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# The Legacy of Colonialism on Economic Laws in India: Exploring the Impact of Liberalisation Policies on Economic Development

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## Abstract

*This paper explores the impact of colonialism on economic laws in India, and the effect that this has had on the country's economic development. The British colonial government established a legal and institutional framework that was designed to serve their interests and extract resources from India, rather than promote the economic development of the country. The effect of this continued even after independence, as India struggled to modernize its economy and overcome the challenges of poverty and inequality. Although with the introduction of liberalization, the economy was boosted and many significant changes were brought. They have also had negative effects, such as the collapse of traditional industries and an increase in inequality. The paper also has a comparative analysis of the economy of India and Botswana to understand the level of growth post-colonialism. The paper finally discussed the current status of economic laws and policies in India and how changes can be brought to help improve the current situation.*

Keywords: Economic laws, Liberalization, Farmers, Liberalization.

## Introduction

Economic laws in India refer to a set of rules, regulations and legal framework that help to regulate the economy of the country. The main purpose for introducing such laws was to help in economic growth and development. Along with that, such laws help safeguard companies and customers from any financial fraud or exploitation. Amongst many, some of the areas which are covered under economic laws are taxation, labor, intellectual property, competition and international trade.

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India has a very complex economy that is prone to change constantly. Earlier, the Indian economy was a socialist and state-controlled economy and now it has shifted to a market-driven economy. As a state-controlled economy, all the industries such as telecommunications, power, oil, etc., were under the control of the central government. The government nationalized these key industries and implemented policies to help reduce poverty and inequality. However, this did not workout. Post the economic crisisin1991, in which the economy faced major issues in relation to rising inflation, and high fiscal deficits which led to a sharp depreciation in the value of the rupee, the need to open up the economy and allow international investment was seen. Many economic reforms were introduced to reduce trade barriers, deregulate and privatize industries. This shift in the model of the economy was seen in the change of economic laws when liberalization was introduced in the country. Liberalization helped in the growth of the private sector as it opened the country to international trade.

**The Indian Economy during Colonialism**

India was an agrarian economy and this was used by the Britishers to exploit farmers. India was known for cultivating the best spices, tea and cotton. The Britishers would extract and export these resources to Britain. One of the biggest ways the Britishers exploited India was through its land reforms. Poor farmers were forced to pay taxes to the colonial government for the agricultural produce they cultivated. One of the systems followed to implement this was the Zamindari system. Zamindars were wealthy intermediaries that exploited poor farmers and collected land revenue on behalf of the British government. Farmers were forced to pay this tax regardless of the amount of produce they were able to make. Even during the period of natural disasters when people were suffering from starvation and disease, farmers had to pay this tax. This increased the wealth gap between the colonizers and the colonized. The Britishers kept benefiting from looting the Indians. Post-independence the Land Ceiling Act of 1972 was introduced to help address the issue of unequal landholding and to redistribute land to the marginalized communities. This was a step towards moving away from the restrictive laws made by the British government.

During the Second World War, the Indian economy was heavily exploited by the British Colonial Government. The Brits had to maintain their troops who were fighting the war and hence used India as a service provider. India provided the British with man force, raw materials, essential goods and food. The Indian troops, although not a party to the war, were forced to fight with insufficient food and poor equipment. They faced inhumane treatment, were poorly paid and were also treated as labor for the British troops.

One of the biggest consequences of World War Two was seen in Bengal in the year 1943. Due to the excess diversion of food and agricultural produce from India to the troops and allied forces in Europe fighting in the war, the colonized population faced starvation and growth in diseases. A major effect was seen in Bengal as they had been through a natural disaster. The British Colonial Government prioritized their imperial duties and powers over the welfare of the colonized population. This led to the Great Bengal Famine in which around 2 to 3 million people lost their lives to starvation and disease. The then Prime Minister of Great Britain, Sir Winston Churchill was suggested to be responsible for this. Not only had Winston's government diverted resources, but they also imposed high taxes and price controls on the farmers which pushed them into extreme poverty. When questioned about the Bengal famines, Sir Winston Churchill reportedly said, "*I* *hate Indians. "They are beastly people with a beastly religion. The famine was their own fault for breeding like rabbits.*" The British colonial government was widely criticized for the manner in which they handled the famine and their failure to respond to the crisis of their colonized population. This helped in motivating the people of India to demand justice and independence.

In "The Economic Legacies of Colonial Rule in India: Another Look," Thirthankar Roy talks about the effect of colonialism on India's economy. He says that, although the colonial government did provide economic benefits to India in the form of a modern banking system and railways, the exploitation overweighs these benefits. He also says that the effect of colonialism on the economy of India was seen after gaining independence in 1947. Problems such as poverty, inequality, policy-making to cater to the needs of every citizen and dependence on foreign trade and investment are rooted in colonialism. The economic policies made during the British Raj were mainly focused on serving the interests of colonizers rather than the colonized. Introducing tariffs on opium, salt, agricultural produce and textile trade, collecting land revenue from farmers, introducing policies to support the growth of cash crops such as coffee, tea and indigo, and finally the establishment of railways was all done to serve the interests of the British. Although Indigo plantations would deplete the nutrients in the soil and make the land sterile for cultivation again, the Britishers forced farmers to grow this crop. Railways were established to make the transportation of raw materials and finished goods easy within the nation. The colonial government used India as a primary producer of raw materials and a final market to sell British-made goods. This flooded the market with foreign, mass-made products which slowly led to the death of the local industries. This was also spoken about at The Oxford Union by Dr Shashi Tharoor when he addressed the Union about the British owe India reparations.

**The Economy Post Independence 1947**

In the years following Independence in 1947, the Indian economy faced a number of struggles. The biggest challenge was the lack of industrialisation and modernisation. Although the Nehruvian government saw some successes, the lack of competition in the key industries limited its innovations and growth. To safeguard the local industries, the government came up with import substitution policies that stifled the development and further modernisation of these industries. Even post-independence, the economy was still largely agrarian with low levels of productivity. Due to this, not many were entering the industries and this led to its fallback.

India suffered substantial social and political differences in addition to these economic difficulties, which hampered economic growth. The caste system in the nation, for instance, increased socioeconomic inequality and denied many underprivileged populations access to opportunities for education. Another significant issue was political corruption, which paralyzed government policies and made it ineffective.

Lack of infrastructure and investment was another major issue for the Indian economy. The nation's transport system was underdeveloped, with few paved roads and subpar port facilities. This restricted the nation's participation in international trade and commerce and hampered economic expansion.

In spite of these difficulties, the Indian economy expanded in the decades that followed independence. In the 1980s and 1990s, the nation implemented a number of economic reforms intended to promote liberalization and open the economy to foreign investment, which resulted in significant growth and development in many economic sectors. Many of the nation's social and political issues, however, are still present today and continue to impede economic growth and progress.

India concentrated on agrarian reforms in the early years after independence to raise the standard of living for rural inhabitants. These changes included land redistribution and tenancy reforms. To encourage independence and economic expansion, the government also formed a public sector, which encompassed crucial industries like steel, power, and telecommunications. In order to encourage indigenous manufacture of items that had previously been imported, import substitution was a defining feature of Indian economic policies in the 1950s and 1960s. Additionally, the government put policies in place to support exports and safeguard domestic industries.

However, the inefficiencies brought about by these policies—low productivity, shoddy infrastructure, and a lack of innovation—led to slow growth rates and enduring poverty. India responded by implementing economic changes in the 1980s to open up the economy and encourage private enterprises, such as liberalization and globalization policies.

The historic liberalization changes of 1991 allowed for increased trade and foreign investment by opening the Indian economy to competition and outside investment. In order to enhance competition and efficiency, the government also privatized numerous state-owned businesses and deregulated numerous industries, including telecommunications and aviation.

India has experienced tremendous economic growth as a result of these changes, with annual growth averaging between 7% and 8%, placing it among the world's fastest-growing countries. India now boasts the sixth-largest economy in the world, with a GDP that increased from USD 300 billion in 1991 to USD 3 trillion in 2021. Further, India continues to face major issues like income inequality, poverty, and poor infrastructure, all of which call for additional economic reforms and policies to address.

**Liberalization in India**

Liberalization in India is seen as the one of the most effective changes made in the India Economy. The need for liberalization was due to many internal and external factors. These factors are -

1. The government's self-reliance policies protected the economy of the country from foreign exploitation but also restricted the industries. Since there was no international exposure, the advancement of technology, competitiveness among industries and economic growth was very slow.
2. The balance of payments crisis of 1991 was caused due to a depleting foreign exchange reserve and an increasing current account deficit. Due to this deficit, the economy of the nation faced high inflation, slow economic growth and a high fiscal deficit.

3. The collapse of the Soviet Union in 1991 also affected the Indian economy due to its dependence on the Union for economic and military aid. The Soviet Union helped India in establishing key infrastructural industries that helped India build dams, power plants and steel mills. Along with that, the Soviet Union also provided the Indian government with military equipment such as fighter jets, tanks and submarines. The Fall of the Union left India with no choice but to expand its foreign ties with other nations.
4. Due to the high current account deficit, the foreign exchange reserve of the country had fallen which led to the government pledging its gold reserves as collateral to the International Monetary Fund (IMF) to secure a loan. To secure this loan, certain conditions had to be met by the nation which were deregulation of industries, privatization and liberalization. Aditya Bhattacharjee in his paper, “Trade Liberalization in India: Attempts and Consequences” discussed the several attempts India had made to liberalize the economy. He said that the attempt to liberalize the economy was not a sudden and drastic decision but was a gradual and well-thought-out step taken by the government. Many groups opposed the idea of liberalizing the economy due to the fear of foreign exploitation. The author also talks about the consequences the economy had seen post-liberalisation such as increased foreign investment, exports and less dependence on the agricultural sector. There were also negative consequences such as a rise in unemployment and inequality and the fall of certain traditional industries. He finally concluded his paper by talking about the changes that could have been brought into the liberalization policy such as considering the social and political status of the country back then and considering a more holistic approach to decrease the negative consequences and that the benefits of liberalization would be enjoyed by all the sectors of the society.

**What if Liberalization had not happened?**

Liberalization was key in the growth of the Indian economy, but what if it had not been done. It is difficult to envision our market and economy without any foreign products or brands, but that’s not all. With India being a non-liberalised economy, we would have faced issues such as:

1. High corruption in industries, this would happen due to complete control of essential industries in the hands of the government. This centralized control of power in the hands of one body would lead to bias in decision making which would hinder the growth of said industries.
2. Lack of entrepreneurship, the period before liberalization was called the license raj where permission and licensing had to be done before establishing industries. This was a long and tedious process that was subject to corruption and bureaucracy. This delay would have led to brilliant ideas such as Tata and Birla to set up shop outside the territory of India. This would boost foreign markets and push the Indian population into poverty.
3. One of the benefits of liberalization was the foreign investment it brought in. Multinational corporations were setting up offices, industries and factories in India which provided the economy with more employment opportunities and technological advancements. One of the biggest benefits was the increase in competition that it had brought. Many local industries had to up their game and

provide customers with better products to sustain in the market. This intem benefitted the consumers as they had many options to choose from.

4. India was an agrarian economy and the majority of the workforce was skilled in the works of agriculture. Through liberalization, the workforce of the country was introduced to various fields which would pique their interests. This led to the rise in different sectors such as manufacturing and IT.
5. Due to the high amount of current account deficit and loan from the IMF, if the country had not adopted liberalization, it would lead to the fall of the economy. This would increase the poverty levels and would make the country vulnerable to foreign exploitation yet again.

This bold decision taken by the government under the leadership of then Prime Minister PV Narasimha Rao and then Finance Minister Dr Manmohan Singh has put the Indian economy on a trajectory towards development and growth.

**India vs. Botswana: Battle of Economies**

To see whether India has actually prospered economically post-independence, there is a need to compare it to another country's economy that has also been colonized and has managed to build itself back up. One such country is Botswana, located in the southern half of the African continent. It gained independence in the year 1966 after Britain accepted their proposal for democratic self-government. Prior to independence, it was considered one of the poorest countries in the world with minimal natural resources. The economy was highly dependent on agriculture and cattle breeding. They had faced basic infrastructural issues such as a lack of electricity, water and roadways. It was assumed that the reason for this was the lack of attention given by the colonial government to the welfare and development of the country.

However, the situation of the country improved post-independence. The government put in a constant effort to improve its economy by investing in education and infrastructure. The biggest boost to the Botswana economy just like Liberalization for India was the discovery of diamond mines in the 1970s. The mining industry contributed massively to the GDP of the country. One of the other biggest contributors to the nation's GDP is tourism. Botswana is popularly known for its dense forests and wildlife. Botswana also happens to be one of the only politically and economically stable countries in Africa. From 1966, the GDP increased by ten times till 2018. Although both countries were colonized and have managed to pick their economy up, they both fall back and differ on certain aspects of their economy that is:

1. GDP, India’s GDP is at around $3.05 trillion while Botswana’s GDP is at $18.04 billion.
2. The service sector contributes about 56% to the Indian GDP followed by agriculture and then manufacturing whereas in the Botswana GDP, mining contributes about 40% followed by service and agriculture.
3. One of the biggest falls back for India which causes a slow development in the economy is the high population. India’s population is around 1.4 billion whereas Botswana’s population is just 2.5 million.
4. The interest rates set by the respective country's banks also differ.

Some similarities between both economies are that they attract a high Foreign Direct Investment (FDI), for Botswana the main attraction for foreign investors is the mining industry and for India, it has now become the technology and service sector. Comparatively India's economy is stronger than that of Botswana but Botswana's currency happens to be more expensive than India's. One Botswana Pula (BWP) is around 6.87 Indian Rupee (INR). The reason behind this is multifold. The first is that Botswana has a trade surplus. It is popularly known for its export of diamonds, agricultural produce and beef. India on the other hand has a trade surplus which means that it imports more than it exports, especially oil. Due to India's high population, its dependence on other countries for natural resources is significantly higher.

**Current status and scope for improvement in economic laws and policies**

The current economy of India combines elements of socialism and capitalism. The government is focused on promoting the economic development of the country to eradicate poverty, reduce inequality and increase social welfare. The private sector is focused on increasing growth and innovation. Some major policies and laws have been introduced to help boost the economy such as:

1. Goods and Services Tax (GST): It was introduced to replace multiple taxes that are being levied on businesses and customers. This has helped in reducing the compliance burden for businesses.
2. Foreign Direct Investment (FDI) policy: Ever since liberalization, foreign investment in India has been on an all-time rise. Industries such as technology, aviation, defense and retail. This has brought in competition and choices for customers. The government has done a lot to attract foreign investments by setting up Special Economic Zones (SEZs), reduction in trade barriers, etc.
3. Agricultural policy: As agriculture still remains a key sector in the Indian economy, many schemes and policies have been introduced to safeguard the farmers and the products they make such as Pradhan Mantri Fasal Bima Yojana to provide crop insurance to farmers, warehousing of produce at subsidized rate, etc.
4. Increase in entrepreneurship - the private sector has been supportive of up-and-coming business ideas and innovations. Big businesses act as angel investors to such start-up companies to help build a strong foundation to survive on. This has helped in achieving self-reliance which is a part of the Make in India agenda.

Improving the current economic laws and policies in India would require a lot of cooperation from multiple parties such as the government, industries, society and to a certain level the foreign market too. Some possible changes that would help strengthen the economy even more are:

1. Strengthening the regulating authorities, since they are responsible for the proper implementation of these laws and policies. These agencies handle the implementation of these policies in an effective manner. This would also include the judiciary.
2. Streamlining procedures and rules instead of having them complex and inconvenient would help businesses be prepared and would also make the process transparent to achieve effective operation.

3. Attainable finance would help in the growth of small and medium businesses by increasing their access to investment. This could be in the form of credit or investors.
4. The education and development sector would help in creating an effective man force to be a part of competitive industries. The rise in skilled man force would also open up employment opportunities. Human capital is essential for the growth of a company's economy.

Overall, the Indian economy has been performing really well, this can be seen in the current recession where India is the least affected economy compared to the economies of developed and prosperous countries.

## Conclusion

In conclusion, colonialism's legacy has significantly influenced India's economic laws and trajectory for economic development. Instead of fostering economic development, the British colonial authorities created a legal and administrative framework to support their interests and extract resources from India. After gaining its independence, India continued to battle with the effects of colonialism as it attempted to modernize its economy and combat issues like inequality and poverty. The 1990s saw a substantial shift in India's economic policy towards liberalization, which was intended to make the country's economy more market-oriented. Although these policies have increased exports and foreign investment, they have also had unfavorable effects like the displacement of workers in traditional industries and a rise in inequality.

Understanding the post-colonial growth required comparing India's economy to that of Botswana. The government, industry, civic society, and the general public must all work together to make long-term, consistent improvements to India's economic rules. This entails bolstering institutions, streamlining rules, enhancing financial accessibility, investing in education and skill development, and supporting creativity and entrepreneurship. To ensure that the advantages of liberalization are distributed more widely across Indian society, a more comprehensive approach that considers the social and political ramifications of economic reform is required.

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