

MACROCOSM

Trade Deals Large and Small, Real and Unreal

Monday, October 27, 2025

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Another not-reset with China. And reciprocal tariffs on nations that don't tariff us at all.

This is just a quick flash report to serve as a hot take on the trade news over the weekend.

It looks like we are going to be right in our Saturday morning call two weeks ago for calm after markets were rocked by a seeming renewal of US/China mutually assured trade destruction (see [“Hot Take on the Resumed US/China Trade Crisis”](#) October 11, 2025). Coming out of trade talks in Kuala Lumpur, *Treasury Secretary Scott Bessent used the perennial signaling term “framework” to assure that a deal has been worked out sufficiently so that US President Donald J. Trump and Chinese President Xi Jinping can agree when they meet this week in South Korea.*

- *Very few details are being reported. That's probably because there aren't any worth reporting.* We think what will no doubt be heralded as an “historic deal” when it is agreed this week will be, in fact, little more than a standstill agreement preserving for a year, say, the *status quo ante* – something like the “reset” that wasn't a reset at all six months ago (see [“The China Not-Reset”](#) May 14, 2025). US tariffs on China will be this highest in history. Both nations will stand down on their port fees. China will temporarily suspend its export control regime on rare earths.
- We continue to think Trump's overarching goal is to assemble a global consensus to contain China economically, similar to the consensus to contain the Soviet Union during the Cold War (see [“What is the Tariff Endgame?”](#) July 21, 2025). [Europe is signaling it will play along](#), talking about using China's own protectionist tools against it, such as forced trade transfers. [Canada is not](#), instead talking about deepening a “strategic relationship” with China (we think it is that, more than [an anti-tariff television ad](#) featuring Ronald Reagan, that has moved Trump to [lash out with a new tariff threat](#) against Canada).
- But the political reality for the Western democracies is that it is very costly to contain China economically. It involves decoupling from deep and economically advantageous commercial relationships that have no analogy to the Cold War era – we didn't have to decouple from the USSR because we weren't even coupled to it. While there may be long-term economic advantages, or long-term defense objectives to be sought, it is nevertheless very expensive and, in the West, there are recessions to be

Update to strategic view

US MACRO, ASIA

MACRO: Bessent announced a “framework” for a trade deal Trump and Xi can agree on this week in South Korea. There are few details, but we expect it will be a stand-down back to the so-called “reset” in May. The US will maintain large tariffs on Chinese imports; port fees will be reduced or eliminated; China's export control regime on rare earths will be shelved temporarily. Trump's endgame is to engage the Western democracies in decoupling from China gradually. China's approach is to avoid this with threats of sudden breaks that threaten recessions and electoral losses in the West. Europe is playing along, Canada is not – and Trump is punishing Canada. New trade deals with Malaysia and Cambodia appear, unlike the other larger ones previously announced, to be real. But they leave large US tariffs in place despite elimination of the counterparty nations' tariffs. How is that “reciprocal”?

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avoided and elections not to be lost. For the West, the game is to do the decoupling a little bit at a time, and offset it with economic stimulus such as low central bank policy rates and tax cuts (see [“Video: What you’re not hearing about the One Big Beautiful Bill”](#) July 7, 2025). For China, the game is to prevent the decoupling as much as possible with threats of catastrophic accelerations such as an embargo on rare earths.

Meanwhile, over the weekend, [the US announced trade deals with Malaysia and Cambodia](#).

- As far as we can tell, of all the deals announced this year by the Trump administration, *these are the only two that are real*. That is, there are joint statements ([Malaysia](#) | [Cambodia](#)) and actual administrative text ([Malaysia](#) | [Cambodia](#)). For all the rest, it’s mostly just Truth Social posts.
- But like the others, the terms are disturbing. Malaysia and Cambodia have eliminated their tariffs on US goods. But the US is imposing a 19% “reciprocal” – yes, it is explicitly called that – on their goods. We continue to believe that the whole concept of “reciprocal” tariffs is not, in fact, an exercise in improving global trade and making it more fair, but rather simply a persuasion trick of misdirection to allow the imposition of the highest US tariffs since the 1930s.

Bottom line

Bessent announced a “framework” for a trade deal Trump and Xi can agree on this week in South Korea. There are few details, but we expect it will be a stand-down back to the so-called “reset” in May. The US will maintain large tariffs on Chinese imports; port fees will be reduced or eliminated; China’s export control regime on rare earths will be shelved temporarily. Trump’s endgame is to engage the Western democracies in decoupling from China gradually. China’s approach is to avoid this with threats of sudden breaks that threaten recessions and electoral losses in the West. Europe is playing along, Canada is not – and Trump is punishing Canada. New trade deals with Malaysia and Cambodia appear, unlike the other larger ones previously announced, to be real. But they leave large US tariffs in place despite elimination of the counterparty nations’ tariffs. How is that “reciprocal”? ▶

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