



29 November 2023

ASIA HOT TOPICS

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Asia's green transition is still trapped as growth remains a higher-order objective

The progress of global emission cut is put under the limelight again as the COP28 is around the corner where the first global stocktake (GST), a process to review where the world stands, identify gaps, and improve plans to accelerate climate action, will conclude.

Asian countries have been active on climate action as more than half of them (mostly EM) responded to the United Nations' (UN) request to update National Determined Contributions (NDCs) by COP27, while only 10% countries had done so in other regions. Meanwhile, Asia is also leading the world in the race to green energy transition thanks to the technology advance of China, which has important implication for Asia where energy sectors contribute 45% of total carbon emissions.

However, Asian countries are falling behind their NDCs. As summarized in **Chart 1**, nearly all countries face a wide gap between their actual emission cut over the past 7 years after signing the Paris Agreement and the required rate of annual reduction to meet their pledges by 2030, meaning they need drastic improvement to the status quo to catch up with their goals.

The reason behind this is multifaceted. First, the oil price shock in 2022 had certainly caught up many Asian countries as they have high dependence on oil import. The heavy fiscal burden of subsidizing fossil fuels, coupled with the much higher import bills, had somewhat paused, or even squeezed out, new investments to renewables and partly offset the gains in emission cut from previous years.

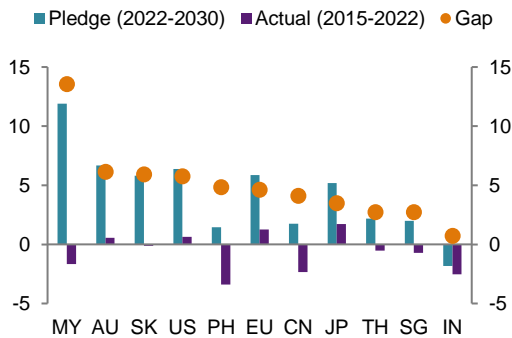
That said, the oil shock was not the only one to blame as the results remain the same if we look at 2015 to 2021, except for India albeit mostly due to its low target in the first place. Meanwhile, it's worth noting that Asia is not the only case as the EU and the US also face large gaps. As such, one should see that the NDCs are not being properly implemented, as short-term economic growth still outweighs the long-term benefits of emission cut in governments' consideration, at least from what we've seen.

Another reason comes from country level as some countries, especially China and Indonesia, are holding back from phasing out coal, the most pollutive fuel but key to their present energy mix. Coal constitutes 56% and 40% of their primary energy consumption, respectively, and they have claimed that aggressive transitioning from coal may threaten their energy security and economic welfare. In 2023, Indonesia exported more than 50% of the world's thermal coal, and half of that went to China. China has also accelerated the construction of new thermal power plants this year, which is seen as a move to secure the civilian power supply after the two large-scale power outages in 2021 and 2022.

However, the bigger problem is that the latest NDCs are insufficient to limit global temperature rise below 2.0C even if all countries meet their goals by 2030, as suggested in a [technical report](#) by the UN, which sees the emission gap to be about 50% (**Chart 2**).

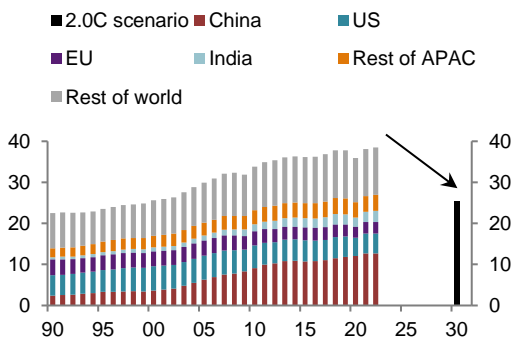
As such, at this year's COP28, the world will face a top agenda to work out a competent collective plan with enhanced NDCs that can really achieve the 2.0C target, and to do that, concessions must be made by all countries, especially those with obviously insufficient pledges and those still defending for coal use, such as China, India, and Indonesia. Meanwhile, we must see that the implementation of NDCs has been very poor. Therefore, the conference will also need to contemplate more market-driven mechanisms to ensure a proper and consistent execution of the new climate vision, or we will see no change but louder shouts.

Chart 1
Actual Emission Cut vs Pledge (% CAGR)



Source: UNFCCC, EDGAR, Natixis

Chart 2
Global Carbon Emissions (Gt)



Source: UNFCCC, EDGAR, Natixis

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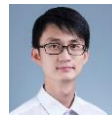
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