



India's Economic Journey: From Ancient Prosperity to Colonial Decline and Modern Growth

➤ **Dr. Avinash Kumar Singh Yadav¹**

ABSTRACT

India is a country with a long journey of economic evolution. Its ancient economic dominance and trade superiority are well documented. During the medieval period, India accounted for a significant share of global production and trade. However, British rule was highly exploitative, leading to the destruction of the industrial base, agriculture, and village self-sufficiency. After independence, the Indian economy began to realize its potential. Following economic reforms, it entered a high-growth-rate phase. This paper attempts to document India's economic performance from the Indus Valley civilization to the modern period. It also evaluates the policy framework during the British rule and post-independence India. The paper concludes that, except for the colonial period, India has historically been a vibrant and dynamic economy.

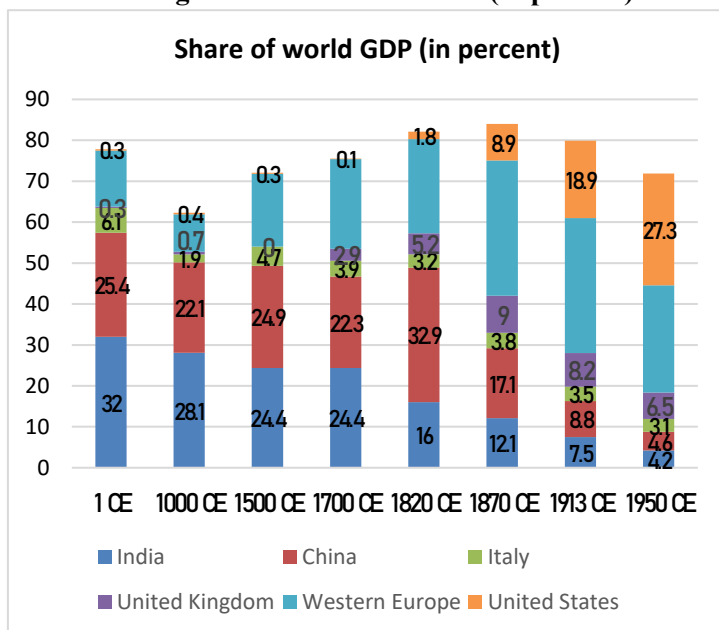
Keywords: Indus Valley Civilization, Trade, Reforms, Growth, Investment

1. Introduction

India has a rich history of trade and commerce. It has contributed to the world not only through knowledge, but also by powering the global growth through its thriving trade. Data supporting this claim are difficult to collect. However, Prof. Angus Maddison estimated India's economic prosperity relative to the world GDP.

The following figure (Fig 1) shows the relative shares of major economic regions such as India, China, Italy, the United Kingdom, Western Europe, and the United States. Although there was no concept of the nation in ancient times, Maddison's work uses the modern geopolitical classification of countries to assess the past

¹ Assistant Professor, Department of Economics, University of Allahabad, Prayagraj

Fig 1: Share of world GDP (in percent)

Source: Angus Maddison, 2011

It shows that India's share in the world GDP was the highest between 1 CE and 1700 CE, except in 1500 CE, when China's share was slightly higher than India's. India alone produced 25 percent of the world's output in 1 CE. Its share was further 28.1, 24.4, 24.4, in 1000, 1500, and 1700 CE, respectively. During the same period, China's share was 25.4, 22.1, 24.9, and 22.3 percent, respectively. Other countries and regions had a very small share.

In ancient times, India had rich trading relations with the rest of the world. It exported valuable goods such as spices, gems and jewelry, perfumes, stones, silk, muslin, and medicinal drugs, etc. Evidence of a port at Lothal, a city in Gujarat, confirms the maritime trade during the Indus Valley Civilization. In the Mauryan

period, several regulations were enacted to regulate trade and commerce. The Kushana and Gupta dynasties adopted strong policies to encourage exports. Gupta rulers expanded trading activities to the eastern regions of the world. These historical accounts confirm India's economic advantage relative to the rest of the world. In the medieval period, different rulers developed robust mechanisms and methods to regulate the economy, maintaining India's strong global position.

However, as Figure 1 shows, India's share started declining rapidly after 1700 CE, while Western countries and the United States' share increased. Two main reasons were responsible; first, the scientific inventions and discoveries in Europe, later transferred to the USA through

migration; and second, the arrival of the British in India. Much of India's economic prosperity was achieved by strict centralized rule. The British weakened the position of indigenous political power and established their own rule. They implemented imperialist policies to extract resources from India to support the growing industrialization in Britain. They also used India as a market and destroyed indigenous industries.

After 1857, the British East India Company used its political power to raise revenue from Indian provinces to cover the cost of wars and to purchase raw materials. By 1860, India had become an exporter of raw materials rather than finished goods and an importer of manufactured goods. This deteriorated India's terms of trade.

The British destroyed a self-reliant economy. India had highly skilled artisans and craftsmen, and demand for their products was very high in global markets. However, after British expansion, the Indian handicrafts could not compete with British factory-made products. As a result, urban handicraft centres collapsed. Protectionist policies in Britain led to the destruction of the Indian manufacturing industry. The cotton industry suffered the most as Britain experienced the Industrial Revolution in textiles first.

British agricultural policy also devastated agriculture. The permanent settlement, introduced by Lord Cornwallis in 1793, created intermediaries (zamindars) between peasants and the state. These zamindars were responsible for collecting taxes, which led to the exploitation of poor peasants through high tax rates. As a

result, peasants' economic condition deteriorated, and many fell into debt traps.

Under the Ryotwari system, implemented in the Madras and Bombay Presidencies and later extended to the north-eastern and north-western regions, peasants were recognized as landowners. They had to pay the land revenue directly to the British government annually. Land revenue was fixed in both systems. These systems destroyed not only the self-reliant village economy but also the rural traditions and customs. The zamindari system created a new class whose interests were aligned more with the government than with agricultural development. Zamindars were more interested in collecting high land revenue than in improving agriculture. Consequently, agriculture became stagnant, and many peasants lost their land to moneylenders.

Between 1850 and 1947, the government commercialized agriculture in a way that benefited Britain at the cost of millions of Indians. The British promoted the production of cash crops for exports. The Industrial Revolution in Britain increased the demand for raw materials, especially jute, cotton, sugarcane, groundnuts, etc. To generate marketable surplus, peasants were forced to replace food grain production with cash crops. This significantly reduced foodgrain availability and led to repeated famines. Overall, the British regime weakened the strong economic foundation of the country, resulting in mass poverty, high unemployment, and severe famines. The drain of wealth theory, propounded by Dadabhai Naoroji, posits the systematic extraction of resources from India.

After independence, the government assumed responsibility for economic development. It adopted a mixed economy model with greater emphasis on the public sector and introduced economic planning to mobilize resources, promote industrialization, and ensure equitable growth. The first five-year plan prioritized agriculture and laid the foundation for future growth. Several infrastructure projects and programmes were implemented. The agriculture sector reached a turning point with the green revolution, which made India self-sufficient in foodgrains.

Simultaneously, efforts were made to industrialize the country. The second five-year plan focused on heavy industries and aimed to establish a socialist pattern of society. It was based on the Mahalanobis model, which emphasized the development of capital goods industries. Although the plan was moderately successful, it defined the country's development path. Steel plants were established in Bhilai, Rourkela, and Durgapur. Hydroelectric projects, railways, and atomic energy were key areas of government initiatives.

During the 1960s, several challenges, including the Indo-China and Indo-Pak wars, droughts, and external sector imbalances, affected the economy. However, the government successfully launched the green revolution programme. In the 1970s, the government introduced poverty alleviation programs to ensure distributive justice. They did not give the anticipated results due to the political and democratic crisis. The economic performance during the first three decades after independence was termed the 'Hindu Growth Rate' by

Rajkrishna. The average annual growth rate of this period was around 3.5 percent.

In the 1980s, the government began liberalizing the economy, culminating in the major economic reforms of 1991. This marked a policy shift from a state-dominated economy to a market-oriented one. The role of the public sector was reduced, and the private sector was given greater opportunities. Licensing requirements were abolished in most industries. The MRTP Act of 1969 was eventually replaced by the Competition Act of 2000. Trade liberalisation, lower tariffs, and permission for FDI were also introduced along with financial and tax reforms.

2. Transition of the Economy

Reform measures in 1991 boosted economic activities. India soon became one of the fastest-growing economies in the world. The impact of LPG policies was visible across all sectors of the economy.

Table 1: Growth Rate of Different Sectors (1994-2002)

Activities	Growth Rate
Agriculture	3.1
Mining and Quarrying	4.7
Manufacturing	7.8
Electricity, Gas and Water Supply	6.8
Construction	6.3
Trade	9.2
Transport, Storage and Communication	8.7
Financial Services	8.4
Community, Social and Personal Services	8.4
Total	6.7

Source: www.indiastat.com

The above table shows that the average GDP growth rate was 6.7 between 1994 and 2002. The service sector emerged as the new engine of economic growth, placing India on a 'idiosyncratic' path of development. Growth in agriculture and industry was higher in the 1980s than in the 1990s. The agriculture sector grew at a rate of 4.4 percent in the 1980s and 3 percent in the 1990s. Similarly, industry growth declined from 6.8 percent to 5.8 percent.

Following the 1991 reforms, the services sector's growth outpaced the other sectors in both growth rate and GDP contribution. The service sector registered an average growth rate of 6.6 percent during the 1980s, but in the 1990s, it witnessed a high growth rate of 7.6 percent.

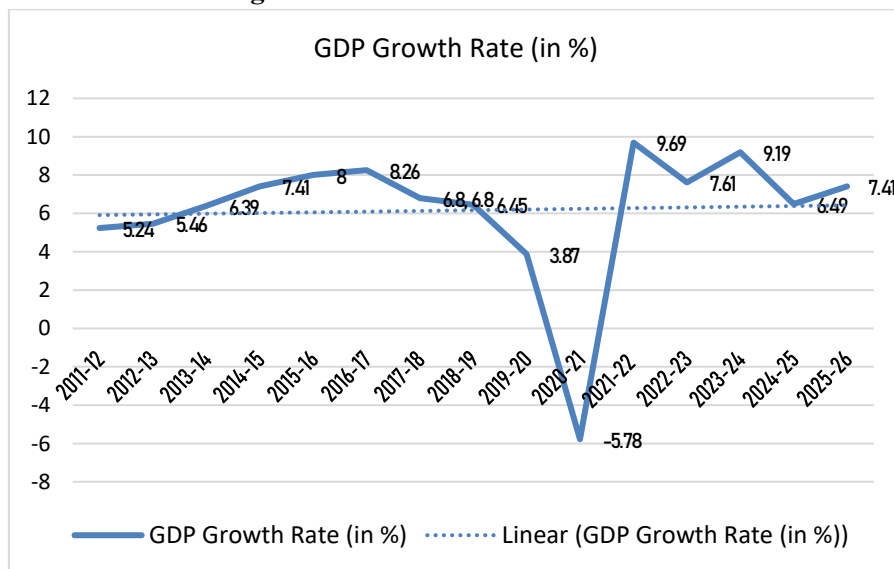
However, growth was not uniform across all years. The economy performed well between 1994 and 1997 but slowed thereafter. This slowdown is attributed to the East Asian Crisis of 1997 and the time required for reforms to yield results.

A turning point came in 2003, when macroeconomic indicators improved, and the economy grew at nearly 8 percent until the global financial crisis of 2008. The government's timely response minimized the impact, and the economy recovered quickly. The investment to GDP ratio was historically high during the high growth period from 2003-04 to 2007-08. This was a result of the set of industrial, trade, and financial sector reforms. After the recession, the government managed fiscal deficit responsibly and freed up the investible resources

for the private sector. Huge domestic demand, strong monetary and fiscal measures, and the banking sector's resilience helped the economy to absorb the shock.

However, this recovery was short-lived. Growth slowed after 2011-12 due to declining private investment, inflation, fiscal deficits, and governance challenges. Private investment became the major worry as it was the key driver of growth in the 2000s. A rise in borrowing, double-digit inflation, high current account deficit, corruption, and the slow pace of reforms caused a moderation in the growth rate. The government leaned more towards the distributional aspects through the biggest ever welfare programmes rather than investing in infrastructure.

The following figure (fig 2) shows that the growth rate increased further after the new regime in 2014. The government's immediate policy announcements and reform intentions created a positive outlook for the economy and increased confidence among investors. But, unanticipated demonetisation in 2016 decelerated the growth rate. In 2017, the implementation of the GST reforms magnified this downward trend. Further, the outbreak of the COVID-19 pandemic and lockdown severely hit the economy. In the FY 2020-21, the growth rate turned negative. However, it recovered very quickly and registered a strong growth rate of 9.69 percent in 2021-22. Since then, fluctuations are clearly visible due to domestic and external factors.

Fig. 2 Growth Rate at Constant Price*Source: RBI*

Despite fluctuations, the growth trajectory is impressive compared to the world's economies. India is the fastest-growing and the third-largest economy (in PPP) in the world after the USA and China. Approximately 70 percent of the economy is being driven by domestic and private consumption. The simplification of GST, the Make in India, the PLI scheme, the MUDRA scheme, Digital India, and huge investment in infrastructure have transformed the economy. India is projected to be the world's fastest-growing economy, driven by the robust domestic demand, a dynamic demographic profile, and sustained economic reforms (PIB, 2025).

3. Conclusion

After tracing the history of the last 5000 years, it will not be wrong to say that Ancient India was very prosperous. Even in the medieval period, it showed its strong presence in the

production and global trade. But during colonial rule, the economic structure was altered to support Britain's economy. Perhaps that was the darkest era in Indian economic history. After independence, the changes were realised. Although the first three decades were very dismal in terms of economic growth, the economy gained momentum in the 1990s onwards. Since then, India has maintained an average growth rate of 6-7 percent. However, there are some negative sides to the reforms, too. The economy is currently experiencing severe economic inequality, joblessness, and environmental degradation that will later affect the sustainability of the growth. Addressing these issues is necessary to realize the dream of a developed nation.

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