

CUET · ECONOMICS · CLASS XI · CODE 309

Indian Economy on the Eve of Independence

CUET unit: Indian Economic Development

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Snapshot

- In August 1947 the Indian economy was structurally underdeveloped, stagnant and externally dependent, the result of nearly two centuries of colonial policy.
- The colonial economy had six structural features — low aggregate growth, agricultural stagnation, industrial decline (de-industrialisation), distorted foreign trade, demographic backwardness and an infrastructure built for colonial extraction.
- The colonial-era national income estimators were Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai; V.K.R.V. Rao's estimates are regarded as the most significant.
- British de-industrialisation had a two-fold motive: reduce India to a raw-material exporter and turn India into a captive market for British finished goods.
- CUET tests this topic through factual recall (years, percentages, names), statement-based questions on sectoral features, assertion–reason on cause-effect linkages of colonial policy, and case-based items on the drain of wealth and the demographic transition.
- Treat 1850 (railways), 1869 (Suez Canal), 1881 (first census), 1907 (TISCO), 1921 (demographic transition) and 1932 (Tata Airlines) as the spine of dated-fact MCQs.

Detailed Notes

2.1 Core concepts

- The sole purpose of British colonial rule in India was to reduce the country to a raw-material supplier for Great Britain's rapidly expanding modern industrial base; colonial policies therefore protected British economic interests, not Indian development (NCERT §1.1–§1.2, p. 4). India's economy on the eve of independence was deliberately shaped to serve as an appendage to British industrial capitalism.
- India had an independent and self-sustaining economy before the British advent; agriculture was the main livelihood, but the country was equally famous for handicraft industries in cotton and silk textiles, metal work and precious-stone work, enjoying a worldwide market for fine quality and craftsmanship (NCERT §1.2, p. 4).

Box 1.1 records the global reputation of Bengali muslin — Dacca muslin, malmal shahi, malmal khas — sold across Europe, Asia and Africa.

- The colonial government never made any sincere attempt to estimate India's national and per-capita income (NCERT §1.2, p. 5). Among the named estimators — Dadabhai Naoroji, William Digby, Findlay Shirras, V.K.R.V. Rao and R.C. Desai — V.K.R.V. Rao's estimates during the colonial period are the most significant (NCERT p. 5).
- Aggregate real output growth during the first half of the twentieth century was less than 2% per annum, coupled with a meagre 0.5% growth in per-capita output per year (NCERT §1.2, p. 5). These two paired figures — 2% and 0.5% — are the most-tested data point in CUET.
- About 85% of the country's population lived in villages and derived livelihood directly or indirectly from agriculture, yet the sector experienced stagnation and frequent deterioration (NCERT §1.3, p. 5). Overwhelming dependence on agriculture alongside stagnant productivity was the central paradox of the colonial agrarian economy.
- Agricultural stagnation was caused mainly by land-settlement systems — particularly the zamindari system in the Bengal Presidency — where profits accrued to zamindars who only collected rent, while cultivators saw no investment in land (NCERT §1.3, p. 6). Fixed revenue deposit dates further pushed zamindars to extract rent ruthlessly, regardless of harvest conditions.
- Low technology, lack of irrigation facilities and negligible use of fertilisers worsened productivity. Commercialisation of agriculture raised the share of cash crops in some areas but shifted farmers away from food crops to crops used by British industries — cotton, indigo, jute, sugarcane — without improving the cultivator's economic condition (NCERT §1.3, pp. 6–7).
- India could not develop a sound industrial base under colonial rule. The two-fold motive of systematic de-industrialisation was: (i) to reduce India to a mere exporter of raw materials for the modern industries in Britain, and (ii) to turn India into a sprawling market for finished products of those industries (NCERT §1.4, p. 7).
- The decline of handicrafts created massive unemployment and a new gap in domestic supply, which was promptly filled by cheap British machine-made imports. Modern industry began only in the second half of the 19th century — cotton textile mills (Indian-owned, in Maharashtra and Gujarat) and jute mills (foreign-owned, in Bengal) — followed by iron and steel with the incorporation of the Tata Iron and Steel Company (TISCO) in 1907 (NCERT §1.4, p. 7).
- Sugar, cement and paper industries emerged after the Second World War, but there was hardly any capital goods industry — industries which produce machine tools used to make articles for current consumption (NCERT §1.4, p. 7). Growth of the new industrial sector and its contribution to GDP remained very small; the public sector was confined to railways, power generation, communications, ports and a few departmental undertakings.

- Restrictive colonial policies of commodity production, trade and tariff made India an exporter of primary products (raw silk, cotton, wool, sugar, indigo, jute) and an importer of finished consumer goods (cotton, silk and woollen cloth) and capital goods like light machinery from Britain (NCERT §1.5, p. 8).
- More than half of India's foreign trade was restricted to Britain; the rest was permitted only with selected countries — China, Ceylon (Sri Lanka) and Persia (Iran). The opening of the Suez Canal in 1869 reduced transportation cost by avoiding the Cape route and intensified British control over India's foreign trade (NCERT §1.5, Box 1.3, pp. 8–9).
- A large export surplus was generated, but it did not bring gold or silver into India; it was used to meet expenses of an office set up by the colonial government in Britain, expenses of the wars fought by the British government, and to import invisible items — all leading to the famous drain of Indian wealth (NCERT §1.5, pp. 8–10). Domestic shortages of essentials like food grains, clothes and kerosene worsened as a direct consequence.
- The first census was conducted in 1881; thereafter every ten years. Before 1921 India was in the first stage of demographic transition; the second stage of demographic transition began after 1921, making 1921 the defining year (NCERT §1.6, pp. 9–10).
- Social indicators on the eve of independence were dismal: overall literacy under 16%, female literacy about 7%, infant mortality rate about 218 per thousand (versus the present figure of 28) and life expectancy at birth only 32 years (versus the present 70 years) (NCERT §1.6, p. 10). Extensive poverty prevailed across the rural masses and urban poor.
- Occupational structure barely shifted: agriculture absorbed 70–75% of the workforce, manufacturing about 10%, services 15–20%. Madras Presidency (Tamil Nadu, Andhra Pradesh, Kerala, Karnataka), Bombay and Bengal saw a decline in agricultural dependence; Orissa, Rajasthan and Punjab saw an increase in the workforce share dependent on agriculture (NCERT §1.7, pp. 10–11).
- Roads constructed by the British primarily served to mobilise the army and to draw raw materials from the countryside to railway stations or ports for shipment to Britain; all-weather rural roads were acutely short. Railways were introduced in 1850; they enabled long-distance travel and broke geographical barriers but also fostered commercialisation that hurt village self-sufficiency, while increasing export volume without raising Indian incomes (NCERT §1.8, p. 11).
- Inland waterways such as the Coast Canal on the Orissa coast proved uneconomical and were abandoned; the expensive electric telegraph served law-and-order purposes; postal services were useful but inadequate (NCERT §1.8, p. 12). Aviation began with Tata Airlines in 1932 (Fig. 1.5, p. 12).
- The inherited agenda for independent India (NCERT §1.9, p. 13) was: agriculture had surplus labour and very low productivity; industry needed modernisation,

diversification, capacity building and public investment; foreign trade was distorted to feed Britain's Industrial Revolution; infrastructure including railways needed expansion and a public-development orientation; and poverty, unemployment, illiteracy and ill health required welfare-oriented state policy.

2.2 Definitions to memorise

Term	Definition	Page
Colonial economic policy	Policies of the colonial government concerned more with protection and promotion of the economic interests of Britain than with the development of the Indian economy	4–5
Zamindari system	Land settlement implemented in the then Bengal Presidency under which the profit from agriculture went to the zamindars (rent collectors) instead of the cultivators	6
Land-settlement systems	Various revenue-collection arrangements (zamindari, ryotwari, mahalwari) imposed by the British that fixed land revenue obligations and shaped agrarian relations	6
Commercialisation of agriculture	Shift in cropping pattern from food crops to cash/commercial crops produced for British industries	6–7
Cash crops	Crops such as cotton, indigo, jute and sugarcane produced primarily for sale in the market and not for self-consumption	7
De-industrialisation	Systematic colonial policy with the two-fold motive of reducing India to a raw-material exporter and a market for finished British goods	7
Handicrafts	Traditional manufacturing activity using hand tools, in which India had a worldwide reputation before colonial rule	4, 7
Capital goods industry	Industries which produce machine tools used in turn for producing articles for current consumption	7
Consumer goods	Goods used directly to satisfy human wants — colonial India was reduced to importing such finished goods from Britain	8
Export surplus (colonial)	Excess of exports over imports under colonial trade; financed British administrative expenses, wars and invisible imports instead of bringing gold/silver into India	8–10
Drain of wealth	Outflow of India's surplus to Britain through the export surplus, office expenses in Britain, war expenses and invisible-item imports	9–10
Invisible items	Non-merchandise imports (services, payments, remittances) on which a portion of India's export surplus was spent during colonial rule	9
Suez Canal	Sea-route shortcut opened in 1869 that reduced cost of carriage between India and Britain and intensified British control over India's trade	9

Term	Definition	Page
Demographic transition (first stage)	Pre-1921 phase characterised by high birth rates and high death rates, leading to slow population growth	9–10
Demographic transition (second stage)	Post-1921 phase in which death rates begin to fall while birth rates remain high, raising population growth	10
Census	Country-wide enumeration of population; first census in India was undertaken in 1881 and thereafter every ten years	9
Literacy rate	Percentage of literate persons in the population; under 16% overall and about 7% for females on the eve of independence	10
Infant mortality rate (colonial India)	Number of infants dying before age one per 1,000 live births; about 218 per thousand before independence	10
Life expectancy (colonial India)	Average number of years a newborn is expected to live; only 32 years on the eve of independence	10
Occupational structure	Distribution of the working population across primary, secondary and tertiary sectors; in 1947 it was 70–75% agriculture, ~10% manufacturing and 15–20% services	10–11
Departmental undertakings	Public sector activity confined to railways, power, communications, ports and a few departments — the only public economic presence on the eve of independence	7
TISCO	Tata Iron and Steel Company, incorporated in 1907; one of the few large modern industrial enterprises set up by Indians before independence	7
Tata Airlines	Aviation venture started by Tata and Sons in 1932 that inaugurated the aviation sector in India	12
Cottage industry	Small-scale traditional manufacturing carried out at home with family labour; suffered systemic decline under colonial competition	4, 7
Two-fold motive (de-industrialisation)	(i) Reduce India to a raw-material exporter, (ii) make India a market for finished British goods	7

2.3 Diagrams / processes to remember

- **Fig. 1.1** — Photograph illustrating India's agricultural stagnation under British colonial rule (p. 5). Useful as a visual prompt for the link between zamindari extraction, low technology and falling productivity.
- **Box 1.1 — Textile Industry in Bengal** (p. 4): Bengal produced muslin of unmatched fineness; Daccai Muslin (woven in Dacca) became the most famous variety, while the finest grade was termed malmal — known as malmal shahi or malmal khas when used by royalty. India's pre-colonial handicrafts had global stature.

- **Box 1.2 — Bernier on Bengal** (p. 5): the seventeenth-century French traveller François Bernier described Bengal's agricultural prosperity, recording surplus food grains, fine cottons, silks and saltpetre. Used to contrast pre-colonial richness with colonial stagnation.
- **Box 1.3 / Fig. 1.2 — Suez Canal** (pp. 8–9): the canal opened in 1869 became a maritime highway between India and Britain, shortening the route to Europe and reducing transport costs. The diagram is paired in MCQs with the question of how the Canal intensified British control over Indian trade.
- **Fig. 1.3 — Housing poverty** (p. 10): captures the human cost of colonial underdevelopment — a large section of India's population lacked basic shelter on the eve of independence.
- **Fig. 1.4 — First Railway Bridge linking Bombay with Thane, 1854** (p. 12): the iconic image of the first stretch of Indian railways (introduced 1850), reinforcing the date "1850" as the railway origin and tying infrastructure to colonial extraction.
- **Fig. 1.5 — Tata Airlines, 1932** (p. 12): the inaugural moment of Indian aviation; useful for date-matching MCQs.
- **De-industrialisation process** — six-step flow worth memorising as a mental diagram: traditional handicrafts → tariff and import competition → decline of artisans → unemployment → cheap British finished imports → India as captive market.
- **Drain of wealth process** — flow chart: export surplus generated → routed to Britain → spent on (a) Home Charges (London office of Government of India), (b) British war expenses, (c) imports of invisible items → no gold/silver inflow into India → domestic scarcity of essentials.

2.4 Common confusions / NTA trap points

- **Year of first census: 1881** (not 1872 or 1921). Examiners frequently swap 1881 with 1921 — the latter is the defining year for the shift from first to second stage of demographic transition, not the year of the first census.
- **Railways vs Suez vs TISCO** — TISCO was incorporated in **1907**; railways were introduced in **1850**; Suez Canal opened in **1869**. NTA loves to scramble these three dates within a single match-the-following item.
- **Cotton vs jute ownership and location** — cotton textile mills were **Indian-dominated** and located in **Maharashtra and Gujarat**; jute mills were **foreign-dominated** and located in **Bengal**. The exam often inverts this pairing.
- **85% vs 70–75%** — 85% is the share of population living in villages dependent on agriculture; 70–75% is the share of the workforce engaged in agriculture. Both numbers are tested in the same paper and routinely confused.
- **Aggregate growth vs per-capita growth** — aggregate real output growth was less than 2% p.a. with per-capita growth of about 0.5% p.a. during the first half of the 20th century. Examiners swap the two figures.

- **V.K.R.V. Rao vs Naoroji vs Desai** — V.K.R.V. Rao's estimates were considered the most significant among colonial-era national income estimators per the NCERT. Dadabhai Naoroji is best known for the drain thesis (Poverty and Un-British Rule in India), not as the "most significant" colonial estimator.
- **Capital goods industry** definition — industries that produce **machine tools** which are then used to produce articles for current consumption. Do not confuse with "consumer goods" (final goods for consumption) or "intermediate goods" (inputs used up in production).
- **Public sector at independence** was confined to railways, power, communications, ports and a few departmental undertakings — not to manufacturing or banking. Do not project the post-1956 mixed-economy public sector backwards to 1947.
- **IMR 218 vs Life expectancy 32 vs Female literacy 7%** — three small numbers all appear within a single paragraph (p. 10); MCQs deliberately mix them with their post-independence counterparts (28, 70, ~65% respectively).
- **"Less than half" vs "more than half"** — more than half of India's foreign trade was restricted to Britain, with the residual permitted only with China, Ceylon and Persia. NTA flips the qualifier in distractor options.
- **Surplus did not benefit India** — the export surplus did not bring gold or silver into India; it financed Home Charges, British wars and invisible imports. A common distractor claims the surplus was reinvested in Indian industry.
- **De-industrialisation motive — two parts** — (i) raw-material exporter, (ii) captive market for British finished goods. Options that add "developing Indian capital goods" or "protecting handicrafts" are deliberate traps.

Practice MCQs

Q1. According to the NCERT, the sole purpose of British colonial rule in India was to:

- A.** Industrialise India along modern lines
- B.** Make India a raw-material supplier for Britain's expanding modern industrial base
- C.** Develop India's handicraft industries for global export
- D.** Promote balanced agricultural and industrial growth in India

Q2. Whose estimates of India's per-capita income during the colonial period are considered the most significant according to the NCERT?

- A. Dadabhai Naoroji
- B. William Digby
- C. V.K.R.V. Rao
- D. Findlay Shirras

Q3. Which of the following statements about the industrial sector at the time of independence is correct?

- A. Cotton textile mills were dominated by foreigners and located in Bengal, while jute mills were Indian-owned and located in Maharashtra
- B. Cotton textile mills were Indian-dominated and located in Maharashtra and Gujarat, while jute mills were foreign-dominated and concentrated in Bengal
- C. Both cotton and jute mills were dominated by Indians and concentrated in Bengal
- D. Both cotton and jute mills were dominated by foreigners and located in Maharashtra and Gujarat

 **9 more MCQs + answer key**

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PYQ Alignment

This chapter is a high-yield CUET Economics topic and typically attracts 6–8 MCQs per year, dominated by direct factual recall (years of census, Suez, TISCO, railways; percentages on workforce, literacy and IMR), statement-based questions on de-industrialisation and the zamindari system, and assertion–reason items on the drain of wealth and the export surplus paradox. See [previous CUET PYQs on this chapter](#) for the exact wording examiners reuse.