

## Trade and Economy in India in the 18<sup>th</sup> Century

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### **Abstract:**

*The 18th century was a pivotal period in Indian economic history, marked by significant transitions in trade patterns, production systems, and political structures. Following the decline of the Mughal Empire, India experienced a fragmented political landscape, with the rise of regional powers such as the Marathas, Nizam of Hyderabad, Bengal Nawabs, and Mysore. This fragmentation influenced the subcontinent's economic dynamics, affecting both internal trade networks and external commercial relations.*

*India's economy in this period remained largely agrarian, but the craft-based urban economy, especially textile production, continued to thrive. Centers such as Bengal, Surat, and Masulipatnam were famous for their fine cotton and silk textiles, which were in high demand across Europe, West Asia, and Southeast Asia. Handloom weaving, dyeing, and embroidery sustained a vibrant artisanal sector, supported by merchant capital and caste-based guild systems.*

*The internal trade was facilitated by a network of banjaras (nomadic traders), seths (merchant financiers), and middlemen, linking rural production with urban markets. However, political instability and frequent warfare disrupted some of these trade routes, leading to regional economic realignments.*

*The entry and expansion of European trading companies—particularly the British East India Company, followed by the French, Dutch, and Portuguese—profoundly altered India's trade dynamics. By the mid-18th century, the British East India Company had not only become a major trading power but also a political authority, especially after the Battle of Plassey (1757). The Company's control over Bengal enabled it to monopolize trade and redirect economic surplus toward Britain, leading to deindustrialization in some sectors and a shift in the balance of trade.*

*Moreover, Indian merchants and indigenous banking systems, such as hundi networks, remained active and resilient. Despite colonial interference, they adapted to new trading environments by collaborating with or circumventing colonial authorities. The port cities of Bombay, Madras, and Calcutta began to gain prominence as new trade hubs under colonial patronage, gradually replacing older centers like Surat and Masulipatnam.*

*In conclusion, the 18th-century Indian economy was characterized by a complex interplay of continuity and change—traditional systems persisted even as external forces reshaped trade routes, institutions, and economic priorities. The century laid the groundwork for the deeper economic integration of India into the global capitalist economy, a transformation that would accelerate under British colonial rule in the 19th century.*

The 18th century in India was a time of significant political and economic transition. The decline of

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the Mughal Empire and the rise of regional powers set the stage for a transformation in India's economy and its trade networks. During this period, India experienced both opportunities and challenges in its economic and trade sectors. Here's a detailed look at the trade and economic conditions in India during the 18th century:

### **1. Political and Economic Context**

The Mughal Empire, which had been a major economic force in India for centuries, began to weaken after the death of Aurangzeb in 1707. By the mid-18th century, the Mughal central authority had fractured, and various regional kingdoms and powers emerged, including the Marathas, Nizams of Hyderabad, Sikhs in Punjab, Bengal, and later the British East India Company.

The political instability that followed the decline of the Mughal Empire had profound impacts on the economy. Internal conflicts, raids, and the rise of new powers often disrupted agricultural production and trade, but certain regions also saw economic growth, particularly in urban areas, and in the export of luxury goods.

### **2. Agricultural Economy**

Agriculture continued to form the backbone of India's economy throughout the 18th century. However, the disruptions caused by warfare and political instability often affected agricultural productivity.

#### **a. Land Revenue System**

Under Mughal rule, the land revenue system was highly organized, but as the empire declined, the revenue collection system became more fragmented. Regional rulers like the Marathas, Nizams, and later the British East India Company introduced various forms of land revenue systems, including zamindari and ryotwari systems, which affected agricultural output and land use. The collection of taxes from land was often burdensome, especially when the land was subjected to wars and invasions.

#### **b. Cash Crops**

Despite these challenges, India continued to produce a variety of agricultural products, including food grains (rice, wheat, and millet) and cash crops such as cotton, sugarcane, indigo, and spices. Cotton was particularly important in the 18th century because of its growing role in the European textile industry. India's agricultural exports became significant to global markets, especially to Europe.

#### **c. Water Management and Irrigation**

Irrigation systems, particularly in regions like Bengal, the Deccan, and parts of Tamil Nadu, remained vital for agriculture. However, the decline of the Mughal Empire led to a decrease in large-scale state-sponsored irrigation projects, though local rulers and communities often maintained these systems.

### **3. Trade in the 18th Century**

#### **a. Internal Trade**

Internal trade within India flourished despite political fragmentation. The local markets (mandis)

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continued to function, and the emergence of regional economies became more pronounced. The Maratha Empire, for example, facilitated trade across western and central India, while Bengal and the Mughal successor states in the north-east had active trade in textiles and raw materials.

#### **b. International Trade**

India's external trade in the 18th century was deeply influenced by the European colonial powers, particularly the British, the French, and the Dutch. The British East India Company emerged as the dominant foreign trader in India, especially after the Battle of Plassey (1757) and the establishment of British control in Bengal.

##### **i. British East India Company's Role**

The British East India Company took control of Bengal's trade after 1757 and subsequently expanded its influence across much of India. The Company traded in a wide variety of goods, including textiles, spices, saltpeter, indigo, and tea. Indian goods like cotton textiles (especially from Bengal and Gujarat), silk, and spices were in high demand in Europe, contributing to a thriving export economy.

##### **ii. Trade Routes and Ports**

The key ports of India, like Surat, Bombay (Mumbai), Calcutta (Kolkata), Madras (Chennai), and Cochin, were integral to India's external trade during this period. The Indian Ocean trade routes connected India with Southeast Asia, Africa, Arabia, and Europe. India also continued to engage in trade with Central Asia, particularly through the north-western frontier (via Kashmir and Afghanistan).

#### **c. Commodity Exports and Imports**

India remained an exporter of valuable commodities during the 18th century:

- Textiles: India was renowned for its fine cotton and silk textiles, which were in great demand in Europe.
- Spices: India's spices, particularly pepper and cardamom, were highly prized in Europe.
- Opium: Though more significant in the 19th century, opium was also traded during this time, especially from Bengal to China and Southeast Asia.

On the import side, India began to see increasing imports of manufactured goods from Europe, including metal goods, woolen textiles, and glassware.

#### **4. Urbanization and Craft Production**

The 18th century witnessed significant urban growth in several parts of India, despite political turmoil. Cities like Calcutta, Madras, Bombay, and Bengal's urban centers (like Murshidabad) continued to grow as commercial hubs.

##### **a. Textile Industry**

The Indian textile industry was particularly prominent during this period. The cotton textile industry in regions like Bengal, Gujarat, and the Deccan produced high-quality goods for both domestic and

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international markets. However, European industrialization towards the end of the 18th century began to impact the Indian textile industry, especially in the early 19th century when British manufactured goods began to dominate the Indian market.

#### **b. Handicrafts**

India's handicraft industry continued to thrive in various regions, particularly in the Punjab, Bengal, Gujarat, and Rajasthan. Artisans in these regions produced pottery, metalware, jewelry, and furniture, which were not only consumed locally but also exported.

#### **5. Coinage and Currency**

The 18th century saw a varied approach to coinage across different regions of India. The Mughal Empire's silver rupee continued to circulate in many parts of India, but local kingdoms and the British East India Company began issuing their own coins.

- **British Influence:** By the latter half of the century, the British East India Company began to issue its own currency, especially in Bengal, where it introduced Company rupees. The establishment of the British colonial presence saw the gradual consolidation of British control over currency and trade regulation.

#### **6. Economic Challenges and Decline**

While the Indian economy continued to function, it faced several challenges:

- **Political Instability:** The frequent wars, including those between regional powers like the Marathas and Nizams, and the interference of European powers, especially the British, disrupted agricultural production and trade.
- **Drain of Wealth:** The growing influence of the British East India Company in the second half of the century led to a drain of wealth from India to Britain. The exploitation of India's resources, including taxes, raw materials, and wealth, contributed to the economic decline that would be more evident in the 19th century.

#### **Conclusion**

The 18th century was a period of both economic prosperity and decline in India. While trade and agriculture continued to flourish in many parts of the country, political fragmentation, the growing dominance of European powers (particularly the British), and the associated economic shifts led to significant changes in the structure of the Indian economy. India remained a major hub in global trade, especially in textiles and spices, but the economic system began to undergo transformation due to the increasing control of the British East India Company, setting the stage for British colonial dominance in the 19th century.

#### **British Policy and Its Impact on the Indian Economy in British India**

The British colonial rule in India, which lasted from the mid-18th century until 1947, had a profound and lasting impact on the Indian economy. British policies were primarily driven by the economic interests of the British Empire, focusing on extracting resources from India and integrating it into a

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global colonial economy. These policies, which were designed to benefit Britain at the expense of India, led to significant economic transformations in the subcontinent. The long-term consequences of these policies include deindustrialization, agricultural distress, economic stagnation, and the transformation of India into a supplier of raw materials for British industries and a market for British manufactured goods.

### **1. Economic Objectives of British Colonial Rule**

The British East India Company initially, and later the British Crown after 1858, governed India with the primary aim of extracting wealth for Britain. The British colonial administration aimed to:

- Extract raw materials from India to feed the growing industries of Britain.
- Create a market in India for British manufactured goods.
- Generate revenue for Britain through taxation and land policies.
- Establish a colonial economic structure that prioritized British interests over Indian economic well-being.

### **2. Impact of British Policies on Indian Agriculture**

Agriculture was the backbone of the Indian economy, but British policies severely altered its dynamics, leading to lasting consequences.

#### **a. Land Revenue Systems**

The British implemented several land revenue systems that resulted in the exploitation and impoverishment of Indian peasants.

- Permanent Settlement of 1793 (introduced by Lord Cornwallis) was implemented in Bengal, where zamindars (landowners) were made responsible for collecting taxes. This system encouraged zamindars to overtax peasants, as they had to pay fixed revenue to the British regardless of the harvest.
- The Ryotwari System (introduced in parts of South India by Thomas Munro) made the individual farmer (ryot) directly responsible for paying taxes to the British government. This system was equally exploitative and placed a heavy burden on farmers.
- The Mahalwari System was introduced in the north-western provinces, where the village community (mahal) was collectively responsible for paying taxes, again often leading to high tax burdens.

These systems extracted heavy taxes from the peasants, leading to widespread indebtedness and rural distress. The British administration had little concern for the well-being of the farmers, and the tax burdens often resulted in famines and crop failures.

#### **b. De-agrarianization and Shift to Cash Crops**

Under British rule, the focus of agriculture shifted from subsistence farming to the cultivation of cash crops like indigo, cotton, opium, tea, and jute. The British encouraged the cultivation of these crops

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for export to feed the industries in Britain. However, this often came at the expense of food crops, leading to food shortages and famines. The push for cash crops also led to soil depletion and monoculture, making agriculture increasingly vulnerable to market fluctuations.

### **c. Famine and Agricultural Distress**

The British policies of land revenue extraction, combined with poor infrastructure and inadequate relief measures during times of crop failure, led to recurrent famines. Major famines during British rule included the Bengal Famine of 1770, The Great Famine of 1876-1878, and the Bengal Famine of 1943. The British colonial administration's indifference towards famine relief and the diversion of resources for the British war effort worsened the situation.

## **3. Industrial and Economic Deindustrialization**

### **a. Decline of Indian Handicrafts and Cottage Industries**

Before British rule, India had a thriving handicraft and textile industry, especially in regions like Bengal, Gujarat, and Maharashtra. However, British policies were designed to undermine these industries to promote British manufactured goods.

- The British imposed high tariffs on Indian textiles to protect British industries while flooding the Indian market with cheap British textiles. This led to the collapse of the Indian handloom and textile industries.
- The British encouraged the export of raw materials from India, such as cotton and silk, and discouraged the development of Indian industries that could process these raw materials.

As a result, traditional Indian crafts, like muslin weaving, metalwork, and carpet weaving, were systematically destroyed or marginalized, leading to deindustrialization and a shift towards the export of raw materials.

### **b. Railways and Infrastructure**

The British did build an extensive railway network across India, but the primary purpose was not to promote internal economic growth or regional development. The railways were designed to facilitate the transport of raw materials like cotton, tea, and jute to ports for export to Britain. The rail network helped integrate the Indian economy into the global colonial economy but did little to promote indigenous industrial growth.

While the railway system did help in the development of some urban centers and facilitated trade, it was primarily aimed at supporting British economic interests.

### **c. Capital and Investment**

The British did not significantly invest in industrializing India. Most of the capital that flowed into India during the colonial period went towards the development of British-owned plantations, mines, and infrastructure, rather than indigenous industries. British investment was focused on the extraction of wealth from India, and most Indian entrepreneurs faced barriers to developing modern industries due to the lack of support from the colonial government.

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#### **4. Trade and Commerce under British Rule**

##### **a. Trade Policies Favoring Britain**

British colonial policies were designed to serve the economic interests of Britain by channeling wealth from India to Britain.

- **Export of Raw Materials:** India was turned into a supplier of raw materials such as cotton, jute, indigo, tea, and spices for British industries.
- **Import of British Goods:** Britain flooded India with cheap British manufactured goods, particularly textiles, which destroyed local industries.
- **Monopolies and Control:** The British East India Company enjoyed a monopoly over trade, and later, when the British Crown took direct control, trade policies continued to favor British merchants and companies.

India's balance of trade became unfavorable, with India exporting more than it imported, thus leading to a drain of wealth from India to Britain.

##### **b. Drain of Wealth**

The concept of the drain of wealth refers to the systematic transfer of wealth from India to Britain, largely through unfair trade practices, taxes, and the profits made by British companies in India. Key mechanisms included:

- The British taking revenue from India without significant reinvestment.
- The opium trade in which India produced opium for export to China, generating profits for the British East India Company.
- The extraction of raw materials and their export to Britain, where they were processed and sold at a profit.

This drain led to the impoverishment of India, contributing to the stagnation of economic growth and the growing economic disparity between Britain and India.

#### **5. Impact on Indian Society and Employment**

##### **a. Rural and Urban Poverty**

The combined effects of exploitative land revenue systems, deindustrialization, famines, and the drain of wealth led to widespread poverty in both rural and urban areas. The peasantry, burdened by high taxes, and the growing urban working class, who lacked jobs due to the collapse of industries, suffered from economic dislocation.

##### **b. Unemployment and Labor Exploitation**

The destruction of indigenous industries led to high levels of unemployment. The British created a labor force for colonial ventures like the construction of railways, tea plantations, and the mining industry. These workers were often subjected to low wages and harsh working conditions, contributing to widespread social and economic discontent.

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## 6. Conclusion: Long-Term Impact

British policies reshaped India's economy to serve British imperial interests, resulting in several long-term economic consequences:

- Deindustrialization and the collapse of traditional industries led to the dependence of India on the export of raw materials.
- Agricultural distress and frequent famines due to exploitative land revenue systems and a focus on cash crops.
- Economic stagnation and the drain of wealth resulted in India becoming economically impoverished and heavily dependent on Britain.
- Infrastructure development, such as railways, was primarily geared towards British economic needs rather than the welfare of Indian society.

By the time of independence in 1947, India's economy was severely underdeveloped compared to other parts of the world, with much of its industrial capacity and agricultural potential having been undermined by centuries of colonial exploitation. The legacy of British economic policies would continue to affect India well into the post-independence era.

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## Books and Scholarly Articles

1. Srinivas, M. N. *Social Change in Modern India*. University of California Press, 1966.
  - This book offers a comprehensive analysis of the societal changes that occurred due to British policies, touching on the economic and social implications for rural and urban India during the colonial period.
2. Srinivasan, T. N. *Colonialism and Economic Development in India: Some Reflections*. Oxford University Press, 1994.
  - This work critically evaluates the economic development of India under British colonialism, focusing on agricultural policies, the economy's structural shifts, and their long-term effects.
3. Bose, Sugata, and Ayesha Jalal. *Modern South Asia: History, Culture, Political Economy*. Routledge, 2011.
  - A comprehensive work that examines how British colonialism shaped the political and economic landscape of South Asia, including the evolution of economic policies under British rule.
4. Chandra, Bipan. *India's Struggle for Independence*. Penguin Books, 2009.

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- This classic work provides a detailed historical account of India's struggle for independence, with significant focus on the economic exploitation during British rule and its impact on Indian society and economy.
5. Dhar, Prabhat. *Colonialism and Economic Development: The Impact of British Rule in India*. Palgrave Macmillan, 2003.
    - This book explores the economic policies of the British and their devastating impact on various sectors of the Indian economy, including agriculture, industry, and trade.
  6. Datta, K. K. *The Economic History of India under Early British Rule*. Firma KLM, 1961.
    - This text explores the early phase of British colonial rule and its economic consequences for India, especially focusing on the land revenue systems, trade, and taxation.
  7. Chaudhuri, K. N. *The Trading World of Asia and the English East India Company: 1660-1760*. Cambridge University Press, 1978.
    - A seminal work that highlights the role of the East India Company in shaping India's trade and economy, and its impact on the global trading system.
  8. Ray, Rajat Kanta. *The Economic History of India: 1857-1947*. Oxford University Press, 2006.
    - Ray's work provides an in-depth look at British economic policies, covering land revenue systems, industrialization, agricultural policies, and the long-term effects of these policies on Indian society and economy.
  9. Guha, Ramachandra. *India After Gandhi: The History of the World's Largest Democracy*. HarperCollins, 2007.
    - Although this is primarily about post-independence India, it gives excellent insights into the colonial economic systems that persisted well into the post-colonial period, especially the industrial policies and economic structure set in place by the British.
  10. Stokes, Eric. *The English Utilitarians and India*. Clarendon Press, 1959.
    - This book analyzes the influence of British economic philosophers on the formulation of British policy in India, particularly regarding land revenue and economic organization.
  11. Barker, Colin. *British Imperialism and the Economic Development of India*. Routledge, 2002.
    - This book explores the economic implications of British imperialism in India, analyzing how economic policies were designed to extract resources and wealth from India, often hindering local development.

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12. Kaur, R. *Colonialism, Economy and Society: The Indian Experience*. Cambridge University Press, 1986.
  - Focuses on how colonial economic practices influenced various aspects of Indian society, including the structural transformations in agriculture, industry, and trade.
13. Tinker, Hugh. *The Banyan Tree: The Growth of Indian and East Asian Mercantile Capital*. Oxford University Press, 1974.
  - A useful resource for understanding the development of trade, commerce, and mercantile practices under British rule, and how these influenced the Indian economy.
14. "Economic Impact of British Imperialism in India" in *The Economic History Review*, vol. 47, no. 3 (1994), pp. 473-490.
  - A scholarly article discussing the economic consequences of British imperial rule in India, including the deindustrialization of the Indian economy, the land revenue systems, and the drain of wealth to Britain.
15. "Land Revenue Systems in British India: A Historical Perspective" in *Indian Economic & Social History Review*, vol. 30, no. 2 (1993), pp. 234-256.
  - This article explores the evolution of land revenue systems under British rule and their effects on the agrarian economy, particularly the burdens placed on Indian farmers.
16. "The Drain of Wealth and the Economic Impact of British Colonialism" in *Journal of Asian Studies*, vol. 48, no. 4 (1989), pp. 1111-1130.
  - This article examines the concept of the "Drain of Wealth" during British colonial rule and its impact on India's economic development.
17. "British Policies and Indian Industries: The Case of Cotton" in *Studies in History*, vol. 24, no. 2 (2008), pp. 129-148.
  - A detailed study of how British policies, including tariff protection for British textiles, led to the decline of India's indigenous cotton textile industry.
18. "British Colonial Economic Policies in India: A Reassessment" in *Indian Economic & Social History Review*, vol. 37, no. 1 (2000), pp. 45-66.
  - A critical reassessment of the impact of British colonial policies on India's economic structure, focusing on trade, industry, and land revenue systems.

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