



India targets 'demographic dividend' as most populous nation

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Each hour in India sees the arrival of a staggering 3,500 new births – 35 times the number of those born hourly in the United Kingdom. Indeed, India's population has grown by over 1 billion people since 1950, the year in which the UN first began keeping population records. In that year, and every year until now, China has been the largest country by population on the planet. No longer.

While it's a tricky business to get exact numbers when dealing with demography – India hasn't had a census since 2011 – the UN believes that this year India will overtake China as the most populous country. Moreover, this demographic handing of the baton from China to India has come earlier than expected, due to both faster than anticipated growth in India and an earlier than forecast peak in China. In 2019, estimates saw this moment occurring in 2027.

Although the total population numbers are currently very similar, the overall picture of the Chinese and Indian populations could not be more different. India has one of the youngest populations in the world with a median age of 27.6 (China's is 38 and the UK's 40). Indeed, the sheer scale of India's population means that a remarkable 250 million people sit in the 'youth' cohort (15-25 years), meaning that India's working age population (15-64 years) is expected to hit 1 billion in the next decade with 10 million people added to the workforce each year (against China losing 1.6 million workers per year).

As well as a very different demographic structure, India and China also differ notably in the context of urbanisation. India is a much more rural economy with a lower degree of educational attainment – around one in three Indians live in cities, compared with more than half of Chinese. Although China's population is ageing and shrinking, it has the advantage that older, less-educated workers are being replaced with younger, more-educated (and healthy) ones, which is supportive of productivity gains.

The combination of existing scale and further growth in the Indian working age population clearly offers both extraordinary opportunities and challenges. Rising incomes, especially among the urban population, allows people to access new products and services, whether white goods for the home, personal and lifestyle products such as clothes, cosmetics and jewellery, or motorcycles or cars. Meanwhile the vast rural population will be creating demand for more basic products in the food and personal care categories where the key challenge for companies to navigate is the distribution channel across such a large country with differing regional preferences.

It is at this point where policy matters – many of the key reforms implemented by the current government under Narendra Modi have sought to modernise the economy in order to meet the challenge of creating sufficient jobs to match the huge supply of labour. The Goods and Services Tax of 2017 was brought into effect in order to greatly simplify cross-border movement of goods, subsuming a byzantine system of taxes and levies, customs duties and surcharges. While 'Digital India' is an ongoing programme to connect rural areas with high-speed internet and open the country's

digital infrastructure to all, including the Direct Benefit Transfer, which transfers subsidies directly to people through bank accounts.

This in turn has brought significant numbers into the banking system for the first time – supporting the growth of the financial sector in India, which is itself increasingly driven by digital banking and runs hand-in-hand with the growth of the e-commerce sector. Penetration of financial products remains very low, with less than 10% of household assets in equity markets/investment funds, with insurance penetration even lower; the increase in access to financial services is just one of many examples of where Indian companies are well placed to offer the services required by an increasingly aspirational middle class. India's increase in per capita income should move it from lower middle-income to upper-middle income status by the end of the decade.

It is this 'New India', increasingly driven by high-tech and value-add exports that has dramatically led to its post-Covid recovery, with a concerted policy effort to push India up the manufacturing value-chain and take advantage of global supply chains looking to diversify away from sole-reliance on China (the so-called China+1 approach).

India has been sharply gaining market share in the high-tech manufacturing exports segment over the past half decade – Apple now makes approximately 6% of its iPhones in India, with significant plans to increase production further. A huge variety of tech start-ups have emerged in recent years across all sectors including financial services, e-commerce and food delivery, creating a digital economy that can allow all industries to increase productivity – using digital infrastructure to allow small and medium enterprises to act like large ones through access to capital, technology and larger end markets. This process is already underway and underpins India's world beating growth of 7.7% over 2022/23.

The so-called demographic dividend is not a given – demographic destiny must be met and supported by strong economic policy that generates sufficient jobs. Given the sheer scale of the growth in India's workforce over the next decade, this will be no easy feat. However, the actions of the current government in creating the conditions for growth, modernisation and digitalisation of the economy and a platform for a new breed of entrepreneurial, tech-oriented companies to develop, offers a compelling reason why we believe the coming 10 years will be India's decade – in both demographic terms but also in terms of economic success.

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