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## From Colonial Extraction to a Global Engine: A Journey through India's Economic Transformation

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### ABSTRACT

This research paper chronicles the evolutionary journey of the Indian economy, tracing its path from a systematically exploited colonial entity to its current status as one of the world's fastest-growing major economies. The study is structured into four pivotal phases: the era of colonial plunder (1757-1947), the post-independence period of planned development and the 'Hindu rate of growth' (1947-1990), the paradigm-shifting economic reforms of 1991, and the contemporary era characterized by digital transformation and strategic initiatives like 'Make in India'. It argues that this transition was not linear but marked by critical junctures, including the 1991 balance of payments crisis, which catalyzed the shift from a protectionist, state-dominated model to a liberalized, globalized one. The paper provides an exhaustive analysis of the 'Make in India' initiative, evaluating its impact on manufacturing, foreign direct investment, employment, and its role in positioning India as a global alternative to China. While acknowledging significant achievements such as the rise of the services sector, digital financial inclusion, and improved infrastructure, this paper also critically examines persistent challenges, including structural unemployment,



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multidimensional poverty, agrarian distress, and widening income inequality. By synthesizing historical context with contemporary data, this research concludes that India's economic trajectory is a compelling case study of resilience and reform, yet its future success hinges on addressing structural bottlenecks, investing in human capital, and ensuring that growth becomes truly inclusive and sustainable.

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## 1. Introduction

The narrative of the Indian economy is a remarkable saga of resilience, reinvention, and relentless aspiration. From being a nation systematically drained of its wealth under centuries of colonial rule—reduced to a mere supplier of raw materials for British industries—to emerging as a beacon of growth and a counterweight to China in the 21st century, India's economic journey offers invaluable insights into development economics, statecraft, and the complex interplay between policy and growth. At the time of independence in 1947, India was not merely a poor country; it was a shattered economy. Its industrial base had been decimated, its handicrafts destroyed, its agriculture rendered subsistence-oriented and precarious, and its per capita income was among the lowest in the world. The foundational challenge before the newly independent nation was monumental: how to build a self-reliant, industrialized, and equitable society capable of lifting hundreds of millions out of abject poverty.

This paper aims to dissect this complex, multi-generational transformation by analyzing its four key phases in meticulous detail. First, it examines the structure and devastating impact of the colonial economy, which was designed for the singular, ruthless purpose of serving British industrial interests. Second, it explores the post-independence era of five-year plans, the adoption of a mixed economy model, the achievements of the Green Revolution, and the well-documented limitations of this period, including the much-debated 'Hindu rate of growth' and the stifling effects of the License Raj. Third, it focuses on the watershed moment of 1991, when a severe balance of payments crisis forced the nation to abandon its protectionist, inward-looking policies and embrace the transformative trinity of liberalization, privatization, and globalization (LPG). Fourth, and most extensively, it assesses the contemporary economic landscape, characterized by a dominant services sector, a revolutionary digital transformation, and targeted strategic initiatives. A significant portion of this analysis is dedicated to a deep, critical evaluation of the 'Make in India' initiative, examining its objectives, implementation milestones, tangible successes, and the persistent structural challenges that have prevented it from fully achieving its ambitious goals.



The paper concludes by synthesizing the lessons from this historical journey, acknowledging the significant progress made in elevating India to the world's fifth-largest economy. However, it simultaneously and critically highlights the persistent, deep-seated challenges—unemployment, inequality, agrarian distress, and a widening skills gap—that India must navigate to consolidate its position as a truly developed global economic power. The central argument is that while India has successfully escaped the low-growth trap, it now faces the more difficult challenge of transforming that growth into broad-based, sustainable, and job-creating prosperity.

## **2. The Colonial Economy: An Era of Systematic Exploitation (1757 - 1947)**

The British colonial rule, spanning nearly two centuries, fundamentally restructured the Indian economy. It was not a period of benign neglect or accidental underdevelopment; it was an era of deliberate, systematic exploitation designed to de-industrialize India and subordinate its entire economic apparatus to the needs of the British industrial revolution.

### **2.1. De-industrialization and the Drain of Wealth**

The colonial strategy was brutally dual-pronged. On one hand, India was reduced to an exclusive exporter of raw materials—cotton, raw silk, indigo, opium, tea, and oilseeds—which were essential inputs for British factories. On the other hand, India was forced open as a captive, tariff-free market for the finished goods manufactured in those very British factories. The imposition of high, prohibitive tariffs on Indian textiles entering Britain, coupled with the complete elimination of duties on British textiles entering India, decimated the thriving indigenous handicraft and textile industries. Cities like Dhaka, Murshidabad, and Surat, once global centers of muslin and calico production, were systematically depopulated and transformed into ghost towns of their former economic glory. Artisans, weavers, and spinners, who had made India a global manufacturing hub accounting for nearly 25% of world industrial output in 1750, were forced to abandon their ancestral professions and pushed into subsistence agriculture, swelling the ranks of landless laborers.

Concurrently, the systematic drain of wealth, a concept famously articulated and painstakingly calculated by Dadabhai Naoroji in his classic work *Poverty and Un-British Rule in India*, saw an estimated £200-300 million transferred from India to Britain over the colonial period. This drain took multiple insidious forms: the "home charges" for maintaining the India Office in London, exorbitant salaries and pensions of British officials, guaranteed dividends to British shareholders of East India Company and later colonial enterprises, and the cost of the British army contingent stationed in India. This was not mere profit



repatriation; it was a hemorrhaging of Indian capital that starved the domestic economy of the resources needed for modern infrastructure, industrial investment, and poverty alleviation.

## **2.2. Agrarian Distress, Land Revenue Systems, and Famine**

The commercialization of agriculture, while intended to supply cash crops to Britain's mills, led to widespread and devastating agrarian distress. The introduction of exploitative land revenue systems—the Zamindari (permanent settlement) in the east and south, the Ryotwari (direct settlement with peasants) in the south and west, and the Mahalwari (village-level settlement) in central and northern India—imposed heavy, inflexible tax burdens on peasants. These taxes were often collected regardless of crop failure, flood, or drought. To pay these taxes, peasants were forced to take usurious loans from moneylenders at exorbitant interest rates, leading to a cycle of debt, land loss, and bondage that persisted for generations. This structural vulnerability, combined with the colonial policy of prioritizing cash crop exports over food grain production for domestic consumption, led to catastrophic famines. The Great Famine of 1876-78 (6-10 million dead), the Indian Famine of 1896-97 (5 million dead), and the Bengal Famine of 1943 (an estimated 3 million dead) were not merely natural calamities; they were man-made disasters, exacerbated or directly caused by colonial policies of food grain exports, free trade fundamentalism, and callous administrative indifference.

## **3. The Post-Independence Era: Planning, Self-Reliance, and the "Hindu Rate of Growth" (1947 - 1990)**

Upon independence in 1947, India faced a near-impossible task: unify a fragmented subcontinent, rehabilitate millions of refugees from Partition, and build a modern economy from the rubble of colonial extraction. The leadership, particularly Prime Minister Jawaharlal Nehru and statistician Prasanta Chandra Mahalanobis, adopted a mixed economy model, believing that a dominant state sector was essential for rapid industrialization, while allowing a regulated private sector to coexist.

### **3.1. The Five-Year Plans and the Heavy Industrialization Strategy**

The Planning Commission was established in 1950, and the first Five-Year Plan (1951-1956) rightly focused on agriculture, irrigation, and power to address chronic food shortages and rehabilitate the agrarian sector. However, the second Five-Year Plan (1956-1961) represented a decisive ideological shift. Inspired by the Soviet-style Mahalanobis model, it prioritized the accelerated development of heavy, capital-goods industries. The logic was that long-term self-sufficiency required an indigenous capacity to produce machinery, steel, and energy. This led to the establishment of gigantic public sector



enterprises in steel (Bhilai, Durgapur, Rourkela), heavy engineering (BHEL), coal (Coal India), and defense production (HAL). While this strategy successfully laid the foundation for a diversified industrial base and created a robust infrastructure of science and technology, it was capital-intensive and created relatively few direct jobs, a problem that would manifest later.

### **3.2. The Green Revolution and the Conquest of Food Security**

By the mid-1960s, after two years of severe drought and a near-total dependence on PL-480 food aid from the United States (which was sometimes politically leveraged), India faced a humiliating and precarious food security crisis. The Green Revolution, introduced with urgency in the late 1960s, was a transformative, life-saving agricultural strategy. The adoption of High-Yielding Variety (HYV) seeds, particularly for wheat (semi-dwarf varieties developed by Norman Borlaug) and rice (IR8), coupled with the massively increased use of chemical fertilizers, pesticides, assured irrigation, and government procurement at minimum support prices, led to a dramatic, quantum jump in food grain production. Punjab, Haryana, and western Uttar Pradesh became the nation's breadbasket. Within a decade, India was transformed from a food-deficit, ship-to-mouth nation to a self-sufficient one, building a strategic buffer stock that protected it from external shocks and global price volatility. The Green Revolution was arguably the single most important economic achievement of this era, saving millions from famine and providing the political stability necessary for subsequent reforms.

### **3.3. The Constraints of the License Raj and the "Hindu Rate of Growth"**

Despite these undeniable achievements in institution-building, infrastructure, and food security, the Indian economy faced severe, self-imposed constraints. The infamous "License Raj"—a complex, opaque, and pervasive system of industrial licensing, import permits, capital controls, and bureaucratic regulations—stifled private sector initiative at every step. To start a factory, an entrepreneur needed over 80 different licenses from various ministries. Production capacity, pricing, product mix, and even expansion were controlled by bureaucrats with little understanding of market dynamics. Protectionism, with import tariffs among the highest in the world, insulated domestic industries from any form of external competition, leading to chronic inefficiency, high costs, poor quality, and a lack of innovation. Consequently, the annual GDP growth rate averaged a modest and disappointing 3.5% for nearly three decades from 1950 to 1980. Population growth was nearly as high, so per capita income grew at an anemic 1-2% per year. This phenomenon, famously and derisively termed the "Hindu rate of growth" by Indian economist Raj Krishna, was a pace far too slow to make any significant, discernible dent in widespread, entrenched poverty. By 1990, India was a nation of meager foreign exchange reserves,



mounting fiscal deficits, and an economy that had fallen badly behind the fast-growing East Asian tigers like South Korea, Singapore, and Taiwan.

#### 4. The Paradigm Shift: Economic Reforms and Liberalization (1991)

By early 1991, the Indian economy was not just in trouble; it was in a state of acute, life-threatening crisis. A balance of payments crisis, fueled by a decade of profligate fiscal spending, a spike in global oil prices due to the first Gulf War, the collapse of the Soviet Union (a major trading partner), and an evaporation of investor confidence, brought the country to the literal brink of default. India's foreign exchange reserves had plummeted to a perilously low level of about US\$1 billion—barely enough to cover two weeks of essential imports. The government had to physically ship gold to the Bank of England as collateral to secure an emergency loan from the International Monetary Fund.

In response to this existential crisis, the government led by Prime Minister P.V. Narasimha Rao, with the brilliant economist Dr. Manmohan Singh as Finance Minister, initiated a historic, radical, and irreversible set of reforms on July 24, 1991. This was the famous LPG model:

- **Liberalization:** The bold and immediate dismantling of the License Raj. Industrial licensing was abolished for all but a handful of strategically sensitive sectors (like defense and atomic energy). Domestic trade was deregulated, price controls were removed, and the private sector was freed to invest and expand.
- **Privatization:** A decisive reduction of the public sector's sprawling, often inefficient domain. The government announced a policy of disinvestment (selling minority stakes) in many public sector undertakings, opened up previously restricted sectors (like airlines, banking, and telecommunications) to private investment, and signaled a clear shift away from state-led enterprise.
- **Globalization:** The most transformative leg of the reforms. The rupee was devalued by about 20% to boost exports. Import tariffs, which had averaged over 150%, were slashed drastically. Quantitative restrictions on imports were abolished. Most dramatically, the economy was opened to foreign direct investment (FDI), with automatic approval for FDI in a long list of priority sectors.

These reforms were a violent break from the past. They unleashed powerful market forces, dismantled decades of protectionist walls, and aggressively integrated India into the global economy, marking the definitive end of the socialist, inward-looking Nehruvian era and the beginning of a sustained period of accelerated, market-driven growth.



## **5. Contemporary India: An Emerging Economic Power**

The reforms of 1991 irrevocably altered the trajectory of the nation, setting the stage for the modern Indian economy, which is characterized by high growth, a globally dominant services sector, and a bottom-up digital revolution.

### **5.1. The Unprecedented Rise of the Services Sector**

India's economic transformation is historically unique because it leapfrogged from a predominantly agrarian economy directly to a services-led one, bypassing the traditional, sequential model of manufacturing-led growth that was followed by Western nations and East Asian tigers. The Information Technology (IT) and Business Process Outsourcing (BPO) sector emerged from nowhere in the 1990s to become a global powerhouse. Leveraging a large, English-speaking, technically skilled (particularly in engineering and mathematics) workforce, a favorable time-zone advantage (the "follow the sun" model), and relatively low labor costs, Indian firms like TCS, Infosys, and Wipro became global giants. This sector became a primary driver of GDP growth, a major source of foreign exchange earnings through software exports, a creator of a new, affluent urban middle class, and a brand ambassador for India's new economic competence.

### **5.2. The Silent but Powerful Digital Revolution**

The digital landscape in India has undergone a paradigm shift in the last decade, moving from a technology follower to a global leader in digital public infrastructure. The Digital India initiative, launched in 2015, aimed to bridge the urban-rural digital divide, connect over 250,000 village councils with high-speed internet, and promote digital literacy. However, the most transformative element has been the Unified Payments Interface (UPI), a real-time, mobile-first payment system developed by the National Payments Corporation of India (NPCI). UPI has not just evolved digital payments; it has completely democratized them. By enabling instant, zero-cost, peer-to-peer and peer-to-merchant transactions via a simple smartphone, UPI has bypassed traditional credit card infrastructure and brought hundreds of millions of previously unbanked or underbanked Indians into the formal financial system. From chai wallahs to vegetable vendors to luxury boutiques, UPI QR codes are ubiquitous. In 2023 alone, UPI processed over 100 billion transactions worth trillions of dollars, a volume unmatched by any other real-time payment system in the world.



## 6. Deep Dive: A Comprehensive Impact Analysis of 'Make in India'

While the services sector propelled India's headline GDP growth, the government recognized a fundamental vulnerability: a large, young, and growing workforce could not be absorbed by the relatively high-skill IT sector alone. The vast majority needed jobs in manufacturing, construction, and logistics. To address this, the 'Make in India' initiative was launched with great fanfare in September 2014, with the ambitious, overarching goal of transforming India into a global manufacturing hub, increasing manufacturing's share of GDP from 16% to 25% by 2022 (a target that has since been revised), and creating 100 million new manufacturing jobs.

### 6.1. Core Objectives and Targeted Sectors

The initiative was built on four key pillars designed to signal a fundamental shift in governance mindset: "New Processes" (simplification of business regulations, digitization of approvals), "New Infrastructure" (development of industrial corridors, logistics parks, and smart cities), "New Sectors" (identifying and promoting 25 champion sectors such as automobiles, electronics, defense, pharmaceuticals, textiles, renewable energy, and railways), and a "New Mindset" (shifting the government's role from an intrusive regulator to an active, proactive enabler for business).

### 6.2. Measurable Impact and Achievements

Over a decade since its launch, despite the disruptions of the COVID-19 pandemic, 'Make in India' has had a discernible and, in some sectors, spectacular impact:

- **Surge in Foreign Direct Investment (FDI):** The initiative, coupled with a sustained policy of liberalizing FDI caps (allowing 100% FDI in most sectors under the automatic route), led to a dramatic surge in foreign investment. India saw record-breaking FDI inflows, reaching over \$80 billion annually in recent years, a more than threefold increase compared to the pre-2014 era. Major global players across electronics (Foxconn, Wistron, Samsung), automobiles (Tesla's long-negotiated entry, Hyundai's increased investments), and telecommunications established or massively expanded their Indian manufacturing footprint. India's ranking in the World Bank's 'Ease of Doing Business' index (now discontinued) improved spectacularly from 142nd in 2014 to 63rd in 2020, reflecting a genuine, if incomplete, simplification of regulatory processes.

- **Spectacular Success in Electronics Manufacturing:** The single most tangible and stunning success of 'Make in India' has been in mobile phone manufacturing. Through a phased manufacturing program



(PMP) that used calibrated tariffs to incentivize domestic assembly and component manufacturing, India transitioned from importing nearly 80% of its mobile phones to becoming the world's second-largest mobile phone manufacturer. Global giants like Apple (through contract manufacturers Foxconn, Wistron, and Pegatron) and Samsung now produce a significant portion of their global output in India, with exports growing exponentially.

- **Defense and Aerospace Indigenization:** The initiative has instilled a strong push for import substitution in the politically sensitive defense sector. The government's 'negative import list' for defense items, mandatory procurement from domestic sources, and encouragement of public-private partnerships have begun to reshape the landscape. Indigenously developed platforms like the Tejas Mark-1A light combat aircraft, the Dhanush artillery gun system, the Arjun Mark-1A main battle tank, and various naval vessels are seeing increased production, reducing a long-standing reliance on expensive, imported Russian, French, and Israeli equipment.

- **Infrastructure as a Backbone:** A critical enabler for manufacturing has been an unprecedented, decade-long pipeline of infrastructure spending. The massive expansion of the National Highways network (adding over 50,000 km of access-controlled highways), the ambitious PM Gati Shakti National Master Plan—a digital platform that integrates the infrastructure plans of 16 central ministries and 28 states to break departmental silos and ensure synchronized project execution—and the development of dedicated Industrial Corridors (Delhi-Mumbai Industrial Corridor, Chennai-Bengaluru Industrial Corridor, Amritsar-Kolkata Industrial Corridor) are providing the modern, efficient logistics backbone that manufacturing industry had long demanded.

### **6.3. Honest Critiques and Persistent Challenges**

Despite these demonstrable successes, the 'Make in India' initiative faces persistent, structural criticisms that cannot be glossed over:

- **Disappointing Employment Generation:** This is the most critical failure. The manufacturing sector's share of GDP has stubbornly remained in the 17-18% range, far below the 25% target. More importantly, the capital-intensive nature of the sectors that have succeeded (electronics, automobiles) has not generated the massive, high-quality formal sector jobs that the initiative promised. The much-hoped-for shift of labor from agriculture to high-productivity manufacturing has not materialized at the required scale.



- **Persistent Structural Bottlenecks:** Deep-seated issues continue to hamper the ease of doing business, particularly for small and medium enterprises (SMEs) which are the traditional engines of mass employment. These include complex and rigid labor laws that discourage hiring, prohibitively high cost of capital for small businesses, frequent and protracted land acquisition disputes, a still-challenging tax compliance environment despite the Goods and Services Tax (GST), and often-unpredictable enforcement of contracts.
- **Incomplete Global Value Chain Integration:** While India has made significant strides in final assembly (e.g., mobile phones), it remains poorly integrated into the deeper, more profitable tiers of global value chains (GVCs). India continues to rely heavily on imported components, particularly from China, for electronics, pharmaceuticals (active pharmaceutical ingredients), and solar equipment. This "assembly without deep manufacturing" creates a precarious strategic dependency and captures only a small fraction of the potential value added.

## **7. Persistent Challenges and the Critical Road Ahead**

Despite its remarkable ascent to the ranks of the world's top five economies, India continues to grapple with deep-seated, structural challenges that threaten the very inclusivity and long-term sustainability of its growth story.

- **The Crisis of Structural Unemployment:** India faces a significant and worsening "jobs deficit." The economy has consistently failed to generate enough formal, non-farm jobs to absorb the roughly 12-15 million young people entering the workforce each year. This has resulted in a high and potentially destabilizing rate of disguised unemployment (people working low-productivity jobs in agriculture or the informal sector) and rising open unemployment, particularly among educated youth. The COVID-19 pandemic exacerbated this crisis, pushing millions back into precarious informal work.
- **Deepening Income and Wealth Inequality:** The benefits of India's rapid economic growth since 1991 have been starkly unevenly distributed. While the top 1% of the population has seen its wealth and income share skyrocket, the bottom 50% has seen only modest gains. India is now one of the most unequal countries in the world, with a Gini coefficient of wealth that has crossed alarming thresholds. This creates not only social and political tensions but also limits the potential for self-sustaining, consumption-led economic growth, as the majority of the population lacks sufficient disposable income.
- **Persistent Agrarian Distress and Farmer Unrest:** A staggering 45-50% of the population still depends on agriculture for its livelihood, yet agriculture contributes only about 18% to GDP. This massive



productivity gap is the root cause of chronic rural poverty. Farmers face low and volatile prices, declining landholdings, depleted groundwater, increasing input costs, and heightened vulnerability to climate change-induced extreme weather events (unseasonal rains, heatwaves, droughts). Periodic farmer protests, such as the year-long agitation against three farm laws in 2020-21, are symptomatic of this deep, unresolved structural crisis.

· **The Widening Skill Mismatch:** India suffers from a paradoxical "demographic dividend" that risks turning into a demographic disaster. The country has a young, large population but a significant and persistent gap between the skills possessed by its workforce and the skills demanded by a rapidly modernizing industry. The traditional education system is heavily tilted toward theoretical, generalist degrees and under-produces job-ready graduates with vocational, technical, and digital skills. This mismatch limits productivity, fuels the unemployment crisis, and discourages labor-intensive industries from setting up operations.

## **8. Conclusion: From Growth to Inclusive Development**

India's economic journey from a colony systematically drained of its wealth to a recognized global economic engine is a powerful, inspiring testament to its people's resilience and the transformative potential of courageous policy reform. The traumatic break from the past in 1991 unleashed entrepreneurial energies, integrated India with global markets, and created a hugely successful services and digital economy. Today, initiatives like 'Make in India' and massive investments in modern infrastructure are laying the groundwork for a stronger, more diversified manufacturing base to complement the IT revolution.

However, the story of India is not yet a story of unqualified, triumphant success. The nation stands at a critical, perhaps defining juncture. The next chapter of its economic history will not be written merely by achieving higher headline GDP growth rates. The central, unresolved challenge is far more complex: how to make that growth truly inclusive, deeply sustainable, and job-creating at a mass scale. Addressing the deep-seated structural bottlenecks—in agriculture, in labor laws, in education and vocational training, and in land administration—will be key to unlocking the next, more equitable phase of development. India's long-term future as a stable, prosperous 'economic engine' depends entirely on its ability to convert its demographic dividend into a skilled, highly productive workforce and to ensure that the fruits of its rising prosperity reach the most marginalized and distant corners of its vast and diverse society. The journey from colonial extraction to genuine, inclusive empowerment is far from complete; it is entering its most challenging, and most critical, chapter.



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