ALIGNING EU'S CLIMATE POLICIES WITH GLOBAL SOUTH DEVELOPMENT PATHWAYS

A BRIEF ON THE EUROPEAN UNION AND INDIA

CENTRE FOR SCIENCE AND ENVIRONMENT

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Centre for Science and Environment
2026

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Production: Rakesh Shrivastava and Gundhar Das

We would like to thank the following subject matter experts for their inputs: Anumita Roychowdhury, Nivit Kumar Yadav, Greg van Elsen, and Lidia Tamellini.

Citation: Trishant Dev, Sehr Raheja, Avantika Goswami and Lalit Chennamaneni 2026. *Aligning EU's climate policies with Global South development pathways: A brief on the European Union and India*, Centre for Science and Environment, New Delhi

Published by
Centre for Science and Environment
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Executive summary

The European Union (EU) has positioned itself as a global leader in climate policy, embedding decarbonisation at the core of its economic and industrial strategy through initiatives such as the European Green Deal, the EU Emissions Trading System, and emerging clean industrial policies. As one of the world's largest markets and regulatory jurisdictions, EU climate and industrial policies increasingly shape global trade, investment flows, and industrial development pathways beyond its borders.

The global effectiveness of EU climate leadership depends not only on domestic emissions reductions but also on how EU policies influence development pathways in developing countries. Through regulatory measures linked to market access—such as sustainability standards and the Carbon Border Adjustment Mechanism (CBAM)—and through industrial policies that reshape global competitiveness, EU policies can affect how and where low carbon industries develop.

When these policies raise compliance costs or constrain policy space without parallel support for finance, technology, and industrial cooperation, they may slow low-carbon industrialisation in partner countries.

These dynamics also carry strategic implications for the EU. Most future emissions growth will occur in developing countries, and global decarbonisation will depend on their ability to industrialise using low-carbon technologies. If EU policies are perceived as restricting development opportunities, they risk weakening international cooperation, generating geopolitical tensions, and reducing Europe's influence in shaping the global clean economy.

India illustrates these dynamics clearly. As a rapidly growing economy and key EU partner, India's industrial transition will significantly influence global emissions trajectories. Aligning EU climate policy with India's development priorities through finance, technology partnerships, and industrial cooperation can accelerate decarbonisation while strengthening EU-India strategic relations.

Key recommendations:

- **Pair climate regulation with finance and technology cooperation:** EU climate measures that affect global supply chains should be complemented by concessional finance, risk-reduction instruments, and technology partnerships that support industrial decarbonisation and renewable energy deployment in partner economies.

- **Use EU financial instruments to support clean industrial development abroad:** CBAM revenues, and initiatives such as the Global Gateway and Clean Trade and Investment Partnerships, could be directed toward supporting low-carbon industrial production, clean energy infrastructure, and technology deployment in partner countries.

- **Strengthen external impact assessment of EU climate policies:** EU policymaking should systematically assess the international economic and development impacts of major climate regulations to ensure they support global decarbonisation and minimise unintended trade or development impacts.

- **Deepen EU-India cooperation on industrial and energy transitions:** Expanding partnerships in areas such as low-carbon steel, renewable energy systems, battery storage, green hydrogen, electric mobility, and sustainable urban infrastructure can accelerate India's NDC implementation while strengthening resilient clean-technology supply chains.

1. Introduction

The European Union (EU) has positioned itself as a climate leader, being a first mover on many experiments with climate policy tools and showing a commitment to progress on climate action relative to other historical polluters. While debates continue about whether the EU has done a 'fair share' of emissions reductions, decarbonisation is embedded at the core of the EU's economic and industrial strategy—from carbon pricing mechanisms under its emissions trading system, the European Green Deal, to new programmes on state support for green industrial production. As one of the world's largest single markets and regulatory jurisdictions, its climate and industrial policies increasingly function not only as domestic governance tools, but as instruments of global economic influence.

This influence carries implications for countries of the Global South that export goods and have development aid relationships with the EU, and also balance climate goals with development priorities at home.

One such country is India. India has committed under the Paris Agreement to ambitious climate targets, including reducing the emissions intensity of its GDP, expanding non-fossil electricity capacity, and increasing forest cover. Achieving this nationally determined contribution (NDC) requires large-scale industrial transformation, accelerated deployment of clean energy, and sustained investment in low-carbon technologies. At the same time, India must continue to expand manufacturing, create jobs, and maintain macroeconomic stability.

India and the EU are both major players in the global climate landscape. In terms of emissions, the EU is a major historical emitter (22 per cent) with India contributing only 3 per cent of historical greenhouse gas (GHG) emissions. In annual emissions, both are roughly similar today, but India's emissions are likely to grow as it accelerates industrialisation and pursues development goals such as poverty eradication. India is also a key EU partner, with relations between the two sides rapidly evolving, most recently marked by the announcement of a Free Trade Agreement and a 'Joint India–European Union Comprehensive Strategic Agenda' towards 2030.

The EU's climate and industrial policies, therefore, matter for India's climate and development trajectory. Climate-related trade measures, sustainability standards, and industrial subsidies shape the global competitive conditions within which the Indian industry must decarbonise but also grow. EU policies could constrain policy space and raise costs. However, if designed with a thoughtful external lens to align with the development priorities of the Global South, they can also mobilise the necessary finance, technology, and industrial cooperation that will strengthen the ability of countries like India to meet their NDC commitments and build trust that is essential for South-North partnerships to progress further.

EU's climate policy increasingly shapes global development pathways. Unless paired with finance, technology, and cooperative industrial policy, it risks constraining Global South development and undermining both global decarbonisation and EU strategic interests such as competitiveness and geopolitical stability.

If EU climate policy is perceived as restricting development opportunities in partner countries, it may also have geopolitical consequences. Countries may increasingly turn to alternative economic partnerships, particularly with China, which has expanded climate-related infrastructure financing and industrial investment. Such a scenario could weaken the EU's regulatory influence and legitimacy as a global climate leader.

In a geopolitical context dominated by economic nationalism and self-interest, the EU should continue to strive for mutually beneficial external relations that drive global climate ambition and sustainable development.

2. EU's influence on trade, development, and industrial pathway choices

Most environmental, climate, and industrial policies of the European Union are designed to meet domestic objectives, correcting market failures, accelerating decarbonisation, safeguarding environmental integrity, and securing strategic autonomy. However, because these policies are anchored in one of the world's largest markets, they generate significant external effects for partner countries.

2.1 The EU as a market power

The EU is a major import market, a sought-after investment destination, and a powerful regulator. In practice, many of its rules do not stop at EU borders. The bloc is the biggest export market for around 80 countries, and EU members together account for about 16 per cent of global imports and exports. As the world's largest single market, with nearly 440 million consumers[1], the EU's internal regulatory choices inevitably shape global trade and production patterns.

2.2 The 'Brussels effect' and territorial extension

The EU influences other countries through trade, supply chains, finance, and standards. This kind of regulatory 'spillover' is a defining feature of governance in a highly globalised economy, and it is especially consequential for developing countries whose growth strategies depend on access to external markets.

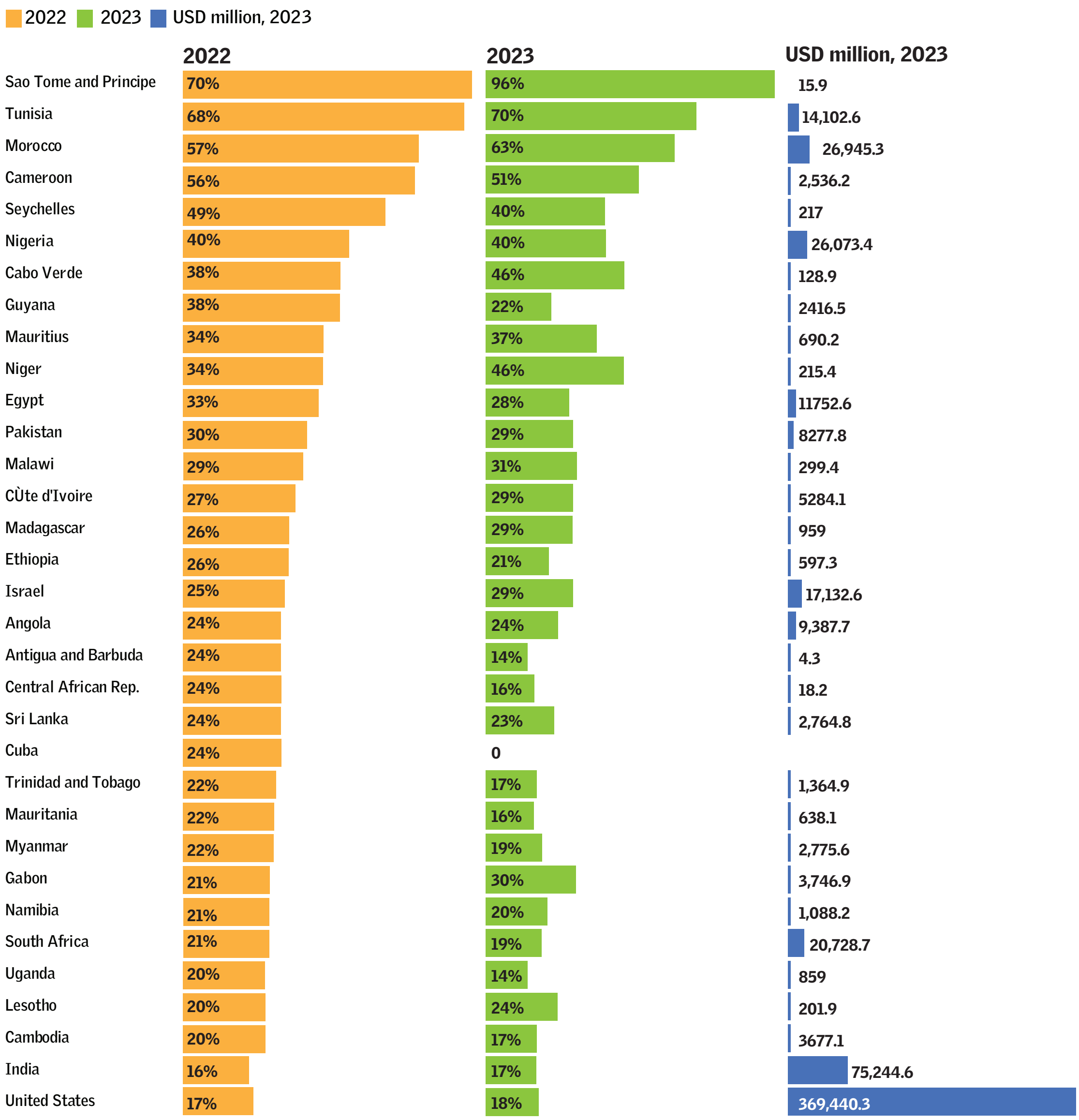
This dynamic has been described by Columbia University scholar Anu Bradford as the 'Brussels effect'. In this framing, the EU exercises unilateral regulatory power through market size: firms adopt EU rules to maintain access to the EU market, and these standards then diffuse globally as companies standardise production across markets. As a result, EU rules often become de facto global benchmarks, even in the absence of formal international agreement or multilateral coordination.

Beyond indirect market effects, the EU also shapes behaviour outside its borders through legal mechanisms. One such tool is extraterritoriality, whereby EU rules apply to foreign firms if their conduct affects the EU market or consumers. Competition law provides a clear example: foreign firms can fall under EU jurisdiction if their actions distort competition within the EU. Another mechanism is territorial extension, where the EU regulates activities taking place outside Europe if they affect the EU or shared global resources. The EU Emissions Trading System (ETS) for aviation illustrates this logic, as it accounts for emissions from flights beyond EU airspace, not only those occurring within it.[2]

Through these instruments, EU policies can exert direct regulatory influence abroad, even when they are formally framed as internal measures.

Graph 1: Export dependence on the EU among non-European countries

Share of goods exports to the EU (%) for select non-European countries



Source: OECD

2.3 Rule-maker in industrial and climate policy

The EU is also a powerful rule-making jurisdiction with strong regulatory institutions. Many EU climate measures are economy-wide in scope, such as the Fit for 55 package designed to meet the EU's 2030 emissions targets.[3]

Through regulation, public investment, state-aid flexibility, and procurement, EU is actively seeking to secure supply chains and expand domestic manufacturing capacity in clean technologies.

The Net-Zero Industry Act exemplifies this shift. By setting a target for EU manufacturing capacity in 'strategic net-zero technologies' to reach at least 40 per cent of annual deployment needs by 2030,[4] the policy reshapes which suppliers qualify, which countries are treated as preferred partners, and where clean-technology production is likely to locate.

2.4 Why EU policymaking needs an external lens

Taken together, these dynamics mean that EU policies often have substantial external effects, even when such impacts are not explicitly acknowledged in policy design or official narratives.

This is why an 'external lens' is important for EU policymaking. Such a lens would ask whether EU policies systematically anticipate and manage their global impacts:

- Who bears the adjustment costs created by new regulatory requirements?
- Who benefits from emerging 'green' demand and investment flows?
- Do EU policy designs reinforce or reduce existing power asymmetries in global economic governance?

Climate and sustainability regulation is also prone to the dynamics mentioned above. Climate rules increasingly operate through measurable metrics of products and production methods, such as carbon intensity,[5] deforestation-free status,[6] recycled content requirements, and due diligence across supply chains.[7] These kinds of requirements travel through global value chains because suppliers must provide data and meet standards demanded by buyers along the supply chain. Compliance, therefore, becomes embedded in production decisions far beyond EU territory. EU policy, therefore, functions not only as an internal governance tool but as a powerful global market signal. It shapes what counts as 'clean' or 'sustainable' in one of the world's largest and most influential markets.

3. External consequences of EU policies

3.1 Impact of EU policies on Global South development pathways

The EU's influence on partner countries could be seen as operating through two channels.

- The first is explicit regulatory influence, where access to the EU market is conditioned on compliance with EU-defined standards.
- The second is implicit industrial and subsidy-based influence, where EU domestic policies reshape global competitive conditions, investment patterns, and technology trajectories without formally imposing obligations on partners. Together, these channels shape who can access the EU market and where industrial activity locates and which development pathways are impacted for partner countries.

Regulatory-trade compliance channel

A growing body of empirical literature shows that when regulation is tied to market access, countries and firms dependent on that market are compelled to adjust, regardless of domestic priorities or capacities.[8,9]

Figure 1: Impact of compliance burden on partner countries

The EU's broader objective of aligning market activity with its environmental and social standards, as well as improving supply-chain transparency, has led it to introduce numerous regulatory instruments. For example, the EU's Corporate Sustainability Reporting Directive requires companies operating in the EU to disclose their environmental and social impacts, thereby improving transparency for investors and other stakeholders. Such initiatives aim to provide more reliable information on companies' sustainability risks and impacts. However, these regulations often impose explicit requirements on firms located outside the EU. Measures such as the EU Deforestation Regulation, product-level rules under the Ecodesign framework, earlier regulations such as REACH, and the Carbon Border Adjustment Mechanism extend compliance obligations to producers and exporters operating beyond EU borders.

This compliance burden could have the following effects:

- **Privileging jurisdictions with higher regulatory capacity** and more fiscal space as administrative burdens increase - disadvantageous to weaker states.[10] An OECD analysis of Eastern Partnership countries shows how compliance costs are significant and strain fiscal capacity.[11]

- **Favouring large, more established firms that have the capacity to comply,** as buyers tend to consolidate suppliers to reduce compliance risks, excluding small-scale producers.[12] The EU's Ecodesign for Sustainable Products Regulation (ESPR), for the fashion industry, the Institute for European Environmental Policy (IEEP) finds[13], would help concentrate the power of multinational corporations which are better placed to internalise the compliance cost. High compliance costs associated with the EUDR may limit its overall impact on reducing global deforestation. Strict traceability and monitoring requirements may make it difficult for many producers, particularly smallholders in developing countries, to access EU markets. As a result, some producers may redirect exports to other markets rather than change production practices. This may reduce deforestation risks in EU supply chains without necessarily lowering deforestation globally.[14]

- **Domestic resources are diverted from local priorities to fund EU compliance infrastructure.** The Ghana Cocoa Board (COCOBOD) and private companies are racing to map smallholder cocoa farms with GPS coordinates to comply with EUDR. The CBAM illustrates this. By tying market access to carbon pricing benchmarks, it nudges partner countries towards pricing-based climate policies. In doing so, it makes other approaches, such as sector-specific support or non-pricing transition measures, less attractive, even where they may be better suited to domestic conditions.

- In some cases, **externally defined standards can shape pathways for environmental management** that may not reflect the socio-economic realities of countries such as India, where natural resources play an important role in supporting rural livelihoods and need to be sustainably utilised. For instance, the EUDR would set terms for the management of forest resources, which could deter countries from local resource-based livelihood options and lead to supranational policy setting, which is not advisable given the diversity across countries.
- Faced with these choices, partner countries such as India have two alternatives to respond[15]-

a. Regulatory harmonisation—adopting similar regulations to offset the effects of barriers to trade, regardless of the increased costs and the shifts this may require from more urgent pathways for decarbonisation. This is seen in the case of carbon pricing, which requires countries to set up trading mechanisms that are still being debated for their effectiveness in many parts of the world.[16,17]
b. Challenge the trade restrictiveness of the EU's regulations at the World Trade Organization (WTO). This route, however, is rare due to legal uncertainty and trade costs.

How EU market dependence creates regulatory exposure for partner countries

Table 1: Countries and their dependence on EU market and regulatory exposure

Countries	Dependence on EU market (and regulatory exposure)
India	Approximately one-sixth of India's total exports are destined for the European Union. More than 25 per cent of India's exports in sectors covered under the European Union's CBAM are exported to the EU.
Morocco	Around half of total exports (55–60 per cent) go to the EU. Deep integration in agri-food, automobiles, and textiles means EU standards on carbon, traceability, and due diligence directly shape production choices.
Tunisia	EU is the single largest export destination (65–70 per cent of total exports), especially for manufacturing and agri-food. EU product standards and sustainability rules strongly influence domestic industrial upgrading.
Mozambique	A very high share of hard-to-abate exports (70–75 per cent, e.g. aluminium) is destined for the EU, making EU carbon and industrial regulations particularly consequential despite Mozambique's small global trade share.
South Africa	The EU is one of the top export markets for metals, minerals, and vehicles. EU climate and environmental rules affect key export sectors even when China dominates overall volumes.
Ghana	The EU absorbs a large share of cocoa exports (60–65 per cent), especially in raw and semi-processed form. EU due-diligence, deforestation, and sustainability rules reshape supply chains upstream.
Cambodia	Strong dependence on the EU for garments (40–45 per cent) under preferential access. EU labour, environmental, and sustainability conditions shape export viability.

Source: Authors' compilation

The table (*see Table 1: Countries and their dependence on EU market and regulatory exposure*) illustrates how dependence on EU markets creates asymmetric exposure to regulatory changes. Countries whose exports are concentrated in EU-bound sectors may face stronger adjustment pressures even when their overall trade dependence is lower.

Industrial policy channel

The EU also shapes global outcomes through its industrial and regulatory policies. Under the European Green Deal and the Fit for 55 package, EU has combined climate regulation with measures aimed at strengthening domestic manufacturing capacity in clean technologies. Policies such as the Net-Zero Industry Act, the Critical Raw Materials Act, and the EU Battery Regulation seek to expand manufacturing of strategic clean technologies and secure supply chains for the energy transition. Alongside these, the Commission has also introduced enabling rules for state aid under the Clean Industrial Deal State Aid Framework.[18]

These measures reflect concern within the EU about industrial competitiveness in the clean transition. Policy debates have suggested that the EU must maintain its industrial base, particularly in energy-intensive sectors like steel, cement, and chemicals. The energy crisis following Russia's invasion of Ukraine further highlighted Europe's vulnerability to energy price shocks, which led to calls for stronger industrial policy alongside climate action.

For emerging clean-technology sectors, this evolving policy framework has implications beyond Europe. By prioritising domestic manufacturing capacity and supply chains for strategic technologies, EU industrial policy may influence global investment patterns and technology development. While these policies are primarily designed to support Europe's own industrial transition, they can affect where production takes place and how value chains in sectors such as batteries, hydrogen, and low-carbon materials develop internationally, including in partner economies such as India. Half of all industrial policy tools being deployed is concentrated in the US, China, and the EU. Over 90 per cent of clean-technologies investment remains concentrated in advanced economies and China.[19] As a result, emerging economies may find it increasingly difficult to secure investment and develop domestic manufacturing capabilities in key clean-technology sectors.

Discussions have also highlighted structural differences in energy availability and costs across regions that may shape future clean industrial supply chains[20]. Europe faces relatively limited renewable energy resources, which may keep the cost of expanding green electricity for industrial needs relatively high. Importing clean energy, either through electricity imports or importing hydrogen, could also prove costly. This leads scholars to suggest that Europe may rely on imports of energy-intensive intermediate products, such as green ammonia or direct reduced iron, produced in regions with cheaper renewable resources.

Such trade patterns could create an international division of labour in clean industries, where developing countries specialise in energy-intensive inputs while Europe focuses on downstream manufacturing and higher-value production stages, retaining competitiveness in these areas.

Table 2: EU policies and their developmental impact

Channel	Mechanism	Examples of EU policies	Developmental impact
Regulatory–trade compliance channel	Market access is conditioned on compliance with EU environmental, climate, and sustainability standards.	EUDR, CBAM, ESPR, REACH, CSRD	- Favours high-capacity jurisdictions - Favours large firms; small producers risk exclusion - Diverts domestic resources to compliance systems - Nudges policy choices shaping environmental governance pathways
Industrial policy channel	EU domestic industrial and subsidy policies reshape global competitiveness, investment flows, and supply-chain structures.	Net-Zero Industry Act, Critical Raw Materials Act, EU Battery Regulation, Clean Industrial Deal	- Influence on location of global production and investment - Potential marginalisation of emerging economies in new clean value chains - Reduced policy space for domestic industrial development in partner countries

3.2 Why do these consequences matter for the EU?

The external impacts of EU climate and industrial policies are often framed as challenges primarily for partner countries. However, these consequences also generate material risks for the EU itself.

Strategic and geopolitical risk

When the external effects of EU climate and sustainability policies are negative for partner countries, they can lead to trade friction, diplomatic pushback, and even retaliation.[21] Such measures may be seen as tools of economic pressure, especially when they affect market access or industrial prospects. The European Union Deforestation Regulation (EUDR), for instance, has been raised as a specific trade concern at the World Trade Organization (WTO) by several countries, including Brazil, Thailand, India, and Australia.[22]

Where EU rules are seen as overreaching, they can also leave space for other powers to step in. These tensions spill over into multilateral spaces as well. Partner countries may push back against EU proposals at the WTO or in UN climate negotiations or choose regional arrangements that avoid European standards altogether. At the same time, countries rich in critical minerals needed for the energy transition may turn towards resource nationalism—using export restrictions, local content rules, or preferential partnerships to protect domestic interests. Indonesia's restrictions on nickel exports and its efforts to build domestic battery value chains are early signs of this trend.

EU responses to extraterritorial trade and investment sanctions[23] show that regulatory spillovers are treated as strategic risks requiring institutional countermeasures, a logic increasingly relevant for climate-linked trade measures.

Ultimately, if EU climate leadership is felt by much of the Global South as limiting rather than enabling, it risks fragmenting global cooperation and turning climate policy into another area of geopolitical competition, instead of a shared effort to address a common challenge.

Weakening global decarbonisation outcomes

EU climate leadership ultimately depends on whether global emissions decline at the pace required to meet the Paris Agreement goals. While the EU has made progress in reducing domestic emissions, future industrial growth will occur outside Europe, particularly in emerging economies with large development and industrialisation needs. An increasing European focus on reshoring energy-intensive industries overlooks the advantages of a more efficient allocation of productive capacity, for instance to regions with cheaper and more abundant renewable energy, which are better suited to such industries. Allowing this kind of production to develop could reduce the global overall cost of decarbonisation.[24]

In several developing countries, climate policy space is already constrained by limited fiscal capacity, infrastructure gaps, and competing development priorities. Where EU rules are perceived as imposing additional costs without commensurate support for technology deployment, finance, or institutional capacity, governments are left with little choice. This dynamic has been visible in repeated concerns raised by countries such as India, South Africa, and Brazil regarding CBAM in multilateral forums, where the measure has been framed as shifting mitigation burdens without adequately addressing differentiated capacities.[25]

Cooperation and trust deficit

Effective climate action relies on sustained international cooperation, trust, and perceived fairness. Perceptions of equity and distributive justice are central to cooperation in the international climate regime, shaping both the willingness of countries to participate and the level of ambition they are prepared to accept.[26] EU climate and sustainability measures that are experienced by partner countries as restrictive or unilateral can weaken the political foundations for collective climate action.

In recent years, tensions around EU climate-linked trade measures have increasingly spilled over into climate diplomacy, and concerns have been raised not only in trade forums such as the WTO, but also in UNFCCC negotiations and G20 discussions. For many developing countries, these measures are viewed through a political economy lens, as constraints on development rather than as cooperative climate instruments.

Countries that perceive EU climate action as unfair or asymmetrical may become less willing to support ambitious outcomes in multilateral negotiations or deprioritise alignment with EU-led initiatives on emission reduction, sectoral decarbonisation, or transparency.

For the EU, reduced willingness to cooperate weakens its ability to build coalitions, shape global norms, and mobilise collective action at the scale required for climate mitigation and adaptation.

4. What does this mean for India?

4.1 India's climate and development goals

India's climate goals, as outlined in its Nationally Determined Contribution (NDC), focus on reducing emission intensity of GDP, adding non-fossil power capacity, and expanding forest and tree cover. Having made significant progress towards them, particularly the achievement of 50 per cent non-fossil power capacity five years ahead of schedule, India also aspires to have 500 GW of non-fossil installed capacity by 2030, a target not officially submitted to the UNFCCC, but stated in domestic policy rhetoric.[27]

Table 3: India's climate commitment to the Paris Agreement

Commitment area	First NDC (2015)	Updated NDC (2021–2022)	Progress (BUR4, 2025)	Updated NDC (2031-2035)
Emissions intensity	Reduce emissions intensity of GDP by 33–35 per cent below 2005 levels	Reduce emissions intensity of GDP by 45 per cent below 2005 levels by 2030	Emissions intensity of India's GDP reduced by 36 per cent from 2005 levels (as of 2020)	Target 47 per cent reduction in emissions intensity of GDP by 2035 compared to 2005 levels
Non-fossil power capacity	Achieve 40 per cent of installed electric power capacity from non-fossil sources by 2030	Achieve 50 per cent of cumulative installed power capacity from non-fossil sources by 2030	Non-fossil sources accounted for 49.75 per cent of installed capacity (July 2025); however, coal still contributes ~75 per cent of generation	Achieve 60 per cent of cumulative installed electricity capacity from non-fossil sources by 2035
Carbon sink (forests)	Create an additional carbon sink of 2.5–3 GtCO2e by 2030 through increased forest and tree cover	---	Additional carbon sink of 2.29 billion tonnes of CO2e achieved between 2005 and 2021	Create 3.5-4 billion tonnes CO2e carbon sink through increased forest and tree cover
Long-term target	--	Net-zero emissions by 2070	--	

Financing these goals requires large amounts of investment, both public and private. India's original NDC estimated that the country's climate action would require USD 2.5 trillion from 2015–2030, roughly USD 170 billion per year.[28] A recent estimate for select sectors only points to a figure of USD 54 billion per year to decarbonise power, road transport, steel, and cement.[29]

India's largest end-use of energy is the industrial sector, which accounts for approximately 920 million tonnes of CO_2 emissions annually. Decarbonising steel, cement, refining, and other heavy industries is therefore central to achieving the country's emissions-intensity reduction targets.

However, India's climate goals are coupled with development goals of which industrialisation is a key agenda—growing manufacturing as a sector is a key policy priority highlighted through the 'Make in India' scheme of 2014, which aimed to increase the share of the manufacturing sector in GDP to 25 per cent by 2025. Yet, from hovering around 16 per cent in the 2010s, the share of manufacturing declined to 13 per cent in 2024, and efforts continue to boost this via various domestic schemes such as Production Linked Incentives (PLI). Nested within its manufacturing aspirations is the goal to grow clean technology manufacturing, with some success seen in building a solar manufacturing ecosystem domestically.[30]

India's climate commitments therefore, cannot be viewed in isolation from its broader development trajectory. Industrialisation remains essential for economic growth and structural transformation, while maintaining an acceptable trade balance is equally important, particularly given the country's goods trade deficit of USD 283.5 billion in 2024–25. India's transition pathways are thus closely tied to the transformation of its industrial base.

The scale of the challenge remains considerable. More than three-quarters of India's electricity generation still comes from coal, even as renewable capacity expands rapidly. Achieving both decarbonisation and industrialisation will require sustained investment in renewable integration, grid expansion, infrastructure, low-carbon industrial processes, measurement and verification systems, and research and development. It will also require policy space for phased industrial support, state incentives, and regulatory sequencing suited to domestic conditions.

4.2 Impact of EU policies on India

India will play a key role in shaping the trajectory of global emissions over the coming decades. As one of the fastest-growing major economies and a large industrial producer, India's choices in sectors such as steel, cement, energy, and transport will influence global decarbonisation outcomes. Cooperation with India, therefore, represents one of the most important opportunities for the EU to support large-scale emissions reductions beyond its borders.

The effects of EU's regulatory policies also matter because the EU is a major trading partner for India. It accounts for around 14 per cent of global goods trade and absorbs roughly 17 per cent of India's goods exports.[31] Key sectors such as steel, aluminum, and textiles are closely linked to the EU market. The strong integration implies that EU's regulatory choices have implications for India's trade, investment and consequently industrialisation strategies.

For the EU CBAM, which was rolled out this, year, exports of CBAM-covered goods to the EU comprised 9.91 per cent of India's total goods exports to the EU in the year 2022–23. By value, this was 0.2 per cent of India's GDP in 2022–23. These exports comprise about one-fourth (25.7 per cent) of India's total goods exports to the world for the CBAM-covered sectors, which is not insignificant for the industries operating in these sectors. These are iron and steel, aluminium, fertilizers and cement. Currently, hydrogen and electricity, although included by the EU in CBAM legislation, are not exported from India to the EU.

Our estimates suggest that at a rate of 100 Euro (or USD 106) per tonne of carbon dioxide equivalent, a CBAM would impose a tax burden of 25 per cent on average, over and above the value of CBAM-covered goods exported to the EU.[32] The tax burden would be equivalent to 0.05 per cent of India's GDP. While the macroeconomic impact appears small relative to GDP, the sectoral impact can be substantial for affected industries.

Figure 2: Percentage share of India's exports (2022–23), expressed in $-value of exports (2022–23)

Source: Carbon Border Adjustment Mechanism (CBAM): The Global South's response to a changing trade regime in the era of climate change, CSE (2024)

For countries like India, particularly in strategic export sectors such as steel, aluminium, cement, and chemicals—both emission-intensive and trade-exposed—compliance requires capital investment and new administrative systems.

As compliance costs rise, India may step back from EU-facing supply chains. Over time, production reorganises, with higher-value, compliance-intensive stages concentrating in jurisdictions aligned with EU rules, while less regulated activities shift elsewhere. Market access narrows under the weight of compliance.[33]

Apart from the direct implication of EU trade-based mandates, EU's industrial policy initiatives affect investment flows in important emerging sectors like batteries, green hydrogen, or low-carbon steel. The Net-Zero Industry Act sets a target for meeting at least 40 per cent of annual deployment needs for key net-zero technologies through domestic production by 2030. Complementary flexibility in state aid and public procurement is designed to attract investment and scale up domestic capacity. The recently launched Industrial Accelerator Act has a 'Made in Europe' provision that would seek to channel public money through procurement deals to EU companies.[34] This approach of *Make in EU* will lead to further shrinkage of global trading options for countries like India.

As India seeks to expand its manufacturing base—particularly in green technologies such as solar modules, electric vehicles, and batteries—while also decarbonising, these shifts affect policy space and transition trajectories, and the direction of where investment is flowing. In a global landscape of green technologies where supply-chain and production are concentrated in China, and the markets for these goods are in US and the EU, emerging and developing countries account for less than 5 per cent of production value. The concentration may intensify with policies passed by the EU, and India may find it much harder to compete in these sectors, which in turn will stymie decarbonisation and economic growth.

4.3 EU's current cooperation with India on climate

EU-India relations have developed over several decades, with climate, energy, and sustainable development forming a central pillar of cooperation. These partnerships provide an important institutional context within which the EU's external climate influence plays out.

The EU's policies could generate beneficial outcomes when regulatory ambition is aligned with finance, technology transfer, and institutional cooperation. Constructive outcomes could be achieved when engagement is structured around

Table 4: Key initiatives in EU-India climate cooperation

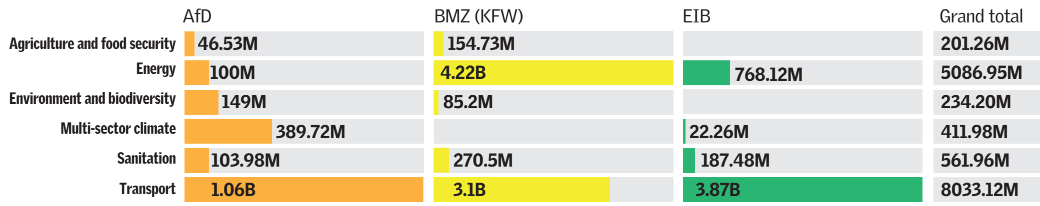
S no	Title	Time period	Brief overview
1	EU-India Clean Energy and Climate Partnership (CECP)	2016–present	Promotes access to and dissemination of clean energy and climate-friendly technologies and encourages research and the development of innovative solutions.
2	EU-India Partnership on Smart and Sustainable Urbanization	2017–present	Support to Indian cities to develop plans for sustainable development, transport, industry, water and waste management and has established city-to-city cooperation between European and Indian cities.
3	EU-India Trade and Technology Council	2023–present	To focus on green technologies, including investments and standards, with an emphasis on research and innovation
4	Joint India-EU Comprehensive Strategic Agenda	2026	Overarching strategic partnership cover key areas: prosperity and sustainability; technology and innovation; security and defence; connectivity and global issues.

development of capacity, long-term financing, and alignment with partner-country development priorities rather than carrying out a simple export of EU regulatory templates alone.

The India–EU Clean Energy and Climate Partnership, launched in 2016, focuses on technical assistance, institutional capacity building, and financial mobilisation. The partnership has facilitated technical assistance for solar parks in India, including funding for photovoltaic power plants in Tamil Nadu, as well as investments in urban mobility projects, transmission lines, energy efficiency, and research on smart grids, storage, and green hydrogen. Under the programme, the European Investment Bank has invested in urban mobility projects in several Indian cities, including approximately €2 billion in metro rail infrastructure across five cities. The third phase focuses on offshore wind, green hydrogen, and regional connectivity. The programme also invested in capacity building and knowledge sharing activities such as through supporting dedicated rooftop cell within the ministry or through feasibility studies for offshore wind.

Beyond the Clean Energy and Climate Partnership, European agencies such as Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and Agence Française de Développement (AFD) have been engaged in long-term cooperation, supporting numerous projects at the intersection of development and climate policy, with GIZ's engagement spanning several decades.

Graph 2: Selected sectoral investments in India by key EU development institutions (2016–2025) (EUR)



Source: Authors' compilation from banks' sources

The graph (*see Graph 2: Selected sectoral investments in India by key EU development institutions (2016–2025)*) presents investments in selected sectors in India between 2016 and 2025 by Agence Française de Développement (AFD), Federal Ministry for Economic Cooperation and Development (BMZ), implemented through KfW Development Bank, and the European Investment Bank (EIB).

Various bilateral efforts also bring together governments, industry, and financial institutions such as the Leadership Group for Industry Transition (LeadIT) cooperation effort, launched by India and Sweden in 2019, which seeks to facilitate collaboration on the decarbonisation of hard-to-abate sectors such as steel and cement through dialogue, technology cooperation and joint road-mapping exercises. The group has 18 countries and 30 companies participating in the agenda and is working to address issues such as high capital costs, technological risks, and coordinated policy for low-carbon investment.

Recently, upon the conclusion of the discussion on the India-EU Free Trade Agreement (FTA), it was also announced that the EU will provide 500 million Euros over the next two years to support India's green transition.[35]

Outside India, one example of EU engagement paired with dialogue and capacity support is the EUDR Engagement project under the Team Europe Initiative on Deforestation-free Value Chains. The initiative was undertaken to complement EU's Regulation on Deforestation-Free Products (EUDR) with engagement, communication, and knowledge-building in producing countries. Rather than focusing solely on compliance, the project is looking to support multi-stakeholder dialogue on due-diligence requirements, traceability systems, benchmarking, and the implications of the regulation for governments, producers, and smallholders, with activities designed to be responsive to country-specific contexts and stakeholder requests.

5. Recommendations

The EU's climate and industrial policies have significant implications for development pathways in partner countries such as India. Ensuring that these policies contribute positively to global decarbonisation requires aligning regulatory ambition with finance, technology cooperation, and institutional support. The following recommendations outline how the EU can better align its policies with the Global South, and India's development priorities in particular, while strengthening climate cooperation.

5.1 Aligning EU climate policy with Global South development

5.1.1 Pairing policy with finance and technology transfer

Supporting NDC implementation through finance and risk reduction

One channel through which EU engagement can have positive climate impacts is by mobilising finance and reducing investment risk in partner countries. For many developing economies, the primary constraint on NDC implementation is limited access to affordable finance for large-scale climate investments. Where such finance, mobilised through the EU, is explicitly linked to national climate priorities and transition plans, it can strengthen domestic political support for more ambitious climate action. From the EU's perspective, enabling investment-led decarbonisation abroad contributes directly to global emissions reductions and lowers the long-term costs of achieving climate goals, while also supporting stable economic partnerships.

Technology cooperation and diffusion of low-carbon technologies

EU climate cooperation can also support NDC implementation by facilitating access to technologies, standards, and know-how critical for industrial decarbonisation. Joint research initiatives, technology partnerships, and cooperation on standards can accelerate learning and deployment in sectors such as renewable energy, green hydrogen, low-carbon steel, and energy storage.

This is particularly relevant for large emerging economies, where industrial decarbonisation is central to both climate outcomes and development strategies. For the EU, wider diffusion of clean technologies strengthens global supply chains, and increases the overall scale of clean technology markets.

Aligning partnerships with mutual benefits for industrialisation

Increasingly, resource-rich developing countries are pursuing industrial policies aimed at capturing greater domestic value from natural resources rather than exporting raw materials. Zimbabwe has recently banned exports of lithium concentrates to promote domestic processing,[36] while Indonesia's nickel export restrictions were aimed at building an integrated battery storage value chain. Similar dynamics are emerging elsewhere. Vietnam has revised its mineral law to restrict rare earth exports and promote domestic processing industries,[37] while several African countries, including Zambia, Rwanda and Ghana, are imposing restrictions on raw mineral exports to stimulate local beneficiation and industrial employment.[38]

New clean industrial projects show how such value addition could occur within low-carbon supply chain partnerships. For example, Mauritania is developing green hydrogen and green-iron projects aimed at exporting low-carbon industrial inputs,[39] while Egypt is advancing green ammonia and hydrogen production in the Suez Canal Economic Zone.[40]

EU partnerships should recognise these industrial policy priorities and support the development of value-added clean industrial supply chains in partner countries. The EU's Clean Trade and Investment Partnership (CTIP), first signed with South Africa, presents a viable pathway for engagement in this regard. Such partnerships are intended to be more targeted and structured, and could potentially support the clean-technology industrialisation ambitions of developing countries. Under the agreement with South Africa, investments are expected to be mobilised to support the clean energy transition, skills development, and technology cooperation.[41,42]

One important avenue lies in the potential use of revenues generated from the CBAM alongside broader, targeted investment efforts. As CBAM begins to generate fiscal revenues for the EU, these funds could be channelled towards supporting decarbonisation efforts in developing countries, including investments in clean industrial production, renewable energy deployment, and low-carbon technology adoption. However, given that CBAM revenues alone are unlikely to be sufficient, they could form part of a wider framework of sector-specific and targeted investments aimed at supporting the development of low-carbon industrial capacity in partner economies. Such an approach could help offset concerns about the distributional impacts of carbon border measures while accelerating decarbonisation across global value chains.

5.1.2 Evidence-based policy making

Strengthening the impact assessment regime

Impact assessments are formally required under the EU's Better Regulation framework. However, evidence from recent climate policymaking suggests that these requirements have not been applied consistently. This raises concerns not only about the depth or quality of impact analysis, but about whether impact assessments are being treated as a binding procedural safeguard at all.

Analysis by Carbon Market Watch documents cases in which major climate-related policy proposals or substantive amendments were introduced without a formal impact assessment, or where completed assessments appear to have been sidelined in subsequent legislative drafts. [43]

5.2 Deepening EU-India cooperation for NDC achievement

EU-India cooperation can accelerate mitigation by focusing on technology partnerships, concessional finance, industrial pilots, regulatory cooperation, and market design support across key sectors.

1. Industrial decarbonisation

- *Low-carbon steel technologies*: Support pilot projects for gas or green-hydrogen-based rotary kilns for Direct Reduced Iron (DRI) production adapted to India's low-grade iron ore. Nearly 50 per cent of India's steel production relies on coal-based DRI-EAF/IF routes, making this a critical mitigation opportunity.
- *Steel scrap and industrial waste ecosystems*: Develop formal scrap accounting systems, quality standards, and recycling infrastructure to increase domestic scrap availability and reduce import dependency. Similar circular approaches should be applied to other industrial waste streams.
- *CCUS for hard-to-abate sectors*: Support pilot projects, geological storage assessments, and viability-gap financing mechanisms for carbon capture, utilisation, and storage in cement, steel, and chemicals sectors.
- *Decarbonisation of MSMEs*: Provide technical assistance, concessional finance, and technology transfer to transition emissions-intensive MSME sectors such as brick kilns, foundries, and small manufacturing units to cleaner technologies.

2. Power system transformation

- *Coal plant flexibility for renewable integration:* Support retrofits for coal-based power plants to enable flexible operation, helping integrate higher shares of renewable energy while maintaining grid stability.

- *Energy storage deployment*: Accelerate battery storage deployment through technology partnerships, financing mechanisms, and support for India's planned large-scale storage targets.
- *Strengthening India's carbon market*: Provide expertise on market design, monitoring and verification (MRV), price discovery mechanisms, and market stability tools to strengthen India's newly launched carbon market covering nine industrial sectors.

3. Scaling renewable energy deployment

- *Rooftop solar expansion*: Support innovative financing models such as RESCO or aggregator models to enable zero-upfront rooftop solar adoption, alongside regulatory cooperation on net-metering and distribution company compliance.
- *Solar irrigation and agricultural energy transition*: Support scaling of solar pump deployment and productive energy uses to reduce diesel use and electricity subsidy burdens while increasing rural incomes.
- *Innovative solar deployment models*: Collaborate on canal-top and floating solar projects, which reduce land constraints and water evaporation while expanding renewable capacity.
- *Grid infrastructure and transmission expansion*: Support accelerated development of green energy corridors, transmission infrastructure, and grid-scale storage to reduce renewable energy curtailment.

4. Sustainable mobility and transport decarbonisation

- *Vehicle electrification*: Support India's EV transition through technology partnerships, charging infrastructure development, and financing frameworks, particularly for buses, commercial vehicles, and four-wheelers where European expertise is strongest.
- *Battery value chains and circularity*: Support domestic EV battery manufacturing, battery management systems, and recycling infrastructure to recover critical minerals and strengthen supply chains.
- *Integrated urban mobility systems*: Assist Indian cities in designing integrated public transport systems combining metro, bus, and multimodal networks, supported by digital mobility planning tools.
- *Active mobility and transit-oriented development*: Promote walking and cycling infrastructure integrated with transit systems, alongside planning frameworks for transit-oriented urban development.

5. Sustainable and climate-resilient urban development

- *Heat-resilient buildings and urban infrastructure*: Support thermal comfort strategies, passive cooling technologies, and energy-efficient building materials to address rising urban heat stress.

- *Regulatory cooperation and standards*: Facilitate exchange of best practices on building codes, energy efficiency standards, and urban planning frameworks.

6. Circular economy and resource efficiency

- *Urban waste value chains*: Support development of circular economy ecosystems for municipal solid waste and construction and demolition waste, including recycling technologies and waste-to-resource systems.
- *Circular industrial systems*: Encourage industrial symbiosis and material recovery systems to reduce resource use and emissions while enabling new circular economy enterprises.

6. Conclusion

Policymaking in the EU therefore, requires a different lens. Decarbonisation is no longer a question of ‘us versus them’. Countries across the Global South recognise the urgency of climate change and the need to move towards greener development pathways, while also seeing the opportunity to build new industries and low carbon economies in the process. The path forward, therefore, cannot be built on climate policy being used primarily as a ‘stick’ for developing countries. Instead, progress will depend on cooperation in which climate ambition is paired with trust, dialogue, finance, technology, and shared industrial opportunities. Only through such a partnership approach can global decarbonisation accelerate at the scale required.

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The European Union's climate and industrial policies increasingly shape global trade and development pathways, particularly for countries like India. While EU regulations aim to promote decarbonisation, they can impose compliance costs, restrict policy space, and affect industrial growth in developing countries.

This carries strategic implications for the EU: most future emissions growth will occur in developing countries, and global decarbonisation will depend on their ability to industrialise using low carbon technologies. If EU policies are perceived as restricting development opportunities, they risk weakening international cooperation, generating geopolitical tensions, and reducing EU's influence in shaping the global clean economy.

This brief recommends aligning EU climate policies with Global South development pathways through finance, technology transfer, impact assessments, and deeper sectoral cooperation to support low carbon industrialisation, and subsequently global decarbonisation.

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