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RESEARCH ARTICLE

ECONOMIC IMPACT OF THE PARTITION ON INDIA AND PAKISTAN

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Abstract

The paper reflects on the events of partition that took place in 1947, following the nation gaining its independence from 200 years of imperial British rule. The occasion resulted in the birth of two dominion states - India and Pakistan, with the later also occupying the territory of Bangladesh, then referred to as East Pakistan. In this paper, factors that impacted the economic conditions of both countries have been analyzed to understand their outcomes in the post-independence period.

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Introduction:-

Theory: History

Violence under the British Rule

Event	Year	Instances of Violence
Revolt of 1857	1857	It was cited that the perception that the East India Company was trying to convert Hindus and Muslims to Christians was one of the main reasons for the revolt
Partition of Bengal	1905	Several religious riots post 1857 raised concerns under British Rule. For religious purposes, Bengal was partitioned by the British: West Bengal and East Bengal (Hindu and Muslim majority states respectively)
Partition of British India	1947	Post the Battle of 1857, A divide and rule policy was followed by the British. A partition plan was accepted, and India and Pakistan became two separate states. 14.5 million Indian Muslims crossed borders for their safety. With the British gone, both countries had newly formed governments which led to extreme violence across both sides of the border. The number of deaths around this time range from 200,000-1,000,000

Condition of the Economy Pre-Independence

The Indian Economy showed low economic growth on the eve of independence. Before the British set foot on the Indian Subcontinent, there used to be an abundance of gold and wealth with the country. All this wealth towards the end of the British Raj was exhausted.

Money stolen by the British

According to research by Utsa Patnaik from Columbia University, the British stole a staggering sum of \$45 trillion. This amount is approximately 17 times the current GDP of the United Kingdom.

This happened very systematically, before the establishment of the East India Company, the British bought goods from India like they did with any other country but once the East India Company took control and established a monopoly.

Their policies were more concerned with the promotion of British economic interests than to provide for the people and improve their financial condition.

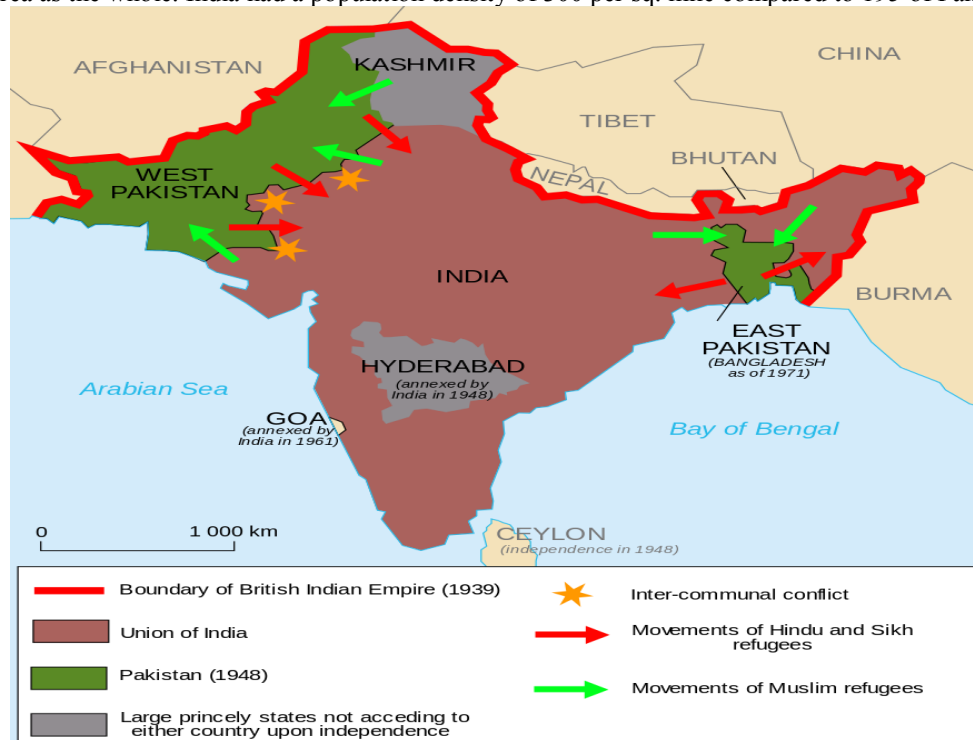
The British used to exploit the poor people (peasants and weavers) by buying from them with the same money that was earlier stolen. Moreover, the British also sold these goods to other countries at higher prices to increase their profit margin.

The British also used a tax system to collect revenue from the Indians. They used a portion of the revenues to fund the purchase of Indian goods for British use. Basically, the British acquired the Indian goods for free. This was a massive scam and most Indians were unaware of what was going on because a different agent collected taxes every time.

It is interesting to note that India's share in the global economy was at about 24.5% in the early 1700s before the British invaded. However, after the British left, India's share had dropped to a mere 4.2%. Abject poverty, debt and shortage of food became prominent in India.

Division of Area and Population between India and Pakistan

According to the census of 1941, three-fourths of the entire population of India was in India, which covered only two-thirds area as the whole. India had a population density of 300 per sq. mile compared to 195 of Pakistan.



The population density of Pakistan doesn't portray the pressure of population in different parts of the country. East Bengal concentrated nearly 64% of the population was concentrated, which is only a quarter of Pakistan's area. Pakistani people often only had Western Pakistan view; this was because it was more advantageously located. It consists of a compact area which is three times larger than Eastern Pakistan's.

The feature of Pakistan that it is divided into two separate regions with more than a thousand miles between them is often overlooked. Communication between the two regions was not easy. The sea route would involve a long and tedious journey via Cape Comorin. The journey by land was only possible through the Indian territory.

· Source: <https://brilliantmaps.com/first-pakistan/> population and area of Pakistan. However, in India, the states covered about 40% of the total area and 23% of the total population. Most of the states were politically and economically backward, thus posing a huge problem for India. It is also worth mentioning that the political division of both countries did not completely solve the problem of communal minorities in both countries.

Effects on Agriculture

In India, the area of the cultivated land was almost the same as the area of the uncultivated land. However, in Pakistan, the uncultivated area was much larger than the cultivated one. For a country like India that used to be predominantly based on agriculture, how the land was utilized reflected the economic condition of the country.

All in all, it was concluded that India was in a much stronger position as compared to Pakistan when it came to Agriculture and the existence of minerals.

Socio-Economic Impact of Refugees Post-Independence

As mentioned above, approximately 7 million refugees were received by both Pakistan and India. There are several cases in history where cases of large-scale migration have resulted in religious dissatisfaction, racial hatred and dissatisfaction with the current opportunities available to make a living. Millions in the country felt that they had become strangers in the land where their forefathers once earned their livelihood.

Economic Problems Created by the surge of refugees

Both countries were met with both short-term and long-term economic problems. The short term included the provision of emergency relief and the mobilization of transport. The latter included the burden placed on the families that took these refugees in and the government whose balanced budgets had to subsist a sudden surge in expenditure.

Employment

A vital task remained: providing a stable source of income for the refugees. The shortage of housing and a lack of jobs created several difficulties that impacted national planning priorities.

The bulk of Muslim refugees became peasants and rural handicraftsmen. Most Hindus became government employees and shopkeepers; this was because most of the Pakistani immigrants lacked the skills to fill the gaps.

The surge of refugees increased the number of people in commerce and other service jobs in which there were already a sufficient number of people employed. The refugees made the deficiency in the social structure of India more prominent.

Occupational Breakdown of the Refugees and Local Population, 1951

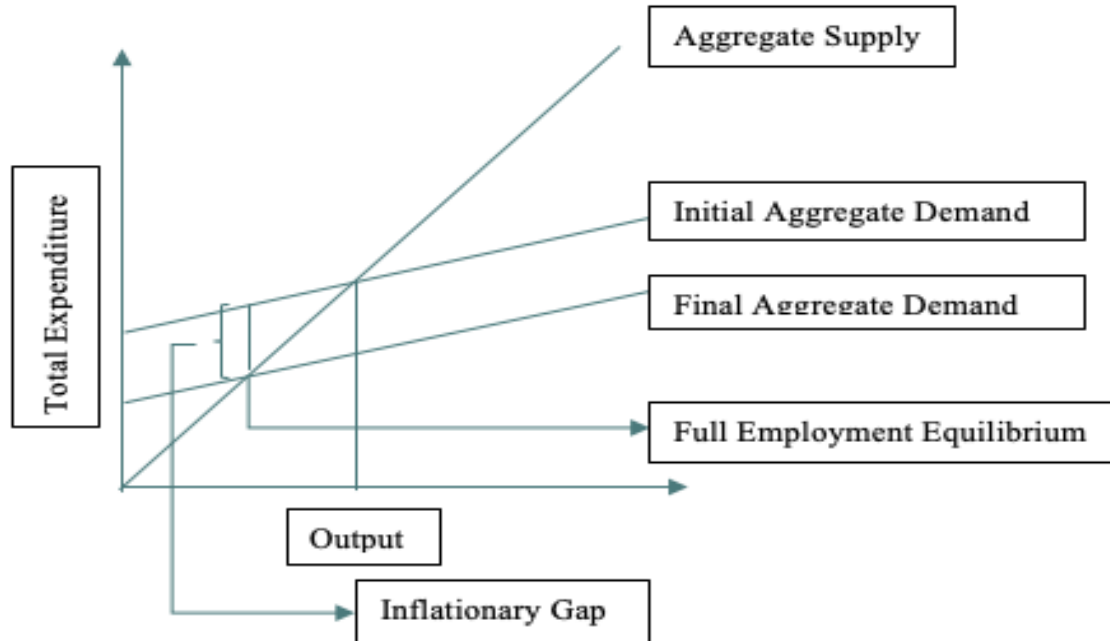
Activity Branch	Local Population	Displaced Population
Agriculture		
Owner-Farmer	56.4	23.6
Labourers	14.3	5.3
Total	70.7	28.8
Other		
Other Production	10.5	11.8
Transport	1.6	4.3
Commerce	5.6	24
Miscellaneous	11.6	31.1
Total	29.3	71.2
Grand Total	100	100

Source: Ministry of Rehabilitation Report, India.

Shortage of Food

After partition, India's economy was overstrained with a large number of jobless refugees in the country; moreover, the loss of land also created extreme difficulties for the provision of food, clothing and housing facilities for the people.

This sudden increase in the population of the country in the form of refugees without any corresponding increase in food production, along with a loss of housing localities for the displaced people proved to be a stressful time for the Indian government. This resulted in an inflationary effect on the price of the commodities as the rate of production was not commensurate with the increase in demand.



Expenditure by The Government

From 1945 to 1955, the government of India had spent about Rs 2,200 million to help rehabilitate the displaced people. The total expenditure on the displaced people by March 1956 would be somewhere around Rs 3,000 million. A body called the Finance Administration was set up to sanction loans to the state.

This expenditure on the displaced people hampered the occupational structure of the economy.

1. There was an effect on the capital formation rate because of overcrowding of people in some jobs.
2. There was excessive expenditure on the rehabilitation of displaced people by the Government. This expenditure would have otherwise helped in building up the economy.
3. As there were no significant transfers of capital and other resources, it was understood that the economic effects were going to be adverse.

Conclusion:-

An increase in urbanization was observed. As this was a result of industrialization growth, it was a welcome feature; when an increase in economic activity accompanies this, it is not necessarily welcomed. An increase in the population was observed in towns.

This called for an increase in public utility such as sanitation and health facilities. So many people wanted to be in the trading and distribution business that it resulted in overcrowding and a reduction in earnings. The price of some goods rose sharply as there was a weak flow of goods between the cities.

Although it was a difficult task, all the displaced refugees were settled in cities and towns. It was a lengthy task to dissolve all the language and religious differences. After so many years, the refugees finally became one with the original inhabitants.

Industries

The uneven distribution of industries between India and Pakistan reflected the characteristics of the Indian economy up till now. It was observed that India was industrially more advanced than Pakistan. This was indicated by the number of establishments in which India had a share of approximately 85%. This proved that India was able to provide more employment to its people. The average number of people employed per factory in India was approximately 50 more than that of Pakistan.

Employment Distribution Between India and Pakistan

Percentage of employment in each type factory in both India and Pakistan

Industry Type	India	Pakistan
Textiles	43.1	16
Engineering	13.1	22.8
Minerals and Metals	2.6	4.2
Food, Drinks and Tobacco	11.2	12.1
Chemical	2.8	2.4
Printing	1.7	2.4
Wood, Stone and Glass	1.8	4.4
Hides	10.6	1.9
Press	4.6	23.3
Miscellaneous	6.7	10.5
Total	100	100

Source: Economic Consequences of the Partition by Vakil, 1948

Conclusion:-

We can conclude the following things from the above discussion:

1. The relative share of Pakistan in the industrial employment of undivided India was less than its share in the population of the country as a whole.
2. The industrial development of Pakistan was not as diverse as that of India.
3. Pakistan lacked several important industries

Trade between India and Pakistan

Trade Before Partition

Pakistan was considered predominantly agricultural as most of its industrial development was based in India. Hitherto, the requirements of the country were met by the internal exchange of goods. The Banking Enquiry Committee estimated that the volume of internal trade in India was 15 times more than its external trade. The Standstill Agreements between the two dominions provided for the continuation of the existing economic and commercial relations till mid-1948.

A Brief on The Situation of Trade Between the Two Dominions

Several commodities were supplied to Pakistan from India. Pakistan depended upon India for the supply of cotton piece goods. Moreover, India also provided Pakistan with cotton piece goods, along with sugar. Due to the shortage of industries, Pakistan also obtained coal, steel, leather goods, jute, other metals and minerals from India.

There are some articles that were mainly produced in Pakistan and were likely to be exported by Pakistan. India faced a deficit in food-related stuff which was met by supply from Pakistan. Raw jute and wheat flour were exported to Pakistan as well.

The problem here was that the Calcutta merchants in India who wanted to continue to export raw jute would have to first import it from Pakistan after paying the duty. Thereafter, it was shipped abroad to their customers. This implies that Pakistan received Indian rupees in return for their jute exported to India.

Balance of Trade

A feature of Pakistan's balance of trade is that its foreign trade is predominantly with India. In contrast, the trade of India with Pakistan was substantial and was much greater with other countries. The following two tables explain this point.

Pakistan		
	With India	With foreign Countries
Exports	121.5	64
Imports	74.5	43
Balance of Trade	+47	+21
Total	+68	

India		
	With Pakistan	With foreign Countries
Exports	74.5	255
Imports	121.5	243
Balance of Trade	-47	+12
Total	-35	

Source: Economic Consequences of the Partition by Vakil

Foreign Exchange

Suppose we consider the Balance of Payments with foreign countries and the capacity to purchase imports from abroad. In that case, the tables above have a lot of significance. Pakistan had a favourable Balance of Trade with India and with other countries. On the other hand, India had an adverse Balance of Trade with Pakistan and other countries. However, it is also important to note that the volume of goods imported and exported from India was much greater as compared to Pakistan. Therefore, it is fair to say that there was much more room for adjustment for India.

Currency

The Pakistan Monetary System and Reserve Bank Order of 1947

The formation of the Pakistan Dominion happened under peculiar circumstances. Hence, it is understandable that the Dominion could not start over with an independent currency and credit system. These two attributes are considered essential for the formation of a sovereign state; it is also important to note that these two changes would have disrupted several economic processes of the country. To avoid this from happening, the Pakistan Monetary System and Reserve Bank Order of 1947 was issued whereby the existing currency and banking mechanism under the Reserve Bank of India was allowed to continue till 30th September 1948.

There were specific provisions of this act which were to be followed and are listed below.

1. The Reserve Bank of India would continue to be the sole note-issuing authority for Pakistan till 30th September 1948. Until this date, Indian Rupee would continue to be the legal tender. After 1st April, 'Pakistani Currency' would be issued by the RBI. However, after 30th September, the Government of Pakistan would have to make its provision.
2. After 30th September, assets of a value equal to Pakistani notes will be transferred from the RBI to the Government of Pakistan.
3. The rupee coins and subsidiary coins issued by the Indian government will be legal tender in Pakistan for up to one year after the introduction of Pakistani coins, only to be used when the latter is in short supply.
4. The RBI would continue to act as a banker to both the central and provincial governments of both India and Pakistan till 30th September. However, the issuing of loans and operating exchanges will not be performed by the RBI after 31st March 1948.
5. The relations between the scheduled and non-scheduled banks in Pakistan to the RBI will continue to exist till 30th September 1948 as they were.

Conclusion:-

Throughout this research paper, I have analyzed how the Indian Economy progressed and its condition before and after the British left. I have talked about how the British stole about \$45 trillion from India, how the land, population, industries, currency, the balance of trade was distributed between India and Pakistan.

Moreover, I also did a brief account on how the refugees were provided with employment, houses and how the refugee crisis was resolved. Besides I have also elaborated upon how the refugee crisis affected the Indian economy. I discussed the impact of the partition on the trade agreements between both the dominions.

In conclusion, I think that the economies of both the dominions have progressed a lot since the partition. Through the 1960s and 1970s, the GDP per capita for India was lower than that of Pakistan. This was due to more capacity of the latter to invest in infrastructure and industry. However, presently, this situation has reversed and India's GDP per capita is 16.5% higher than Pakistan.

Pakistan had a considerable share of Punjab's vast fertile land; a plethora of critical raw materials was available in both East and West Pakistan. Although, even after all this, India had a huge advantage over Pakistan as it had several institutions that had to be built from scratch in Pakistan. India also had a larger share of infrastructure and urban population over Pakistan.

In the first 11 years of Pakistan's existence, there was a situation of chaos as the country changed prime ministers about seven times until Ayub Khan imposed military rule in 1958. General Khan did a remarkable job in ushering Pakistan's economy. There was a vast investment in the state's infrastructure; an agriculture revolution was also initiated much before India.

Pakistan's economy flourished at this time. However, there was an absence of land reforms in West Punjab that increased inequalities between West and East Pakistan. Yahya Khan, a general and Pakistan's third president, failed to prevent the creation of Bangladesh. This resulted in the termination of Ayub Khan's military rule, which was then replaced by Zulfikar Ali Bhutto's populism.

Eventually, Bhutto's policies resulted in being destructive for Pakistan. Both India and Pakistan were in a state of disorder in the middle of the 1970s. After Bhutto's death, Pakistan was accompanied by substantial financial deficits which compelled the country to take loans from the International Monetary Fund 1988.

While this happened, India tasted economic success and had overtaken Pakistan on most of the economic indicators. At a point of time, India's per capita income was just 58% of Pakistan's, however, after 20 years and much economic progress, India's per capita income is 20% more than Pakistan's.

References:-

I used several books, research articles and other online sources to finish this research paper, most of them I will be citing below.

1. Ministry of Rehabilitation, India (Report)
2. Economic Consequences of Divided India by CN Vakil
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