

INDIA'S GREEN TAX DIPLOMACY:

Will Carbon Tariffs Break or Make Its Economy?

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Introduction: The Green Trade War Begins

The year 2025 sees a new global trade era dawn with the environment exerting significant influence on economic choice. The European Union's Carbon Border Adjustment Mechanism (CBAM) is a key hallmark of this new order, setting a precedent for such policies developing elsewhere in developed economies such as the United States and Japan. Under such mechanisms, countries are being charged based on the embedded carbon in their exports posing a new challenge that economies across the globe have to deal with.

India, being the world's third-largest emitter of greenhouse gases and increasingly industrial economy, is at the crossroads. Even as it continues to grow its manufacturing, it is increasingly coming under global pressure to lower emissions of carbon. The question now is if carbon tariffs will stifle India's economic growth or be a chance for the nation to adopt sustainability and become a world green leader. India's strategy in carbon tariffs and climate diplomacy may be a determining factor in shaping its economic future.

Will carbon tariffs choke India's economic ambitions, or can the nation turn them into a strategic advantage? The answer lies in how India navigates this complex landscape of climate diplomacy, economic resilience, and industrial transformation.

Understanding Carbon Tariffs: A New Dimension in Trade

Carbon tariffs or border carbon adjustments (BCAs) are taxes leveled on foreign products

based on their carbon content. The justification of the policy is straightforward: if one nation sets very tight carbon restrictions on domestic businesses, then it ought not to be competing with companies in other nations with lenient environmental laws. So carbon products with higher emissions from nations that do not enforce strong environmental protection policies are levied taxes when imported to put the domestic producers and importers on equal grounds. India which is still developing its industry and heavily dependent on coal and fossil fuels finds itself caught between two incompatible desires. It wants to lead the world to a sustainable future, but at the same time, it has an economic interest in industries like steel, cement, and chemicals, which emit much of India's carbon dioxide. This challenge offers both peril and opportunity to India.

How will carbon tariffs affect India?

1. Export sector's vulnerability : India's economy depends significantly on industries like steel, aluminium, cement, petrochemicals, and fertilizers, which are energy-intensive with high carbon footprints. With nations like the EU charging carbon tariffs on emission-intensive products, India's export-oriented core industries could lose competitiveness in the international market. Industries like steel and cement, already witnessing increased global competition, could be especially hurt.

2. Rising Production Costs : The levy of carbon tariffs would induce Indian producers to use cleaner technology. Shifting to low-carbon technologies or the purchase of

carbon credits would lead to higher costs of production. For most small and medium-sized enterprises (SMEs), this change might be difficult. Since these industries will bear the burden of transformation, there is a likelihood of diminished competitiveness on the international front, particularly in those markets that give importance to low-cost production.

3. Pressure for Domestic Policy Reform : The worldwide emergence of carbon tariffs places increased pressure on India to adopt its own climate measures. In order to avoid having its exports chargeable under carbon border adjustments, India might have to create its own carbon pricing regimes, either through a carbon tax or through a cap-and-trade regime. These changes would enable India to bring its industrial practices in line with global climate norms but will necessitate policy changes and investments in clean technologies.

India's Strategic Initiatives:

Pacing the Green Trade Challenge

India possesses multiple promising routes for counter-attacking carbon tariff challenges. Strategically harnessing its existing strength and creating new prospects, India is well-equipped to master this complex arena and take its position as a champion in world climate diplomacy.

1. Diplomatic Intervention: An Audible Voice in World Climate Diplomacy : India has all along maintained that carbon tariffs are a protectionist instrument that prejudicially impacts developing nations with less technological prowess. India's position has been that such a policy could inadvertently reverse global efforts to curb emissions by putting a punitive tax on nations yet to go through industrialization.

At global platforms such as the World Trade Organization (WTO) and the United Nations Framework Convention on Climate Change (UNFCCC), India has sought to forge coalitions with other rising powers, pressing the case for more equitable, multilateral climate action. India's diplomatic policy stresses the

importance of common but differentiated responsibilities, where developed countries need to take on a greater proportion of the burden for the reduction of emissions.

Yet, the changing climate politics of the world need India to get over the opposition to carbon tariffs and be part of proactive deliberations regarding how a balanced and inclusive climate framework could be devised. While the EU and the US persist with demands for carbon tariffs as a means of climate justice, India will perhaps need to look for mechanisms to become part of such discussions without conceding its economic interests.

2. Carbon Pricing: India's Potential Solution? : A possible solution to the problem of carbon tariffs is for India to institute its own carbon pricing system. By adopting a national carbon tax or a cap-and-trade program, India could establish a domestic system that puts its emissions norms in line with international expectations. This would enable Indian exports to prove that they are held to the same environmental norms as are being enforced by other nations, possibly shielding them from carbon tariffs.

Some possible models of carbon pricing may be taken into account:

- **A Domestic Carbon Market:** A cap-and-trade scheme, where companies buy and sell emissions permits, could encourage Indian industry to get cleaner over time.

- **Sector-Specific Carbon Taxes:** Carbon taxes for polluting sectors, like cement and steel, may be levied by India with incentives to transition to low-carbon technologies such as green hydrogen and renewable energy.

- **Border Adjustments in Response:** In return, India may consider imposing its own carbon tariffs on imports from nations lacking comparable emissions standards, possibly safeguarding local industries while pressuring other countries to institute more stringent climate policies.

3. The Green Industrial Revolution: Opportunities for Sustainable Growth: Instead of considering carbon tariffs as a bar-

rier, India can use them as a transformative opportunity. The focus is to adopt a green industrial revolution that makes India a global champion of sustainable production. India already boasts a comparative advantage in renewable energy through the world's cheapest solar power. By expanding renewable energy capacity and exploring diversification into other low-carbon technologies like green hydrogen and offshore wind, India can decarbonize its industrial sector. In addition to this, relocating energy-intensive sectors like steel production to green hydrogen-based processes or transitioning to electric arc furnaces can make a big dent in emissions.

Another area of expansion is the creation of eco-certifications that tag Indian products as "green" and are in line with international sustainability standards. By joining global trade blocs that focus on green products, India can access new markets and consolidate its position in the global green economy.

4. Corporate Leadership and Supporting SMEs: Some of the top Indian businesses, like Tata Steel, JSW, and Reliance, have already invested heavily in cleaner technologies and sustainable practices. But the catch is to avoid leaving behind the small and medium-sized enterprises (SMEs) in this shift towards a low-carbon economy.

The government of India can make a significant contribution by providing financial incentives to SMEs to invest in green technology, making access to the carbon credit market easier, and technical support for low-carbon manufacturing practices. Encouraging the green transition of SMEs will be essential to make the shift towards a sustainable economy inclusive and spread its benefits to all sections of society.

Conclusion: A Fork in the Road

The worldwide surge in carbon tariffs poses both a great challenge and an extraordinary opportunity for India. The choices made in the next few years will decide whether carbon tariffs check India's economic aspirations or serve as a spur for innovation, taking the

country toward a more sustainable and resilient future.

India has introduced environmental taxes to curb pollution and promote sustainability. A notable example is the "coal cess," implemented in 2010 at ₹50 per tonne, later rising to ₹400 per tonne by 2020. Additionally, India launched a national carbon market in 2022, starting as a voluntary platform in 2023, with plans to integrate Renewable Energy Certificates and Energy Savings Certificates by 2026. This initiative aims to transition into a mandatory carbon trading system, promoting non-fossil energy sources like green hydrogen, biomass, and bioethanol to reduce reliance on fossil fuels.

These measures reflect India's commitment to environmental taxation and market-based mechanisms to mitigate climate change. India has to reconcile its economic interests with the imperative to fulfill global climate expectations. It needs strategic diplomacy, domestic policy change, and investment in green technologies. If India adopts a green industrial revolution, participates in global climate diplomacy, and includes all sections of society in the transition, it can navigate the intricacies of the green trade war and become a world leader in the green economy.

In the end, the next decade will determine India's place in the world's changing economic order. The decisions India makes now may decide if it becomes a global green superpower or falls behind in responding to the needs of a shifting world order. The road ahead is difficult, but India's potential to write its destiny in the green economy is within its grasp. But as of now the government's efforts are in the right direction but it will be interesting to see whether the people of this country will be able to adopt such initiatives over their other issues, as a developing country a nation's main aim is to get into the tier of developed nation and concerns regarding Climate and environment is the main objectives of the countries who are developed but still it'll be interesting to watch how the government will tackle such issues soon.