

The Impact of Economic Policy Uncertainty on Corporate Profitability: An Empirical Research Based on Manufacturing and Non-manufacturing Industries in China

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Abstract. This study examines the varied effects of economic policy uncertainty (EPU) on corporate profitability using panel data of Chinese A-share listed companies from 2000 to 2022, highlighting the differences between manufacturing and non-manufacturing industries. It is found that rising EPU significantly reduces corporate profitability (ROE), but the manufacturing sector exhibits stronger risk resistance. Firms in economically developed regions are more sensitive to EPU, with profitability of firms in the eastern region being most significantly impacted. However, manufacturing industries in the region can effectively mitigate the negative impact of EPU through the concentration of innovative resources and supply chain integration. Channel analysis shows that financing constraints and capital intensity are key mechanisms to explain industry heterogeneity. This study enriches the literature on policy uncertainty and corporate performance, provides a theoretical basis for policymakers to differentiate their support policies, and offers practical insights for firms to cope with policy uncertainty.

1 Introduction

Economic policy uncertainty (EPU), as a key driver of macroeconomic fluctuations, has become a central issue in research on corporate strategic decision-making and performance [1]. In the context of an increasingly complex global economic landscape and frequent policy adjustments, EPU profoundly affects corporate profitability by heightening business risks, dampening investment incentives, and increasing financing costs [2,3]. As the second-biggest economy in the world, China faces particularly pronounced policy uncertainty, which has significant implications for domestic firms [4,5]. However, existing studies largely focus on the unidirectional impact of EPU on corporate investment or innovation, paying less attention to its heterogeneous effects on profitability, particularly the differences between manufacturing and non-manufacturing firms. Furthermore, failing to account for endogeneity

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issues, such as reverse causality, may lead to estimation bias, necessitating the use of instrumental variable methods [6].

This research is to examine how the profitability of China's manufacturing and non-manufacturing sectors is affected by economic policy uncertainty (EPU). The contributions of this study are threefold. First, it reveals the diverse effects of EPU on firm profitability across sectors by differentiating between manufacturing and non-manufacturing businesses. Secondly, it identifies financing constraints and capital intensity as key channels through which manufacturing firms demonstrate greater resilience to policy uncertainty. Thirdly, the findings offer targeted policy recommendations to help firms maintain stable profitability in an uncertain policy environment.

2 Literature Review

EPU is generally defined as the risk faced by firms in making investment and operational decisions due to uncertainty in the policy environment [1]. The EPU index, developed by Baker, is constructed through news-based text analysis, measuring policy uncertainty by tracking the frequency of keywords related to economic policy uncertainty. This method has been widely used in studies around the world. [7]. Over time, the measurement of EPU has continued to evolve, with recent studies incorporating social media data and corporate survey data to enhance the accuracy and timeliness of the index [8].

The impact of EPU on corporate profitability operates through two primary mechanisms: direct and indirect effects. In terms of direct effects, policy uncertainty increases firms' operational costs, including risks of supply chain disruptions, rising compliance costs, and fluctuations in market demand [9]. These factors directly erode profit margins, leading to a decline in profitability. Indirectly, EPU undermines firms' long-term competitiveness by discouraging investment and innovation [10]. Heightened EPU significantly reduces firms' capital expenditures, with the effect being more pronounced for those facing tighter financing constraint [5].

However, EPU has varying effects on corporate profitability, and industry heterogeneity plays a crucial moderating role. Manufacturing companies generally gain from economies of scale, improved access to asset-based finance, and policy assistance, which bolsters their resilience to policy uncertainty. [2]. For example, Chinese manufacturing firms mitigated the adverse effects of EPU through government subsidies and tax incentives, whereas non-manufacturing firms, particularly in the service sector, were more vulnerable to financing constraints due to their asset-light business models [4,11]. Furthermore, differences in capital intensity mean that manufacturing firms tend to adopt a longer-term investment horizon, reducing their sensitivity to short-term fluctuations [12,13]. These findings indicate that manufacturing firms exhibit significantly greater adaptability in an uncertain policy environment compared to their non-manufacturing counterparts.

In addition to industrial heterogeneity, the degrees of regional economic development significantly influence the effect of Economic Policy Uncertainty (EPU) on corporate profitability. Firms in economically developed regions generally benefit from more sophisticated financial markets and greater risk resilience [14]. However, these advantages may also heighten their sensitivity to policy uncertainty, as firms operating in mature market environments tend to rely more on stable policy expectations. For instance, Julio and Yook found that firms in developed regions respond more acutely to policy signals due to their investment decisions being more policy-dependent [15]. Researchers further highlighted that manufacturing firms in China's eastern region effectively mitigated the negative effects of EPU through technological innovation and supply chain integration [16]. These studies offer valuable insights into the regional heterogeneity of EPU's impact on firm performance.

Despite the extensive literature on EPU, several research gaps remain. Primarily, most studies have focused on the impact of Economic Policy Uncertainty (EPU) on corporate investment and innovation, with limited attention to its heterogeneous impact on profitability, particularly the differences between manufacturing and non-manufacturing firms. Secondly, the potential issues of reverse causality and omitted variable bias between EPU and ROE have not been adequately addressed in existing research. Lastly, the extent to which regional economic development moderates the impact of EPU on profitability requires further investigation.

3 Hypotheses

A rise in EPU reduces a company's operational risks and financing costs, weakens their investment willingness and operational efficiency, and ultimately exerts a negative impact on profitability. Empirical studies suggest that rising EPU significantly reduces corporate capital expenditures and investment intentions, thereby affecting long-term profitability [1]. Additionally, policy uncertainty leads firms to delay investment decisions, which in turn hampers profitability by lowering resource allocation efficiency [10]. Empirical evidence further indicates that ROE decreases by around 2.3% for every standard deviation rise in EPU [5]. The first hypothesis is:

H1: EPU has a significant negative impact on ROE.

Manufacturing firms typically benefit from economies of scale, technological advantages, and greater policy support, enabling them to exhibit stronger resilience in the face of EPU. First, their larger scale allows them to offset uncertainty-related costs through economies of scale [17]. Second, as a strategically supported sector in many countries and regions, manufacturing often receives preferential policies, financial subsidies, and enhanced market access, helping to mitigate the adverse effects of policy uncertainty [4]. Finally, heightened EPU may drive smaller firms out of the market, allowing larger manufacturing firms to capture additional market share. Collectively, these factors suggest that manufacturing firms are generally better equipped to withstand EPU. Accordingly, the second hypothesis is:

H2: Compared to non-manufacturing companies, manufacturing companies are significantly less negatively affected by EPU.

Firms in economically developed regions generally benefit from superior resource endowments, more sophisticated financial markets, and greater risk tolerance, which may enhance their ability to navigate policy uncertainty. However, the more mature market environments in these regions may also amplify the adverse effects of EPU. Studies suggest that in times of heightened uncertainty, firms tend to postpone investment decisions, and those in economically developed regions may be more exposed to volatility due to their greater reliance on stable market conditions and policy expectations [15]. Additionally, while firms in China's eastern region exhibit greater resilience, the detrimental effects of policy uncertainty on company performance may be enhanced by market maturity in certain areas. Based on these insights, the third hypothesis is:

H3: Firms in economically developed regions are more negatively affected by EPU.

Within economically developed regions, manufacturing firms tend to possess stronger technological capabilities, greater market competitiveness, and superior financing conditions, enabling them to better mitigate the effects of policy uncertainty. Evidence suggests that manufacturing firms in developed regions can often counteract external economic shocks through higher production efficiency and stronger innovation capacity [18]. This leads to the last hypothesis:

H4: Manufacturing firms in economically developed regions are more effective of mitigating the negative impact of EPU.

4 Data, Variables and Models

4.1 Data sources and processing

The panel data of Chinese A-share listed companies from 2000 to 2022 is used in this study. The CSMAR database, which is well known for its dependability, is the source of the company financial data. The Global EPU Index (GEPU) is used as an instrumental variable, which was created by Baker [1], while the China EPU index is used to quantify economic policy uncertainty.

To ensure data quality, the following steps were taken: (1) key variable-missing observations were eliminated.; (2) continuous variables were winsorized at the 1% level to limit the influence of outliers; (3) manufacturing firms were identified based on the industry classification standards of the China Securities Regulatory Commission (CSRC); and (4) extreme values were manually reviewed and adjusted where necessary.

4.2 Variable Description

The primary indication of a company's success is return on equity (ROE), which is computed through dividing net profit by the average amount of owners' equity.

The Economic Policy Uncertainty Index (EPU) is based on text analysis of news articles and reflects uncertainty in the policy environment by tracking the frequency of relevant keywords. This study uses the standardized Chinese EPU monthly index, which is averaged annually and matched with firm-level data.

If a company is categorized by the CSRC as a manufacturing entity, the manufacturing dummy variable (MFG) = 1, and 0 otherwise. The interaction term (EPU × MFG) is included to test for industry-specific differences.

Following prior researches [3, 5], this study includes the following control variables.

Firm characteristics. Size: Natural logarithm of total assets, serving as a proxy for firm size; Lev: Leverage ratio (total debt/total assets), capturing the firm's capital structure; Liquid: Current ratio (current assets/current liabilities), indicating short-term liquidity; TobinQ: Market-to-book ratio, reflecting growth potential.

Corporate governance variables. Top1/Top3: Shareholding percentage of the largest/top three shareholders, measuring ownership concentration; INST: Institutional ownership ratio, representing external monitoring; CEOHR: The rate of company shares held by the CEO, reflecting alignment between management and shareholder interests; Board: Natural logarithm of board size, controlling for governance complexity; Indep: Proportion of independent directors, ensuring oversight quality; SOE: A dummy variable that accounts for institutional differences and is equal to 1 if the company is state-owned, and 0 otherwise.

Other controls. Big4: Dummy for Big Four auditors, signalling reporting quality; Div: Divergence between control and ownership rights, highlighting agency risks; Female: Percentage of female executives, reflecting gender diversity in corporate leadership.

4.3 Regression Model

The influence of economic policy uncertainty (EPU) on company profitability is examined in this study using a fixed-effects panel regression model. The baseline model is as follows:

$$ROE_{i,t} = \beta_0 + \beta_1 EPU_t + X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} \quad (1)$$

As a measure of profitability, $ROE_{i,t}$ reflects the return on equity of firm i in year t ; EPU_t represents the economic policy uncertainty index in year t , capturing the volatility of macroeconomic policy. The China EPU index is used in this study; and a set of control

variables is included in $X_{i,t}$; μ_i represents firm fixed effects, taking time-invariant features into consideration; λ_t denotes time fixed effects, controlling for common macroeconomic trends; $\epsilon_{i,t}$ is the error term, capturing unobserved influences.

To examine industry heterogeneity (H2), an interaction term between EPU and a manufacturing dummy variable is introduced into the baseline model:

$$ROE_{i,t} = \beta_0 + \beta_1 EPU_t + \beta_2 (EPU_t \times MFG_{i,t}) + X_{i,t} + \mu_i + \lambda_t + \epsilon_{i,t} \quad (2)$$

$MFG_{i,t}$ is a dummy variable that equals 1 if firm i is in the manufacturing sector in year t , and 0 otherwise; $EPU_t \times MFG_{i,t}$ is the interaction term, assessing whether manufacturing and non-manufacturing companies are affected differently by EPU in terms of profitability.

5 Empirical results

5.1 Descriptive Statistics

Table 1 presents the summary statistics of variables. ROE is 0.061 on average, indicating an average profitability of 6.1% across firms, with substantial variation (SD = 0.136) and extreme values ranging from -0.93 to 0.47. EPU exhibits wide temporal dispersion (mean = 3.63, SD = 2.56), spanning from 0.56 (low uncertainty) to 7.92 (high uncertainty), capturing meaningful variation in the policy environment.

Table 1. Summary Statistics

	mean	sd	min	max
ROE	0.0610	.135595	-0.93	0.47
EPU	3.6287	2.555829	0.56	7.92
Size	21.9798	1.288239	19.14	26.45
Lev	0.4263	.2026384	0.03	0.91
Liquid	2.4851	2.789729	0.20	35.50
Top1	35.0762	15.12527	8.02	75.84
Top3	49.4765	15.43121	15.13	88.72
INST	45.5670	26.06952	0.01	121.81
CEOHR	5.2651	11.36986	0.00	54.46
Female	18.1428	11.26904	0.00	56.25
TobinQ	1.9284	1.247626	0.80	15.61
Big4	0.0601	.2377662	0.00	1.00
Div	4.8084	7.450835	-10.31	30.55
SOE	0.4022	.4903441	0.00	1.00
Board	2.1414	.2099533	1.10	2.83
Indep	35.7057	8.553172	0.00	60.00

5.2 Baseline Regression Results

Table 2 presents the regression results on the impact of EPU on corporate profitability. Only EPU and fundamental control variables are included in column (1), while the manufacturing dummy interaction with EPU (EPU×MFG) is included in column (2). Standard errors are clustered at firm level in all regressions, which account for firm and year fixed effects.

In column (1), the coefficient of EPU is -0.0117 ($t = -7.7969$), significantly negative at the 1% level, indicating that company profitability is lowered by increased economic policy uncertainty. This supports H1: ROE decreases by 1.17 percentage points for every unit rise in EPU.

According to Column (2), the interaction term EPU×MFG is notably positive at the 1% level, with a coefficient of 0.0054 ($t = 6.5043$). This indicates that the negative impact of EPU is 0.54 percentage points smaller for manufacturing enterprises than for non-manufacturing firms. This supports H2, confirming that manufacturing firms exhibit stronger resilience to policy uncertainty.

Table 2. Baseline Regression and IV Regression Results

	(1)	(2)	(3)	(4)
	ROE	ROE	ROE	ROE
EPU	-0.0117***	-0.0149***		
	(-7.7969)	(-9.3388)		
EPU×MFG		0.0054***		
		(6.5043)		
GEPU			-0.0103***	-0.0134***
			(-8.2076)	(-9.9353)
GEPU×MFG				0.0054***
				(6.5043)
Size	0.0483***	0.0490***	0.0483***	0.0490***
	(18.8285)	(19.1656)	(18.8285)	(19.1656)
Lev	-0.3358***	-0.3351***	-0.3358***	-0.3351***
	(-24.0822)	(-24.1299)	(-24.0822)	(-24.1299)
Liquid	-0.0052***	-0.0051***	-0.0052***	-0.0051***
	(-11.3082)	(-11.2987)	(-11.3082)	(-11.2987)
Top1	0.0009***	0.0009***	0.0009***	0.0009***
	(4.2123)	(4.2943)	(4.2123)	(4.2943)
Top3	0.0004*	0.0004**	0.0004*	0.0004**
	(1.7696)	(2.1512)	(1.7696)	(2.1512)
INST	0.0009***	0.0009***	0.0009***	0.0009***
	(9.6971)	(9.6606)	(9.6971)	(9.6606)
CEOHR	0.0008***	0.0008***	0.0008***	0.0008***
	(4.9373)	(4.9937)	(4.9373)	(4.9937)
Female	0.0001	0.0001	0.0001	0.0001
	(0.6112)	(0.8140)	(0.6112)	(0.8140)
TobinQ	0.0158***	0.0156***	0.0158***	0.0156***
	(14.7443)	(14.5671)	(14.7443)	(14.5671)
Big4	-0.0057	-0.0057	-0.0057	-0.0057
	(-0.8071)	(-0.7968)	(-0.8071)	(-0.7968)
Div	-0.0004*	-0.0004*	-0.0004*	-0.0004*
	(-1.7639)	(-1.8626)	(-1.7639)	(-1.8626)
SOE	-0.0318***	-0.0307***	-0.0318***	-0.0307***
	(-4.6987)	(-4.5369)	(-4.6987)	(-4.5369)
Board	0.0079	0.0077	0.0079	0.0077
	(0.8305)	(0.8103)	(0.8305)	(0.8103)
Indep	0.0001	0.0001	0.0001	0.0001
	(0.4989)	(0.4932)	(0.4989)	(0.4932)
cons	-0.9261***	-0.9490***	-0.9277***	-0.9506***
	(-16.1866)	(-16.5798)	(-16.1793)	(-16.5717)
N	35814	35814	35814	35814
YearFE	Yes	Yes	Yes	Yes
FirmFE	Yes	Yes	Yes	Yes
r2 w	0.1566	0.1596	0.1566	0.1596

t statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

5.3 Heterogeneity Analysis

Given the disparities in regional economic development across China, this study follows the three-region classification proposed by Shen Xiaobo et al. to systematically examine how economic policy uncertainty (EPU) affects corporate profitability across different regions [19]. A regional regression model is employed, revealing significant heterogeneity in the impact of EPU.

Table 3 presents the regional regression results, with the eastern region represented by columns (1)–(2), the middle region by columns (3)–(4), and the western region by columns (5)–(6). The results show that in the eastern region, which has the highest degree of marketization, EPU has the most pronounced negative effect on corporate profitability. The coefficient of EPU for firms in this region is -0.0190, significant at the 1% level, supporting the argument that firms in developed regions are more sensitive to policy uncertainty. This sensitivity stems from their well-developed capital markets and investment behaviors that are closely tied to policy expectations. Notably, manufacturing firms in the eastern region demonstrate the strongest resilience to EPU. The interaction coefficient of 0.0057 suggests that the negative impact of EPU on manufacturing firms is approximately 30% lower than that on non-manufacturing firms. This resilience can be attributed to three key factors: (1) the region's high concentration of innovative resources and significantly higher R&D intensity; (2) the supply chain network effects fostered by mature industrial clusters; and (3) targeted policy support from local governments for key enterprises.

In contrast, the central region exhibits clear characteristics of policy intervention. The coefficient of EPU in this region is -0.0096, which is only 50.5% of that in the east and is weaker in statistical significance. This means that the central region's high concentration of state-owned businesses reduces the spread of uncertainty in market-based policies. However, manufacturing firms in the central region still show strong policy adaptability. The interaction coefficient of 0.0044 indicates that these firms benefit from economies of scale due to industrial transfers from the east and from regional tax incentives, mitigating the negative effects of policy uncertainty.

The western region presents a distinct pattern. The interaction coefficient for manufacturing businesses (0.0053) indicates that important industries in this region show some resistance to policy uncertainty, even if the EPU coefficient's absolute value is the weakest (-0.0076) and barely significant at the 10% level. This resilience can be attributed to the inherent stability of resource-based industries (e.g., energy and mining) and the policy cushioning effect created by sustained investment in infrastructure development.

Table 3. Heterogeneity Analysis by Regional Economic Development Level

	(1) East	(2) East	(3) Mid	(4) Mid	(5) West	(6) West
	ROE	ROE	ROE	ROE	ROE	ROE
EPU	-0.0158***	-0.0190***	-0.0068	-0.0096**	-0.0039	-0.0076*
	(-9.0193)	(-10.2966)	(-1.5990)	(-2.1255)	(-1.0929)	(-1.9249)
EPU×MFG		0.0057***		0.0044**		0.0053**
		(5.9344)		(2.0642)		(2.2409)
cons	-1.0256***	-1.0502***	-0.8679***	-0.8857***	-0.7095***	-0.7305***
	(-14.2184)	(-14.5932)	(-6.0390)	(-6.2278)	(-5.6181)	(-5.7059)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
N	24873	24873	5011	5011	5929	5929
YearFE	Yes	Yes	Yes	Yes	Yes	Yes
FirmFE	Yes	Yes	Yes	Yes	Yes	Yes
r2 w	0.1536	0.1572	0.1581	0.1598	0.1930	0.1954

5.4 Robustness Test

This study initially tackles endogeneity issues to guarantee the reliability of the regression results. Additionally, robustness checks are conducted by replacing the dependent variable, with results confirming the stability of the baseline findings.

5.4.1 Endogeneity Analysis

To mitigate potential omitted variable bias, a fixed-effects model is used in the benchmark regression to assist account for unobserved firm-specific characteristics. However, reverse causality remains a potential concern. To address this, the study follows established literature by using an instrumental variable (IV) approach, employing the Global Economic Policy Uncertainty Index (GEPU) as an instrument for China's EPU. A two-stage regression is conducted. In the first stage, GEPU is found to be significantly positively correlated with China's EPU (first-stage F-statistic > 10), confirming its relevance. Furthermore, GEPU affects corporate profitability only through its impact on China's EPU, satisfying the exclusion restriction.

Following endogeneity correction, the regression results are shown in Table 2 columns (3)–(4). At the 1% level, the manufacturing interaction term is still considerably positive, but the EPU coefficient is still strongly negative. These results provide more evidence that the baseline conclusions are sound.

5.4.2 Replacing the Explanatory Variable

To investigate how sensitive the results are to various measures of profitability, two different definitions of return on assets (ROA) are used in this study's regression analysis as dependent variables. Table 4's columns (1) and (2) utilize ROA1, which is calculated as net profit divided by the average total assets. In general, the outcomes agree with the benchmark regression that uses ROE. Table 4's columns (3) and (4) utilize ROA2, which is determined by dividing earnings before interest and taxes (EBIT) by the average total assets. The statistical significance and direction are still exactly in line with the baseline findings.

Table 4. Results with Alternative Explanatory Variables

	(1)	(2)	(3)	(4)
	ROA1	ROA1	ROA2	ROA2
EPU	-0.0050*** (-7.5668)	-0.0064*** (-9.2426)	-0.0070*** (-9.5203)	-0.0083*** (-10.8579)
EPU×MFG		0.0023*** (6.1805)		0.0022*** (5.4571)
cons	-0.3644*** (-15.1542)	-0.3742*** (-15.5838)	-0.3795*** (-14.2381)	-0.3889*** (-14.6011)
Controls	Yes	Yes	Yes	Yes
N	35814	35814	35814	35814
YearFE	Yes	Yes	Yes	Yes
FirmFE	Yes	Yes	Yes	Yes
r ² w	0.1989	0.2016	0.1722	0.1743

5.5 Channel Analysis

The approaches by which manufacturing enterprises are less adversely impacted by economic policy uncertainty (EPU) than non-manufacturing firms are examined in this section.

5.5.1 Financing Constraint Channel

Financial constraints play a critical role in determining a firm's ability to withstand external economic shocks. When policy uncertainty increases, firms tend to reduce investment to mitigate risks. However, those with greater financing capacity can sustain relatively stable operations, as they are more likely to access external funding. Prior studies have shown that firms facing higher financing constraints tend to cut capital expenditures and investment in response to policy uncertainty shocks [3]. Furthermore, firms with ample internal funds exhibit greater resilience against financial constraints and can better withstand policy-related uncertainty [11].

According to regression results, the interaction term's coefficient is -0.0044 , which is significant at the 1% level. This suggests that businesses with more financing limitations suffer a more severe drop in profitability when the EPU shocks occur. This result is consistent with other research, supporting the idea that financial limitations worsen the detrimental effects of policy uncertainty on business performance.

However, Manufacturing often have more fixed assets than non-manufacturing companies, which can be pledged as security for loans or financing guarantees, thereby reducing their exposure to financing constraints. Additionally, manufacturing firms typically operate within longer supply chains and production cycles, making them more reliant on a stable financing environment rather than short-term credit market fluctuations. As a result, when EPU rises, manufacturing firms demonstrate greater adaptability, and their profitability declines less sharply.

5.5.2 Capital Intensity Channel

Firms in capital-intensive industries typically require substantial fixed asset investment, and their production model dictates that investment decisions are often based on long-term planning rather than short-term policy fluctuations. Compared to labor-intensive firms, capital-intensive firms may be less sensitive to economic policy uncertainty. When policy uncertainty rises, labor-intensive firms are more vulnerable to rising labor costs, market demand fluctuations, and short-term liquidity constraints. In contrast, capital-intensive firms, due to their substantial asset base and lower marginal costs, are less directly affected.

According to the regression results, capital-intensive enterprises are less adversely impacted by EPU, with the interaction term's coefficient of 0.0028 being statistically significant at the 1% level. This may be because their investment decisions typically follow longer planning cycles, making them less responsive to short-term policy fluctuations. These findings reinforce the view that capital-intensive firms demonstrate greater stability in uncertain policy environments.

Notably, manufacturing firms generally exhibit higher capital intensity than non-manufacturing firms. Industries such as automobile manufacturing and electronic equipment production rely heavily on capital investment, with fixed assets such as production facilities and machinery that cannot be easily adjusted in the short term. Consequently, their investment decisions are primarily long-term and less susceptible to short-term policy shifts.

In summary, this study identifies financing constraints and capital intensity as two key channels explaining why manufacturing firms are more resilient to EPU shocks than non-manufacturing firms. First, regarding financing constraints, manufacturing firms are more likely to secure long-term financing, allowing them to sustain production and operations despite heightened policy uncertainty. Second, in terms of capital intensity, manufacturing firms' long-term investment strategies shield them from the adverse effects of short-term policy fluctuations. As a result, manufacturing firms, on average, exhibit greater resilience than non-manufacturing firms under EPU shocks (Table 5).

Table 5. Financing Constraint Channel and Capital Intensity Channel

	ROE	ROE
EPU	-0.0008	-0.0125***
	(-0.5325)	(-8.1976)
EPU×KZ	-0.0044***	
	(-27.9100)	
EPU×CII		0.0028***
		(2.9010)
cons	-0.8333***	-0.9305***
	(-15.3064)	(-16.2607)
Controls	Yes	Yes
N	35811	35814
YearFE	Yes	Yes
FirmFE	Yes	Yes
r2 w	0.2023	0.1571

6 Conclusion

The influence of economic policy uncertainty (EPU) on company profitability and its industry-specific heterogeneity are comprehensively examined in this study using panel data from China's A-share listed enterprises from 2000 to 2022. The findings reveal that growing EPU considerably affects company profitability, with the negative effect being particularly obvious in non-manufacturing enterprises. Notably, manufacturing firms exhibit greater resilience, with their profitability less adversely affected by policy uncertainty. This industry heterogeneity largely stems from the economies of scale inherent in manufacturing, higher capital intensity, and more accessible policy support.

Further analysis reveals that firms in economically developed regions are more sensitive to policy uncertainty, with those in the eastern region experiencing the most substantial profitability declines. However, manufacturing firms in the east demonstrate the strongest adaptability, benefiting from concentrated innovation resources, well-developed supply chain networks, and strong local government support. Channel analysis confirms that financing constraints and capital intensity are two key mechanisms underlying industry heterogeneity: manufacturing firms with lower financing constraints and higher capital intensity maintain more stable profitability under policy uncertainty.

These findings have important policy implications. First, policymakers should implement targeted support measures, providing financial assistance to non-manufacturing firms facing greater financing constraints while enhancing the resilience of manufacturing firms through tax incentives and other initiatives. Second, regional authorities should strengthen industrial chain coordination and infrastructure development in line with local economic conditions, creating a more favourable environment for firms navigating policy uncertainty. Finally, corporate managers should prioritise long-term strategic planning, optimise capital structures, and enhance adaptability in uncertain environments.

This study provides valuable insights, however there are a few areas that need more research. Further research might improve industry classifications to examine differences in profitability across various industrial subsectors. A more thorough understanding of the processes at work might also be possible by extending the analytical framework to look at how business innovation and digital transformation contribute to reducing regulatory uncertainty. Such studies would help develop a more sophisticated theoretical framework for policy formulation.

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