December 2023

China's Troubles in Historical Perspective

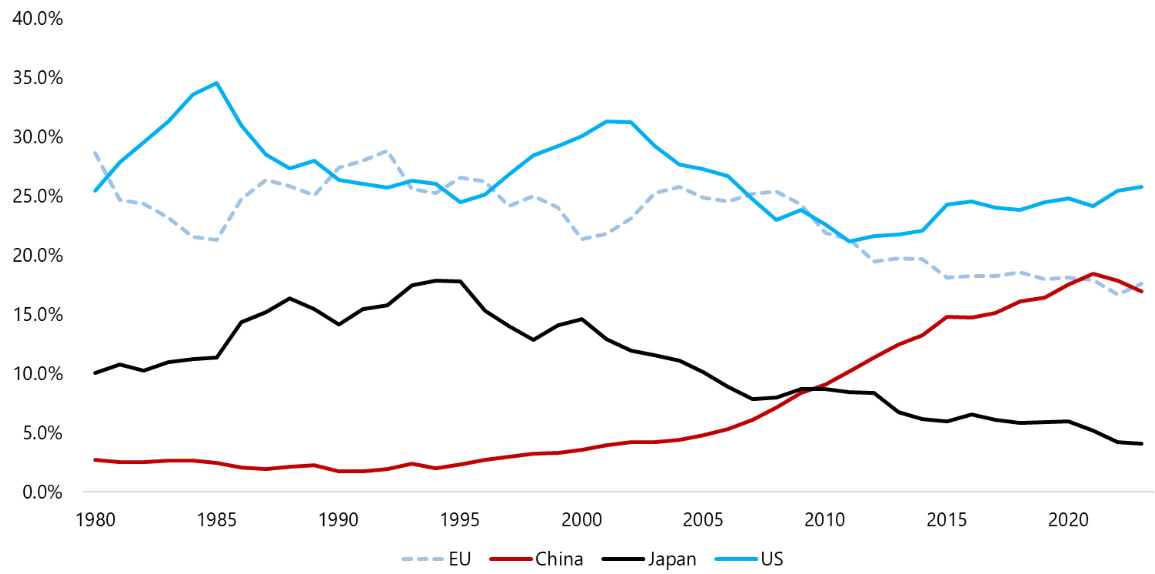
No nation had ever risen as far or as fast as China. After it opened to the world in the 1980s, its share of global GDP rose nearly tenfold from below 2 percent in 1990 to 18.4 percent in 2021. Since then, many observers have started to realize the extent of its growth slowdown, driven by rising debts, an increasingly meddlesome government, the shock of a meltdown in the property sector. Few if any recognize the implications. China's rise appears to be over.

A Shrinking Share of the World Economy

From a peak of 18.4 percent in 2021, China's share of global GDP, in nominal dollar terms, is on track to end this year at just 17 percent. That two-year drop of 1.4 per cent is the largest since at least the 1960s. Xi Jinping, who aimed to revive Maoist values, may be reviving Maoist growth as well.

Contrary to popular belief, China's rise did not come mainly at the expense of the United States. It carved its rising share mainly out of Europe and Japan (see chart below).

Chart 1. China's share of global GDP, versus its largest rivals
(Percent)



Source: IMF, Haver, Breakout Capital. EU = European Union, US = United States

The Big Gainers

Parsing China's decline in 2022 and 2023, we can identify the big gainers. In total, the world economy is expected to grow in that period by $8 trillion to $105 trillion. China will account for none of that gain. Other emerging nations will account for nearly half of it, the United States will account for around 45 percent, and Europe will count for the rest. Half of the gain for other emerging nations will come from just five of these countries: India, Indonesia, Mexico, Brazil and Poland. That is a striking sign of possible power shifts to come.

Breakout Briefings
Our Worldview in Charts

Chart 2: Largest contributions to the increase in global nominal GDP from 2021 to 2023
(Percent)

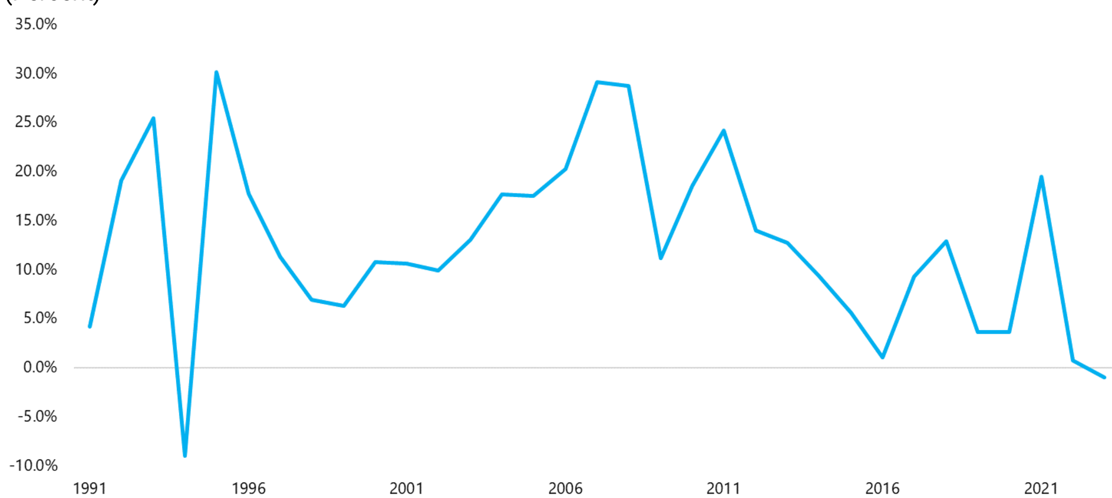
United States	45.5%
Euro Area	9.8%
Emerging Markets ex China	48.2%
India	7.9%
Mexico	8.0%
Brazil	4.8%
Indonesia	2.3%
Poland	3.5%
China	-0.7%

Note: Totals add to net more than 100 percent because of detractors
Source: IMF, Haver and Breakout Capital Calculations

Why this shift is so widely overlooked

Shifts in the balance of global economic power are best measured in nominal dollar terms. Current discussions focus mainly on growth in real, inflation adjusted terms, which China continues to adjust in ways that make its growth rate look strong and steady, at or near the official target of 5 percent. But in nominal dollar terms, based also on official data, China's economy is on track to record a negative growth rate for the first time since a large devaluation of the renminbi in 1994.

Chart 3. YoY Growth in China's Nominal GDP in US Dollars
(Percent)



Source: IMF, Haver, Breakout Capital Calculations

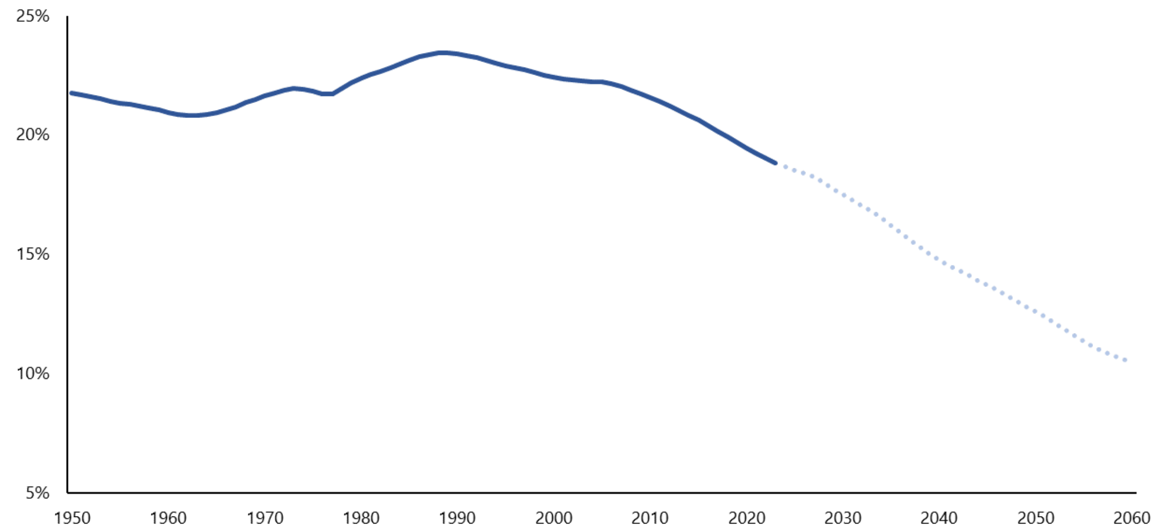
Breakout Briefings

Our Worldview in Charts

Why China is unlikely to rise again

One reason is that the meddling state and heavy debts are slowing productivity growth, but productivity is hard to measure, much less forecast. Population trends are very clear. Fewer workers mean less growth in the future. And due to the ongoing baby bust, China’s share of the world’s working age population has already fallen from a peak of 24 per cent to 19 per cent, and is expected to fall by half to 10 per cent over the next 35 years. With a shrinking share of the world’s workers, a smaller share of GDP is almost certain.

Chart 4: China’s share of global working age population
(Percent)



Source: UN Population Estimates, Haver, Breakout Cpaital Calculations

Deflation and Depreciation

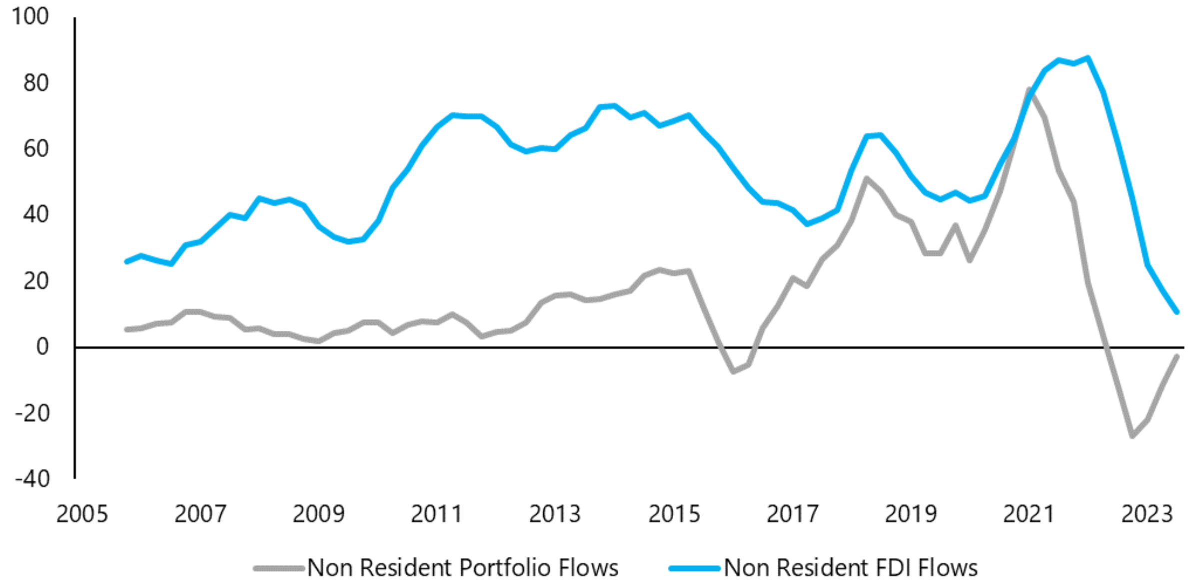
China’s nominal GDP could get a boost from inflation, or appreciation of the renminbi, but neither looks likely in the foreseeable future. Consumer demand is weak, investor sentiment is bearish. Foreign direct investment fell by $12bn in the third quarter — the first such drop since records began. Chinese investors are making outward investments at an unusually rapid pace and prowling the world for real estate deals.

And these declines are driven by the mainstream narrative about slowing real growth: sentiment could get worse, as more investors realize that China’s rise as an economic superpower may be over.

Breakout Briefings

Our Worldview in Charts

Chart 5. Capital Flows to China
(US Dollar in Billions, 4 quarter moving average)



Source: IMF, Haver, Breakout Capital Calculations

Breakout Briefings

Our Worldview in Charts

Disclaimer

Breakout Capital has entered into a strategic relationship with Rockefeller Capital Management ("RCM"). Neither RCM nor its subsidiaries has any investment or trading authority or risk management responsibility for Breakout Capital or over the positions held by Breakout Capital's clients, including the Fund. RCM provides ongoing human resource related services to Breakout Capital. RCM has also been appointed as a placement agent for the Fund.

Past Performance is no guarantee of future results. In considering the performance information contained herein, prospective investors should bear in mind that past, forecasted or targeted performance is not necessarily indicative of future results, and there can be no assurance that comparable results will be achieved. This newsletter is accurate as of its date, and no representation or warranty is made as to its continued accuracy after such date. None of the Fund or any of its authorized representatives has any obligation to update this newsletter at any time in the future.

Breakout Capital is a registered investment advisor. Registration does not imply a certain level of skill or training. The views of Breakout Capital expressed herein were current as of the date indicated above and are subject to change. Any performance data quoted represents past performance and does not guarantee future results. This communication does not constitute investment advice and is for informational purposes only. An investor should assess his/her own investment needs based on his/her financial circumstances and investment objectives. Neither the information nor any opinions expressed herein should be construed as a solicitation or a recommendation by Breakout Capital to buy or sell any securities or investments. To the extent that any information contained herein has been obtained from third-party sources, such sources are believed to be reliable, but Breakout Capital has not independently verified the accuracy of such information.

Certain information contained in this document constitute "forward-looking statements," which can be identified by the use of forward-looking terminology such as "may," "will," "should," "expect," "anticipate," "project," "estimate," 'forecast," "intend," "continue," "target," or "believe" or the negatives thereof or other variations thereon or comparable terminology. Due to various risks and uncertainties, actual events or results or the actual performance may differ materially from those reflected or contemplated in such forward-looking statements.

For accredited investors only.

For more information, please contact:

Cheryl Galante, Head of Investor Relations
Main 212 497 5100 | Direct 646 216 8400
cgalante@breakout-capital.com