Date : 21-Oct-2010 | Edition : Mumbai | Page No.: 16 | Page Name: Backstage | Size: 612.11 sq. cm

Sector: Management and HR Consultancy | Circulation: 420000 | AVE: INR 1163017.51 | Frequency: Daily

News monitored for: Kotak Investment Banking

DNA

Can we convert the demographic dividend or will India be a country of angry educated-unemployed?

The country needs to create 12-13 million job opportunities every year over the next 15 years. Can it deliver?

Akhilesh Tilotia

Makers of consumer goods and service around the world are salivating at the thought of India's impending demographic dividend: 23-25 million people will become eligible for work every year for the next 15 years (only 12-13 million will actively look for employment every year, if historical trends of women staying out of the workforce continue).

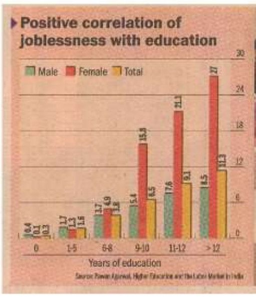
This would give us at least 365 million empowered young Indians by 2025, with the power to buy and consume.

Not so fast.

With more Indians than the total current population of the United States poised to enter the workforce over the next 15 years, what work are these people going to do?

India has created ~6.5-7 million employment opportunities per year over the past quarter century, starting now, it will need to create 12-13 million employment opportunities every year. We see a dearth of employment opportunities as a key risk to India's demographic dividend.

Investors awaiting the demographic dividend would do well to track trends in organised job creation - these need to be of the right type, at the right time and in the right place given that migration and wealth disparity are big concerns.



Young rush

Like any country enjoying a demographic dividend, India's death rate has fallen dramatically (to 7.4 per thousand in 2009 from 27.4 per thousand in 1951), while its high birth rate has fallen far more modestly (to 22.8 per thousand in 2009 from 39.9 per thousand in 1951). As people born in the last two decades enter the workforce, the demographic dividend is expected to kick in.

India is a young country, with 32% of the young population below the age of 15 years ('young dependants') and less than 8% of the population above 60 years ('old dependents') in 2006.

The 'productive population' (i.e. cohort of people between 15-59 years) comprise 60% of the population in 2006.

Even by 2026, the composition of young dependents, productive population and old dependents will be 23%, 65% and12%, respectively.

A large bulk of the 'productive population', comfortably powered by the 'young dependents' growing up and only a small section of 'old dependents' to take care of, is what the positive demographic story is all about.

Dependency ratio refers to the ratio of dependents (young + old) to the productive population.

The overall dependency ratio in India is set to fall to 0.56 by 2017 from 0.66 in 2007 (see table 1). However, the composition of the ratio is very different across states. The 'old' dependency ratio is growing in the south, which suggests that south India would have 'expensed' a significant part of its demographic dividend over the next decade, while the north continues its youthful expansion.

Employment challenge

Employment creation has remained stagnant in the 6.5-7 million per year. range since 1983. The employment creation leadership has moved from agriculture to services. However, the number of employment creation opportunities shows a marginal overall decline after the liberalisation programme began. The decline appears to be more pronounced in agriculture and manufacturing, while services show growth.

The rate of growth of employment as a proportion of the rate of growth of the economy is called the elasticity of employment. A higher ratio means that even at low growth rates, proportionately higher employment growth will take place; conversely, a low ratio means that even at high growth rates, the employment growth will be low. Overall, elasticity has fluctuated between 0.16 and 0.52 from1983 to 2005.

Simply keeping the unemployment rate — currently at 5% of the labor population — from growing makes GDP growth of 7% per annum. imperative (at ~2% labour force growth / 0.3 average elasticity). Any setback to this minimum GDP growth requirement could derail India's tenuous employment situation.

If India's GDP were to grow at 5% from now on till 2017, the unemployment rate could possibly shoot up to 10% of the labour population.

Consequences of inaction

Let's focus on three implications: educated unemployment; internal migration and income/wealth concentration.

We believe a new creature could dominate unemployment discourse in future: the educated unemployed.

This is very different from the blue-collar, unemployed youth that fueled the aggressive labor movement of the 1970s in India. The angry young men - and women - of the new decade are likely to be more educated.

We estimate that the proportion of illiterates in labour will fall from 47.8% in 2007 to 24% by 2025.

Similarly, the proportion of people who have completed their studies beyond Class IX would increase to 43.4% from 24.6%. Somewhat surprisingly, unemployment increases with increased years of education. People either do not like the employment opportunities they get or feel over-qualified for them (See table 2).

With labour supply increasing in rural India and employment opportunities being created in urban centers or more prosperous townships, we expect the trend of migration to continue. We note that the process of urbanisation and migration had largely centered around manufacturing bases. For example, cities have developed around industrial units (Jamshedpur for example) or around manufacturing hubs (Surat for diamonds or Pune for automobile ancillary units, among others). In a service dominated economy, however, it is beneficial to congregate at places where there is already economic activity going on. Hence, the creation of new cities in India has slowed down — while India continues to build on its old cities, leading to stress on the urban infrastructure there.

The contribution of services in terms of value-add in the GDP has gone up significantly, but employment generation has not risen commensurately.

Given that the productivity of a worker in the organized set-up is 10 times more than one employed in the unorganised workforce and given that share of the organised sector in employment creation has remained stagnant (at 14% over the last decade), its share of value-add has grown significantly to 45% of GDP in 2005, up from 35% in 1995.

As this segment of society experiences income and wealth effect, we highlight our concern about the possible growing financial divide.

Gamechangers

Of any developing country, India alone has had a sudden shift to a services dominated economy from an agricultural economy, without a significant proportion of population being engaged in the manufacturing sector. India has leapfrogged in 30 years the process of transition which took close to two centuries in the US.

Nasscom, in its Strategic Review 2010, states that "direct employment in the IT services and BPO segment is expected to reach nearly 2.3 million by the end of last fiscal ... which also translates to the creation of about 8.3 million indirect employment opportunities attributable to the growth of this sector".

After 20 years of IT boom, we have created a total of 10.6 million jobs, which is less than the annual job creation that India requires!

Appropriate skill development in schools and colleges would increase access to employment opportunities and help graduates get better returns on their investment on education.

Creation of industry-recognized institutions can enhance the employability of the candidates in the manufacturing sector. The solution has to lie with manufacturing, a stage that India seems to have skipped. With China losing its demographic sheen, will India take on the mantle of being the manufacturing hub of the world? The SEZ policy that was to promote this has not lived up to expectations.

The government has chosen to redress the disparity in income generation through wealth-redistribution instead of wealth-generation. The initiatives take many forms, from loan waivers to employment guarantee schemes. We view many of the government's schemes as hand-outs and would await more enabling wealth creation initiatives. In particular, we look for initiatives promoting local entrepreneurship, where the SMEs can start creating a bulk of employment opportunities.

Akhilesh Tilotia is a thematic analyst at Kotak Institutional Equities. This is an abridged version of his Kotak report, "365 mn: Can India live up to its demographic dividend?"