

Opinion **US-China trade dispute**

## How China beat Trump before the trade battle even started

Beijing has used rare earth controls to win the first skirmishes in the war over commerce

**ALAN BEATTIE**



A scene from the film 'The Princess Bride'. Revisiting the 1987 cult classic can help to explain Xi Jinping and Donald Trump's trade talks this week © Buttercup Films/20th Century Fox

## Alan Beattie

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In the cult film *The Princess Bride*, the hero Westley tricks a villain, Vizzini, into killing himself in a battle of wits. Vizzini has to choose between two cups of wine, one of which Westley says is poisoned. In fact, Westley's cup is also poisoned, but he survives: he had spent years building up immunity to the toxin. Through long and careful preparation, Westley won the battle of wits long before it had begun.

Substitute Xi Jinping for Westley and Donald Trump for Vizzini, and this week's US-China trade talks in London make a lot more sense. They didn't end in the US lying dead on the ground, but not far off. The sides agreed a [comically vague framework](#) of co-operation, with the US asking for a handshake to seal the deal — an activity at which Donald Trump, as it happens, [is famously poor](#).

Nor is he much good at negotiating. Beijing is the clear winner in these early skirmishes. Trump has now lifted most of the extraordinarily punitive tariffs he has imposed on China since his inauguration. What he got back this time was China vaguely promising to lift the restrictions on rare earth exports it imposed on April 4, as plaintively requested by his chief economic adviser Kevin Hassett.

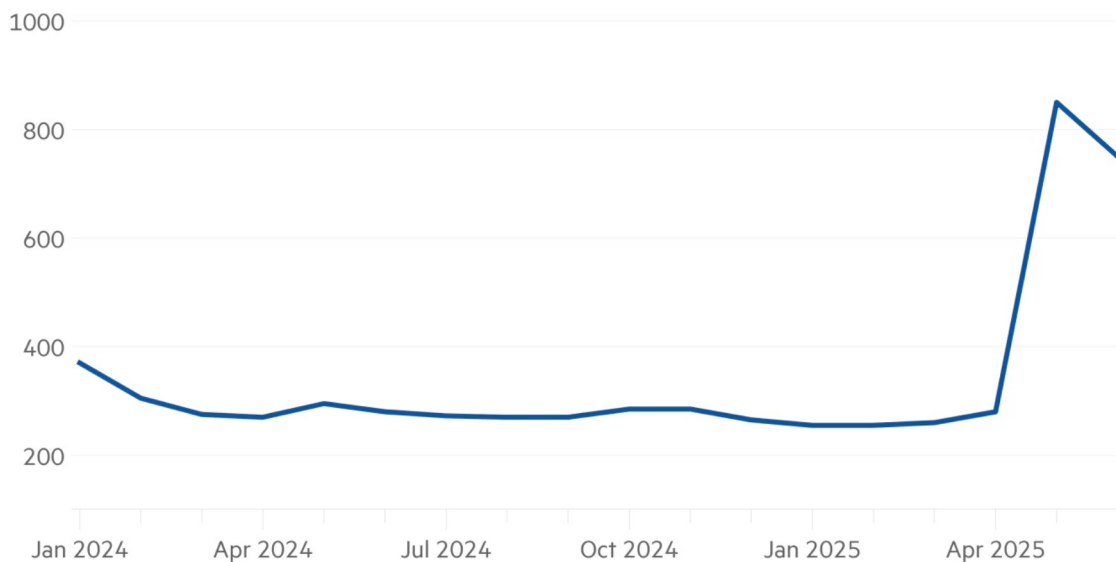
As I [wrote recently](#), China's decision in April to cut off exports of certain rare earth minerals is a much more surgical strike than previous ineffectual scattergun restrictions. The restrictions of the early 2010s [were undermined](#) by the expansion

of mineral production outside China and through smuggling by its notoriously lawless miners and processors.

The latest round of restrictions focuses on the less common “heavy” rare earth elements such as dysprosium, which has no large rival producers outside China and whose price shot higher after the controls were announced. Since the 2010s, Beijing has clamped down heavily on wildcat rare earth production and smuggling. Production is dominated by a small number of tightly state-controlled companies, and the latest controls are imposed via “dual-use” export licensing for products used in defence manufacturing. This makes it much easier for the authorities to control the supply chain.

### China export controls drive rare earth prices higher

Dysprosium oxide, \$ per kg



Spot price in Europe at beginning of each month, latest data point June 6

Source: Argus Media

The Chinese state certainly has its own issues with judgment and co-ordination. Its rare earth controls are threatening economies Beijing is trying to pull out of the US orbit. European car manufacturers have complained volubly.

Alienating all buyers of rare earths is politically risky, but China is at least differentiating somewhat between European companies and American ones. Suppliers to Volkswagen, which has more than 30 plants in China, were among the first to receive a licence to buy rare earths. Beijing is managing to clear the low bar of exceeding the Trump administration’s competence by some distance.

US weapons, although formidable, are harder to target precisely. Just as the UK was wrongly convinced that its trade deficit with the EU gave it the superpower Brexit weapon of access to the British consumer, Trump thought prohibitive tariffs

brexit weapon of access to the British consumer, Trump thought prohibitive tariffs on Chinese imports would bring Beijing to heel.

There's no doubt China is vulnerable, having maintained dependence on overseas demand by clinging to its traditional export-oriented growth model. But Trump's untariffed imports meant US companies risked losing key industrial inputs, as well as shelves potentially emptying of consumer goods.

As for the US's own attempts to use export controls to crimp China's economy, its tools have proved too easily circumvented. Joe Biden's administration used restrictions on US technology and outward investment to slow China's technological development in semiconductors and other sectors, and leaned on allies to do the same.

It didn't really work. China rapidly developed its own chip technology. Similarly, it's unlikely that Trump's recent restrictions on the [export of chip software](#) will allow the US to regain ground lost to China.

Trump's attempt to fight on China's own ground of controlling critical physical inputs by restricting exports of ethane, a gas used in the chemical industry, is more likely to [damage](#) his country's [companies](#) and those of allies. The US still has some extremely powerful weapons, such as restricting access to the global dollar payment system, but their use on a large scale is untested.

The triumph of the serenely calculating Westley over the bombastically ignorant Vizzini is a truly great moment in cinema. If Trump wants to win the next round, he is going to have to assess the ordnance at his disposal and deploy it far more accurately. History does not suggest this is a likely outcome.

[alan.beattie@ft.com](mailto:alan.beattie@ft.com)

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