

China's Cooperation with Southeast Asia to Support an Ambitious Clean Energy Transition by 2030

Second Convening: Facilitating Large-Scale Investment in Clean Energy for Long-Term Sustainable Development

Meeting Summary

Welcoming remarks

Welcoming remarks acknowledged the emphasis on the need to secure much greater investment in clean energy in Southeast Asia and to ensure that this investment serves as a catalyst for long-term sustainable development.

Three key questions need to be addressed to fulfill this need: how to mitigate risks in clean energy projects, how to diversify the sources of funding for these projects, and how to turn clean energy investments into catalysts for sustainable development.

A related question is how to coordinate Chinese-funded projects with international or regional initiatives, including the Just Energy Transition Partnership (JET-P).

China's announcement that it will stop overseas financing of coal-fired power plants was highlighted, as well as the importance of Chinese investment to focus on clean energy in Southeast Asia. This importance arises from the need to meet the region's rising energy demand, driven by population growth and economic development.

Technology development has provided more choices, particularly around non-fossil fuels, such as renewable energy including solar and wind power.

Challenges still exist, including energy storage and grid development. Another challenge is ensuring that the systematic cost of non-fossil fuel generation becomes much less expensive than that for fossil fuels such as coal.

Collaboration among different initiatives, including the Belt and Road Initiative (BRI) and JET-P, is crucial to address these challenges and achieve the common goal of a safe climate and sustainable prosperity.

Keynote session

This briefing paper focuses on Southeast Asia–China cooperation for clean energy investment and sustainable development.

Three key areas for support were identified: mitigating risk for renewable energy projects, diversifying funding sources, and maximizing the developmental impact of clean energy investment.

Key issues in risk mitigation include grid-planning challenges, complex project preparation and approval processes, and oversupply of coal power in Indonesia.

Diversifying funding sources faces challenges with Chinese investors' understanding of the business environment in Southeast Asia and the lack of financial instruments connecting them to renewable investment opportunities.

Turning clean energy investment into a catalyst for sustainable development requires addressing issues with local content requirements and creating a supportive business environment for the clean energy industry.

Recommendations for China's collaboration with Southeast Asian countries include more targeted capacity building for grid planning and the adoption of a collaborative approach for scaling up public-private partnerships in project finance.

Further recommendations involve collaborating with local financial institutions to scale up capital market solutions, developing regular updates on clean energy investment opportunities, and coordinating with host countries and regional initiatives to phase down coal-fired power plants.

Promoting clean technology supply chain expansion and integration in Southeast Asia can be achieved through high-level policy dialogues and the sharing of China's experience with clean industrial development.

The big picture factors matter. Political commitment, state capacity, scientific and technical capability, and financial resources are critical enabling factors for the development of clean energy industries in Southeast Asia.

Expert and high-level committee sessions

The participants agreed on the importance of mobilizing large-scale investment in renewable energy projects and network infrastructure, especially from the private sector, through risk mitigation and investment diversification. They noted the following aspects that need to be considered in the efforts toward investment mobilization:

- **Customized support for specific local situations:** Public-private partnerships (PPPs) could play a crucial role in investment mobilization, but successful models from China must be adapted to suit the specific contexts of different Southeast Asian countries and to find win-win solutions for all parties involved.
- **The role of the Southeast Asian governments:** The governments of Southeast Asian countries play an important role in supporting large-scale investment in renewable energy projects across the region, particularly by implementing necessary market and regulatory reforms to create a conducive environment for private participation.

This is important to attract private investment from China, given the large and rapidly expanding markets for renewable energy projects in China and local investors' familiarity with these markets.

Key areas for reforms include more standardized power purchase agreements, clear and transparent processes for supply contract procurements, a more rationalized approach to electricity subsidies, the removal of fossil fuel subsidies, and grid smartization.

Overall, it is important to have a whole-of-government commitment, with a clear policy framework, underpinned by short-, medium-, and long-term targets, and to follow through on those targets. It is also important to ensure that implementation does not get hampered by other issues at ground level.

- **Better use of multilateral platforms:** These platforms include the PPP network at the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Energy Transition Partnership (ETP) of the UN Office for Project Services (UNOPS). It was mentioned that UN agencies have undertaken projects to develop smart grid roadmaps in the region.
- **Green taxonomy:** Chinese investors need to consider green taxonomy in Thailand and other Southeast Asian countries. Countries need to align their green taxonomies to establish a unified approach in classifying energy investment. The need to include coal power phasedown financing in the taxonomy as a form of transition investment should also be recognized. The question of how to leverage institutions such as the Asia Infrastructure Investment Bank (AIIB) was raised.
- **Carbon offset credits:** These credits can be a useful mechanism to provide a greater financial incentive for renewable energy projects through the carbon price signal.
- **Aggregating smaller energy projects into one larger project:** This is known as the Program of Activities (POA) under the United Nations Framework Convention on Climate Change. This aggregation could reduce investment and documentation costs. A successful initiative by Thailand's Export and Import Bank highlighted the potential for collaboration with China's Export and Import Bank.
- **Electricity market reforms:** Such reforms are important to create a level playing field for private investors in Southeast Asian countries and to attract private investment. The reforms should prioritize attracting investments through organizational arrangements such as energy

service companies (ESCs) and promoting consumer choice in clean energy adoption, including options such as rooftop solar PVs.

- **Coordinating clean energy investment with coal power phasedown:** Clean energy investment needs to be coordinated with coal power phasedown and power purchase agreement (PPA) renegotiations. Financing coal power phasedown is also an important issue.
- **Multipurpose use of renewable energy:** This would include industrial heating.
- **Case studies:** Case studies on actual project implementation would allow governments to see how they could benefit from good practice examples. Studies should use preexisting models rather than starting from scratch.

Beyond investment mobilization, the participants highlighted the need for a broader agenda to ensure a successful clean energy transition. Specifically, they emphasized the importance of the following:

- **Ensuring the security and affordability of electricity supply when decarbonizing:** This is especially important given the crucial role of electricity in supporting economic growth and social welfare improvement. The clean energy transition needs to progress in ways that will not undermine economic growth, energy security, and access to affordable electricity supply.
- **Energy efficiency:** Improving the efficiency of electricity production and consumption, for example, with new technologies is important. Chinese companies, with their expertise in energy efficiency and conservation, could invest in technology and business models across various sectors of the economy. Here, critical issues arise: Do Chinese companies have the appetite for such investments, and what are possible options for Chinese involvement?
- **Industry decarbonization:** Decarbonization can be achieved, for example, by using biomass and solar power in manufacturing processes.
- **A coherent transition roadmap:** Such a roadmap needs to be developed to guide the transition of the entire energy sector and to manage cross-cutting issues, such as energy security and affordability, energy efficiency, industrial development, and social welfare.
- **Transitioning for prosperity:** In addition to emissions reduction, the transition agenda should encompass sustainable development and socioeconomic prosperity.

The participants suggested several ideas for effectively leveraging the growth-generating opportunities provided by clean energy investment in Southeast Asia:

- **A Chinese initiative in the region:** This would combine the coal power phasedown with renewable energy development, renewable manufacturing capacity expansion, and supply chain integration.
- **Clear green industrialization strategies:** Crucial for the region's development.
- **More constructive dialogues:** These should occur between China and Southeast Asia to explore collaboration options on renewable energy and supply chain development.

To support the clean energy transition in Southeast Asia, the participants emphasized the need for China to cooperate with others in ASEAN countries (**China Plus X approach**). This approach involves the following elements, as noted by the participants:

- Coordinating with regional and international initiatives, such as the BRI and JET-P, as well as international development institutions and multilateral development banks (MDBs), toward the common goals of emissions reduction and sustainable development. Here, a key question is how to leverage the Asian Infrastructure Investment Bank.
- Collaborating with local governments and financial institutions to support renewable energy projects.
- United Nations agencies, such as UNESCAP and UNOPS, provide a useful platform for cooperation.
- Establishing platforms to facilitate the sharing of best practices and insights obtained from

successful models in different countries. Although it is difficult to copy-and- paste others' successes, learning and understanding one another's challenges and successes could provide valuable inputs for the transition. The Asia Investor Group on Climate Change (AIGCC) recently initiated a program with Oxford University on knowledge sharing.

- Seeking partnerships with community groups, local governments, and academic institutions for meaningful involvement and support.
- Creating a program similar to JET-P but owned by the Chinese to consolidate Chinese resources and expertise in supporting the clean energy transition across Southeast Asian countries. Areas of focus for this program include facilitating the phasedown of coal power in Indonesia owned by Chinese investors and increasing renewable energy.

As highlighted by several participants, it is important to have more dialogues between China and Southeast Asian countries to *align their interests* in the clean energy transition and to *prioritize actual project and program implementations* to showcase the benefits of the transition. Particular focus areas include capacity building and feasibility studies to support the implementation of long-term projects, especially in grid infrastructure and technologies including carbon capture, utilization, and storage (CCUS).

Several participants highlighted *the important role of CCUS* for decarbonizing coal-fired power plants, oil and gas industries, and oil refineries in Southeast Asia. The Asia Development Bank's (ADB's) ongoing work on CCUS and Tencent's recent initiative, XPRIZE, to support CCUS provide potential collaboration opportunities for China to consider in assisting ASEAN countries in this area. One area mentioned is technologies that can be used to identify sites suitable for carbon storage and their geographical potentials.

Several participants emphasized the need for *China to be more proactive* in its engagement with Southeast Asian countries when supporting their clean energy transitions, rather than merely responding to their requests. It was also suggested that China play a bigger role in advancing a prosperity agenda for the region and promoting shared leadership.