

TRUMP'S TRADE WAR WITH CHINA RISKS SENDING PRODUCTION TO CHINA

I may be alone in this opinion, but Scott Bessent's response to Bret Baier's question about how trade negotiations with China are going looked like a hostage video.

Bessent's description that talks with China were "a bit stalled" has gotten a lot of attention, but not his robotic cadence and stuttering, a real shift from his fluid flow of bullshit before that, leading up to his hint of a call with Party ... Chair ... Xi.

Bessent: I, I, I would say that they are ... uh, a bit stalled. I believe that we will be having more talks with them. Uh, in the next few weeks. And I believe we may at some point have a call between uh the President and Party. Chair. Xi.

Baier: So stalled. There was a time when the President thought that that was moving forward pretty significantly.

Bessent: I, uh, again I, I think that given, given the magnitude of the talks, given the complexity, that it, this is going to require both. leaders. to. weigh. in. uh with each other. They have a very good relationship and I am confident that. the. Chinese. will come to the table when President Trump makes his preferences known.

The interview was on Thursday. It was the day before Trump's Truth Social post where he made false claims about how the interim deal with China came about before then claiming that China had violated that deal (this screen cap reflects my normal five hour time difference).



Donald J. Trump
@realDonaldTrump

Two weeks ago China was in grave economic danger! The very high tariffs I set made it virtually impossible for China to TRADE into the United States marketplace which is, by far, number one in the World. We went, in effect, COLD TURKEY with China, and it was devastating for them. Many factories closed and there was, to put it mildly, "civil unrest." I saw what was happening and didn't like it, for them, not for us. I made a FAST DEAL with China in order to save them from what I thought was going to be a very bad situation, and I didn't want to see that happen. Because of this deal, everything quickly stabilized and China got back to business as usual. Everybody was happy! That is the good news!!! The bad news is that China, perhaps not surprisingly to some, HAS TOTALLY VIOLATED ITS AGREEMENT WITH US. So much for being Mr. NICE GUY!

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A series of stories in WSJ explain what really happened in advance of that (IMO) stammering hostage video from Scott Bessent.

A piece on Friday – written the same day as Trump's post and explaining Bessent's comment about a stall (but not mentioning his stammer) – described that Trump's accusation pertained to China's slow-walking of export licenses for rare earth metals, which China attributed to retaliation for what the US claims was a restatement of export controls put on chip technology under Biden.

A trade truce between the U.S. and China is at risk of falling apart, as China's slow-walking on rare-earth exports fuels U.S. recriminations that China is reneging on the deal.

Getting the pact together in Geneva earlier this month hinged on Beijing's concession on the critical minerals, according to people familiar with the matter.

The people say the U.S. trade negotiators presented their Chinese counterpart, Vice Premier He Lifeng, with a demand that Beijing resume rare-earth exports. In return, the U.S. would agree to a 90-day tariff truce. He agreed to the demand in the final hours

of marathon discussions with Treasury Secretary Scott Bessent and U.S. Trade Representative Jamieson Greer, the people said.

In the resulting deal, both sides suspended most of the tariffs they had imposed on each other—drawing cheers from global investors and businesses.

Since Geneva, however, Beijing has continued to slow-walk approvals for export licenses for rare earths and other elements needed to make cars, chips and other products.

[snip]

For He, Chinese leader Xi Jinping's economic gatekeeper, the willingness to comply with China's rare-earth pledges faltered after the U.S. Commerce Department on May 12 issued a warning against the use of Huawei Technologies's Ascend artificial-intelligence chips "anywhere in the world," the people said.

Beijing viewed the warning as renewed U.S. aggression, and complained about it to Washington.

That same day, WSJ published a story describing that the US no longer has the tech advantage over China that might make this hardball work.

The U.S. has tried almost everything to win the tech race against China—across areas as varied as AI, energy, autonomous vehicles, drones and EVs. So far, none of it has worked.

China's EVs are cheaper and by many measures better than America's. The country dominates in consumer drones. Autonomous vehicles have rolled out on the streets of Wuhan and Beijing at a pace that Waymo and Tesla have yet to match. China produces the lion's share

of the world's solar panels and batteries. And while the U.S. and its allies maintain a narrow lead in advanced microchips and AI, the gap appears to be closing faster than ever.

On Monday, a story about Vice Premier He Lifeng's hardnosed negotiating approach described that he was the one slow-walking licenses.

In its deepening face-off with the Trump administration, Beijing's trade negotiator has given a preview of Xi Jinping's chief objective for this trade war: It won't be like last time.

In Geneva in mid-May, Vice Premier He Lifeng extracted a 90-day trade truce from a Trump team that had until then declined to pause a tariff blitz on China the way it had for other countries. The deal calmed the nerves of investors and markets around the world.

Now, after both sides have complained that the other wasn't upholding the terms of the deal, that trade truce is teetering, once again jolting global investors and businesses.

At the center of the storm is He, Xi's economic gatekeeper, who has made clear China's strategy in this trade war is nothing like the approach it had in Trump's first term.

During the Geneva talks, He had removed a final sticking point by agreeing to U.S. demands that China resume rare-earth exports. Yet since then He has dug in his heels, slow-walking approvals of licenses to export the minerals critical in the manufacturing of modern cars and other products.

Beijing blames the U.S. for the breakdown, saying a warning against the

use of certain artificial-intelligence chips from China's Huawei Technologies was a renewal of U.S. aggression, and complained to Washington that it undermined the trade deal. It also took offense at the U.S. plan to aggressively revoke visas for Chinese students.

The U.S. said the Huawei warning was a restatement of a previous policy. Trump has expressed hopes to talk to Xi directly to break the impasse. A call could happen as early as this week, the White House said.

And a piece today describes what may have caused Bessent's stammer. Auto companies are considering moving some production to *China* to get around the rare earth backlog.

Four major automakers are racing to find workarounds to China's stranglehold on rare-earth magnets, which they fear could force them to shut down some car production within weeks.

Several traditional and electric-vehicle makers—and their suppliers—are considering shifting some auto-parts manufacturing to China to avoid looming factory shutdowns, people familiar with the situation said.

Ideas under review include producing electric motors in Chinese factories or shipping made-in-America motors to China to have magnets installed. Moving production to China as a way to get around the export controls on rare-earth magnets could work because the restrictions only cover magnets, not finished parts, the people said.

If automakers end up shifting some production to China, it would amount to a remarkable outcome from a trade war initiated by President Trump with the intention of bringing manufacturing back

to the U.S.

“If you want to export a magnet [from China] they won’t let you do that. If you can demonstrate that the magnet is in a motor in China, you can do that,” said a supply-chain manager at one of the carmakers.

China in April began requiring companies to apply for permission to export magnets made with rare-earth metals, including dysprosium and terbium. The country controls roughly 90% of the world’s supply of these elements, which help magnets to operate at high temperatures. Much of the world’s modern technology, from smartphones to F-35 jet fighters, rely on these magnets.

In the auto industry, rare-earths are what allow electric-vehicle motors to function at high speed. They are also used in less exotic, though no less critical, functions from windshield wipers and headlights.

Aside from describing how Ford shut down an Explorer line for a week, WSJ doesn’t mention *which* four auto companies were considering this move. But in a few places, it focuses on the specific vulnerability for electric cars: they need the magnets for engines to work at high speed, and older engines that don’t rely on them are more expensive.

A key part of a NYT profile on recriminations Elon Musk is facing at Tesla for his neglect over the last four months focuses on supply chain vulnerabilities.

During the visit, Mr. Musk asked about the impact of Mr. Trump’s tariffs on Tesla and was briefed on the effects and the company’s supply chain vulnerabilities, two people familiar with the meeting said. The timing of his question raised concerns from some

attendees, since Mr. Trump had begun announcing tariffs two months earlier in February.

Days after Mr. Musk's visit, Tesla reported that its vehicle sales fell 13 percent in the first quarter from a year earlier, as profit plunged to its lowest level in four years. New tariffs on imported auto parts have added to the financial pressures facing the company.

Now, Bessent and Elon had the highest profile spat involving any of Trump's cabinet members. Bessent likely doesn't care, exclusively, about a hit to Elon's business (though Elon's petulance and self-regulation problems may explain why he'd lash out if Trump's tariffs are killing the primary source of his wealth).

This is a far larger issue for Bessent. The issue that he's got a weak hand. The issue that if this negotiation doesn't work, it'll crash the global economy, with the US in the lead. The issue that rather than isolating China, the Trump administration has found non-stop ways to make China stronger. The issue that if Bessent fails, far worse economic advisors, like Peter Navarro, will have the upper hand with Trump.

In the middle of all this, Whiskey Pete Hegseth, who didn't know what ASEAN was at his confirmation hearing, flew to Singapore and dick-wagged about defending Taiwan, eliciting yet another backlash from China.

On Saturday Hegseth said China was "credibly preparing to potentially use military force to alter the balance of power in the Indo-Pacific", and was rehearsing for "the real deal" of invading Taiwan.

"There's no reason to sugar coat it. The threat China poses is real, and it could be imminent," the US defence secretary said in a keynote address at the Shangri-la Dialogue defence forum,

calling for Asian countries to increase defence spending.

On Sunday, China's ministry of foreign affairs condemned his words, which it said were "filled with provocations and intended to sow division".

"Hegseth deliberately ignored the call for peace and development by countries in the region, and instead touted the cold war mentality for bloc confrontation, vilified China with defamatory allegations, and falsely called China a 'threat'," it said.

"The remarks were filled with provocations and intended to sow division. China deplores and firmly opposes them and has protested strongly to the US."

The statement also pushed back at Hegseth's claim that China was trying to become a "hegemonic power" in the region.

"No country in the world deserves to be called a hegemonic power other than the US itself, who is also the primary factor undermining the peace and stability in the Asia-Pacific," it said.

Overnight, Trump is wailing about China again, complaining that Xi is "VERY TOUGH, AND EXTREMELY HARD TO MAKE A DEAL WITH!!!"

Which sounds like Trump is laying the groundwork to capitulate further to China.