US-China economic conflict goes up a notch

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The discussions in London this week between the US and China, leading to a "framework deal" for further negotiations, have revealed that the battle lines in the economic war launched by the Trump administration have shifted.

While the war was launched over the trade imbalance between the world's number one and number two economies, the focus is increasingly on the control of global supply chains.

The negotiations in London was convened after a truce on the escalation of tariffs decided in talks in Geneva last month had all but broken down. Discussions centred on the lifting of export controls on the export of rare earth minerals by China to the US.

China tightened its restrictions in response to the imposition of restrictions by the US on jet engine components and bans on Chinese students attending American universities in the wake of the Geneva discussions.

China entered the negotiations in what has been widely acknowledged as the stronger position because its restrictions on rare earths, used in the production of magnets able to function in high temperatures, was threatening to cripple key sections of the auto industry. Car companies and auto parts companies had met with Trump and informed him they were facing shutdown if supplies did not come through.

Details of the agreement in London have yet to be released—according to some reports they are still being finalised—but the broad outline has been reported. Under the deal China will ease restrictions on rare earth exports in return for the US lifting some restrictions on the sale of jet engines and related parts as well as ethane needed for the manufacturer of plastic products.

China, however, did not secure an easing of the restrictions on the export of advanced semi-conductors despite this possibility being raised by leading Trump economic official Kevin Hassett in remarks before the London talks began.

While pressing this demand, China did not make it a deal breaker and seemed to be prepared to bide its time. It appears this is for two reasons.

First, while the high-tech bans have had an impact, Chinese firms have been able to develop workarounds. The most glaring example has been the development by DeepSeek in January of an artificial intelligence platform equal to those in America and at a much lower cost, despite being denied access to the top-level AI chips developed by the US firm, Nvidia.

Second, China imposed a six-month limit on its easing of export controls on rare earths and magnets, of which it has a near total control, indicating it is ready to use this weapon again if the need arises.

Trump, as is par for the course, claimed a victory declaring on social media that subject to final approval by himself and China's president Xi Jinping that full magnets and any necessary rare earths would be supplied "up front" by China.

Trump's claims have been questioned by his critics in the US, particularly in the pages of the *Wall Street Journal* (WSJ).

One article, headlined "China's Lock on Rare Earths Dictated Path Toward Trade Truce," said: "China's chokehold on supplies of minerals essential to high-tech goods from electric vehicles to jet fighters has become a formidable advantage in trade negotiations with the US."

An WSJ editorial poured cold water on Trump's claim of a win.

"President Trump… hailed the result of the latest trade talks with China as a great victory, but the best we can say is that it's a truce that tilts in China's favour."

Together with all sections of the political, military, intelligence and corporate media establishment, the Murdoch-owned WSJ regards the suppression of the economic development of China as an existential question for the maintenance of US global dominance. Its difference with Trump is over how he is seeking to go about this.

The issue of rare earths, it said, pointed to a "larger problem with Trump's tariff strategy—that is, he doesn't have one. His latest walk-back shows he can't bully China as he tried to do in his first term. China has leverage of its own."

It called for a "smarter strategy" in which the US worked with allies against China instead of the "scatter-gun" approach in which Trump has used tariffs against "friends and foes alike."

But the assessment that Trump's measures are some kind of mistake is a misreading of the situation the US confronts.

The countries targeted with the highest reciprocal tariffs, especially those in south-east Asia, have close economic ties with China. While they are dependent on the US for their export market, they are equally dependent on China and form part of a global supply chain and consequently have attempted to balance between them.

However, with the erosion of its manufacturing base and the development of financial parasitism on Wall Street as a central component of profit accumulation, the US has no viable economic alternative to offer them, and so hectoring them will not bring about the desired shift.

Hence the use of diktats in the form of tariff hikes. At the centre of the negotiations with dozens of countries that have had reciprocal tariffs imposed on them is the US demand that they get off the fence and line up with it economically, politically and, if necessary, militarily against China or they will be hit hard by exclusions from the US market.

Meanwhile Trump officials claim there is some peaceful resolution to the conflict as they intensify the military preparations.

Returning from the London talks to give testimony to the US Senate, Treasury Secretary Scott Bessent said: "If China will course correct by upholding its end of the initial trade agreement we outlined in Geneva last month, then a big, beautiful rebalancing of the world's two largest economies is possible."

Bessent is either deluding himself or trying to fool others. The US demand for "rebalancing" goes far beyond the reduction of the Chinese trade surplus. It is nothing less than the subordination of China's economic expansion to its demands.

But in many ways the horse has already bolted. As the WSJ noted China already has the "upper hand" in many essential sectors of the modern economy.

"The world's second-largest economy accounts for around of a third of global manufacturing output, giving it a potential chokehold in auto parts, basic ingredients for drugs, key parts of the electronics supply chain and a host of other industry sectors."

By contrast the US, it continued, dominated few sectors "but its clout in advanced technology gives it an outsize advantage."

But even that is being whittled away. This means that the conflict has gone well beyond the issue of trade deficits and surpluses. As the WSJ put it, a new "era of weaponised supply chains has arrived" and the shift "highlights how the rivalry between the US and China is increasingly about who controls the levers of global economic power."

The inexorable logic of this process is that with the US attempts to use economic power to subordinate China having largely failed, it will increasingly resort to military means. The lesson to be drawn from the outcome of the London talks and the so-called framework deal is that war has come a major step closer.