

US-China economic war intensifying, not de-escalating

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While US President Trump is seeking, at least in public, to de-escalate trade tensions with China ahead of his proposed meeting with President Xi Jinping at the end of the month, the underlying conflict is intensifying and extending.

The trade war jumped back into the headlines last week when Trump threatened an additional 100 percent tariff on all Chinese goods entering the US in response to Beijing's announcement that it would introduce export controls on rare earths.

The Chinese controls are modelled on the global restrictions the US introduced under the Biden administration on the use of its computer chips and chip technology.

China processes about 90 percent of the rare earth minerals which form vital components in the manufacture of computer chips, heat-resistant magnets used in autos and jet planes, and a wide range of consumer goods.

After Trump's tariff threat, Wall Street responded with its biggest fall in six months, resulting in more conciliatory remarks by Trump that he did not want to "hurt" China and that Xi had simply had a "bad moment."

On Monday, the *Wall Street Journal* reported that Trump had held meetings with senior officials, including Treasury Secretary Scott Bessent who leads the US negotiating team with China, "about sending a message to the world that the US wants to de-escalate trade tensions with China," citing "people familiar with the matter."

However, on the same day in an interview with the *Financial Times*, Bessent struck a less than conciliatory tone. He said the introduction of rare earth export controls by Xi reflected problems in the Chinese economy.

"This is a sign of how weak their economy is, and they want to pull everybody else down with them."

Bessent claimed China was in the middle of a recession/depression and "they are trying to export their way out of it. The problem is they're exacerbating their standing in the world."

He expanded on these themes on Wednesday at a news conference alongside US trade representative Jamieson Greer, at which he said China was taking on the world with the export control regime.

Clearly seeking to win international support for US retaliatory action, he said: "If China wants to be an unreliable partner to the world, then the world will have to decouple."

Greer said the export controls were "an exercise in economic coercion on every country in the world."

China has said the measures were introduced in response to punitive US measures against Chinese companies since the fourth round of talks were held between the two countries in August. But this has been rejected by the US side, which claimed that they had been planned for some time.

A statement by the Chinese Commerce Ministry said the export controls were not export bans and that the new regulations were to cover military uses, not civilian applications.

"All applications for compliant export for civil use can get approval, so that relevant businesses have no need to worry," it said.

China appears to be trying to tone down the rhetoric, but there is no indication that it will lift the controls and has warned of a response to US measures.

In his regular press conference on Monday, Foreign Ministry spokesperson Lin Jian said: "If the US insists on its own way, China will resolutely take corresponding measures to safeguard its legitimate

rights and interests.”

Despite the talk of de-escalation, the US is stepping up its threats. Bessent told CNBC’s Invest In America Forum on Wednesday morning that “we have things more powerful” than the rare earth controls, including aircraft engines that China needed. “We have lots of leverage on them too,” he said.

The Bessent press conference also saw a significant departure from diplomatic practice in negotiations when he called out Li Chenggang, a Chinese vice-minister of commerce and a leading trade negotiator, labelling him as “disrespectful.” The outburst was connected to the development of a new arena of conflict.

Bessent said that while the talks with China had proceeded with “great respect,” Li had arrived “uninvited” in Washington in August and made a threat that China would “cause global chaos” if US port shipping fees on vessels built, operated, or owned by Chinese interests went ahead, after they had been foreshadowed in February.

The charging of the port fees was not initiated by Trump but goes back to a report commissioned by the Biden administration, which claimed that China was using unfair practices to develop its global shipping dominance. They went into effect on Tuesday.

The extent of China’s shipbuilding capacity was highlighted in an article by *Sydney Morning Herald* economics columnist Stephen Bartholomeusz on Wednesday in which he said shipping was a “new front in Trump’s trade war with China.”

According to the article, China built 60 percent of the world’s largest vessels last year, and this year “it has built another 717” compared to the US which has built one.

Bartholomeusz noted that the fees being charged at US ports were “substantial and are set to treble over the next three years.”

“A Chinese-built or operated supertanker docking at a US port next year could have to pay more than \$6 million, a bulk ore carrier nearly \$4 million, and a container ship effectively \$180 per container.... Hardest hit by the US fees will be China’s giant state-owned Cosco, with US investment banks estimating that it could face an extra \$1.5 billion to \$2 billion in port charges next year.”

China has hit back at the US measures, imposing fees

on US ships when they dock at its ports and in announcing that it is sanctioning five subsidiaries of the South Korean shipbuilding company Hanwha Ocean.

A Commerce Ministry statement said Hanwha’s subsidiaries in the US had “assisted and supported the US government’s probes and measures against Chinese maritime, logistics, and shipbuilding sectors.”

The order, effective immediately, would prevent Chinese organizations and individuals from doing any business with the sanctioned companies.

While the public rhetoric, at least in the lead-up to the proposed Trump-Xi talks, may be of de-escalation, the underlying reality is intensifying conflict as the US presses ahead with the economic war against what it regards as the chief existential threat to its global dominance.



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