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**India's Demographic  
Dividend: Potential and  
Challenges**

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## INDIA'S DEMOGRAPHIC DIVIDEND: POTENTIAL AND CHALLENGES

### Context

- Recently, the International Monetary Fund (IMF) has suggested that India needs to focus on investing heavily in education and health to ensure that its growing, young population is adequately employed.

### Understanding the Demographic Dividend

- It refers to the **economic growth potential** that **results from shifts in a population's age structure**, mainly when the share of the **working-age population (15 to 64 years old)** is larger than the **non-working-age population (14 or younger and 65 or older)**.
  - ♦ The change in age structure is typically brought on by a decline in fertility and mortality rates.

### Key areas where a country can find demographic dividends

- **Savings** — During the demographic period, personal savings grow and can be used to stimulate the economy.
- **Labour Supply** — More workers are added to the labour force, including more women.
- **Human Capital** — With fewer births, parents are able to allocate more resources per child, leading to better educational and health outcomes.
- **Economic Growth** — GDP per capita is increased due to a decrease in the dependency ratio.

### Demographic Dividend of India

- India, with its large and young population, is currently experiencing a demographic dividend.
  - ♦ It is expected to last until 2055, providing India with a unique opportunity to boost its economic growth.
- India is expected to add another 183 million people to the working-age group between 2020 and 2050.
- This change in the age structure of the population can lead to a 'demographic dividend' of economic growth if it is accompanied by sustained investments in education and health, and policies that promote labour force participation.

#### Potential of India's Demographic Dividend

- According to the **IMF**, the demographic dividend could add about 2 percentage points per annum to India's per capita GDP growth over the next two decades.
- A report by the **Confederation of Indian Industry (CII)** suggests that India's demographic dividend could boost India's GDP growth from the current \$3 trillion to \$9 trillion by 2030 and \$40 trillion by 2047.

### Need for Investment in Education and Health

- According to the **IMF's Asia and Pacific Department**, if India really wants to benefit from this population adding to the labour force, it has to invest big time in both education and health.
  - ♦ It emphasised that he would prioritise that much more so than other kinds of spending.
- The labour force needs to have the right skills, competing with AI and other such challenges.

### Current Economic Scenario

- Growth in India was led by **public investment and private consumption**.
- While **Public Capex** spending (for example infrastructure) had a 'very beneficial' impact on growth, the issue was whether it had crowded in private investment.
- The IMF has projected a **growth rate of 6.8% for India's economy in FY 2024/25** notwithstanding the high rate of unemployment among youth, which according to some estimates was just above 40% in 2022-23.
  - ♦ According to the IMF, private investment is on the weaker side, and it is continuously improving and argued as good for the future.

### Challenges and Associated Risks

- **Lack of Job Creation:** The World Bank has warned that South Asia, including India, is not making use of its demographic dividend as the pace of job creation in the region fell well short of the growth in the working-age population.
  - ♦ Even before the Covid-19 pandemic hit, unemployment levels in India had hit a 45-year high.
- **Low Human Capital Base and Lack of Skills:** Poor human capital formation is reflected in low employability among India's graduates and postgraduates.
  - ♦ According to **ASSOCHAM**, only 20-30% of engineers find a job suited to their skills. It is a big challenge as skilling and reskilling are vital in current times because of the increasing new fields and opportunities.
- The **ongoing transformation** of India's economy from primarily agrarian to more non-agrarian presents **two challenges**:
  - ♦ Changing people's skills to transit from the agricultural sector to either manufacturing or services, and;
  - ♦ Requiring workers to change location, as non-agricultural employment opportunities tend to be in urban centres far from rural India.
- **Health Crisis and Macroeconomic Shocks:** With its large population, India faces many challenges, including coping with today's health crisis, creating more jobs, managing macroeconomic shocks and mitigating climate change.
- **Gender Disparity:** While gender inequality remains an issue in many parts of India, there has been significant progress in recent years toward gender equality.
  - ♦ It includes increasing levels of education and workforce participation among women, which can help to further increase the size and productivity of the workforce.
- **Inadequate Investment in Education and Health:** To reap the benefits of the demographic dividend, India needs to invest heavily in education and health.
  - ♦ It is crucial to equip the workforce with the right skills to compete in the modern economy.

### Way Forward

- To reap the benefits of the demographic dividend, India needs to invest heavily in education and health.
- It is crucial to equip the workforce with the right skills to compete in the modern economy.
- Forward-looking policies incorporating population dynamics, education and skills, healthcare, gender sensitivity, and providing rights and choices to the younger generation are needed.

### Mains Practice Question

[Q] Critically examine the challenges India faces in translating its demographic advantage into economic gains, including issues related to education, healthcare, and employment



