Trade Policy Uncertainty and the Diversification of Export Destinations

Roman Acosta* Miguel Ángel Talamas Marcos†

December 4, 2025

Abstract

Exporting firms are facing unprecedented trade policy uncertainty. This paper examines how manufacturing firms in Mexico—a leading source of U.S. imports—responded to the uncertainty following the 2016 U.S. presidential election. Using a difference-in-differences design, we compare U.S.-oriented and Europe-oriented exporters. Within-firm exports to the United States declined, yet total exports and production remained unchanged. This stability reflects a reallocation of shipments, as U.S.-oriented firms diversified their portfolios by reducing U.S. shares by six percentage points and expanding exports to Europe, underscoring the importance of the ease of replacing trading partners.

JEL Codes: F13, F14, L25, M16

Keywords: trade policy uncertainty, exports, trade, Mexico

*Econic Partners; email: *racosta@econic.com*

†Corresponding author. Inter-American Development Bank; email: *miguelta@iadb.org*

We gratefully acknowledge the excellent research assistance from Germán Campos. The views and conclusions are those of the authors and are not part of the official statistics of the SNIEG or INEGI. The confidential data from INEGI was accessed through the Microdata Laboratory in Mexico City.

1 Introduction

Recent global developments have heightened trade policy uncertainty (TPU) to unprecedented levels in recent history, becoming a main source of uncertainty for firms involved in import and export activities. When faced with increased trade policy uncertainty, the frequently used option value framework predicts a decline in bilateral trade and that firms will delay irreversible decisions such as capital investment, hiring, and market entry (Handley and Limão, 2022). However, firms could mitigate these adverse effects by diversifying across geographies and reducing their exposure to trade relationships experiencing heightened uncertainty.

This phenomenon raises the question of whether exporters can diversify their portfolio of buyers in response to increases in TPU to mitigate its negative effects. The intuition is similar to that in the model of Esposito (2022), where risk-averse managers exploit the spatial correlation in demand for their goods across countries to reduce the variance of their sales. In particular, countries with multiple free trade agreements in place could be much less affected by country-specific TPU, because they could more easily diversify their export destinations.

To empirically answer this question, this paper studies how manufacturing firms in Mexico responded to the surge in TPU following the unexpected outcome of the 2016 U.S. presidential election. The unanticipated outcome of the presidential election led to a sharp rise in TPU, particularly for Mexico. During the campaign, the incoming administration labeled its trade relationship with Mexico as exploitative of U.S. interests and repeatedly expressed its intention to renegotiate or withdraw from the North American Free Trade Agreement (NAFTA). This message marked a significant departure from decades of trade policy stability in North America and an immediate concern for Mexico.

Although Mexico ranks among the nations with the most extensive free trade networks, its free trade agreement with the U.S. and Canada is by far its most significant one.[1] Mexican exports to the U.S. in 2016 exceeded $300 billion, roughly 28%

[1] See Canada and Mexico Gambled on a Free Trade Future. The Bet Is Turning Sour.

of Mexico's GDP and over 80% of its exports (World Bank, 2016). The abrupt shift in U.S. trade posture raises questions about how exporters respond to heightened TPU, especially in settings where market access is critical and trade agreements are deeply embedded.

Using monthly and annual microdata collected by the Mexican authorities on establishment-level export destinations, production, and export volumes, we implement a difference-in-differences strategy that compares firms primarily exporting to the United States (U.S.-oriented) with those exporting mainly to Europe (Europe-oriented) before the election. We find a reduction in exports to the U.S. among U.S.-oriented firms, yet no significant effect in their total exports or production. We document a meaningful shift in the composition of exports: U.S.-oriented firms reduced their share of exports to the U.S. by up to six percentage points (11%) and reallocated them primarily towards Europe. We also present estimates by industry, showing that within each sector, a similar pattern of reallocating exports from the U.S. to Europe is observed.

These patterns align with a diversification response to TPU, mitigating the adverse effects on total production, and exports. Similarly, the increase in TPU might have prompted exporters to cut back on investments related to exporting to the U.S., but this decline could be offset by higher investment associated with increasing exports to Europe. Overall, we find a null effect of TPU on firms' capital stock, measured as total fixed assets.

Estimating the causal impact of TPU on exporters poses two main empirical challenges. First, identification. Although some TPU shocks have an exogenous timing, they are often followed by actual policy changes—such as tariff increases or rule revisions—which complicates the disentangling of the effects of uncertainty from those of realized policy. The challenge is more acute when the TPU shock originates in the same country as the studied firms, raising concerns about confounding domestic factors. Second, data availability: firm-level datasets that track both export destinations and output across time are scarce, particularly in emerging economies.

We address both challenges. Regarding identification, the TPU shock that we study arose from an unexpected outcome of the presidential election; therefore, firms producing in Mexico likely did not anticipate this or gave a low probability to this scenario. Moreover, the TPU shock originated in the U.S., making it also plausibly exogenous to the Mexican political and economic environment. Furthermore, the trade policy status quo remained essentially unchanged for most industries with the transition from NAFTA to the U.S.-Mexico-Canada Agreement (USMCA), allowing us to isolate the effects of uncertainty from those of actual policy changes.[2] To account for potential factors affecting all firms in Mexico, such as fiscal policy or the Mexican peso (MXN) exchange rate, our difference-in-differences specification uses firms exporting to Europe as a control group, thereby canceling out the effect of other shocks that are common to all firms in Mexico. Firms ex-ante exporting to Europe are a natural control because the region has a level of industrialization similar to the U.S., and firms that export to industrialized countries may have higher total factor productivity, better managerial practices, and better reputation (Alfaro-Ureña et al., 2022).

On the data side, we combine two rich data sources from the Mexican National Institute of Statistics and Geography (INEGI): the *Profile of Exporting Manufacturing Firms* (PEME), which provides annual export values at the firm level disaggregated by destination and covering over 91% of the manufacturing output, and the *Monthly Survey of the Manufacturing Industry* (EMIM), which includes data on production and exports, covering over 80% of the output of each manufacturing subsector. These data allow us to construct an establishment-level panel from 2013 to 2019, tracking both output and export portfolio composition over time.

Our results are robust across an assortment of estimation alternatives. For example, using firms exporting to the OECD (excluding the U.S.) as the control group, and defining the U.S.-oriented and Europe-oriented groups using different threshold levels of share of exports to that destination prior to the election.

[2]The main exceptions are the automotive industry and digital trade (U.S. International Trade Commission, 2019).

This paper contributes to three strands of literature. First, it adds to the growing body of work examining how firms respond to trade policy uncertainty, complementing studies of Brexit-related shocks (e.g., Graziano et al., 2021; Crowley et al., 2020) and broader surveys of TPU effects (Handley and Limão, 2022). Crowley et al. (2020) use the potential reversal of the U.K.-E.U. trade agreement and find that TPU lowered entry and increased exit rates for U.K. firms exporting products at a higher risk of facing a higher tariff. Graziano et al. (2021) estimate the Brexit-induced TPU effect on export values and participation, finding that the increase in Brexit probability after the referendum lowered bilateral E.U.-U.K. export values between 11 and 20%. Unlike most settings in this literature, our context offers a clear separation between the TPU shock and subsequent policy changes. This is noted by Handley and Limão (2022), which discusses the challenge of removing the confounding effects of the actual changes in trade policy. It is worth noting that Handley and Limão (2022) presents a comprehensive survey of the studies on the effect of TPU on exports, so we refer the reader to that work for a more in-depth review of the literature.[3]

Second, we contribute to the nascent literature on the effects of U.S. trade threats on Mexico. While prior work suggests aggregate reductions in FDI (Cebreros et al., 2020) and macroeconomic spillovers (Alam and Istiak, 2020), we provide novel causal evidence on firm-level responses in export behavior using high-frequency, destination-specific data. Cebreros et al. (2020) present state-level estimates of the effect that the 2016 increase in TPU had on FDI. They find a reduction of FDI in export-oriented states in Mexico. Alam and Istiak (2020), estimate structural autoregression models on Mexican and U.S. economic aggregates. Their country-level estimates suggest that Mexican output responds negatively to uncertainty shocks in the U.S.. While they do not focus exclusively on the 2016 TPU shock, their analysis includes this period.

[3]Some of the papers discussed in the review include Handley (2014), Limão and Maggi (2015), Handley and Limão (2015), Graziano et al. (2020), Handley and Li (2020), Handley et al. (2024), Carballo et al. (2022), Graziano et al. (2024), Ahmad et al. (2023)

Lastly, our findings are related to the broader literature that studies the effects of uncertainty on firm expectations. For example, Jens (2017) finds that political uncertainty induced by close elections at the state level in the U.S. reduces investments and firms delay equity and debt issuance related to investment decisions. Baker et al. (2023) use vector autoregressions and estimates a negative impact of uncertainty on economic growth. Finally, Dibiasi et al. (2025) take a survey experiment approach on Swiss firms by randomly presenting managers with different potential policies that increase uncertainty in the Swiss economy. They find that uncertainty reduces managers' expected investment, employment, and production. Our approach utilizes data that capture actual behavior and equilibrium outcomes, which are informative beyond firms' intended responses to an uncertainty shock.

The following section provides some background on the Mexican economy and its manufacturing sector. In Section 3, we describe the data, our empirical strategy, and how we address potential threats to identification. In Section 4, we present the main results and discuss the ample robustness checks, which are included in the Online Appendix. Section 5 concludes.

2 Background

The North American Free Trade Agreement (NAFTA) entered into effect on January 1, 1994, with the primary objectives of eliminating barriers to trade and investment, promoting fair competition, and providing protection for intellectual property rights.[4] Since then, Mexican exports to the U.S. and Canada as a share of GDP have almost tripled from 11% in 1993 to 27% in 2024.[5] While scholars have debated the specific impacts of NAFTA (see Hanson, 2003; Krueger, 1999), there appears to be a consensus in the literature that, in the balance, it has been favorable for the countries involved (Burfisher et al., 2001). Nevertheless, U.S. voters' attitudes towards NAFTA have swung noticeably over time (Bennett, 2004).

[4] See NAFTA Secretariat.

[5] See GDP Mexico (World Bank), Mexico Trade Summary 1993 and United States Trade Representative – Mexico.

Until 2016, NAFTA had consistently delivered trade policy stability for its member countries. The conditions of the agreement remained unchanged since its inception, and even after its full implementation was finalized in 2008, there were no significant efforts to modify the agreement.[6] This period of stability was abruptly disrupted by the unexpected outcome of the 2016 election. In the weeks leading up to the election, pollsters confidently predicted a win for Hillary Clinton.[7] The unexpected nature of the outcome is also evident in the USD-MXN exchange rate, where the MXN lost over 10% of its value between election night and the next day, making it the most significant one-day swings in this exchange rate in the studied period (between 2013 and 2019).[8]

The election upset increased trade policy uncertainty in the region because the incoming administration had campaigned on a platform that included renegotiating or terminating NAFTA. According to the executive, the reason for renegotiating NAFTA was that the U.S. was "losing" to Mexico and Canada under the current deal; therefore, if a renegotiation was not possible, the U.S. would terminate the agreement.[9] Consequently, the election outcome led to uncertainty in the Mexican economy, especially among firms trading with the U.S.[10]

The available data confirms this narrative. The Economic Policy Uncertainty Index for Mexico starts increasing in November 2016, reaching its peak in January 2017, and then returning to the level it had before the election when the U.S. Administration confirmed a renegotiation of NAFTA, rather than its withdrawal in April 2017 (see Figure 1). Similarly, according to Google search trends for NAFTA, the trade agreement gained increased prominence in public awareness following the election. Figure A.1 shows that Google searches for NAFTA increased on the eve of the 2016 election by 200% relative to their February 2016 level. Furthermore, for

[6] It was not until 2016 that the Trans-Pacific Partnership (TPP) would have been the first major update to the trade agreement between the three North American nations, but the U.S. withdrew from it in 2017. See Reuters – Timeline: The Long, Bumpy Road from NAFTA to USMCA .

[7] See Scientific American – "Why Polls Were Mostly Wrong" .

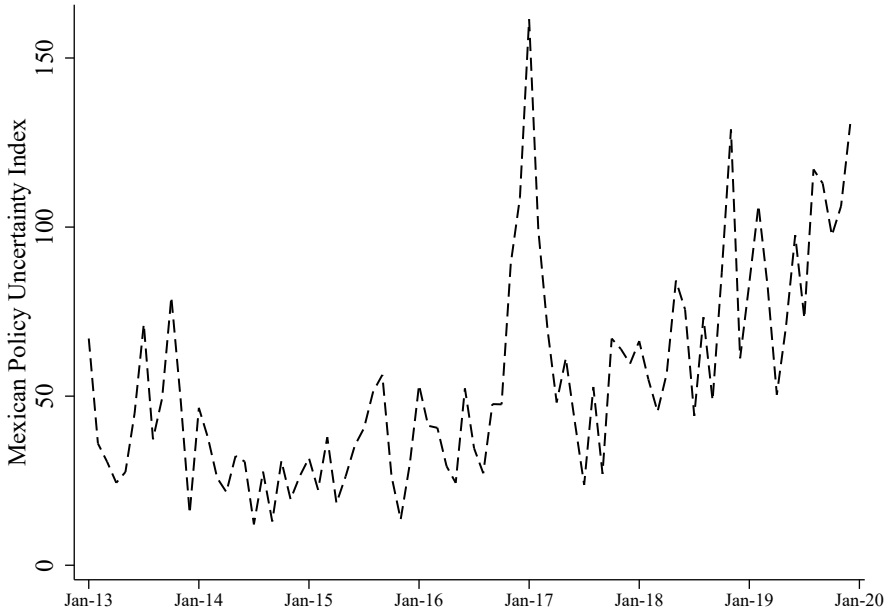
[8] See Mexican peso plunges more than 12% to record low vs. dollar on Trump election upset.

[9] For example, see Trump vows to reopen, or toss, the NAFTA pact with Canada and Mexico

[10] This point becomes apparent in the months after the 2016 U.S. presidential election by several economic analysts, including minutes of the Mexican Board of Governors (Bank of Mexico, 2016).

the period we study, the daily percentage change in the MXN per USD exchange rate was the highest on the day after the 2016 presidential election (see Figure A.2).

Figure 1: Economic Policy Uncertainty



Source: Economic Policy Uncertainty Index
Note: The figure graphs the Mexican Policy Uncertainty Index, developed by the Economic Policy Uncertainty project, which measures temporal variations in economic policy uncertainty within Mexico. The index is constructed by systematically analyzing the frequency of newspaper articles containing terms related to economic uncertainty, policy, and the country's name, using a predefined algorithm established by the project. This methodology employs a combination of text mining techniques and natural language processing to identify relevant news items across multiple sources, capturing uncertainty arising from fiscal, monetary, trade, and regulatory policies.

Trade policy uncertainty expanded beyond the potential termination of NAFTA, affecting both tariff- and non-tariff-related topics. First, the potential size of the tariff increase was unknown. In an optimistic scenario, the average tariff would increase from zero to around 3.2%, the average for countries with the status of most-favored nation (MFN).[11] However, it was unclear whether the administration would follow the World Trade Organization's (WTO) guidelines. For example, on several occasions, the administration stated the possibility of a border tax of 35%. Second, there were other non-tariff-related risks. For example, changes to NAFTA's rules of origin, new U.S. regulations on Mexican goods, and the demand for Mexican

[11] This is the average MFN tariff for the U.S. in 2018 according to the World Bank.

law reforms. Changes in the rules of origin could require Mexican exporters to undertake costly reconfigurations of their production and supply chains to comply with a renegotiated trade deal. Moreover, new regulations may effectively block imports of Mexican goods, a phenomenon that is periodically observed in Mexican agricultural products (e.g., sanitary inspections on Mexican tomatoes, see Singh, 2025). Finally, the U.S. could require Mexico to implement domestic reforms that would increase costs for Mexican exporters, most notably, raising the minimum wage and strengthening workers' ability to unionize.

Although the new administration significantly increased TPU, trade policy itself remained mostly unchanged. With few exceptions, most manufacturing industries in Mexico were unaffected by the NAFTA renegotiation and the shift to the U.S.-Mexico-Canada Agreement (USMCA). This situation makes our context ideal for studying the impact of trade policy uncertainty because it helps separate the effects of discourse from actual policy changes.

The spike in uncertainty did not affect all firms in Mexico equally because many firms were exporting to other destinations. In 2016, Mexican firms exported more than 70 billion USD to countries outside the U.S.,[12] out of which at least 18 billion were manufacturing exports to Europe, making it the second most important destination for Mexican exports, after North America. Figure A.3 shows that Mexican exports to the U.S. and Europe between 2013 and 2020 trended similarly. Following the 2016 U.S. election, particularly in 2017 and 2018, the trend in exports to the U.S. was slightly lower relative to that of the E.U., but it recovered by 2019. This similarity in trends further motivates the use of Europe-oriented exporters as a control for U.S.-oriented ones in our empirical strategy. Moreover, since Europe and the U.S. are both industrialized destinations, they have similar standards that firms producing in Mexico must meet.

[12] See World Bank (2016).

3 Data

Our main data sources are the annual Profile of Exporting Manufacturing Firms (PEME), the Monthly Survey of the Manufacturing Industry (EMIM), and the Annual Manufacturing Survey (EAIM). These sources are collected by the Mexican National Institute of Statistics and Geography (INEGI) and accessed through the institution's secure microdata lab in Mexico City.

3.1 PEME

The PEME accounts for 91% of the total revenues of the manufacturing sector (INEGI, 2021). For our analysis, we use data from all establishments included in the PEME between 2013 and 2019, which we link to output data from the EMIM. This linkage is through the unique establishment identifier provided by INEGI. A key strength of the PEME—setting it apart from other statistical sources—lies in its capacity not only to report the export value of each manufacturing establishment, but also to identify the share of those exports going to different countries. This level of detail enables us to construct an annual panel that captures both the absolute value and the share of total exports directed to each country at the establishment level.

3.2 EMIM

We use establishment-level data from 2013 to 2019 from the Monthly Survey of the Manufacturing Industry (EMIM), a statistical program conducted by INEGI since 1964. This survey systematically gathers data on the economic performance of establishments and enterprises within Mexico's manufacturing sector (NAICS codes 31-33). The data is a representative sample of 8,819 economic units (INEGI, 2023b). The survey ensures a minimum coverage of 80% of total income within each economic activity, prioritizing the inclusion of the largest economic units based on the number of employees and income. Since the inclusion of large economic units is

prioritized, this survey is, in practical terms, a monthly census of large producers.

The EMIM includes a six-digit North American Industry Classification System (NAICS) code, the quantity and value of sales and production, as well as the share of the establishment's production that is exported. We construct the export sales and output by multiplying the total sales and output by the share of the production that is exported at the establishment level. We aggregate the EMIM at the quarterly level to reduce high-frequency noise in the survey, resulting in a sample of 161,364 observations at the establishment by quarter level.

3.3 EAIM

The Annual Manufacturing Survey (EAIM), conducted by INEGI since 1963, aims to capture the evolution of key indicators in Mexico's manufacturing sector. The 2018 series follows the same sectoral classification as the Monthly Industrial Survey (EMIM, NAICS codes 31–33), with both surveys covering the same 8,819 establishments (INEGI, 2023a). Unlike the EMIM, the EAIM's annual frequency provides a structural, long-term perspective, encompassing variables not captured in the EMIM, such as fixed assets, inventories, and investments. Leveraging these features, we utilize EAIM data for measures of capital (fixed assets) that we link to the PEME and EMIM using the unique establishment identifier.

4 Empirical Strategy

To estimate the effect of TPU on Mexican manufacturing establishments, we estimate a Difference-in-Differences equation. The *U.S.-oriented* group is composed of firms with at least 50% of their exports going to the U.S. between 2013 and 2016, and the *Europe-oriented* group includes firms with at least 50% of their exports going to Europe during the same time period. By construction, the destination of the exports between groups is quite different. While the median firm of the U.S.-oriented groups exports 80% of its goods to the U.S. and 3% to Europe, the median

Europe-oriented firms export only 6% of its goods to the U.S. but 69% to Europe (see Table A.1 for more descriptive statistics).

Our identification strategy relies on the assumption that exports of Mexican manufacturing firms that exported to the U.S. before 2016 would share a common trend with exporters shipping to the E.U. before 2016, except for the shock of uncertainty over the future of the Mexico-U.S. relationship after the 2016 election. In particular, using exporters to Europe as a control group allows us to control for the effects of shocks that would have affected all Mexican exporting firms, such as the MXN exchange rates, taxes, elections, fiscal and monetary policy, among others.

We deliberately exclude non-exporting firms from the analysis because the trade literature has documented that exporting firms can be substantially different from non-exporting firms in critical dimensions such as employment growth, survival probability, and productivity, among others (Bernard and Bradford Jensen, 1999). In addition, we select firms exporting to Europe because it has a level of industrialization similar to the U.S., and there is evidence that the type of firms that can export to industrialized countries may have higher total factor productivity, better management practices and better reputations (Alfaro-Ureña et al., 2022). In the robustness section, we show that using firms exporting to the OECD instead of Europe as a comparison group renders the same conclusions.

Our main specification is:

$$Y_{i,t} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{i,t}, \tag{1}$$

where Y_{it} is a measure of production, exports, or share of exports to a specific destination for firm i in period t, which can be a quarter or a year, depending on the availability of data. $U.S. - oriented_i$ is a dichotomous variable that takes the value of 1 if the firm belongs to the group of firms that sent over 50% of their exports to the U.S. between 2013 and 2016 and 0 for the firms that sent over 50% of their exports to Europe, and $\mathbf{1}\{t = \tau\}$ are dichotomous variables that take the value of 1 for each time period before and after the reference time period (2016 in annual

estimations and 2016Q3 in quarterly estimations). The coefficients δ_τ capture the estimated causal effect of the TPU shock. Finally, $\lambda_{t,I}$ and μ_i are time by industry and firm fixed effects, respectively. The industries used for the fixed effects are based on 3-digit industry codes from the North American Industrial Classification System.

For several of the estimates presented in our tables, we group the period dummies into just one dichotomous variable indicating whether the period is after the TPU shock, Post_t, leading to the following estimating equation:

$$Y_{it} = \delta \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_{t,I} + \mu_i + \varepsilon_{it}. \tag{2}$$

4.1 Potential Threats to Identification

The first potential concern is that U.S.-oriented and Europe-oriented firms may differ in size, characteristics, industry, or other relevant dimensions, either in terms of levels or trends. We take several steps to address this concern. First, we include firm fixed effects in our estimation, which controls for time-invariant characteristics of firms. Second, we construct a *control* group that would trend similarly to the *treatment* group in the absence of the TPU shock, with both groups consisting of exporters to high-income countries. And third, an advantage of using a differences-in-differences approach is that we can estimate the differences several years before the studied shock, which allows us to compare the trends of both groups before the shock. We do not observe a difference in trends before the shock for the studied outcomes.

Another potential concern for identification is that exporters producing in Mexico were exposed to other shocks that affect firms' ability to export or the demand for their goods, for example, changes in monetary and fiscal policy, electoral cycles, and exchange rate fluctuations. The inclusion of time fixed effects in our estimation controls for these shocks that are common to all exporters. Moreover, even if this shock was industry-specific and the industrial composition differed between U.S.-oriented and Europe-oriented firms, the time-by-industry fixed effect would control

for these industry-level shocks.

A related but more challenging issue arises if a coincidental shock affects the demand for Mexican manufacturing goods in the U.S. but not in Europe. For example, if the anti-Mexico rhetoric during the 2016 presidential campaign resulted in a lower demand for Mexican goods in the United States, it would impact U.S.-oriented firms but not the Europe-oriented ones. However, there does not seem to be evidence of this type of mechanism in the academic journals or the media. In fact, there are some notable counterexamples, such as in the beer industry, where Mexican beer has consistently gained popularity, with Modelo being the best-selling beer in the United States since 2023.[13]

Finally, a concern of any empirical study regarding the renegotiation of trade policy agreements is that the identified effect is incorrectly attributed to trade policy uncertainty when, in actuality, the trade policy changes were the actual cause. A set of examples are the empirical studies on the effects of Brexit.[14] The setting we study has the advantage that no material changes were made to the trade agreement between Mexico, the United States, and Canada for most industries, which allows us to isolate the effect of the TPU.

5 Results

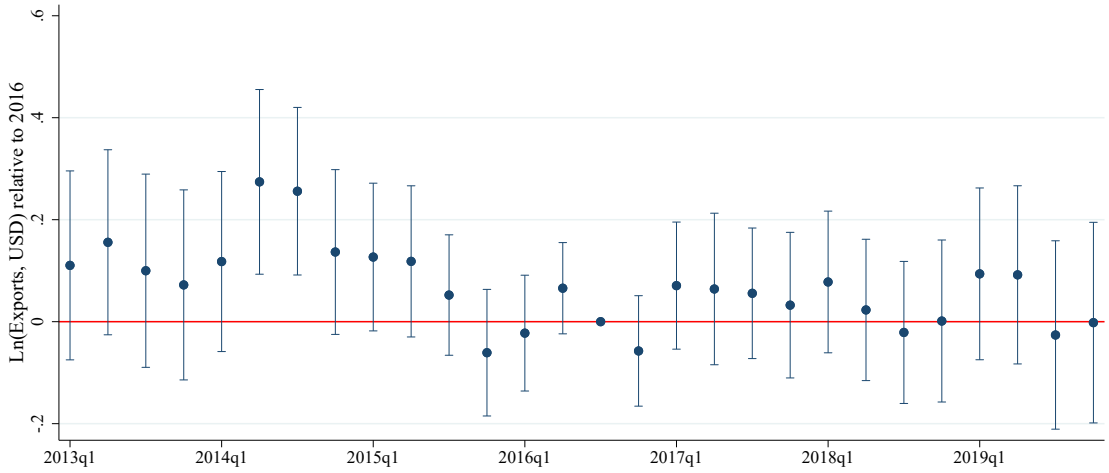
In this section, we first document that the increase in TPU resulting from the unexpected outcome of the 2016 U.S. presidential election did not have an effect on U.S.-oriented firms' total exports and output. Then, we show that despite no aggregate effects, there are significant effects on the destination of exports. Relative to Europe-oriented firms, U.S.-oriented firms increase their share of exports to Europe and decrease their share of exports to the United States, leading to a reduction in exports to the U.S. and an increase in exports to Europe. Furthermore, we present the decomposition by industry, showing that within each industry, a similar pattern

[13] See How a Mexican Lager Quietly Rose to Become America's Best-Selling Beer.
[14] See Handley and Limão (2022) for a discussion and examples.

of reallocating exports from the U.S. to Europe is observed. Finally, we discuss a variety of robustness checks.

We find that the increase in TPU following the electoral upset in the 2016 United States presidential election did not affect the export volume of manufacturing firms that ex-ante exported to the U.S. relative to those exporting to Europe. Figure 2 presents the estimates of equation 1, where the dependent variable is the natural logarithm of the value of exports.

Figure 2: Effect of TPU Shock on Manufacturing Exports



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on manufacturing exports estimated using equation 1. The third quarter of 2016 is the reference period (omitted). Standard errors are clustered at the establishment level and all estimates are displayed with 95% confidence intervals.

Similarly, we find no effects on total production. Table 1 presents the estimates of equation 2. We find no effect on total production, regardless of whether we include year or year-by-sector fixed effects. Regarding total exports, we find no statistically significant effect, regardless of whether we use data from the PEME or the EMIM, or whether we use year or year-by-sector fixed effects.

Regarding firms survival, we do not find any effects on their exit rate. Figure A.4 shows that U.S.-oriented firms were as likely to exit before and after the TPU shock relative to the Europe-oriented firms.

The option value framework, where increases in TPU increase firms' option value of waiting to make irreversible investments, would have predicted an indirect effect on output caused by a lower level of investment (see Handley and Limão (2022)

Table 1: Exports and Production

Dependent	Total production (log)				Total exports (log)				Total exports (log)			
Variable:	USD		MXN		USD		MXN		USD		MXN	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
U.S.-oriented	0.0028	-0.0049	0.0027	-0.0062	0.0161	-0.0129	0.1073	0.0648	0.0311	0.0207	0.0307	0.0205
x Post	(0.028)	(0.027)	(0.028)	(0.028)	(0.091)	(0.093)	(0.118)	(0.121)	(0.055)	(0.054)	(0.055)	(0.054)
Source	EMIM				EMIM				PEME			
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y		Y		Y		Y		Y		Y	
Year x Sector FE		Y		Y		Y		Y		Y		Y
Observations	23,766				23,766				23,766			

Note: The table presents the estimates of the effect of the increase in TPU originating from the 2016 presidential election upset on exports and production estimated using equation 1 at the establishment-year level, where the outcome is the log of total production (columns 1 to 4), log of total exports based on data from EMIM (columns 5 to 8), and log of total exports based on data from PEME (columns 9 and 12). Odd-numbered columns include establishment and year fixed effect, while even-numbered columns include establishment and year × sector fixed effect. Standard errors are clustered at the establishment level.

for an exposition of the option value framework). The lack of an adverse impact on production does not necessarily invalidate the predictions of the option value framework. U.S.-oriented exporters may increase their exports to other destinations, mitigating the effect on their output. Moreover, exporting to other destinations may involve making investments to produce products or varieties suitable for those markets. Therefore, an increase in investments related to exporting to other markets may compensate for a potential decrease in investments related to exporting to the United States.

Our findings are consistent with this narrative. We do not find an effect of TPU on firms' capital stock measured as total fixed assets (see Figure A.5). Furthermore, Table A.3 shows that there is no systematic effect on other measures of capital like machinery and equipment, office equipment, computer equipment, transport equipment, and real estate. The lack of impact on investment or total assets may be masking two opposing effects. Investment related to exporting to the U.S. could have declined, but it may have been offset by an increase in investment related to exporting to Europe.

Despite no evidence of an effect on total output, exports, or investment, we find compelling evidence of U.S.-oriented exporters redirecting trade from the U.S. to

Europe. Figure 3 shows that the U.S.-oriented firms reduced their share of exports to the U.S. by 6 pp (11%) in the years after the TPU shock. Moreover, the firms increased their export share to Europe by 8 pp (54%) in the years following the TPU shock.[15] By 2019, the share of exports to Europe increases by 8.4 pp, while that for the U.S. decreases by 7.5 pp.

The increase (decrease) in the share of exports to Europe (the United States) and the null effect on total exports imply a rise (decline) in exports to Europe (the United States). U.S.-oriented firms increased their exports to Europe by 32% and decreased their export to the United States by 24% (See Table A.2 and Figures A.6 and A.7).

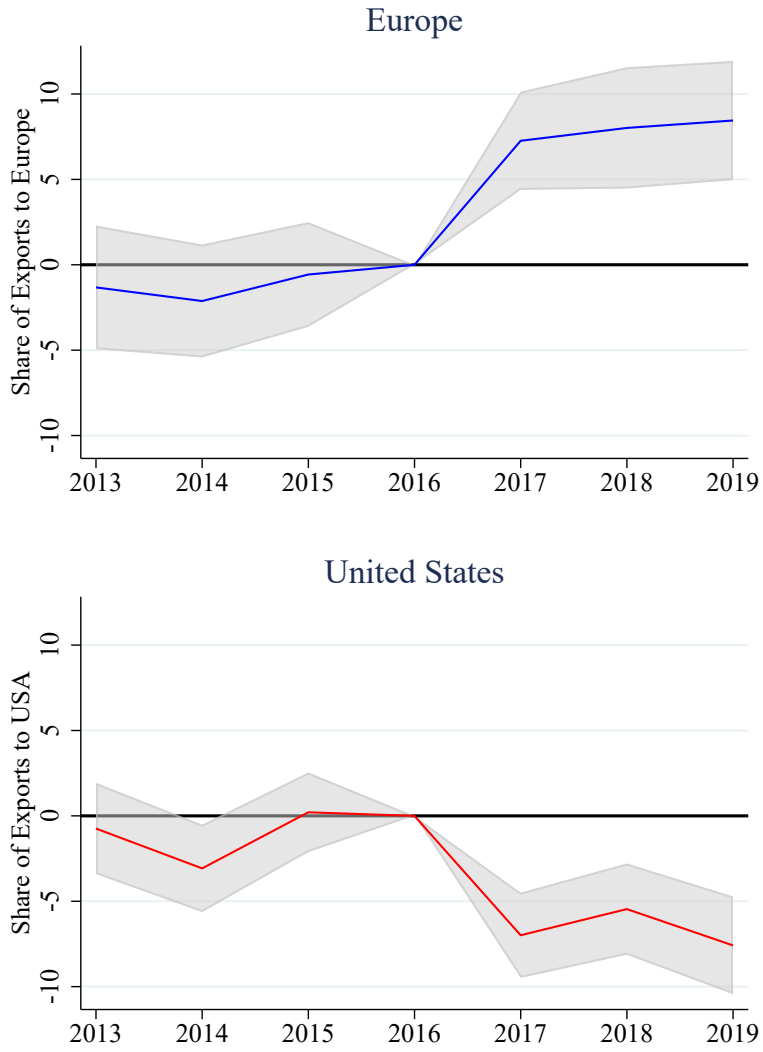
The observed reallocation of exports from the U.S. to Europe is consistent with existing theories of diversification of export destinations. For example, Esposito (2022) constructs a model in which risk-averse managers take advantage of the spatial correlation of demand for their goods across countries to lower the variance of their sales. In our setting, instead of spatial correlation of demand, we may have a quality or taste correlation of demand, in which high-income countries demand goods of similar quality or type. In this context, the model would predict that Mexican firms would respond to the TPU shock originating in the U.S. by increasing their exports to countries with similar demand (like Europe) to mitigate the increased variance of sales to the United States.

When studying the diversification effect for individual subindustries within manufacturing, we observe a consistent pattern for 9 out of the 10: the share of exports to the U.S. decreases, and the share of exports to Europe increases.[16] The smaller number of firms within each subindustry reduces statistical power and increases the size of the standard errors. However, while most industries exhibit the same pattern, a few estimates are not statistically significant. The estimates for the subindustries

[15] The percentages are estimated relative to the sample mean of the share of exports to the U.S. and Europe.

[16] We include estimates for the 10 subindustries with at least 700 observations to estimate equation 2. The only sector with a different pattern is the Metal Products subindustry, where the share of exports to both the U.S. and Europe decline (although these declines are not statistically significant).

Figure 3: Share of Exports to Europe and the U.S.



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to Europe (top) and to the United States (bottom) estimated using equation 1. The reference year (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

of Transportation Equipment, Food, Chemicals, and Basic Metals are in Table 2. The estimates for Plastics and Rubber, Beverages and Tobacco, Metal Products, Nonmetallic Mineral Products, Machinery and Equipment, and Paper are in Table A.4 in the Online Appendix.

5.1 Robustness

In this subsection, we discuss the robustness checks for our main results. In the difference-in-differences specification, we used Europe-oriented exporters as the com-

Table 2: Share of Exports to the U.S. and Europe - by Subindustry

Dependent Variable: Share of Exports										
Subindustry	All		Equipment		Food		Chemicals		Basic Metals	
Region	U.S.	Europe	U.S.	Europe	U.S.	Europe	U.S.	Europe	U.S.	Europe
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
U.S.-oriented	-5.94***	8.43***	-4.47*	8.29***	-7.24*	14.42***	-3.91*	8.70**	-18.49*	24.35***
x Post	(1.02)	(1.18)	(2.38)	(2.97)	(3.99)	(4.37)	(1.99)	(3.39)	(10.99)	(9.30)
Mean Dep.	54.5	15.6	60.8	11.7	63.9	12.3	46.5	19.3	57.8	14.2
Observations	23,766	23,766	2,699	2,699	3,608	3,608	1,901	1,901	812	812

Note: The table presents the estimates of the effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to the United States and to Europe based on equation 2. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level.

parison group. We use this group of exporters because they were also selling to high-income countries. However, there are alternative ways of identifying high-income countries. For example, we could use as a reference group exporters selling to the OECD (excluding the U.S.) more than 50% of their production. Figure A.8 shows that using the OECD-oriented firms as the control group instead of Europe-oriented ones renders the same conclusion: U.S.-oriented firms decreased their share of exports to the U.S. and increased it to OECD countries.

Throughout the paper, we use an unbalanced panel of firms. Alternatively, we could estimate our effects based on firms that are exporting every month in our sample. Figure A.9 and Figure A.10 show that estimating the effect on exports and on the share of exports to the U.S. and Europe in a balanced panel renders the same results. The balanced and unbalanced estimates are likely to exhibit the same pattern because we find no effect on exit (Figure A.4).[17]

Our definition of treatment and control uses a threshold of at least 50% of exports shipped to the U.S. or Europe to define a firm as belonging to the *treatment* or *control* group. The advantage of this threshold is that 50% is the lowest value at which belonging to one group mechanically excludes the firm from belonging to the other one. However, our findings are robust to other thresholds. Figure A.11 and A.12 show that our main findings remain unaltered when we change the threshold

[17]Even without an effect on exit, they could have been different due to differences in the composition of entrants in the data.

to 60% on both groups. Similarly, Figures A.13 and A.14 show that when switching to a threshold of 40% for both groups and excluding firms that would have been part of both the treatment and control groups from the analysis, we reach the same conclusions.

6 Conclusions

Our analysis indicates that the increase in TPU following the 2016 U.S. presidential election did not lead manufacturing firms in Mexico to reduce their overall production or export volumes. Instead, firms adjusted their destination portfolio, lowering their dependence on U.S. markets and redirecting exports to other high-income countries in Europe and the OECD. This strategic move highlights exporters' ability to manage risk through market diversification rather than reducing output or withdrawing from international trade.

Our findings have important policy implications. They indicate that exporters can reduce heightened uncertainty by diversifying their market focus, emphasizing the importance of countries maintaining varied trade connections. Even if exporters specialize in selling to specific countries or regions, having a wide range of trade agreements acts as a safeguard, enabling them to shift their exports more easily if necessary.

References

Ahmad, Saad, Nuno Limão, Sarah Oliver, and Serge Shikher, "Brexit Uncertainty and Its (Dis)service Effects," *American Economic Journal: Policy*, November 2023, *15* (4), 459–485.

Alam, Md Rafayet and Khandokar Istiak, "Impact of US policy uncertainty on Mexico: Evidence from linear and nonlinear tests," *The Quarterly Review of Economics and Finance*, 2020, *77*, 355–366.

Alfaro-Ureña, Alonso, Isabela Manelici, and Jose P Vasquez, "The effects of joining multinational supply chains: New evidence from firm-to-firm linkages," *The Quarterly Journal of Economics*, 2022, *137* (3), 1495–1552.

Baker, Scott R, Nicholas Bloom, and Stephen J Terry, "Using Disasters to Estimate the Impact of Uncertainty," *The Review of Economic Studies*, 03 2023, *91* (2), 720–747.

Bank of Mexico, "Minutes of Monetary Policy Decisions – Target Rate," https://www.banxico.org.mx/publicaciones-y-prensa/minutas-de-las-decisiones-de-politica-monetaria/minutas-politica-monetaria-ta.html 2016. Minutes number 46 (p. 7), 47 (p. 3), and 48 (p. 14), corresponding to meetings from October to December 2016; available on the official Bank of Mexico website.

Bennett, Scott, "American and Canadian assessments of NAFTA: Opinion on continental policy and its drivers," *American Behavioral Scientist*, 2004, *47* (10), 1285–1318.

Bernard, Andrew B. and J. Bradford Jensen, "Exceptional exporter performance: cause, effect, or both?," *Journal of International Economics*, 1999, *47* (1), 1–25.

Burfisher, Mary E, Sherman Robinson, and Karen Thierfelder, "The impact of NAFTA on the United States," *Journal of Economic Perspectives*, 2001, *15* (1), 125–144.

Carballo, Jeronimo, Kyle Handley, and Nuno Limão, "Economic and Policy Uncertainty: Aggregate Export Dynamics and the Value of Agreements," *Journal of International Economics*, November 2022, *139.*

Cebreros, M., J. Cravino, and L. F. López-Calva, "Trade Policy Uncertainty and Foreign Direct Investment: Evidence from Mexico," *Journal of International Economics*, 2020, *126*, 103331.

Crowley, Meredith A., Oliver Exton, and Lu Han, "The Looming Threat of Tariff Hikes: Entry into Exporting under Trade Agreement Renegotiation," *AEA Papers and Proceedings*, 2020, *110*, 547–551.

Dibiasi, Andreas, Heiner Mikosch, and Samad Sarferaz, "Uncertainty Shocks, Adjustment Costs, and Firm Beliefs: Evidence from a Representative Survey," *American Economic Journal: Macroeconomics*, July 2025, *17* (3), 36–73.

Esposito, Federico, "Demand risk and diversification through international trade," *Journal of International Economics*, 2022, *135*, 103562.

Graziano, Alejandro G., Kyle Handley, and Nuno Limão, "Brexit Uncertainty: Trade Externalities beyond Europe," *AEA Papers and Proceedings*, May 2020, *110*, 552–556.

_ , _ , and _ , "An Import(ant) Price of Brexit Uncertainty," *Journal of International Economics*, 2024, *152*, 104012.

Graziano, Alessandro G., Kyle Handley, and Nuno Limão, "Brexit Uncertainty and Trade Disintegration," *The Economic Journal*, May 2021, *131* (635), 1150–1185.

Handley, Kyle, "Exporting under trade policy uncertainty: Theory and evidence," *Journal of international Economics*, 2014, *94* (1), 50–66.

_ **and J. Frank Li**, "Measuring the Effects of Firm Uncertainty on Economic Activity: New Evidence from One Million Documents," NBER Working Paper, National Bureau of Economic Research October 2020.

_ **and Nuno Limão**, "Trade and investment under policy uncertainty: theory and firm evidence," *American Economic Journal: Economic Policy*, 2015, *7* (4), 189–222.

_ **and** _ , "Trade policy uncertainty," *Annual Review of Economics*, 2022, *14* (1), 363–395.

_ **,** _ **, Rodney D. Ludema, and Zhi Yu**, "Firm input choice under trade policy uncertainty," *Journal of International Economics*, July 2024, *150*, 103909.

Hanson, Gordon H, "What has happened to wages in Mexico since NAFTA?," Technical Report, National Bureau of Economic Research 2003.

INEGI, "Profile of Manufacturing Exporting Firms: Methodological Summary," 2021. Methodological document describing the conceptual, technical, and operational characteristics of the Profile of Manufacturing Exporting Firms (PEME), aiming to provide transparency on the procedures and schemes adopted in producing this statistic.

INEGI, "Annual Manufacturing Industry Survey. EAIM. Methodological Summary. Series 2018," Technical Report 889463912552, National Institute of Statistics and Geography (INEGI), Aguascalientes, Mexico 2023. Accessed September 2, 2025.

INEGI, "Monthly Survey of Manufacturing Industry: Methodological Summary," 2023. Methodological document detailing the conceptual, technical, and operational aspects of the Monthly Survey of Manufacturing Industry (EMIM) Series 2018, organized according to the phases of the statistical and geographical information production process.

_ , "COMEXT: Open Data from the Mexican Merchandise Trade Balance Program," 2025. Open data portal providing access to datasets from the COMEXT program.

Jens, Candace E., "Political uncertainty and investment: Causal evidence from U.S. gubernatorial elections," *Journal of Financial Economics*, 2017, *124* (3), 563–579.

Krueger, Anne O, "Trade creation and trade diversion under NAFTA," Technical Report, National Bureau of Economic Research 1999.

Limão, Nuno and Giovanni Maggi, "Uncertainty and trade agreements," *American Economic Journal: Microeconomics*, 2015, *7* (4), 1–42.

Singh, Kanishka, "U.S. withdraws tomatoes agreement with Mexico," *Reuters*, Jul 2025. Accessed: 2025-07-23.

U.S. International Trade Commission, "U.S.-Mexico-Canada Trade Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors," USITC Publication 4889, U.S. International Trade Commission, Washington, DC April 2019.

World Bank, "Mexico Trade Summary 2016," https://wits.worldbank.org/CountryProfile/en/Country/MEX/Year/2016/Summarytext 2016. Accessed: 2025-07-10.

Online Appendix

Trade Policy Uncertainty and the Diversification of Export Destinations

by Roman Acosta and Miguel Ángel Talamas Marcos

Table of Contents

A Figures **2**

NAFTA Google Searches 2

Percentage Variation of the Daily MXN/USD Exchange Rate 3

Total Exports to Europe and the United States 3

Exit 4

Total Fixed Assets 4

Exports to Europe 5

Exports to United States 6

Robustness: Share of Exports to OECD and the U.S. 7

Robustness: Exports (Balanced Panel) 8

Share of Exports to Europe and the U.S. - Balanced Panel 9

Robustness: Exports - 60% Cutoff 10

Robustness: Share of Exports to Europe and the U.S. - 60% Cutoff 11

Robustness: Exports - 40% Cutoff 12

Robustness: Share of Exports to Europe and the U.S. - 40% Cutoff 13

B Tables **14**

Share of Exports to the United States and Europe - Descriptive Statistics . 14

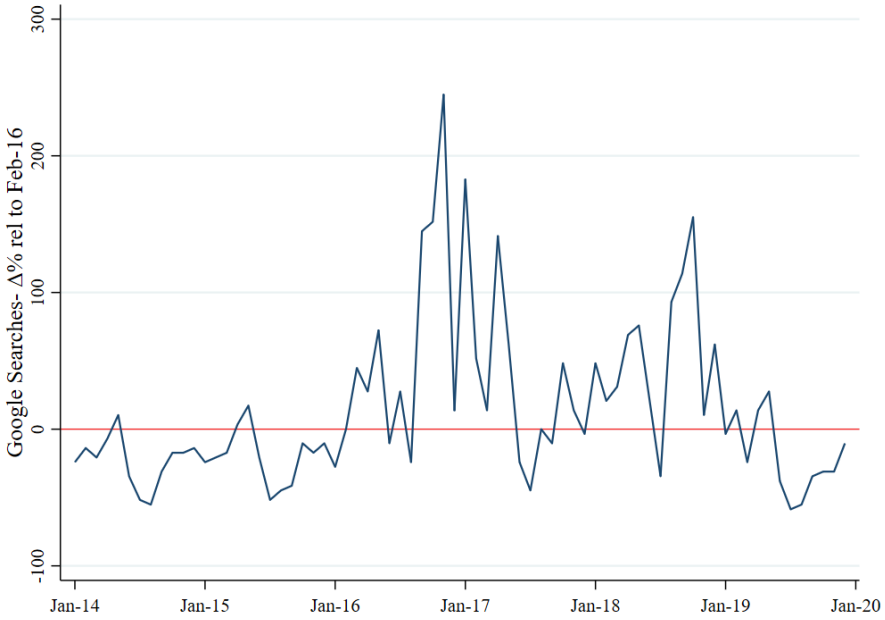
Exports to the U.S. and Europe 14

Capital 15

Share of Exports to the U.S. and Europe - by Subindustry II 16

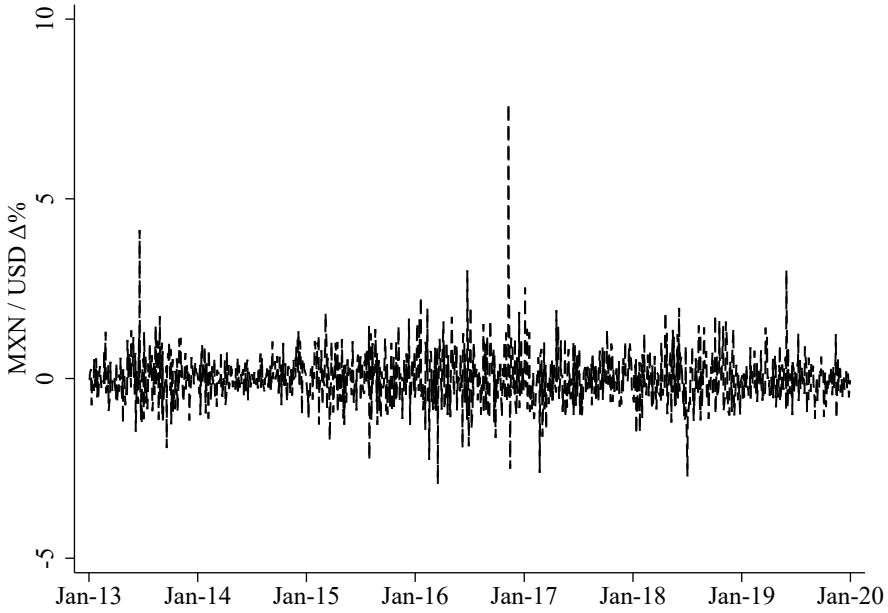
A Figures

Figure A.1: NAFTA Google Searches



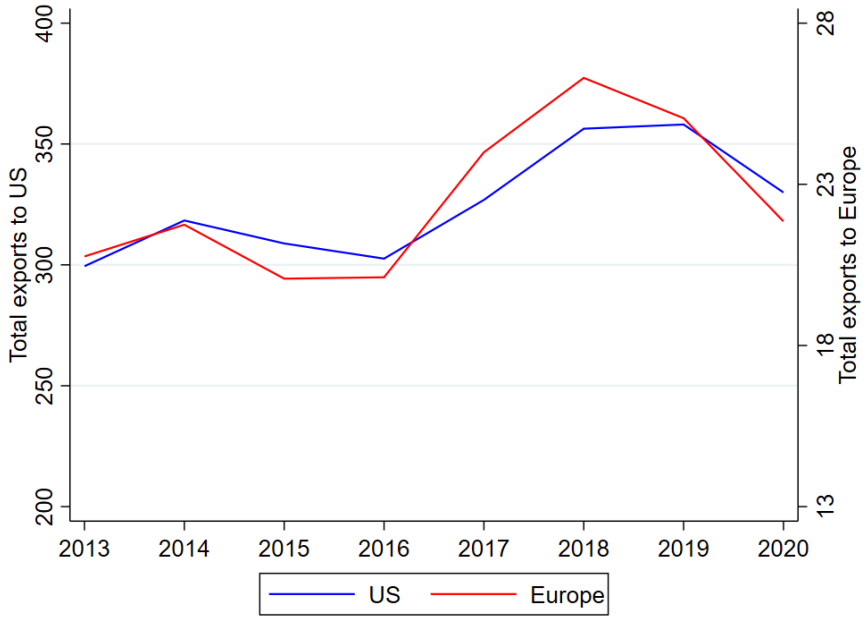
Source: Google Trends.
Note: The figure dsiplays the percentage difference for NAFTA searches in the United States relative to February 2016.

Figure A.2: Percentage Variation of the Daily MXN/USD Exchange Rate



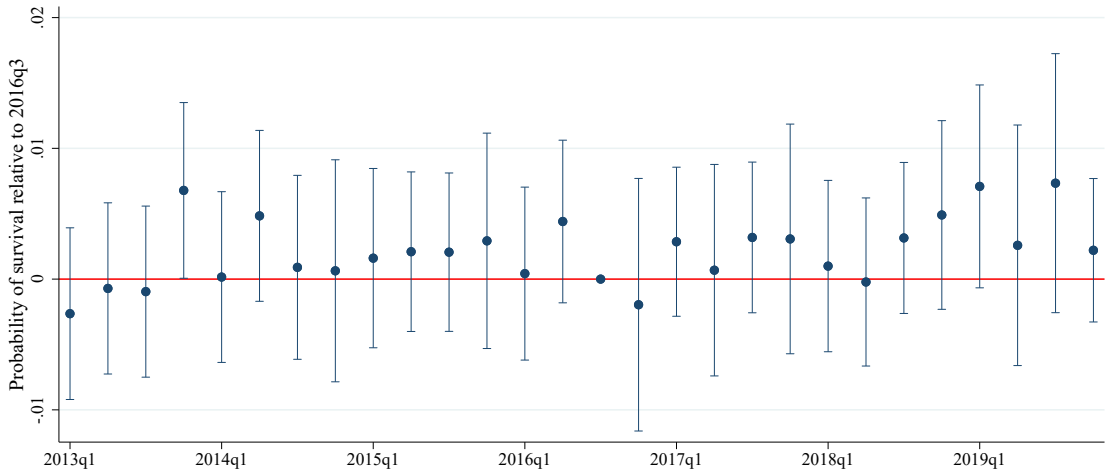
Source: Bank of Mexico.
Note: The figure displays the daily percentage change in the MXN/USD (FIX) exchange rate. The FIX exchange rate, published by the Bank of Mexico at 12:00 p.m. each business day, is based on the average of wholesale foreign exchange quotes obtained from representative electronic trading platforms.

Figure A.3: Total Exports to Europe and the United States



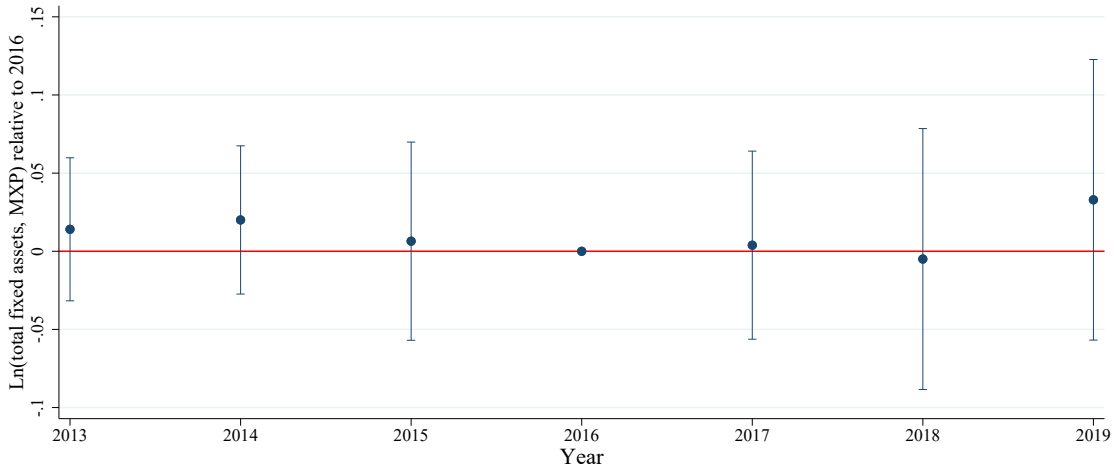
Source: Self-elaborated with public information on the Mexican Merchandise Trade Balance (BCMM) available at INEGI (2025). Values are in billions of USD. The European region is defined as all countries on the European continent, regardless of whether the country is part of the European Union or not.

Figure A.4: Exit



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on exit estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

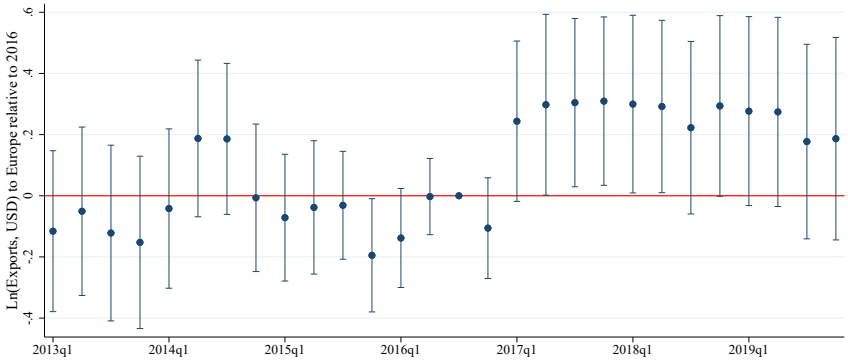
Figure A.5: Total Fixed Assets



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on total fixed assets estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.6: Exports to Europe

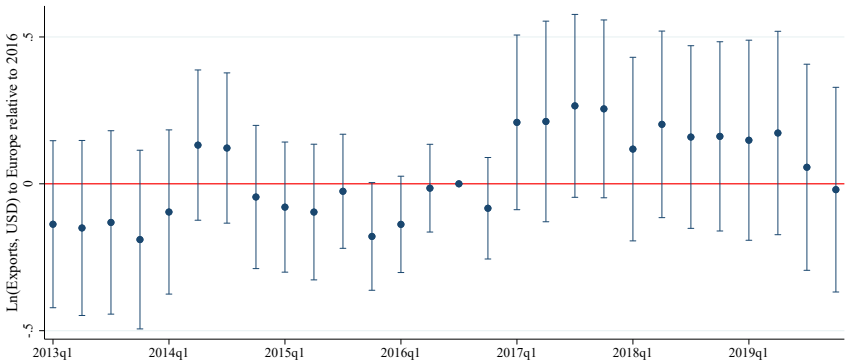
(a) Panel A



(b) Panel B



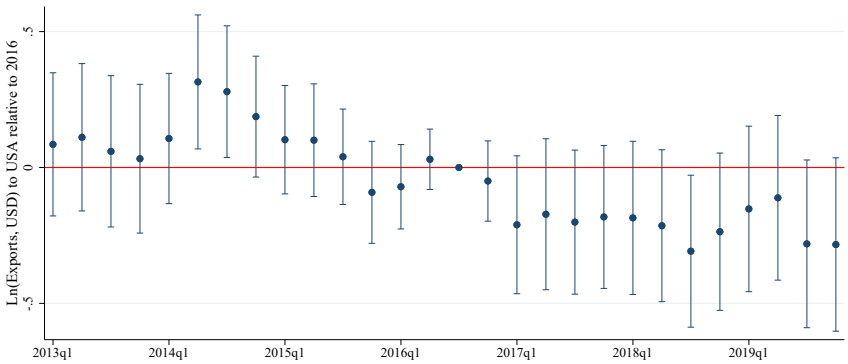
(c) Panel C



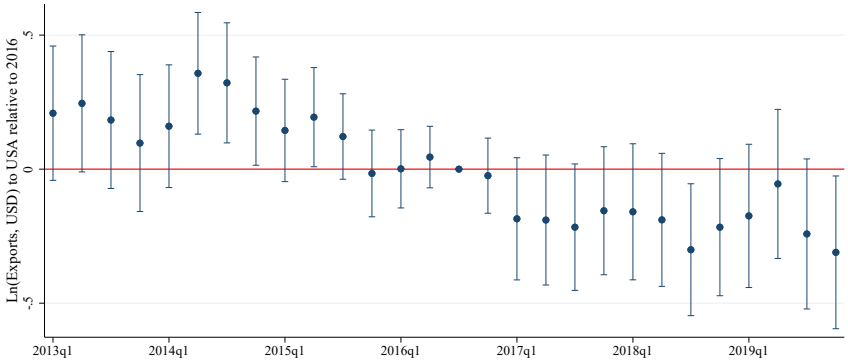
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on exports to Europe estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. Exports to Europe are estimated by multiplying the quarterly export by the annual share of exports to Europe at the establishment level. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016 (Panel A). For panel B and panel C, the export shares change to 40-40 and 60-60 respectively. The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.7: Exports to United States

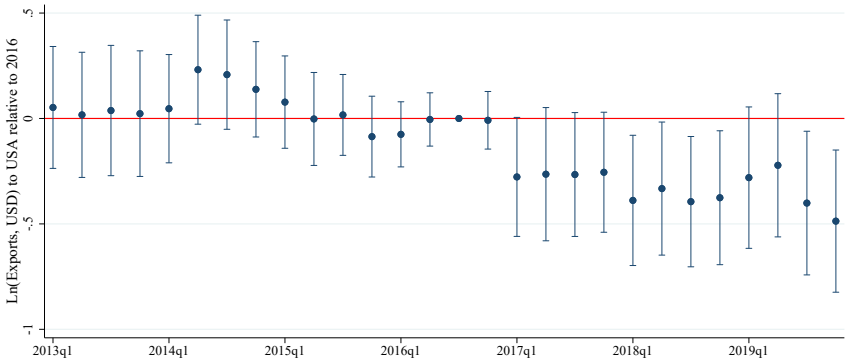
(a) Panel A



(b) Panel B

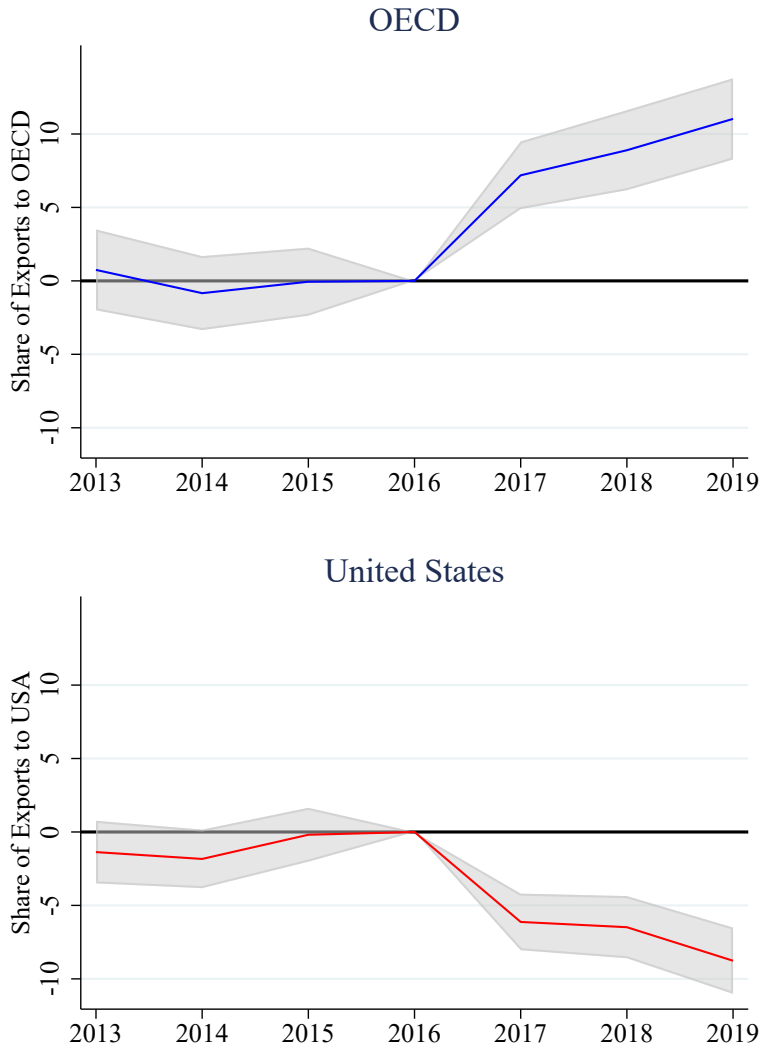


(c) Panel C



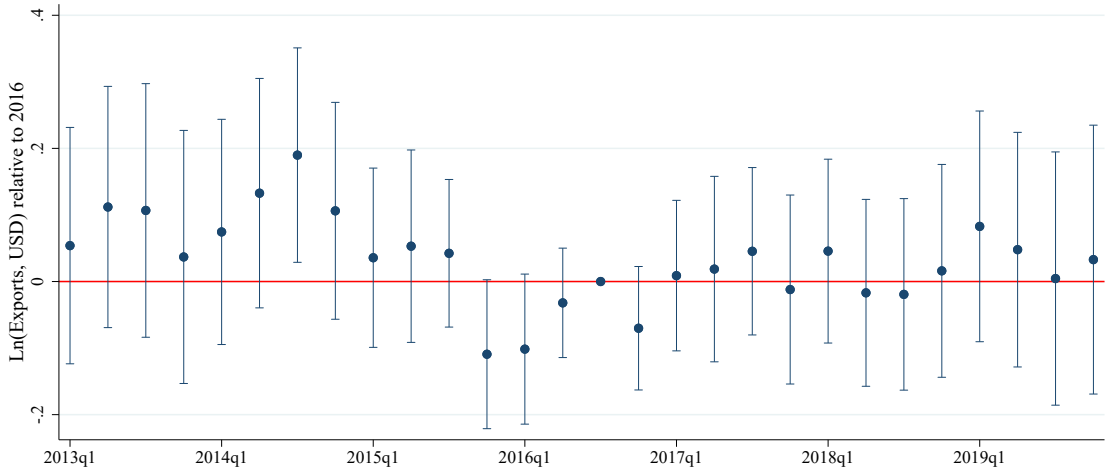
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on exports to United States estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. Exports to United States are estimated by multiplying the quarterly export by the annual share of exports to Europe at the establishment level. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016 (Panel A). For panel B and panel C, the export shares change to 40-40 and 60-60 respectively. The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.8: Robustness: Share of Exports to OECD and the U.S.



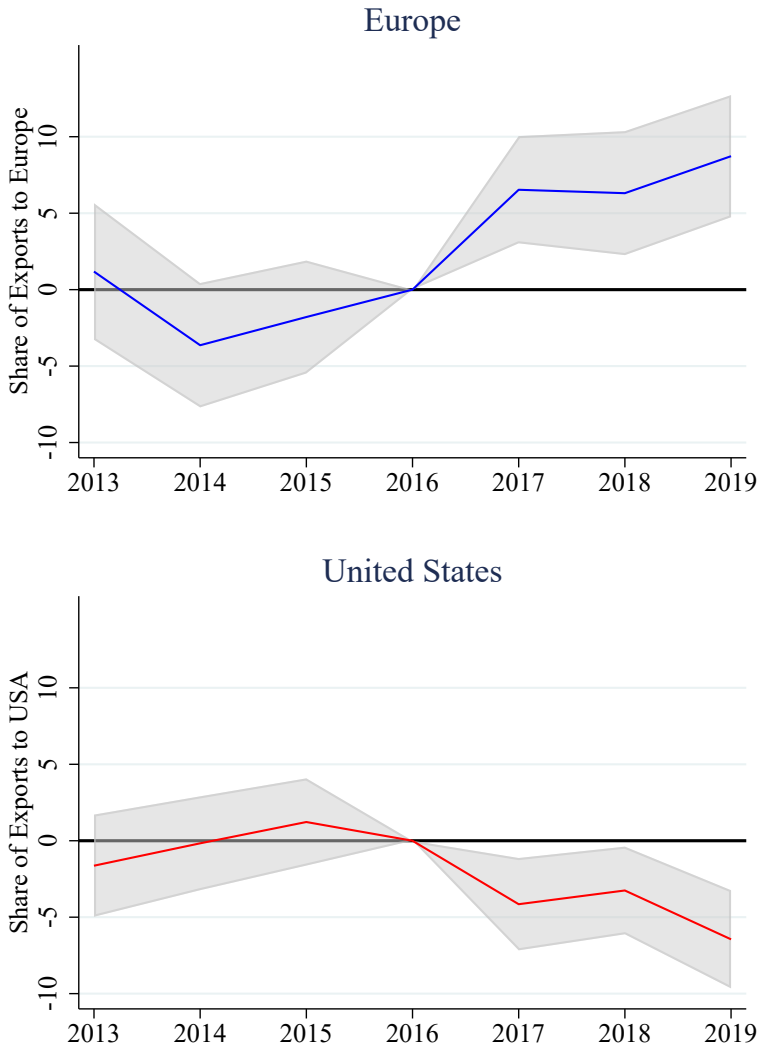
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to OECD countries (top) and to the United States (bottom) estimated using equation 1. Different from Figure 3, the control group consists of firms that exported at least half of their production to OECD countries between 2013 and 2016. The reference year (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.9: Robustness: Exports (Balanced Panel)



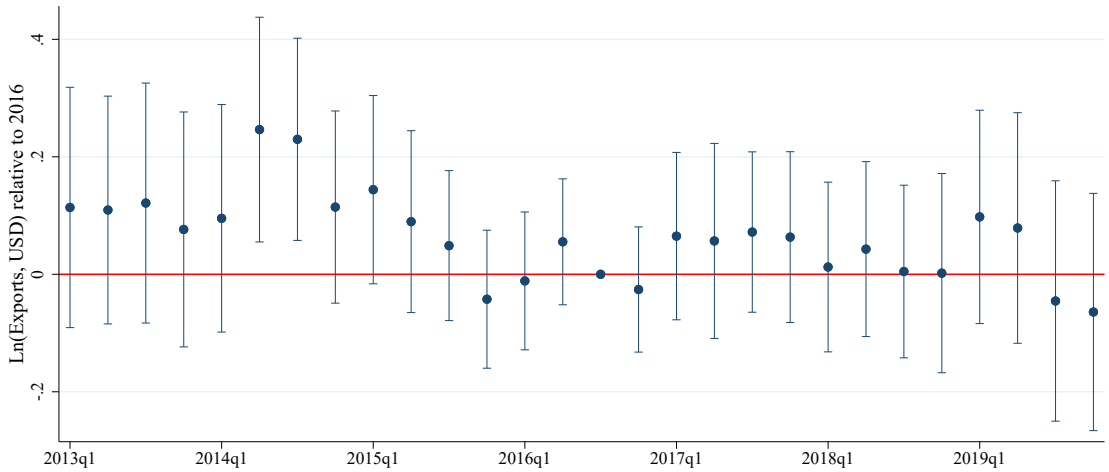
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on manufacturing exports estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The sample is restricted to establishments that remained active between 2013 and 2019 (balanced panel). The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.10: Share of Exports to Europe and the U.S. - Balanced Panel



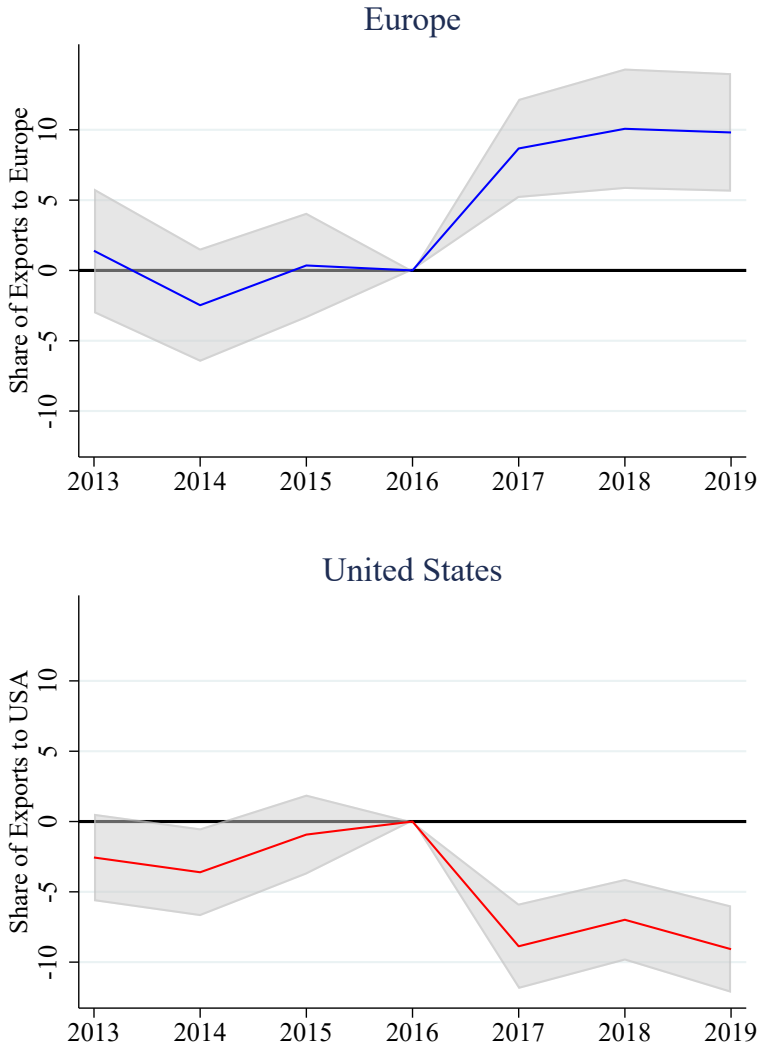
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to Europe (top) and to the United States (bottom) estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The sample is restricted to establishments that remained active between 2013 and 2019 (balanced panel). The reference year (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.11: Robustness: Exports - 60% Cutoff



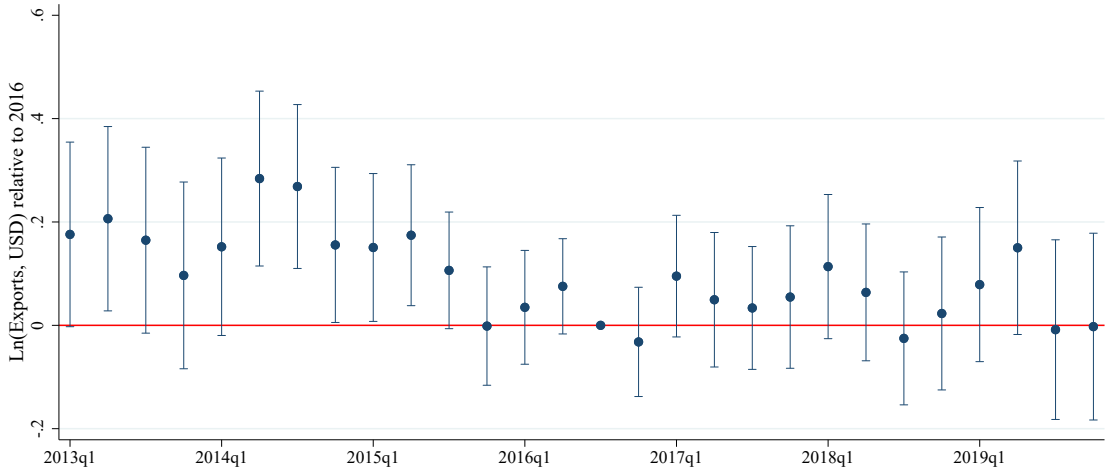
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on manufacturing exports estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 60% of their exports going to the United States and a 0 for those with more than 60% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.12: Robustness: Share of Exports to Europe and the U.S. - 60% Cutoff



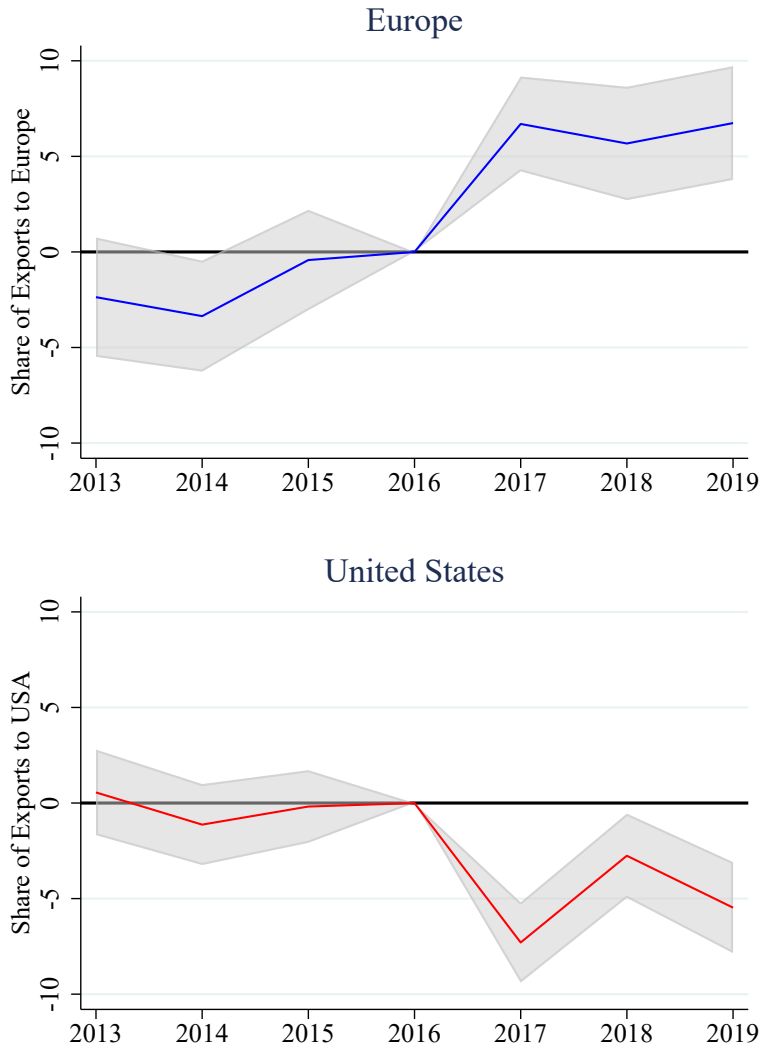
Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to Europe (top) and to the United States (bottom) estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 60% of their exports going to the United States and a 0 for those with more than 60% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.13: Robustness: Exports - 40% Cutoff



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on manufacturing exports estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 40% of their exports going to the United States and a 0 for those with more than 40% of their exports going to Europe between 2013 and 2016. Establishments that destined more than 40% of their exports to Europe and to the United States are not included. The reference period (omitted) is Q3-2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

Figure A.14: Robustness: Share of Exports to Europe and the U.S. - 40% Cutoff



Note: The figure presents the estimated effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to Europe (top) and to the United States (bottom) estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 40% of their exports going to the United States and a 0 for those with more than 40% of their exports going to Europe between 2013 and 2016. Establishments that destined more than 40% of their exports to Europe and to the United States are not included. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

B Tables

Table A.1: Share of Exports to the United States and Europe Descriptive Statistics

	U.S.-oriented		Europe-oriented	
	U.S.	Europe	U.S.	Europe
Mean	76.83	8.11	16.77	64.19
Median	80.98	3.01	6.16	69.41
p25	64.01	0.17	0.08	46.83
p75	94.53	10.64	24.46	90.87
N	20,792		2,974	

Note: The table presents descriptive statistics for the share of exports destined to the U.S. and to Europe for U.S.-oriented and Europe-oriented establishments. U.S.-oriented establishments have more than 50% of their exports going to the United States and Europe-oriented ones have more than 50% of their exports going to Europe between 2013 and 2016.

Table A.2: Exports to the U.S. and Europe

Dep. Variable:	Exports to Europe (log, USD)				Exports to the U.S. (log, USD)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
U.S.-oriented	0.308***	0.275**	0.288**	0.250**	-0.226**	-0.283**	-0.225*	-0.281**
x Post	(0.119)	(0.123)	(0.122)	(0.127)	(0.113)	(0.119)	(0.116)	(0.124)
Sample	Not Balanced		Balanced		Not Balanced		Balanced	
Firm FE	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y		Y		Y		Y	
Year x Sector FE		Y		Y		Y		Y
Observations	105,512	105,512	94,584	94,584	105,512	105,512	94,584	94,584

Note: The table presents the estimates of the effect of the increase in TPU originating from the 2016 presidential election upset on exports to Europe and the United States estimated using equation 1 at the establishment-quarter level. The outcome is log exports to Europe in columns 1 to 4 and log exports to the United States in columns 5 to 8. Odd-numbered columns include establishment and year fixed effect, while even-numbered columns include establishment and year × sector fixed effect. Standard errors are clustered at the establishment level.

Table A.3: Capital

Dependent Variable:	Total fixed assets	Machinery and equipment	Office equipment	Computer equipment	Transport equipment	Real estate
	(1)	(2)	(3)	(4)	(5)	(6)
U.S.-oriented	-0.0006	0.0155	0.0885**	0.0686*	0.1027	-0.0664
x Post	(0.042)	(0.045)	(0.042)	(0.040)	(0.065)	(0.076)
Source	EAIM	EAIM	EAIM	EAIM	EAIM	EAIM
Firm FE	Y	Y	Y	Y	Y	Y
Year x Sector FE	Y	Y	Y	Y	Y	Y
Observations	23,723	23,723	23,721	23,720	23,720	23,722

Note: The table presents the estimates of the effect of the increase in TPU originating from the 2016 presidential election upset on measures of capital based on the following equation $Y_{it} = \delta_t \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level.

Table A.4: Share of Exports to the U.S. and Europe - by Subindustry

	Dependent Variable: Share of Exports											
Subindustry	Plastics & Rubber		Beverages & Tobacco		Metal Products		Nonmetallic Mineral Products		Machinery & Equipment		Paper	
Region	U.S.	Europe	U.S.	Europe	U.S.	Europe	U.S.	Europe	U.S.	Europe	U.S.	Europe
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
U.S.-oriented	-6.04*	9.01**	-5.63	7.08**	-2.06	-4.13	-4.22	7.61**	-3.99	4.14	-4.89	2.33
x Post	(3.17)	(3.82)	(3.51)	(3.10)	(5.69)	(5.05)	(2.91)	(2.99)	(3.45)	(5.51)	(4.56)	(4.73)
Mean Dep.	53.2	15.6	59.9	26.1	55.0	12.9	52.8	26.5	53.6	14.0	62.7	18.6
Observations	2,658	2,658	759	759	1,543	1,543	1,922	1,922	1,125	1,125	1,164	1,164

Note: The table presents the estimates of the effect of the increase in TPU originating from the 2016 presidential election upset on the share of exports to the United States and to Europe based on the following equation $Y_{it} = \delta_t \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable U.S.-oriented$_i$ takes a value of 1 for establishments with more than 50% of their exports going to the United States and a 0 for those with more than 50% of their exports going to Europe between 2013 and 2016. The reference period (omitted) is 2016. Standard errors are clustered at the establishment level.