



# Subir Gokarn: Factory to the world

**India's challenge is to take on China's mantle over next 20 yrs**

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India's challenge is to take on China's mantle over the next two decades, says **Subir Gokarn**.

Forecasting GDP, inflation and so on is an extremely imprecise activity in today's environment but the one variable that lends itself to relatively accurate forecasts over long periods of time is a country's population. So, let me take a break from short-term macroeconomics and devote this article to long-term demographics. The "India story", as it came to be known, has its foundations predominantly in the size and age distribution of its population. The size is supposed to provide the economy with a large enough domestic market to be able to, at least partially, offset the impact of global shocks. The age distribution is becoming favourably skewed towards the working age segment of 20-59, a trend that has historically been associated with sustained high growth rates.

This is all very well, but in a global economic context, the economic "value" of a large working-age population depends on both the opportunities that the world economy provides and the demographic patterns of other countries. In India's case, the demographic patterns in China over the coming decades will be of crucial significance. Other countries will matter of course, but with far less significance. Between 2010 and 2020, according to the 2006 round of population projections by the United Nations, the world's population will increase by about 760 million people. Of this, China will contribute about 70 million or 9 per cent. On the other hand, India will contribute about 160 million or 21 per cent. Between 2020 and 2030, the world will add a further 650 million. China will contribute a mere 37 million, less than 6 per cent. By contrast, India will account for about 127 million, almost 20 per cent. By 2030, India, with about 1.51 billion people will surpass China's population of 1.46 billion.

China has come to be known as the world's factory because it had so many people available to work in the manufacturing sector. Relatively low wages were an enormous competitive strength. But, the projections indicate that this resource is running its course. Between 2010 and 2020, China will add about 19 million people in the working age segment 20-59, less than 5 per cent of the global increment. In the same period, it will add about 74 million people to the 60-plus age group, about 27 per cent of the global increase. By sharp contrast, India will add about 120 million people in the working age segment, or 28 per cent of the global increase, while it will only add about 43 million people to the 60-plus age group, or 16 per cent of the global increase.

Between 2020 and 2030, the differences between the two countries will be even starker. China's population in the working age segment will actually decline by a significant 62 million people. Its population in the 60-plus segment will increase by about 104 million people, or 33 per cent of the global increment. On the other hand, India will see its working age population increase by almost 100 million people, about one-third the global increase. Its 60-plus population will also increase, but by a relatively modest 53 million people or 16 per cent of the global increase.

These projections have significant implications for both China and India as well as, perhaps, for the rest of the world. China's ability to sustain its current pattern and rate of growth is clearly in question. The shrinking additions to its workforce will result in upward pressures on wages. At the same time, the significant increase in the 60-plus population will exert pressures on social security and health care systems, leaving the government with potentially less resources to invest, either in infrastructure or in the assimilation of labour-saving technologies. During the 2020-30 decade, meeting the incremental needs of the 60-plus population will probably be the most important policy issue.

India's relatively favourable situation with respect to working-age population over the next two decades obviously puts it in a prime position to inherit the mantle of "factory to the world". Regardless of age, consumers around the world will continue to spend on manufactured goods. Abundant labour, which keeps wages low, allows the persistence of labour-intensive techniques. It is only a matter of shifting the location of productive capacity from China to India. The alternative, moving workers from India to China or elsewhere in large numbers, does not appear feasible, even over a two-decade horizon.

However, two kinds of threats to India taking on this role successfully must be recognized. First, as has been repeated endlessly, the mere fact of having a large number of people does not guarantee that production will be located here. The people have to have the right skills, producers need a favourable environment to operate in and so on. If labour-intensive production in China becomes non-competitive, labour-saving alternatives can emerge, in China or elsewhere. Robots can be designed to produce pretty much anything these days. Shirts, shoes, laptops and iPods should hardly be a challenge. If India cannot provide manufacturing establishments with the right environment, Indian workers will lose out to robots.

Second, global patterns of consumption will not be entirely immune to aging. Between 2020 and 2030, the global population increase in the 60-plus segment will exceed the increase in the 20-59 segment, 340 million to 290 million. Older people presumably have less disposable income to begin with but they also probably spend a higher proportion of it on services, such as healthcare. India's opportunity to displace China as the world's manufacturing hub comes amidst an overall decline in the prospects for global manufacturing.

However, these should not detract from the imperative. We need to be able to educate, train and put to work unprecedented numbers of people. In order to develop the capacity to do this over the next two decades, investments have to be made immediately. The consequences of this enormous build-up in the working age population without the ability to provide them with jobs that give them reasonable standards of living are frightful.

As we transit out of the pessimism about the immediate future, we will have no alternative but to confront the opportunities and threats posed by demographic prospects. At its core, the "India story" will not be about the economy growing at 8 per cent per year over two decades. Rather, it will be about how 10 or 12 million productive jobs were created every year over that period.

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