

# Study on the Influence Mechanism and Coping Strategies of China's Export Trade Competitiveness under the Background of US Dollar Interest Rate Rise

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**Abstract:** This paper discusses the influence factors of US dollar rate rise on China's export competitiveness, and puts forward some countermeasures. Based on the analysis of the background of US dollar interest rate rise and its specific impact on China's economy and export trade, combined with the characteristics and advantages of today's Chinese economy, this paper puts forward a series of policy suggestions and measures aimed at enhancing China's export trade competitiveness and ensuring stable economic growth.

**Keywords:** US Dollar Interest Rate Hike; Export Trade Competitiveness; Chinese Economy; Coping Strategies.

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## 1.Introduction

The US dollar interest rate rise is a major event in the global financial market, which is not only a domestic economic event in the United States, but also a great impact on the global economic pattern, especially on emerging market economies. As the world's second largest economy and an important export trading country, China's export trade competitiveness has been widely concerned under the background of US dollar interest rate rise. The purpose of this paper is to analyze the influence mechanism of US dollar interest rate rise on China's export trade competitiveness, and put forward corresponding countermeasures to ensure the steady growth of China's economy.

A dollar rate hike is when the Federal Reserve raises the federal funds rate. Since the 2008 financial crisis, the United States has used ultra-low interest rates to stimulate the economic recovery. However, with the gradual improvement of the US economy, in order to prevent economic overheating and inflation, the Federal Reserve began to gradually raise interest rates.

Since the 2008 financial crisis, the United States has implemented a series of fiscal and monetary policies to stimulate economic recovery. As the economy gradually improves, so does the job market. The Federal Reserve raises interest rates to control inflation and keep the economy growing steadily; Under the ultra-low interest rate policy, a large amount of money has flowed into the market, pushing up asset prices and consumer demand, thereby increasing inflationary pressures. To control inflation, the Fed needs to discourage excessive investment and consumption by raising interest rates; Changes in the global economic environment have also had an impact on the Fed's monetary policy. With the recovery of the global economy and the strong economic growth of emerging market countries, the demand for US dollar assets increases, and the interest rate hike can attract funds to the United States and maintain the strong position of the US dollar <sup>[1]</sup>.

## **2.The Influence Mechanism of US Dollar Interest Rate Rise on China’s Export Trade Competitiveness**

The increase of the US dollar exchange rate has many influences on China’s export competitiveness, such as: exchange rate changes, capital flows, international trade environment, etc. First of all, when the US dollar appreciates and the RMB depreciates, the price of China’s export commodities will be more competitive in the international market, which is conducive to increasing the export share. However, the US dollar rate hike will also trigger the return of global capital to the US, resulting in the risk of capital outflow and exchange rate fluctuations in China, increasing the exchange rate risk and financing cost of export enterprises <sup>[2]</sup>.

In addition, a higher dollar rate could also affect global economic growth and trade demand, which in turn affects the overall environment of China’s export markets. If the global economy slows down, Chinese exporters will face challenges such as reduced orders and increased market competition. In short, the impact of US dollar interest rate rise on the competitiveness of China’s export trade is complex and far-reaching. China needs to pay close attention to changes in the international economic situation, strengthen exchange rate risk management, improve the quality and added value of export products, and actively explore diversified markets to cope with the challenges and opportunities brought by the US dollar interest rate rise.

### **2.1 Exchange Rate Fluctuations**

When the US dollar appreciates, the relative depreciation of RMB will directly affect the competitiveness of China’s export trade. When the RMB depreciates, it will enhance the price advantage of China’s export commodities in the international market and improve the competitiveness of China’s export commodities. This will have a positive impact on China’s exports of both labor-intensive and capital-intensive products. The depreciation of the yuan has also increased the cost of imported goods in China, especially for those industries that rely on imported raw materials and intermediate goods. The increase of import cost may lead to the increase of production cost and affect the profitability of enterprises <sup>[3]</sup>.

### **2.2 Capital Flows**

The rise in the US dollar has led to global capital flows to the US, which has an impact on China’s capital flows and financial markets. Capital outflow pressure, the rise in the US dollar makes international investors more inclined to invest funds in the higher yield of the US market, resulting in China facing capital outflow pressure. This could lead to instability in China’s financial markets and affect corporate financing and investment activities; A weaker yuan and capital outflows could shrink China’s foreign exchange reserves. The decline in foreign exchange reserves may affect China’s international payment capacity and financial security.

### **2.3 International Trade Environment**

The appreciation of the US dollar has an impact on the global trade environment, which in turn affects the competitiveness of China’s export trade. A stronger dollar could slow global economic growth and affect demand for international trade. Especially for China’s major export markets, such as the United States and Europe, slower economic growth may lead to reduced demand for their imports, which will adversely affect China’s exports. Against the backdrop of slowing global economic growth, trade protectionism is likely to intensify. Some countries may protect their own industries by raising tariffs and setting up trade barriers, which poses a challenge to China’s export competitiveness <sup>[4]</sup>.

## **3.The Status Quo and Challenges of China’s Export Trade Competitiveness**

As the world’s second largest economy and an important export trading country, China’s export trade competitiveness has made remarkable achievements in recent years, but it also faces some challenges. The current situation of China’s export trade competitiveness shows a certain trend of resilience and transformation and upgrading. In recent years, China has continuously optimized its economic structure and modernized its industrial chain and supply chain, providing a strong internal driving force for the growth of foreign trade. The proportion of exports of high-tech and high value-added products continues to rise, indicating that China’s position in the global industrial chain is changing from “manufacturing power” to “manufacturing power”.

However, China’s export trade also faces many challenges. The pace of global economic recovery is mixed, and the international trade environment is full of uncertainties, putting pressure on China’s exports. At the same time, some developed

countries have tightened restrictions on China's high-tech products, which has brought technical and market challenges to Chinese export enterprises. In addition, problems such as rising domestic labor costs and intensifying resource and environmental constraints have also affected the competitiveness of China's export trade.

### **3.1 International Trade Environment Current Status of Export Trade Competitiveness**

China's export trade continues to grow, becoming one of the world's largest exporters. In particular, exports of high value-added products such as mechanical and electrical products and high-tech products have grown rapidly and become an important part of China's export trade. China's export market is increasingly diversified and less dependent on a single market. In particular, trade cooperation with countries along the Belt and Road has been strengthened, providing a new growth point for China's export trade. China's export structure is constantly upgrading, from labor-intensive products to capital-intensive and technology-intensive products. In particular, the rapid development of middle and high-end equipment manufacturing, new energy and other industries has enhanced the competition of China's export trade <sup>[5]</sup>.

### **3.2 Challenge**

The complex and volatile international trade environment and rising trade protectionism pose challenges to China's export trade. In particular, uncertainties such as Sino-US trade frictions have put pressure on China's export trade. With the rising cost of labor, land and other production factors, China's production cost is increasing. This has led to the transfer of some labor-intensive industries to other low-cost countries, posing a threat to China's export competitiveness. Although China's export trade is huge, there are still shortcomings in technological innovation and brand building. This has limited the development of China's export trade into higher value-added sectors <sup>[6]</sup>.

## **4. Coping Strategy**

In view of the impact of US dollar interest rate rise on China's export competitiveness, China should adopt a series of coping strategies to ensure stable economic growth and export competitiveness <sup>[7]</sup>.

### **4.1 Strengthen Exchange Rate Risk Management**

China should further improve the RMB exchange rate formation mechanism, enhance exchange rate flexibility, and reduce the impact of external shocks on the exchange rate. Through market-oriented reform, the RMB exchange rate should be made more market-oriented to better reflect market supply and demand. Enterprises should strengthen exchange rate risk management and reduce the impact of exchange rate fluctuations on business operations by diversifying currency settlement and using financial derivatives. At the same time, the government should strengthen the guidance and support for the exchange rate risk management of enterprises.

### **4.2 Optimize the Management of Capital Flows**

China should strengthen supervision of capital flows to prevent large-scale capital outflows from impacting financial markets and economic stability. By improving the cross-border capital flow monitoring and early warning mechanism, we will promptly detect and prevent capital outflow risks. While strengthening the supervision of capital flow, China should actively promote the two-way flow of capital, encourage foreign investment to flow into the Chinese market, and support Chinese enterprises to "go global" and make overseas investment. More foreign investment will be attracted to the Chinese market through measures such as improving the investment environment and improving investment facilitation.

### **4.3 Promote Diversification of Export Markets**

China should strengthen trade cooperation with other countries, especially those along the Belt and Road. We should lower trade barriers and improve trade facilitation by signing free trade agreements and strengthening customs cooperation. China should actively explore emerging markets and reduce its dependence on a single market. By strengthening market research and understanding the needs of emerging markets, we will improve the competitiveness of Chinese exports in emerging markets.

### **4.4 Improve the Quality and Added Value of Export Products**

China should strengthen technological innovation and brand building to improve the quality and added value of export products. By increasing investment in research and development, cultivating innovative talents and strengthening intellectual property protection, we will promote the development of China's export products into higher value-added sectors. China

should optimize its export structure, reduce its dependence on labor-intensive products, and increase the proportion of exports of capital-intensive and technology-intensive products. We will enhance the competitiveness of China's export trade by adjusting the industrial structure and promoting industrial upgrading.

#### **4.5 Strengthen the Formulation and Voice of International Trade Rules**

China should actively participate in the formulation and revision of international trade rules to safeguard its own interests and the international trade order. By strengthening cooperation with international organizations and promoting trade and investment liberalization and facilitation, China will have a greater say in the formulation of international trade rules. In the face of international trade frictions and disputes, China should strengthen its response capacity and safeguard its legitimate rights and interests. International trade frictions and disputes should be properly resolved by strengthening communication and consultation with other countries and promoting the establishment of multilateral trade dispute settlement mechanisms<sup>[8]</sup>.

### **5. Conclusion**

As an important event in the global financial field, the US dollar interest rate rise has an impact on the economies of various countries, especially on export trade, which cannot be ignored. In this context, as the world's second largest economy and export power, China's export trade competitiveness is facing unprecedented challenges and opportunities. This paper deeply discusses the impact mechanism of US dollar interest rate hike on China's export trade competitiveness, through a detailed analysis of the background of US dollar interest rate hike, the specific impact on China's economy and export trade, and combining the unique characteristics and significant advantages of the current Chinese economy, put forward a series of targeted and forward-looking coping strategies.

Higher US dollar rates lead to global capital reallocation, making US dollar assets more attractive, which in turn triggers capital outflows and exchange rate volatility in emerging markets. For China, this not only increases the exchange rate risk, but also may have a direct or indirect impact on China's export trade through many factors such as affecting raw material prices, production costs and market demand. However, a crisis is often accompanied by a turnaround. Faced with the pressure brought by the US dollar interest rate hike, China can take this opportunity to accelerate economic restructuring, promote industrial upgrading, and enhance the technical content and added value of export products, so as to further enhance the competitiveness of export trade.

Combined with the characteristics and advantages of the Chinese economy, such as the huge market size, complete industrial chain system, rich labor resources and increasing scientific and technological innovation capabilities, China has the conditions and ability to cope with the challenges brought by the US dollar interest rate rise. The countermeasures proposed in this paper include: first, strengthen exchange rate risk management, reduce the negative impact of exchange rate fluctuations on export trade by diversifying foreign exchange reserves and improving exchange rate formation mechanism; Second, deepen supply-side structural reform, promote the transformation and upgrading of traditional industries, foster emerging industries, and improve the quality and efficiency of export products; Third, actively expand domestic demand. Through measures such as optimizing the consumption environment and raising people's income, we will enhance the role of the domestic market in driving consumption and reduce dependence on external markets. Fourth, strengthen international cooperation, actively participate in the formulation of global trade rules, promote trade and investment liberalization and facilitation, and create a more favorable external environment for China's export trade.

To sum up, the US dollar's rise poses a severe challenge to China's export competitiveness, but it also provides an opportunity for China's economic transformation and upgrading. By implementing a series of scientific and reasonable coping strategies, China can not only effectively cope with the impact of the US dollar interest rate rise, but also further enhance the competitiveness of export trade and ensure stable economic growth.

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