Indian Economy During the Colonial Period

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Does History matter?

- While India was a colony of Britain, **Japan had never been a colonized**, and China came under some degree of colonial control.

- **Japan' economy modernized** from the late 19th century onwards under the Meiji rulers, whereas the Indian economy stagnated under the colonial rulers (until 1947).

Distribution of World Manufacturing Output, 1750-1980, % shares of total

	India	China	Third World	Developed Countries
1750	24.5	32.8	73.0	27.0
1800	19.7	33.3	67.7	32.3
1830	17.6	29.8	60.5	39.5
1860	8.6	19.7	36.6	63.4
1880	2.8	12.5	20.9	79.1
1900	1.7	6.2	11.0	89.0
1913	1.4	3.6	7.5	92.5
1928	1.9	3.4	7.2	92.8
1938	2.4	3.1	7.2	92.8
1953	1.7	2.3	6.5	93.5
1980	2.3	5.0	12.0	88.0

Source: Simmons, Collins (1985) based on P. Bairoch (1982).
In 1750: Both India and China were major producers of manufactured goods, mainly through household-based production of handicrafts,

European Trading in India

- 1498: Vasco da Gama (Portugal) in Calicut
- 1600: British East India Company; 1602: Dutch; 1664: French.
- Europeans had set up warehouses in India (Madras, Surat, Dhaka and Calicut), and began selling Indian goods, mainly *calicoes* (textile goods from India) in the European markets.
- British manufacturers even sought protection for their products from Indian handicrafts (in 1700).

Source: *Empire of Cotton* by Sven Beckert

- Growth of trade in cotton occurred along with the European (Spanish, Portugese, French, English..) expansion into the Americas: silver and gold (bullion) from the Americas financed purchases of cotton goods from India.
- Slave trade: 1500-1800: 8 million people were transported as slaves from Africa to the Americas (to work in plantations)
- African merchants and rulers demanded cotton cloth (from Asia) in exchange for slaves

Prasannan Parthasarathi (2011) *Why Europe Grew Rich and Asia Did Not*

6.6 million people from Africa were made to work as slaves during the 18th century.

Table 2.1 ***Sales of cotton cloth by British slave traders in West Africa by decade, 1699–1808 (pounds sterling)***

Decade	Indian cloth	British cloth
1699–1708	128,752	79,359
1709–1718	101,586	9,216
1719–1728	493,580	75,331
1729–1738	775,805	40,848
1739–1748	627,171	13,887
1749–1758	481,196	329,654
1759–1768	762,427	817,513
1769–1778	1,258,738	797,295
1779–1788	1,166,079	1,098,402
1789–1798	2,404,492	1,847,032
1799–1808	3,207,133	2,895,036

Source: Johnson, *Anglo-African Trade*, pp. 54–5.

Table 2.2 ***Slave purchases in West Africa by decade, 1698–1807***

Decade	British	Total
1698–1709	164,709	359,940 [1700–1709]
1710–1719	145,365	402,870
1720–1729	242,675	516,650
1730–1739	276,013	599,510
1740–1749	194,570	551,060
1750–1759	251,329	581,890
1760–1769	391,243	783,200
1770–1779	339,593	717,820
1780–1789	349,344	793,860
1790–1799	416,837	759,240
1800–1807	280,831	605,770 [1800–1809]

Sources: David Richardson, "The Eighteenth-Century British Slave Trade: Estimates of its Volume and Coastal Distribution in Africa," *Research in Economic History*, 12 (1989), p. 157; Klein, *Atlantic Slave Trade*, pp. 208–9.

Prasannan Parthasarathi (2011) *Why Europe Grew Rich and Asia Did Not*

Figure 2.2 Man's military coat or *Su'a senakut*, Coromandel Coast for the Thai market, eighteenth century, reproduced with permission of the Royal Ontario Museum, Toronto, © ROM, ROM2010_11673_1.

India was poor but important for the British empire

- In 1900, India, 'the brightest jewel in the British Crown', was one of the poorest nations of the world. (Bagchi, 1972)
- **Income per head per year in 1901 (**£2 in India; £52 in Great Britain)

- Nevertheless, India was central to Britain's emergence as the most important economic power in the world between 1815 and 1914 (from the end of the Napoleonic wars to the beginning of World War I).

Two views on Colonialism

- **Economic Exploitation of** India during the British rule. Contributors: Dadabhai Naoroji and R.C.Dutt. Irfan Habib, Amiya Kumar Bagchi,…..

- **More Sympathetic view** on the impact of colonialism on the Indian economy. Contributors: Articles in *Cambridge Economic History of India,* Vol. II edited by Dharma Kumar (mainly the work by Professor Morris D Morris).

Phases in British Colonialism in India

(Habib, 1975 and Chauduri, 1983)

- **First phase: 1757 to 1813**: "the drain of wealth", in the form of "tribute" from India to England. The British as traders.

- **Second phase: 1813 to 1850:** India as a market for British manufactured goods – 'deindustrialisation' of India. Britain's emergence as the first industrialized country.

- **Third phase: 1850 - 1914:** The construction of railways in India; 'Home Charges'; London as the world's financial capital.
- **Fourth phase: 1914-1947**


THE 1893
GENERAL POLITICAL MAP
OF THE
INDIAN EMPIRE
English Miles
The Native & Protected States are coloured yellow
AFGHANISTAN
BALUCHISTAN
PUNJAB
KASHMIR
SIND
RAJPUTANA
CENTRAL INDIA
NORTH WEST PROV.
OUDH
BENGAL
ASSAM
BHUTAN
NEPAL
TIBET
CHINA
UPPER BURMA
LOWER BURMA
SIAM
CENTRAL PROVINCES
BERAR
HAIDARABAD
BOMBAY
MYSORE
MADRAS
CEYLON
ARABIAN SEA
BAY OF BENGAL
INDIAN OCEAN
GULF OF SIAM
Andaman Islands
Nicobar Islands
Laccadive Islands
Mergui Archipelago
Calcutta
Delhi
Lahore
Karachi
Lhasa
Mandalay
Bangkok
Madras
Colombo
Longitude East 88 from Greenwich

1st Phase: Drain of Wealth from India to Britain (from the mid-18th century onwards)

- Before 1757, EIC purchased Indian goods such as muslin, calico, chintz, silk, indigo and spices with bullion.
- Following the battle of Plassey (1757), East India Company secured the rights to collect land revenue in Bengal and other regions.
- The land revenue raised from Indian peasants were 'invested' in the purchase of Indian goods
- The Company traded these goods in markets across the world, making large profits

Source: Irfan Habib (1975)

- “Now suddenly, they found in their conquests the ultimate bliss that every merchant dreams of: **to be able to buy without having to pay**.. This is achieved by treating the entire revenues of the country as gross profits…These could in turn be invested for the purchase of Indian commodities, the so called ‘investments’

Annual Average of Trade Between India and Europe, 1780-90, in pound sterling

Source: *Cambridge History of India* vol II, p. 817

	Imports into India	Exports from India	Net Exports
Total	23,93,610	73,31,569	49,37,959
East India Company	3,46,070	19,62,095	16,16,025

- India had a surplus in its trade account (producing more than what it was consuming) – thus transferring its savings or surplus to the rest of the world (which was mainly captured by the East India Company)

How big was this Drain of Wealth? (Habib, 1975)

- One way to estimate the transfer of 'surplus' from India to Britain: exports (from India to Britain) minus imports (to India from Britain)

- Exports (from India) – Imports (to India) was over 2 million pounds in 1789-90 and over 4.7 million pounds in 1801.

- For Britain, (in 1801), this transfer amounted to 2% of (British) national income or almost **30% of the national saving transformed into capital** (Investment as a share of national income of Britain at that time was between 6% and 7%)

Impact on the Rural poor

- The transfer of surplus from India was mainly in the form of land revenues. Agrarian surplus = Agricultural production minus consumption by the peasants.

- The large demands for land revenues by East India Company put extreme pressures on the poor peasants (they had to reduce their consumption).

- 10 million people died in the famine in Bengal during 1769-70: (due to high revenue demands despite three years of drought).

- At the same time, British policies created a class of absentee landlords (Zamindars) in India's eastern and north-central region. Slowed down productivity growth in these regions.

Second Phase: After 1800 (First half of the 19th century): from traders to manufacturers

- Britain's business interests changed from being traders (of Indian textiles) to manufacturers. Within Britain, opposition against East India Company (who were traders). EIC lost its monopoly to trade in India in 1813.

- Britain for free trade after it became an industrial power.

- Growing market for British textiles within India: Exports from Britain supplied 9.4 per cent of annual cloth consumption in India in 1839 and 27 per cent of cloth consumption in 1860.

Industrial Revolution in Britain

- A revolution in the social and economic organization of production

- (Mule spindle developed by Samuel Crompton in 1779; steam engine developed by James Watt)

- From household based to factory production (Samuel Greg set up the first textile factory in Manchester, he assembled 90 orphaned children as his factory workers. By 1833, Samuel Greg's five factories together employed 2,084 workers (Beckert, 2014, p. 71)).

- The contribution of cotton manufacturing to the British economy: value added: from **2.6 per cent in 1770 to 22.4 per cent in 1831**. Also employed one-sixth of British labour force by 1830 (Beckert, 2014, p. 73).

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India's exports: from manufactured textile goods (until 1800) to agricultural products

- "Bengal piece goods [textiles] virtually disappeared from the investment list" of the East India Company and private traders between 1813 and 1830 (Sinha, 1970, p.7 cited in Bagchi, 1976, p. 142). Cotton piece goods as a share of India's total exports: 81.3 per cent in 1859-60 to 3.7 per cent only in 1850 (see the next slide).

- At the same time, India began to export indigo, cotton and opium

Percentage share of selected Items in India's total value of exports

Source: Cambridge History of India vol II, p. 817

	Piecegoods	Indigo	Raw cotton	Opium
1759-60	81.3			
1811-12	33.0	18.5	4.9	23.8
1828-9	11.0	27.0	15.0	17.0
1850-1	3.7	10.9	19.1	30.1

Deindustrializtion in India?

1809-13			1901		
Districts	Industrial population, nos. in '000	Industrial to total population, %	Districts	Industrial population, nos. in '000	Industrial to total population, %
Patna-Gaya	656	19.5	Patna	180	11.1
			Gaya	187	9.1
Bhagalpur	286	14.2	Bhagalpur	116	5.5
Purniya	588	20.2	Purnea	122	6.5
Shahabad	287	20.2	Shahabad	228	11.6
			Monghyr	155	7.5
Total	1817	18.6	Total	988	8.5

Source: Bagchi (1976), pp. 139-140 based on (i) Buchanan (Hamilton) F., 1809 – 1813, *Statistical Tables for Reports on Bhagalpur, Patna and Gaya (Bihar) Purnea and Shahabad*. London: India Office Library, Mss. Eur. G.14, 15, 17, 18, 19, and 20 and (ii) Census, 1902, *Census of India, 1901*, Parts I, II, and III, *Report and Tables*, Calcutta: Superintendent, Government Printing.

Export of opium from India to China

- Opium cultivated in India, exported to China
- China paid for its opium by selling tea and silk to Britain.
- In 1855, Britain consumed Chinese tea and silk worth £8.5 million, while it exported goods worth only £1 million into China. The gains made from Indian export of opium, which amounted to £6.23 million in 1855, paid for the balance.
- China was compelled to accept British demands after its defeat in the Opium Wars of 1840-42 and 1856-58 (Habib, 1975, pp.39-41).

Third Phase: after 1850

- Indian economy more integrated into the global economy; Decline in transport and communication costs (telegraph and steamship; opening of the Suez Canal; opening of the railway network)

- Fast increase in exports of cotton (from the 1850s) and food grains (from the 1880s).

- American Civil War, 1860: Increase in demand for Indian cotton; The end of the Civil War in 1866; crash in cotton prices
- Food grain exports with the opening of the railway network

- India became the recipient of British capital investment after 1850:

- India's Railway network expanded to 5000 miles by 1871, 10,000 miles by 1881 and 19,555 miles by 1895 (Habib, 1975, pp.41-42)

- railway network to aid further subjugation of the Indian market and to facilitate further exploitation of raw material from India

Shares in % of Selected Items in Total Value of Exports from India
Source: Chaudhuri (1983), more details in cited in

Year	Piece goods/ Cotton goods	Indigo	Raw cotton	Opium	Food grains	Manufact ured jute goods
1850-51	3.7	10.9	19.1	30.1	4.1	0.9
1870-71	2.5	5.8	35.2	19.5	8.1	0.6
1890-91	9.5	3.1	16.5	9.2	19.5	2.5
1910-11	6.0	0.2	17.2	6.1	18.4	8.1
1920-21	7.6	--	17.4	--	10.7	22.1

Commercialisation of Indian agriculture, Export of food grains, and More Famines

- After 1850: further commercialisation of Indian agriculture (cultivation of cotton).
- But fluctuations in cotton prices: farmers had to pay a heavy price.
- With the expansion of railways, even food grains exported from India.
- Millions died in the great famines of 1896-97 and 1899-1900.

India as the **pivot of the international settlement system**: between 1890 and 1914 (de Cecco 1984)

- Britain had trade deficits with the US, Japan, Germany,..
- Britain had trade surplus with India (mainly cotton goods)
- India had trade surplus with the US and Japan (exporter of primary commodities to these countries)

Shares (in %) of different Regions in Total Value of Exports from and Imports to India

Source: *Statistical Abstracts for British India*, cited in Chaudhuri (1983), p. 861-64.

	Britain		China		France, Germany & Italy combined		Japan		USA	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
1880-81	41.6	82.9	20.0	3.7	12.9	2.5	--	--	3.5	0.9
1920-21	22.1	60.9	3.5	0.9	10.4	3.6	10.1	7.8	14.5	7.5
1930-31	23.5	37.2	6.0	2.0	15.1	11.9	10.8	8.8	9.4	9.2
1940-41	34.7	22.9	5.3	1.8			4.8	13.7	13.9	17.2

Late 19th century: Britain's economic power was declining yet its control over India allowed it to remain a major force.

- India's trade surplus with the rest of the world and her trade deficit with England allowed Britain to balance her current account. This enabled her to use the income from her overseas investment for further investment abroad, ..." and helped the **emergence of London as a major financial centre** (de Cecco (1984, p. 62).
- The British government policy helped Britain to discourage manufacturing exports to India by its competitors (such as Germany).
- Colonies in international economics: "private markets" for the interests of the national group which controls them ("Trade Follows the Flag": Maurice Dobb).

How ‘Drain of Wealth’ from India continued even after the mid-19th century (despite British investments in India in the Railways)?

- India had a surplus in its overall merchandise trade. The country should have been receiving foreign currency due to net export earnings as well as investment (in railways)

- However, India had to make payments to Britain as Home Charges – leading to a deficit for the country in invisibles trade (despite India’s surplus in merchandise trade).

India's Balance of Payments, 1900-1913, in Rupees

Source: Tomlinson, *Political Economy of the Raj*, p. 15

Current Account	
1. (Export – Import) of Merchandise Trade	9328 million
2. (Export – Import) of Treasure	-3845 million
1+ 2: (Export – Import) of Commodities Trade	5438 million
Invisibles	
3. Payments to the rest of the world (mainly Britain) (Home Charges,…)	**-7019 million**
Capital Account	
4. Investment (mainly British in India)	1471 million

Home Charges

- Home charges: broadly **described as the expenses incurred by Britain in administering India**.
- British officials considered home charges as remuneration for services that India received "…. we export to India a great number of prime young men" (Alfred Marshall cited in de Cecco 1974 ff.10)
- Therefore, payments on account of home charges and remittances considered under trade in services or invisibles.

The Home Charges, 1861-62 to 1933-34, Annual averages in millions of Sterling

	Interest on railways and irrigation	Other interest	Military	Pensions & furlough	Civil adminis tration in India office	Total
1861-62 to 1874-75	3.5	2.2	2.6	0.9	0.2	10.5
1899-1900 to 1913-1914	6.9	2.5	4.2	2.3	0.2	18.9
1914-15 to 1920-21	9.6	3.5	4.7	2.4	0.2	23.9

Source: Vakil (1924), pp. 580-82 cited in Dharma Kumar (1983), p. 938

Were home charges justified?

- Military expenditures (incurred by the British Indian army): much of the increase in home charges after 1875 was not on account of the direct defence of India. About one-tenth of the Indian army was serving outside India in 1900.

- The salaries of Europeans employed in India were generally higher than employees in similar positions in other colonies (such as in French-occupied Algeria).

- Indians were systematically excluded from senior positions in the government

Cotton and Jute Industries in India, Factory-based production: from the mid 19th century onwards

- Cotton industry: mainly in Western India (Bombay and later Ahmedabad..): controlled mainly by the Indians
- Jute industry (Calcutta) owned largely by European (mainly British) businessmen. More than 90% of the output of jute goods was sold abroad.
- Steel industry: First steel mill in 1907.

- However, **these industries remained confined to a few urban centres**. They did not contribute to inaugurating large-scale industrialization in India (as had happened in Japan). Indian economy stagnated for another century (until the mid-1950s) and and continued to be dominated by the agricultural and small industrial sector. It was also largely an exporter of raw matrial.

The British policy of Free trade had been a hindrance to the growth of Indian industry

- **Until 1914: completely free trade** as far as imports into India from other countries
- **First World War**: some increase in import duties and a shortage of shipping: trade between India and the rest of the world much less free than before;
- **1923**: the Government of India adopted the policy of **discriminating tariff protection** towards Indian industries. Faster growth of Indian industry only after it received some degree of protection.

Conclusions

- A.K. Bagchi (1972): *Private Investment in India:* Japan, starting later [than India with respect to industrialization] and starting with fewer resources, managed to advance far ahead of India in economic development.

- Atul Kohli (2020): *Imperialism and the Developing World*: The success of East India Company in India was not due to the policy of free trade, but due to a supportive government in Britain (including the support of the Royal British Navy)

- On the other hand, colonies, mainly India suffered due to the absence of supportive policies for industrial development from their governments (British Indian government).

Conclusions - continued

- "…there tends to be an inverse relationship between imperialism and development." (Kohli 2020). That is, countries like India, which were colonized by the imperial powers (Britain), suffered in development.

- This has lessons for present-day development: as we shall see later, it is important for countries to have economic sovereignty (independence) in this era of globalized trade and finance. Countries which lose that policy independence tend to lose out in economic development.

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