

Research US-China

Xi-Trump meeting preview: We expect no game changers

- We do not expect the Trump-Xi meeting on May 14-15 to lead to major breakthroughs in US-China relations. We expect near-term financial market impact to remain limited.
- Trump does not have the incentives nor the means to ramp up the pressure on China with focus remaining on the war in Iran and earlier court ruling still constraining his tariff weapon. For China, keeping relations on a stable track is the main priority, especially when it comes to Taiwan.
- The countries could agree on China increasing purchases of US agricultural goods, an extended tariff truce and establishment of mutual trade and investment 'boards', though these should be seen as largely symbolical. Change in the wording of US policy on Taiwan would be a major victory for China.

The premise for the meeting between the leaders of US and China has changed on multiple fronts since Trump and Xi agreed on a trade war truce in Busan last October. The US has entered a war in Iran, which overshadows the growth outlook for both economies. Trump's main weapon for applying leverage in the negotiations, the IEEPA tariffs, were ruled illegal by US Supreme Court. And finally, AI-related demand for computer equipment is accounting for a rapidly growing share of US import value.

Long-term US tariff framework is still in progress

A key reason for why we do not expect another flare-up in the tariff war between the two countries is that the US administration's long-term plan for replacing the now-illegal IEEPA tariffs is still in progress. Supreme Court's ruling against IEEPA invalidated both the 10% 'fentanyl' tariff and the 10% 'reciprocal' tariff on China. The latter one was replaced by the universal 10% Section 122 tariff rate, and while it was also ruled illegal by US Court of International Trade last week, the rate remains in effect for now.

The long-term tariff plan relies on the Section 301 of the Trade Act of 1974, which allows the president to impose tariffs against discriminatory trade policies. Trump imposed Section 301 tariffs against China already during his 1st term, which largely remain in place today. The USTR has opened investigations for expanding the measures (not just against China, but also more than 60 other economies) on the basis of excess industrial capacity and the use of forced labour. While these topics will likely be discussed this week, the investigations are only expected to conclude over summer. This means that **for now, Trump has only very limited ways to increase tariff pressure, despite his recent sporadic threats against, for example, the EU.**

Alongside the universal 10% rate and the 1st term measures, China is also affected by product-specific Section 232 tariffs targeting cars, car parts, various metals, certain pharmaceuticals and wood products. We estimate that the combined average trade-weighted tariff rate hovers close to 20%. We expect the administration to aim for a somewhat higher rate in the long-run, consistent with the earlier IEEPA approach.

Key events in US-China relations under Trump's second presidency

Jan 2025	Trump inaugurated and kicks off trade war , China retaliates
Feb 2025	China objects to change of new US fact sheet on Taiwan that removes language that US does not support independence.
Apr 2025	Trade war escalates with mutual tariffs above 100%, China restricts rare earth metals
May 2025	Trade truce for 90 days
May 2025	Trade war escalates again over US chip restrictions, Chinese retaliation
Jun 2025	Xi-Trump call, second trade truce
Jun/July 2025	Trade talks continue, 90-day truce extended
Sep 2025	Xi-Trump call, agree Trump visit to Beijing in early 2026, TikTok deal
Oct 2025	Trade dispute escalates after China rolls out extensive rare earth export control system
Oct 2025	Xi and Trump meets in Busan, South Korea. New trade truce . China delays export control system a year
Nov 2025	Xi-Trump call, Xi repeats importance of Taiwan after crisis with Japan over the island.
Dec 2025	Major US weapons sale to Taiwan , China responds with extensive military drills
Jan 2026	US capture of Venezuela's Maduro adds new frictions with China
Feb 2026	US and Israel attack Iran , China stays sidelined. Trump visit to Beijing in April delayed
May 2026	Trump to visit Xi in Beijing

Source: Media reports

Senior Analyst, US

Antti Ilvonen
+358 445 180 297
antti.ilvonen@danskebank.com

Chief Analyst, China

Allan von Mehren
+45 45141488
alvo@danskebank.dk

Stability and Taiwan key priorities for China

For China stability in relations with the US is the main goal. China is playing the long game and believes time is on its' side. China wants to keep the boat as steady as possible while focusing on its' own homework to become stronger technologically and militarily. The trade war last year has emboldened China that it is able to deter Trump from starting new trade wars as it would ultimately hurt Trump more than China (at least China's pain threshold is higher than Trump's).

No doubt, Taiwan is the single most important issue for China in relations with the US. In a pre-summit preparatory call last month, Chinese Foreign Minister Wang Yi told US Secretary of State, Marco Rubio, that *"Taiwan is the greatest risk factor in China-U.S. relations"*. China's Premier Li Qiang also stated last week said Taiwan is the *"primary red line"* in US-China relations

While the Taiwan topic did not come up in the Xi-Trump meeting in Busan in October last year, China raised the issue shortly after in a call between the Xi and Trump in November. It followed a crisis with Japan after its' new leader Sanae Takaichi suggested that Japan would join militarily if it came to a war or blockade around Taiwan; a change of Japanese policy. China was also angered by a couple of US actions last year related to Taiwan. First, when the State Department one month into Trump's presidency updated a Fact Sheet on Taiwan relations where the sentence that *"US does not support Taiwan independence"* was removed (it still seems to be official US policy, though). Second, in December when US made a huge *weapons sale* to Taiwan triggering the most extensive Chinese military drills around the island to date.

There has been speculation that Xi would ask Trump to change the US language on Taiwan from *"does not support independence"* to *"oppose independence"*. A small but symbolically important change. White House sources have stated this is not going to happen, though. But you never know what Trump could be swayed to agree to in a one-to-one meeting with Xi if Trump is offered better deals on agricultural purchases etc. that could benefit Trump in the mid-term elections. The baseline scenario is, though, that we see no change. A clear statement by Trump that the US does not support Taiwan independence might also satisfy Beijing.

US import-dependency is going nowhere, yet the composition of trade is evolving

As earlier trade deals and the IEEPA ruling brought down average tariff rates, US import values began to rebound in early 2026. By March, goods trade deficit was USD88.7bn, which is essentially unchanged since April 2025 when the sharpest tariff hikes were enacted. Even so, US wholesalers' aggregate inventory-to-sales ratio has declined close to its 2022 lows, suggesting that there is a further need to ramp up purchases over coming months. **Overall, tariffs have not meaningfully reduced US dependency on imports.**

China's share of US import value has declined during Trump's second term, but largely as a result of trade rerouting. China's exports towards SEA economies like Vietnam have grown in tandem with their exports forward to the US. **We expect trade policy discussion to be focused on curbing and monitoring trade re-routing, instead of just the simple bilateral tariff rates**

Average tariffs have declined both in ex-ante...

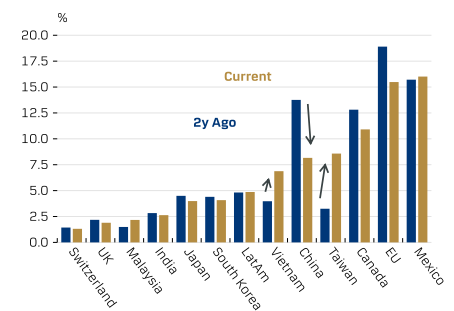
US, Import Value of Computers and Computer Parts



Sources: Macrobond, Yale Budget Lab, Danske Bank

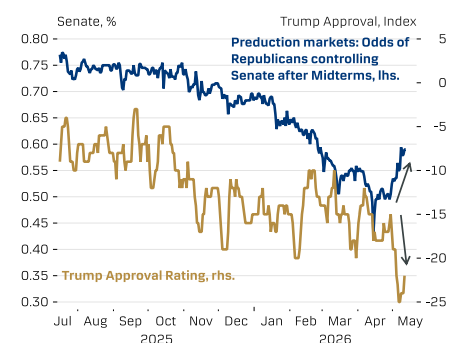
... and ex-post terms

Share of US Goods Import Value



Sources: Macrobond, U. S. Treasury, U. S. Census Bureau, Danske Bank

Re-routing of trade flows and AI-demand shifting the composition of US imports



Sources: Macrobond, U. S. Census Bureau, Danske Bank

AI-driven demand is also quickly changing the composition of trade. Imports of computers and computer accessories have grown by USD21bn over the past 6 months, compared USD25.8 growth in total imports. Similarly, Taiwan has surpassed China to become the fourth largest US import market by value after Mexico, EU and Canada. **The bottom line is that tariffs alone have become even less effective tools for managing the trade deficit when import demand is driven by more structural trends, like AI.**

In preliminary meetings, negotiators from both countries have prepared the launch of ‘Board of Trade’ and ‘Board of Investments’ which could be announced in Beijing. While their exact purpose remains unclear, **we do not expect them to meaningfully alter the operating environment for neither trade nor investments in the near-term.** That said, we do think it is positive that both countries are willing to institutionalize the framework for managing their bilateral policies which, on the margin, could reduce the uncertainty created by erratic trade policy swings seen last year.

On the trade front, the lowest-hanging fruit for a symbolical ‘deal’ looks to be an agreement for China increasing its purchases of US agricultural goods in exchange for an extended truce on tariffs. Even though China resumed its purchases of US soybeans over winter as agreed in Busan, the purchase volumes were clearly below of typical levels.

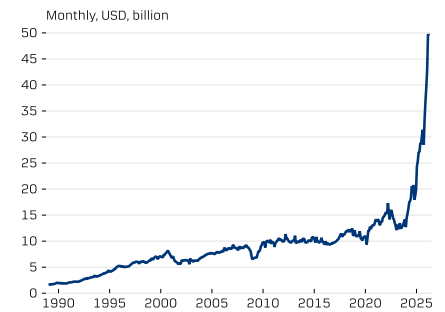
Trump’s planned executive order to halt US beef import tariffs to curb the rise in consumer prices has already sparked criticism from the agricultural sector, so offering something in return from the China could help balance Trump’s domestic interest. Note that while Republicans’ odds of winning in the upcoming Midterms have increased after the Supreme Court’s ruling on the Voting Rights Act according to prediction markets, Trump’s own approval ratings have continued to plummet in May.

Expect little change to China’s position on Iran

The Iran war is likely to be discussed between the two leaders, but we do not expect any changes in China’s approach to the war. Trump goes to Beijing with few cards on the hand and to avoid a further loss of face in the war, Trump might not push for any concessions that China is unlikely to give. However, Xi will likely repeat the words by China’s Foreign Minister that China is willing to play a “greater role in restoring peace”. China can help keep Iran at the negotiation table, as seemed to be the case when US and Iran agreed on a truce. But China cannot make Iran agree to anything at the table. China is unlikely to put sanctions on Iran or stop buying oil from the country. Recently it told Chinese companies to ignore US sanctions on Chinese refineries for buying oil from Iran.

AI-demand boosts US imports irrespective of tariffs

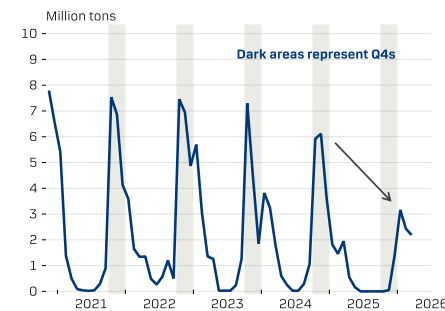
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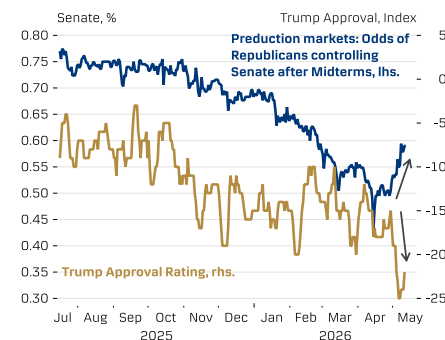
China has room to increase soybean purchases next winter

US Soybeans Export to China



Sources: Macrobond, U. S. Department of Agriculture, Danske Bank

Republicans’ odds of winning Midterms and Trump’s approval rating diverging in May



Sources: Macrobond, PredictIt, Rasmussen Reports, Danske Bank

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