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Malaysia's role in meeting climate goals

Zoë Knight, Managing Director, HSBC Centre of Sustainable Finance explains this

Last year will be remembered for the succession of weather-linked disasters that hit communities and economies around the globe. There was Hurricane Harvey in the US, Typhoon Hato in southern China, and Ophelia in Ireland and the UK. Wildfires raged in California, Spain and Portugal. Flooding wrought devastation in India, Bangladesh and Nepal.

As we go into 2018, the message is clear: the impact of climate change is severe and intensifying, and it requires urgent and multi-pronged global action.

This challenge is enormous. Most scientists believe that it is essential to keep global temperatures from rising more than 2°C compared to pre-industrial times. In essence, that now requires us to rewire and reinvent a lot of the economic activity that has been built up over the past century and a half. Emissions from factories and power stations need to come down. Buildings – and entire cities – have to become more energy- and water-efficient. Transport and energy systems need to be weaned off fossil fuels. And roads, dams, housing, and telecommunications grids need to be built or retrofitted to withstand more frequent fierce storms and higher sea levels.

Infrastructure is at the heart of this transition – and the infrastructure investment decisions being taken now will play a key role in this fight for decades to come.

The good news is that the world, as a whole, needs to invest in infrastructure anyway. Economies around the globe are constantly evolving and striving to raise the productivity of workers and companies. More and more people are moving from the countryside to cities. And in many parts of the world – notably Asia and Africa -- populations are expanding. All of this means a constant demand for more energy, transport, housing and telecoms and IT networks.

Clearly, the way forward is to invest in infrastructure that meets both sets of challenges at the same time – in other words, that unlocks productivity and delivers growth, but that does so in a way that minimises future carbon emissions, and helps economies and communities to adapt to the effects of climate change.

This comes with a price tag. Roughly US$ 100 trillion will need to be invested in infrastructure around the globe over the next 15 years, both to replace ageing systems, and to accommodate growth. Addressing the future needs of responding to climate change impacts will only add to those funding requirements. The more infrastructure is "green" from the get-go, the better.

Perhaps the most urgent -- and potentially impactful -- change needs to happen in energy infrastructure.

The power systems that generate and transmit electricity, as well as the transport systems, buildings and cities that consume it, need to do two things: they need to reduce emissions (both by using low-carbon alternatives like solar and wind power, and by consuming or wasting less power in the first place); and they have to become more resilient to the impacts of climate change.

Take power system efficiency. A whopping 8% of global electricity output is lost during transmission and distribution each year, according to World Bank estimates – and there has been no significant improvement in this level of loss since the 1960s. Upgrading ageing systems would be a relatively easy win in the fight to decarbonise the global economy. Thankfully, more money is now flowing into technologies and projects that deliver greater energy efficiency. Global investment in energy efficiency-related activities rose 9% in 2016, reaching US$ 231 billion. The buildings sector was the key beneficiary, receiving US$ 133 billion .

Likewise, investments in renewable energy sources reached almost US$ 300 billion in 2016, more than double the amount invested in coal, gas and oil power capacity, according to the International Energy Agency.

China is now spearheading much of this change, with big investments in alternative energy at home, in particular. Much of the activity linked to the country's Belt and Road Initiative will also be made with sustainable criteria in mind, providing an extra impetus to green financing and investing.

In Malaysia, too, the government is working towards inclusive and sustainable growth, and has placed a big emphasis on managing the environment for future generations. For example, the authorities have pledged to cut carbon emissions intensity by 45% by 2030 to address climate change and global warming. This ties in with the Eleventh Malaysia Plan, which aims to facilitate a shift in the economy, particularly in the private sector, towards more sustainable patterns of consumption and production – including through investments in green technology and financial instruments.

In addition, the Ministry of Energy, Green Technology and Water (KeTTHA) is looking into establishing a green investment bank by as early as 2020 to specifically handle green financing.

Given the colossal costs involved, public-sector funding alone can't fund this global energy system transition, so private-sector funds will be essential. Encouragingly, an HSBC-commissioned survey published last September found that more than two-thirds of global institutional investors intend to put more capital into low-carbon and climate-related investments. Within Europe, that figure is almost unanimous, at 97%. On the other hand, 79% of the surveyed investors said there were still barriers to increasing climate-related investment – chief among them a lack of credible investment opportunities.

Governments around the world are confronted with a huge array of needs: population growth, urbanisation, the ever-present need for economic advancement and productivity growth – and climate change.

Infrastructure that is low on emissions, high on efficiency, and adapted to the future physical impacts of global temperature rises is the common key to addressing these challenges. Recent technological advances mean that many "green" alternatives now make not just environmental sense, but economic and business sense too. But the urgency for action is great – and today's decisions will be critical to minimising tomorrow's challenges.

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