezuela (as well as suppliers in Columbia and Mexico). India is also developing gas projects with Canada and USA. Such diversification will continue, as well as India's search for more trade and investment opportunities with other countries. As China and Russia grow more assertive and tensions escalate in Middle East, India will have a great opportunity of presenting its strictly peaceful and professional nature that will allow taking more advantages of connecting beyond the continental Asia.

United States is one of the most resilient economies of the world – for India building stronger cooperation with U.S. means connecting itself to desired stability, investment, democracy, development, and technology. Though United States has been gradually losing its interest in India investment-wise, the country is an extremely important ally for U.S. in the East. United States is the largest world investor, but only sixth largest investor for India. U.S. is a second largest trading partner after China and most valuable export partner. U.S. is also taking over the arms supply to India, with Russia being recently a dominant partner in defense industry, now it is a second one. The statistics with arms supply reveals India's fluctuations in searching for partners between East and West.

India-European bond will keep getting stronger. UK, one of the worlds largest investors and is the third largest investor to India. Netherlands is the fifth largest investor as well as one of the three top India investment destinations. For India, European Union is one of the largest trading partners, with Germany being the most significant.

India's primary economic security dilemma for the next decade will be balancing between big powers of West and East. At this point of development it will be crucial for India's economy and security to abandon any geopolitical adventurism, build closer strategic engagement with West and keep building cooperation in the East in areas of shared economic growth and security burdens. Diverse business ties will be strategically most important for India in coming decades in order to decrease its economic and security dependence. It is important to point out that as India still struggles, but becomes stronger, its foreign policy will become more freethinking, however still influenced. From choosing camps between China and Japan, Looking East versus Looking West, building bridges to U.S. and Russia– whatever tensions India finds itself in, it would make most sense to follow the primary needs of its independent growing national power.

Research Implications

The research was conducted August 2014 – October 2014. This research has a series of important implications. As every country constantly searches for the ways to secure its socioeconomic future, researchers contribute to understanding of current condition and to development of reliable forecasts. This research supplements analyses on different topics on India's national economy such as researches conducted by Rao (2014) ,Chawla and Sharma (2014), Jadiyappa and Reddy (2014), and Saikia, 2013. The results mainly correlate in general conclusion that

India is undergoing moderate growth, suppressed by the system problems that followed the country after liberalization into new future it has been trying to build. The main difference of this research is that it provides a big-scope analysis of the country's national economy, rather than focusing on a single issue. Another key point difference is that the research is more focused on India's international economic relations rather than anything else. It serves as support tool for India's decision-making on global arena. It points out important weaknesses and strengths of India's economy, and explains how the weaknesses can be mitigated through advancement of specific international partnerships. Foreign businesses and decision makers also can use the research in order to identify strategic partnership potential they can find in India.

Limitations of the Study and the Way Forward

The research is limited by the nature of its economic and general geopolitical outlook and limited scope of analyzed indicators. Targeted research areas are analyzed in frameworks of a bigger global picture, in attempt to visualize general situation in the country as it relates to the world in terms of strategic partnerships. It is however extremely important to research every topic deeper in order to build up a strong forecast for future decision making. Geopolitical analysis is almost always subjective due to limited capabilities and limited expertise of the researchers. There are institutions and groups of scientists that contribute to research of specific topics. There are also combined efforts attempting to integrate various knowledge in order to access better ways to govern the country's resources. This research contributes to all other researches in this area and needs to be integrated with other researches. In addition the limitations of the study include absence of deeper examination of direct and indirect regional and global security threats and security alliances that influence economic integration.

Further research should not be limited to economic and general geopolitical realities. To enhance the propositions of India's economic security and prosperity, the research must incorporate threat assessments and geopolitical indicators in its analysis. Also, as it is obviously possible to suggest, deeper examination of specific issues must be conducted.

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