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**Dr. Rohit Kumar Rai**  
Assistant Professor,  
Department of Economics,  
Government Degree College,  
Khalilabad, Sant Kabir Nagar,  
Uttar Pradesh, India

## Role of demographic dividend in developed India: A multidimensional analysis

**Dr. Rohit Kumar Rai**

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### Abstract

The Indian economy is currently enjoying a demographic dividend. More than 62% of the population in India is between the ages of 15 and 59. This demographic dividend of India will be at its peak around 2041. This demographic dividend creates such a potential in the Indian economy, which can prove to be helpful in achieving the goal of developed India by 2047. But for this it is necessary that our young population is technically skilled and trained as per the demand of the modern industrial world and is physically and mentally healthy. Therefore, to take advantage of the demographic dividend, on the one hand, basic facilities like education, skill development, health and nutrition will have to be spread, while on the other hand special emphasis will have to be given to such sectors in the economy where labour is used in abundance. If we are not able to do this, then the demographic dividend can prove to be a demographic nightmare for us and even if we increase the economic growth rate, we cannot become a truly developed nation with the concept of inclusive growth. Therefore, a major challenge before the Indian economy is to properly manage the demographic dividend and use it for economic development.

**Keywords:** Nightmare, properly, demographic, dividend

### Introduction

The population of any country is actually the human wealth of that country, which is very important for economic development, because production is the result of human activities on physical resources. According to Prof. Hansen, "population growth is a prerequisite for economic development." Production is a function of natural resources, labour force, capital and technology. Labour force is most important in this, because it is the only dynamic means in the development process. According to Simon Kuznets, "other things being equal, every increase in population increases labour force". Therefore, it is clear that the greater the working labour force of a country, the greater will be the national production and the source of supply of labour force is the population. According to Dr. Bright Singh, population growth gives rise to intensive division of labour and extensive specialisation, makes economies of scale possible, which promotes technological progress and organisational improvements. According to Ragnar Nurkse, the excess labour force found in capital-deficient and labour-intensive underdeveloped countries can be converted into capital by making them technically trained and skilled. Thus, Ragnar Nurkse views population as human capital. According to Simon Kuznets, "The growth of economic production is a function of the store of tested knowledge". New knowledge is discovered and developed by humans, which is itself a result of population. Thus, the growing population creates creative minds which strengthen skill development, increase the store of new knowledge and consequently increase national production.

In April 2023, India surpassed China to become the world's most populous country. Currently India is not only the most populous country in the world but also the country with the largest youth workforce. Currently the Indian economy is enjoying demographic dividend. The increase in national output due to the increasing proportion of working population in the total population and the decreasing proportion of dependent population is called demographic dividend. According to the United Nations Population Fund (UNFPA), demographic dividend means, "the potential for economic growth that may result from a shift in the age structure of the population, primarily when the share of the working-age population (15 to 64) is larger than that of the non-working-age population (14 and below,

**Corresponding Author:**  
**Dr. Rohit Kumar Rai**  
Assistant Professor,  
Department of Economics,  
Government Degree College,  
Khalilabad, Sant Kabir Nagar,  
Uttar Pradesh, India

and 65 and above)". The condition of demographic dividend is achieved when the age structure of the population changes due to a decline in the birth rate and the proportion of adult population (15-59) in the total population increases and the dependency ratio falls. Dependency ratio is the ratio of dependent population (0-14 age group and above 60 years age group) to the working population (15 to 59 age group). In 1971, the dependency ratio was 0.9. It decreased to 0.79 in 1991, 0.75 in 2001 and 0.65 in 2011. This is completely opposite to the situation in developed countries and China, where dependency ratio is increasing. The reason for the decrease in dependency ratio and increase in working population is the decrease in birth rate. In 1950-51, the birth rate in India was 39.9 which has currently fallen to 16.7. We also call demographic dividend as demographic bonus, because in the case of demographic dividend, the existing labour force becomes comparatively more productive. The demographic dividend in India has emerged since the 1980s, when the birth rate began to decline. According to the 2011 census, the proportion of the population aged 15 to 59 years in India's total population is 62.5%, which will peak around 2036, when it will reach about 65%. India has more than 600 million people aged 18 to 35 years, of which 65% are below 35 years of age. According to the Economic Survey 2018-19, India's demographic dividend will peak around 2041, when the share of the working age group, i.e. 20-59 years of population, is expected to reach 59%. In 2020, the age of an average Indian was 29 years, while it was 37 years in China and the US, 45 years in Western Europe and 49 years in Japan. Currently, the proportion of working age population in developed countries and China is extremely low. At present, Japan has the largest population of elderly people. At present, 28 percent of Japan's population is 65 years or older, which is three times the world average. In the year 2018, India's working age population (people aged 15 to 64 years) has become larger than the dependent population (this includes children aged 14 years or less and people aged above 65 years). This boom in the working age population is going to last till 2055 or 37 years from its beginning. In his famous book *Dreaming with Brics: The Path of 2050*, Goldman Sachs has expressed confidence that by 2050 India will be the country with the highest gross national product among the BRICS countries and the reason for this is the demographic dividend that India will receive. Therefore, it is clear that India has a comparative advantage over other countries in terms of labour force. According to Prime Minister Narendra Modi, 3D will play an important role in India's future rapid Economic growth. Here 3D means Population Dividend, Demand and Democracy. China is behind India in all these three things.

### **Role of population dividend in rapid economic growth**

At present, India is not only the country with the largest population in the world, but the Indian economy is also the fifth largest economy in the world. According to Finance Minister Nirmala Sitharaman, by the financial year 2027-28, India will be the third largest economy in the world with an economy of 5 trillion dollars and by 2047, India will become a developed economy with a GDP of 30 trillion dollars. At present, India's economy is 3.4 trillion dollars and after America, China, Japan and Germany, India is the fifth largest economy in the world. Demographic dividend will play an important role in achieving the goal of developed India by 2047. Due to the Indian labour force

being young and comparatively cheap, not only domestic investment but also foreign investment will increase and economic activities will expand rapidly. It is worth mentioning that the main reason for many multinational companies to invest in India is the cheap and young labour force here. The demographic dividend received by India can contribute to increasing India's GDP in the following ways.

- The Indian economy is a capital deficit economy where the rate of capital formation is low. A major reason for this is the low saving rate in the economy. With the increase in the working population and decrease in the dependency ratio, there will be more surplus left for investment after current consumption, which will increase the saving rate. Increasing the saving rate will help in increasing the economic growth rate.
- Due to higher working population and lower dependency ratio, people will have more income left after consumption, which they will spend on their health, this will make the labour force more productive.
- Due to a decrease in birth rate and a younger age structure, women's entry into the labour market will increase, this will expand economic activities. It is worth mentioning that in India women remain busy in household chores and child rearing and are unable to enter the labour market. Due to a decrease in birth rate and dependency ratio, the time spent by women in child care will decrease and women will be able to give more time to economic activities related to the development of the economy.
- Due to a decrease in birth rate and dependency ratio, public expenditure on basic facilities like education and health will decrease and government capital expenditure will increase.
- Demographic dividend will strengthen both the supply side and the demand side of the economy. At present, a sharp decline in the population of many countries of the world has been observed such as Japan, Ukraine, Poland, Italy etc. It is possible that the supply side of the economy of these countries may not be affected by the decline in population, because these countries are technologically advanced. Machines can replace humans in these countries. But a sharp decline in population can negatively affect the domestic demand in these economies and if the exports of these countries do not increase, then the decline in population can reduce the economic growth of these countries. In the Indian context, demographic dividend will not only strengthen the supply side of the economy but will also create a huge domestic market for Indian products.

K.S. James concluded in his study that there is a close positive relationship between demographic dividend and economic outcomes. For example, Bloom and Williamson (1988) concluded from a study of 78 Asian and non-Asian countries that an increase in the working population has a significant positive impact on economic growth. According to their estimate, demographic dividend has contributed about one-third to the rapid economic growth of East Asian countries. A study of several countries conducted by Berman and his colleagues in 1999 also clearly shows a close relationship between age structure and economic outcomes. In his study published in 2001 after studying the data of Scandinavian countries since 1980, Anderson also found a close relationship between economic growth and

working population. Bloom and his colleagues, in their articles published in 2003 and 2006, have found a positive relationship between changes in age structure and economic growth in India and China by studying data from several countries between 1996 and 2000. It is noteworthy that the demographic dividend received by China ended in 2015. Earlier, demographic dividend had played an important role in China's economic growth of 9 to 10 percent.

The majority of the labour force in India is engaged in the agricultural sector. According to a 2013 report of the Ministry of Labour and Employment, Government of India, in 2012, an estimated 56.6 per cent of rural youth in the age group 15-29 years continued to rely on agriculture, forestry, or fishing as a source of livelihood (GoI 2013a). Ragnar Nurkse, W. Arthur Lewis and Ranis-Fei show in their model that the disguised unemployed found in the agricultural sector in underdeveloped countries can be transferred to the industrial sector by training them technically and can be used as a substitute for capital. This model can also be adopted in the context of the Indian economy. After the agricultural sector, the manufacturing sector is the one that requires a large scale labour force. According to the second quarter report of the Quarterly Employment Survey conducted by the Union Ministry of Labour, the manufacturing sector contributes about 39% of all employment opportunities created in the nine selected sectors. But the contribution of the manufacturing sector in India's GDP is equal to 16-17%. Whereas the contribution of the manufacturing sector in China's GDP is equal to 28%. There are immense possibilities of development of the manufacturing sector in India in the future. The need is to properly exploit these possibilities with the help of demographic dividend. To promote the manufacturing sector, the government launched the National Manufacturing Policy in 2009 and the "Make in India" program in 2014. The 'Atmanirbhar Bharat' campaign announced in the year 2020 also aims to promote local manufacturing to make India economically self-reliant. Due to India's demographic dividend and availability of cheap labour force, there are huge possibilities in the manufacturing sector in the country. More than 45% of manufacturing production in India comes from the MSME sector. The MSME sector mainly uses labour intensive technology. Hence, with the help of demographic dividend, there are immense possibilities of development of manufacturing sector and agriculture sector in India. The dream of developed India can be realised by bringing these possibilities to reality.

### **Inclusive economic growth and population dividend**

To realize the dream of a developed India by 2047, not only rapid economic growth is required but it is also necessary that economic development is inclusive. That is, with economic development, there should be adequate employment generation, poverty reduction and improvement in the living standards of the common man. This is possible only when the process of economic development is taken forward with the help of population dividend. It is worth mentioning that after 1991, India's economic growth rate has increased but it has not been inclusive enough. According to the data of NSS, by December 2023, 44% of the youth in the age group of 20 to 24 years were unemployed and 14% of the youth in the age group of 25 to 29 years were unemployed. The Centre for

Sustainable Employment of Aziz Premji University has released a report titled "State for Working India 2023". According to this report, there is a staggering unemployment rate of 42.3% among graduates under the age of 25. According to the data of Multidimensional Poverty Index- MPI 2023 released by United Nations Development Programme- UNDP and Oxford Poverty and Human Development Initiative- OPHI, more than 230 million people are poor in India. The main reason for this is the isolation of a large part of the population from the mainstream of economic development. Therefore, it is clear that if the process of economic development is taken forward with the help of population dividend, then we can achieve the objective of employment generation along with economic development and can achieve the goal of rapid and inclusive economic development.

### **Demographic dividend vs demographic nightmare**

According to some economists, if proper policy is not adopted then Demographic Dividend will turn into Demographic Nightmare. In this situation, India's huge youth population will be a burden on the economy, which will not only slow down the economic growth rate but the already prevailing socio-economic problems will take a terrible form. Many economists have expressed doubts on whether the Indian economy will be able to use the potential generated by demographic dividend. These economists have the following arguments-

- The Indian economy is a service-oriented economy. The service sector contributes about 56% to the GDP, while only 30% of the total population is employed in the service sector. The service sector is primarily a technology-oriented sector that requires skilled, competent and professionally trained people, but most of India's labour is unskilled and physical labor based. The average economic growth rate in India has been 7 to 8 percent in the past years, but this economic growth of India has been of employment-less type. The main reason for this is that the labour force in India is not skilled and trained as per the demand of modern industry. According to UNDP HDR 2020, only 1 in 5 people in India's labour force is skilled. With a figure of 21.2%, India ranks 129<sup>th</sup> out of 162 countries in terms of skilled labour. Whereas in India's neighbouring countries Pakistan it is 28%, Bangladesh 26%, Myanmar 28%, Sri Lanka 39% and Nepal 42%. The report defines skilled workers as people who are 15 years of age or older and who have an "intermediate" or "advanced" level of education as classified by UNESCO. According to the India Skills Report, 65 per cent of India's rapidly growing population is under the age of 35 and many of them lack the skills needed for a modern economy. As per estimates, only 51.25 per cent of youth are considered employable. However, it is worth noting that this has increased from about 34 per cent to 51.3 per cent in the last decade.
- Taking advantage of the demographic dividend will depend on India's economic policies. There is a political confusion on economic reforms in India. Along with this, there is also a lack of administrative reforms in India, due to which business related activities are not easy in India. Rigid labour laws, lack of clear policies for land acquisition and India's low achievement in the field of infrastructure, especially electricity, are such

things due to which India cannot take proper advantage of the demographic dividend.

- The qualitative aspect of India's population is weak. Most of India's labour force is unskilled, inefficient and unhealthy and does not receive any vocational training. Basic facilities like education, health, drinking water are not available to everyone in India. In UNDP's HDI ranking, India ranks 134th among 193 countries. According to the National Health Profile 2022, India's maternal mortality ratio (MMR) was 97 per 1, 00, 000 live births in 2018-2020 and the infant mortality rate (IMR) in the country was 28 in 2020. In this context, India's position was also lower than Sri Lanka and Bhutan among SAARC countries. The total number of patients notified for TB in 2020 was 18, 12, 151. In 2021, out of 5.91 crore people screened under the National Program for Prevention and Control of Cancer, Diabetes, Heart Disease and Stroke (NPCDCS), 7.6% were found to be suffering from hypertension, 5.93% diabetes, 2.49% hypertension and diabetes, 0.255% heart disease, 0.11% stroke and 0.19% common cancer. According to the report of National Family Health Survey-5, 2019-21, 35.5 percent of children under the age of 5 are underdeveloped, 19.3 percent are underweight and 32.1 percent are weak. Therefore, with an unhealthy and malnourished labour force, India cannot reap the benefits of demographic dividend.
- The Economic Survey 2023-24 states that the Indian economy needs to create an average of about 78.5 lakh jobs annually by 2030 in the non-agricultural sector to meet the needs of the growing workforce. But according to some economists, this is not possible due to the increasing prevalence of AI and robotics. However, according to the Economic Survey 2023-24, with India's deep demographic dividend and very young population, AI and robotics create both risks and opportunities. AI and robotics have given rise to new employment possibilities in India. It is noteworthy that India ranks second in the world in telecommunications, computer, information service exports.

### Government Action

To take advantage of the demographic dividend, the government is emphasizing on skill development on one hand and on the other hand public facilities are being expanded for nutrition and better health. In 2014, the Ministry of Skill Development and Entrepreneurship was created by the government. Under the Skill India program, the government aims to provide skills to at least 30 crore people by the year 2022. Under the Skill India program, the government has launched the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) in which the government bears the training fee. The objective of this scheme is to provide short-term training (150-300 hours) to the people. According to the Union Budget 2024-25, more than 1.42 crore people have been successfully trained under the Pradhan Mantri Kaushal Vikas Yojana (PMKVY) since 2015 and more than 1, 000 educational institutions have been linked as Skill India Centres. There are 14, 955 ITI's working under the 'Craftsman Training Scheme (CTS)' for long-term vocational training, in which a significant increase in women's participation has been seen. The Skill India Digital Hub launched in August 2023 provides a digital ecosystem for skill development and coordinates government initiatives in the context of skill development,

education and employment. The government is also continuously encouraging skill development through schemes like PM Vishwakarma Yojana. A new education policy was announced in 2020 to make education employment-oriented and link it to skill development. At present government expenditure on education is 3% of GDP which has been proposed to be increased to 6% in the National Education Policy.

Along with education and skill development, the government has also started many schemes and programs for nutrition and good health. National Rural Health Mission was started by the Central Government in 2005 to reduce maternal mortality and infant mortality rate. In 2013, National Health Mission was launched by integrating National Rural Health Mission and National Urban Health Mission. Government of India has started National Nutrition Mission (NNM) or Poshan Abhiyan to ensure "malnutrition free India" by 2022. The aim of Anaemia Mukh Bharat Abhiyan started in 2018 is to reduce the annual rate of decline of anaemia from one to three percent. The National Food Security Act (NFSA) started in 2013 aims to ensure food and nutrition security for the weaker sections. Integrated Child Development Services (ICDS) scheme started in 1975 aims to provide food, preschool education, primary health care, vaccination, health check-up and referral services to children below 6 years of age and their mothers. Along with this, through Eat Right India, Fit India Movement and Yoga campaign, the government is promoting healthy food and healthy lifestyle.

### Future Plan

The benefits of demographic dividend will not be reaped automatically in India. We face many challenges in this context. Without appropriate policies, an increase in the working-age population may lead to unemployment, which may increase economic and social risks. To reap the benefits of the population dividend, there is a need for visionary policies in education, skill development, health care, gender sensitivity and providing rights and choices to the younger generation. Countries like Singapore, Taiwan and South Korea have already shown us how the demographic dividend can be leveraged to achieve incredible economic growth by adopting visionary policies and programmes to empower the youth in terms of education, skills and health. There are important lessons for India from these countries. India is among the worst in Asia in terms of private and public human capital expenditure. There is currently a need to invest more in children and adolescents, especially in nutrition and education during childhood. Given that the workforce in India begins at an early age, there is a need for greater focus on skills and entrepreneurship right from secondary education, as has been done in South Korea. Health expenditure in India has not kept pace with India's economic growth. Public expenditure on health in India has remained stagnant at around 1% of GDP, while India's average annual growth rate has been above 7% in the past years. Data shows that better health leads to better economic output. Hence, it is important to draft policies to promote health during the demographic dividend. We not only need more finance for the health sector but also need to ensure better healthcare facilities from the available funds. In the future, reproductive health services have to be made accessible to all on a rights-based approach. We need to provide universal access to high-quality primary education and basic healthcare. The unmet need for family planning in India is 9.4% as per the 2019-21 National Family and Health Survey, which is higher than 3.3% in China and

6.6% in South Korea. Hence, this gap needs to be bridged. Along with focusing on education and health, India will have to rethink its economic policies. We have to adopt such an economic policy which can utilize the young labour force and increase the economic growth rate. In the current scenario, a policy of “employment oriented economic growth” has to be adopted so that the labour force generated by demographic dividend can be used. For this, we have to identify such sectors in the economy where labour is used in abundance such as the manufacturing sector. The manufacturing sector is less exposed to AI and robotics as industrial robots cannot completely replace human labour and also cost more than human labour. Along with this, emphasis should also be laid on agricultural diversification and commercialization of the agricultural sector so that the labour force dependent on this sector can be made more productive.

### Conclusion

In conclusion, demographic dividend is a boon for us in realizing the dream of developed India by 2047. Although the development of AI technology and robotics has definitely reduced the importance of labour in economic development, but there are many sectors in the Indian economy where we can register the highest growth through young labour force. Manufacturing sector is one of these sectors. Along with this, India's huge young population should not be seen only from the point of view of physical labour but it should also be seen from the point of view that India is the country with the youngest brains in the world. The development of a person's brain depends on education and physical ability depends on his health. Therefore, in order to realize the dream of a developed India, emphasis will have to be laid on education, skill development, health and nutrition to take advantage of the demographic dividend so that the qualitative aspect of the Indian population can be strengthened and our young population can become more economically efficient and productive. We will also have to keep in mind that if proper reforms are not done in the socio-economic sector and a proper economic policy is not adopted, then this huge young population will be like a burden on India and the demographic dividend will turn into a demographic nightmare.

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