China Economic Perspectives

Xi-Trump meeting: continuation of broad stability; China-EU tensions on the rise

Economics

China

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China-US broad stability to continue

China officially announced President Xi would make an official state visit to the US on 23-25 September. It has been almost ten years since a Chinese president made a state visit to the US. It has been almost a year since the two sides started the current period of relative stability. We expect this trip to re-affirm the stability.

Statements made by the two ministerial-level teams have been positive but there have been no details given. Media reported President Trump will receive President Xi at the airport, which is unusual for a US president. We would take this as a positive sign.

Based on our client conversations and media reports, market expectations are modest and include:

- The tariff truce is expected to be extended by one year.
- There could be a ~USD 30 billion tariff reduction on non-sensitive products on both sides.
- There will likely be some general level discussions on AI governance.
- China will likely buy more US products in terms of planes and parts, agricultural products and oil and gas.
- China will likely ensure the steady supply of rare earths.
- Potential reciprocal market-opening measures in selected sectors.
- Potential cooperation on developments in the Middle East.

We think significant breakthroughs on the trade in key technologies would be viewed as positive surprises instead of baselines.

A significant number of frictions will likely be part of the new normal as they have been in the past year. These can include more companies on the entity list, AI distillation, new tariffs based on other clauses and tensions at international meetings such as G20. They are, however, likely to be contained and be less intense than the tariff escalation back to the peak level in 1H 2025.

We believe ongoing policy frictions and a broader framework of strategic stability could continue to coexist.

China-EU tensions rose

Meanwhile, the China-EU relationship is under more pressure. Ms. von der Leyen's State of the Union address included remarks highlighting the EU's concerns about trade imbalances with China. The two sides have difficulties in negotiation partially because they hold different views on why there is a large trade imbalance. The EU has argued that subsidies and other market practices contribute to the trade imbalance, while China has disputed that assessment. The key now is whether the two sides can work something out at a practical level given these view differences. The negotiation will likely be challenging. It remains unclear what actions the EU will take should negotiations fail to produce tangible results by October. But China made it clear that it would respond should EU impose tariffs.



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