

# Impact Of the Economic Embargo Imposed by The United States on China on The Chinese Economy

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**Abstract.** Amidst an increasingly tense global landscape, the ongoing power struggle between two major players, China and the United States, persists unabated. Notably, the economic sanctions that the U.S. levied against China have wielded substantial influence over China's economic trajectory. This research sets its focus on the intricate dynamics of these sanctions, dissecting their methods, intentions, and the resultant toll on China's economic well-being. Moreover, it examines the realm of U.S.-China trade, scrutinizing the extent of U.S. influence over China's exports, imports, and trade mechanisms. Drawing from a comprehensive lens, the study scrutinizes China's strategic responses to these sanctions, unveiling the multifaceted strategies it has employed to navigate these challenging circumstances. Through insightful analysis, the paper not only outlines the repercussions faced by China but also lays bare the implications for global trade and diplomacy. Within this context, the paper envisions a forward-looking trajectory for U.S.-China relations. By fostering a nuanced understanding of the intricate interplay between economic sanctions, global trade, and diplomatic strategies, the study proposes a more constructive and cooperative path for the future. As the international arena continues to evolve, the pursuit of mutual benefit and sustainable coexistence emerges as a promising proposition for both nations to navigate the complex web of global dynamics with greater harmony and shared prosperity.

**Keywords:** Economic embargo; trade war; development.

## 1. Introduction

The United States economic sanctions against China have evolved for more than half a century. The United States imposed all trade embargoes on China from the time of the Korean War to mid-1971. [1] The political competition between the United States and China has been formalized since 1974, when President Nixon lifted the embargo on China and established formal diplomatic relations with China. Geopolitical competition has become increasingly intense in recent years, and as tensions between China and the United States have grown, the United States has imposed an economic embargo on China out of concern for national security, the long-standing trade imbalance between China and the United States, and intellectual property rights.

Today, the U.S. economic embargo against China has become the focus of global attention. This series of embargoes is aimed at exerting pressure on China's economic activities by restricting trade, imposing sanctions and banning technology exchanges. However, this approach not only affects the economic relationship between the United States and China, but also poses a potential threat to supply chains, financial markets and the economic stability of other countries on a global scale. The impact of these economic embargoes on China's economy is complex in several ways. First, trade restrictions and sanctions could lead to a severe hit to China's exports, which in turn could affect manufacturing growth and job market stability. Second, technology embargoes may limit the ability of Chinese enterprises to acquire key technologies, posing challenges to their scientific and technological innovation and industrial upgrading. In addition, they may also affect the inflow of external investment into China, with implications for the flow of capital and the development of the domestic economy. The economic embargo measures imposed by the United States on China have not only had a significant impact on the Chinese economy but have also triggered a wide-ranging discussion on the global economic landscape, trade freedom and international cooperation.

This paper begins by identifying specific U.S. embargo measures and interpreting the purpose of their enactment and their impact on specific industries in China. It also analyzes why China has been

affected by these measures and how its economy has changed before and after the embargo by presenting the market environment in China in order to show readers the impact of the economic embargo on China and the harm it has caused. Finally, we cover China's response to the U.S. economic embargo and the measures it has taken to deal with it, in order to provide the most comprehensive picture of the game between the two countries.

## 2. Specific Sanctions Measures

US economic sanctions targeting China can be categorized into three primary groups. Firstly, there are US laws and regulations that pertain to China but aren't limited solely to it. Secondly, multilateral sanctions, led or participated in by the US, apply to China as part of a broader scope, not exclusively. Lastly, there are US sanctions uniquely directed at China, although these measures might not be exclusive to China in principle [1]. Of these, one of the most impactful statutes influencing US-China trade is Section 301 of the Trade Act. This provision grants legislative authorization, empowering the President to unilaterally respond to foreign laws that breach agreements and jeopardize US interests [2]. These multifaceted categories of sanctions underscore the complex nature of US-China relations, highlighting the range of mechanisms employed to influence trade and international interactions between these two influential nations. There are many ways in which the United States has imposed economic sanctions on China. Many of these sanctions can also be seen in recent bills from different presidential administrations. In the realm of technology, the National Defense Authorization Act for Fiscal Year 2019 (NDAA 2019) signed under the Trump administration reinstated a trade ban on ZTE and banned Huawei and ZTE tech in the federal government. [3] In the realm of investment, President Trump signed Executive Order 13959, which prohibits all use of Huawei and ZTE tech in China. [3]. In 2019 the U.S. characterized China as a currency manipulator and President Donald Trump shocked financial markets by imposing a 10 percent tariff on the remaining \$300 billion of Chinese imports from September 1, 2019, abruptly breaking a brief ceasefire in a bitter trade war causing the yuan exchange rate to fall sharply. disrupting global supply chains and slowing growth. [4] In the realm of investment, in 2020, President Trump signed Executive Order 13959, prohibiting all American investors, including both institutional and individual investors, from purchasing or investing in securities of companies that have been designated by the U.S. Department of Defense as "Communist Chinese military companies." [5] The sanctions against China during the next Biden administration were more focused on high-tech industries and military enterprises. As a result of Russia's invasion of Ukraine, the Biden administration sanctioned a series of Chinese companies for providing technical support to Russia. 2022 In June, the U.S. Department of Commerce placed five Hong Kong-based companies providing support to the Russian military on the Industrial Security Agency (ISA) Entity List. 2023 The Biden administration also sanctioned a series of Chinese companies for providing technical support to Russia. [6] In January 2023, the U.S. Treasury Department sanctioned Tianyi China for its provision of satellite imagery to the Wagner Group. [7] In March 2023, the U.S. Treasury Department sanctioned five Chinese companies for supplying equipment to Iran's Aircraft Manufacturing Industries (AMI) for producing Russia's HESA Shahed 136 drones used against Ukraine. [8] At the same time the Biden administration has imposed corresponding sanctions in China's semiconductor industry and fentanyl precursor production industry. In the semiconductor industry, in order to maintain U.S. technological superiority, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) has imposed controls on China's advanced computing and semiconductor manufacturing. [8] At the same time, the Biden Administration has also imposed sanctions in China's semiconductor industry. In the semiconductor industry, in order to maintain U.S. technological superiority, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) has imposed controls on China's advanced computing and semiconductor manufacturing. [9] In March 2023, the U.S. Department of Commerce placed 28 Chinese companies, including Longchao and Longxin, on its Entity List [10].

### 3. Specific Sanctions Measures

China has a relatively large share of global manufacturing, accounting for 28.7% of total global manufacturing output in 2019. [11] The large amount of manufacturing means that China relies on exporting its products, and the large scale and efficient operation of China's manufacturing industry as an important part of the global manufacturing industry is due to the globalized supply chain system. However, to maintain this scale and operational efficiency, China's manufacturing industry not only relies on domestic production capacity, but also requires significant imports. Imports of raw materials, components, advanced equipment and technology provide the necessary support for the smooth operation of China's manufacturing sector. China's manufacturing industry has been in constant pursuit of improving product quality, reducing costs, and strengthening its innovation capabilities. This requires the introduction of advanced technologies and techniques to maintain competitiveness. For example, in the high-tech sector, China needs to import cutting-edge technologies from abroad in order to quickly keep pace with global technological innovation. Imports also help meet the domestic market's demand for diversified and high-quality products, thereby enhancing consumer satisfaction. However, the imposition of U.S. sanctions on the Chinese economy could have a significant impact on China's manufacturing exports. The United States is one of China's largest export markets, accounting for about a sizable percentage of China's total exports. If the U.S. implements trade restrictive measures, China's exports could face restrictions, increased tariffs, and other trade barriers, which would directly impact the profitability and competitiveness of China's manufacturing sector. China's manufacturing sector will have to find new markets, adjust its export strategy and strengthen its efforts in technological innovation more in order to reduce its dependence on external supply chains. The United States is not only a sanctioner of China, but also an important trading partner of China. In 2019, the U.S. was China's top export market and fourth largest source of imports, accounting for 16.75% and 5.91% of China's total imports and exports, respectively, the share of exports has been declining since 2002. [2] With the development of China's manufacturing industry and the restructuring of the international trade pattern, the proportion of China's exports to the United States has gradually declined, thus making China less vulnerable to the sanctions imposed on its economy by the United States. In recent years, China has gradually expanded its trade cooperation with other countries and regions in global trade and diversified its trading partners. This means that China is no longer overly reliant on the U.S. market as it was in the past, thus reducing its sensitivity to U.S. economic sanctions. China's diversification in terms of trading partners has enabled it to better diversify its economic risks and reduce its exposure to changes in a single market. In addition, China has strengthened the core competitiveness of its industries by actively promoting independent innovation and technological progress.

### 4. Impact of U.S. Sanctions on China

#### 4.1. Lower U.S. Investment in China

U.S. investment in China in 2001 was concentrated in the manufacturing, petroleum, and financial services sectors. [1] U.S. economic sanctions against China inevitably have a negative impact on U.S. investment in China, and these sanctions may cause U.S. companies to face many challenges in the Chinese market, limiting their business opportunities in China. Companies may also face higher compliance costs and legal risks while complying with sanctions, which may slow the pace of their investments in the Chinese market. U.S. government-imposed restrictions on exports. Most U.S. business executives and managers, even those in non-controlled sectors of the economy, are reluctant to even explore the possibility of doing business with or in China. This is due to everyday political rhetoric and media influence. [1] In addition, U.S. sanctions against China may have increased uncertainty and hindered U.S. companies' strategic planning and long-term investment plans in China. Companies need to consider policy risks, market prospects, and supply chain-related issues, which may make them more cautious about investing in China. Some companies may delay or reduce their

expansion plans in China or seek alternative markets and investment opportunities to reduce the risks associated with investing in China.

#### **4.2. Impact on Chinese Exports**

Reduced U.S. investment in China could have a ripple effect on Chinese exports. Reduced investment could mean less participation by U.S. firms in the Chinese market, limiting their ability to expand their business and increase their production capacity in China. This could lead to an erosion of China's position as an exporter, as the United States market is usually one of the key export destinations for Chinese products. As U.S. investment declines, the challenges facing Chinese exports may gradually intensify. On the one hand, China's manufacturing sector could be affected by declining production capacity and limited technological innovation, which could reduce the competitiveness of its products. On the other hand, uncertainty about the market outlook may make it difficult for Chinese exporters to make long-term strategic plans, leading to adjustments and reductions in export plans. The United States replaces Chinese exporters with suppliers from other countries through trade diversion. [12] China has had to strengthen trade cooperation with other countries and regions to reduce its dependence on the U.S. market. The Chinese government may take steps to promote export diversification and seek new trading partners and market opportunities to balance the impact of reduced U.S. investment. U.S. restrictions on Chinese imports may also result in needless losses due to higher domestic production costs of imported substitutes and reduced consumption. [1] While the U.S. diverts trade the U.S. simultaneously suffers losses. At the same time, the Chinese market accounts for a relatively large share of the manufacturing sector, which will lead to layoffs in related industries after the United States imposes controls on imports from China, thus affecting the job market. Unemployment rate rises, increasing the pressure on social employment and thereby lead to a slowdown in China's productive activities and economic growth. This may affect the growth rate of gross domestic product (GDP).

#### **4.3. Impact of Export Controls on China**

The U.S. has implemented appropriate controls on exports to China. U.S. exporters must obtain an end-user declaration from the Ministry of Commerce of China (MOFCOM) when applying for licenses involving merchandise valued at more than \$50,000 on the Commerce Control List (CCL). [13] A reduction in U.S. exports to China could result in supply chain disruptions for certain industries. Production in China may depend on key components, raw materials, or technology imported from the U.S. Reducing these supplies could affect China's production capacity and product quality, resulting in higher production costs for related industries. Meanwhile, the U.S. imposes severe restrictions on exports of high-tech industries to China, resulting in a slowing of China's scientific and technological research and development process.

### **5. China's Countermeasures**

#### **5.1. Promoting the RMB**

Trade settlement and investment: China encourages the use of RMB for settlement of international trade and investment to reduce dependence on other currencies. This helps to enhance the RMB's position in international payments. Financial market liberalization: China has gradually liberalized foreign access to financial markets, allowing foreign investors to participate in the RMB market, including the bond and stock markets. This helps increase the circulation and use of RMB in the global financial market. Signing of Bilateral Local Currency Swap Agreements: China has signed bilateral local currency swap agreements with a number of countries, facilitating the direct use of national currencies for trade and investment between the two sides and avoiding the use of third-party currencies. Support from international financial institutions: China actively participates in international financial institutions, such as the International Monetary Fund (IMF), to promote the inclusion of the RMB in the Special Drawing Rights (SDR) currency basket and to enhance the

international status of the RMB. Promotion of RMB Settlement System: China has established the Cross-border RMB International Payment System (CIPS) to promote the convenience and efficiency of global RMB payments. Bond market development: China is gradually promoting the development of the RMB bond market to attract international investors to buy RMB bonds, thus increasing the internationalization of the RMB. Take a gradual approach to liberalize domestic trading of RMB-denominated commodities. In addition to being part of a broader policy to promote the global use of the renminbi, renminbi-denominated commodity contracts enhance China's pricing power for major commodities, provide renminbi-denominated hedging instruments, and circumvent the influence of the U.S. dollar in the global commodity space [2].

## 5.2. Finding More Export Possibilities

China is actively seeking other partners to reduce its export dependence on the United States and thereby mitigate the impact of United States economic constraints on it. With the trend towards diversification of international trade, China is working to expand its economic cooperation with other countries and regions in order to achieve more robust and sustainable development. This effort by China will not only help reduce its dependence on the U.S. market but will also bring multiple benefits to China. First, cooperation with multiple countries helps to diversify trade risks and reduces the instability associated with fluctuations in a single market. Second, by cooperating with different partners, China can better utilize the advantageous resources of each country and promote the exchange of technology, knowledge and experience, thus enhancing the innovation and competitiveness of Chinese industries. Such multilateral cooperation also helps to strengthen international trade rules and systems and promote the healthy development of economic globalization. By actively seeking other partners, China will gradually reduce its dependence on U.S. exports, alleviate the pressure brought about by U.S. economic constraints, and play a more active role in the international arena, thus promoting the balanced and sustainable development of the global economy.

## 5.3. Vigorous Development of Science and Technology

In recent years, China has continuously emphasized the vigorous development of science and technology, which is not only an important strategic initiative to realize innovation-driven development, but also one of the important ways to cope with the economic constraints of the United States. The rapid development of science and technology will provide China with more economic vitality and strategic advantages so as to better cope with external challenges. In the face of U.S. economic constraints, China has actively invested resources and energy in promoting science and technology innovation as the engine of economic growth. By vigorously developing science and technology, China has made remarkable achievements covering a wide range of fields, including sustainable new energy, artificial intelligence, 5G communications, high-end manufacturing, and biotechnology. Breakthroughs in these fields will not only help to enhance the added value of China's industries but will also promote the upgrading of the economic structure and reduce the reliance on traditional manufacturing. The development of technology will also bring more entrepreneurial and employment opportunities. The development of innovative fields will attract more young people to join them and promote a thriving entrepreneurial culture, thus boosting job growth and alleviating the employment pressure caused by economic constraints.

## 6. Conclusion

The economic sanctions imposed by the United States have a far-reaching impact on China, covering a number of aspects. First, from the perspective of exports and imports, the United States is one of China's important trading partners, and restricting or reducing trade with the United States will have a direct impact on China's foreign trade business. Some of China's export industries may be inhibited, leading to reduced production and unstable employment. At the same time, U.S. import restrictions on China may deprive some Chinese industries and enterprises of their original market

demand, thus affecting the stability of supply chains and industrial chains. Second, restrictions on technology and investment also have far-reaching implications for China's economy. U.S. technology sanctions may result in China's inability to acquire core technologies in some key areas, affecting industrial innovation and upgrading. In addition, U.S. restrictions on China's science and technology enterprises and investments may weaken China's position in the global science and technology industry chain, limit access to international markets, and impede technological exchanges and cooperation. The impact of these sanctions further extends to the financial sector. U.S. sanctions may put pressure on China's foreign exchange reserves and affect RMB exchange rate stability. At the same time, U.S. sanctions against Chinese financial institutions may exacerbate uncertainty in the international financial system, affecting international capital flows and the stability of financial markets. However, China has not stood idly by in the face of these challenges. China has reduced its dependence on external technologies by strengthening independent innovation, increasing investment in science and technology, and nurturing local innovative enterprises. In addition, China has actively sought new trading partners, strengthened multilateral and bilateral cooperation, and promoted diversification of regional and global trade to reduce its dependence on the U.S. market. Overall, United States export, import, science and technology and investment restrictions have had a wide-ranging impact on China, but by actively responding to them and strengthening endogenous development and international cooperation, China is striving to mitigate these impacts and achieve stable and sustainable economic development. In the future, China will be more comfortable in the face of the United States of America's economic sanctions against China, the face of the crisis China will also have more choices as well as more solutions, but the game between the two great powers will not only affect the economic development of the country between the two countries, at the same time it will affect the standard of living of the nationals and the world's economic pattern. Economic sanctions are not the only way out, hand in hand with win-win cooperation is the most ideal way of coexistence.

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