INDIA: UNLOCKING THE DEMOGRAPHIC DIVIDEND

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ABSTRACT

During the past few years, a number of studies have made very optimistic projections about India's demographic dividend. Demographic factors have appeared in discussion as it is important to reap benefits of demographic dividend for sustainable growth in India. India has witnessed a rapid decline in fertility that will lead to high per capita income, asset accumulation and acceleration in growth. However, recent employment figures reflect that the absorption of the Indian youth in the labour force is not as high as it was expected. This is perhaps due to the high level of illiteracy, lack of vocational training and inadequate access to quality education. India needs to improve its health care facilities, vocational training, dependency ratio, drop-out rate & shortage of teachers in order to take advantages of India's demographic dividend.

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INTRODUCTION

Constant decline in fertility rates point out that India will remain a young nation and the largest contributor to the global labor force over the next few decades. Young population is an exceptional strength of Indian economy as compared to the rapidly aging population in countries like Japan, Sweden and Germany. As it is shown in table 1 that cube will enter in the list of aging countries and Japan will continue have highest aging population both in 2011 as well as in 2050. One more thing can be drawn from the table 1 that Finland and Sweden will no longer be in the list of aging population. It is also to be noted from the table 1 that population is aging in all countries but the percentage of aging population in developed countries is more as compare to developing countries. But countries like Iran and Bahrain will enter in the list of aging population countries. Although investment, reforms, export, consumption and infrastructure are likely drivers of India's economic growth. This growing young population is India's demographic dividend and it has potential to make India economic super power by 2030. It gives India the potential to become a global production hub as well as a large consumer of goods and services. Gradually, contribution   of manufacturing sector to GDP will improve. Since the age-group of 45-60 years is the key contributor to household savings. India's savings rate, which has increased rapidly in the last decade, will get a further boost. It is expected that India's demographic dividend will increase savings rate. It means people will have more money for investment and this investment could be used for building roads, hospitals, bridges, schools and university. Long term investment is necessary in order to generate employment for youth. India should ensure that as soon as people will enter into labour force, they must have enough employment opportunities.

Table 1: Countries with the highest shares of 60+ population in 2011 and 2050 (percent)
(Among countries with 2011 population of 1 million or more)

S. No	2011		2050	
	Countries	Percent	Countries	Percent
1	Japan	31	Japan	42
2	Italy	27	Portugal	40
3	Germany	26	Bosnia & Herzegovina	40
4	Finland	25	Cuba	39
5	Sweden	25	Republic of Korea	39
6	Bulgaria	25	Italy	38
7	Greece	25	Spain	38
8	Portugal	24	Singapore	38

| 9 | Belgium | 24 | Germany | 38 |
| 10 | Croatia | 24 | Switzerland | 37 |

Source: United Nations Population Division (2011).

The rise in its working-age population, however, is necessary but not sufficient for India to sustain its economic growth. If India does not create enough jobs and its workers are not adequately prepared for these jobs, its demographic dividend may turn into a liability. The study of Coale and Hoover concluded that large and excess population is not a problem for an economy rather results in multiple benefits. However, it is not sufficient for an economy to have large population but age structure of population will impact economic growth of a country deeply. By 2025, India will have over 65% population under working class. This is a unique window of opportunities for deploying resources.

Table 2. Age Composition as % of total population

Year	Below 5 years	Between 0-5	Between >15-59 years	+ 60 years
1991	12.80	37.76	55.58	6.67
2001	10.70	34.33	58.70	6.97
2011	10.10	28.48	63.38	8.14
2016	9.7	27.73	63.33	8.94

Source: Registrar General of India

Many countries in the world are facing a problem of aging population that will lead to low productivity of employees and high labour cost. Many countries will lose their cost competitive advantage. China is likely to be impacted by its growing aging population. This may lead India to be more competitive as compare to china as India is expected to have youngest population in the world by 2030. As it is shown in the below graph that 213 million people will join the labor force between 2010-2030. Africa is also expected to have an addition of 340 million people to its labor force. Africa is expected to achieve high growth rate in the next few decades as it is rich in natural resources. Conversely, china and Europe will see a continued decline in working age population. As a result of it, there will be high labor cost, high cost of production and slow export in Japan, China and Europe.

Figure:1 Addition of working age population between 2010-2030
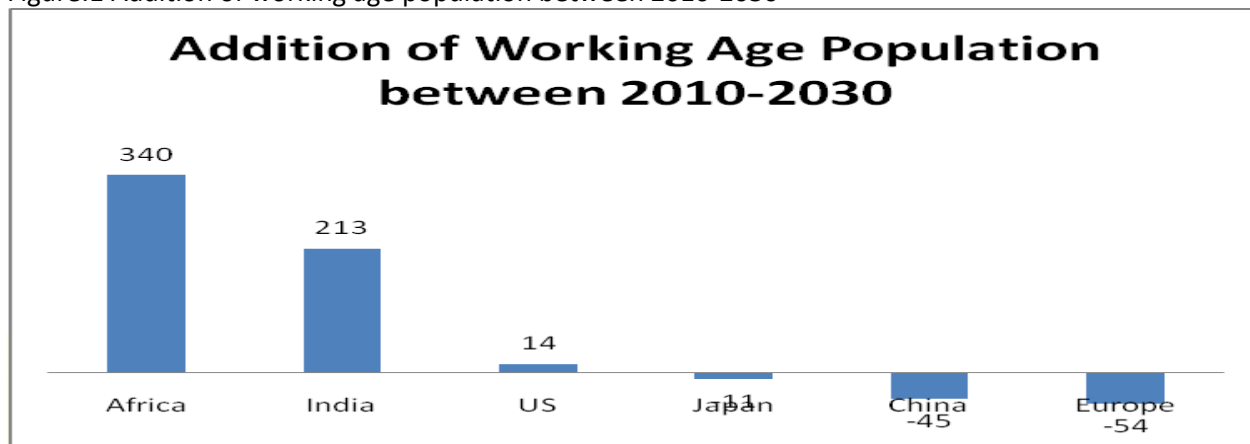
Source: UN world Population Prospects, 2008 revision.   (Figures in millions)

In the Asian and African continents, many developing countries are experiencing rapid decline in fertility. There is a great deal of optimism that demographic dividend will take these countries to greater economic heights.

It is important to understand that demographic dividend occurs when a falling birth rate changes the age structure so that future investment are needed to meet the needs of the youngest age groups and more resources are available for investments in socio-economic development and for family welfare. Initially, the death rates falls because of decline in infant and child mortality due to improved health care facilities, access to quality education, female education and high standard of living.

Despite of great optimism from India's demographic dividend, there are certain constraints in realizing benefits from demographic dividend. India has to ensure that adequate employment opportunities should be available to the working age population. Otherwise, this large population will be a liability rather than an asset.

It is interesting to mention that there has been a tendency in India to valorise the great opportunities existing in the country in terms of demographic dividend by all, irrespective of ideology, although the concept has discussed deeply in the neo-Malthusian framework.

Table 3: Average annual increment in youth population

	UN Population Database			Registrar General of India		
	Total	Male	Female	Total	Male	Female
2001-06	4028.8	2022.6	2006.2	5406.2	3025.2	2381.2
2006-11	2680.8	1330	1350.4	3532.4	1670.4	1861.8
2011-16	1312.6	621.2	691.8	-212.8	-343.6	131
2016-21	226.4	76	150.4	-1857.4	-777.2	-1080.2
2021-26	45.2	-8.8	54	-1112	-290.2	-821.6

Source: The Hindu Business Line, Jan17, 2006   (in 1000s)

DEMOGRAPHIC DIVIDEND AND DEPENDENCY RATIO IN INDIA

It is needless to say that India possesses a significant demographic dividend. Although, it is important to understand that what is the dependency ratio of total population in the country? Dependency ratio refers to the ratio of non-working population to the working population. A higher dependency ratio indicates that there will be more burdens on the working age population and fewer resources will be free to feed the mouth of non-working population. Here, dependence ratios refer to both the child dependence ratios and aged dependence ratios and their impact on the economic growth of India.

A dependent defined as a person who is either a child (0-14 years age bracket) or an elderly (65 and above age bracket). The child dependence ratios (Defined as 100 * number of children from 0-14 Age group / number of people in age group 14-65 age group) tell us the ratio of children in the population to the working age population. As of now, most of the Indian states have a high child dependence ratio. This is a burden at present but will be a dividend in the near future (if proper policies are made) when these children enter the working age population. The aged dependence ratio (Defined as 100* number of old from 65 and above Age group / number of people in age group 14-65 age group) simply put is the ratio of elderly people in the population to the working age population. At present most Indian states have a low aged dependence ratio. With rise in life expectancy and better healthcare facilities aged dependence ratios for India will rise.

The impact of these trends on the dependency ratio is presented in <u>below table</u> which points out that while the total dependency rose in the beginning because of a rise in the child dependency ratio and old-age dependency ratio is stagnant. It began to fall from 79 in 1970 as the child dependency ratio fell with the baby boomer generation shifting into working age groups and with old-age dependency rising only marginally because of decreasing death rates in older age groups. It is estimated to be fallen to 60 in 2005.It is expected that the dependency ratio will fall to 48 in 2025 because of continued fall in the child dependency ratio. Dependency ratio may start rising to 50 by 2050 because of an increase in the old-age dependency ratio as the bulge moves forward and the death rate continuously declines.

Table 4: Trends in the dependency ratio in India (Medium Variant)		
Year	Dependency Ratio	Child Dependency Ratio	Old-Age Dependency Ratio
1950	73	67	6
1955	74	68	6
1960	76	70	6
1965	78	72	6
1970	79	72	7
1975	77	71	7
1980	74	67	7
1985	72	65	7
1990	69	62	7
1995	68	60	8
2000	64	56	8
2005	60	51	8
2025	48	36	12
2050	50	27	22

Source: Population division of the department of economic and social affairs of the United Nations Secretariat, world population prospects, the 2004 revision

IMPLICATIONS ON GROWTH

Low dependency ratio help the people to increase their savings and invest it where return are more. Low dependency ratio will increase consumption activities in the economy which has a direct impact on the economic growth. By 2030, India is expected to be the youngest economy of the world. It should be obvious that this changing age structure can have significant implications on economic growth. Unlike low dependency ratio, high dependency ratio will impact economic

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growth of India adversely. A high dependency ratio is characterized by poor per capita income, low savings and investment rate and a slowing of growth rate.

DEMOGRAPHIC DIVIDEND AND EMPLOYMENT

Although, India has achieved success in various fields. But the employment condition in the economy is poor. A large section of the population is entering into labor force. Employment growth rate should always be higher than population growth. If population growth is faster than employment rate, many people will remain unemployed. India will have to change its policy framework in order to harness its demographic dividend with special focus on employment generation. As of now, India is facing various problems like unemployment, slowing growth in the economy, poor infrastructure, rising inflation and current account deficit and high fiscal deficit.

Availability of employment opportunities will play an important role in realizing the benefits of this large working age population. India would have to make some sincere efforts to bridge skill-mismatch. Currently, employability of Indian youth is very poor. One of the study shows that only 20 people are employable out of 100. This is one of the major challenges in benefits of demographic dividend which India has to overcome in near future.

CONCLUSION

The class should be given a good backgrounder of swelling working age population of India and its impact on India's economic growth. Students should be clear that there is a relationship between large population of a country and its economic growth. This case needs to be studied in the class after distributing the case into various teams of students. The students after going through the case can reveal their understanding of demographic dividend. Case will greatly help students to understand challenges India can face in reaping the benefits of demographic dividend. Students should also work on population survey. Students should be given chance to express their own views and should suggests certain strategies how to harness India's demographic dividend. Case should be studied in teams of students and each team will have to present its viewpoint in the classroom.
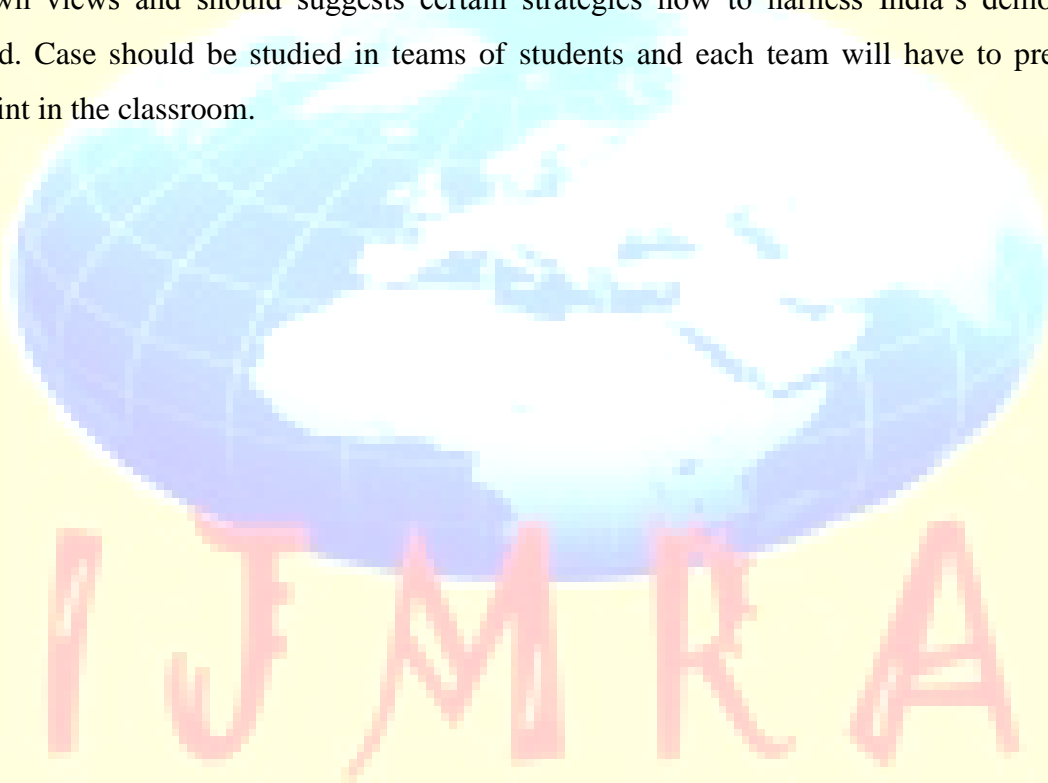
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EXHIBITS

Exhibit 1: India still reaping the benefits of its demographic dividend.

| COUNTRY	2010	2050	GROWTH
TOTAL POPULATION (IN MILLIONS)			% CHG
CHINA	1,341	1,296	-3.4%
INDIA	1,225	1,692	38.2%
BRAZIL	195	223	14.3%
URBAN POPULATION (IN MILLIONS)			% CHG
CHINA	660	1,002	51.7%
INDIA	379	875	131.1%
BRAZIL	164	202	22.9%
URBAN POPULATION % TOTAL			CHG (PPT)
CHINA	49.2%	77.3%	28.1
INDIA	30.9%	51.7%	20.8
BRAZIL	84.3%	90.7%	6.4

Exhibit 2: Number of children per women
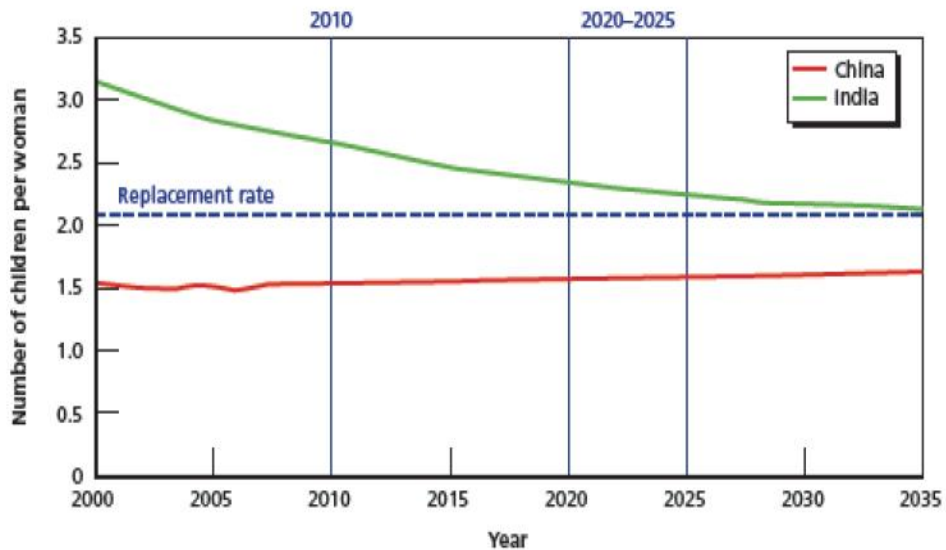
SOURCE: U.S. Census Bureau, 2010.

Exhibit 3: India- working age population
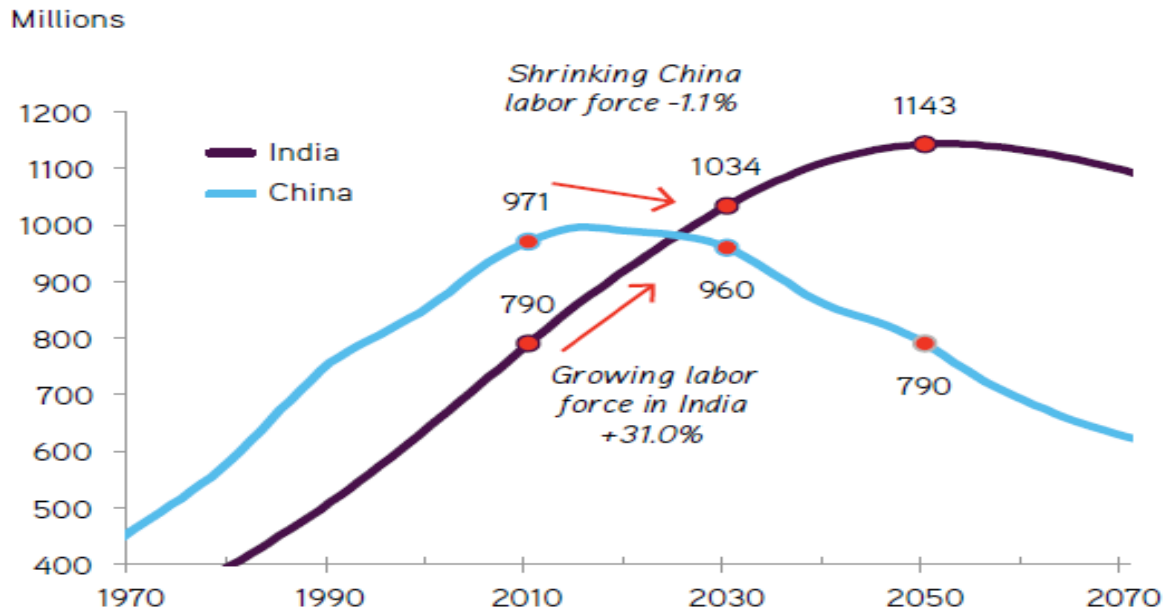
Data as at September 26, 2012. Source: United Nations World Population Prospects, Haver.