

GEOPOLITICAL RISK OBSERVATORY

China-US: truce sustainability, key issues and outlook

An overview

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GRO Hot Takes are concise interpretive notes on timely geopolitical issues and emerging risk signals. They are neither exhaustive analyses nor real-time news updates. Rather, they provide a focused reading of selected developments, highlighting key factors, variables and weak signals that organizations may monitor to better anticipate risks and understand their potential business implications. For in-depth analysis or day-to-day updates, please contact the Observatory at strategicchange@luiss.it.

1. Truce and prospects for bilateral dialogue

The 14 May Trump-Xi meeting in Beijing confirmed both sides' intent to prevent further deterioration and keep negotiation channels open.

The 24 September summit is expected to focus on consolidating existing arrangements, notably on trade, non-tariff barriers, rare earths and investment. Prospects for a broad agreement remain limited.

The two meetings form part of a four-summit cycle (Beijing in May, Washington in September, Shenzhen in November and Miami in December) planned through year-end and point to:

- the parties' interest in preserving channels for communication and negotiation;
- the persistence of economic and geopolitical divergences requiring sustained bilateral engagement.

2. Key areas of divergence and pressure

- **Trade and critical raw materials.** Trade is increasingly being shaped by the use of mutual dependencies as leverage. China retains dominance in rare earths and other critical materials, while the United States retains leverage over advanced technologies and finance.

Recent constraints on US access to rare earths and strategic minerals highlight the truce's vulnerability where interdependence is most asymmetric.

- **Technology and AI.** Technological competition remains structural. Washington continues to restrict China's access to strategic technologies, while Beijing seeks to reduce dependence on Western supplies. Both sides also face domestic challenges linked to AI development. The first bilateral AI safety dialogue, expected in mid-September, could provide limited scope for cooperation on risks and standards, but is unlikely to affect the broader competitive trajectory.
- **Taiwan.** Taiwan remains the principal security flashpoint. Chinese incursions into Taiwan's Air Defense Identification Zone (ADIZ) have doubled since 2024, while Taiwan's control of around 90% of global advanced semiconductor production reinforces its strategic value to the United States. Continued US military support for Taipei keeps escalation risks elevated and ties the Taiwan issue directly to the broader US-China strategic competition.
- **Iran.** The Iran crisis affects China primarily through the energy channel: prior to the conflict, 47% of China's oil imports transited the Strait of Hormuz. Beijing has so far absorbed the shock but remains exposed to prolonged disruption affecting prices, transport and shipping security. Washington is simultaneously tightening pressure on Chinese financing and supply channels supporting Iran, including through the "D-Day" sanctions campaign launched on 24 August by US Treasury Secretary Scott Bessent. Direct action against major Chinese banks and state-owned companies, however, would be difficult to reconcile with preserving the truce and could trigger Chinese retaliation, starting with rare earths.
- **BRICS and SCO.** Beijing uses both organisations to deepen coordination with the Global South and promote greater autonomy from the US-led international order. The 26th Summit of the Shanghai Cooperation Organisation (SCO), Bishkek, Kyrgyzstan, 31 August–1 September, and the 18th BRICS Summit, scheduled for 12–13 September in New Delhi, underscore this strategy, but are unlikely in the short term to generate concrete alternatives to the US-led order. The yuan remains marginal in international payments and reserves. The second G20 Finance Ministers and Central Bank Governors' meeting, Asheville, North Carolina, 31 August–1 September, further exposed the limits of this approach: 19 members, including BRICS and SCO members, backed calls to reduce external imbalances and export dependence, while China was the sole dissenter.

3. Scenarios

3.1 Truce consolidation (probability: medium-high)

The 24 September summit produces new understandings and dispute-management mechanisms, particularly on technology and trade. Washington and Beijing scale back reciprocal pressure and stabilise the negotiating framework. Strategic competition continues but is channelled through more predictable rules and dialogue mechanisms.

3.2 Superficial truce and growing reciprocal pressure (probability: medium)

The summit produces no substantive agreements and serves primarily to prevent a breakdown. Washington and Beijing subsequently resume the progressive use of their respective leverage – rare earths, technology, sanctions and trade – generating new restrictive measures and sector-specific crises. Dialogue remains formally open, but the truce progressively erodes.

3.3 Breakdown of the truce and systemic escalation (probability: medium-low)

A broader US or Chinese response to a crisis involving Taiwan or Iran could spill into the main economic and technological pressure instruments, ultimately undermining the agreements underpinning the truce. Washington and Beijing would then systematically deploy trade, technology, finance and strategic raw materials as instruments of confrontation, triggering a new phase of systemic competition with implications for global supply chains and international stability.

4. Conclusions

The truce is likely to hold in the short term but remains fragile. The 24 September summit will be a key test of whether bilateral dialogue can be consolidated through further understandings or remains a temporary mechanism for containing tensions.

Managed competition remains the most likely trajectory. Taiwan and Iran are the principal escalation risks, with developments in either theatre capable of spilling over into the bilateral relationship and disrupting the current balance.

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