

Figure 25. Ratio of Working Age to Non-Working Age Population

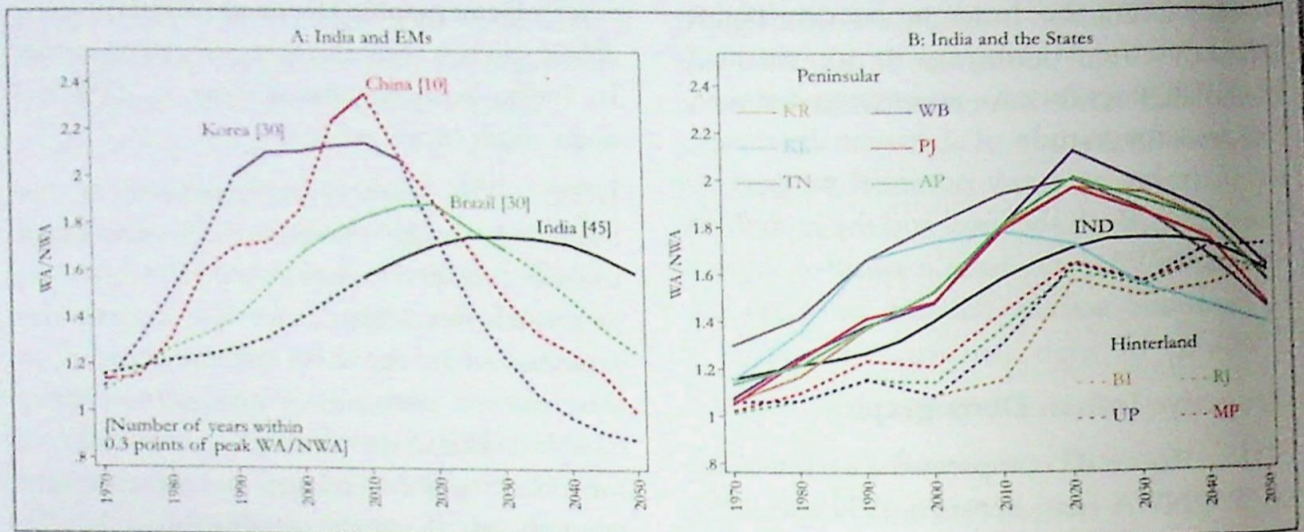
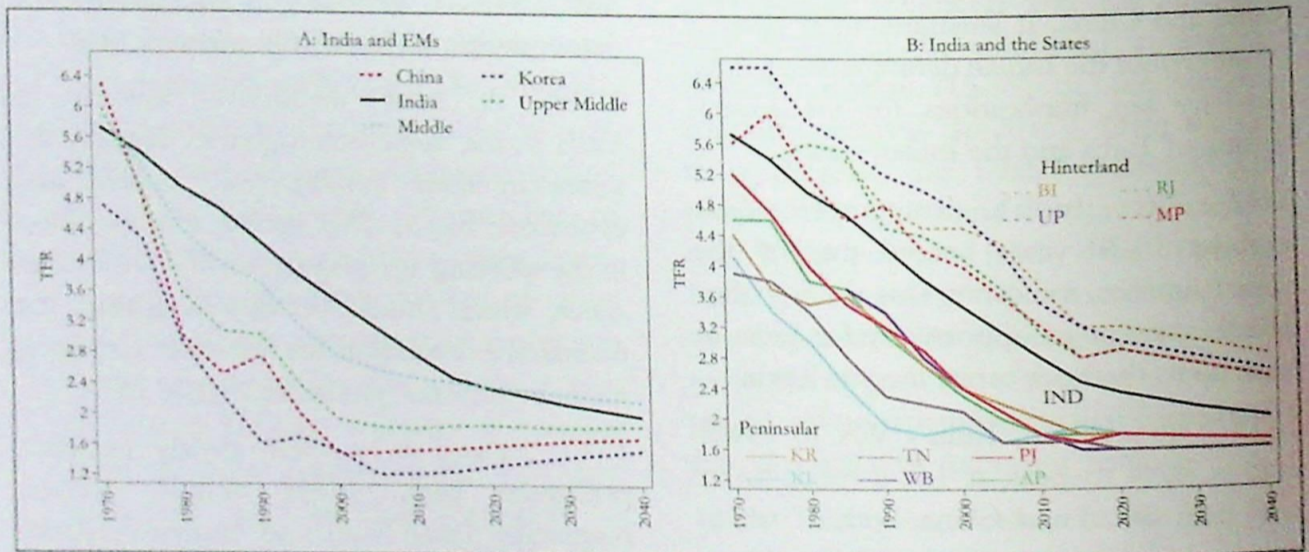


Figure 26. India's Gradual TFR Decline: A Double-Edged Sword



Source: Panel A: UN World Population Prospects (2015). Panel B: Census of India and projections by Prof. Irudaya Rajan, CDS, Kerala (for Fig. 28 & 29).

plateauing out towards the middle of the century.

1.118 This divide in the WA/NWA ratio of the peninsular and the hinterland states can be traced to the difference in their levels of TFR (see Fig. 26B, which is the fertility counterpart of Fig. 25B). Demographically speaking, therefore, there are two Indias, with different policy concerns: a soon-to-begin-ageing India where the elderly and their needs will require greater attention; and a young India where providing education,

skills, and employment opportunities must be the focus. Of course, heterogeneity within India offers the advantage of addressing some of these concerns via greater labour mobility, which would in effect reduce this demographic imbalance.

Growth Consequences

1.119 This demographic pattern will have two important growth consequences. First, it seems that the peak of the demographic dividend is approaching fast for India. Figure

28A shows that this peak will be reached in the early 2020s for India as a whole; Figure 28B shows that peninsular India will peak around 2020 while hinterland India will peak later (around 2040).

1.120 Table 3, based on the methodology in Mody and Aiyar (2011), calculates the estimated demographic dividend for India (the *additional* growth due to demographic factors alone) for the previous decade and for the next four. The magnitudes peak in 2011-20 at 2.6 percentage points and start declining thereafter. The incremental growth boost in the 2020s, for example, is estimated to be about 1.8 percentage points. In other words, India will approach, within four years, the peak of its demographic dividend. (Note: this does not mean that the demographic dividend will turn negative; rather, the positive impact will slow down.)

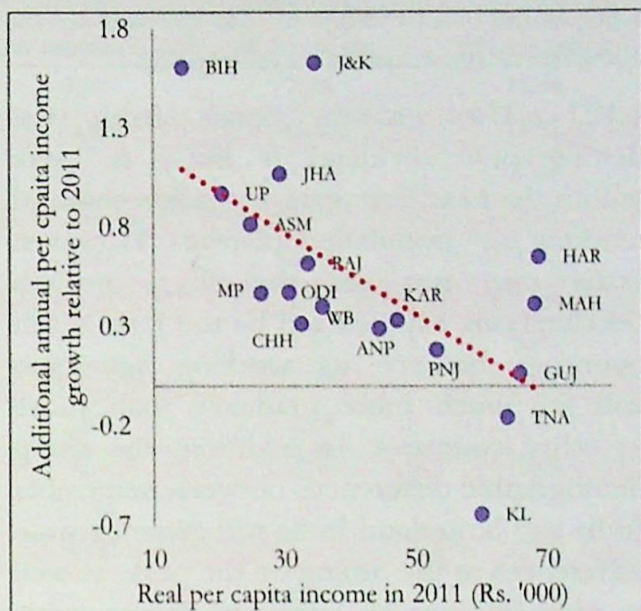
Table 3. Projected Demographic Dividend for India

Decade	Additional average annual PCI growth due to the demographic dividend (DD)	WA/NWA (WA/Total Population) at the start of decade
2001-10	1.44	1.33 (57.1)
2011-20	2.62	1.53 (60.5)
2021-30	1.81	1.81 (64.4)
2031-40	1.92	1.72 (63.2)
2041-50	1.37	1.72 (63.3)

Source: Survey Calculations.

1.121 The second growth consequence relates to the distributional impacts across India. One way of assessing this is to compare the demographic dividend for the different states in terms of extra growth against their current level of per capita GDP.

Figure 27. Per Capita Income in 2011 and the Demographic Dividend (2011-31)¹⁶



Source: Survey Calculations.

Figure 27 plots these two variables. The good news is that there is a negative relationship, which means that on average the poorer states today have more of a growth dividend ahead of them. This means the demographic dividend could help income levels across states converge.

1.122 The encouraging overall pattern masks some interesting outliers. Bihar, Jammu and Kashmir, Haryana, and Maharashtra are positive outliers in that they can expect a greater demographic dividend over the coming years than would be suggested by their current level of income. This extra dividend will help Bihar converge, while already rich Haryana and Maharashtra will pull further away from the average level of income per capita in India. On the other hand, Kerala, Madhya Pradesh, Chhatisgarh, and West Bengal are negative outliers: their future dividend is relatively low for their level of income. This will make the poorer states

¹⁶ It is assumed that every state earns the same growth dividend from an increase in the WA/NWA ratio as the all-India average. This is a critical assumption, and one that may not be true, since the actual dividend will depend on the governance, the policy framework in place at the state level, and also on internal migration between states.

fall back, unless offset by robust reforms and growth, while the relatively rich Kerala will probably converge to the average as its growth momentum declines rapidly.

1.123 The growth boost from the demographic dividend is likely to peak within the next five years, as India's share of working age population plateaus. However, India may not see the sharp growth decelerations experienced by the East Asian countries because its working age ratio will fall much more gradually than those in other countries. In addition, the sharp demographic differences between peninsular India and hinterland India will generate wide differences in the timing of the peak, as well as opportunities to attenuate demographic imbalances via greater labour mobility (see Chapter 12). Even so, the urgency of reforms to maximise this soon-to-recede dividend cannot be overstated.

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APPENDIX 1. CURRENCY WEIGHTS FOR ALTERNATIVE EXCHANGE RATE INDEXES

		IMF	RBI	Asia-H	Asia-M
		25 countries	36 currencies	30 countries	30 countries
1	United States	17.82	8.80	7.86	11.44
2	China	12.47	10.84	43.51	31.12
3	Germany	9.08		3.36	5.04
4	Japan	6.13	2.72	2.10	3.15
5	United Kingdom	5.58	2.36	2.60	3.52
6	France	4.63		1.61	1.96
7	Belgium	4.53		2.64	3.95
8	Italy	4.33		1.39	2.09
9	Korea,	4.26	2.65	2.26	3.39
10	Singapore	3.53	3.37	2.30	3.45
11	United Arab Emirates	2.84	11.44		
12	Australia	2.47	2.36		
13	Netherlands	2.39		0.94	1.41
14	Canada	2.20	0.69		
15	Spain	2.12			
16	Taiwan	1.96	1.18	0.83	1.24
17	Malaysia	1.90	2.07	1.12	1.68
18	Russian Federation	1.85	0.97	1.12	1.46
19	Thailand	1.70	1.28	1.18	1.77
20	Indonesia	1.51	3.02	0.71	1.06
21	Switzerland	1.42	4.80	0.70	0.94
22	Brazil	1.41	1.51		
23	Sweden	1.34	0.40		
24	Israel	1.28	0.95	0.77	1.16
25	Turkey	1.26	0.69	0.96	1.01
26	Saudi Arabia		5.51	1.93	1.94
27	Hong Kong		3.41	4.01	5.63
28	Kuwait		2.52		
29	Nigeria		2.49		
30	Iran		2.38	0.55	0.82
31	South Africa		2.08	0.57	0.86
32	Qatar		1.89		
33	Vietnam		0.81	5.80	3.36
34	Egypt		0.75		
35	Sri Lanka		0.74	0.56	0.85
36	Bangladesh		0.73	1.21	1.09
37	Mexico		0.58	4.45	2.57
38	Kenya		0.45		
39	Pakistan		0.36		

1) Japan		0.25		
2) Philippines		0.24	1.36	0.88
3) Poland			0.90	0.64
4) Czech Republic			0.71	0.51
Sum total	27.98	12.69	11.56	15.62
Total weight	100.00	99.98	100.00	100.00
Top 20 countries	88.91	88.91	92.76	91.33

ASIA-H (ASIA-M) refers to the notional basket where Asian countries are given considerably (moderately) more weight than the other 2 indices. The top 3 currencies under each of the weighting schemes are shown in bold.

How are these weights determined? For each trading partner, we take two weights: the first is based on its actual share in India's manufacturing imports (say W1); the second is computed by focusing on those countries that have increased their global manufacturing export share between 2010 and 2015 based on UNCTAD data. For each such country, we calculate the ratio of its increase to the sum of the increase of all countries (W2). So, for example, if ten countries increased their collective share by say 10 percentage points, including a 4 percentage point increase by China, China's share will be 0.4, and similarly for other countries. In ASIA-H, we assign equal weights to W1 and W2. In ASIA-M, we assign weights of 0.75 and 0.25, respectively for W1 and W2.

APPENDIX 2: DETAILS OF SURVEY ON SANITATION

Sample Size: The sample used for the rapid study consisted of respondent categories spread across lifecycle:

- adolescent girls (10-19 years of age);
- pregnant women;
- women with children of age 0-60 (completed) months.

Men from a sub-sample of households were also covered under the study for a comparative insight.

For this purpose, the country was divided into 5 geographic zones- Highest IHHL coverage, High IHHL coverage, Medium IHHL coverage, Low IHHL coverage and Lowest IHHL coverage and 2 states were selected from each zone (1 low performing and 1 high performing state with respect to IHHL construction). Two districts each from the states, 12 PSUs from each district and 18 households from each PSUs resulted in a sample frame of 4320 households, with 5705 individuals (4255 women and 1450 men).

State and districts were selected based on IHHL coverage. One High performing and one low performing state was selected from each zone Similarly one high performing and one low performing district was selected from each state. Also, sample of 18 respondents was randomly selected from the sampling frame, equally divided among the three respondent categories. A limitation of this study is that it is not a nationally representative sample.

The Economic Vision for Precocious, Cleavaged India

02 CHAPTER

"[T]he ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else."

– John Maynard Keynes

Since about 1980, India's growth performance has been robust, especially for a democracy. This has been backed up by policy reforms that have made India more open to flows of goods and capital and have reduced the size of the public sector, both in micro-efficiency and macro-fiscal terms. Yet, there are serious challenges that might impede further rapid progress which emanate in part from the fact that India started out as a poor democracy with deep social fissures (a "precocious, cleavaged" democracy). These long-standing challenges can be classified as an ambivalence about property rights and the private sector, deficiencies in state capacity, especially in delivering essential services, and inefficient redistribution. Meeting these challenges is not just a matter of overcoming vested interests; it may also require broader societal shifts in ideas and narratives.

I. INTRODUCTION

2.1 Painting with a broad-brush, the economic vision animating Indian policy can be divided into two phases. First came nearly half a century of socialism, where the guiding principles were economic nationalism and protectionism. During those years, the public sector occupied the commanding heights and the government intruded into even the most micro-decisions of private firms: their investing, producing, and trading. This framework was rejected after 1991 (Bhagwati and Panagariya, 2013). But even now it remains unclear as to what has replaced it. One might ask: what exactly

has been repudiated, to what extent, and how? In short, what is the vision? This is a question not for any one government or party but for the broader Indian ecosphere of ideas.

2.2 At one level, the answer to this question might seem obvious. India has replaced its erstwhile socialist vision with something resembling the "Washington Consensus": open trade, open capital, and reliance on the private sector - essentially the same development model that has been tried and proven successful in most countries of Eastern Asia¹. Reforms along these lines have been adopted by every

¹ Excluding, of course China, which is a special case.

Indian government over the past quarter century. For example, in the last two years, the current government has institutionalized a commitment to low inflation in the new monetary policy framework agreement (Parussini 2016). There has also been a great effort to reduce the costs of doing business and create an environment friendly to investment, both domestic and foreign. And in the last six months (as detailed in Chapter 1), the government has secured passage of major measures such as the Aadhaar Bill, the Bankruptcy Code, and the GST constitutional amendment.

2.3 The result of all these reforms over the past 25 years has been a remarkable transformation of India from a largely closed and listless economy to the open and thriving economy that we see today. The country's progress is not only qualitative. It is also measurable. Consider, for example, four standard measures: openness to trade; openness to foreign capital; the extent to which public sector enterprises dominate commercial activities; and the share of government expenditure in overall spending.

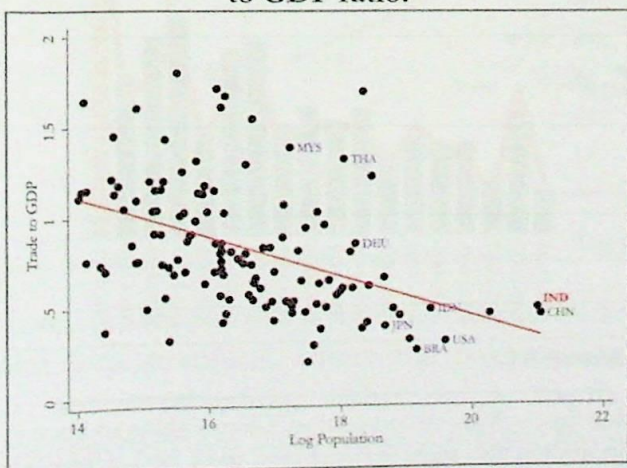
2.4 Start with the standard measure of openness, the trade-to-GDP ratio (exports

plus imports expressed as a share of gross domestic product). A fundamental truth of geography is that large countries tend to trade less than small countries. Being large makes the benefits of trading with the outside world very low relative to trading within the country. The opposite is true for small countries: lacking an internal market, their benefits of trading with the world are relatively large and hence they tend to have higher trade-to-GDP ratios.

2.5 Figure 1(a) plots, for several countries, their overall trade-to-GDP ratio (on the vertical axis) against their size (measured in terms of the log of population on the horizontal axis). The line shows the average relationship between trade outcomes and country size. That line is downward-sloping, confirming the geography-based intuition that large countries trade less. For example, the large countries such as China, India, Brazil, the United States, and Japan are all in the lower right-hand corner with low trade (below 50-55 per cent) ratios. But India is "above the line", meaning that it trades far more than would be expected for a country of its size – a stark turnaround from the pre-1991 situation when India was an under-trader.

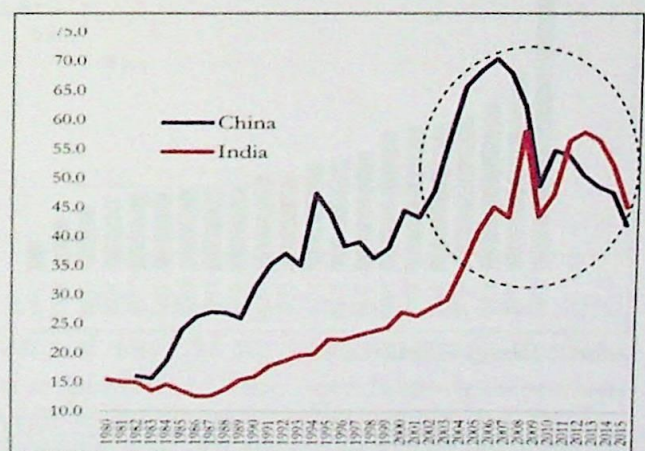
Figure 1. Trade (of Goods and Services) to GDP Ratio

Figure 1(a). Trade (of Goods and Services) to GDP ratio.



Source: WTO

Figure 1(b). Trade (of Goods and Services) to GDP Ratio.



Source: WTO