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# Maximising Australia's green growth:

Leveraging trade and aid policy to drive Australia's green exports agenda

May 2025

Prepared for the Australian Sustainable Finance Institute

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Kaya Partners is a specialised advisory firm helping clients navigate and thrive in the face of climate disruption. We leverage expertise in climate policy, politics, and regulation to provide insights, analysis, and data to inform decision-making in the face of financial and geopolitical realities. Our team combines decades of hands-on experience and expertise from the fields of politics, policymaking, economics, investment, industry, diplomacy, and technology. We work with a diverse range of clients, including financial institutions, developers, investors, philanthropies, and governments, to identify opportunities and mitigate risks in the energy transition and climate change sectors.

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## Acknowledgement of Country

The Australian Sustainable Finance Institute acknowledges the Traditional Custodians of Country throughout Australia and recognises their continuing connection to land, waters, species and culture. We acknowledge their ongoing status as the First Peoples of Australia and pay our respects to their Ancestors and Elders past and present.

## Acknowledgements

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# Maximising Australia's green growth: Leveraging trade and aid policy to drive Australia's green exports agenda

## Executive Summary

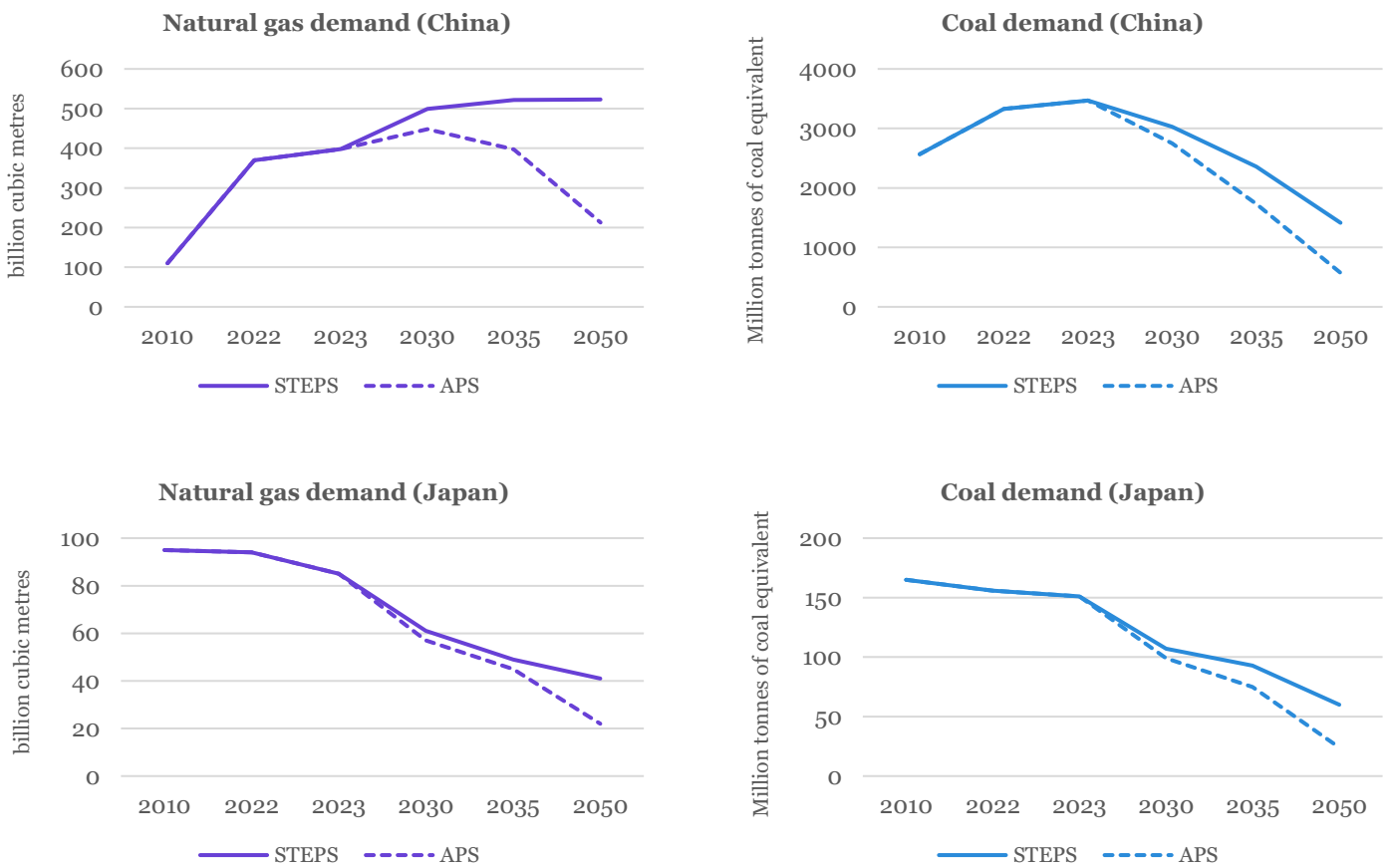
- **As Australia's key trading partners move to implement net zero plans and eventually phase out fossil fuels, Australia is presented with an economic challenge.** Coal, natural gas, and oil represent around a quarter of Australia's export income, which is at risk as the momentum builds to decarbonise world economies.
- **Australia stands at a pivotal moment with a unique opportunity to leverage its established export economy,** traditionally based on fossil fuels and raw commodities, to become a leader in green exports. As Asian economies rapidly advance their green industrial agendas, Australia can position itself as a key provider of renewable energy and green commodities, and a key player in clean energy supply chains.
- **However, the aspiration of becoming a "global renewable energy superpower" is not guaranteed.** Without a proactive strategy to seize these opportunities and redefine trade relationships, Australia risks missing the chance to replace fossil fuels, ensure long-term economic sustainability, and maintain regional influence.
- **To maximise its comparative export advantage, Australia must focus on stimulating future clean industries domestically while also ensuring international demand for its green products.** This involves aligning trade and climate finance objectives with the green exports agenda. China, Japan, and South Korea – Australia's traditional energy export markets – have committed to decarbonising their economies by mid-century. Additionally, Southeast Asia, with some of the world's fastest-growing economies, has ambitious decarbonisation pathways, presenting a market value of up to US\$10 billion per year by 2030 for Australia.
- **A new international sustainable growth strategy is essential to align trade and climate finance.** This strategy should focus on creating markets for Australia's green products, maintaining competitiveness, and contributing to regional stability and prosperity in the Indo-Pacific region.
- **The creation of sustainable growth partnerships with key trade partners like Japan, China and South Korea should be key pillars of this strategy.** Collaboration on joint transition plans and policy alignment, green standards, R&D, advanced market commitments, and shared investment opportunities could enable deeper trade relationships and facilitate market access for Australia's green products.
- **The strategic use of Australia's climate finance program to promote green industrial growth in Southeast Asia could build markets for Australia's green exports, while supporting partner countries' development and decarbonisation goals.** This would require Australia to develop the right mechanisms to mobilise private investments through appropriate financial instruments combined with targeted technical assistance.
- **Amid rising geopolitical tensions and global trade disruptions, it is vital for Australia to maintain its role as a strategic energy provider to key partners** like Japan and South Korea, ensuring reliability in the transition to a low-carbon future, just as it has in the fossil fuel era. The rise of protectionist sentiments further underscores the need for deepened trade relationships and collaboration to meet climate objectives.

**This report has been prepared by Kaya Partners for the Australian Sustainable Finance Institute (ASFI) and addresses the other side of the green industry and export agenda, outlining how Australia could use all the tools at its disposal to ensure the resilience of its economic future.**

## Section 1: Australia’s export economy is increasingly at risk

**As the world transitions to net zero, Australia is faced with an economic challenge of declining fossil fuel demand and the eventual phase out of key export commodities.** Coal and liquified natural gas (LNG) are two of Australia’s top three export products, contributing 12% and 9.6% respectively to Australia’s export earnings in 2021.<sup>1,2</sup> Demand for Australian coal is starting to shift due to partner countries’ clean energy and diversification plans. In 2023, four of Australia’s top six demand markets – Japan, South Korea, Taiwan, and India – saw declines in demand for coal.<sup>3</sup> Declining prices of LNG contracts, the high fixed costs of new LNG projects, and the entrance of new players producing LNG at cheaper costs mean that the profitability of the Australian LNG industry risks decreasing over time.<sup>4</sup> In the long term, ambitious net zero strategies by Australia’s largest trading partners could lead Australian coal exports to decline as much as 80% by 2050, with a similar but more modest effect expected for LNG (see *Figure 1*).<sup>5</sup>

Figure 1: Projected demand of natural gas and coal demand for China and Japan



Source: IEA (2024). World Energy Outlook. [Link](#).

Notes: STEPS = Stated Policies Scenario, APS = Announced Pledges Scenario. Presentation of horizontal axis (timeline) is not linear.

<sup>1</sup> Department of Foreign Affairs and Trade (2023). Australia’s Top 25 Exports, Goods, and Services. [Link](#)

<sup>2</sup> In 2023, these proportions increased to 15% and 11% respectively but can be attributed to the high prices generated by the war in Ukraine.

<sup>3</sup> Institute for Energy Economics and Financial Analysis (2024). Australia’s coal export market: Shifting trade dynamics with Asia. [Link](#)

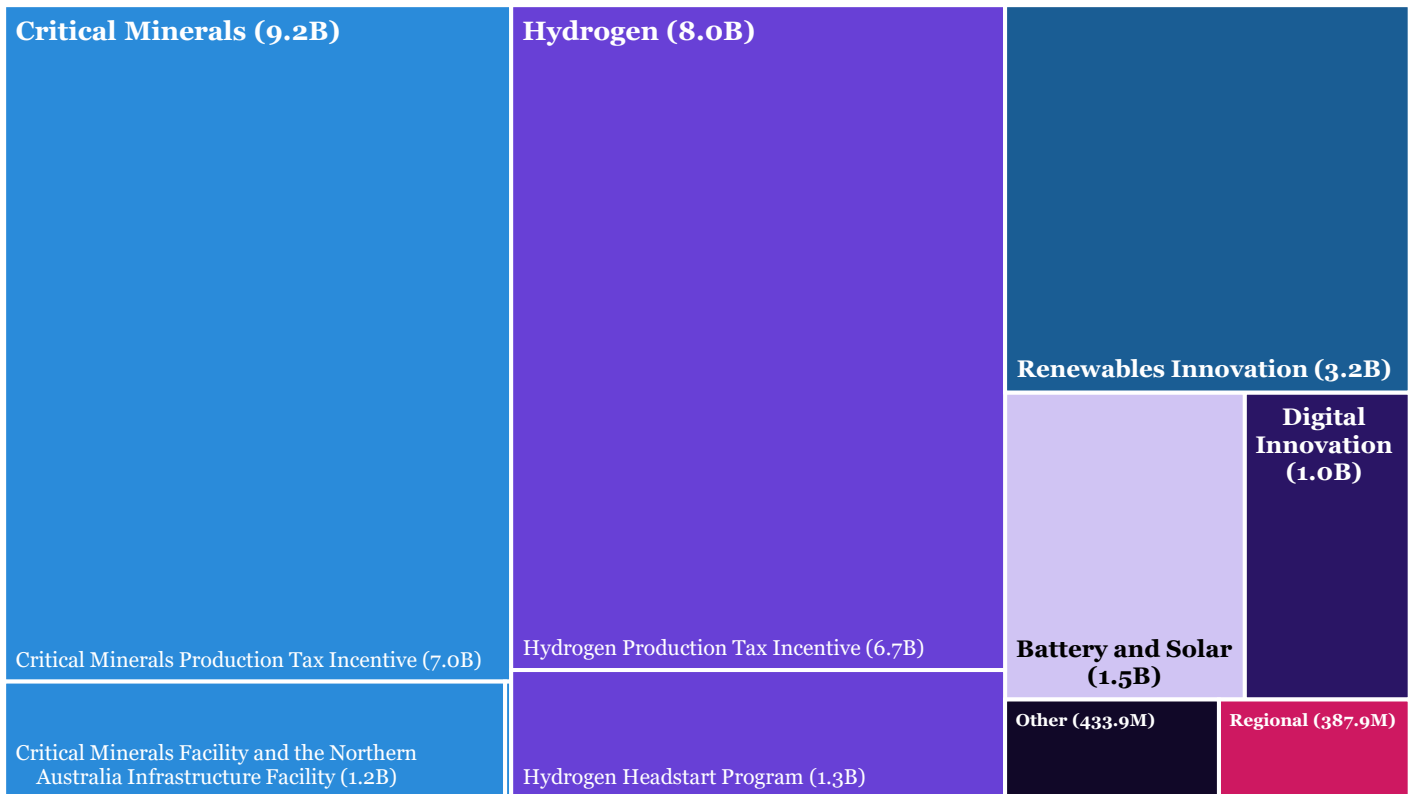
<sup>4</sup> Institute for Energy Economics and Financial Analysis (2024). The Future of Australian LNG. [Link](#)

<sup>5</sup> Reserve Bank of Australia (2021). Towards Net Zero: Implications for Australia of Energy Policies in East Asia. [Link](#)

**The economic challenges presented to Australia by declining global demand for fossil fuels could be mitigated by seizing opportunities in other sectors, particularly the ones that will be integral to achieving the net zero transition.** Australia has a game-changing opportunity to establish itself as a leading global exporter of green commodities and products to guarantee its future prosperity. The combination of Australia’s renewable energy and mineral abundance, its know-how across key industries for the transition (e.g. mining, agriculture), its strong public R&D base, and its stable economy – not to mention its proximity to key markets and land space – give it a clear comparative advantage in the future low-carbon markets in the region.

**The Australian Government has begun to introduce measures to capitalise on the renewable energy and green commodity opportunity at home, which is a positive signal for Australia’s net zero ambitions.** In May 2024, the Government released the Future Made in Australia (FMA) agenda, which initially plans to invest A\$23 billion to catalyse the potential economic opportunity and industrial benefits of the net zero transition for Australia. The agenda sets a vision for the country to become a “global renewable energy superpower”, introducing several policies and packages to help grow industries in which Australia could have a comparative advantage, such as tax incentives, dedicated investment funds, and streamlined approvals to accelerate projects in strategic critical minerals, hydrogen and clean energy manufacturing (see *Figure 2*).

Figure 2: Future Made in Australia budget breakdown (in A\$)<sup>6</sup>



Source: Australian Treasury (2024). Future Made in Australia. [Link](#)

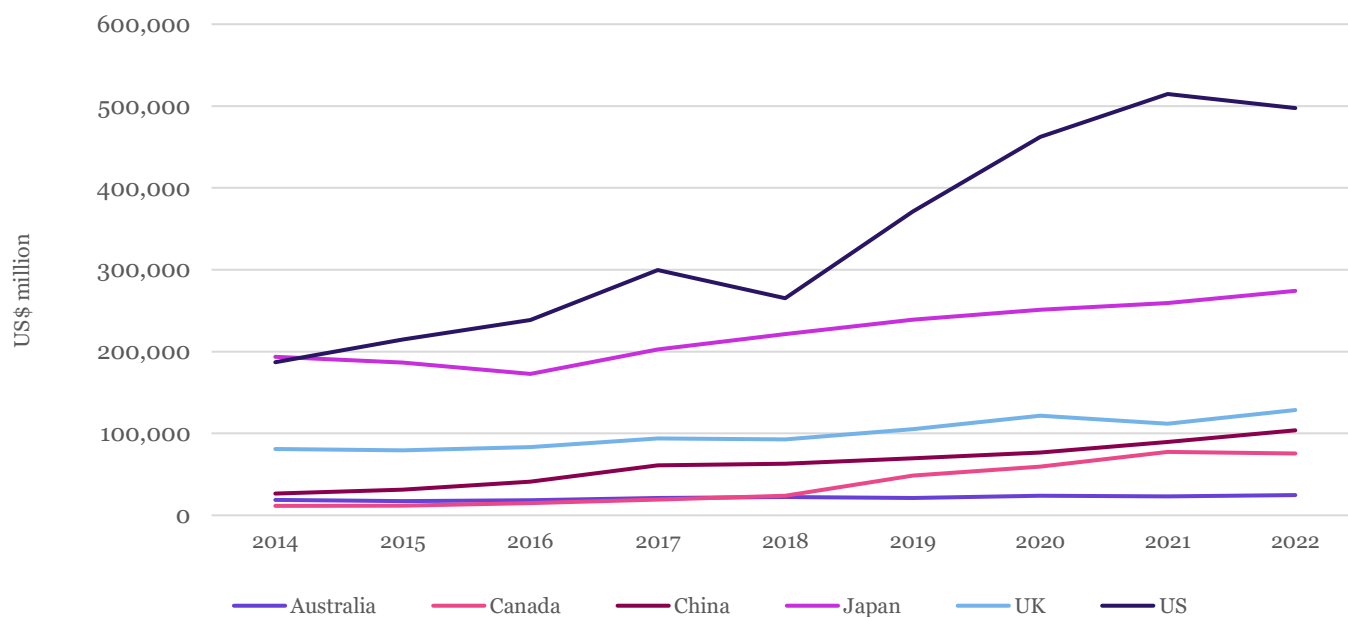
**While FMA is a step in the right direction for Australia’s net zero industries, establishing and sustaining a green export industry will rely on building market demand in the Indo-Pacific region.** While stimulating domestic industrial development is a necessary step towards developing export industries, attention must also be paid to developing markets for those exports. There is a substantial opportunity to transition Australia’s existing trade partnerships,

<sup>6</sup> The A\$9.2 billion for Critical Minerals programs includes A\$14.3 million for strengthening trade relationships. This is an immaterial and inadequate amount; Australia can focus more efforts on establishing these new trade relationships.

as well as build new markets in the region. The Indo-Pacific region is now home to 60% of the world’s GDP and 65% of the world’s population.<sup>7</sup> However, the stock of Australian Foreign Direct Investment (FDI) into the region (for example, in places like Southeast Asia) has remained low compared to other countries (see *Figure 3*).<sup>8</sup>

**Other countries that have successfully grown FDI in Southeast Asia in recent years are now benefiting from a greater understanding of these markets, local presence and operational experience, and growing trust with corporates and governments on the ground.** Australia is uniquely placed to leverage its economic, diplomatic and cultural ties with Southeast Asia to take advantage of the opportunities in green manufacturing and industry.

Figure 3: Stock of FDI into select ASEAN countries, by country (2014-2020)



Source: ASEAN Stats Data Portal (n.d.). Stock of Inward Foreign Direct Investment at year-end. [Link](#)

**There is wide recognition that the transition requires finance from both public and private sectors.** Government and private sector finance play complementary roles and can amplify each other’s impact. Government can play the role of a convener and first-mover investor, providing comfort and confidence to private sector investors, as well as creating enabling conditions from a policy perspective. This will then allow the private sector to bring scale and provide a deeper pool of investment funds to accelerate progress.

**This report proposes a strategy for Australia to leverage trade, diplomacy, and climate finance to address the demand side of the green export agenda.** To fully capitalise on this opportunity, Australia must support its domestic green industries, enable their access to key markets, and create long-term demand for its green exports. The focus of our report is not on domestic industrial policy but on what needs to be done in the broader region to enhance export opportunities, economic prosperity, and security.

**Certainty about demand is a key consideration for investors when deciding to commit capital to a project.**<sup>9</sup> Although the stability of the Australian economy is a strong incentive to invest in Australia, it is unlikely that capital will

<sup>7</sup> Journal of Economic Structures (2020). Indo-Pacific cooperation: What do trade simulations indicate? [Link](#)

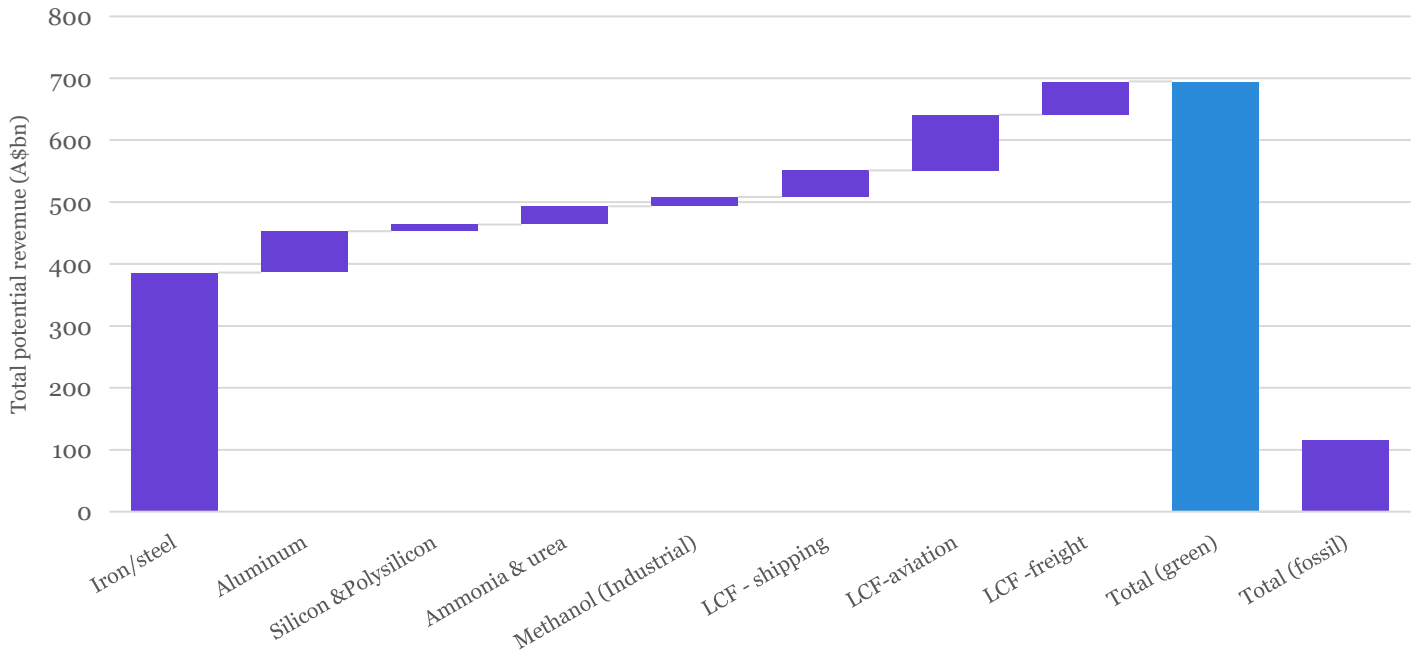
<sup>8</sup> Commonwealth of Australia (2023). Invested: Australia’s Southeast Asia Economic Strategy to 2040. [Link](#)

<sup>9</sup> Investor Group on Climate Change (2023), Mobilising Climate Investment in Emerging Markets: Opportunities for Australian Pension and Superannuation Funds. [Link](#)

flow at the scale needed by the industries identified in FMA without a clear strategy to ease offtake risk. So far, Australia has not articulated a strategy for building these demand signals.

**Failing to harness this opportunity could come at a high opportunity cost for Australia.** According to a recent analysis by the Superpower Institute, the total potential revenues of Australia’s green exports could add up to A\$693 billion at today’s levels of industrial output, or A\$987 billion at forecasted 2060 levels of output. The total is 6-8x larger than what is needed to replace typical revenues from Australian fossil fuel exports, which will decline to mid-century.<sup>10</sup> Green steel and iron ore is by far the largest potential source of revenue for Australia (see *Figure 4*).

Figure 4: Potential revenue of selected Australian key green exports by 2060 (based on contemporary market size)



Source: Kaya Partners based on data by The Superpower Institute (2024). [Link](#)

Notes: (1) LCF = low-carbon fuels (2) Total fossil fuel revenues include combined coal and LNG revenues. (3) Calculations are based on the maximum market share that Australia could have in each respective market.

**A new wave of protectionism in some parts of the world only emphasises the need for greater international collaboration and deeper, more diverse trade relationships.** For example, the second Trump administration in the United States has demonstrated that it is not shy in pursuing an extremely protectionist policy agenda, potentially risking a trade war scenario. The US tariffs announced on 2 April 2025 will disrupt current patterns of global trade, although the magnitude and timing of these impacts is still uncertain given the complexity of supply chains and trade flows. Although the impact on Australian GDP could be limited in the first instance, the indirect effects due to other trade partners in Asia significantly impacted by US tariffs (e.g., China, Japan and South Korea) could be larger. It is also uncertain whether the US will keep these new tariffs. Even if there is a decision to pause or roll back the tariffs, the trade dynamics are likely to shift in the future as the US is no longer seen as a trusted partner. In this context, Australia should ensure markets for its green products are distributed among a range of export markets.

<sup>10</sup> The Superpower Institute (2024). The New Energy Trade: Harnessing Australian renewables for global development. [Link](#)

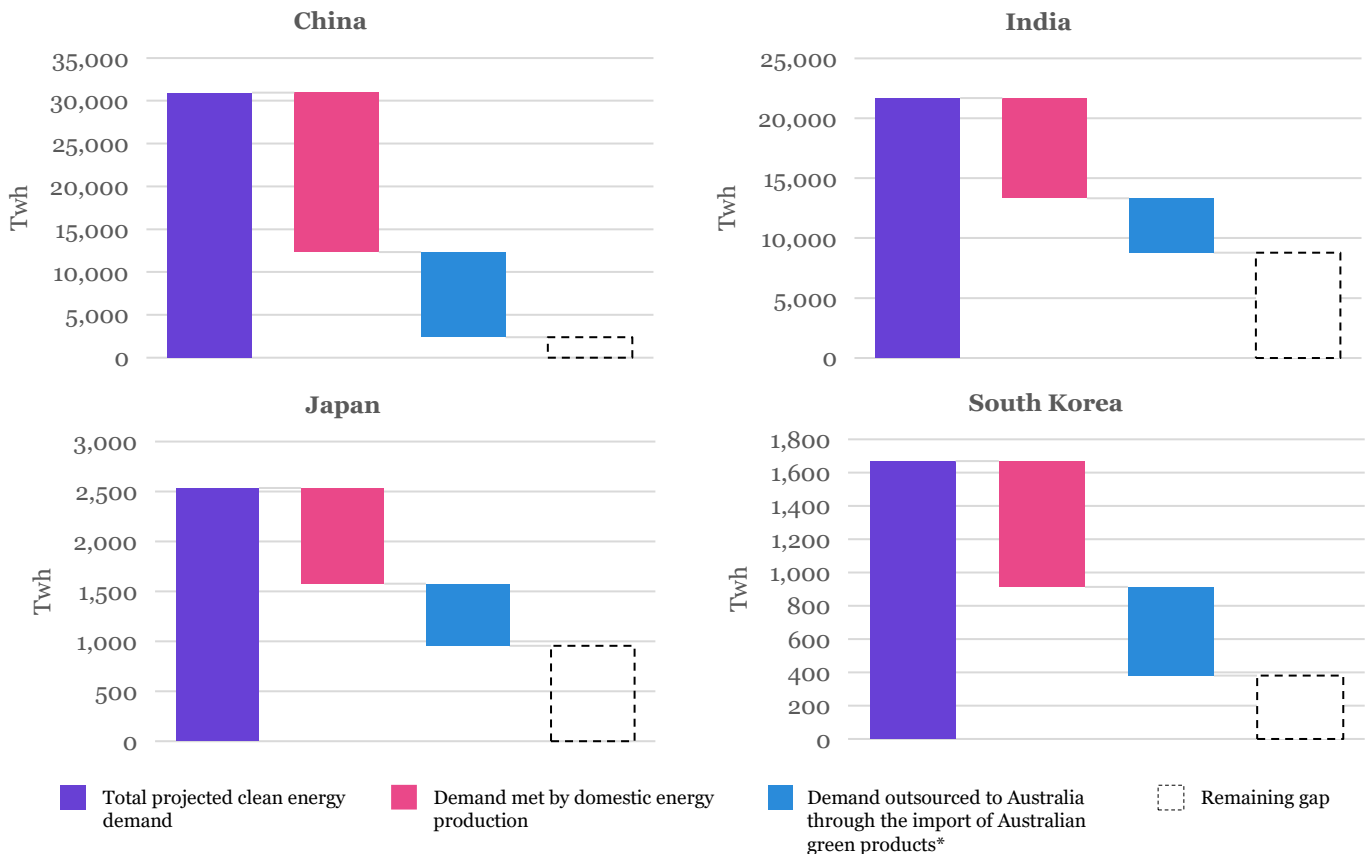
## Section 2: Seizing the opportunity

### 2.1 Transitioning relationships with existing trade partners

**Australia’s status as a reliable trading partner to countries in the Indo-Pacific region can drive growth and green exports.** Geographically, Australia is well-positioned not only to capitalise on growing demand for low-carbon products but also to accelerate demand creation. Australia has established long-standing trade relationships with many industrialised countries in Asia that have already set ambitious net zero targets.

**Australia could establish itself as a trusted green energy supplier.** Many of Australia’s trading partners in the Indo-Pacific not only rely heavily on Australia’s fossil fuel exports but also have poor conditions for generating the renewable energy that they require for their industrial activities, constraining the pace of their transition plans. There is thus an opportunity for Australia to export goods that are made in Australia using renewable energy, allowing its trading partners to meet their decarbonisation goals without sacrificing their industrial outputs. According to The Superpower Institute, through the export of its green, energy-intensive products, Australia could help reduce about a third of China’s and South Korea’s total projected energy demand, a quarter of Japan’s total projected energy demand, and a fifth of India’s total projected energy demand by 2050 (see *Figure 5*).<sup>11</sup>

Figure 5: The impact of Australian green exports in reducing the clean energy supply gap in select partner countries



Source: Kaya Partners based on data by The Superpower Institute (2024). [Link](#)

(\* Note: This represents the potential for Australia to export energy-intensive products made with Australian renewable energy to these countries, displacing the country’s energy demand. Energy-intensive products include low-carbon iron and steel, aluminium, polysilicon, low-carbon fuels for shipping and aviation, ammonia, and methanol (chemical feedstock).

<sup>11</sup> The Superpower Institute (2024). The New Energy Trade: Harnessing Australian renewables for global development. [Link](#)

**With most of Australia's main trading partners taking concrete steps to decarbonise, it is imperative for Australia to demonstrate that it can continue to be a reliable energy security partner in a low-carbon world.**

Australia has been instrumental in the industrialisation of global powerhouses like Japan and South Korea, which have built their economies on the back of Australia's fossil fuel energy exports. To maintain and leverage this privileged position of trusted energy supplier, Australia will need to work closely with its trade partners to better understand each other's transition plans, align policies, and collaborate towards common objectives. Australia's network of free trade agreements (FTAs), economic cooperation architecture, technical assistance programs, and goodwill built up over many years provide a strong foundation to grow economic ties between countries and establish new green export markets.

**To pivot existing trade relationships and access new green trade markets, Australia can lean on past successes in collaborating with countries to build out their manufacturing industries (see *Box 1*).** This model not only bolsters Australia's clean industries but also assists Australia's partners in expanding their own sectors. Many of Australia's key trading partners have already become powerhouses in manufacturing and are keen to develop new clean energy industries. China has undeniably become the world's dominant force when it comes to clean energy. Japan and South Korea have developed important manufacturing capacity for batteries manufacturing. Australia could be a pivotal supplier of inputs for these new industries (see *Figure 6*).

**Box 1: Australia's previous success in pioneering new industries with key partners**

Australia's collaboration with South Korea and Japan has been key for the creation of new industries. The development of Australia's mining sector was pivotal for both Japanese and South Korean expansion into heavy industries such as steel, chemicals, automobiles, and ship building in the 1970s; simultaneously, Japanese and South Korean investment was key in financing the vast mineral projects that made the creation of coal and iron ore mining industries in Australia possible. Subsidies, public loans, or long-term contracts provided by both countries, motivated by their need to guarantee energy security, have been essential to make Australia one of the largest exporters of LNG in the world. Both Japan and South Korea have created strategic partnerships to facilitate the exchange of technology and expertise to strengthen Australia's LNG industry. At the same time, both countries developed domestic policies that emphasised the importance of LNG in their energy mix. There is no reason why the same logic of economic and diplomatic collaboration cannot be applied to the creation of new green industries that help fulfil the energy security and economic ambitions of both countries.<sup>12,13,14</sup>

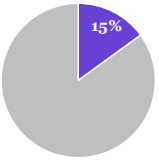
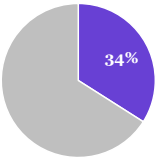
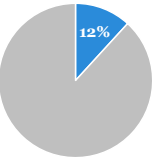
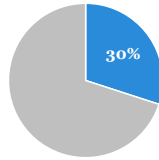
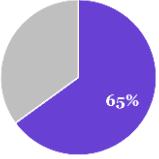
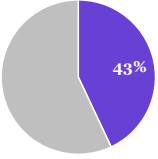
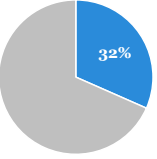
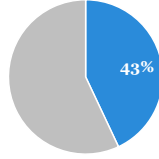
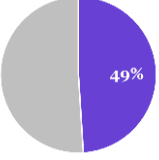
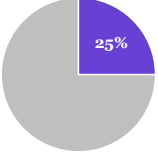
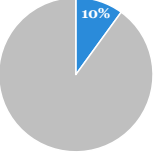
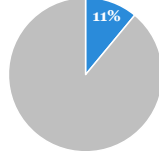
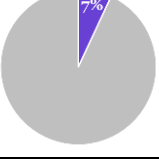
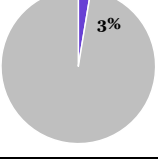
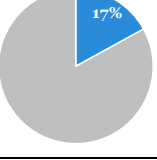
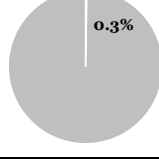
**Collaboration, information exchange, and partnerships with new and existing trade partners will be key to facilitate open trade in the future.** At the same time, coherence and consistency in Australia's direction of travel across domestic and international policy will provide its partners with the right signals and assurance that Australia will continue to be a reliable provider of energy security into the future.

<sup>12</sup> Australian Trade and Investment Commission (2017). Japanese Investment in Australia. [Link](#)

<sup>13</sup> Senate Standing Committee on Foreign Affairs, Defence and Trade (2000). Japan's Economy: Implications for Australia. [Link](#)

<sup>14</sup> Reserve Bank of Australia (2015). Australia and the Global LNG Market. [Link](#)

Figure 6: Australia's key trade relationships in Asia

Partner	Share of fossil fuel imports into partner country		Partner country share of Australian fossil fuel exports		Net zero targets	Clean tech industry position
	Coal	Natural gas	Coal	Natural gas		
<b>China</b>					Carbon neutrality before <b>2060</b> Non-fossil fuel (renewables and nuclear energy) to reach 25% in primary energy generation by <b>2030</b> .	Dominant position on most clean energy supply chains especially across <b>solar PV, wind, batteries</b> and critical mineral mining and processing
<b>Japan</b>					Carbon neutrality before <b>2050</b> Renewables to reach 38% of electricity generation by <b>2030</b>	2 <sup>nd</sup> largest supplier of refined rare earths and <b>permanent magnets</b> for wind turbines 2 <sup>nd</sup> largest supplier of nickel sulphite and cathode and anode material for <b>batteries</b>
<b>South Korea</b>					Carbon neutrality before <b>2050</b> Renewables to reach 20% of electricity generation by <b>2030</b>	3 <sup>rd</sup> largest producer of cathode material for <b>batteries</b>
<b>India</b>					Net zero emissions before <b>2070</b> Renewables to reach 44% of electricity generation by <b>2031</b>	Largest <b>importer of ammonia-derived</b> products in the world 3 <sup>rd</sup> largest producer of <b>solar PV</b> , and gearboxes, blades and generators for <b>wind turbines</b>

**Legend**

- Australia's share of partner imports
- Respective partners' share of Australia's exports
- Other countries

Sources: DFAT (2024). [Link](#), [Link](#), Australian Bureau of Statistics (2024). [Link](#), Ember (2024). [Link](#), US EIA (2023). [Link](#), [Link](#), S&P Global (2023). [Link](#), NITY Aayog and Vasudha Foundation (2023). [Link](#), UNFCCC (2024). [Link](#).

## 2.2 Building new trade relationships in our region

**The rapidly growing economies of Southeast Asia represent a potentially large source of demand for Australia's future green exports.** Currently, Australia is one of the largest suppliers of coal and LNG to the Southeast Asia region. This is projected to change in the coming decades. As of 2024, every nation in Southeast Asia – with the exception of the Philippines and Timor-Leste – has set a net zero or carbon neutrality target for 2060 at the latest. Additionally, key countries in Southeast Asia such as Indonesia, Vietnam, Thailand, and Malaysia are increasingly pursuing a green industrialisation agenda. As part of their commitment to sustainable development, they are investing in renewable energy, cleaner manufacturing processes, and sectors that will drive the net zero transition.<sup>15</sup>

**Experts estimate that Southeast Asia's decarbonisation could represent a total economic opportunity equivalent to US\$300 billion per annum in revenues by 2030 globally.**<sup>16</sup> The Australian Government has calculated that Australia could capture US\$10 billion of this market, bringing massive economic benefits to Australia.<sup>17</sup> The buildout of key green manufacturing industries in Southeast Asia is a key strategy to diversify supply chains for a range of countries.<sup>18</sup> In fact, according to the International Energy Agency (IEA), Southeast Asia has some of the strongest potential for establishing electric vehicle (EV) and battery manufacturing, especially in Vietnam, Thailand and Indonesia.<sup>19</sup> Australia is well positioned to support these countries' net zero ambitions through the export of renewable energy, green commodities, clean technology expertise, project development and advisory services.

**However, Southeast Asia still lacks sufficient FDI and domestic private capital to rollout renewables, transmission infrastructure, and green manufacturing to their full potential.** Southeast Asia will require a fivefold increase on current investment, amounting to US\$190 billion in 2035, to meet announced energy and climate goals.<sup>20</sup> Private finance flows will be critical to deliver this scale of finance. However, private finance and investment in the region is constrained by significant perceived and actual risks, and an absence of sufficiently bankable decarbonisation projects. In Australia, while the Southeast Asia Economic Strategy to 2040 ("the Moore report") has provided a good foundation to align domestic objectives and climate finance, there is more work to do to successfully mobilise Australian capital – including from its estimated A\$3.9 trillion pool of pension fund savings – into the region.<sup>21</sup>

**Meanwhile, other countries, including China and Japan, have already recognised the opportunity in the region and, as Figure 3 shows, are making strategic investments through various channels including export credit agencies and development finance institutions to suit their industrial objectives.** Japan is the largest provider of climate finance in the region. Strengthening the resilience of Japanese industry is one of the strategic objectives<sup>22</sup> of Japan's Bank for International Cooperation, which is currently deploying 25% of its lending portfolio in the Asia-Pacific, including in countries like Vietnam and Indonesia.<sup>23</sup>

**China has targeted Southeast Asia as a primary destination for energy investment through both commercial and development finance channels.** Between 2019 and 2023, Southeast Asia received approximately US\$5 billion in energy-related greenfield investments from China, of which US\$3 billion was allocated to renewable energy.<sup>24</sup> Although the volume of new development finance deployed by China in the region has declined over recent years

<sup>15</sup> IEA (2024). Southeast Asia Energy Outlook 2024. [Link](#)

<sup>16</sup> Bain & Company (2024). Southeast Asia's green economy 2024. Moving the needle. [Link](#)

<sup>17</sup> Commonwealth of Australia (2023). Invested: Australia's Southeast Asia Economic Strategy to 2040. [Link](#)

<sup>18</sup> Bologna Institute for Policy Research, John Hopkins University (2024). South-East Asia Will Become a Green Industry Power. [Link](#)

<sup>19</sup> IEA (2024). Energy Technology Perspectives 2024. [Link](#)

<sup>20</sup> IEA (2024). Southeast Asia Energy Outlook 2024. [Link](#)

<sup>21</sup> Australian Sustainable Finance Institute (2024), Australian financial institutions' views on climate and clean energy opportunities in Southeast Asia [Link](#).

<sup>22</sup> Japan Bank for International Cooperation (2024). Fifth Medium-Term Business Plan (FY2024-2026). [Link](#)

<sup>23</sup> Japan Bank for International Cooperation (2024). 2024 Integrated Report. [Link](#)

<sup>24</sup> KPMG (2024). China's New Energy Enterprises "Going Abroad" Series: Sailing to Southeast Asia. [Link](#)

– going from nearly US\$10 billion in 2017 to only US\$3 billion in 2022 – China remains a key financier through the Export-Import Bank of China and the China Development Bank.<sup>25, 26, 27</sup>

**Australian climate finance could have a catalytic role in lowering barriers to private finance in Southeast Asia, but achieving this potential will require a step change in the current approach.** By global standards, Australia is a relatively small provider of climate finance for developing countries (see *Figure 7*). Currently, over 62% of Australia's climate finance activities are classified as adaptation projects, most of which are in the Pacific (see *Figure 8*). An ongoing focus on the Pacific will be important for Australia's Pacific relations and geostrategic interests in the region. Alongside this, a greater quantum – and more strategic use – of Australian climate finance for Southeast Asia could help to grow the region's green manufacturing industries, building demand for Australian green exports and supporting countries in the region to achieve their decarbonisation goals.

**The need to dramatically scale up private sector finance in Southeast Asia calls for policy reform and more effective private finance mobilisation including using a range of blended finance instruments; Australia is not well equipped to provide this at scale.** As mentioned above, the Southeast Asian countries will require close to US\$200 billion in investment to decarbonise. The Moore Report, and Australian financial institutions themselves, identify blended finance as a key tool which the Government can leverage to support greater levels of Australian investment into the region.<sup>28,29</sup> This includes the use of catalytic instruments such as first loss, guarantees, insurance, and local currency facilities as well as helping transactions to reach scale through structures that aggregate smaller projects. To date however, Australia's climate finance has been mostly grant-based (see *Figure 9*) and Australia's ability to do blended finance at scale is limited by the lack of a coordinated approach to climate finance. Unlike other developed countries, Australia does not have a development finance institution.<sup>30</sup>

### Box 2: Australia's current green industrial and policy measures

To date, the Australian Government has announced a range of policies and initiatives aimed at jumpstarting the country's green industries and supporting a regional sustainable export agenda. These include:

- The *Future Made in Australia* package which seeks to catalyse green industrial production in Australia through a range of tax incentives, grants, innovation support and investment facilitation.
- The A\$2 billion Southeast Asia Infrastructure Financing Facility, administered by Export Finance Australia, and the establishment of "Deal Teams" to support private investment in infrastructure in Southeast Asia.
- The A\$250 million Australian Development Investments fund designed to mobilise investment into SMEs in the Indo-Pacific by investing in new and emerging impact fund managers.

While these policies and initiatives have important elements that support development of sustainable trade relationships, more can be done to align disparate development and trade objectives toward development of green industries in Australia and its trading partners.

<sup>25</sup> That said, China is increasingly delivering finance in the region through state owned commercial banks, such as ICBC and Bank of China.

<sup>26</sup> Lowy Institute (2024). Southeast Asia Aid Map. [Link](#)

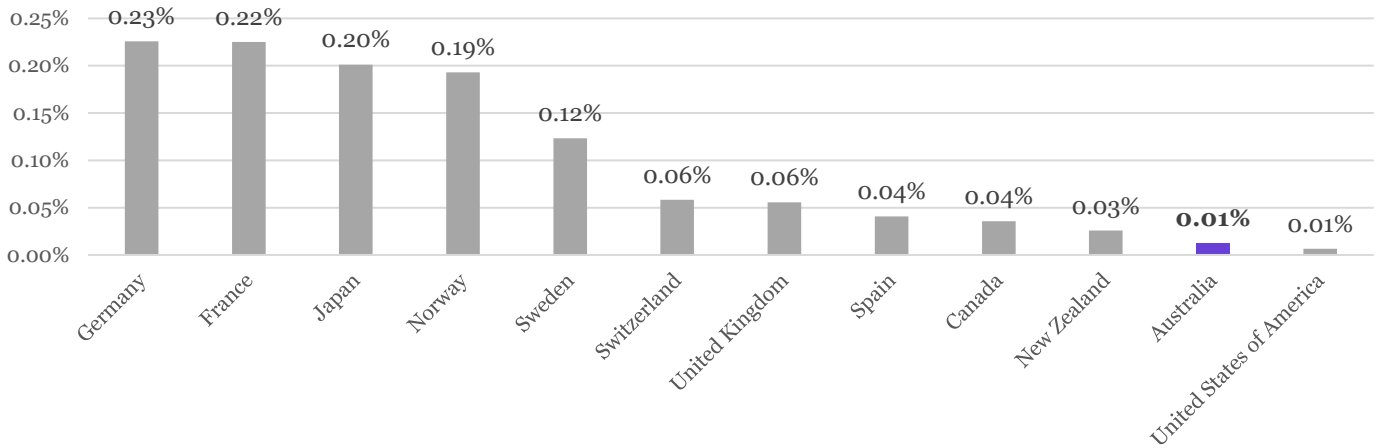
<sup>27</sup> China has projects worth some US\$70 billion still under implementation and is involved in 24 out of 34 infrastructure megaprojects in Southeast Asia – each costing US\$1 billion or more.

<sup>28</sup> Commonwealth of Australia (2023). Invested: Australia's Southeast Asia Economic Strategy to 2040. [Link](#)

<sup>29</sup> Australian Sustainable Finance Institute (2024), Australian financial institutions' views on climate and clean energy opportunities in Southeast Asia [Link](#)

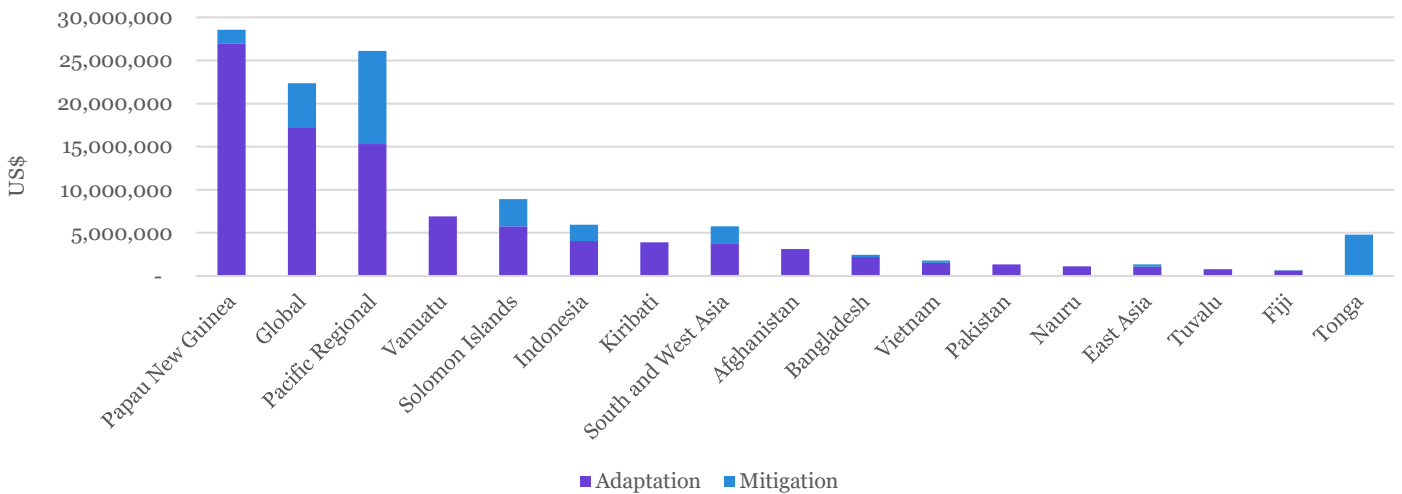
<sup>30</sup> In March 2024, the Australian Government announced a A\$2 billion Southeast Asia Investment Financing Facility (SEAIFF) managed by Australia's export credit agency, Export Finance Australia (EFA). While this will provide valuable liquidity for the region's clean energy transition and infrastructure development, EFA does not have a track record of catalytic structuring or financing in the region.

Figure 7: Climate finance sources by contributing country 2019-2020 (as a % of GDP)



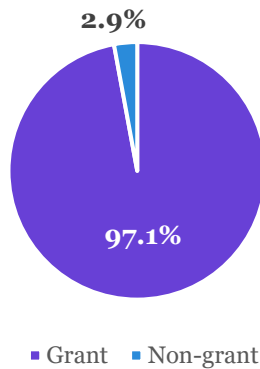
Source: UNFCCC (n.d.). Biennial Reports Data Interface. [Link](#)

Figure 8: Australian bilateral climate finance by type of climate action and region



Source: UNFCCC (n.d.). Biennial Reports Data Interface. [Link](#)

Figure 9: Australia’s 2022 Official Development Assistance by grant and non-grant financing types



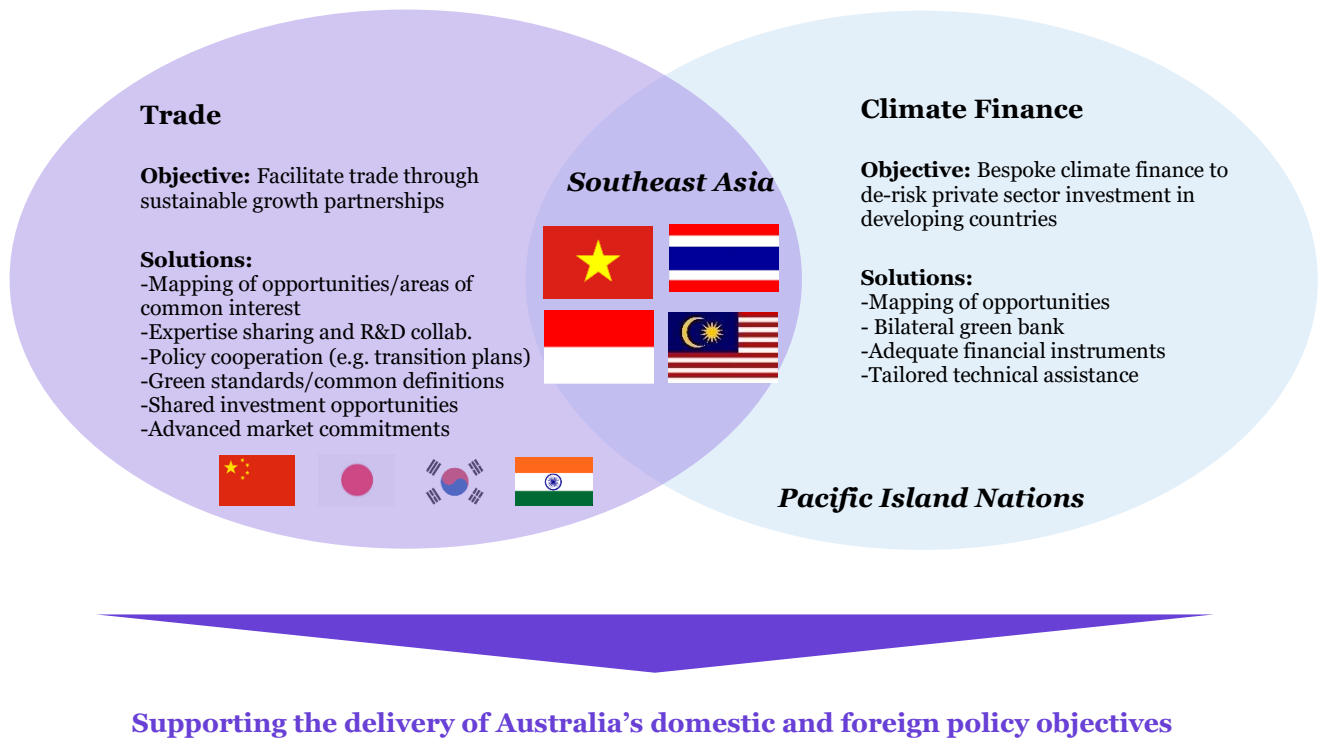
Source: OECD (2023). Development Co-operation Profiles. [Link](#)

### Section 3: Creating an international sustainable growth strategy that aligns trade and climate finance objectives

The announcement of a new international sustainable growth strategy would significantly boost Australia’s regional leadership and influence alongside its COP31 bid. It would demonstrate that Australia is taking the right steps to transform its export economy, cement its global position as a provider of emissions reductions, and reinforce its credibility with the Pacific Islands states. This would reassert its position as a partner of choice in the Indo-Pacific while creating deeper partnerships to reduce demand for fossil fuels and increase demand for Australia’s green export products.

An international sustainable growth strategy should focus on aligning trade and climate finance activities with Australia’s clean exports agenda (see Figure 10). This strategy should build on and enable the implementation of existing government policy including the FMA agenda, the Southeast Asia Economic Strategy to 2040 and the Australian Sustainable Finance Roadmap.

Figure 10: The objectives of an international sustainable growth strategy for the Indo-Pacific



Source: Kaya Partners (2025).

**The successful implementation of this strategy will require strong ownership at the centre of government.** A whole of government approach with consistent trade and development objectives will be key to ensure the prosperity and stability of Southeast Asia and the wider Indo-Pacific region. Close cooperation in particular between Treasury, the Department of Foreign Affairs and Trade (DFAT), and the Department of Climate Change, Energy, the Environment and Water (DCCEEW), with oversight and coordination support from the Department of the Prime Minister and Cabinet will be important to successfully develop and deliver this strategy. But at its heart, it will require committed champions.

**This strategy should clearly map which sectors should be prioritised in which countries.** Appendix A provides a simplified analysis of the opportunities in relationship to Australia’s existing and potential trade partners in the Indo-Pacific region. There are important opportunities to collaborate with China, Japan, South Korea and India in helping them meet their future demand for energy and inputs needed to build their clean energy supply chains. In Southeast Asia, the

opportunities are plenty. *Appendix B* provides more detailed examples of how Australia climate finance could be deployed to support decarbonisation in Indonesia, the Philippines, and Vietnam. Given the quick pace at which Indo-Pacific economies are growing and the rapidly evolving nature of clean energy industries, this mapping should be made systematically and updated regularly.

### 3.1 Sustainable growth partnerships: recasting Australia's trade relationships

**The building of sustainable growth partnerships with key existing trade partners, such as China, Japan, South Korea, and India — who make up a large proportion of Australia's current trade flows — should be a key feature.** Successfully engaging in these partnerships could generate meaningful demand for Australian green exports and accelerate the decarbonisation of these countries' economies. The Australia-Singapore Green Economy Agreement, the India-Australia Renewable Energy Partnership and the Australia-Japan Partnership on Decarbonisation through Technology, among others, are solid foundations upon which to build cooperation.

**The focus of these agreements could be collaboration on:**

- **Mapping of opportunities/areas of common interest:** Identify key priority areas for collaboration and mutual competitiveness.
- **Sharing expertise:** Strengthen mutual understanding of respective decarbonisation pathways and addressing barriers to decarbonisation that can be addressed through dialogue and sharing of expertise.
- **Policy cooperation:** Create joint transition plans between Australia and its partners to guide decarbonisation pathways to be aligned with a 1.5°C world and to promote two-way green trade.
- **Green standards:** Collaborate on the development of sustainable/green taxonomies for sustainable finance and embedded emissions standards.
- **R&D:** Collaborate in research and development across strategic green energy technologies.
- **Shared investment opportunities:** Identify shared investment opportunities; for example, in collaboration with the Southeast Asia Deal Teams under Australia's Southeast Economic Strategy to 2040.
- **Advanced market commitments:** Engage with the private sector in both countries to identify opportunities for advanced market commitments. At this stage, the willingness of buyers to pay a green premium is uncertain. Advanced market commitments could accelerate the development of green markets by providing financial incentives and reducing offtake risk. The announcement by Australia and Germany to cooperate under the H2Global mechanism could be a good model for future adoption of these kind of demand/supply side instruments (see *Box 3*). Further investigating and understanding the design options for advanced market commitments in order to adapt them to different technologies could help with the deployment and export of Australian green products.

#### **Box 3: Partnership through H2Global, a mechanism to accelerate market formation**

The H2Global mechanism is a market-based concept to foster a market for renewable hydrogen and other low-carbon fuels. It acts as a physical trading intermediary, using a double-auction system to buy renewable hydrogen at a premium and provide long-term contracts (usually 10 years), reducing financial risks for investors. The hydrogen is then sold to the buyers with the highest willingness to pay, with the price gap covered by public funds and philanthropic grants.

On September 13, 2024, Australia and Germany signed a joint declaration to enhance cooperation on renewable hydrogen supply chains through the H2Global mechanism. Each country will contribute €200 million to a joint funding window to secure European buyers for Australian renewable hydrogen producers. The first purchase auction is set for 2025, with the first annual sales auctions targeted for 2027/2028. H2Global is a prime example of how advanced market commitments can support Australia's green export agenda by creating market certainty and incentivising investment in commercial scale-up, especially in sectors that require significant upfront capital.

**For example, there are significant opportunities for Australia to collaborate with China on the development of a green standard for mining.** China is the largest producer of green technologies in the world, but Chinese products will have to meet increasingly stringent environmental requirements (e.g. carbon border adjustment mechanisms) to maintain market access to key geographies like the EU. While Australia's collaboration with China faces challenges due to the nature of Australia's geostrategic interests, Australia could combine its expertise in mining with its emergent position as a leader in the development of green standards to support China in this endeavour.<sup>31</sup> Successful development of Australia's green iron and steel aspirations will require an ambitious collaboration agenda with China – Australia's largest potential customer for these commodities – underpinning joint development of these green industries. Collaborating mitigates the risk of divergence, enhancing interoperability, which could lower possible future barriers to trade, creating demand for Australia's green products.

**Given the intertwined nature of Australia and Japan's energy transition and economic relationship, enhanced cooperation on joint transition plans should be a priority.** As shown in *Figure 5*, Australia has a central role in ensuring Japan's energy security. Clear policy signals and close coordination between Australia and these partner economies is likely to be critical for both parties to successfully transition away from fossil fuels. Close coordination on target setting and deployment of renewable energy will allow Australia to time green industrial production to meet Japan's need in the transition. Focusing on the export of green, energy-intensive commodities to Japan would allow Japan to decarbonise its onshore manufacturing, rather than fully offshoring to other countries where renewable energy is more readily available. Australia and Japan could also collaborate to identify opportunities where each could support the other's economic future. For example, Australia could identify opportunities in the hydrogen supply chain where Japanese investment in Australia could have a pivotal role. At the same time, it could also explore opportunities to support Japan's clean energy industries (e.g. batteries and permanent magnets).

**Through the execution of a sustainable growth strategy targeted to its partners in the Indo-Pacific, Australia has the opportunity to fill the climate leadership gap left by the US in the region.** As the US becomes increasingly isolationist under the Trump administration and disinterested in regional collaboration – including by potentially withdrawing from the Indo-Pacific Economic Framework<sup>32</sup> – Australia could show leadership in facilitating decarbonisation collaboration in the region. Assuming such a position would allow Australia to strengthen its positive ties in the region, which would have direct economic and strategic benefits. In particular, this would allow Australia to deliver on its existing green partnership agreements with South Korea and Japan, who may be wary of leaving a vacuum in the region.

### 3.2 A fit for purpose climate finance program

**Australia's climate finance could be used more strategically to support the creation of green demand in Southeast Asia.** Australia stands to benefit from the decarbonisation plans of Southeast Asian countries, but these benefits can only materialise by pulling all the levers at Australia's disposal, including climate finance. Aligning Australia's climate finance program with its green export agenda would advance mutual interests of Australia and partners in the region. The program should be informed by a robust analysis of priority countries and industries as proposed above and illustrated in *Appendix A*. Priorities should be developed in partnership with recipient countries to adapt and respond to the needs of partner countries.

**This is nothing new; Australia has successfully combined aid and trade objectives in the past in the agriculture sector.** The Australian agriculture industry has strong links to Southeast Asia both in terms of bilateral trade and cooperation on building sustainable and resilient agriculture. Over the past five years, Australia's development program has contributed almost A\$400 million to food security, agricultural development, and technical advancement in farming practices in Southeast Asia (see *Box 4*).

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<sup>31</sup> Australia has been a pioneer in the development of sustainable taxonomies and has produced a robust Guarantees of Origin system for hydrogen, renewable energy and other products made in Australia to provide confidence in the green credentials of these commodities, thus supporting access to green markets.

<sup>32</sup> Reuters (2024). Trade policy following Trump's 2024 election victory. [Link](#)

**Box 4: Aligning trade and aid objectives effectively: the example of the agriculture sector**

Australia plays a vital role in agricultural capacity building through the Australian Centre for International Agricultural Research (ACIAR), a government-linked research centre. ACIAR has helped to deliver projects focused on issues such as enhancing the resilience of farming practices, building partnerships for knowledge-sharing, and influencing agricultural policy in favour of sustainable systems. These actions have created awareness for high-quality agricultural products, which, when coupled with increased levels of disposable income and a recognition of the impacts of climate change on food systems, means that there is a shift in demand towards sustainable and ethically sourced foods in Southeast Asia.

Australia has been able to position itself to capitalise on the opportunity through its trade policies. By establishing trade agreements such as bilateral FTAs or the multilateral ASEAN-Australia-New Zealand FTA (AANZFTA), Australia has been able to obtain market access across a range of agricultural goods in Southeast Asian countries. The combination of proactive development to create demand and trade policy to facilitate market access in the agricultural sector has allowed Australian agricultural exports to Southeast Asia to almost double in the last five years.

**Building on the experience of the agriculture sector and applying it to all the sectors of the economy to create a comprehensive climate finance program will require greater coordination across the Australian Government.** Given the limited availability of climate finance, it is important that climate finance programs deliver more than the sum of their parts; this is even more true in today's tense geopolitical context, where development and aid programs are being reprioritised by some Western partners to make room in other areas of the budget such as defence.<sup>33,34</sup> Central administration of a climate finance grants program, alongside bilateral programs managed through Australia's overseas missions, would enable strategic deployment of climate finance to support Australian priorities. The program would focus on the industries and countries identified as priority areas, delivering grants alongside blended finance instruments for greater impact. The key functions should be:

- **Technical assistance for policy reform – small grants with high impact:** The use of technical assistance as a tool help partners create the right policies and enabling environment for investments can achieve substantial impact with minimal funding if executed strategically and with an emphasis on mobilising private finance. The successful use of this tool largely depends on securing high-level commitment through strategic partnerships and sustained dialogue with the host country. Australia could build on its successful use of technical assistance programs in other sectors to drive green industry growth in Southeast Asia. The development of such technical assistance should take place in close collaboration with Australia's bilateral and regional development programs.
- **Acceleration of investments in green projects – combination of grants and blended finance instruments:**
  - **Early-stage project development:** This pre-investment financial support can be deployed as grants or loans, or even an initial grant from the donor country that is then deployed as a loan to project development, repayable at financial close. This funding can encompass feasibility studies, project planning, financial structuring, and capacity building for project proponents. This crucial element is often missing and can significantly slow down the creation of green project pipelines.
  - **Crowding in private finance:** Focusing the deployment of blended finance on demonstration projects can help prove the viability of new technologies and business models. These projects should be picked carefully and designed to reinforce the case for stable and clear climate policies in recipient countries. The objective of these investments should be to attract private investments, be replicated, and promote market confidence, thereby scaling up investment. The key challenge is to determine the appropriate level of risk

<sup>33</sup> Associated Press (2025). Trump administration says it's cutting 90% of USAID foreign aid contracts. [Link](#)

<sup>34</sup> BBC (2025). Starmer cuts aid to fund increase in defence spending. [Link](#)

appetite for these investments to achieve genuine transformational impact. Grants could be needed to prepare the ground ahead of the investments.

**The creation of an Australian bilateral development finance institution (DFI) would enhance Australia's ability to deploy blended finance and use its climate finance more strategically.** A new bilateral DFI could complement Australia's export credit agency, Export Finance Australia (EFA), and DFAT's existing blended finance programs, including Australian Development Investments, by investing in higher-risk, catalytic tranches and structuring innovative deals that enable EFA and other investors to participate.

**A DFI could build on existing structures, such as Australia's domestic green bank, the Clean Energy Finance Corporation (CEFC).** The CEFC has significant experience in green finance mobilisation and market building and is well regarded by Australian financial institutions for its ability to de-risk projects, act as an early mover in new sectors, and crowd-in (rather than crowd-out) private capital.<sup>35</sup> The CEFC model could be applied in the region as a key pillar of Australia's new international climate finance program. Alternatively, Australia could consider adapting EFA's mandate to include a greater risk appetite, particularly building on the A\$2 billion Southeast Asia Infrastructure Financing Facility. However, international and Australian experience suggests that export credit agencies are not well suited to the more development-focused, early-stage work of a DFI, and many countries who manage successful development aid programs have elected to keep these functions in separate, though complementary, institutions (*See Box 5*). An external independent review of different institutional options, including the creation of a DFI, would help assess different options.<sup>36</sup>

#### **Box 5: A look into Germany's climate finance model**

Germany delivers climate and development finance primarily through a few complementary, but separate institutions<sup>37</sup>:

- **GIZ**, Germany's main agency for international cooperation and development, which leads on technical cooperation and disburses grants in developing countries. It implements projects on behalf of the Federal Ministry for Economic Cooperation and Development.
- **KfW Group** provides support domestically in Germany and internationally through its subsidiaries.
  - Germany's public development bank, **KfW Development Bank**, is responsible for the majority (over 70%) of Germany's international climate finance and has provided more than €250 billion for climate mitigation and adaptation measures in the past decade, mostly through loans.<sup>38,39</sup> KfW also disburses grants to prepare for financial investments.
  - A subsidiary of KfW, **DEG**, is the country's development finance institution, which focuses on directing private sector investments into developing countries and emerging markets. Its main role is financing local SMEs in developing countries, mobilising private finance flows into Germany's climate finance projects, as well as providing advisory services for the private sector. Its share of German climate finance is small (around 2.5%).
  - **KfW IPEX-Bank** is focused on export finance for international projects, providing medium- to long-term financing for export projects, infrastructure, and other climate initiatives.
- The mandated export credit agency in Germany, **Euler Hermes Aktiengesellschaft**, is separate from KfW Group, and managed the export credit guarantees on behalf of the German Federal Government. It often collaborates with KfW IPEX-Bank on export projects.

<sup>35</sup> Australian Sustainable Finance Institute (2024). Australian financial institutions' views on climate and clean energy opportunities in Southeast Asia. [Link](#)

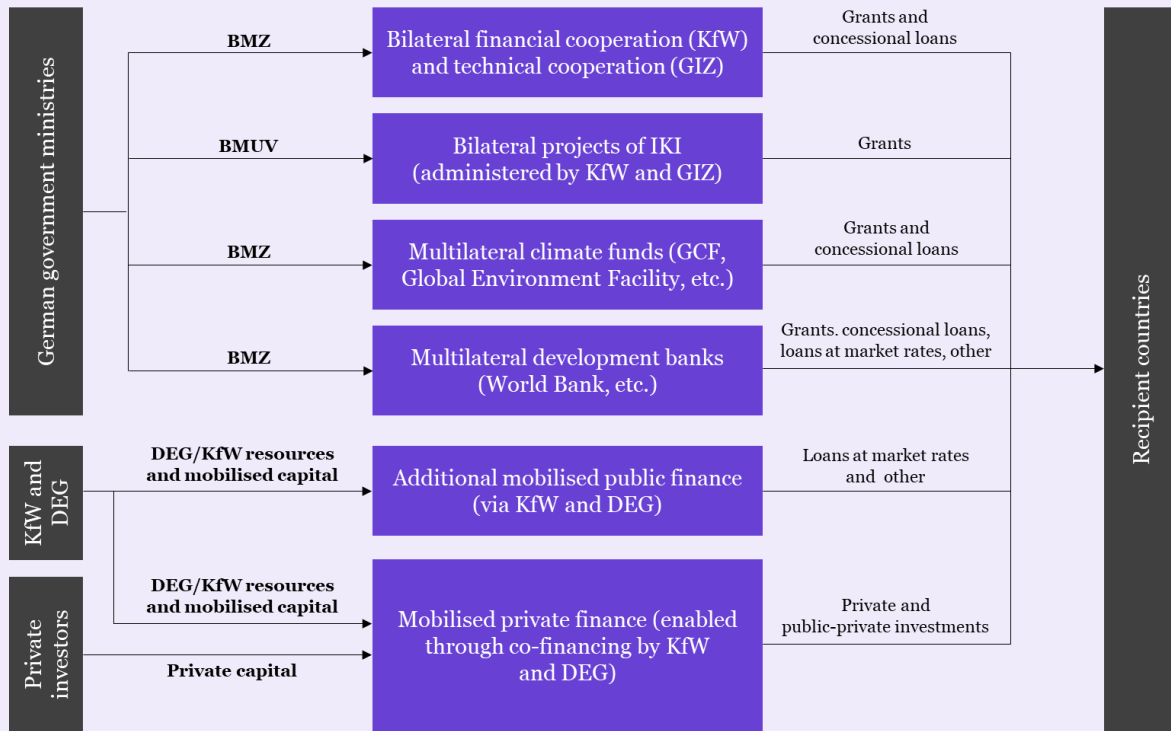
<sup>36</sup> A [review](#) conducted by DFAT in 2023 recognised the growing role for blended finance in Australia's development program. It recommended to expand Australia's existing blended finance programs but stopped short of recommending establishment of a new DFI at that time. We note that this was an internal review led by the team responsible for DFAT's blended finance programs. An independent review may be better placed to make an arm's length assessment of the pros and cons of establishing a new institution.

<sup>37</sup> Deutsche Klimafinanzierung (n.d.). Channels of German climate finance. [Link](#)

<sup>38</sup> KfW Group (2017). Climate finance is increasing. [Link](#)

<sup>39</sup> European Union (2024). Germany's support to developing countries – Reporting year 2023. [Link](#)

- Finally, Germany contributes to multilateral development banks and through contributions to multilateral climate funds like Global Environment Facility, Green Climate Fund, and Adaptation Fund.



Notes: BMZ = Federal Ministry of Economic Cooperation and Development, BMUV = Federal Ministry for Environment, Nature Conservation and Nuclear Safety, IKI = The International Climate Initiative

**A new bilateral DFI would enable Australia to put forward a strong climate finance commitment to the UNFCCC in 2025, bolstering Australia’s credibility as the (potential) co-host of COP31.** Australia and other developed countries will put forward the next round of international climate finance commitments for developing countries ahead of COP30 in Belém. Pressure will be on globally, including from Pacific Island nations, to demonstrate progress towards the new collective climate finance goal of US\$300 billion per annum by 2035 agreed at COP29 in Baku. A new DFI would utilise off-balance sheet finance and recycle funds to contribute significantly more to Australia’s climate finance quantum (and effectiveness) without commensurate impact on the Government’s budget.

## Conclusion

**Integrating climate finance and trade into a sustainable growth strategy would support achievement of a range of Australia's strategic objectives.** By targeting regional partners with appropriate tools – climate finance for developing partners and deeper trade relationships with more advanced economies – Australia can position itself as the partner of choice in the Indo-Pacific and trusted supplier of green products. Australia can also unlock future prosperity by assuring the future of green export markets and building deep and diverse trade links with regional partners.

**The development of a sustainable growth strategy is a key first step to catalyse demand for Australia's future green exports.** A strategy is necessary to guide action across all levels of government and must be supported by a program of actions across trade and climate finance domains.

**Progress across all domains is necessary to ensure Australia builds respect right across the region.** Neglecting either domain could create gaps in Australia's sustainable growth strategy which could be filled by geostrategic competitors.

**Significant effort to build green economy partnerships in the Indo-Pacific will be repaid handsomely but requires deliberate and careful actions now to maximise Australia's comparative advantages.**

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## Appendix

Appendix A: Demand market creation opportunities with Australia’s key partners in the Indo-Pacific (from largest current export relationship to smallest)

Partner	Fossil fuel trade relationship			Green export potential				
	Coal	LNG	Oil	Critical raw materials	Battery/solar manufacturing	Green metals	Hydrogen/low-carbon fuels	Agriculture
China	Yellow	Green	Red	Yellow	Red	Green	Green	Green
Japan	Green	Green	Red	Green	Green	Green	Green	Yellow
South Korea	Green	Green	Yellow	Green	Green	Green	Green	Green
India	Yellow	Red	Red	Green	Green	Green	Yellow	Green
Taiwan	Green	Green	Red	Green	Green	Yellow	Green	Green
Singapore	Red	Green	Yellow	Green	Yellow	Yellow	Green	Yellow
Indonesia	Red	Red	Yellow	Yellow	Green	Yellow	Green	Green
Vietnam	Green	Red	Red	Yellow	Green	Green	Yellow	Green
Malaysia	Green	Red	Red	Green	Green	Green	Yellow	Green
Thailand	Green	Green	Yellow	Green	Green	Green	Yellow	Yellow
Philippines	Yellow	Red	Red	Yellow	Green	Yellow	Yellow	Green

### Legend

- High potential for demand for Australian green exports, low barriers to entry
- Medium potential for demand for Australian green exports, potential of competition with partners’ domestic industry
- Low potential for demand for Australian green exports, high barriers to entry

Appendix B: Strategic opportunities for Australian climate finance

<p><b>Development of robust decarbonisation pathways</b></p>	<p>Although most ASEAN countries have implemented carbon emissions reduction targets, many of these countries’ net-zero transition pathways are still inconsistent with a 1.5°C world.<sup>40</sup> These countries could benefit from support from countries which are experienced in implementing net-zero strategies, enacting ambitious climate policies, and in modelling different decarbonisation scenarios. Thus, Australia has the opportunity to help developing nations in Southeast Asia to develop robust, objective targets and standards in their decarbonisation and energy transition plans.</p>
<p><b>Battery manufacturing in the Philippines</b></p>	<p>The Department of Trade and Industry in the Philippines is aiming to position the Philippines as a leader in battery manufacturing, seeking to create an end-to-end value chain from the mining and processing of green metals to the local manufacturing of batteries.<sup>41</sup> Australia is already involved in battery manufacturing in the Philippines through the investment of a LFP battery gigafactory near Manila, which makes this sector an ideal area of engagement. Australian technical assistance can help to develop and strengthen supply chains for batteries in the Philippines, leveraging its position as a major supplier of lithium and other critical minerals to the country, which would bring economic benefits to Australia’s critical minerals industries.</p>
<p><b>Green steel production in Vietnam</b></p>	<p>Vietnam is the top steelmaking nation in Southeast Asia and currently imports large volumes of iron ore from mines in Australia. Recently, the Vietnamese Government has announced plans to develop green and low-carbon steel products. This presents an opportunity for the Australian Government to provide technical assistance and implementation support for the adoption of new technologies to decarbonise this sector, such as renewable hydrogen and carbon capture.</p>
<p><b>Decarbonising Indonesia's power system and creating clean manufacturing industries</b></p>	<p>Indonesia has traditionally been adamant about maintaining coal in its electricity mix but has recently shown signs of a shift. The new President announced that the country would bring forward its plans to phase out coal to 2040 (from 2056). However, a subsequent statement from the Minister of Economic Affairs indicated that Indonesia would only reduce coal to 33% of the energy mix by 2040. Moreover, the Indonesian Government has also announced plans to build 100GW of new capacity by 2040, of which 75GW would be from low-carbon sources.</p> <p>Even if Indonesia follows the less ambitious route of reducing coal to 33% of the energy mix by 2040, it will face a significant challenge. Indonesia is one of the world’s largest consumers of coal with more than 250 power plants in operation and many more under construction, particularly to support the country’s nickel and aluminium processing industries.<sup>42</sup> However, renewables face barriers from low subsidy levels and regulations discouraging international investment. National plans emphasise hydro, biomass, and geothermal energy, with little focus on solar or wind. Australian blended finance and technical assistance could be key to de-risking wind and solar projects in Indonesia and helping create supportive policies for these technologies.</p> <p>Indonesia also wants to position itself as a leader in the EV and battery industries, for which it needs critical raw materials such as lithium. Australia’s climate finance program could also provide support for the development of these industries, which could demand Australian critical raw minerals in future.</p>

<sup>40</sup> Yusof Ishak Institute (2023). Planning Southeast Asia’s Decarbonisation Pathways. [Link](#)

<sup>41</sup> Department of Trade and Industry (2023). Transcription of Speech. [Link](#)

<sup>42</sup> Inquirer (2024). Indonesia’s Prawbowo vows to retire all fossil fuel plants in 15 years. [Link](#)