



Wellington energy independence

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We explore the potential near- and longer-term market effects of deteriorating US/China relations, coupled with the shift toward a low-carbon economy.

How geopolitics and the energy transition may reshape global trade

United States, Institutional

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This is an excerpt from our 2024 Investment Outlook, in which specialists from across our investment platform share insights on the economic and market forces that we expect to influence portfolios in 2024. This is a chapter in the Global Economic Outlook section.

The shift toward a lower-carbon economy is accelerating amid a period of escalating geopolitical tensions, including a deteriorating US/China relationship. These concurrent secular trends may have significant impacts on manufacturing and trade activity, as well as financial markets.

The race is on for energy-transition dominance and the massive market opportunities that go with it. Winners will likely be countries and regions that create a pipeline of raw materials and a manufacturing base for the components necessary to electrify power production and distribution, transportation, and industrial processes. Getting a head start matters, mainly because renewable energy has economies of scale: The cost of renewables decreases as production increases.

Today, China has a clear head start in the energy-transition race. China controls between 65% to 95% of the supply of resources across renewable technologies (Figure 1).² In 2020, exports of electric vehicles, batteries, and solar cells were barely 1% of China's total exports; within four years they are on track to be almost 5%.³ Because of renewables' economies of scale, China may benefit from the lowest global incremental costs and the ability to invest in research and development to advance technologically. (Notably, China has leapfrogged to the head of the line in electric vehicle production as well, which similarly accrues advantages from economy of scale.)



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I believe the energy transition and ongoing geopolitical tensions will continue to turn global trade on its head. In the near and longer term, investors should expect:

1 "Renewable Energy Market Update: Executive Summary," International Energy Agency, June 2023. | 2 International Energy Agency and BloombergNEF. | 3 China National Bureau of Statistics. | 4 "World Trade Report 2023: Re-globalization for a secure, inclusive and sustainable Future," World Trade Organization. | "World Economic Outlook, Chapter 3: Fragmentation and Commodity Markets: Vulnerabilities and Risks," October 2023. | 5 Wellington Management calculations, based on data from the US Bureau of Economic Analysis.

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