

**India's Economic Prospects:  
the need for a rethinking after the "exuberance cycle"  
by Jean Joseph Boillot\***

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What is called now the " nine-eleven India ", the mindless carnage in Mumbai on November 26, 2008, can only arouse revolt, sadness and empathy. But beyond the emotion, there is no doubt that the carefully plan terrorist attack at the heart of the financial capital of India constitutes a very serious warning for India. Not that it is the first terrorist act targeting Mumbai (Bombay) or India, but by virtue of the proverb that "bad news never come alone". And this action came at a time where India was losing its confidence after five years of a less and less rational exuberance.

Even before the events of Mumbai, all economic indicators pointed to an unwelcome slowdown and two economic packages later, it is clear that 2009 might be a very tough year for the country. Thus the terrible attack on Bombay, while a real shock and tragedy, might pass as many other tragic episodes of the Indian history, as one of them at the onset of a difficult period.

Yet it does not seem so long ago that the American magazines were labelling the country as "The New Giant" or "The New Global Power". And India was the guest of honour alongside China at the 2006 World Economic Forum of Davos. As for the Europeans, they discovered this new facet of India during the Mittal-Arcelor battle, which made news during the first half

of 2006. The insults and the fears about future collateral damage (during the company's restructuring) bring to mind similar scenes from the famous Indian epic, the Mahabharata, that recounts the bitter struggle between the five virtuous Pandavas, sons of King Pandu, and their wicked cousins, the hundred Kauravas, successfully filmed by Peter Brook.

There is no doubt whatsoever that India fully deserved all this attention. This huge democracy, which is no less flawed than the others, has patiently rebuilt its economy since its independence obtained at great cost in 1947. Its teeming population, its rich cultural background and strong institutional base forced during the European colonization to live in the shadows for nearly three centuries was at last catching up with the rest of the world. And the inability of its society to change with the times was at last overcome. Or so it seemed.

Yet all the exuberance about India's future errs seriously on two counts and the "exuberant cycle" of 2003-2007 must be certainly be put into perspective to avoid bitter disappointment at the end.

To determine what the real potential of the Indian economy has always been fraught with danger and a big question mark. That question mark is the population issue, for population in India is the real sole variable large enough to sway any attempts to predict the medium-term prospects of India's economy, for the numbers and the uncertainties about their accuracy are mind-boggling.

## **1- The Population Problem and the Window of Demographic Opportunity**

### **1.1- Demographic Uncertainties**

The table 1 highlights the wide range of uncertainties regarding the changes likely to occur in India's population between now and 2050.

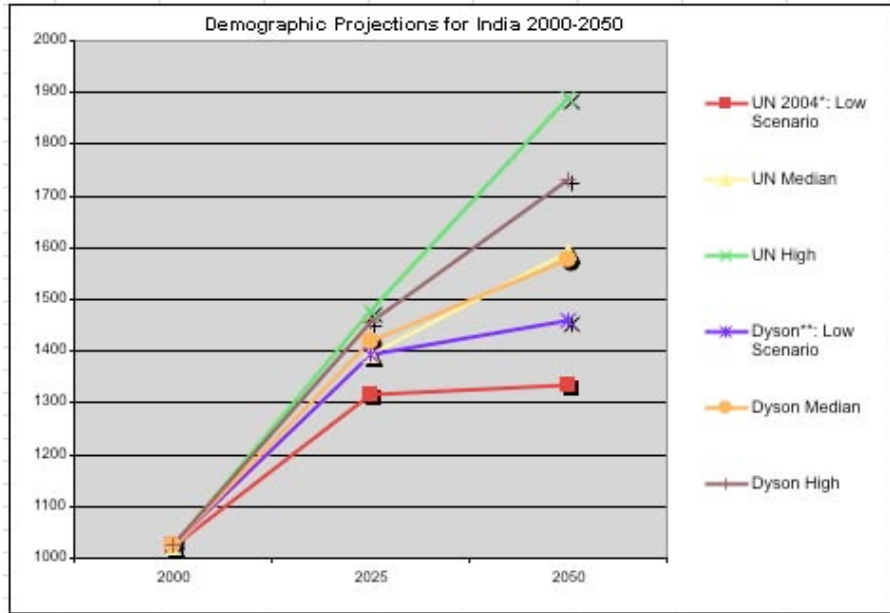
Table 1 - Population increase in million

Horizon 2025			Horizon 2050			
Scenario	UN	Dyson	+/(-)	UN	Dyson	
low	1315	1392	+77	1333	1458	125
medium	1395	1419	+24	1593	1579	(14)
high	1477	1456	(21)	1890	1731	(159)
Variation	+162	+164	2	+557	+273	+284

Although it is never emphasized, projections are generally based on an average (medium) scenario. In the case of India the difference between a low and a high estimate runs in hundred of millions of people.

Look at the two sets of calculation, one by the UN the other by a group of experts from Oxford led by Professor Dyson (1). By 2025 the difference between the lowest and the highest UN estimates is already 164 million, while by 2050 it is more than 500 million people. That is a significant difference.

The variance is in the range of 40% (35% of the average scenario). Even if we consider the lowest number of the two sets (1,333 for the UN), with the lowest of the high scenario (1,731) to reduce the variance, the difference remains a mind-boggling 398 million people. So the margin of error or inaccuracy remains quantitatively very high as is illustrated in the graph hereunder. And yet there is little that can be done to narrow down such uncertainty and get a better estimate. After all we are dealing with human factors and history proves that human beings are not necessarily the most rational people.



Two factors are at the root of the magnitude of the variance in both, the UN and the Dyson set of numbers. They are respectively the fertility rate and life expectancy, both being in no uncertain terms directly linked to show that the first variable explains the basic nature of the margin of uncertainty.

Table 2 – Child per female

Scenario	2000/5		2020/25		2045/50	
	UN	Dys	UN	Dys	UN	Dys
low	3.1	2.8	1.6	1.8	1.4	1.5
medium	3.1	2.8	2.1	1.9	1.9	1.8
high	3.1	2.9	2.6	2.1	2.4	2.1

Even the starting point, closer to us, implies that the Indian birth rate is not accurately known for there is a significant discrepancy between the UN and the Oxford demographers. For the former, the birth rate is above 3 while for the latter is below. Over years, this discrepancy would translate into an over or underestimate of several millions of people. Ultimately between the low assumption and the high one the difference might be 1 child per female (from 1.4 to 2.4 or 1.6 to 2.6). In any case it is no less than 0.5 to 0.7 child per female. So the difference of born or unborn could be no less than 50% of the existing female population of the country – a very large number of human beings as it is.

The estimate of the life expectancy in India, which is currently 63 to 64 is also a cause of inaccuracy. By 2025, it is estimated that it would rise to about 70, and by 2045/2050 to about 76. The rationale is that as the economy progresses, so would life expectancy as better health care is expected. It is true that a strong correlation between life expectancy and economic progress has been discovered to exist in every industrialized economy. Yet this assumption about India with its diverse population sidesteps many social issues (one being the entrenched cast system and the disparity of the distribution of wealth).

A third factor that must not be overlooked is the regional distribution of the demographic trends. The states like Uttar Pradesh and Bihar are the ones lagging behind other states in the area of development by far. Uttar Pradesh has an estimated population of at least 139 million people and Bihar, 86 million at least. By 2050, Indian scholars estimate that the population of Uttar Pradesh would have grown by nearly 200 million people, while Bihar would have more than double at 188 million. Those two states would thus account for more than 500 million people, an extremely large number by the standard of the current developed countries. And studies show that their economic development is unlikely to catch up with the other states unless the central government provides very substantial financial assistance to them to overcome social inequalities and gender imbalances in the field of education (both states have the largest population of illiterate females), which is a key variable determining fertility behaviour.

**Tab 3- The demographic change in the Indian States  
1991 to 2101**

States	Population Million			% India		
	1991	2051	2101	1991	2051	2101
<b>Group 1</b>						
Kerala	29.1	36	25.2	4%	2%	1%
Tamil Nadu	55.9	72	57	7%	4%	3%
Andhra Pradesh	66.5	119.9	130.5	8%	7%	7%
Himachal Pradesh	5.2	9.5	10.3	1%	1%	1%
Karnataka	45	78	85	5%	5%	5%
Maharashtra	78.9	147.4	159.6	9%	9%	9%
<i>sub-total</i>	<i>280.6</i>	<i>462.8</i>	<i>467.6</i>	<i>33%</i>	<i>29%</i>	<i>26%</i>
<b>Group 2</b>						
Punjab	20.3	35.7	37.9	2%	2%	2%
West Bengal	68.1	121.9	132	8%	8%	7%
Gujarat	41.3	73	80.2	5%	5%	4%
Orissa	31.7	53.9	59.5	4%	3%	3%
Assam	22.4	42	47	3%	3%	3%
<i>sub-total</i>	<i>183.8</i>	<i>326.5</i>	<i>356.6</i>	<i>22%</i>	<i>20%</i>	<i>20%</i>
<b>Group 3</b>						
Haryana	16.5	41.1	48.8	2%	3%	3%
Madhya Pradesh	66.2	148	175.3	8%	9%	10%
Bihar	86.4	188	216.7	10%	12%	12%
Rajasthan	44	106.1	125.9	5%	7%	7%
Uttar Pradesh	139.1	337	405	17%	21%	22%
<i>sub-total</i>	<i>352.2</i>	<i>820.2</i>	<i>971.7</i>	<i>42%</i>	<i>51%</i>	<i>54%</i>
Total India	843.3	1619.5	1812.2	100%	100%	100%

Source : L. & P. Visaria, EPW 8 novembre 2003

Since India's federal structure prevents the central government from meddling into the states' affairs of which public education is an element, the key to any progress seems to lie solely in fundamental political changes in these states, especially in terms of better governance and mobilisation of the population concerned. And so far their respective record is not good. Both remain the most traditional and conservative voice of the country.

The existence of many factors that are difficult to quantify with precision the future of large masses of people in countries of continental dimensions like India and China calls for great humility when trying to assess what lies in the future for those countries.

For reasons of simplicity, it seems natural to depend on the mean UN projections (the middle of the road scenario) when one is trying to weight the future of the country, but it is paramount to keep in mind that there is a strong probability of a strikingly different demographic scenario whose impact would be undeniable, should the mean scenario proved to be wishful thinking.

### **1.2- Does population's growth matter?**

The general belief among many economists is that India is poised to become the most populous state of the world by the year 2050. And so this number one ranking will be of great consequence, one of them being to relegate China to second ranking, with India's population stabilising at 1.9 to 2 billion at the end of the century while China's population will begin to decline from 2030 to stabilize at about 1.1 billion in 2100.

The massive populations of India and China are expected to be close to one another in 2030. After that, China's population is predicted to level out while India's demographic growth would remain unchecked, bringing in the next two decades a further two hundred to three hundred million people to feed.

Yet, a tiny acceleration of India's demographic transition or a change in China's population policy would easily wipe out any comparison. The true question that is never properly addressed by the media is: does it matter to be the most populous of the world? Is such a ranking of any real interest?

Currently, China's per capita is double that of India, while it is the most populous of the two. So its GDP is considerably higher than that of India while its growth rate has been far higher at +10% on average for the past decade than the Indian one (7% on average for India during the same period). So even if India has great potential, it is doubtful and probably useless to think that the country will ever catch up with the economic mass of China.

It would be a good idea to debunk another popular belief about the significance for the rest of the world of the economic rise of India mainly because it might become the most populous country of the world.

What is generally overlooked, especially by Indian scholars, is that population will also increase rapidly not only in India but in other parts of the world, especially Africa whose total population will overtake that of India's by 2030, the assumed date by which India's population would catch up with that of China.

Of course, Africa's ability to develop at a fast pace and become integrated with the world economy is unknown and untested; the continent may continue to stagnate, which is the hypothesis implicitly supported in India and sometimes openly in Europe, but in view of the meltdown of the liberal mantra among the states, no one knows what is really in store in the future.

In relative terms, India's population would peak at 17.7% of the world population between 2025 and 2030, while Africa's population may rise from 17.8 to 21.3% of the world population by 2050. According to those scenarios, China's would drop to 15.3%. If Africa's economy does not take off, India's position then might be somehow similar to that of China in the early 1980s but its real attraction might not be the same as China in those