

# ISAS Brief

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## **India at 60: Banking on the Demographic Dividend**

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As India celebrates its 60<sup>th</sup> year of independence, the mood in the air is a mix of excitement and despondency. A new generation of Indian professionals and entrepreneurs are basking in the glory of global recognition. At the same time, as floods caused havoc in many parts of the subcontinent over the past few weeks, millions of Indians are starving, displaced from their homes, and desperate for assistance.

That brings home the important point. After 60 years of its existence as a nation, India's future – just as its past – hinges on its people. Numbering more than a billion, they form the pillar of India's democratic polity. They are also India's best bet as the country prepares to propel itself to the frontlines of the world economy.

This was not so always. From the time of Thomas Malthus, the 19<sup>th</sup> century English economist, fast growth of population was considered to be a drag on economic growth, as it exerts pressure on the planet's limited resources. In India, during the emergency years of 1975-77 -- the darkest episode in Indian democracy -- many of the poor were forcibly sterilized as part of a vigorous population control exercise implemented by the government. Today, all those are a thing of the past. An expansion in the numbers of working-age men and women is now widely agreed to be a boon for economic growth.

The new realization comes in the wake of a greying and even shrinking population in much of the developed world. Total fertility rates -- or births per woman in her child-bearing years -- have fallen below 2, well below the replacement rate, in high-income OECD (Organization for Economic Cooperation and Development) countries. The numbers of the elderly are growing at a much faster pace compared to the numbers of the young in many countries. In Japan, the proportion of population over 65 years of age increased from around 5 per cent in the 1950s to more than 20 per cent today.

It is in this context that India's large and young population is a big prize. India has approximately 500 million people under age 19 and a relatively high fertility rate of 3.1. This is one area where India has a distinct advantage over China, whose one child policy resulted in a decline in fertility rate (at 1.7) and a rapid ageing of population.<sup>1</sup> Estimates show that in 2020, an average person will only be 29 years old in India, compared to 37 years in China, 45

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<sup>1</sup> See *Human Development Report 2006*, United Nations Development Programme, pp. 297-300.

years in Western Europe, and 48 years in Japan.<sup>2</sup> Therefore, it is argued that India possesses the potential to benefit from the ‘demographic dividend’ many long years into the future, and significantly longer than China.

An educated young population gives a head start in today’s knowledge economy. In India, they form the backbone of the country’s booming service sector. Students enrolled for tertiary education number approximately 10 million in India.<sup>3</sup> Both India and China are today ahead of the United States with respect to tertiary technical enrolment.<sup>4</sup> India’s English speaking population is 30-50 million strong, which is almost as large as the population of a medium-sized country. Thanks to these advantages, India is the favoured destination for offshoring of service sector jobs in diverse fields: from call centre operation to investment banking, aircraft engineering, pharmaceuticals research, and architecture.

For India, its population is as much a challenge as an opportunity. In 2000-04, 39 per cent of adult Indians were illiterate; compare this to China’s 9 per cent.<sup>5</sup> The incomes of approximately 300 million Indians fall below levels that are adequate to meet minimum nutritional requirements. India’s demographic dividend is nullified to a great degree by the relatively low rates of labour force participation in the country. According to statistics reported in *OECD Employment Outlook*, labour force participation rate was only 53.8 per cent for India’s urban areas in 2005 compared to 77.2 per cent for China’s urban areas.<sup>6</sup> More than 90 per cent of India’s 402 million-strong workforce is in the unorganized sector, and they survive under pathetic conditions of work and life. From the 1980s, even while incomes have been rising in India, generation of employment has slowed down to a trickle, particularly to the less-skilled and less-educated. Thousands of debt-ridden Indian farmers have committed suicides over the last few years.

India must realize that its starving millions are a potentially huge asset. They add more brains and more hands; they also create demand for more trousers, restaurants and mobile phones. All these will fuel the country’s future economic growth. Independent India’s investments in primary education have been far too inadequate – a glaring failure given India’s success in creating world class technical and management institutions. This failure must be remedied. Also, new policy measures are required that would put more incomes into the hands of India’s small peasants and unskilled labourers. This will ensure that at least their daughters and sons will be educated and ready to take part in the globalizing economy.

The greatest hope in the midst of surrounding darkness is India’s democracy. It has shown a remarkable resilience, pulling along despite all odds, bringing into its fold ever more of hapless Indians, and laying the foundation for faster and more participatory economic growth. Cheers to Indian democracy at 60.

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<sup>2</sup> See the article ‘Does Demography Advantage India?’ by C.P. Chandrasekhar, *Frontline*, Vol.23, No.1, January 14-27, 2006.

<sup>3</sup> Statistics provided by National Association of Software and Service Companies (<[www.nasscom.in](http://www.nasscom.in)>)

<sup>4</sup> See *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D*, United Nations Conference of Trade and Development, New York (downloadable from <[www.unctad.org](http://www.unctad.org)>).

<sup>5</sup> See *World Development Report 2007: Development and the Next Generation*, The World Bank, Washington DC.

<sup>6</sup> See *OECD Employment Outlook 2007*, Organization for Economic Cooperation and Development (OECD).