

The point of view

Fog over New Delhi

India is shrouded in fog: the fog of pollution, which is making New Delhi increasingly unliveable; the fog of terrorism, with tensions with Pakistan triggering a number of attacks; and the fog of trade talks with the United States, which seem to have been at a standstill for weeks.

Indian Prime Minister Narendra Modi appears to be in difficulty in all three areas; in reality, he's been struggling to regain control ever since losing his majority in the 2024 parliamentary elections. Each of these areas highlights the challenges facing India, which, for the time being, is struggling to find answers.

Fog in the air

The air in New Delhi has become unbreathable. Fires lit by farmers in Punjab and Haryana at the end of the harvest have covered the city in toxic fumes – a phenomenon that reached its peak during the Diwali Festival celebrations at the end of October, when millions of fireworks were set off. Hospitals are overflowing with patients in respiratory failure, to the point where respiratory specialists are recommending that residents leave the city for several weeks if they can. Poor air quality is reportedly responsible for nearly 20,000 deaths a year in New Delhi – one out of every 7 deaths in the city.

Yet the authorities continue to affirm that “there is no conclusive data available in the country to establish a direct correlation between air pollution and death. Air pollution is one of many factors that influence respiratory disorders and associated diseases.” Protests condemning the government's management of public health have been banned. The city council – led by the presidential party, the BJP – is accused of concealing and doctoring air quality data. Seventy-four of the world's one hundred most polluted cities are in India. As well as the obvious health implications, this also raises economic challenges.

Pollution is thus intimately linked to the issue of transition. As well as being the world's number three emitter of greenhouse gases, India is the country where greenhouse gas emissions are rising the fastest: its energy mix remains extremely reliant on fossil fuels, notably coal (used to produce 70% of the country's electricity). Two sectors in particular – construction and transport – are contributing to this growth in emissions, with the availability of clean public transport (both within and between cities) still too limited.

Prime Minister Modi – who was notably absent from COP30 in Belém – likes to highlight **the progress India has made on renewable energy.** Thanks to very favourable weather conditions, **the country's installed capacity has surged, especially in solar power. It has committed to achieve carbon neutrality by 2070. This distant time frame is justified by the country's political positioning on this issue:** India believes it is up to the most advanced nations to lead the way on transition and finance adaptation efforts in emerging countries – which, in addition, are more vulnerable to climate change.

Continued growth in the urban population only makes India's blatant need for transition-ready infrastructure (water and sanitation, waste sorting centres, recycling) even more acute. **India is still a rural country and demographic projections suggest that the population will continue to grow until 2060. The viability of the country's cities is thus a critical issue.**

Another threat hanging over India's cities is that of terrorism, which flares up whenever tensions with Pakistan escalate.

Geopolitical fog

Tensions with Pakistan are still running very high. While a ceasefire deal in May headed off the possibility of high-intensity open conflict, relations between the two countries remain very strained. On 12 November, a car bomb left 12 people dead and more than 30 injured near New Delhi's Red Fort. While no one has officially claimed responsibility for the attack, it is being investigated by anti-terrorist police. In April, an attack in Indian Kashmir triggered military clashes.

India is in a (geo)politically unstable region where it must reckon with border conflicts (not only with Pakistan but China too) and the domestic political problems of its neighbours Bangladesh, Nepal and Sri Lanka. All three have seen their governments overthrown in recent months following revolutions spearheaded by young people exasperated by a lack of future prospects.

As this huge political reconfiguration plays out, **India knows it must secure its place as a regional power and not give up too much ground to China.** The episode with Pakistan, when Chinese weapons were used to shoot down Indian planes, shows that the region is a permanent theatre of indirect conflict between the two countries.

India also appears to be struggling geopolitically, penalised by the US for its “non-aligned” stance.

Trade fog

The third type of fog is the fog surrounding trade talks. Despite Narendra Modi's boasts about having a special and even a friendly relationship with Donald Trump, **India is the only major country not to have struck a trade deal with the US.** The blackmail tactics deployed by the US administration (with “reciprocal” US tariffs doubled from 25% to 50% to punish India for buying Russian oil) remain in force. Oil imports from Russia have fallen to their lowest level in three years, despite further discounts (of as much as \$7 a barrel) for Indian refiners.

But purchases of Russian oil are not the only stumbling block in trade talks. The main obstacle – on which all free-trade agreements with India traditionally founder – **remains the issue of opening up India's agricultural sector.**

The sector, which still supports the livelihood of over half the population, remains highly fragmented, consisting of family-owned subsistence farms. Indian farmers thus rightly fear that competition from US agri-food multinationals might wipe them out, especially considering that they are still negotiating floor price programmes with the government to secure a minimum level of income – a system that would be hard to reconcile with opening up the market.

Farming is an explosive issue: India's farmers can mobilise on a massive scale. And, with the country's most rural states making up Modi's traditional base, the electoral implications are huge. Meanwhile, the US is aggressively pushing its own interests: outside of aerospace and cutting-edge chemicals, India's trade surplus is mainly driven by exports of commodities – energy, oilseeds, cereals and cotton.

The US has imposed this agriculture and energy agenda in all its negotiations, forcing a number of markets to open up (notably in Malaysia, Thailand and the United Kingdom). Only South Korea has succeeded in holding its ground on rice and beef; however, it had a strong case (investment by South Korean companies, shipbuilding partnership, potential technology transfers in the semiconductor sector) – something India lacks.

Trade relations between the two countries are thus very unequal. First and foremost there is the issue of the trade deficit – the Trump administration's obsession – which has more than doubled since 2018 (from \$21 billion to \$44 billion). India is also one of the few countries to have a trade surplus in services with the US. Above all, there is a sharp asymmetry between India's share of US imports (3% of total imports into the US) and the US share of Indian exports (22%).

Three sectors in India are particularly exposed to US demand: textiles, pharmaceuticals and mobile phones. US demand accounts for over a third of Indian exports in these sectors.

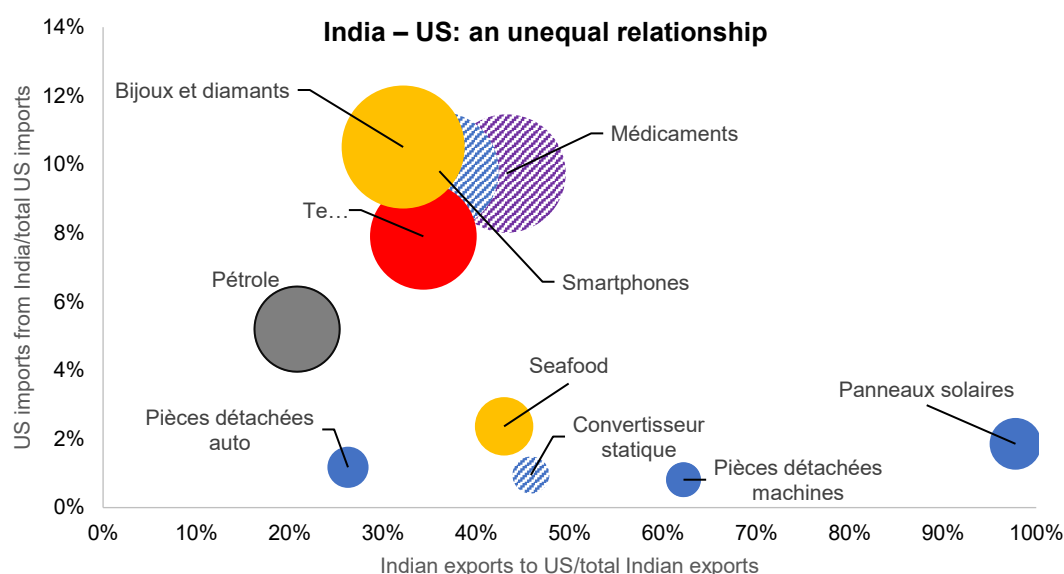
Generic drugs and mobile phones are exempt from import tariffs for the time being. US firms like Apple, which have opted to pull out of China to diversify their manufacturing base (mainly in India and Vietnam), have a lot of bargaining power with the US administration and are therefore unlikely to change their strategy and pull out of India in the short term.

In pharmaceuticals, where India plays a key role in the supply of many drugs, there are also few substitute markets offering the same levels of service as Indian manufacturers in terms of volumes and prices.

Conversely, **in textiles**, the risk of relocation to countries offering more favourable price terms is high. The sector provides over 45 million direct jobs. If the US market were to close to India, this would put many businesses in difficulty and have a big impact on the job market.

Lastly, while India runs a trade surplus with the US, this situation by no means reflects a general trend: in October, India's total trade deficit in goods topped \$300 billion. This makes its trade surplus with the US all the more valuable. After China, India is the country whose exports to the US have fallen furthest (with containerised exports from India to the US down 9.4% in September). However, unlike China, which is managing to get its products into the US through backdoor routes (mainly ASEAN countries and Mexico), India as yet has no alternative network.

Narendra Modi must therefore regain the upper hand in these tough negotiations, even if that means being prepared to shift the focus to areas other than trade, to secure a US compromise. Although India remains much more closed than its ASEAN competitors, its development path lies firmly along global trade routes.



Sources: TradeMap, Crédit Agricole S.A./ECO.

These goods account for 50% of India's total exports to the US. Hatched bubbles indicate that the vast majority of the goods in question are exempt from import tariffs.

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