Beliefs over Barriers: How Trade Policy Uncertainty Reshaped China's Manufacturing Employment

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August 27, 2026

Abstract

China's sectoral employment adjusted primarily to the gradual resolution of U.S. trade policy uncertainty, rather than discretely to the 2001 WTO accession. Using province-level variation in exposure to the NTR gap over 1980–2010, we show that provinces more exposed to trade policy uncertainty experienced larger subsequent increases in manufacturing employment shares. This relationship is strongest in the early 1980s and then declines steadily toward zero over time, with little additional movement around 2001. We then develop a dynamic heterogeneous-firm model in which firms face fixed export start and continuation costs, destination-specific export opportunities, and time-varying beliefs over a two-state U.S. tariff regime. As the perceived probability of tariff reversion falls, firms become more willing to enter and remain in export markets, and these changes propagate gradually through exporter dynamics into manufacturing labor demand. Calibrated to Chinese micro moments, the model replicates the empirical finding. Counterfactuals show that a substantial share of the manufacturing-employment response is driven by credibility improvements before 2001, while the contribution of WTO accession is relatively small.

Keywords: Trade policy uncertainty, NTR gap, China WTO accession, manufacturing labor share.

JEL classification: F13, F14, F16.

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