Weekly China Insight

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European Union Chamber of Commerce in China and the Swedish Chamber of Commerce in China released their respective 2025 business climate surveys

82% of the surveyed Swedish companies intend to maintain or expand operations in China, reflecting the country's enduring strategic importance. Out of all the surveyed Swedish companies, 63% reported profits in 2024, up from 61% in 2023. For 2025, more than 50% of Swedish companies expect their revenues in China to increase. Swedish businesses see opportunities in China's market scale, growth prospects, and cost advantages, though concerns over geopolitical tensions and the slowing economy persist. The EU Chamber's survey also notes an increasing share of respondents are onshoring activities into China, highlighting the continued competitiveness of Chinese supply chains.

According to the EU Chamber's survey, an unprecedented level of 73% respondents reported that doing business in China became more difficult in the past year, whereas only 12% of respondents expressed optimism about profitability in China over the next two years, the lowest level since the survey began in 2004. The Swedish Chamber's survey revealed similarly softened investment sentiment toward China. Swedish investor confidence continues to decline in China, with just 31% of the surveyed Swedish companies planning to boost investments in 2025, down from 38% in 2024.

Both surveys underscore a growing level of unease among European businesses in China. However, it's important to note foreign chambers of commerce are also expressing a gradual decline in confidence in other markets as well. While the complex set of challenges are prompting European companies to reassess their strategies and consider diversification beyond China, China's supply chain advantages remain a draw for foreign companies overall.

China signals potential easing of rare earth export controls for EU chipmakers

On 27 May, China's commerce ministry (MofCom) convened a closed-door symposium in Beijing with over 40 Chinese and European firms involved in the semiconductor supply chain, signaling a potential softening of export restrictions on rare earth element (REE) for EU-based companies. According to state media China Daily, which briefly published, then deleted, a report of the symposium, MofCom discussed possible adjustments to licensing procedures in response to growing EU concerns over the impact of China's REE controls. These restrictions, imposed on seven critical minerals in April, as part of a broader response to US tech sanctions and tariff hikes, have affected European manufacturers as well. The official MofCom readout of the symposium remains accessible, but did not mention REEs in particular. Instead, the official MofCom readout emphasized the importance of stable China-EU cooperation in the semiconductor sector amid a "complex international environment."

Beijing appears to be using targeted regulatory flexibility as a strategic tool to differentiate its export restriction treatment between the EU and the US. The MofCom symposium with

European firms aims to preserve industrial and trade cooperation with the EU while maintaining leverage in the broader tech rivalry with Washington.

BYD reignites EV price war, sparking fears of industry shakeout

On 23 May, leading Chinese electric vehicle (EV) manufacturer BYD launched a new wave of aggressive price cuts across 22 models, triggering another round of intense price competition in China's EV market. The move, aimed at protecting market share amid surging competition from rivals like Geely, has prompted widespread concerns that the sector is heading toward more consolidation. BYD and Geely, the top two auto retailers in China with a combined 24% market share, are now leading an industry-wide clearance effort amid record-high vehicle inventories, which reached 3.5 million units in April. Geely responded to BYD’s price cuts with limited-time subsidies on several of its models, whereas other automakers including Leapmotor, Changan’s Deepal, and SAIC-GM’s Buick brand also followed suit.

Chinese EV industry’s profitability has been battered by two years of aggressive price wars, with average per-unit profit falling from over RMB 20,000 in 2021 to just RMB 13,000 in Q1 2025. Sector-wide profit margins fell to 4.0% in the first four months of 2025, a historic low. BYD, with a Q1 gross margin of 20.1% and a goal of delivering 5 million vehicles in 2025, appears better positioned than most of it domestic competitors to withstand sustained price pressure.

BYD’s renewed price offensive may mark a critical inflection point for China’s overcrowded EV market, accelerating the demise of undercapitalized actors and forcing through a painful phase of industry consolidation. With industry margins shrinking and inventories rising, the government may have to intervene in the EV market to prevent systemic financial fallout.

China's April retail sales rise 5.1% as trade-in stimulus boosts big-ticket consumption

On 19 May, China’s National Bureau of Statistics reported that retail sales of consumer goods rose by 5.1% y/y in April, reaching RMB 3.72 trillion (USD 515 billion). The rise in retail sales is largely supported by the ongoing old-for-new consumer goods trade-in program, which is subsidized by the government. The program, launched in March last year, has increased the sales of consumer durables, with household appliance sales up 38.8% y/y, cultural and office supplies up 33.5% y/y, and furniture up 26.9% y/y.

Service-related consumption was also robust in April, with consumption in tourism, transportation, and telecommunications maintaining double-digit growth y/y. However, auto sales continued to lag, with April's car-related consumption up only 0.7% y/y, down 4.8 percentage points from March. The weakness in car-related consumption weighed on the overall retail sales growth, which came in slightly below market expectations of 5.3%.

China’s trade-in consumption subsidies are successfully stimulating demand for high-value consumer goods, but weak auto sales and soft discretionary spending suggest that overall consumption momentum remains fragile. In the month ahead, policymakers in Beijing may expand the stimulus efforts to include service-related consumption.