



Asia's "Transition" Problem: A Wakeup Call for Climate-Aligned Investors

Christina Ng | January 2026

Across Asia, "transition finance" now sits at the centre of every regional climate conversation. Yet, it is one of the least understood and most inconsistently applied in the market.

Asia's transition finance rules were designed to guide capital towards decarbonisation. Instead, they increasingly reveal a deeper problem: the region does not share a common understanding of what "transition" is meant to achieve.

Energy Shift Institute's [latest analysis](#) examined six Asian transition finance frameworks. The conclusion wasn't just inevitable diversity – it was divergence from 1.5°C-aligned pathways. The kind that creates cross-border friction, transition-washing exposure, and a fundamental question about whether some of these frameworks are decarbonisation tools or political cover dressed up in green language.

Divergence is a financial risk

In theory, transition finance frameworks constrain high-emitting assets. In practice, Asia's frameworks span a wide spectrum.

At one end are markets like Singapore and Thailand, imposing declining emission thresholds and sunset dates on existing gas plants, and explicitly excluding new fossil power from sustainability labels. These frameworks are not perfect, but they are directionally consistent with a rapid phase down. They treat gas as a temporary bridge, not a growth sector.

At the other end are Indonesia, Malaysia, Japan and China. Here, "transition" often functions as fossil system management: coal plant optimisation, ammonia co-firing, unconstrained gas expansion, or discretionary interpretations of what counts as "enhancement". Indonesia's taxonomy, for instance, sets a transitional emission threshold 89% higher than the EU benchmark and allows coal plants to operate until 2050. Emission thresholds elsewhere are largely absent. Sunset clauses are distant or non-existent. In some cases, new coal and gas assets remain eligible under a transition banner.

These differences translate directly into mispriced transition risk, portfolio misalignment and reputational exposure. When assets or entities qualify for "transition finance" despite weak or absent phase-down constraints, they signal to markets that coal and gas remain viable long-term investments, amid stated climate commitments. That signal matters financially. It suppresses the pricing of regulatory, refinancing and obsolescence risks, allowing them to appear financeable locally while failing 1.5°C screens in global portfolios.

The result: growing reliance on case-by-case judgement by asset managers operating under Paris-aligned mandates – precisely the friction that taxonomies were meant to reduce.

Energy security explains taxonomy choices, but does not redefine 1.5°C-alignment

Asian governments prioritise keeping power reliable, affordable and sufficient for growth. This often means relying on young coal fleets or expanding gas in the near term. These constraints are real. Any investor with exposure in the region must understand them.

But context explains divergence. It does not lower the bar.

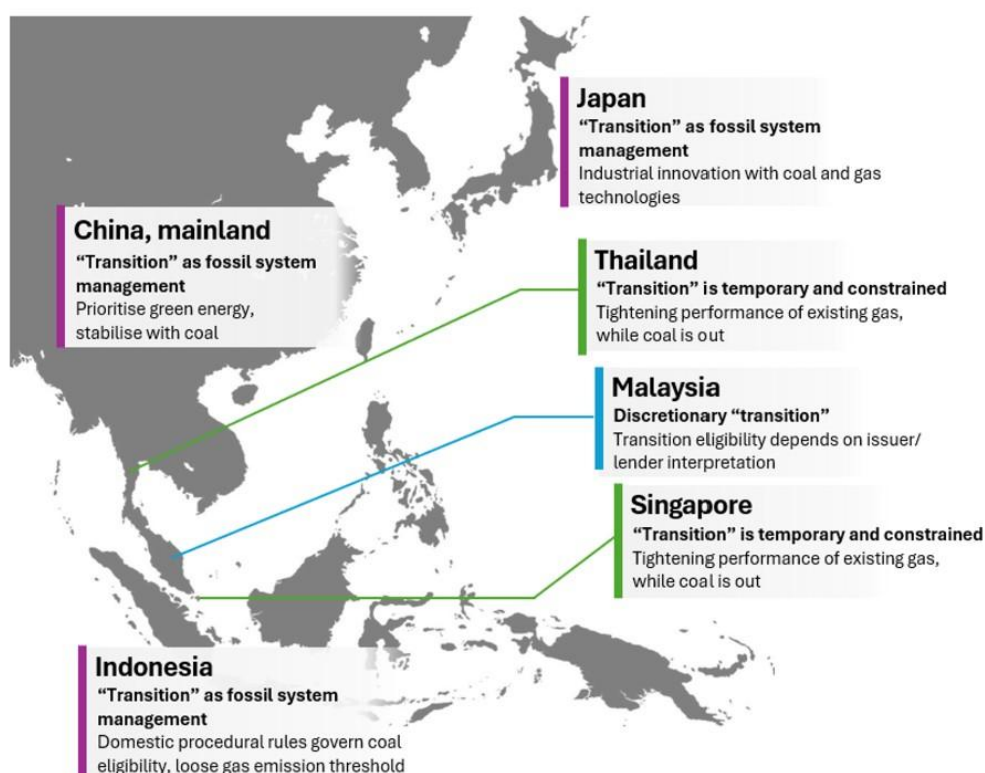
The remaining global carbon budget does not adjust for domestic political economy. Nor do refinancing cycles, cost of capital dynamics, or climate disclosure obligations. A transition finance framework that allows open-ended gas expansion or coal optimisation may ease short-term pressures, but it does so by pushing risk into future balance sheets, refinancing cliffs and stranded assets.

This is precisely the risk that transition finance was meant to surface – not obscure – especially for investors with long-dated liabilities.

Singapore shows another path is possible. Despite being one of the world’s most gas-dependent systems, it still draws a hard line: existing gas only, declining thresholds, sunset by 2035. That’s what it looks like when energy security logic is paired with transition discipline.

Figure 1. How Asian Markets Conceptualise “Transition”

Transition finance frameworks in Asia are not variations on a single model. They reflect fundamentally different views about what “transition” is meant to do: from constraining fossil fuels and managing their decline, to managing or optimising existing systems.



Source: ESI Analysis.

Notes: This map groups transition finance frameworks based on ESI’s analysis of four assessment questions in Section 3: emission thresholds, sunset timelines, constraints on high-emitting investments and operating lifetimes, whether the framework steers the power systems toward a 1.5°C-consistent trajectory.

Japan's GX framework puts asset owners on the fault line

Nowhere is this tension clearer than in Japan.

Japan's Green Transformation (GX) framework anchors the world's largest transition bond market. Since 2024, the Japanese government has become the dominant issuer of transition bonds globally, followed by its power utility companies. Yet GX sets no quantitative emission thresholds for fossil-linked power generation, no binding sunset dates. It relies heavily on coal and gas modification rather than structured phase-down.

The problem is not that asset managers must do extra diligence – they already do. The problem is that GX shifts the burden of climate transition credibility away from sovereign policy and onto private portfolio governance.

This doesn't necessarily cause global investors to walk away from Japan. GX might be a defensible industrial strategy. It might even catalyse breakthrough technologies. But calling it climate-aligned is a stretch. And that quietly downgrades Japan in the capital allocation hierarchy of climate-oriented portfolios. Capital will flow first to jurisdictions with clearer, science-aligned signals.

And this matters far beyond Japan. GX-labelled sovereign and corporate debt flows into global portfolios, including those marketed as climate-aligned. When a major economy's transition framework prioritises energy security and industrial continuity over measurable emissions decline, it sends an ambiguous signal to long-term capital – one that may dampen, rather than catalyse, investment from international climate-conscious asset owners.

Labelled volume does not equal climate integrity. Scale without discipline isn't leadership.

What climate-aligned investors must do differently

The lesson from Asia's transition finance divergence is not to disengage. It is to engage more precisely.

Don't assume taxonomy-alignment equals climate-alignment. A project certified under one jurisdiction's transition framework may still carry high lock-in risk and fail 1.5°C requirements. Due diligence on domestic transition labels needs care.

Credible transition requires measurable decline. Where frameworks lack emission thresholds, declining trajectories or enforceable sunset dates, assume higher transition-washing risk and price it accordingly.

Capital discipline matters. Markets with clearer, science-oriented transition guardrails – Singapore and Thailand among them – are better positioned to attract patient, lower-risk capital. The policy signal there is unambiguous. The same cannot be said elsewhere in the region.

Demand better disclosure. Push counterparties and investees for granular reporting on how proceeds are spent, what measurable outcomes are achieved, and how activities align with net-zero commitments.

The uncomfortable truth

Asia does not lack transition finance. It lacks a shared definition of transition that consistently prioritises emissions decline over system preservation.

For climate-aligned investors, the task now isn't to reject transition finance – it's to shape it. Insist that “transition” is time-bound, measurable, and oriented toward closure, not protecting business-as-usual.

Anything less may satisfy domestic policy narratives, but weakens the very basis on which climate-conscious investment decisions are made.

If “transition” can mean everything, it will ultimately mean nothing – and asset owners will be left holding the risk.

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