

# The trade target story: How UPA government helped China grow at India's expense

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## Opinion

### In 2004, India's economy was about 37 percent the size of China. By 2014, it was only 19 percent

Abhishek Banerjee and Karuna Gopal February 16, 2024 12:11:32 IST

During the UPA years, India's economic size relative to China was cut in half. PTI "In my third term, I promise that India will become the third largest economy in the world," the Prime Minister said in his recent speech to the Lok Sabha. This is "Modi ki guarantee," he added. In the last 10 years, India has jumped six places, from 11th largest in 2014 to fifth in 2024. The Prime Minister has now set a target of 2029 to make India the world's third largest economy. Latest calculations by the IMF suggest it could happen even earlier, likely by 2027. That would leave the Indian economy behind only China and the United States. Compare this to the target of 2043 set by the previous UPA government while presenting its final budget in 2014.

But senior Congress leader P Chidambaram, who had presented that budget in 2014, was not impressed. "China's GDP is five and a half times more than our GDP," he reminded us. Now, Chidambaram's numbers are a bit off the mark. China's GDP is a little under five times our GDP, not five and a half times. But that is not the point. There is a huge gap between India and China. We must deal with this difficult fact.

But how did it get this way? To begin with, here are two surprising facts. In 2004, India's economy was about 37 percent the size of China. By 2014, it was only 19 percent. In other words, during the UPA years, India's economic size relative to China was cut in half. Second, when you are shopping, whether online or otherwise, does it ever bother you that so much of our stuff seems to be made in China? But it was not always this way. Would you believe that in 2004, India actually used to run a trade surplus with China? It was a surplus of \$1.75 billion in 2004. By 2014, it had turned into a deficit of \$38 billion! So how did we become so dependent on China? Here is that story.

In a surprise result, the Congress party came to power after the 2004 elections. At the time, the world was just entering a period of high growth. For decades, India had been an economic underperformer. But now, everyone was talking about the BRIC (Brazil, Russia, India and China). These four emerging powers were supposed to lead the world. Everything was going upwards: markets, business confidence, economic growth numbers. India on the way to becoming an economic superpower? The UPA government could hardly believe its luck.

But the Chinese were only too happy to take advantage of the UPA's giddy feeling. In April 2005, Chinese premier Wen Jiabao visited India. By the 2004-05 financial year, India was already running a small trade deficit with China, about \$1.48 billion. The Chinese premier must have felt extra welcome in India, because the UPA needed the support of the Communist parties to stay in power. That is when the UPA agreed on its first "trade target" with China. At the time, India's trade with China was worth about a billion dollars a month, or roughly \$12 billion a year. The two countries agreed to raise this to at least \$20 billion over the next three years.

But this "target" was achieved quickly. Too quickly, in fact. Chinese President Hu Jintao traveled to New Delhi in November of 2006. India promptly agreed to double the "trade target" to \$40 billion a year. There wasn't much of anything 'bilateral' about this trade. Indian markets were being flooded with Chinese goods. The trade deficit grew by leaps and bounds. In effect, India's "target" had become a commitment to send the Chinese more money!

Almost unbelievably, the UPA government did not seem to notice at all. Prime Minister Dr. Manmohan Singh even boasted about it during his visit to China. "Our trade target of \$20 billion by 2008 was reached two years ahead of schedule. The revised target of \$40 billion by 2010 is also likely to be reached two years ahead of schedule," Dr. Singh told a summit of business leaders in Beijing in January 2008. Best of all for the Chinese, Dr. Singh added in his speech, "We therefore propose to set more ambitious targets."

And he did! During his three-day visit to Beijing, Dr. Singh raised the trade target to \$60 billion. By this point, India's deficit with China had hit \$9 billion. There were some whispers of concern about this. But the UPA government said that there was nothing to worry about. Apparently, the Chinese had promised to send regular "buying missions" to India. That would take care of the deficit. Now we wonder if any of these "buying missions" actually happened, and what the results were. It does not look like anyone was keeping much of an eye on anything.

The Indian media and civil society also failed to sound the alarm. Writing in the Economic Times in January of 2008, MK Venu noted cheerfully that China was set to replace the US as India's largest "trade ally". Even the choice of words is surprising. The usual term is "trade partner". This was supposed to be about business. About cold hard cash. Using the word "ally" in this context suggests a surprising level of emotional commitment, or wishful thinking. Note that MK Venu was a founding editor of *The Wire*. So this is really a sample of establishment thought at the time.

But the UPA government continued with its gravity defying thinking. The global crisis of 2008 disrupted many plans. But not the determination of the UPA government to keep raising these trade targets with China. In December 2010, Chinese Prime Minister Wen Jiabao made another visit to India. This time India agreed to raise the trade target to \$100 billion by 2015! For as long as the UPA was in power, the Chinese never went back empty handed.

By this time, the gap between India and China had already become massive. China had firmly established itself as the world's second largest economy. On its part, India which had been 12th in 2004, had barely inched up to the 10th position. For China, the days of "peaceful rise" were clearly over. They were getting ready to use hard power. And their economic might to get their way around the world. In this situation, India setting higher and higher "targets" for what was essentially one-way trade made no sense.

But if Dr. Manmohan Singh wasn't being careful enough, some sections in the UPA government went completely overboard. In May 2010, then minister Jairam Ramesh went on a visit to China. There he went so far as to criticize the Indian government itself for being "alarmist and paranoid" about Chinese investments. "We are imagining demons where there are none," Jairam Ramesh told the Indian security establishment, from Chinese soil. These words sparked protests, especially in Arunachal Pradesh. Many feared that India would allow the Chinese to invest in mega power and water projects in the crucial border state claimed by China. Ultimately, Jairam Ramesh's comments earned a rebuke from the Prime Minister himself. But when key ministers say publicly that the threat from China is imaginary, it tells you a lot about the UPA government.

By 2011, Chinese incursions along the border had become common. Meanwhile, India continued to make significant progress towards the \$100 billion trade target with China, reaching \$74 billion that year. "Our government does not share the view that China plans to attack India," Dr. Singh told the Lok Sabha in December of 2011.

Now for anyone wondering, the 2015 deadline for the \$100 billion trade target between India and China was missed. Perhaps because of a change of guard in 2014.

In retrospect, Dr. Manmohan Singh perhaps made the same mistake as Jawaharlal Nehru many decades ago. In the early 2000s, he was swept away by the romantic vision of a new world, where new emerging powers would end Western hegemony. In this dream, India and China were not competitors, but allies. Much like Nehru would have felt at the collapse of European empires after the Second World War. India and China were supposed to be friends in a post-colonial world. But that is not how human nature works. Every country guards its interests selfishly.

"Even though we regard ourselves as friends of China, the Chinese do not regard us as their friends," Patel had warned Nehru in a letter written in 1950, only a month before he passed away. It is likely that Nehru failed to internalise these words. Much like Dr. Manmohan Singh many decades later.

And so, for a decade, India kept setting what we called "trade targets," and plunged deeper and deeper into deficits with China. Goods from China flooded Indian markets. A trade surplus of \$1.75 billion with China in 2004 turned into a deficit of around \$1.5 billion in 2005. By 2014, the deficit with China grew to \$38 billion, or as much as 25 times. It will take many years to repair the damage that this dependence has caused. From 37 percent in 2004, India's economic size relative to China came down sharply to just 19 percent in 2014. Since then, it has crept back up to about 21 percent. But the gap is dangerous and will take many years to fill.

In February 2014, then Finance Minister P Chidambaram stood up to address the Lok Sabha for his budget speech. "I wonder how many have noted the fact that India's economy, in terms of the size of its GDP, is the 11th largest in the world. There are great things in store," he seemed quite pleased with himself. We wonder if he had noted that this means India had managed to go up just 1 place from the 12th position it had in 2004. In the meantime, all three other BRIC countries, and not just China, had left us behind. In 2004, both Brazil and Russia had been behind India in terms of GDP. Now, both had moved ahead.

In his budget speech from 2014, Chidambaram went on to say that India would become the third largest economy in the next three decades. A press release from the Ministry of Finance on February 17, 2014, then describes the roadmap set by the UPA government to achieve this goal by 2043. With all due respect, we feel that India cannot afford to wait that long. Let us hope that India will become the third largest economy by 2029. That would be 14 years ahead of schedule. At least Chidambaram was right about one thing in his 2014 speech. That year, great things were indeed in store for India.

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Published on: February 15, 2024 16:56:33 IST