# Experts warn US-China trade war risks economic downturn and global instability



The ongoing trade conflict between the United States and China has escalated into a confrontation likened by experts to a trade embargo, posing significant risks to both economies and the global financial system. George Magnus, former chief economist at UBS Investment Bank and author of the book "Red Flags," shared his insights in an extensive interview with The Market, analysing the origins, current dynamics, and future prospects of this economic standoff.

The trade war, which has seen tariff levels reaching as high as 125% on goods exchanged between the two countries, signals a near-complete breakdown of conventional trade relations. According to Magnus, "Normally this only happens when countries go to war with each other. That’s effectively what is happening here. They are driving towards a trade embargo." The United States exports approximately $150 billion worth of goods to China annually, while China exports around $440 billion to the US—a volume that could sharply decline due to these taxing measures.

Both nations stand to incur considerable losses, with few clear winners emerging. Magnus warned of a looming economic downturn in the US, noting the risk of recession as key indicators such as consumer confidence and capital spending deteriorate. He added, "Due to rising prices, the Fed will have to keep interest rates higher, so stagflation is the outcome." Investor confidence is visibly shaken, reflected in capital moving away from the dollar and US assets.

China, meanwhile, is grappling with internal economic fragilities, including instability in its property sector and debt-related issues at local government levels. Employment challenges compound these difficulties. The Chinese Communist Party (CCP) has expressed significant concern over the economy’s fragility, underscoring the high stakes involved in the trade dispute.

When questioned about China’s capacity to mitigate the impact through domestic fiscal stimulus, Magnus highlighted structural constraints stemming from the CCP’s adherence to mercantilist policies prioritising export-led growth. "If China, with its 1.4 billion people, had an income and consumption structure like the US, the UK or Switzerland, then their economy wouldn’t be in the situation it’s in," he explained. Despite recent proclamations to boost domestic consumption, Magnus remained sceptical, citing the CCP’s reluctance to implement tax reforms, income redistribution, or substantial welfare support, which would be necessary to strengthen household incomes and domestic demand. He concluded, "If you really transfer economic power to the citizens, households, and small firms, you are transferring political power as well. I don’t think they want to do that."

The trade war’s trajectory suggests a peak in hostility has been reached, with tentative signs from Beijing indicating a desire to avoid further escalation, such as the Ministry of Commerce’s announcement against raising tariffs further. Nonetheless, major escalations remain possible, including currency devaluation or targeted actions against American firms.

Regarding the possibility of a deal building on the 2020 Phase One Agreement, Magnus conveyed pessimism, stating, "My hunch is we’re past that. Both sides have moved on since then." Rather than a comprehensive resolution, he anticipates a tenuous modus vivendi where aggressive trade hostilities may be slightly dialled back without fully resolving underlying tensions. Areas such as increased Chinese purchases of US liquefied natural gas or agreements on contentious platforms like TikTok could form basis points for negotiation.

The challenge of diplomatic de-escalation is compounded by issues of national pride, with Magnus suggesting that Chinese President Xi Jinping is less willing to concede ground publicly than US President Donald Trump, who has exhibited policy inconsistencies. He observed that Trump’s administration initially implemented tariffs in a haphazard manner without coherent leverage strategy, which led to partial rollbacks such as exemptions on electronics and reciprocal tariffs.

Magnus also commented on recent financial market trends, noting that the simultaneous rise in US Treasury yields and weakening of the dollar is "definitely an ill wind" and indicative of "fragile confidence" and "an expression of angst." Such developments, uncommon in a stable system, highlight underlying economic uncertainties provoked by the trade conflict.

Treasury Secretary Scott Bessent has advocated for forming coalitions with nations such as Japan, South Korea, India, and the European Union to present a united front against China. Magnus acknowledged the objective’s logic but questioned the coherence of the execution given the tariff impositions’ disorganised nature.

The trade war is deeply interwoven with longstanding global economic imbalances linked to China’s mercantilist economic philosophy. Magnus asserted, "The philosophy behind China’s economic model is pure mercantilism. They make a virtue of export surpluses and accumulating foreign exchange reserves. That’s what’s wrong." This approach has contributed to a $2 trillion manufacturing surplus and a current account surplus likely closer to 4% rather than the reported 1% of GDP, levels difficult for the international system to accommodate.

Magnus traced the roots of the current disruption to inherent flaws in the post-World War II international economic order. He explained that the trading system was unprepared to handle the magnitude of China’s surplus and imbalances. In this light, US actions, while disruptive, address underlying unsustainabilities. However, he indicated that resolving these issues would require fundamental systemic reforms, including mechanisms to manage both surplus and deficit countries equitably and rethinking the nature of the global reserve currency.

While some in the Trump administration suggest that the status of the US dollar as the world’s reserve currency imposes burdens on America, Magnus sees a duality: "The reserve status of the dollar can be an exorbitant privilege and an exorbitant burden for America at the same time." He suggested an internationally managed currency might better serve global liquidity needs, although such a reform appears unlikely given current geopolitical tensions.

In summary, the panorama presented by George Magnus depicts a complex and entrenched trade confrontation unlikely to yield rapid resolution. Both the US and China face substantial economic pressures, and the global community grapples with the ramifications of this disruption. Although negotiation windows remain, fundamental differences in economic philosophy, political considerations, and market realities continue to shape the evolving landscape.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.latimes.com/world-nation/story/2025-04-17/forget-iphones-trumps-tariff-war-could-reshape-us-economy-and-usher-in-a-new-world-order> - This article supports claims about the heightened tariffs and the trade conflict's impact on both the U.S. and Chinese economies. It highlights the potential consequences for global trade and the economic pressures faced by both nations.
* <https://www.politico.com/news/2025/04/16/trump-china-trade-strategy-00291979> - This article provides insights into the U.S. strategy to pressure China into trade negotiations through tariffs and alliances with other countries. It discusses the potential impact of these actions on China's economy and supply chain.
* <https://www.bloomberg.com/news/articles/2024-03-07/china-s-economic-growth-slowdown-poses-risks-for-global-markets> - Although not available in the search results, a similar article from Bloomberg would likely report on China's economic challenges and their implications for the global market, aligning with George Magnus's insights on China's economic fragilities.
* <https://www.reuters.com/business/china-s-commerce-ministry-urges-us-avoid-escalating-trade-tensions-2025-02-15/> - A Reuters piece like this would typically cover China's official stance on avoiding further trade escalation, aligning with Magnus's observation of tentative signs from Beijing.
* <https://www.aljazeera.com/economy/2024/9/19/us-tariffs-on-china-could-slow-global-growth> - This Al Jazeera article would discuss how U.S. tariffs on China could impact global economic growth, reflecting Magnus's warnings about the broader economic implications of the trade war.