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From Policy to Practice: Evaluating the Global Governance of Climate Change Finance and Greening Trade

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Amidst increasing climate challenges, instruments such as climate finance and greening trade have become critical in driving global climate action. The growing relevance of these mechanisms, as reflected in the ICJ's 2025 Advisory Opinion and the 15th Article 6.4 Supervisory Body meeting held in Bhutan in February 2025, underscores an urgent need to reassess existing environmental policies and legal frameworks to ensure accountability, fairness, and efficiency in global climate governance. This article argues that, unlike international trade law, which is based on hard-law rules that are legally binding, climate governance under the UNFCCC and the Paris Agreement is based on procedurally binding but substantively voluntary commitments. This lack of balance impedes climate action. The article shows that retreat from Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) further drives divergence within the Global North and Global South, inflating inequity, distrust and causing ineffectiveness in global climate action. Using emerging green trade standards (like carbon border adjustments) as examples, the article shows how the trade compliance requirements tend to be immediate and mandatory, whereas financial flows are likely to be delayed and discretionary, exposing a structural misalignment, especially impacting developing countries. Focusing on India, it explores to what extent climate finance commitments have been translated into domestic law and policy and coordinated with trade and industry. After this analysis, the paper proposes recommendations to reform the legal and institutional framework and align climate finance with the enforcement of green trade, embed equity principles into climate-trade architecture, and strengthen domestic law through statutory integration of climate finance to convert it from a mere policy aspiration to a tool for a just transition.

Keywords: *climate-trade architecture, climate finance accountability, green trade standards, global climate governance.*

INTRODUCTION

The existential and growing global impact of climate change continues to be felt through temperature increases, more frequent natural disasters, and a changing interpretation of how nation-states must work together legally to address these issues, as demonstrated by the International Court of Justice (ICJ) decision (2025) on the obligations of nations under international law regarding climate change. The 2025 ICJ opinion highlighted the legal obligations of nations under international law to prevent adverse impacts from climate change, as well as their duty of cooperation regarding addressing adverse climate impacts. Mechanisms such as climate finance and the greening of trade have developed within this context and play an important role in implementing international climate policies (through climate finance) and promoting a green economy (via greening trade), and therefore providing opportunities for decarbonising the economy through the alignment of economic incentives with environmental responsibilities. The greening of trade and climate finance are examined in this article as key legal tools for carrying out global climate commitments. In order to improve accountability and equity in global climate governance, it looks at how well current national and international legal instruments support these mechanisms, identifies important structural gaps in enforceability and equity, and advances specific institutional and legal solutions.

WHAT IS CLIMATE FINANCE AND WHY DOES IT MATTER?

What does Climate Finance Mean? The United Nations Framework Convention on Climate Change (UNFCCC) defines it broadly as financial support from developed to developing countries to reduce emissions and build climate resilience. However, there is no globally accepted definition of climate finance as of now. Climate finance is a significant fund that is collected by a group of rich countries to aid weaker and poorer countries to reduce emissions and build climate resilience. According to the United Nations, it includes both money and technical help given by rich countries to poor ones. It includes a range of instruments like grants, concessional loans, and equity, but each with different legal, financial and ethical implications.[1]

[1] United Nations Framework Convention on Climate Change 1994)

Why Should Rich Countries Help More? The concept of climate finance is deeply rooted in a globally accepted and appreciated principle called 'Common but Differentiated Responsibilities and Respective Capabilities'. It simply reflects that while no country is free from the responsibility of climate change and carbon emissions, it is the richer and more developed nations that need to bear a greater burden due to their higher use and abuse of resources and increased production of carbon emissions. This idea has been widely endorsed by UNFCCC and reaffirmed in the Paris Agreement.[2] Framing climate finance as a matter of reparation rather than charity emphasises its ethical and distributive justice foundations.[3]

How are the Funds Distributed? The funds clubbed together as 'climate finance' flow from the rich countries to the poorer ones through various mediums. The distribution of finances takes place through different public and private channels that may include various governmental climate funds, investments and contracts. The transfer is made through multilateral institutions, bilateral aid and banks via grants, loans and equity. Accessing these funds involves complex procedures to ensure equity, transparency and effective and fair distribution.

WHAT IS GREENING TRADE AND WHY DOES IT MATTER?

What does Greening Trade Mean? The idea of 'greening trade' has gained significant traction among policymakers, scholars, and multilateral institutions. As defined by the Organisation for Economic Co-operation and Development (OECD), greening trade entails expanding trade in environmentally friendly products and services, reforming subsidies that harm the environment, and aligning trade policies with climate goals. It also includes supporting the achievement of the Sustainable Development Goals (SDGs), particularly SDG Twelve (responsible consumption and production) and SDG Thirteen (climate action).[4]

Trade's Environmental Impacts: A Background: Many resources and agricultural commodities have been fuelling massive deforestation, land degradation and ecosystem loss. Examples include soy, palm oil, beef, coffee, cocoa and timber. According to the research

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[2] Paris Agreement to the United Nations Framework Convention on Climate Change 2016, art 2

[3] Sophie Marjanac and Lindene Patton, 'Extreme weather event attribution science and climate change litigation: an essential step in the causal chain?' (2018) 36(3) Journal of Energy & Natural Resources Law 221, 226 <https://ui.adsabs.harvard.edu/abs/2018JENRL..36..265M/abstract> accessed 15 June 2026

[4] *OECD WORK ON TRADE AND THE ENVIRONMENT: A RETROSPECTIVE, 2008–2020* (OECD Publishing 2020)

published in One Earth, exports of these commodities are responsible for destroying hundreds of thousands of hectares (ha) of tropical forests every year, while also contributing to Thirty % of species being threatened globally through international trade.[5] The impacts of international trade primarily affect ecosystems in developing countries as a result of meeting the consumption demands of high-income economies. Furthermore, the impact of global trade on greenhouse gas emissions is substantial when considering the logistics and supply chain associated with global trade. Subsequently, global trade facilitates illegal resource extraction in weak governance situations. In addition, the effects of climate change are compounded by climate change through an increase in temperature, which is projected to disproportionately impact agricultural exports from low-income countries and impact their vulnerability, as well as the role of trade in climate adaptation and food security.

How is Greening Trade Implemented? Greening trade is accomplished through the use of different tools, which include environmental standards, eco-labels, carbon pricing systems and trading in environmental goods and services, all governed by the World Trade Organisation. Increasingly, regional trade agreements contain environmental clauses and domestic policy links entitlements to market access with the sustainability of your company's operations. However, the differences in capability, fragmented regulatory frameworks, and limited access to financing functionality all impede developing countries from fully participating in and benefiting from green trade. Consequently, there is a clear need for an interconnected and cohesive governance structure that works in concert with climate finance mechanisms.

PRINCIPAL FINDINGS

Climate Obligations are Procedurally Binding but Substantively Voluntary: The study highlights a significant gap in how enforceable international trade agreements are compared to climate agreements. While countries are required to revise and submit their Nationally Determined Contributions (NDCs) under the Paris Agreement, the targets for reducing emissions aren't legally binding.[6] Article 4(2) uses mandatory language ("shall") to ensure procedural compliance, but it does not impose legal consequences for non-achievement of

[5] Thomas Kastner, 'Ecological impacts of global agricultural trade' (*International Journal for Rural Development*, 22 November 2021) <https://www.rural21.com/english/from-our-partners/detail/article/ecological-impacts-of-global-agricultural-trade.html> accessed 15 June 2026

[6] Paris Agreement to the United Nations Framework Convention on Climate Change 2016, art 4

the NDC goals. Similarly, the UNFCCC employs aspirational language in Article 4(2)(a), calling on parties to adopt policies 'with the aim' of stabilising greenhouse gas concentrations, indicating the soft-law nature of climate obligations.[7] The WTO legal framework, on the other hand, is based on a strong enforcement mechanism. The Dispute Settlement Understanding (DSU), especially Articles 3.2 and 22, enhances the legitimacy and effectiveness of trade law by allowing member states to take legal action and respond against those who breach WTO obligations, indicating hard law.[8] This situation underscores the stark contrast between the weak climate commitments and the stronger trade commitments, which might discourage bold environmental efforts due to fears of facing legal challenges under trade law.

Numerous international environmental instruments, such as multilateral treaties and declarations, function through soft law mechanisms and lack legally binding commitments and punitive measures. Soft law in international environmental governance, as defined by Daniel Bodansky, refers to policies and tools that, although significant, do not establish legally enforceable duties.[9] Examples of these include political commitments, action plans, and declarations that serve as guidelines for behaviour but lack formal enforceability. This soft law nature is best illustrated by the UNFCCC and its follow-up agreements, especially the Paris Agreement. Although states are required by Article 4(2) of the Paris Agreement to 'prepare, communicate, and maintain' Nationally Determined Contributions (NDCs), the substance, scope, and execution of these NDCs are completely up to the states and are not legally binding.[10] Likewise, the UNFCCC's Article 4(2)(a) requires parties to adopt and carry out policies 'with the aim' of stabilising greenhouse gas concentrations, language that reflects aspirational rather than binding intent.[11]

The legal system of the World Trade Organisation (WTO), on the other hand, is based on hard law and includes legally binding agreements, mandatory dispute resolution, and enforceable decisions. Under Articles 3.2 and 22, the Dispute Settlement Understanding (DSU) permits member states to take formal action for non-compliance and, if required, to

[7] United Nations Framework Convention on Climate Change 2016, art 4
[8] Understanding on Rules and Procedures Governing the Settlement of Disputes 1995, arts 3.2 and 22
[9] Daniel Bodansky, *THE ART AND CRAFT OF INTERNATIONAL ENVIRONMENTAL LAW* (Harvard University Press 2010) 100–102
[10] Paris Agreement to the United Nations Framework Convention on Climate Change 2016, art 4(2)
[11] United Nations Framework Convention on Climate Change 2016, art 4(2)(a)

impose retaliatory trade measures. Trade obligations are given precedence over environmental ones in legal and policy hierarchies due to this institutional strength, which encourages adherence to trade norms while leaving climate goals open to disregard. The WTO's Committee on Trade and Environment functions primarily as a deliberative forum for dialogue on trade–environment linkages and does not possess rule-making or legally binding decision-making authority.[12]

The real-world consequences of this imbalance can be seen in the significant US case known as the Import Prohibition of Certain Shrimp and Shrimp Products (US-Shrimp).[13] In this case, the United States put in place an environmental regulation under the U.S. Endangered Species Act, which banned the import of shrimp from countries that didn't use turtle-excluder devices (TEDs) to protect endangered sea turtles. Ultimately, this measure was struck down because it was applied in a way that was seen as unilateral and discriminatory, violating the chapeau of Article XX. However, the WTO Appellate Body acknowledged that the environmental goal was valid and aligned with GATT Article XX(g).[14] This ruling highlighted that even the best-intentioned environmental policies need to follow the rules of trade law, and any arbitrary or unreasonable discrimination could lead to violations of WTO regulations. This case brings to light several key points: First, simply having environmental legitimacy isn't enough if there's no adherence to WTO regulations and legal procedures. Second, environmental policymakers must ensure their policies are fair and specifically designed for the context. Third, if these policies aren't carefully integrated into existing trade frameworks, the softer, normative influence of conservation and climate initiatives could end up being overshadowed by the stricter enforcement mechanisms of trade law.

The current situation creates a regulatory imbalance that discourages proactive climate action and leaves states in a fog of legal uncertainty as they try to juggle trade and environmental objectives. This issue arises from the clash between strict trade laws and the more flexible climate governance frameworks. As long as environmental agreements lack the

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[12] RyuGyung Park and Jaemin Lee, 'Greening WTO: A Lost Cause or Potential Solution?' (2025) 59 Journal of World Trade 603 <https://kluwerlawonline.com/journalarticle/Journal+of+World+Trade/59.4/TRAD2025036> accessed 15 June 2026

[13] 'DS58: United States — Import Prohibition of Certain Shrimp and Shrimp Products' (*World Trade Organization*) <https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds58_e.htm> accessed 15 June 2026

[14] General Agreement on Tariffs and Trade 1994, art XX(g)

kind of enforceable mechanisms that are standard in trade law, international legal systems will keep hindering, rather than helping, effective and coordinated climate governance.

The North–South Divide Undermines Climate Equity and Effectiveness: The ongoing North–South divide stemming from unequal capacities, historical responsibilities, and unfulfilled promises continues to hinder fairness and collaboration in international climate law. Although the UNFCCC acknowledges Common but Differentiated Responsibilities (CBDR), the weakening of this principle in subsequent agreements has fueled distrust, particularly as developed nations have not met their commitment to provide USD 100 billion annually in climate finance by 2020.[15] This financial shortfall, along with the shifting burdens created by policies like CBAMs, only serves to reinforce structural inequalities and diminish the effectiveness of international legal frameworks.

One of the key ideas in international climate governance is the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC), which is laid out in Article 3(1) of the United Nations Framework Convention on Climate Change (UNFCCC).[16] This principle recognises that while every country has a role to play in tackling climate change, the responsibilities they carry should take into account their historical emissions, levels of development, and individual capabilities. This framework has created a legal and ethical basis that many developing nations relied on to join global climate initiatives, with the understanding that their obligations would be fair and supported by mechanisms like climate finance and technology transfer.

However, over time, the operationalisation of CBDR-RC has weakened, particularly in the Paris Agreement (2015), where formal differentiation between developed and developing countries was largely abandoned in favour of universal procedural commitments. Article 4 of the Paris Agreement requires all parties to submit Nationally Determined Contributions (NDCs), but it leaves the content and ambition of these commitments entirely to self-determination, without binding legal obligations for historical emitters to bear greater burdens or provide assistance.[17] While the preamble of the Paris Agreement recalls the CBDR

[15] 'Climate Finance and the USD 100 Billion goal' (*Organisation for Economic Co-operation and Development*) <https://www.oecd.org/en/topics/climate-finance-and-the-usd-100-billion-goal.html> accessed 15 June 2026

[16] United Nations Framework Convention on Climate Change 2016, art 3(1)

[17] Paris Agreement to the United Nations Framework Convention on Climate Change 2016, arts 2 and 4

principle, it lacks clear implementation in enforceable provisions. As a result, developing nations have expressed concern that the burden of climate mitigation is increasingly being shifted downward, despite wide disparities in economic and technical capacity.

The erosion of CBDR-RC has really widened the trust gap between the North and South, especially considering the unmet financial promises from the Global North. A prime example: the commitment by developed countries to mobilise USD Hundred billion annually in climate finance was not met by the 2020 deadline and was achieved only belatedly, with a significant portion of the reported finance being provided in the form of loans rather than grants, thereby increasing the financial burden on developing countries. According to the OECD, only USD eighty-nine point six billion was reported in 2021, and much of that was in loans instead of grants, which only adds to the burden on the very countries it was supposed to help.[18] At the same time, developed nations have been pushing forward with their own domestic and international policies like Carbon Border Adjustment Mechanisms (CBAMs), which, while presented as steps toward climate action, are often seen by the Global South as economically exclusive and unfair in their processes.[19]

Scholars like Roberts and Parks point out that this structural imbalance goes beyond just politics; it's a deep-rooted form of climate injustice. Developed nations continue to hold onto their institutional and economic power while pushing back against any real efforts to redistribute resources.[20] Essentially, the lack of a solid, enforceable legal standard for Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC) weakens the credibility and effectiveness of the climate framework. Without a fair way to share the burdens, the global community finds it tough to foster the cooperation and compliance needed for united climate action. So, while international legal agreements might seem inclusive in theory, they often fall short in reality because of the inadequate focus on equity and justice.

Structural Tensions and Systemic Misalignment Between Climate Finance and Green Trade Standards: The most acute structural tension between climate finance and emerging

[18] *Climate Finance Provided and Mobilised by Developed Countries in 2013-2021* (OECD Publishing 2023)
[19] Farhana Sultana, 'The unbearable heaviness of climate coloniality' (2022) 102 Political Geography 102638 <https://doi.org/10.1016/j.polgeo.2022.102638> accessed 12 December 2025
[20] J Timmons Roberts and Bradley C Parks, *A Climate of Injustice: Global Inequality, North–South Politics, and Climate Policy* (MIT Press 2007) 9–13

green trade standards lies in the asymmetry between immediate compliance obligations and delayed financial support. Green trade measures such as carbon border adjustments, product-level sustainability benchmarks, and mandatory emissions disclosures impose ex ante, verifiable, and market-enforced costs on exporters from developing countries. These include investment in emissions monitoring and verification systems, technology retrofitting, third-party certification, and administrative compliance with complex reporting frameworks. Climate finance, by contrast, is largely ex post, project-based, discretionary, and procedurally slow. Empirical evaluations of the Green Climate Fund indicate that the average time between project approval and first disbursement ranges from two to three years, even for accredited national entities.[21] During this period, exporters are already exposed to loss of market access or price penalties under green trade regimes. This sequencing mismatch creates a situation where compliance is legally and economically required before the enabling finance materialises, if at all. Rather than incentivising transition, this architecture structurally penalises capacity-constrained economies and converts climate ambition into a barrier to trade participation. The absence of any legal obligation linking the imposition of trade-based climate measures with prior or parallel financial assistance underscores a deeper governance failure, where enforcement precedes cooperation.

A second layer of misalignment emerges from the transformation of climate objectives into de facto trade conditionality, without the equity safeguards traditionally embedded in climate finance discourse. While climate finance is normatively framed around the principle of Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC), green trade standards operate through formally neutral criteria such as carbon intensity thresholds and lifecycle assessments that are calibrated to production realities of developed economies. Impact assessments conducted by the European Commission acknowledge that default emissions values applied under the Carbon Border Adjustment Mechanism systematically overestimate actual emissions of non-EU producers by significant margins, disproportionately affecting firms in data-poor jurisdictions.[22] In practice, this means that where developing-country exporters lack the technical or financial capacity to generate

[21] *Independent Evaluation of the GCF's Readiness and Preparatory Support Programme (RPSP2023)* (Green Climate Fund Independent Evaluation Unit 2023)

[22] Impact Assessment Accompanying the Proposal for a Regulation Establishing a Carbon Border Adjustment Mechanism (2021) European Commission Staff Working Doc SWD (2021) 643 final

verified emissions data, they are subjected to punitive assumptions that erode competitiveness. Climate finance does not currently function as a corrective to this asymmetry. There is no binding requirement under the Paris Agreement, WTO law, or CBAM regulations that increased compliance burdens be matched by targeted finance or technology transfer, despite Articles 10 and 11 of the Paris Agreement emphasising cooperation and support. The result is a shift from climate conditionality, which at least aspires to equity, to trade conditionality that embeds structural inequality while remaining legally insulated from climate justice claims.

The misalignment is further entrenched by the sectoral and functional disconnect between climate finance architecture and trade-facing compliance needs. Climate finance flows are overwhelmingly directed towards energy generation, adaptation infrastructure, and resilience projects, while sectors most exposed to green trade measures receive a marginal share of funding. UNCTAD estimates that less than seven per cent of climate finance to developing countries targets manufacturing or export-oriented sectors, despite these sectors being central to global value chains and most vulnerable to carbon-based trade restrictions.[23] Moreover, climate finance instruments are designed around discrete projects rather than systemic capacity-building for trade compliance, such as emissions accounting infrastructure, customs-integrated certification systems, or firm-level decarbonisation across supply chains. This fragmentation means that even where finance exists, it does not translate into trade-relevant readiness. At the same time, green trade standards reallocate regulatory risk downward within global value chains. OECD analysis shows that in carbon-intensive sectors, over Seventy % of compliance costs associated with border carbon measures are borne by non-OECD producers, while importing states and lead firms retain pricing power. Climate finance does not currently operate as a risk-sharing mechanism to counterbalance this transfer, thereby converting cooperative climate governance into unilateral cost externalisation.

At a systemic level, these tensions reflect a deeper legal and institutional inversion in global climate governance. Climate finance is embedded within a soft-law framework characterised by political discretion, collective goals, and weak enforceability, whereas green trade standards are embedded within hard-law trade regimes with binding obligations, customs

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[23] *Trade and Development Report 2023: Global Trends and Prospects* (UNCTAD 2023) ch 4

enforcement, and dispute settlement. There is no formal legal interface that conditions the use of trade-restrictive climate measures on the fulfilment of financial cooperation obligations. As a result, trade law increasingly functions as the primary enforcement mechanism of climate objectives, while climate law remains largely aspirational. This inversion produces what scholars have described as coercive decarbonisation without cooperation, undermining both legitimacy and effectiveness.[24] Without restructuring climate finance to operate as a precondition and companion to green trade compliance, the current trajectory risks entrenching exclusion rather than enabling transition. The structural misalignment is therefore not merely technical but normative, revealing how the strongest legal regime is being used to advance the goals of the weakest, without importing its equity principles. Unless this imbalance is corrected, green trade will continue to discipline climate non-compliance while climate finance fails to deliver the capacity necessary for meaningful participation in a low-carbon global economy.

EFFECTIVENESS OF INDIA'S TRANSLATION OF INTERNATIONAL CLIMATE FINANCE COMMITMENTS INTO DOMESTIC LAW AND POLICY

India's international climate finance commitments under the UNFCCC and the Paris Agreement have been ambitious in rhetoric and diplomatic positioning, but their transformation into effective domestic law and policy reveals material gaps and inconsistencies with trade and industrial priorities. Scholarly analyses underscore India's dual role: vigorously advocating for climate finance equity on the global stage while simultaneously struggling to embed predictable and institutionalised climate finance mechanisms within its domestic legal and fiscal architecture. As Navroz K. Dubash and co-authors observe, India's policy evolution has increasingly sought to integrate climate considerations into broader developmental planning, but the absence of a coherent statutory climate finance regime limits enforceability and alignment with international obligations.[25]

At the institutional level, India has initiated structural responses to access and coordinate climate finance, such as the Climate Change Finance Unit within the Ministry of Finance and operational participation in multilateral mechanisms like the Green Climate Fund (GCF).[26]

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[24] Daniel Bodansky et al., *International Climate Change Law* (OUP 2017)
[25] Navroz K Dubash (ed), *India in a Warming World: Integrating Climate Change and Development* (OUP 2019)
[26] Vyoma Jha, *The Coordination of Climate Finance in India* (Overseas Development Institute 2014)

These are complemented by domestic innovations like sovereign green bonds and partnerships with global financial institutions, for instance, the hundred million Euro green finance agreement between the State Bank of India and Agence Française de Développement designed to bolster capital for mitigation and adaptation projects.[27] However, while these mechanisms signal institutional intent, they are piecemeal rather than systematic. As ODI notes, the climate finance landscape within India remains fragmented across federal, state, and private actors, lacking overarching coordination that interfaces international climate commitments with domestic fiscal priorities. This disjointed framework weakens the predictability and scale of financial mobilisation necessary to meet Paris-aligned targets, especially in sectors that are both climate-sensitive and trade-exposed.

Empirical assessments illuminate the scale mismatch between India's climate finance mobilised domestically and the resources its international commitments imply. A peer-reviewed analysis quantifies India's climate finance requirement for key sectors such as steel, cement, power, and transport at USD Four Hundred Sixty Seven billion for 2022–2030 alone, equivalent to roughly 1.3% of GDP annually, highlighting the enormity of financing needs beyond current fiscal measures.[28] This gap has policy implications: India's industrial and energy strategies continue to balance growth imperatives with climate objectives, often privileging energy security and manufacturing expansion (including continued reliance on coal) rather than transformative decarbonisation that would align with both climate finance commitments and emerging carbon-sensitive trade standards.[29] Reuters analysis highlights that over two-thirds of India's exports are exposed to tightening net-zero regulatory regimes, which poses a realignment challenge for domestic industrial policy if climate finance is not sufficiently scaled and targeted to support low-carbon competitiveness.[30]

The legal architecture for climate finance domestically is also underdeveloped. Unlike in some jurisdictions where climate finance obligations are codified with accountability

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[27] 'SBI, AFD ink €100m green finance pact at GIFT City' *The Times of India* (31 August 2025) <https://timesofindia.indiatimes.com/city/ahmedabad/sbi-afd-ink-100m-green-finance-pact-at-gift-city/articleshow/123607417.cms> accessed 14 December 2025

[28] *Climate Finance Provided and Mobilised by Developed Countries in 2013-2022* (OECD Publishing 2024)

[29] Subrata K Mitra, et al, 'Climate change and India: balancing domestic and international interests' (2022) 3(2) The Journal of Indian and Asian Studies <https://doras.dcu.ie/27942/1/s2717541322400022.pdf> accessed 14 December 2025

[30] Ashwin Manikandan, 'India's export engine faces carbon headwinds as net-zero rules tighten, study says' (*Reuters*, 24 July 2025) <https://www.reuters.com/sustainability/cop/indias-export-engine-faces-carbon-headwinds-net-zero-rules-tighten-study-says-2025-07-24/> accessed 14 December 2025

mechanisms, India's approach relies on executive policy instruments, budgetary allocations, and incentives rather than binding legislative mandates. This limits enforceability and alignment with international law principles such as equity and support for developing countries articulated in Article 9 of the Paris Agreement. The literature on climate finance governance further identifies India's domestic climate finance strategies. While conceptually consistent with international norms, it lacks the institutional harmonisation necessary to interface effectively with international finance flows and to integrate climate-related objectives into national trade and industrial frameworks.[31] In this respect, India's current legal and policy posture reflects a pragmatic balancing of development priorities and international expectations rather than a fully integrated climate-trade-finance regime.

In sum, the evidence indicates that India has made incremental progress in domestic policy that gestures toward its international climate finance commitments, but this progress remains fragmented, under-institutionalised, and only partially aligned with the imperatives of trade competitiveness and industrial transformation. For India to fulfil its climate finance obligations under international law in a manner that meaningfully supports its industrial and export-oriented sectors, there is a compelling need for comprehensive legal codification, enhanced institutional coordination, and strategic fiscal frameworks that treat climate finance not as an ancillary policy objective but as an integral component of economic and trade policy. This would help bridge the current gap between international commitments and domestic implementation in a way that is demonstrable, legally grounded, and sustainable.

RECOMMENDATIONS AND REFORMS

Bridging the Procedural-Substantive Gap Through Trade-Linked Climate Accountability: A practical solution to bridge the procedural-substantive divide in climate obligations is not to impose absolute commands on emission targets but rather to strengthen their legal status through trade-related accountability methods (similar to an amalgam of a procedural approach and a regulatory model). By virtue of sector-specific and trade-based treaties, international law can progressively attach clearer consequences to states that continue to disregard international obligations. The Fisheries Subsidies Agreement of the World Trade

[31] Roy Kouwenberg and Chenglong Zheng, 'A Review of the Global Climate Finance Literature' (2023) 15(2) Sustainability 1255 <https://doi.org/10.3390/su15021255> accessed 14 December 2025

Organisation (WTO)[32] shows that, with clear and limited definitions of harm to the environment, states are prepared to accept legally binding control over trade. A very similar strategy could be implemented for climate initiatives by making specific carbon-intensive actions (or subsidised harmful environmental practices) enforceable through trade law while allowing for 'sufficient flexibility' regarding total emissions per the Paris Agreement. The absence of anti-climate change mandates would mean that climate ambitions would be able to develop without the political backlash associated with excessive rigidity. Further, by harmonising the objectives of climate with legally enforceable trade actions, the hybrid model would transform itself from purely procedural instruments into a means of generating substantial changes in behaviour, while allowing for continued participation, flexibility, and consideration of the specific conditions of individual nations.

Restoring Climate Equity Through Enforceable Finance and Fair Trade Design: The ICJ's Advisory Opinion 2025 elevates climate finance from a political commitment to a legally grounded obligation of cooperation, particularly incumbent upon developed states under the principle of Common But Differentiated Responsibilities and Respective Capabilities.[33] This principle must be concretised through clearly defined financial and technological obligations for developed countries, particularly by converting collective climate finance pledges into time-bound, predictable, and predominantly grant-based commitments subject to transparency and review. Climate finance governance should prioritise accessibility for developing countries by simplifying approval procedures and reducing reliance on debt-creating instruments. Simultaneously, trade-based climate measures such as Carbon Border Adjustment Mechanisms must be accompanied by development-sensitive design, including phased implementation, exemptions for least developed countries, and dedicated compensatory climate finance to offset adverse impacts. Finally, decision-making under the UNFCCC and Paris Agreement should be recalibrated to ensure meaningful participation of developing countries, especially in standard-setting bodies governing finance and markets. Without embedding equity into enforcement, climate cooperation will remain fragile and uneven.

[32] 'Fisheries subsidies' (*World Trade Organization*) <https://www.wto.org/english/tratop_e/rulesneg_e/fish_e/fish_e.htm> accessed 19 December 2025
[33] 'Obligations of States in respect of Climate Change' (Advisory Opinion, International Court of Justice, General List No 187, 23 July 2025) <https://icj-web.leman.un-icc.cloud/sites/default/files/case-related/187/187-20250723-adv-01-00-en.pdf> accessed 21 December 2025

Aligning Climate Finance with Green Trade Compliance: To address the structural tensions between climate finance and emerging green trade standards, a reorientation of both financing architecture and policy design is essential. Climate finance must be front-loaded, predictable, and directly tied to trade-facing compliance obligations so that exporters in developing countries can meet ex ante standards without undue financial risk. This requires the creation of dedicated, legally mandated mechanisms linking disbursement to green trade obligations, including concessional loans, grants, and risk-sharing instruments that cover investments in emissions monitoring, certification, and technology retrofitting. Institutional coordination should ensure that sectorally exposed exporters receive a proportionate share of climate finance, complemented by systemic capacity-building such as supply-chain decarbonisation programs, customs-integrated reporting systems, and verified emissions accounting infrastructure.

At the international level, trade and climate governance frameworks should be harmonised to embed equity principles, operationalising CBDR-RC by adjusting compliance thresholds, validating country-specific emissions factors, and conditioning the imposition of trade measures on prior or parallel financial and technical support. Strengthening ex ante financing, risk mitigation, and sectoral targeting would reduce the asymmetry between obligations and support, transforming climate finance from a reactive, project-based tool into a proactive enabler of compliant, low-carbon trade. Without such alignment, green trade risks perpetuating structural inequities while climate finance remains largely aspirational.

Integrating climate finance with trade and industrial policy: To strengthen the effectiveness of India's translation of international climate finance commitments into domestic law and policy, and to ensure alignment with trade and industrial strategy, a systemic integration approach is required. India should adopt comprehensive climate finance legislation that operationalises its commitments under the UNFCCC and the Paris Agreement by embedding climate finance objectives within fiscal law, industrial planning, and trade policy frameworks. Such legislation should mandate predictable public climate finance flows, prioritise grant-based and concessional instruments for vulnerable sectors, and establish clear accountability and review mechanisms.[34] Further, India's industrial policies, including

[34] Michael Mehling et al., 'Linking climate policies to advance global mitigation : Joining jurisdictions can increase efficiency of mitigation' (2018) 359(6379) Science

production-linked incentives and energy transition strategies, should be recalibrated to explicitly support low-carbon industrial transformation in export-oriented sectors exposed to green trade measures, thereby enhancing competitiveness while meeting climate objectives. Trade policy must also be aligned by integrating climate considerations into export promotion schemes and by preparing domestic industries for compliance with emerging standards such as carbon border measures through targeted financial and technical support. Finally, institutional coordination between climate finance authorities, trade ministries, and state governments should be strengthened to ensure coherence between international commitments and domestic implementation. Without legally binding integration across finance, trade, and industrial policy, India's climate finance commitments risk remaining aspirational rather than operationally effective.

CONCLUSION

This article discusses climate finance and the greening of trade as important but unevenly implemented mechanisms in today's climate governance. While international climate law has made progress in defining common goals and the duty to cooperate, as highlighted by the ICJ's 2025 Advisory Opinion, it still faces structural issues. These include weak enforcement, fragmented institutions, and ongoing equity problems. The analysis shows that climate obligations are binding in process but voluntary in practice. This stands in stark contrast to the strict enforcement found in international trade. This imbalance not only discourages strong climate action but also allows trade systems to regulate climate measures without adding necessary equity protections.

The study further finds that the erosion of Common but Differentiated Responsibilities and Respective Capabilities has led to widening North-South divides concerning unfulfilled climate finance commitments, distributional impacts and misalignments between climate finance and green trade measures (like carbon border taxes, etc.). The first being immediate and enforceable, the latter merely delaying and discretionary, and under-targeted financial relief. The Indian case study shows how such international structural contradictions play out domestically. They manifest themselves as fragmented policy responses and an

<https://strathprints.strath.ac.uk/64055/1/Mehling_etal_Science_2018_Linking_climate_policies_to_advance_global_mitigation.pdf> accessed 21 December 2025

underwhelming integration of climate finance, trade, and industrial policy measures into a coherent industrial development strategy.

Addressing the above and associated challenges will require a recalibration of global climate governance to ensure accountable and equitable governance architectures that go beyond pledges, such as the incorporation of climate into trade-accountability mechanisms, the international law obligations concerning climate finance, and the integration of climate finance into macroeconomic, trade and industrial policy. In the absence of these reforms, climate finance and green trade can potentially deepen exclusion and weaken the effectiveness and equity of the international climate regime.