

A ‘Climate Handshake’: The India-US Green Strategic Partnership

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Responding to Climate Change has the potential to become a major pillar of the Indo-US bilateral relationship, one with the potential of becoming economically and technologically transformational for both countries. Prime Minister Narendra Modi and President Joe Biden see Climate Change as an existential threat. Both see greening their economies as crucial to their nations’ future. And, both are wary of Chinese attempts to establish pre-eminence in the technologies and products in these sectors.

The two leaders are aggressive in promoting their Climate agendas. Prime Minister Modi has repeatedly increased his government’s renewable energy target to the point that it is among the most ambitious in the world. In his second term, even more difficult green energy programmes - such as the National Hydrogen Mission - have been announced as a part of the February 2021 annual budget. Prime Minister Modi sees weaning the Indian economy off fossil fuels as a crucial element of his New India vision. Complementary developments, such as promoting the manufacture of solar power equipment, the use of electrical vehicles, and reducing the country’s chronic air pollution problem, fit well with his *Atmanirbhar* and *Swach Bharat* (self-reliant and clean India) initiatives. “Climate adaptation,” as he said recently, “is more significant today than ever before and ... is a key element of India’s developmental efforts.”¹

President Biden began issuing executive orders signalling the USA’s desire to secure a leadership role in Climate Change within days of assuming office. He shares Prime Minister Modi’s economic vision regarding renewable energy and sustainable infrastructure, and that it is a source of future job creation as well as a means to secure the lead in the technologies of the future. President Biden has another pressing reason to get these measures embedded in the US

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(This article was received from the author on March 1, 2021)

policy framework. There is no political consensus on Climate Change in Washington, and the Republican Party is vociferously hostile to many elements of President Biden's Climate policy. His administration has a slender legislative majority which is guaranteed for only two more years, and a Republican capture of the US Congress in 2022 and a recapture of White House in 2024 is not inconceivable. President Biden wants to implement policy on Climate Change, both at home and abroad, as quickly as possible. But it will not be an easy task.²

Then, there is the overriding incentive that the world is in a race against time to reduce its carbon emissions before irreversible and drastic changes to its environment take place. President Biden's special envoy on Climate Change, John Kerry, on his first day in his new position, said coal needs to be phased out five times faster than is being done today, renewable energy adopted six times faster, and the transition to electric vehicles 22 times faster.³

India's Ambitious Green Economy Goals

There are four elements to India's ambitious green economy goals which require considerable foreign assistance. They also require India to become more involved in global rules making and finding like-minded international partners.

First is the rapid transformation of India's coal-dominated power sector into one more dependent on renewables, with natural gas serving as the transition fuel. New Delhi has massively increased India's solar power capacity; but there have been numerous teething issues. One perennial problem is the unwillingness of India's state-owned distribution companies to charge a market rate for the electricity they provide their customers, ensuring that electricity production is always saddled with enormous amounts of debt which percolate through and distort the entire power sector. The Modi government recently announced its third attempt to resolve the discom dilemma.⁴ The other related issue is attracting sufficient quantities of funding to pay for this transition, a bill that would run into hundreds of billions of dollars. Foreign and domestic private capital, in particular, are essential if India is to accomplish its publicly declared green economic goals. The two are related: resolving the discom issue would be the best means to ensure a continuous and sustainable flow of investment into the renewables sector.

Second are the ambitious plans to promote electric vehicles, and electric mobility in general. The idea is not merely to promote their use but to create sufficient demand so that many of these vehicles come to be made in India.

The government has already begun the process of electrifying fleet vehicles and building charging infrastructure; but the progress is slow. There has been a regular dialogue with the country's automobile industry about making the difficult and expensive shift to electrical vehicle production. Again, India needs partners to help finance these plans, partners to develop and access the necessary know how, and markets to export components and cars if it is to reach the kinds of scale needed to be competitive in this field.⁵

Third, there is the National Hydrogen Mission, newly announced but unusually ambitious. Green hydrogen is seen as the future fuel for heavy industry and commercial vehicles, the former needing baseload power of a kind solar and wind presently struggle to provide. The hydrogen mission would require enormous capital expenditure, a complete overhaul of India's power sector, and cooperation on many levels with international stakeholders.⁶

Fourth, India has steadily expanded its multilateral Climate efforts. The International Solar Alliance, which India co-founded with France, has expanded its ambit, and now envisions a One Sun One World One Grid cross-border transmission network as well as a World Solar Bank. India has also launched the Coalition for Disaster Resilient Infrastructure which is largely about Climate preparedness. Both bodies have done well in terms of membership, but continue to struggle to leave a mark on the international system. India needs major global partners with deep pockets in all these endeavours. India plans a US\$ 600 million equity commitment for the World Solar Bank, but envisages a total equity capital of US\$ 10 billion at its inception. The USA is a part of the CDRI, and will be a necessary partner once the body begins laying out standards, and tries to get them accepted around the world. There is an obvious pairing to be made here with a USA that was deliberately absent from global Climate efforts during the Donald Trump Presidency and, under President Biden, is seeking to make up for lost time.⁷

Every estimate of the funding needed by India to accomplish its stated Climate goals arrives at an enormous figure. The Environment Ministry has calculated that India would need US\$ 2.5 trillion in investments, with the next five years alone requiring US\$ 280 billion in expenses. Almost all of this would have to be raised from private capital markets, and most of it in the form of debt, with a smaller chunk being raised through equity.

However, getting private capital to put money into India's solar power projects, let alone more speculative projects, like electrical vehicle start-ups, has proven difficult. India's underdeveloped bond market means most "green bonds" by Indian firms are raised on the London Stock Exchange, and incur hefty interest rates and underwriting fees. Barely US\$ 7 billion worth of Indian

green bonds were raised in 2018 - a fraction of what is needed, a fourth of what China raised, and a sliver of the US\$ 250 billion worth of green bonds issued globally. At present, for example, green energy projects in India are unable to secure investment-grade credit rating, meaning institutional investors must stay away from them.⁸

The obvious match would be US institutional investors who are sitting on US\$ 23 trillion in funds, looking for positive returns, and with an appetite for socially responsible investments. Multilateral financial institutions and the government of India would be other sources of capital; but their resources are more limited and their red tape burdensome. The Biden Administration is expected to infuse billions of dollars more into institutions like the World Bank and the Asia Development Bank with Climate spending in mind. It has declared its intention to fulfil the USA's earlier promise of putting US\$ 3 billion into the Global Climate Fund as well as in similar funds for poorer countries laid out under the Paris Agreement. In private conversations, US officials have indicated President Biden plans to massively expand the green portfolio of the new US Development Finance Corporation, and of his government's main overseas aid agency, USAID, and make these responsible for large-scale financial investments in the green sectors of emerging and developing economies. But the only game in town for such a risky and expensive project is private capital. The involvement of the multilateral financial institutions and aid donors would ultimately be about making India's green economy more palatable to US private investors.⁹

Green Technology and Related Materials

Green technology is rapidly becoming a matter of strategic concern. The struggle for green-related minerals, like cobalt or lithium, are already replacing the earlier pursuit of oil and uranium. The USA is moving to a policy of technology denial towards China, a policy that would result in the severing of many supply chains between the two economies. The USA cannot go it alone and is, therefore, beginning to map out techno-alliances in a number of key technological areas. Early think tank proposals for such coalitions name India as an obvious member of such a coalition.

India has already begun a process of reducing China's commercial presence in sensitive parts of its economy, including the green, digital, and media sectors. It also hopes to attract some of the supply chain links that are leaving China, and looking for alternative sites. A US-led technology coalition in sensitive green technologies could prove advantageous to India, depending on how

well it negotiates the terms of its membership. Curtailing the Chinese economic presence in India and elsewhere would be a bonus. The policy remains nascent; but it is quite possible that important green technologies, such as those involved in electrical mobility, will become an element. There is a convergence here with India's use of tariffs and local content to revive solar cell and module production in India, and reduce imports from China.¹⁰

At the very least, such technological blocs could determine common standards, regulations and so on so that private manufacturers and investments would collectively trade and invest among member-states. The implicit assumption is that this would counter any China-centred set of technology standards. Beijing already has a head start in this field, thanks to the huge infrastructure projects of its Belt Road Initiative, and the standards and regulations - for example, in digital technology - that accompany BRI agreements.

If India decides to non-align itself in a green geopolitical world, it will find it harder to avoid coercive tactics by the USA and other major economies. For example, Washington will soon follow Brussels in imposing carbon-based tariffs to discriminate against imports made through climate unfriendly processes. If frustrated at the rate of climate progress India is making according to the US time line, a certain degree of coercion will follow. For example, Kerry is a great advocate of net zero emissions targets, where a country promises to ensure its economy produces a net of zero carbon emissions by a certain year. This is something India has declined to embrace because of the high level of economic disruption this would entail. At the very least, it would require carbon capture and storage technology that India lacks, and cannot afford. Another problem area will be if the Biden Administration decides to block development assistance or penalize private investment into natural gas infrastructure, a fuel that India sees as crucial to its transition to a greener energy future.¹¹

The difficult part of a de facto Indo-US green strategic partnership would be the time required to put together this complex interrelationship. India continues to struggle to create a financial marketplace acceptable to large-scale and long-term foreign investment, especially in the green sector. It is uncertain whether it has the capacity to absorb hundreds of billions of dollars of assistance or investment. New Delhi is still finding its feet when it comes to multilateral climate action - its own creations, like the International Solar Alliance, have just begun to try and negotiate global rules and norms. And, there will be a fundamental contradiction in both President Biden and Prime Minister Modi using limited protectionism, and using incentives to keep green

investments within their borders that will have to be resolved.

President Biden will have to resist the temptation to use more sticks than carrots on India to persuade India to go green. Prime Minister Modi does not need to be convinced of the importance of tackling Climate; but he cannot be seen kowtowing to the demands of a foreign government. New Delhi needs to up its Climate game in terms of converting ideas into plans, and plans into tangible changes on the ground. If things do gel, both leaders will be able to lay the groundwork for arguably the one of the greatest of Indo-US collaborations. It would be one that would ensure that the future economic rise of the world's fifth largest economy is done in a sustainable manner, unlike the black smoke ridden trajectory of China. It would be one that would cement a bilateral technological partnership that could serve as a model for the rest of the world. Environmentalist Arunabha Ghosh has already declared that the synergies are so evident that Prime Minister Modi and President Biden need to hold a 'Climate Handshake' this year, and pave the way to a green strategic relationship.¹²

Notes :

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