This is a really interesting policy to examine! I like that you are thinking critically about the exogeneity of the policy shock and use Borusyak-Hull exposure to shock correction. It also looks like you’ve taken into account that the exposure shares may not sum to 1 and are controlling for the firms’ baseline shares (I think this just needs to be the sum of the shares?). I have two main thoughts, though this literature is relatively unfamiliar to me:

**1. What’s the correct shock?**

Based on the shift-share design from Kovak (2013, pg. 1967), it looks like your shift-share should be the “proportional change in one plus the tariff rate”. You may already be doing this, but from slide 7, it looks like you might be using the rebate amount directly.

**2. Is the shock exogenous?**

The Borusyak-Hull correction is to correct for differential exposure to the shock when the shock itself is conditionally exogenous. I worry that the shocks themselves are not exogenous conditional on firm-level characteristics considering that the shocks are large industry-level policies that are probably the result of major lobbying efforts. In Appendix D.4, Borusyak and Hull describe a way to control for the shock confounders if they are observable. Perhaps if you had data on lobbying expenditures per industry? I’m not sure if lobbying works the same way in China though, so I don’t know if there is a publically accessible measure of industry lobbying power.

Assuming that is available, Appendix D.4 describes a way to control for the exposure share-weighted average of the shock confounders, or just recenter the shocks using those confounders.

I think this is a really exciting application! Would love to keep discussing, especially since we are both planning to use some randomization inference.

Kovak, Brian K. “Regional Effects of Trade Reform: What Is the Correct Measure of Liberalization?” *American Economic Review* 103, no. 5 (August 1, 2013): 1960–76. <https://doi.org/10.1257/aer.103.5.1960>.