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China Policy

Takeaways from Xi-Trump summit

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The Beijing summit marks the start of a stabilization window in China-US relations, with deliverables broadly in line with market expectations. Both leaders found more common ground on geopolitical issues in Iran and Taiwan, though the H200 relaxation from Washington was rejected by Beijing. While tariff relief was limited, the more valuable outcome is that the series of Xi-Trump meetings through year-end lowers near-term escalation risk and anchors market expectations. However, we believe the truce is rather tactical as near-term constraints are driving both sides toward stabilization. Washington needs stabilization and cooperation ahead of the midterms and amid Middle East conflicts, while Beijing values a calmer external backdrop to support growth, preserve Taiwan leverage, and buy time for technological upgrading. The full decoupling narrative is likely to evolve into strategic-sector decoupling layered with partial re-coupling in low-risk trade. After the US midterms, bipartisan pressure for a tougher China stance could again test the framework. For markets, stabilization should compress China risk premium, support Hong Kong and A-share re-rating, favor domestic AI infrastructure and quality export leaders, and create room for gradual RMB appreciation to 6.78 by year-end, based on our estimates.

- **Summit deliverables landed within consensus.** The centerpiece commercial agreement is a Boeing framework of approximately 200 firm aircraft with a conditional upside of up to 750 planes, plus 400–450 GE Aerospace engines, valued at US$17–25bn for the initial tranche. On agriculture, US Trade Representative Greer flagged a "double-digit billion" annual purchase commitment of American farm goods over three years on top of the October 2025 25mn metric tonnes soybean deal, while China renewed export licenses for 425 US beef plants alongside reciprocal non-tariff carve-outs from the US on dairy, aquatics, bonsai, and the recognition of Shandong avian-influenza-free zones. On tariff, there was no major change, as the effective rate has already dropped materially following the striking down of the IEEPA-based tariffs: the effective US rate on Chinese goods has fallen from roughly 33% pre-ruling (11% Section 301 + 10% IEEPA universal surcharge + 10% Busan-reduced fentanyl tariff + residual Section 232) to roughly 23% today (11% Section 301 + 10% Section 122 replacement surcharge + residual section 232), as the fentanyl tariff was entirely nullified. The more durable institutional output is the operationalization of the Bilateral Board of Trade and Board of Investment, which enables continuous working-level cooperation and incremental progress on bilateral disputes that can quietly deliver carve-outs, license renewals, and non-tariff barrier resolutions, including a US$30bn non-sensitive consumer carve-out from tariff under Board-of-Trade review. Importantly, the diplomatic roadmap — Xi's autumn state visit, APEC Shenzhen in November, and G20 Miami in December — is in our view the most valuable summit deliverable, confirming a managed political risk regime through year-end that lowers escalation probability and anchors market expectations.

- **On geopolitics, both leaders found more common ground.** On Iran and the Strait of Hormuz, the two sides established a shared baseline as both leaders agreed that the Strait "must remain open to support the free flow of energy". But the readouts diverge meaningfully on framing. The White House foregrounded opposition to militarization and tolls and publicized Xi's stated interest in purchasing US oil, while the Chinese readouts from MOFA, MOFCOM, and Wang Yi's 15 May briefing omitted any energy purchase commitment and emphasized a "permanent and comprehensive ceasefire" through negotiation as the fundamental solution. We read the asymmetry as Beijing preserving its Tehran-relationship optionality as Iran remains a load-bearing pillar of China's Middle East energy security, RMB-settlement architecture, and Belt-and-Road footprint. China may continue to provide discreet back-channel mediation, in line with its April role behind the short Pakistan-brokered ceasefire. Taiwan, by contrast, remains the structural redline of the China-US relationship and the single issue most capable of derailing the stabilization framework. Critically, we see Trump as the first US president openly willing to treat Taiwan arms sales as a negotiation lever rather than a fixed strategic commitment, which creates a previously unavailable bargaining surface for Beijing. We therefore see a credible opportunity for a transactional exchange over the coming quarters, as China extends incremental commitments to US purchases and trade rebalancing (agricultural, energy, civil aviation, potentially Treasuries) in return for marginal US movement on Taiwan, ranging from an explicit posture shift from "do not support" to "oppose" Taiwan independence, to a quiet delay or freeze of pending arms packages. Trump's response at the summit was disciplined silence, neither concession nor rebuke, which we interpret as preserving optionality on precisely this trade rather than foreclosing it, with any visible movement most likely deferred until after the November midterms to avoid a politically toxic "lost Iran, losing Taiwan" attack line.

- **Technology export controls saw no structural relaxation.** The US agreed to license up to 75,000 NVIDIA H200 chips to roughly ten major Chinese tech firms each under a 25% tariff/fee, yet Trump confirmed on Air Force One returning home that Beijing has refused to approve the purchase. We thought this deliberate "buyers' strike" was motivated by three considerations: avoiding the enrichment of the US Treasury via the 25% surcharge, protecting domestic semiconductor industrial policy, and preserving leverage in reserve for higher-value concessions on the Blackwell architecture, the Pentagon's 1260H entity list, and the FCC's (Federal Communications Commission) electronic device testing regime. Beijing will continue to prioritize domestic substitution over negotiated US access, which should sustain policy-led capital flows into the "new quality productive forces" agenda and support domestic sectors including AI hardware, intelligent computing clusters and power-compute coordination.

- **The relationship enters a fragile stabilization window.** Both sides have powerful near-term incentives for de-escalation. For the US, declining domestic approval, a compressed runway into the November midterms, and unresolved Middle East pressure require stabilization with China and its cooperation; for China, the subdued domestic demand raises the value of a calmer external environment, and underscores the need to preserve leverage on Taiwan and secure incremental space for tech and AI advancement through equipment access. However, the paths may diverge after the mid-term election, as the natural bipartisan common ground is precisely a tougher posture on China, and the truce architecture becomes structurally exposed. Looking forward, we do not expect full decoupling, as the asymmetric dependencies are too embedded, but rather an evolution toward strategic-sector decoupling layered with partial re-coupling in low-risk trade: continued tightening in semiconductors, AI, biotech, advanced manufacturing equipment, and dual-use technologies, alongside selective re-engagement in agriculture, civil aviation, non-sensitive consumer goods, and tourism-linked services. For China and Hong Kong equities, a stabilizing China-US relationship should compress the China risk premium and supports re-rating in the Hang Seng Index and CSI 300, with the most direct beneficiaries being domestic AI infrastructure, consumer discretionary exporters and industrial leaders aligned with the anti-involution campaign. The RMB may gradually appreciate to 6.78 by year-end.

Figure 1: Xi-Trump Summit：Expectations vs. Outcomes

	Policy / Issue Area	Pre-Summit Expectation	Actual Summit Outcome	Status & Implication
1	Bilateral Framework	The meeting would focus on capping downside risks rather than building anything structural. Trump's October 2025 'G2' framing was the open question.	Both leaders endorsed a 'constructive strategic stability' formulation as the guiding framework for the next three-plus years. Beijing pointedly declined to adopt the G2 label.	Met. Provides a shared vocabulary for managing rivalry, but the framework is rhetorical. Real substance is pushed down to working-level councils.
2	Bilateral Roadmap	A sequence of follow-on summits would be locked in so the rapprochement would not stall after Beijing.	Three reciprocal engagements were scheduled: Xi's state visit to Washington (24 September), Trump at APEC in Shenzhen (November), and Xi at the Miami G20 (14-15 December).	Met. A predictable diplomatic calendar reduces headline risk for markets through year-end and stabalize market expectation.
3	Middle East / Hormuz	The Iran-Hormuz crisis would be the single most pressing item, with Trump pressing Beijing to use its Iranian leverage toward a ceasefire.	Joint position that the Strait must remain open, with Xi explicitly opposing 'militarisation' or any transit toll. No ceasefire mediation was announced.	Partial. The chokepoint is politically shielded, easing energy tail risk, but the underlying conflict remains unresolved.
4	**Aerospace (Boeing + GE)**	**China would order around 500 aircraft per BBG/150 aircraft per Boing, lifting Boeing and GE Aerospace shares into the meeting.**	**China's MOFCOM confirmed a package of 200 Boeing jets and 400-450 GE engines, with verbal language about scaling toward 750 'if it goes well'. Formal contracts not yet signed.**	**Headline win that undershoots. Reopens a market closed for nearly a decade, but the number missed consensus — both stocks sold off on the print.**
5	Energy	China would commit to expanding US energy purchases, with LNG often singled out, as part of trade rebalancing.	The US readout said China would buy more US crude to diversify from Middle Eastern oil. China's own readout did not reference the commitment, and LNG was not specified.	Soft. A one-sided announcement without volumes or LNG specifics — directional intent rather than a deliverable.
6	Tariffs & Trade Architecture	The Busan tariff truce would be extended and a permanent dialogue track would emerge.	Reciprocal tariff truce extended through 10 November 2026; a bilateral Trade Council and Investment Council were formalised	Met. Buys roughly six months of stability and creates a venue for managing flare-ups, though the truce remains conditional on Chinese purchases.
7	Semiconductors (H200)	Trump's December 2025 framework had cleared H200 sales to vetted Chinese buyers behind a 25% 'tax-and-trace' surcharge; the test would be whether real Chinese demand followed.	Export licences were issued to ten Chinese firms, but no H200 chips have actually shipped. Beijing has refused the purchase and is steering domestic buyers toward domestic alternatives.	Stalemate. The legal channel exists on paper; commercial pull does not.
8	Artificial Intelligence	Some kind of dialogue on tech safety risks would emerge, but nothing structured.	Trump confirmed a discussion with Xi on AI guardrailss. No joint document or working group was published.	Preliminary. A channel is open, but there is no bilateral mechanism yet.
9	Fentanyl	Concrete Chinese commitments on precursor chemicals would be secured.	Beijing committed to stronger enforcement on precursor flows; 10% fentanyl-linked IEEPA tariff was nullified after the Supreme Court ruled.	Met. Small but tangible quid-pro-quo that both sides can showcase domestically.
10	Taiwan	Xi would deliver a sharp statement, while the US side would not move on arms-sales policy.	Xi called Taiwan 'the most important issue' in the relationship and warned of 'clashes and even conflicts' if it is mishandled. Trump avoided substantive engagement on the topic and agreed to reconsider the arms-sales.	Trump could be the first US president to view Taiwan and arms-sales issues as negotiation leverage.

Source: Wind, Bloomberg, CMBIGM

Figure 2: China-US negotiation timeline

	Date	Format / Venue	Key Outcomes
1	10–11 May 2025	Round 1 — Geneva	Headline truce: tariffs cut 115 ppt for 90 days (US to 30%, China to 10%). New US-China economic consultation mechanism set up.
2	5 Jun 2025	Leaders' phone call	Set up Round 2; Beijing reiterates red line on Taiwan.
3	9–10 Jun 2025	Round 2 — London	Framework to halt the export-control spiral: civilian rare-earth licences to resume; US to ease selected tech curbs.
4	28–29 Jul 2025	Round 3 — Stockholm	90-day truce rolled forward to mid-November. Rare-earth licences for US buyers formally restarted.
5	14–15 Sep 2025	Round 4 — Madrid	TikTok divestment framework agreed. Substantive trade items deferred to the leaders.
6	19 Sep 2025	Leaders' phone call	Endorsed the TikTok framework; agreed to meet in person.
7	25–26 Oct 2025	Round 5 — Kuala Lumpur	Pre-cooked the deliverables list for the Busan leaders' meeting.
8	**30 Oct 2025**	**Leaders' Summit — Busan**	**First in-person meeting. Fentanyl-linked tariff cut 20→10%, China lifted matching countermeasures. Section 301 maritime/shipbuilding measures suspended for one year. China restarted soybean/ag buying (12 Mt by year-end; 25 Mt/yr through 2028) and eased rare-earth export controls for one year. Overall tariff truce extended by a year.**
9	25 Nov 2025	Leaders' phone call	Locked in the 2026 reciprocal visit calendar.
10	5 Dec 2025	Trade leads' video call	Undisclosed; understood to be groundwork for the Trump visit.
11	21 Jan 2026	Davos sidelines (informal)	Undisclosed; further preparation for the Trump visit.
12	4 Feb 2026	Leaders' phone call	Trump's China trip locked; Beijing again flags Taiwan.
13	14–17 Mar 2026	Round 6 — Paris	Sketched out summit deliverables: Trade Council & Investment Council, yttrium and other critical-mineral access, broader US ag purchases (poultry/beef/non-soy).
14	31 Mar – 2 Apr 2026	Trump visit (postponed)	Originally scheduled Beijing trip slipped to May.
15	12–13 May 2026	Round 7 — Busan	Final pre-visit alignment on the summit communiqué and deal package.
16	**14–15 May 2026**	**Trump State Visit — Beijing**	**Leaders' framework on 'constructive strategic stability'. Boeing/GE aircraft package (200 jets + ~400-450 engines). More purchase on agricultrual products from China. H200 chip licences cleared but no shipments. Shared position on opening up Strait of Hormuz.**

Source: MacroMargin, CMBIGM

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