

Opinion Trade Secrets**Trump's Iran folly is handing Xi Jinping weapons in the trade war**

Despite China being a huge oil importer, US mismanagement will give Beijing the upper hand in upcoming talks

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Solar panels embedded in a lake in Tianchang, Anhui province © CN-STR /AFP/Getty Images

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If you were thinking you'd not heard much from China about the Iran conflict, you'd be right. As a big oil importer which buys more than 80 per cent of Iran's output and a huge net exporter vulnerable to weakness in global trade, you'd imagine Beijing would be worried.

But as Xi Jinping looks forward to a summit in China with Donald Trump at the end of the month, a combination of good preparation, a critical position in supply chains and a growth model with short-term resilience will give him confidence. Trump is bombastically destroying the US's credibility as a geoeconomic leader; in relative terms, Xi is quietly enhancing China's.

When the two last met, in October, they agreed to postpone an escalation of tariff hostilities against each other for a year. My confident bet is that it never happens.

In the run-up to the meeting, China menaced the US into backing down by unsheathing a long-honed weapon of export controls on hard-to-replace rare earth minerals. The Trump administration has belatedly tried to create resilience by assembling an alliance of countries to mine and distribute critical minerals, but suffers a severe credibility deficit as a convincing leader of any kind of co-operative coalition.

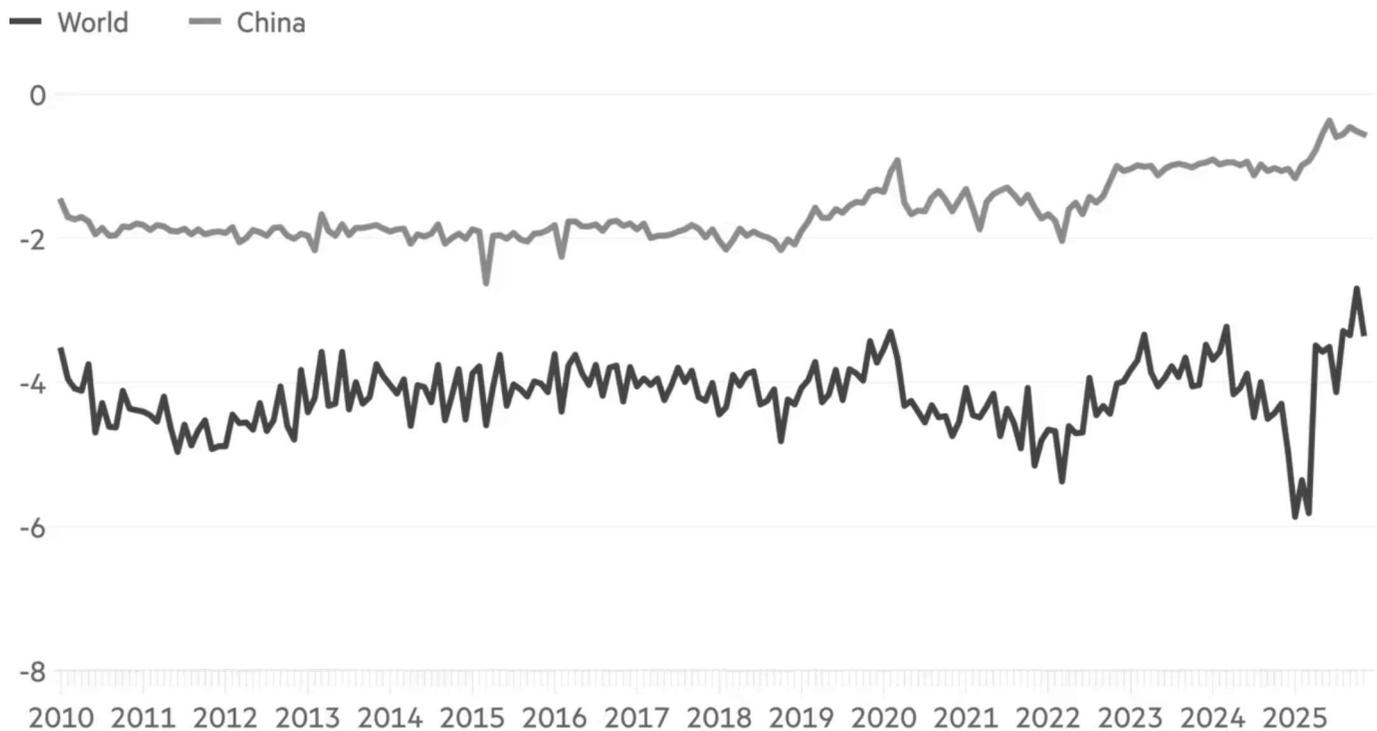
In the meantime, Beijing can watch with satisfaction as the US inadvertently advertises its reliance on rare earths in the attacks on Iran. Each F-35 fighter contains about 400kg of the minerals, with drones and missile systems adding more on top. The US wants its military to be free of dependence on a subset of Chinese rare earths by next year: it has just shown how hard that task is.

China is obviously subject to the Iran shock, but as with rare earths, it has primed itself well. Unlike the US, where Trump has failed to replenish the strategic oil reserve, China has an estimated three months' worth of stocks, and can also buy more oil from Russia. Its rapid move to renewable power generation, which was always more about insulation from global fossil fuel markets than planetary concern, has also built resilience. As it happens, China's recently published Five-Year Plan set conservative targets for reducing the intensity of oil production, and it will continue to use coal to smooth the volatility of renewable energy supply for a while yet.

By raising tariffs sharply, Trump has already tried and failed to slow China's super-competitive export machine. Chinese exports to the US fell by around a third in 2025, but the huge surge for AI-related IT equipment has boosted its sales to third countries. Chinese exports overall rose by a giant 21.8 per cent year-on-year in January and February, and its trade surplus increased by 25.3 per cent.

A shrinking share

Imports from China and total US imports, per cent of GDP

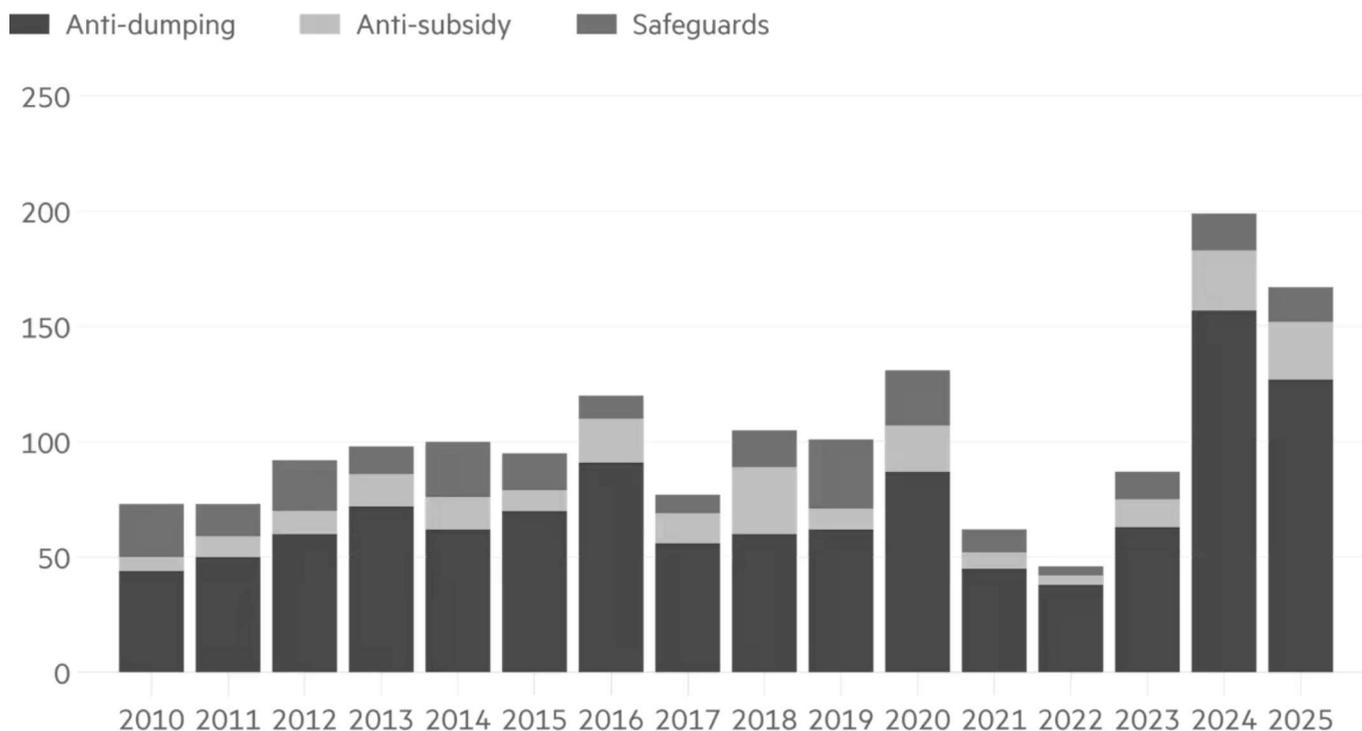


Source: Bruegel think-tank

True, China has serious problems in the medium to long term. Last week it acknowledged the reality of a big slowdown in productivity by cutting its GDP growth target to 4.5-5 per cent, its lowest in decades. Even to achieve that, its aggressive export-related strategy has had to buy growth by sustained falls in export prices. Fearing deindustrialisation by subsidised imports from China, its trading partners have imposed a string of anti-dumping and anti-subsidy measures following a decline during the post-Covid trade boom. But those are clumsy tools for managing industrial policy in the face of a rush of cheap Chinese imports.

Trying to hold back the tide

Defensive trade actions against imports from China, all countries



Source: China Trade Monitor

This would be an excellent time for a geoeconomic leader to try to rally governments around a coherent strategy to resist what they regard as Chinese dumping, but only the US has the clout to do so, and it looks like a less reliable partner with every week that goes by.

In the meantime, maintaining good relations with China does have some benefits in the form of cheap green technology. The attractiveness of insulating economies against oil price shocks with solar and wind power has jumped sharply in the past two weeks. Rather than trying to hold back the tide of imports from China, a common strategy is to try instead to encourage China to invest and create production and jobs locally, particularly for electric vehicles.

Given the resilience created by its own preparations and the US's act of self-harm in the Gulf, Xi Jinping really doesn't have to do much at the forthcoming summit except bask in the glow of statesmanship — or at least its appearance — and perhaps sort out some investment deals to re-engage with the US at a different level. “For a regime which has put relations with the US at the core of its foreign policy, it can regard a meeting at the highest level as a success in itself,” says Yu Jie, senior research fellow on China at the Chatham House think-tank. (Disclosure; I'm an unpaid associate fellow there.)

None of this removes the reality that Beijing's growth model has serious problems. China is far short of surpassing the US as a geoeconomic power. But it is weathering both the tariff and oil shocks created by the US's misadventure. To increase your economic credibility relative to the US at the moment you simply have to make fewer mistakes than Trump, and that's hardly the most daunting of tasks.

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