

Will China be the Wordle answer of the day?

China's decarbonization movement explained

Wordle is a daily word game that has taken the world by storm. You get six chances to guess a randomly picked five-letter word, and after each guess, the game will let you know how close you are to the word, spot-by-spot. Its simplicity and only-one-puzzle-a-day stakes have led to colorful boxes popping up all over social media feeds.

There are over 150,000 five-letter words in the English language that could be the next Wordle answer. Here are six that could be used to describe the China decarbonization movement and the investment opportunities along the way.

Today China relies on coal to power the country. With a commitment to reduce carbon emission while maintaining energy security, China plans to move away from oil and natural gas, and toward renewable power. How will it achieve that goal and what does that mean for investors? Dr. Zhu Min, Chairman of the National Institute of Financial Research at Tsinghua University and Barry Gill, UBS Asset Management Head of Investments, have some thoughts.

Ready

Set to take action for peak carbon emission by 2030

To start, China has plans to gradually slow capacity and the construction of coal power plants. Once China reaches peak emissions in 2030, it will stop using coal power generators. Until then, the more immediate goal is to increase energy efficiency.

There is much room for improvement. Measured by energy consumption per dollar of gross domestic product (GDP), the country is at 150% of the global average – two times the level of the U.S. and three times that of Japan. Because the country seeks to maintain a roughly 5% GDP growth rate and energy consumption is targeted to grow by about 2%, improving efficiency is a near-term priority.

Solar

Achieve decarbonization and maintain energy self-sufficiency

China today imports 60% of its oil consumption, and the percentage is even higher for natural gas. Coal is the only carbon-based energy resource in abundance, but the country has ample resources for solar and wind power generation. If China were to use just 10% of its potential solar resources, it could generate enough power for the entire country.

That said, the switch to renewable energy is no easy feat and requires long-term strategic planning. For instance, metals such as copper and cobalt are critical components that have been in short supply and volatile in prices in the past few years. A stable supply chain needs to be built. And more importantly, renewables like solar and wind do not deliver energy 24/7; a new distribution system with large storage capacity is necessary to harness that power and support the country's energy needs in a steady manner.

Smart

Develop a smart grid for renewable energy

Actually, two systems are needed: a smart grid that is decentralized in order to meet local levels of power need, and a national grid system for distributing renewable power. If China were to put solar panels on the roof of every building in the country, they could meet roughly 40% of the country's power needs. But it would require a national grid system to ensure stability.

Today's technology can support the building of a decentralized smart grid, but it also requires a different regulatory framework, different power distribution system, and a different incentive pricing system. And those systems need to work together.

China

Lead in decarbonization

In the carbon neutrality world, you need to do it all. China is in the position to be competitive in several areas, including renewable energy – particularly solar and wind. Its economy supports the technological skill to harness clean energy. As a result, the cost of solar and wind has dropped dramatically over the past two to three years, as has hydropower. We expect China to build capacity and global competitiveness in renewable energy. Fully 50% of the world's solar panels are produced in China today. Its strength in manufacturing extends beyond renewable energy to smart vehicles.

China is moving fast on multiple technology fronts, including artificial intelligence (AI), 5G, the internet of things, digital moving vehicles – and electric cars. China sold one million electric cars a year and a half ago. This year, it sold three million electric vehicles. Two years from now, the estimate is five million. The target for 2040 is that electric cars will make up 40% of all cars sold in China.

Goals

Tap into digitalization to pursue net zero goals

As China pursues carbon neutrality by 2060, it will implement a completely new digitalized energy system, power system and consumption system. Carbon neutrality has not only changed the energy structure; it has changed the end production of consumer goods and the end living environment.

Digitalization plays two separate but important roles. First is improved energy efficiency at the micro company level. With so much room for improved efficiency – 50% – companies including steel mills, mining companies and chemical companies will use software and AI enhancements to better the efficiency of their buildings and operations.

Second is the need to build an entirely new digitalized system to support this carbon neutrality world. The whole power system will be digitalized, including a sustainable grid system, stable power generation systems, and distribution storage.

Focus

Invest in the decarbonization theme

Dr. Zhu Min and Barry Gill see opportunities for investors to be part of the decarbonization movement.

1. Renewable energy
Look for solar, wind and hydropower to grow, because China needs them to replace 90% of its current older energy sources, and to export in the future.
2. Digital moving vehicles
The auto sector is moving fast. China expects to sell roughly 10 million electric vehicles a year within the next five to seven years. It will move fast with only 173 cars per 1,000 people today. Compare that with 700 in Europe and Japan, and 900 in the U.S. The gap will be filled by electric cars, for sale in China and for export.
3. Digitalization
In order to close the energy efficiency gap, China will look to software companies and AI companies to improve every area and help every type of business reduce carbon emissions.

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