

STONEBENCH

Asia's coal conundrum

Asia was supposed to be quitting coal. Instead, it is buying more of it. In July, the region's seaborne thermal coal imports to the highest since the Middle East conflict began tearing through global energy supply chains in March. This is not backsliding. It is a hard pivot, and it exposes a truth that climate pledges had long obscured: Asia's coal habit was never really going away.

The trigger is geopolitics, but the cause is structural. When Iran's attacks knocked out 17% of Qatar's LNG capacity for years, not months, the gas that was meant to bridge Asia to a renewable future became scarce and expensive overnight. Governments in Beijing, New Delhi and Jakarta faced a blunt choice: keep the lights on with coal, or watch fiscal deficits and blackouts spiral together. They chose coal. What follows is not a story about one conflict. It is a story about four systems—energy security, climate policy, growth and finance—colliding at once, with coal as the shock absorber for all of them.

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Introduction

Asia's coal consumption is deepening rather than receding. The Middle East conflict—which knocked out about 17% of Qatar's LNG capacity in March 2026 and disrupted broader energy transit through the Strait of Hormuz—has forced the region's largest economies into an acute energy-security pivot back toward coal. Thermal coal futures climbed to US$130 per tonne in early August, and Asia's seaborne thermal coal imports rebounded to an estimated 73.16 million metric tonnes in July, with China's arrivals reaching around 28 million tonnes—the highest monthly figure of the year. China continues to commission coal plants at near-decade highs even as its renewable additions break records. India's coal-fired generation jumped 14% in June as drought squeezed hydropower. Indonesia—the world's largest thermal coal exporter—is tightening export controls, creating additional supply-side pressure. Southeast Asia's clean-energy push is meanwhile stalling on ageing grid infrastructure.

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The paradox is structural, not merely cyclical. Governments across the region face a trilemma: energy security demands baseload reliability that intermittent renewables cannot yet deliver at scale; fiscal constraints—widened by the very energy-price shock driving the crisis—limit the capital available for green investment; and sustained GDP growth rates of 5-6% require new generation capacity faster than renewables-plus-storage can be deployed. The Just Energy Transition Partnerships (JETPs) that were designed to bridge this gap are faltering: the United States has withdrawn, financing remains

Cover image by Neneqo Fotógrafo

unfulfilled and flagship coal-closure projects have been reversed. The central thesis of this paper is that the Middle East conflict has not created Asia's coal dependence but has exposed and accelerated a structural lock-in that climate pledges had papered over. The region's energy transition is being deferred, not cancelled—but the deferral carries compounding costs in carbon budgets, stranded-asset risk and geopolitical vulnerability.

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What is the issue?

Asia accounts for over 80% of global coal consumption and 90% of planned new coal-fired capacity. The region's relationship with coal is not a legacy problem on a glide-path to resolution; it is an active, expanding dependency. China, India and Southeast Asia are simultaneously the world's largest coal consumers, its fastest-growing electricity markets and the jurisdictions with the most ambitious renewable-energy installation rates. The paradox—building coal and renewables at record pace simultaneously—is the defining feature of Asia's energy system in 2026.

The explanation lies in the gap between installed renewable capacity and dispatchable generation. Renewables provide energy but not on-demand reliability. Asian grids largely lack the storage, interconnection and flexibility services to operate on intermittent power alone. Coal provides baseload and dispatchable backup—a function that LNG-fired gas was supposed to perform as a "bridge fuel" in the energy transition. But gas depends on LNG imports for most of Asia, and LNG depends on a supply chain running through the Strait of Hormuz and Qatar's Ras Laffan facility—both of which the Middle East conflict has disrupted since March 2026.

This is not an abstract trade-off. For governments in New Delhi, Jakarta, Hanoi and Manila, it translates directly into fiscal arithmetic. Higher LNG spot prices—which doubled in the weeks following the March attacks on Gulf energy infrastructure—widen current account deficits, increase subsidy burdens and crowd out the infrastructure investment that an energy transition requires. Coal—domestically available in India and Indonesia, and reliably shipped from Australia—becomes the path of least fiscal resistance.

The issue sits at the intersection of four systems: geopolitics (the Middle East conflict and its energy-supply consequences), climate policy (the COP commitments and net-zero pledges that require coal phase-down), economic growth (the 5-7% GDP growth rates that Asian developing economies need to sustain poverty reduction and industrialisation), and finance (the capital markets, development banks, and sovereign balance sheets that must fund both transition and expansion simultaneously). Understanding Asia's coal conundrum requires holding all four in view at once.

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Image by Heru Dharma

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Why now? The trigger

Several developments in recent weeks have crystallised the structural tension into immediate policy reality.

First, Asia's thermal coal imports have rebounded sharply. Data published on 28 July 2026 indicate that the region imported an estimated 73.16 million metric tonnes in July, up from 70.31 million in June. China led the increase, with thermal coal arrivals reaching around 28 million tonnes—the highest monthly figure of 2026.

Second, a report published on 6 August 2026 highlighted China's "coal power lock-in" and what it termed "green growing pains"—the finding that China's renewable energy remains structurally underutilised because coal-power policies prevent its full deployment.

Third, Southeast Asia's clean-energy surge is colliding with ageing grid infrastructure, stalling billions of dollars in renewable projects across Vietnam, Thailand and Indonesia.

Fourth, India's coal-fired generation jumped 14% in June 2026 to 120.2 billion kWh—the highest level since late 2023—as drought squeezed hydropower output. India's power demand is forecast to grow 5-6% annually in the medium term.

Fifth, the Middle East conflict—which escalated in March 2026 with retaliatory Iranian attacks on Qatar's Ras Laffan LNG terminal, knocking out 17% of Qatar's LNG capacity for an estimated three to five years—has kept energy costs elevated. Brent crude peaked above US$125 per barrel in April 2026 before easing to around US$95. The ADB placed the conflict at the centre of the region's economic challenges.

The landscape

The landscape is not uniform, but the pattern of coal dependence deepening under fiscal and security pressure even as climate ambitions persist on paper is remarkably consistent across the region's major economies.

China presents the starkest version of the paradox. In 2025, more than 50 large coal units were commissioned, up from fewer than 20 per year over the prior decade. The capital locked into new coal plants creates a 30-40 year operating-life commitment that constrains future flexibility. Beijing frames coal as "capacity insurance" rather than primary generation, but the distinction is difficult to maintain when coal plants operate at high utilisation rates to repay their capital costs.

India has added 7.2 GW of coal capacity in fiscal year 2025/2026—the highest in a decade. Coal-fired power demand rose 11.5% in the April-to-June quarter. The country is cutting thermal coal imports by 30% by ramping domestic production. The Middle East conflict has widened India's fiscal deficit via higher import bills.

Indonesia is tightening export controls through a proposed state monopoly on coal exports, driving up Asian coal prices. The flagship JETP early-closure project has been reversed. The US has formally withdrawn from the US$20 billion JETP pledge.

Vietnam has published a JETP roadmap, but the IEA forecasts coal use will continue to rise until at least 2030.

Japan and **South Korea** have responded to the LNG shock by extending the operating life of coal fleets. Coal fleets could offset up to 70% of gas-fired generation in Japan and more than 100% in South Korea. IEEFA has warned that Japan's energy security response is "creating a renewables blind spot".

Capital markets reflect the broader shift. Global sustainable-debt issuance fell nearly 15% to US$1.1 trillion in 2025.

Implications

The implications are structural rather than cyclical, and they are reshaping businesses across the region's energy, industrial and financial sectors.

The coal-to-gas transition bridge has been severely undermined. LNG's role as a transition fuel depends on affordable and reliable supply. The Middle East conflict has demonstrated that neither condition holds under geopolitical stress. Goldman Sachs warned that Asian and European LNG prices could jump 130%. Countries with domestic coal are doubling down while countries without it face genuine energy-security crises. IEEFA has argued that the conflict should accelerate the case for renewables as the most reliable hedge against energy shocks.



Image by Uday Adhikary

The fiscal trap is self-reinforcing. Higher energy import costs widen fiscal deficits, which constrain borrowing capacity, which in turn limits investment in grid modernisation and storage and keeps coal indispensable. The UN's Financing for Sustainable Development Report 2026 noted that "climate impacts are intensifying, further compounding fiscal and financing pressures".

Carbon budgets are being consumed. If China's 50-plus GW-scale units from 2025, India's 7.2 GW from 2025/2026 and Indonesia's expanded mining pipeline all run to design life, the emissions are largely incompatible with 1.5-degree pathways. This is not speculative; it is capital already deployed.

Stranded-asset risk is migrating from coal producers to coal importers. Indonesia's export controls signal that the world's swing supplier may increasingly prioritise domestic consumption. Trade pressure from China, which accounts for around 40% of Indonesia's thermal coal exports, may constrain the scope of export restrictions.

Renewable investment is stalling on grid constraints, not willingness. Billions in contracted renewable projects cannot connect because transmission infrastructure is inadequate. The Enerdata assessment noted that "coal phase-out relies" on solving grid integration challenges.

Climate diplomacy faces a credibility test. The collapse of JETP implementation signals to developing Asian economies that wealthy-country climate commitments may not be reliable. The EU, France, Germany, the UK and the Netherlands remain committed, but the US' exit has weakened both the financing pool and the political signal.

Corporate positioning is shifting. Energy costs are cascading through non-energy sectors. Companies with coal-exposed supply chains face short-term cost advantage from coal but long-term regulatory and reputational risk from continued dependence.

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Conclusion / what to watch

Asia's coal conundrum is the rational outcome of actors facing incompatible objectives—decarbonisation, energy security, economic growth and fiscal sustainability—with insufficient tools to reconcile them. The Middle East conflict did not create these tensions but has made them undeniable.

Watch for these signposts in the coming months:

- Indonesia's final policy on state coal-export controls, which will determine the supply-cost curve for the region's swing commodity.
- India's National Electricity Policy, which will indicate whether New Delhi treats coal as permanent or transitional beyond 2035.
- The COP31 preparatory process, where Asian NDC submissions will reveal the gap between Paris commitments and reality.
- Asian LNG spot prices—if they remain above US$20/MMBtu, the coal-over-gas arbitrage persists.
- Grid-infrastructure investment announcements in Vietnam, Thailand and Indonesia.

The coal conundrum is, at its core, a sequencing problem. Asia needs to build the grid, storage and institutional capacity for a renewable-dominated system before it can retire the coal that currently provides reliability. The Middle East conflict has starkly demonstrated what happens when that sequencing is disrupted.

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Coal's grip on Asia will not loosen soon, but its terms are changing. The next five years look less like a phase-out and more like a slow, uneven handover, with coal doing the heavy lifting while grids, storage and institutional capacity catch up, if they catch up at all. China's new plants carry 30- to 40-year lifespans, which means today's capital decisions are already writing the emissions story for the 2050s. India's calculus turns on whether coal is filed as insurance or infrastructure once its National Electricity Policy lands. And Indonesia, as the region's swing supplier, will decide how much of its coal stays home versus abroad – a call that will ripple through every import-dependent economy from Hanoi to Manila.

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