Weekly China Insight

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Trump and Xi hold pivotal call to revive Geneva trade war truce

On 5 June, US President Donald Trump and Chinese President Xi Jinping held a 90-minute phone call – their first direct contact in Trump's second presidential term. The call is an effort by both sides to stabilize escalating trade tensions. After the call, Trump described the conversation as having a "very positive conclusion," highlighting renewed cooperation on rare earth exports and announcing that trade delegations, led by US Treasury Secretary Scott Bessent, Commerce Secretary Howard Lutnick, and USTR Jamieson Greer, would soon resume further talks. While Trump refrained from raising security issues like Ukraine or Iran, Xi issued a clear warning on Taiwan, urging Washington to act prudently to avoid conflict. Xi also emphasized Beijing's commitment to the Geneva agreement and pressed Washington to remove recent punitive measures. Both sides confirmed mutual state visit invitations, signaling efforts to rebuild diplomatic momentum.

The call marks a tactical pause in deteriorating US-China ties. However, absent concrete concessions or resumed Chinese rare earth shipments to the US, the truce remains fragile and highly contingent on the outcome of the next round of trade talks. The US Commerce Department manages export controls, so Secretary Lutnick's involvement in further talks likely signals that the contentious US export control measures against China are now open to relaxation. State visits typically serve as a stabilizing force in the bilateral relationship, so expect US-China relations to be on a more stable footing in the foreseeable future.

EU bans Chinese medical device firms from major tenders in first use of procurement tool

On 2 June, the European Union voted to bar Chinese medical device manufacturers from participating in public tenders exceeding EUR 5 million for a five-year period, marking the first deployment of its International Procurement Instrument (IPI). The decision follows a European Commission investigation that found 87% of Chinese public tenders in the sector contain explicit or implicit restrictions against foreign products, citing the "Buy China" policy and the Made in China 2025 targets as discriminatory. The ban aims to pressure Beijing into reciprocal market access, as Chinese firms currently enjoy broad access to EU procurement markets. The Chinese commerce ministry condemned the move as "protectionist," while the EU Chamber of Commerce in China cautiously backed the action, calling for both sides to pursue a negotiated solution.

The procurement ban signals a harder EU stance on economic reciprocity with China and could catalyze broader trade retaliation from China. The move comes at a critical juncture as Brussels joins Washington in using industrial tools to counter perceived Chinese market distortions.

China sees robust Dragon Boat travel, but per capita spending continues to fall

From 31 May to 2 June, China recorded 657 million cross-provincial trips during the three-day Dragon Boat Festival holiday, up 2.5 y/y. Railway passengers reached 48.03 million, while road travel dominated with 597 million trips, including 486 million via private vehicles. The authorities reported 119 million domestic tourist trips, a 5.7% y/y increase, with total spending reaching RMB 42.73 billion, a 5.9% y/y increase. However, per capita spending only averaged to RMB 359, a slight y/y decline and a notable drop from the RMB 457 seen during April's Qingming Festival.

While travel data surged during the Dragon Boat holiday, declining per capita spending underscores continued weakness in household consumption amid a number of economic headwinds, suggesting China's economic recovery remains uneven and overly reliant on volume rather than value.

China vows further crackdown on 'involution-style' price wars in the auto industry

On 31 May, China's industrial regulator (MIIT) pledged to intensify efforts to curb disorderly competition in the auto industry, following a new wave of aggressive price-cutting by multiple automakers (see last week's update). The China Association of Automobile Manufacturers (CAAM) issued a formal initiative calling for fair competition and denouncing bottomless price battles. MIIT expressed strong support for CAAM's initiative, emphasizing that such "involution-style" competition undermines sustainable growth by squeezing profit margins, discouraging R&D investment, and eroding product quality and safety. MIIT announced plans to tighten enforcement against unfair practices, conduct product consistency checks, and coordinate with market regulators to maintain market order.

The central government's warning against destructive price competition signals a policy shift toward stabilizing the auto sector, especially as overcapacity and shrinking margins threaten long-term innovation and global competitiveness.

China's manufacturing PMI data signals renewed weakness in May

On 1 and 3 June, China's National Bureau of Statistics (NBS) and Caixin released May manufacturing Purchasing Managers' Index (PMI) data, both indicating a slowdown in industrial momentum. The NBS PMI rose slightly to 49.5 from 49.0 in April, still below the 50-point threshold separating expansion from contraction. In comparison, Caixin's PMI dropped sharply to 48.3 – its lowest since September 2022 – marking the first contraction in eight months. Sub-indices across both surveys revealed falling domestic and export orders. Factory input and output prices continued to fall, reflecting weak demand and margin compression. The divergence between large and smaller firms was stark: in the NBS reading, large manufacturers recorded an expansionary PMI of 51.5, while small and mid-sized firms remained in contraction at 47.5 and 49.3, respectively.

The drop in May PMIs reflects softening domestic and global demand, with smaller firms bearing the brunt. Without stronger income growth or targeted structural support, China's manufacturing rebound may remain fragile despite short-term relief from US tariff reduction.