

MACROCOSM

Hot Take on the Resumed US/China Trade Crisis

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The problem isn't China's rare earths export controls. It's Trump's reaction.

Markets have been due for a correction. But an especially severe risk-off move yesterday was triggered by President Donald J. Trump's [Truth Social post mid-day](#), warning in a particularly ominous and apocalyptic tone of "massive tariffs" and "many other countermeasures" against China in response to their new export controls on rare earth elements. [Another post after markets had closed](#) announced additional tariffs of 100%.

This up-ends the [so-called "total reset"](#) announced on May 12, negotiated in Geneva by Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng (see ["The China Not-Reset"](#) May 14, 2025). It was a climb-down from the post "Liberation Day" tit-for-tat exercise that had mutual tariffs at 145%. The agreement was for a truce for 90 days at lower rates, to allow time for negotiations. The deadline has been extended twice. Until Friday, the latest deadline was November 12. Now Trump's announcement snaps US tariffs back to the pre-reset level on November 1.

- The S&P 500 was up 3.27% on May 12. It was down 2.71% Friday. This matters.
- *But it would seem that markets care about Trump's reaction more than they care about China's new rare earths policy.* That policy was [in the news already on Wednesday](#), and the two [actual rules underlying it](#) were published by the Security and Control Bureau of China's Commerce Ministry on Thursday – and markets were fine with it. The market reaction didn't come until Trump's reaction came.
- *What exactly are these export controls?*
- *China has not cut off our rare earths.*
- The controls require firms and individuals outside China to obtain Chinese government approval to export any "dual use" item – that is, which could be used either for civilian or military purposes – if it contains Chinese rare earth elements, or if it contains any rare earth elements processed with Chinese technologies. Exports to military buyers would not be approved. Exports to non-military buyers of items military buyers might want may or may not be approved.
- Contrary to some [hysterical press reports](#), China's controls would not prevent dual use items built in America containing Chinese rare earths from being sold and transported within the United States. It's

Update to strategic view

US MACRO, ASIA MACRO, US STOCKS:

Trump announced 100% additional tariffs on China after markets closed Friday, following an ominous Truth Social post mid-day warning of retaliation against China's export controls on rare earths. The controls do not cut off Chinese exports of rare earths. They require exporters anywhere in the world to seek Chinese permission to export any dual use product containing Chinese rare earths or made using Chinese technologies. These are "secondary sanctions" like the ones the US uses to keep other nations from doing business with Iran and Russia – and increasingly, China. But because of the centrality of Chinese rare earths in electronics, and the Chinese market for electronics, these have teeth. The new tariffs return to the levels before the May 12 "reset," but at least so far China has not retaliated. Trump is going all-in before the "reset" would have expired on November 12, and before SCOTUS can rule against his tariff authority under IEEPA. There remain off-ramps, and if China doesn't retaliate, one of them may yet be taken.

just exports.

- Presumably Tesla, whose electric vehicles contain relevant rare earth elements, would not have to get Chinese government approval before it could export a Model Y made in Fremont, California to Canada. It's not dual use. A Cybertruck made in Austin, Texas? Well, not so sure. Looks potentially military, to us.
- High-end chips? They're all dual use, so the real core of the issue is that these export controls effectively allow China to regulate global trade in the most important commodity of our era. China would have little power to enforce these controls, other than the threat to non-compliant exporters of being excluded from the Chinese market. This is how "secondary sanctions" always work – such as the sanctions the US puts on any trade with Iran, or trade with Russia in crude oil. For chip-makers, the threat of losing access to the Chinese market is a powerful cudgel (see "[Video: TrendMacro conversation with Patrick McGee: How Apple made China great -- and then became its hostage](#)" July 10, 2025).
- It's identical to the US control of exports from any nation to our "[entity list](#)," which has been [used increasingly](#) to crack down on third party nations exporting items containing dual use American items to China. Indeed, in addition to the tariffs announced late Friday, Trump announced export controls on "any and all critical software."

So we think the issue here is less the export controls and more Trump's response – the 100% tariffs and the "many other countermeasures" possibly to come. And of course, just as important, is whether China retaliates against Trump's 100% tariffs with 100% tariffs of its own, taking us back to the bad old days before May 12. As of this writing, China has not done that.

Why did Trump react as he did?

- The November 12 deadline was coming anyway. This could be a pressure play to make China put up or shut up on a lasting trade deal. China's offers so far have been pretty comical – including [a plan to invest \\$1 trillion in the US](#). Trump could proudly tout a \$550 billion investment from Japan (see "[The 'Mar-a-Lago Accord' has Already Happened](#)" August 15, 2025), but it is not politically viable for him to brag about – or even to permit! – a massive investment by China, which is already seen as having too much control over American resources... if the Chinese offer was even remotely sincere in the first place.
- Who knows. Maybe it will work. Trump's all-in approach with Gaza seems to have yielded a resolution that may earn him the Nobel Peace Prize next year.
- Speaking of which, Trump complained in [his Truth Social post mid-day Friday](#) that this move from China was "especially inappropriate" because it distracts from his diplomatic triumph in the Middle East. We would hope a US president would not be so thin-skinned as to re-ignite a trade war over such a slight. But why not consider that the timing was indeed intentional by China, designed not so much

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to annoy Trump but to signal, by rudeness, their supreme confidence in these trade negotiations? It wouldn't be irrational for Trump to test that confidence.

- That kind of all-in approach does seem to have worked in the Middle East. But it hasn't worked with Democrats. They went all-in, too – and now we have a government shutdown with no end in sight.
- Will China go all-in, in which case we have that kind of mutually-assured destruction deadlock? It hasn't as of this writing.
- Overhanging it all is the Trump administration's appeal in the Supreme Court to preserve tariffs under the International Emergency Economic Powers Act (see ["Video: TrendMacro conversation with Judge Michael McConnell, the Constitutional scholar fighting tariffs in the Supreme Court"](#)) September 19, 2025). Presumably that is, as it was before, the authority under which Trump has ordered the 100% tariff. That case won't even go for oral arguments until November 5, after the November 1 deadline has passed, and who knows when a decision will be handed down. In the meantime, under threat of losing the case, IEEPA is a "use it or lose it" weapon for Trump. But it's a potentially weak weapon, because it could be suddenly rendered useless by SCOTUS. It's not obvious to us how China will play that element – does it lead to a more aggressive approach, or a more patient one?
- The reality is that for all the threats and all the bluster on both sides, there are always off-ramps. Yes, Trump said in [his Truth Social post mid-day Friday](#) that he "was to meet President Xi in two weeks, at APEC, in South Korea, but now there seems to be no reason to do so." They can still meet if they want to. And Bessent can meet with Li. But no one takes off-ramps unless there is a "reason to do so," which is to say, unless they are forced to. We're in the forcing stage.
- The most optimistic sign that an off-ramp might be taken is if China does not retaliate with its own 100% tariffs.
- As we've been saying about tariffs all year, wait and see.

Bottom line

Trump announced 100% additional tariffs on China after markets closed Friday, following an ominous Truth Social post mid-day warning of retaliation against China's export controls on rare earths. The controls do not cut off Chinese exports of rare earths. They require exporters anywhere in the world to seek Chinese permission to export any dual use product containing Chinese rare earths or made using Chinese technologies. These are "secondary sanctions" like the ones the US uses to keep other nations from doing business with Iran and Russia – and increasingly, China. But because of the centrality of Chinese rare earths in electronics, and the Chinese market for electronics, these have teeth. The new tariffs return to the levels before the May 12 "reset," but at least so far China has not retaliated. Trump is going all-in before the "reset" would have expired on November 12, and before SCOTUS can rule against his tariff authority under IEEPA. There remain off-ramps, and if China doesn't retaliate, one of them may yet be taken.