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### Sihanoukville

Steung Hav Coal Power Plant, Sihanoukville Province. Source: Dmitry Makeev, CC BY-SA 4.0, Wikimedia Commons.

# China's Overseas Energy Investments after the 'No Coal' Pledge: An Assessment

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*In September 2021, President Xi Jinping announced that China would no longer build new overseas coal power plants. Companies and banks have begun to adapt to the pledge and impacts have already been seen, with several projects halted or in jeopardy. However, this essay highlights several important grey areas and loopholes that need to be addressed in order to ensure that new coal plants do not move forward. The authors, in particular, argue that the next crucial step is the adoption of more detailed policy guidance, matched by concerted efforts by both China and host countries to prioritise the transition to renewable energy and avoid simply replacing coal with gas.*

**O**n 21 September 2021, Chinese President Xi Jinping announced to the United Nations General Assembly (UNGA) that 'China will step up support for other developing countries in developing green and low-carbon energy, and will not build new coal-fired power projects abroad' (Xi 2021). This pledge potentially has huge impacts, as in recent years China has become the most important—and, in many cases, the last—resort for public coal finance.

For the past decade, China has been by far the single largest source of public finance for cross-border investment in coal power plants, with loans channelled mostly via the China Development Bank and the Export-Import Bank of China (China Eximbank). Between 2013 and 2018, this accounted for 50 per cent of the world's cross-border public coal finance for projects that reached financial close during that period (Ma and Gallagher 2021). However, this left China in a difficult position, promoting green finance within the context of the 'Green Belt and Road', while state-backed finance simultaneously supported one of the highest carbon-emitting sectors.

Before President Xi's announcement, there were already signs that China was ready to begin a move away from overseas coal projects. According to a study by the International Institute of Green Finance (Nedopil Wang 2021), in 2019 and 2020, Chinese-backed coal plants worth US\$65 billion were cancelled, mothballed, or shelved. According to an assessment by the non-profit Centre for Research on Energy and Clean Air (CREA), between 2017 and 2021, 4.5 times as much capacity had been shelved or cancelled as began construction (Suarez 2021). No new coal plants in Belt and Road Initiative (BRI) countries were announced in 2020, and no coal plants or mines were financed

during the first six months of 2021 (Nedopil Wang 2021). This drastic reduction may also reflect a broader repositioning in China around global energy projects; in 2021, Boston University's Global Development Policy Center recorded no new loans for energy projects of any kind from China's top policy banks.

## Why Did China Make This Pledge?

As noted above, a shift was occurring as far back as 2017, and Global Development Policy Center data indicate that China's public finance for overseas coal peaked that year. With new project and financing approvals declining, signs began to emerge that a policy shift was on the horizon. In February 2021, a potential indicator of the direction of travel emerged when a letter was made public in which China told Bangladesh's Ministry of Finance that China would 'no longer consider projects with high pollution and high energy consumption, such as coal mining and coal-fired power stations' (Shepherd 2021). This came in the context of negotiations for a package of US\$3.6 billion in infrastructure loans that Bangladesh was seeking to repurpose. In April 2021, *Reuters* reported on a briefing attended by the Vice-Governor of China's central bank, the People's Bank of China, where he said: 'We will also push forward the green investment principles for Belt and Road projects, and strictly control the overseas investments in new coal-fired power plants' (Reuters 2021).

This shift reflects broader global trends, especially in the realm of public finance, where climate change commitments gradually whittled away the number of countries still willing to finance cross-border coal plants. Since 2013, public finance from China, Japan, and South Korea has accounted for more than 95 per cent of total foreign financing of coal-fired power plants (Liu et al. 2021). In 2021, South Korea (Reuters 2021) and Japan committed to ending the financing of overseas coal power plants (Arai 2021), incentivising China to catch up with the global trend. President Xi's statement came just a month before the UN Glasgow Climate Change Conference, where commitments to wind down and end public finance for coal power were front and centre in the discussions.

There is also a strong economic case for ceasing construction of new coal power plants. According to a study by Carbon Tracker (2020), the cost of new coal power plants is already higher than renewable energy plants in many BRI countries, including Pakistan, Bangladesh, Indonesia, the Philippines, Vietnam, Malaysia, and Turkey. Adding to the economic pressure, the Covid-19 pandemic has depressed energy demand across South and Southeast Asia, idling several plants, leading large coal consumers like Bangladesh, Indonesia, and Pakistan to reconsider further coal power development, and to explore how they can meet their needs with renewable energy (IEEFA 2020). Already in 2021, Bangladesh cancelled plans to build 10 coal-fired power plants (Karim

2021); Indonesia announced plans to stop building new coal-fired power plants after 2023 (Jong 2021); Pakistan's then prime minister Imran Khan (in office, August 2018 to April 2022) pledged that the government would not approve any more coal power plants (Chavez 2020); and Vietnam issued a draft energy development plan that proposed no new coal-fired power plants except those already under construction or planned for completion before 2025 (Adler 2021). China has traditionally framed its support for overseas coal as responsive to the market demands of its partners (Baxter 2021); thus, with that demand drying up, China's shift away from overseas coal has become increasingly inevitable.

Evidently, the pledge to end the building of new overseas coal plants is driven by a combination of political, economic, and practical considerations. The trends outlined above suggest China has more to gain from moving away from overseas coal than it has to lose. Coal power projects with Chinese involvement have for many years faced criticism and resistance from local communities, civil society groups, and environmentalists. In a handful of high-profile projects, this has led to delays or cancelations, as with the Lamu coal plant in Kenya (Kinney 2022). Combined with the decreasing cost of renewable energy, the slowdown in the growth of power demand, and the ongoing low-carbon energy transition of host countries, both the economic and the reputational risks of continuing to support overseas coal power projects increasingly outnumber the benefits.

## The Impacts of the Pledge So Far

The pledge to end building overseas coal plants sparked significant discussion but, given the lack of specificity in President Xi's UNGA speech, much of this focused on what it would mean in real terms. This promoted heated debate about what constitutes a 'new' coal power plant and how broadly 'not build' would be interpreted. For more than six months, there was no further elaboration of the pledge in policy documents. This changed in March 2022, when China's National Development and Reform Commission (NDRC) and National Energy Administration (NEA) released China's *14th Five-Year Plan on Modern Energy Systems*, which filled in some gaps (we will discuss this further below). In the meantime, some movement was observed at the project level and on the part of corporate and financial actors, as Chinese stakeholders repositioned to adapt to the coming policy shift.

One of the first actors to respond publicly was the Bank of China (BOC), a commercial bank majority owned by the Chinese state. BOC announced in the days following the UNGA speech that, from the fourth quarter of 2021, it would no longer provide financing for new overseas coalmining and coal power projects, 'except for the projects that have signed loan agreements' (BOC 2021). Later in 2021, Ping An Bank updated its coal policy, stating: '[F]ollowing President Xi's recent declaration at the UNGA, Ping An

Bank will follow this requirement regarding overseas projects going forward' (Ping An Group 2021). In March 2022, the chairwoman of China Eximbank confirmed the bank would no longer provide financing for new overseas coal power projects, making it the first policy bank to make such a commitment (China News Network 2022). Crucially, this was followed in April 2022 by China Export & Credit Insurance Corporation (Sinosure) confirming it would not underwrite overseas coal power plants (WRI 2022). This is an important development, as Sinosure is the major provider of insurance for both equity investments and contracting for overseas coal plants and securing Sinosure backing is often a prerequisite for obtaining finance from Chinese banks (Li 2019).

On the corporate side, there has been less visible movement, although the first actor to respond to the UNGA statement was Tsingshan Holding Group, a privately owned Chinese conglomerate and major steel industry player, which announced shortly after the pledge that it would not build any new coal power plants overseas (Tsingshan Industry 2021). Tsingshan has invested heavily in countries such as Indonesia and Zimbabwe, building energy-intensive industrial parks that rely on captive power plants—that is, plants that act as a supportive facility to provide power for the industrial park only and are not connected to the national grid (for an example, see the Indonesia Morowali Industrial Park discussed in Ginting and Moore 2021). This commitment potentially takes several proposed coal plants off the table, and Tsingshan will need to explore other options to power future expansions, although, as discussed below, this remains a grey area.

Impacts have also been observed at the project level. In January 2022, Hong Kong-registered Sunningwell International Limited confirmed that Chinese financing was no longer available for the 700-megawatt Ugljevik III power plant in Bosnia and Herzegovina. In June 2021, the company had signed an engineering, procurement, and construction (EPC) contract for the project with state-owned China National Electric Engineering Company (CNEEC). However, in January 2022, Sunningwell International stated in a letter: '[A]fter the decision of the Chinese top leaders to stop financing coal fired power plants abroad, CNEEC informed Sunningwell about this decision. Since then we are exploring other alternative sources of financing the project.' Just a few months before this, in response to a letter from a local civil society group, China's Ambassador to South Africa Chen Xiaodong (2021) confirmed that China 'will not build new coal-fired projects abroad', indicating it would no longer be funding a 1,320–3,300-megawatt coal power plant for the controversial proposed Musina-Makhado Special Economic Zone (MMSEZ) (for a profile of the MMSEZ, see Reboledo 2021). This was the first clear confirmation from a Chinese embassy illustrating the impacts of the UNGA pledge. In his letter, Ambassador Chen emphasised China's plans to prioritise developing low-carbon energy and, in March 2022, the chairman of MMSEZ said a Chinese company had shown interest in building a 1,000-megawatt solar plant in place of the coal power station (Cronje 2022).



As noted above, these movements occurred during a six-month period in which there was little official guidance on how the UNGA pledge would be implemented. This changed on 22 March 2022, when China released the above-mentioned *14th Five-Year Plan on Modern Energy Systems*, setting the tone for development of the energy sector from 2021 to 2025 (Carbon Brief Staff 2022). This was the first time President Xi's overseas coal pledge was written into domestic policy. The next week, the NDRC, Ministry of Foreign Affairs, Ministry of Ecology and Environment, and the Ministry of Commerce jointly issued 'Opinions on the Joint Implementation of Green Development in the Belt and Road Initiative', confirming that the building of new coal power plants overseas would cease and that plants 'under construction' should move forward 'prudently and cautiously' (稳慎) (NDRC et al. 2022).

### Turning Away from Coal

A street in Dali, Yunnan Province, with installed solar panels. Source: Asia Development Bank (CC), Flickr.com.

## What's Next for China's Overseas Energy Footprint?

Following the publication of these new policy documents, CREA (Suarez 2022) conducted an analysis of projects currently under construction or in the pipeline. It found that between September 2021 and April 2022, 15 coal plants that had received either financial backing or EPC support from Chinese firms had been cancelled (with total projected capacity of approximately 12.8 gigawatts). This was the result of either revised energy policies in host countries or withdrawal of support from Chinese firms. The March 2022 opinion from the NDRC has the potential to stop a further 32 plants (with capacity of 37 gigawatts) that are in the pre-construction phase. However, CREA identified a further 36 projects with capacity of 29 gigawatts that are under construction, and which could continue to move forward.

According to interviews conducted by the authors between February and April 2022 with observers of Chinese energy finance, the consensus was that if overseas coal projects had not reached financial close before the UNGA pledge, it would be extremely difficult to secure finance from Chinese policy banks or state-owned commercial banks. They expected the pledge to be carefully implemented by key stakeholders and that both financial support and equity investment—most of which is implemented by China's state-owned financial institutions and enterprises—would be directly affected by President Xi's pledge. Even without clearer guidance, state-owned banks may be inclined to implement the pledge to err on the side of caution. With that said, while the formalisation of the UNGA pledge in government policy is welcome, there are still areas that require clarity and potential loopholes that could allow Chinese finance to continue to flow to carbon-intensive energy projects.

While most observers believe that projects yet to reach financial close will struggle to secure financing, there is wiggle room. The NDRC guidance uses the language in the UNGA pledge that China will not pursue 'new' overseas coal power plants, but this leaves a grey area for projects that have not yet reached financial close but were already under discussion before the pledge. For example, in February 2022, it was reported that China and Pakistan had agreed to prioritise the 300-megawatt Gwadar coal power plant (Rana 2022). Although the project was included in the first phase of the China–Pakistan Economic Corridor (2015–18), it has faced numerous delays and missed deadlines for financial close in 2019 and 2021, after the Chinese insurer declined to provide guarantees for the loans. The fact this project looks set to move forward indicates that pipeline projects that are seen as politically important to China and host countries may continue, even if they have not yet reached financial close.

Another category of projects that remains uncertain is those for which EPC contracts have been signed but are yet to secure financial support. The absence of clear and detailed rules for banks and enterprises to implement the pledge potentially leaves the door open for EPC companies and equipment manufacturers to push forward with these projects. According to the China Chamber of Commerce for Import and Export of Machinery

and Electronic Products (CCCME 2022), in 2021 alone, Chinese companies signed 67 contracts for thermal power plants worth a total of US\$18.9 billion. The UNGA pledge seems to have dealt a killer blow to the Ugljevik III plant, as discussed above, but there is no clarity on whether other similar projects will suffer the same fate. The CREA analysis previously discussed (Suarez 2022) identified plants with a combined capacity of 11.2 gigawatts that have secured financing and the necessary permits but are yet to begin construction. These projects also exist in a grey area, being neither ‘new’ nor ‘under construction’.

Captive coal power plants located inside industrial parks are another category of project that observers are concerned may slip through the cracks. Since the pledge, some coal power projects with Chinese equity support have moved forward under the cover of industrial parks. For example, in February 2022, China Energy Engineering Corporation won the bid for a 4 x 380-megawatt thermal power plant on Obi Island, Indonesia (BRproject 2022). The project owner is PT Halmahera Jaya Feronikel, a joint venture between Chinese Lygend and Indonesia’s Harita Group. This exposes the loophole of captive coal power plants that are normally off-grid and serve as dedicated power sources for a specific industrial park. Observers of Chinese energy finance interviewed by the authors raised concern about this ambiguous area and fear that, without clear guidance, Chinese enterprises will keep building captive coal power plants, with limited information transparency. Several such projects are in the pipeline, with CREA identifying 8 gigawatts of capacity at proposed captive coal plants (Suarez 2022).

Beyond coal power investments, China’s shift could have implications for other fossil fuel industries. When compared with the preceding plan, the *14th Five-Year Plan on Modern Energy Systems* specifically proposes improving cooperation with overseas oil and gas producing regions and strengthening connections with key oil and gas producing and consuming countries. While this renewed emphasis on oil and gas will be in large part to boost China’s domestic energy security, there is also potential for Chinese energy companies to expand their footprint in overseas fossil fuel power projects, especially those utilising natural gas. As countries seek to implement their own climate commitments and move away from coal, a trend is emerging of shifting to gas, which is seen as a less carbon-intensive alternative and a potential ‘transition’ fuel. This is beginning to occur in Vietnam, where news emerged in March 2022 that fuel conversion is under consideration for Nam Dinh 1, Quang Tri 1, Vinh Tan 3, and Song Hau 2, which were originally envisioned as coal plants (Vietnam Energy 2022). In early 2022, it was also reported that Bank of China and the Industrial and Commercial Bank of China (ICBC) were likely to join other international banks to finance the development of the greenfield 1.4-gigawatt Hin Kong gas-fired power plant in Thailand (Yapp 2022). While ‘new’ coal power plants can no longer receive finance from Chinese banks, host-country governments may begin to explore ways of replacing pipeline projects with gas power plants.



## Redirecting Chinese Finance to Renewable Energy

Research by Fudan University's Green Finance & Development Center shows that although there was no new coal financing in 2021, China's overseas oil and gas investment tripled compared with 2020 (Nedopil Wang 2022). Simply stopping overseas coal investment will not by itself address the climate crisis. As host countries still have growing energy demands, they will need to fill the gaps, especially when their development plans include coal power plants that were originally backed by Chinese players. Although the coal industry is in decline, concerted effort is needed to promote the development of renewable energy; otherwise, other fossil fuels will simply fill the gap.

Even though China has rapidly developed its domestic renewable energy sector in the past few years and has become a global leader in the industry, renewable energy development in most Asian and African countries still proceeds at a relatively slow pace. According to the International Renewable Energy Agency (IRENA 2022), in 2021, Asia accounted for 60 per cent of new renewable energy capacity, with an increase of 154.7 gigawatts, 121 gigawatts of which was in China. Meanwhile, the whole African continent saw an increase of just 2.1 gigawatts. It is therefore important to ask why there has been so much less investment in renewable energy than in fossil fuels in countries that receive Chinese finance. Our interviews with observers identified several barriers to investment.

Compared with coal power projects, renewable energy often carries a larger investment risk as consumption is not always guaranteed due to the mismatch between supply and demand. Due to a lack of power storage technology, solar and wind power generated during periods of low demand cannot always be efficiently utilised. Without addressing the power storage gap, and in the absence of national policies to prioritise renewable energy consumption, the power generated from renewable energy is often wasted. As there are generally fewer host-country policies favouring renewables—such as subsidies and prioritisation of renewable consumption—the risk of low investment returns can demotivate foreign investors. This situation has been exacerbated by the Covid-19 pandemic, as economic and energy demand growth rates have slowed.

There are also bottlenecks on the supply side. As the investment volume for renewable projects is usually smaller than for traditional energy projects, private enterprises are more competitive and have become the key players in renewable energy investment rather than state-owned enterprises (SOEs). However, private enterprises have lower corporate credit, making it more challenging to obtain financial support from Chinese banks and insurers.

Although renewable energy is increasingly cheaper than fossil fuels, the volatility of solar and wind increases the systematic costs of the grid. However, in many Asian and African countries, national grid systems are relatively antiquated, with low connectivity that cannot support high-ratio renewable energy coming online. Other important infrastructure to support renewable energy development, such as power storage facilities and systems for the transportation of wind turbine blades, are also underdeveloped. Broadly speaking, most countries that are recipients of Chinese energy financing are in the early stages of developing renewables, with national policy and energy planning, capacity, and expertise to develop the sector still lacking. While these challenges are significant, they must be addressed for countries to pursue opportunities to develop more sustainable energy systems. Financial and policy support are required from both China and host countries.

### Energy Production

Wind Farm in  
Guangling County,  
Shanxi. Source:  
Hahaheditor12667,  
Wikimedia  
Commons.

Chinese companies and banks can play a crucial role in facilitating this transition. Although private Chinese companies are already leading players in renewables, there is much scope for their state-owned counterparts to do more. Many SOEs now have renewable energy subsidiaries, but these enterprises need to do more to recalibrate their strategic focus, proactively explore opportunities, and build their renewable energy portfolios. To enable this, Chinese banks must move on from the traditional approach of prioritising large/high-value energy projects and explore smaller (including off-grid) renewable opportunities and make financing available to support Chinese companies to implement President Xi's pledge to help developing countries expand green energy. As financial institutions increase support for renewable energy, entities also need to play a larger role—for example, Sinosure has optimised approval procedures to both facilitate such investment and better control risks.

Top-down policy adjustments both in China and in host countries are also essential. There is scope for the Chinese Government to promote cooperation in overseas renewable energy investment with practical and targeted policies and financial support, in addition to overarching policies encouraging Chinese stakeholders to invest in renewables. This support should focus on accelerating the incubation of different business models and explore opportunities to mobilise additional sources of financing. Crucially, host-country governments, which are the ultimate decision-makers on the development of their energy futures, must adjust domestic energy plans in line with their international commitments, including planning for more renewable energy projects and removing proposed fossil fuel projects. Proactively communicating and seeking renewable investment opportunities from China, as well as other national and international stakeholders, will be key. To attract investment, the bottlenecks currently slowing the shift to renewables must be addressed by directing more resources to and prioritising the development of energy storage technology and grid development rather than maintaining a focus on fossil fuels. To create an environment that enables a more rapid transition, lessons can be learned from the experience of China's domestic renewables development, which was led in part by the development and implementation of more favourable policies for renewable feed-in tariffs, power purchase agreements, subsidies, and concessional loans.

## Moving the Transition Forward

Although this essay has focused largely on future projects, it is also important to consider operational coal power plants. As well as calling for an end to new overseas coal power plants and the cautious development of plants already under construction, the NDRC guidelines issued in March encourage upgrades to operational coal plants in line with 'international green rules and standards'. While on one hand it may be seen as beneficial to improve the performance and reduce the emissions of existing plants, on the other,

by promoting this path, there is the risk of extending the lifespan of existing plants. The development of renewable energy cannot offset the carbon emissions of existing fossil fuel projects. Although the development of new coal power plants is slowing, many operational plants in host countries (mostly in Southeast and South Asia) are so young they will not be retired for decades. Thus, a mechanism for an expedited coal phase-out will be crucial to help host countries escape the carbon lock-in as soon as possible. While China should be commended for taking this crucial step in moving away from new-build coal power plants, a next step is to provide further binding policy guidance on the implementation of the UNGA pledge, closing the loopholes, while also making concerted efforts to honour the commitment to support global green energy development, decrease carbon emissions by accelerating the phase-out of existing coal power projects, and avoid the carbon lock-in by simply replacing coal capacity with gas. ●