A moment in markets – China's electrification opens new frontiers for investors

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China's increasing emphasis on technological innovation – particularly as it relates to the energy transition – is expected to drive the next phase of economic growth and creates opportunities for investors.

Technological self-sufficiency has been adopted as a core tenet of national development in China's recently announced 14th 5-year plan for 2021-2025. There are two fundamental pillars inherent in this framework. The first is to reduce the country's reliance on foreign links within its supply chains – a goal that has possibly germinated in the aftermath of trade wars. The second is to move up the value chain particularly as it relates to emerging technologies like electric vehicles.

The Chinese government has launched a new energy vehicle (NEV) industry development plan which aims to bring NEV sales to 20% of all vehicle sales by 2025. China aspires that battery-electric vehicles dominate the market by 2035 and all public transport, eventually, also runs on electric power. The policy has, therefore, laid the groundwork for the industry to thrive. But for such audacious goals to become achievable, large amounts of investment will be needed in the sector.

Investments will not only be necessary to develop NEVs but will be required across the ecosystem supporting the sector. The ecosystem will include things like mining of raw materials such as nickel, the development of more efficient batteries, and a well distributed charging infrastructure. The good news is that such investments are underway already. Shanghai alone intends to add 100,000 to 200,000 public and private NEV charging points over the next three years.
A proliferation of NEV manufacturers is also underway in China with local companies making cars suited to the tastes and needs of the consumers. BYD Co Ltd is an excellent example of a company that has moved up the value chain from being a battery manufacturer to building commercial and private vehicles and becoming one the biggest electric carmakers in the world.

Consumers are responding well to this transition too. China's NEV sales rose for a seventh consecutive month in January hitting a record high in monthly sales. China sold 179,000 NEVs in January – up 238.5% from a year ago1. A combination of improving charging infrastructure, reducing battery costs, and the increasing choice is, therefore, going to be crucial if China – just like any other country – is to achieve its NEV sales targets.

Traditional Chinese equity indices such as the CSI 300 Index offer a relatively modest exposure to the so-called 'new economy' sectors. This may change over time but for now, the dominance of financials and consumer staples is vividly pronounced. The S&P China 500 Index or the CSI 300 Index, may work very well for many investors seeking a pure beta exposure to China. But China's growing share in thematic indices offers an alternative to those seeking a tech tilt.
For example, China wields a weight of around 29% in the WisdomTree Battery Solutions Index – meaningfully higher than the 20% weight for the US2. Companies represented include midstream applications like battery manufacturing and enablers in the charging infrastructure sector. China's share in a relatively more downstream focused Stoxx Global Electric Vehicles and Driving Technology Index is currently around 4%3, but this may change with the country's increased focus on moving up the value chain.

While the China tech story is likely to unfold in the years to come, it may start getting more attention from markets much sooner. Investors already have an array of options when it comes to gaining exposure to China. Pure beta plays are not the only option, thematic investing may also increasingly present itself as a viable alternative.

1 Argus Media as of 09 February 2021: https://www.argusmedia.com/en/news/2185170-chinas-january-ev-sales-hit-alltime-high.

2 WisdomTree as of 24 February 2021.

3 Stoxx factsheet as of 31 December 2020.

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