# Trade Policy Threats and the Reallocation of Export Destinations

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**Abstract**

How do exporting firms respond to the threat of trade restrictions? We study manufacturing firms in Mexico after the unexpected outcome of the 2016 U.S. presidential election, which cast doubt on the future of the North American Free Trade Agreement. At the firm-destination level, exports to the United States decline relative to other destinations, and more so among firms most exposed to the U.S. market beforehand. The evidence points to reallocation rather than contraction: compared with firms that mainly served Europe before the election, U.S.-oriented firms show no statistically significant change in total exports, production, capital, or exit, while cutting exports to the United States by 25% and raising exports to Europe by 32%.

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# 1 Introduction

Firms often respond to potential adverse shocks before they materialize (e.g., Goolsbee and Syverson, 2008; Ellison and Ellison, 2011; Bao and Chen, 2018). For exporters, such shocks are on the rise because restricting trade has become a routine instrument of policy, as Brexit, tariff announcements, and the renegotiation of trade agreements illustrate (Handley and Limão, 2022; Graziano et al., 2021). Because firms can respond before restrictions take effect, these threats can reshape trade even if they never materialize. We study how exporters respond to a threat to worsen their terms of access to one destination, and whether they shift sales toward others.

Identifying and estimating this causal response is difficult. A threat rarely arrives on a specific date; it builds through campaigns and negotiations, and exports move with the perceived probability of a restriction (Graziano et al., 2021), limiting identification based on the timing of a shock. Many threats are carried out, as Brexit was, and once the restriction takes effect, the response to the threat can no longer be distinguished from the response to the policy. Additionally, a threat originating in the exporters' own country moves with domestic political and economic conditions. Finally, detecting a firm-level reallocation across destinations requires rich micro-data.

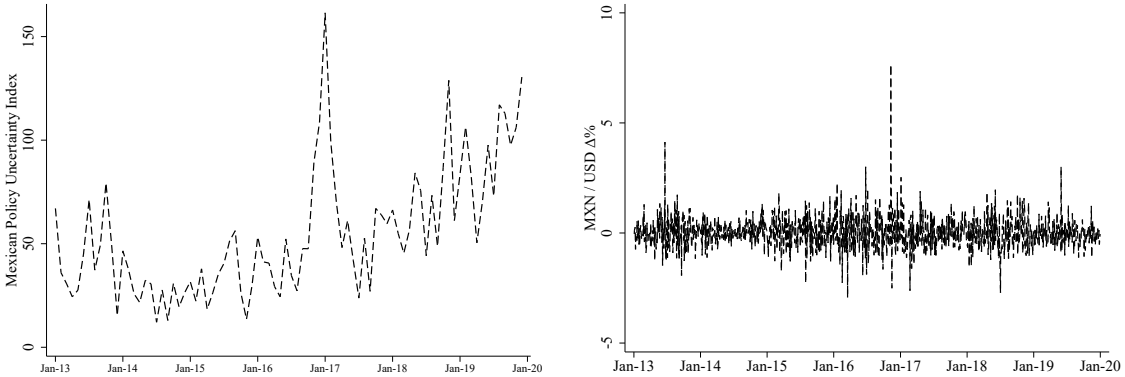
We overcome these difficulties by studying the threat to the North American Free Trade Agreement (NAFTA) following the 2016 U.S. presidential election. The election outcome sharply raised the probability that NAFTA would be renegotiated on worse terms for Mexico or terminated. NAFTA, one of the world's largest trade blocs, had remained largely unchanged for two decades. During the 2016 U.S. presidential campaign, the Republican candidate called the trade relationship with Mexico exploitative of U.S. interests and repeatedly threatened to renegotiate the agreement or withdraw from it. However, these threats carried little weight because the candidate was unlikely to win.

The election outcome was a surprise. Pollsters had confidently predicted the opposite result, so the threat became credible overnight instead of building over the

campaign, giving it a clear arrival date. The day after his election, the peso recorded its largest one-day depreciation between 2013 and 2019, and the Mexican Economic Policy Uncertainty index (Baker et al., 2016) rose from November 2016 to a January 2017 peak (Figure 1).

**Figure 1: Uncertainty, the Peso, and the 2016 Election Outcome**

**(a)** Economic Policy Uncertainty Index **(b)** Daily Change in the MXN/USD Rate




Sources: Economic Policy Uncertainty Index (Panel a) and Bank of Mexico (Panel b).
Note: Panel (a) plots the Mexican Economic Policy Uncertainty Index, which the Economic Policy Uncertainty project constructs from the frequency of newspaper articles containing terms related to economic uncertainty, policy, and Mexico; it captures uncertainty arising from fiscal, monetary, trade, and regulatory policy. Panel (b) plots the daily percentage change in the MXN/USD (FIX) exchange rate, which the Bank of Mexico publishes at 12:00 p.m. each business day as the average of wholesale foreign exchange quotes from representative electronic trading platforms.

Despite the threats, trade policy itself changed little. During the transition from NAFTA to the U.S.-Mexico-Canada Agreement (USMCA), terms for most manufacturing industries remained the same.[1] Therefore, firms responded to the threat rather than an enacted restriction. And because the threat originated in U.S. politics, its timing and content were not driven by conditions in Mexico.

To estimate reallocation in destination at the firm level, we access confidential microdata from the Mexican National Institute of Statistics and Geography (INEGI), combining three sources: the *Profile of Exporting Manufacturing Firms* (PEME), which reports at the firm level annual export values by destination and accounts for about 84% of the value of Mexico's trade in manufactured goods; the *Monthly Survey of the Manufacturing Industry* (EMIM), which covers firm-level production

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

and exports for over 80% of the output of each manufacturing subsector; and the *Annual Manufacturing Survey* (EAIM), which also covers over 80% of the output of each manufacturing subsector and includes additional variables, such as those related to capital stock.

We first ask whether the threat changed the destination of exports of manufacturing firms in Mexico. Using a firm-destination-year panel, we compare each firm's exports to the United States with its exports to other destinations. U.S.-bound exports fall relative to the rest of the firm's portfolio, and more so among firms most exposed to the U.S. market before the election.

This result shows that U.S.-bound exports fell, but not why: firms may have redirected shipments or simply lost U.S. business. Distinguishing the two requires firm-level outcomes, which the firm-destination panel cannot provide. We therefore estimate a firm-level difference-in-differences comparing firms that exported mainly to the United States before the election (U.S.-oriented) with those that exported mainly to Europe (Europe-oriented). The design absorbs shocks common to all Mexican exporters, such as fiscal policy, electoral cycles, and the Mexican peso (MXN) exchange rate. Moreover, Europe-oriented exporters were likely selling goods in markets with income levels and product standards close to those of the United States.

We find no statistically significant change in total exports or production. Combined with the decline in U.S.-bound shipments, this is consistent with export redirection. Firm-level estimates support this: U.S.-oriented firms cut exports to the United States by 25% and raised exports to Europe by 32%, shifting 5.9 percentage points (11%) of their export share away from the United States and 8.4 percentage points (54%) toward Europe. The same pattern appears in nine of the ten manufacturing subindustries we can estimate separately. We also find no statistically significant effect on exit or on capital, measured as total fixed assets.

These results are robust to using OECD-oriented firms (excluding the U.S., Canada, and Mexico) as the comparison group, instead of Europe, varying the

threshold that defines U.S.- and Europe-oriented firms, restricting the sample to a balanced panel, and controlling for destination-specific exchange rates.

How far exporters can shift sales away from the United States depends on how readily one destination can substitute for another. Trade policy may shape this substitutability, although exporters can also reach other markets under most-favored-nation (MFN) tariffs without a preferential agreement. Mexico has one of the most extensive networks of free trade agreements, which may have made it easier for its exporters to send goods elsewhere; however, its agreement with the U.S. and Canada is by far the most important.[2]

This paper contributes to four strands of literature. The first studies how firms respond to adverse shocks that have not yet materialized. Incumbent airlines cut fares on routes that a low-cost rival is poised to enter (Goolsbee and Syverson, 2008), and pharmaceutical incumbents change their advertising and product offerings before their patents expire (Ellison and Ellison, 2011). Bao and Chen (2018) show that domestic producers facing the threat of foreign multinational entry raise productivity, innovate, and alter their product mix well before any entry occurs. We study a threat of less favorable terms of trade to an export market, allowing us to study whether exporters redirect in response to the threat .

The second strand studies how firms allocate sales across destinations and how they reallocate them when conditions in one market change. Most exporters serve few destinations and enter markets in a common order (Eaton et al., 2011), favoring destinations similar to those they already serve (Morales et al., 2019). Firms also shift sales across markets when one of them weakens. Spanish firms facing a collapse in domestic demand during the Great Recession expanded their exports (Almunia et al., 2021), and U.S. antidumping duties on Japanese products raised Japanese exports of the same products to third markets (Bown and Crowley, 2007).

More recently, the 2018 U.S.–China tariffs reallocated trade toward other countries (Fajgelbaum et al., 2024). In this work, reallocation follows a realized shock,

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

such as an enacted tariff or a fall in demand. We show that the same margin responds to a threat as well, before any restriction takes effect and with the terms of access largely unchanged. Redirected sales go mainly to Europe and developed countries, the markets closest to the United States in income and product standards, consistent with the role of destination similarity highlighted in this literature.

The third strand is the literature on trade policy uncertainty (TPU). In the standard option-value framework, uncertainty raises the value of waiting, so firms facing a credible threat should trade less and delay irreversible decisions such as investment, hiring, and market entry (Handley and Limão, 2022). Handley and Limão (2022) classify TPU measures into two groups: indices built from textual analysis of uncertainty-related terms, and event-based approaches that identify moments that change the probabilities of different policy states and proxy those states with focal tariffs. Our design belongs to the second group: the 2016 election shifted the probability Mexican exporters assigned to losing preferential access to the U.S. market.

The Brexit literature relates to our setting. Crowley et al. (2020) find that the possible reversal of the U.K.-E.U. agreement lowered entry and raised exit among U.K. firms exporting products at greater risk of a tariff increase, and Graziano et al. (2021) estimate that the rise in Brexit probability after the referendum lowered bilateral E.U.-U.K. export values by 11 to 20%. Both settings face a difficulty emphasized by Handley and Limão (2022), which ours avoids: uncertainty precedes policy change, and the two effects are hard to separate.[3]

The fourth concerns the effects of U.S. trade policy on Mexico. Cebreros et al. (2020) estimate state-level effects of the 2016 threat on FDI and find reductions in export-oriented states, and Alam and Istiak (2020) estimate structural autoregressions in which Mexican output responds negatively to U.S. uncertainty shocks. Our contribution to this strand is firm-level and destination-specific: observing where

[3]We refer the reader to Handley and Limão (2022) for a comprehensive survey. Papers discussed there 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), and Ahmad et al. (2023).

each establishment's exports go makes the reallocation margin visible.

The most closely related work in this strand is Utar et al. (2025), who study the 2018-19 U.S.-China trade war and find that U.S. tariffs on China raised Mexican firms' exports to the United States, with adjustment driven by foreign multinationals participating in global value chains. The main difference is that while that work studies the spillover effects of a trade war on another country, we study the effect of a trade partner threatening to worsen the trade terms. Moreover, their shock and ours run in opposite directions and operate through different channels. Taken together, the two papers show Mexican exporters reallocating toward and away from the United States within a few years, each time in response to a change in the terms on which that market could be served.

Section 2 provides background on the 2016 threat and on Mexican manufacturing. Section 3 describes the data, and Section 4 the two empirical designs. Section 5 presents the results and robustness checks, and Section 6 concludes.

## 2 Background

The North American Free Trade Agreement (NAFTA) entered into force on January 1, 1994, to eliminate barriers to trade and investment, promote fair competition, and protect intellectual property rights.[4] Mexican exports to the U.S. and Canada have since risen from 11% of GDP in 1993 to 27% in 2024.[5] Although scholars have debated NAFTA's specific effects (see Hanson, 2003; Krueger, 1999), there appears to be a consensus that, on balance, it has benefited the member countries (Burfisher et al., 2001). U.S. voters' attitudes toward the agreement, however, have shifted noticeably over time (Bennett, 2004).

Until 2016, NAFTA provided its members with stable trade policy. Its terms remained unchanged from inception, and no significant effort modified them even af-

[4] See NAFTA Secretariat.

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

ter full implementation in 2008.[6] This stability ended abruptly with the unexpected outcome of the 2016 election. In the weeks before the election, pollsters confidently predicted Hillary Clinton would win.[7] The surprise is also visible in the exchange rate: the MXN/USD (FIX) rate rose by about 7.6% from election day to the next day, the largest one-day change between 2013 and 2019 (Figure 1b).[8]

The election raised trade policy uncertainty in the region and lowered Mexican exporters' expected profits in the U.S. market, because the incoming administration had campaigned on renegotiating or terminating NAFTA. It argued that the U.S. was "losing" to Mexico and Canada under the existing deal and said it would terminate the agreement if renegotiation proved impossible.[9] The outcome therefore raised uncertainty and worsened expectations in the Mexican economy, especially among firms trading with the U.S.[10]

The available data support this account. The Economic Policy Uncertainty Index for Mexico began rising in November 2016, peaked in January 2017, and returned to its pre-election level in April 2017, when the U.S. administration confirmed that it would renegotiate NAFTA rather than withdraw from it (Figure 1a). Public attention to the agreement rose as well: U.S. Google searches for NAFTA peaked in November 2016, the month of the election, at about 245% above their February 2016 level (Figure A.1).

The threat extended beyond the possible termination of NAFTA to both tariff and non-tariff issues. First, the size of any tariff increase was unknown. In an optimistic scenario, the average tariff would rise from zero to around 3.2%, the average U.S. tariff on countries with MFN status.[11] It was unclear, however, whether

[6] The first major update to the trade agreement among the three North American countries would have been the Trans-Pacific Partnership (TPP) in 2016, 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] The 7.6% is the largest daily percentage change plotted in Figure 1b, computed as $100 \times (\text{FIX}_t/\text{FIX}_{t-1} - 1)$ for the day after the election. Intraday, the peso fell by more than 12%; 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] Several economic analysts made this point in the months after the 2016 U.S. presidential election; see, for example, the minutes of the Bank of Mexico (Bank of Mexico, 2016).

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

the administration would follow World Trade Organization (WTO) rules; on several occasions, it raised the possibility of a 35% border tax. Second, non-tariff risks included changes to NAFTA's rules of origin, new U.S. regulations on Mexican goods, and demands for legal reforms in Mexico. New rules of origin could require Mexican exporters to reconfigure their production and supply chains at substantial cost to comply with a renegotiated deal. New regulations could effectively block imports of Mexican goods, as periodically happens with Mexican agricultural products (e.g., sanitary inspections of Mexican tomatoes; see Singh, 2025). Finally, the U.S. could require Mexico to adopt domestic reforms that would raise costs for Mexican exporters, most notably raising the minimum wage and strengthening workers' ability to unionize.

Although the threat was severe, trade policy itself remained mostly unchanged: with few exceptions, Mexican manufacturing industries were unaffected by the NAFTA renegotiation and the transition to the U.S.-Mexico-Canada Agreement (USMCA). This separation between what was threatened and what was enacted allows us to isolate the response to the threat from the response to the policy itself.

The threat did not affect all Mexican firms equally, because many already sold elsewhere. In 2016, Mexican firms exported more than 70 billion USD outside the U.S.,[12] of which at least 18 billion were manufacturing exports to Europe, making Europe the second most important destination for Mexican exports after North America. Europe and the United States are both industrialized markets that impose similar standards on Mexican producers, which makes Europe-oriented exporters a plausible comparison group for U.S.-oriented ones.

# 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), all collected by Mexico's National Institute

[12] See World Bank (2016).

of Statistics and Geography (INEGI) and accessed through its secure microdata lab in Mexico City. The unit of observation in all three is the establishment; we use "firm" and "establishment" interchangeably.

## 3.1 PEME

The PEME accounts for, on average, 84% of Mexico's manufactured-goods trade value over 2010–2020 (INEGI, 2021). We use all establishments in the PEME between 2013 and 2019 and link them to output data from the EMIM through INEGI's unique establishment identifier. Unlike other statistical sources, the PEME reports not only each establishment's export value but also the share of those exports going to each destination country. This allows us to construct an annual establishment-level panel of both the value and the share of exports to each country.

We aggregate destinations into seven regions. Europe comprises European Union members; Turkey, which forms a customs union with it; the European Free Trade Association members (Iceland, Liechtenstein, Norway, and Switzerland); and Russia, Ukraine, Belarus, and Moldova. The Caucasus and Central Asia are assigned to Asia. Latin America comprises Central America, South America, and the Caribbean. We assign dependent territories to the region where they are located, except for U.S. territories, which we assign to the United States; the largest of these, Puerto Rico, is part of the U.S. customs territory. Exports to Antarctica, to unspecified destinations, and to Mexico itself are excluded.

## 3.2 EMIM

We use establishment-level EMIM data from 2013 to 2019. INEGI has conducted the EMIM since 1964 to collect data on the economic performance of establishments and enterprises in Mexico's manufacturing sector (North American Industry Classification System [NAICS] codes 31–33). The data are a representative sample of 8,819 economic units (INEGI, 2023b). The survey guarantees at least 80% coverage of total income within each economic activity and prioritizes the largest units by

employment and income, so in practice it is a monthly census of large producers.

The EMIM reports each establishment's six-digit NAICS code, the quantity and value of its sales and production, and the share of its sales destined for foreign markets. We construct exports by multiplying the value of production by this share. We aggregate the EMIM to the quarterly level to reduce high-frequency noise.

### 3.3 EAIM

INEGI has conducted the EAIM since 1963, tracking key indicators of Mexico's manufacturing sector. Its 2018 series uses the same sectoral classification as the EMIM (NAICS codes 31–33), and both surveys cover the same 8,819 establishments (INEGI, 2023a). The EAIM also collects annual structural variables not captured in the EMIM, such as fixed assets, inventories, and investment. We measure capital as fixed assets and link the EAIM to the PEME and EMIM through the unique establishment identifier.

### 3.4 Summary Statistics

Table 1 describes the firm-destination sample and Table 2 the firm-level sample, separately for the years before and after the election. The firm-destination sample includes every establishment covered in the PEME linked to the EMIM. The United States accounts for 54% of the average firm's exports, followed by Europe and Asia at about 15% each and Latin America at 12%; Canada, Africa, and Oceania together account for about 3%.

Table 2 contains the summary statistics for the firm-level sample, including firms that export at least 50% of their production to the U.S. or Europe. The two groups are similar in size (production), but the U.S.-oriented firms export more. Their export portfolios are close to mirror images: U.S.-oriented firms send 78% of their exports to the United States and 8% to Europe, while Europe-oriented firms send 67% to Europe and 16% to the United States.

The mean log exports are lower in EMIM than in PEME (Table 2) because a

**Table 1: Summary Statistics: Firm-Destination Level**

| | U.S. | Canada | Europe | Asia | Latin America | Africa | Oceania |
|---|---|---|---|---|---|---|---|
| *Panel A. Pre-election period (2013–2016)* | | | | | | | |
| Export share (%) | 54.23 | 2.53 | 15.50 | 15.23 | 11.96 | 0.27 | 0.29 |
| | (35.27) | (8.29) | (23.60) | (25.03) | (22.36) | (2.80) | (2.61) |
| Log exports (USD) | 11.12 | 4.85 | 8.58 | 8.41 | 6.94 | 1.54 | 1.73 |
| | (4.56) | (5.26) | (5.01) | (4.93) | (5.50) | (3.38) | (3.54) |
| Firm-years | | | | 21,562 | | | |
| *Panel B. Post-election period (2017–2019)* | | | | | | | |
| Export share (%) | 54.44 | 2.81 | 15.75 | 15.44 | 10.97 | 0.32 | 0.28 |
| | (34.20) | (9.06) | (23.21) | (24.20) | (20.86) | (3.02) | (2.69) |
| Log exports (USD) | 11.47 | 5.43 | 9.17 | 9.00 | 7.35 | 1.79 | 1.92 |
| | (4.45) | (5.34) | (4.79) | (4.80) | (5.36) | (3.60) | (3.62) |
| Firm-years | | | | 13,979 | | | |

Note: Means, with standard deviations in parentheses, for the establishment-destination-year sample used to estimate equation 1, which includes all PEME establishments linked to the EMIM regardless of export orientation. Each establishment-year contributes one observation per destination, including destinations to which it did not export, which enter with a zero share and zero log exports; the number of establishment-years is therefore the same for every destination. Export shares are in percent and sum to 100 across the seven destinations. Log exports are $\ln(x+1)$ of PEME exports to each destination, converted to USD at the annual average MXN/USD exchange rate. Panels A and B contain 150,934 and 97,853 establishment-destination-year observations, respectively. Statistics are unweighted.

substantial share of establishments report no export sales in EMIM while registering exports in PEME. This can happen for integrated firms that export but do not sell. For instance, establishments operating under maquila arrangements may report no export sales in EMIM (because they are not sales) even though they export their products and therefore report them in the PEME. The number of establishments falls in 2018 and 2019, when PEME is linked to INEGI's 2018-base manufacturing surveys, so part of the difference between panels reflects a change in sample composition rather than in firm behavior.

# 4 Empirical Strategy

We use two empirical strategies, both exploiting the unexpected outcome of the 2016 election. The first, at the firm-destination level, asks whether a firm's exports to the United States moved differently from its exports to other destinations. The second,

**Table 2: Summary Statistics: Firm Level**

| | Both groups (1) | U.S.-oriented (2) | Europe-oriented (3) |
|---|---|---|---|
| *Panel A. Pre-election period (2013–2016)* | | | |
| Log production (EMIM) | 9.34 | 9.37 | 9.14 |
| | (2.19) | (2.26) | (1.60) |
| Log exports (EMIM) | 4.70 | 5.11 | 1.96 |
| | (4.57) | (4.57) | (3.44) |
| Log exports (PEME) | 13.00 | 13.30 | 11.05 |
| | (2.99) | (2.92) | (2.73) |
| Log exports to the U.S. (PEME) | 12.18 | 12.96 | 7.04 |
| | (3.91) | (3.12) | (4.63) |
| Log exports to Europe (PEME) | 8.73 | 8.49 | 10.28 |
| | (4.95) | (5.10) | (3.44) |
| Share of exports to the U.S. (%) | 70.12 | 78.30 | 15.73 |
| | (29.33) | (19.99) | (22.84) |
| Share of exports to Europe (%) | 15.24 | 7.51 | 66.73 |
| | (25.20) | (12.16) | (28.73) |
| Observations (firm-years) | 14,379 | 12,500 | 1,879 |
| *Panel B. Post-election period (2017–2019)* | | | |
| Log production (EMIM) | 9.51 | 9.52 | 9.41 |
| | (2.33) | (2.41) | (1.65) |
| Log exports (EMIM) | 5.11 | 5.50 | 2.15 |
| | (4.65) | (4.63) | (3.66) |
| Log exports (PEME) | 13.24 | 13.51 | 11.18 |
| | (2.95) | (2.86) | (2.81) |
| Log exports to the U.S. (PEME) | 12.39 | 13.05 | 7.38 |
| | (3.85) | (3.19) | (4.65) |
| Log exports to Europe (PEME) | 9.28 | 9.17 | 10.14 |
| | (4.73) | (4.84) | (3.60) |
| Share of exports to the U.S. (%) | 68.07 | 74.61 | 18.54 |
| | (29.17) | (22.54) | (25.89) |
| Share of exports to Europe (%) | 14.94 | 9.02 | 59.83 |
| | (23.89) | (14.33) | (32.53) |
| Observations (firm-years) | 9,387 | 8,292 | 1,095 |

Note: Means, with standard deviations in parentheses, for the establishment-year sample used to estimate equation 3. Column 1 pools both groups; columns 2 and 3 report each group separately. U.S.-oriented (Europe-oriented) establishments sent more than 50% of their exports to the United States (Europe) between 2013 and 2016. Production and EMIM exports are in thousands of USD; EMIM exports are based on the share of sales each establishment reports as destined for foreign markets. PEME exports, total and by destination, are in USD and come from foreign trade administrative records linked to manufacturing establishments. Peso values are converted to USD at the monthly (EMIM) or annual average (PEME) MXN/USD exchange rate. Logs are $\ln(x+1)$.

at the firm level, asks whether firms more exposed to the United States changed their total exports, production, capital, and exports to the United States and to Europe.

## 4.1 The Firm-Destination Margin

PEME reports each establishment's exports by destination annually. Therefore, we construct a firm-destination-year panel in which each firm-year contributes seven observations: Africa, Asia, Canada, Europe, Latin America, Oceania, and the United States. Let $Y_{i,r,t}$ denote an outcome (the export share or log exports) of firm $i$ to destination $r$ in year $t$, and let $\text{US}_r$ be an indicator equal to one if the destination is the United States. We estimate

$$Y_{i,r,t} = \beta \cdot (\text{US}_r \times \text{Post}_t) + \lambda_t + \mu_{i,r} + \varepsilon_{i,r,t}, \tag{1}$$

where $\text{Post}_t$ equals one from 2017 onward, $\lambda_t$ is a year fixed effect, and $\mu_{i,r}$ is a firm-by-destination fixed effect.

We extend this specification in three ways. First, we control for destination-specific exchange-rate movements using $tc_{r,t}$, the average annual MXN rate against the currency most relevant to each destination (USD for the U.S., Canada, and Oceania; EUR for Europe; CNY for Asia; ZAR for Africa; BRL for Latin America), in levels or in logs. This addresses the concern that relative currency movements, rather than the threat, drive the differential pattern across destinations. Second, we estimate equation 1 for all firms and separately for firms whose main pre-treatment destination, defined as the destination to which they exported the most on average between 2013 and 2016, was the United States. Third, we replace $\text{US}_r$ with $\text{Europe}_r$ to test whether exports to Europe grow relative to the other regions.

## 4.2 Firm-Level Outcomes

The firm-destination level analysis cannot answer whether a firm's total exports, production, or capital changed. Therefore, we shift to firm-level estimates that compare two groups of exporters. The *U.S.-oriented* group consists of firms that sent more than 50% of their exports to the U.S. between 2013 and 2016, and the *Europe-oriented* group of firms that sent more than 50% to Europe over the same period.[13]

Our firm-level specification is

$$Y_{i,t} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{i,t}, \tag{2}$$

where $Y_{it}$ is production, exports (total or to a given destination), capital, or the share of exports to a given destination, for firm $i$ in period $t$, a quarter or a year depending on data availability. The indicator $\text{U.S.-oriented}_i$ equals one for U.S.-oriented firms and zero for Europe-oriented firms, and $\mathbf{1}\{t = \tau\}$ are period indicators relative to the reference period (2016 in annual estimations, 2016Q3 in quarterly ones). The terms $\lambda_{t,I}$ and $\mu_i$ are time-by-industry and firm fixed effects, with industries defined by 3-digit NAICS codes. The aggregated version is

$$Y_{it} = \delta \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_{t,I} + \mu_i + \varepsilon_{it}. \tag{3}$$

We exclude non-exporters because they differ systematically from exporters in employment growth, survival probability, and productivity (Bernard and Bradford Jensen, 1999). We use Europe-oriented firms as the comparison group because Europe is about as industrialized as the U.S., and firms serving industrialized markets tend to share higher total factor productivity, better management practices, and stronger reputations (Alfaro-Ureña et al., 2022). Section 5.6 shows that using OECD-oriented firms instead yields the same conclusions.

[13] Fifty percent is the lowest threshold at which membership in one group mechanically excludes membership in the other. Section 5.6 reports estimates using 40% and 60%.

## 4.3 Identification Concerns

Time fixed effects capture shocks common to all Mexican exporters, such as changes in monetary or fiscal policy, domestic reforms, or the 2018 Mexican presidential election. In the firm-destination design, the year fixed effects absorb shocks that shift a firm's exports to all destinations alike. In the firm-level design, the industry-by-time fixed effects absorb industry-specific shocks even if U.S.-oriented and Europe-oriented firms differ in industrial composition.

A shock common to Mexico can still change the relative return to selling in the United States. The main example is the exchange rate. The peso fell against both the dollar and the euro, but the MXN/USD and MXN/EUR rates then diverged as the euro strengthened against the dollar in 2017, so firms selling mainly to the United States and firms selling mainly to Europe faced different currency movements. We therefore control for the exchange rate relevant to each destination in the firm-destination design and for the rate of each group's main destination in the firm-level design, and the estimates are similar (Section 5.6).

Firm fixed effects in the firm-level design absorb permanent differences between firms, including size, productivity, and the destination mix that defines their orientation. Firm-by-destination fixed effects in the firm-destination design absorb each firm's export levels to each market, and permanent differences between the United States and other destinations, such as distance or market size.

We could still have a concern for bias if, for example, a shift in U.S. demand for Mexican goods leaves demand elsewhere unchanged. For instance, anti-Mexico rhetoric during the campaign could have depressed U.S.-bound exports without any decision by the firm. We find no evidence of such a shift in the academic or media record, and Mexican beer is a notable counterexample. It gained U.S. market share throughout this period, and by 2023 Modelo had become the best-selling beer in the United States.[14]

Studies of trade agreement renegotiations risk attributing the effects of actual

[14] See How a Mexican Lager Quietly Rose to Become America's Best-Selling Beer.

policy changes to the threat, as the Brexit literature illustrates.[15] The terms of NAFTA did not change for most manufacturing industries during our sample period, and USMCA entered into force in July 2020, after the sample ends.

Three policy changes do fall inside the window. The U.S. tariffs on Mexican steel and aluminum, in place from June 2018 to May 2019 and met with Mexican retaliation, bear most directly on the Basic Metals subindustry. The new automotive rules of origin, agreed in late 2018, may have affected auto producers' decisions in the last year of the sample. When we estimate the effects separately by subindustry, however, the shift from the United States toward Europe appears in seven of the eight subindustries other than Basic Metals and Transportation Equipment (Tables 8 and A.7), so the pattern is not specific to the industries most exposed to these two episodes.

Finally, U.S. tariffs on Chinese goods in 2018 raised Mexican exports to the United States (Utar et al., 2025), which runs counter to our finding of a decline in U.S.-bound exports.

# 5 Results

## 5.1 Destination-Level Estimates

Table 3 reports estimates of equation 1 at the establishment-destination-year level. The outcome is the log of a firm's exports to a destination, in USD (columns 1-2) or MXN (columns 3-4), or its export share to that destination (columns 5-6). Even-numbered columns add the destination-specific exchange-rate control.

After the threat, U.S.-bound exports declined relative to a firm's other destinations by about 25% in USD and 21% in MXN (columns 1 and 3), and by 1.3 percentage points as a share of total exports (column 5). Controlling for the destination-specific exchange rate yields similar estimates (columns 2, 4, and 6).

If this decline reflects the threat to the U.S.-Mexico relationship, it should be

[15] See Handley and Limão (2022) for a discussion and examples.

**Table 3: Export Share and Exports to the United States: Firm-Destination-Level Estimates**

| Dependent Variable: | Total exports (USD, log) | | Total exports (log) | | Export share | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| USA x Post | -0.287*** | -0.245*** | -0.237*** | -0.194*** | -1.311*** | -1.210*** |
| | (0.023) | (0.024) | (0.029) | (0.030) | (0.263) | (0.256) |
| Source | PEME | | PEME | | PEME | |
| FX control | | Y | | Y | | Y |
| Year FE | Y | Y | Y | Y | Y | Y |
| Firm x Dest FE | Y | Y | Y | Y | Y | Y |
| Observations | 248,787 | 248,787 | 248,787 | 248,787 | 248,787 | 248,787 |

Note: Estimates of equation 1 for the export share and the log of exports to the United States, relative to a firm's other destinations, at the establishment-destination-year level. The outcome is the log of exports in USD (columns 1-2), the log of exports in MXN (columns 3-4), and the export share in percent (columns 5-6). All columns include year and firm-by-destination fixed effects. Even-numbered columns additionally control for the MXN exchange rate against the currency most relevant to each destination. Standard errors are clustered at the establishment level.

steeper among firms more exposed to that relationship beforehand. Table 4 re-estimates equation 1 separately by pre-treatment orientation, defined as the destination to which a firm exported most on average between 2013 and 2016.

**Table 4: Export Share and Exports to the United States by Pre-Period Export Orientation**

| Dependent Variable: | Total exports (USD, log) | | Total exports (log) | | Export share | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| USA x Post | -0.287*** | -0.340*** | -0.237*** | -0.276*** | -1.311*** | -3.020*** |
| | (0.023) | (0.023) | (0.029) | (0.029) | (0.263) | (0.311) |
| Source | PEME | | PEME | | PEME | |
| Orientation pre | All | USA | All | USA | All | USA |
| Year FE | Y | Y | Y | Y | Y | Y |
| Firm x Dest FE | Y | Y | Y | Y | Y | Y |
| Observations | 248,787 | 166,509 | 248,787 | 166,509 | 248,787 | 166,509 |

Note: Estimates of equation 1 for the export share and the log of exports to the United States, relative to a firm's other destinations, at the establishment-destination-year level, with the sample restricted by each firm's pre-treatment (2013-2016) export orientation. The outcome is the log of exports in USD (columns 1-2), the log of exports in MXN (columns 3-4), and the export share in percent (columns 5-6). "All" includes all establishments; "USA" restricts the sample to establishments whose main pre-treatment export destination was the United States. All columns include year and firm-by-destination fixed effects. Standard errors are clustered at the establishment level.

The decline is larger for firms whose main destination before 2016 was the United States: their exports to the United States fall by about 29% in USD and 24% in MXN, compared with 25% and 21% for all firms, and their export share to the

United States falls by 3.0 percentage points, compared with 1.3 points for all firms.

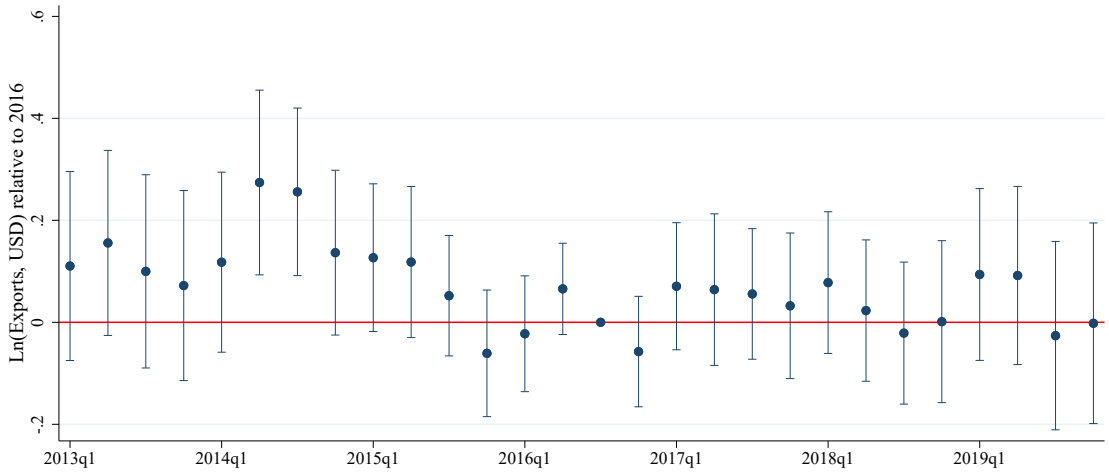
Table A.5 re-estimates equation 1 replacing $\text{US}_r$ with $\text{Europe}_r$. The export share to Europe rises significantly (columns 3-4: 0.415 and 0.616), mirroring the U.S. decline. The effect on exports to Europe is significant only with the exchange-rate control (column 8: 10%; column 7: 4%). These estimates are consistent with a compositional shift.

## 5.2 Firm-Level Estimates

The destination-level estimates show that U.S.-bound exports fell, but not why. Firms may have redirected shipments away from the United States, or they may have lost U.S. business and shrunk. Both explanations produce the same destination-level pattern, and only firm-level outcomes can separate them. We therefore estimate equations 2 and 3, comparing U.S.-oriented with Europe-oriented firms.

We find no statistically significant evidence that firms shrank. Figure 2 reports estimates of equation 2 for the log value of exports. The coefficients are statistically indistinguishable from zero throughout the post-election period, as are the pre-election coefficients except in the second and third quarters of 2014.

**Figure 2: Effect of the Trade Policy Threat on Manufacturing Exports**




Note: Estimates of equation 2 for manufacturing exports. 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.

The aggregated specification in Table 5 displays consistent evidence. Neither

**Table 5: Exports and Production**

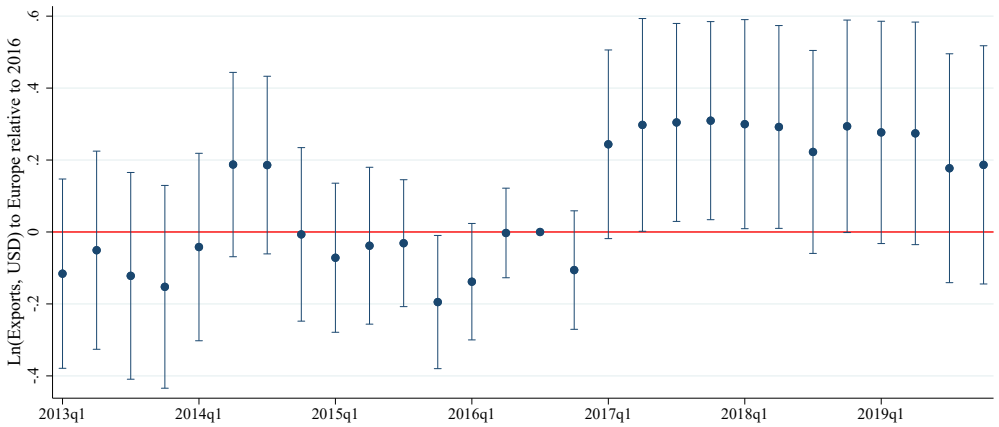
| Dependent | Total production (log) | | | | Total exports (log) | | | | Total exports (log) | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Variable: | USD | | MXN | | USD | | MXN | | USD | | MXN | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| U.S.-oriented | 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: Estimates of equation 3 for exports and production at the establishment-year level. The outcome is the log of total production (columns 1 to 4), the log of total exports from EMIM (columns 5 to 8), and the log of total exports from PEME (columns 9 to 12). Within each outcome, the first two columns measure values in USD and the last two in MXN. Odd-numbered columns include establishment and year fixed effects; even-numbered columns include establishment and year × sector fixed effects. Standard errors are clustered at the establishment level.

total production nor total exports shows a statistically significant response to the threat, whether exports are measured in the PEME or the EMIM, in USD or MXN, and with year or year-by-sector fixed effects.

## 5.3 Exports Shifted from the United States to Europe

**Figure 3: Exports to Europe**

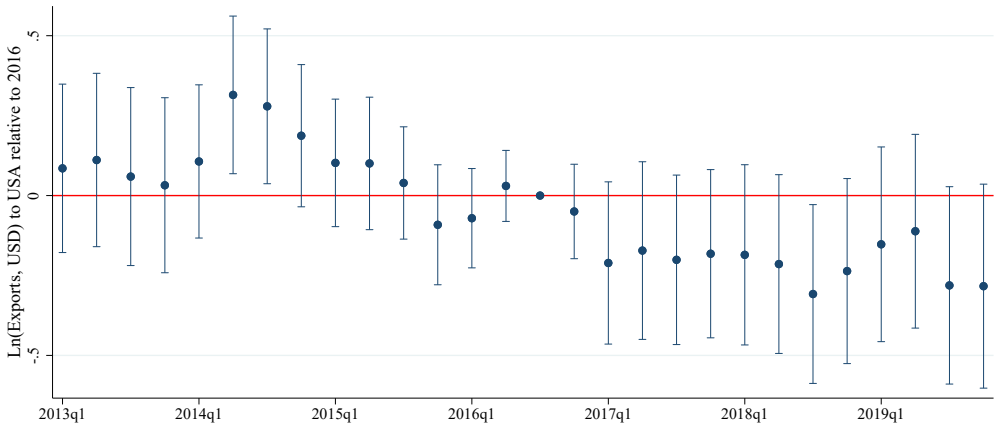



Note: Estimates of equation 2 for the log value of exports to Europe. Exports to Europe are constructed by multiplying each establishment's monthly exports by its share of exports to Europe, linearly interpolated month by month between consecutive annual PEME shares (the January value equals that year's share), and summing over the quarter. 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.4 reports the same estimates under 40% and 60% orientation thresholds.

Falling U.S.-bound exports, together with totals that show no statistically sig-

nificant change, suggest that exports went elsewhere; most went to Europe. Figures 3 and 4 report the estimates of equation 2 for the log value of exports to each destination. Exports to the United States decline after the election while exports to Europe rise; before the election, the coefficients are statistically indistinguishable from zero except in the second and third quarters of 2014 for the United States and the fourth quarter of 2015 for Europe.

**Figure 4: Exports to the United States**




Note: Estimates of equation 2 for the log value of exports to the United States. Exports to the United States are constructed by multiplying each establishment's monthly exports by its share of exports to the United States, linearly interpolating month by month between consecutive annual PEME shares (the January value equals that year's share), and summing over the quarter. 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 reports the same estimates under 40% and 60% orientation thresholds.

Table 6 reports the pooled post-period effect from equation 3. With quarter-by-sector fixed effects, exports to the United States fall by 25% and exports to Europe rise by 32%. The estimates are significant at the 5% level in seven of the eight columns and at the 10% level in the eighth, and they are stable across fixed-effect structures and in the balanced panel.

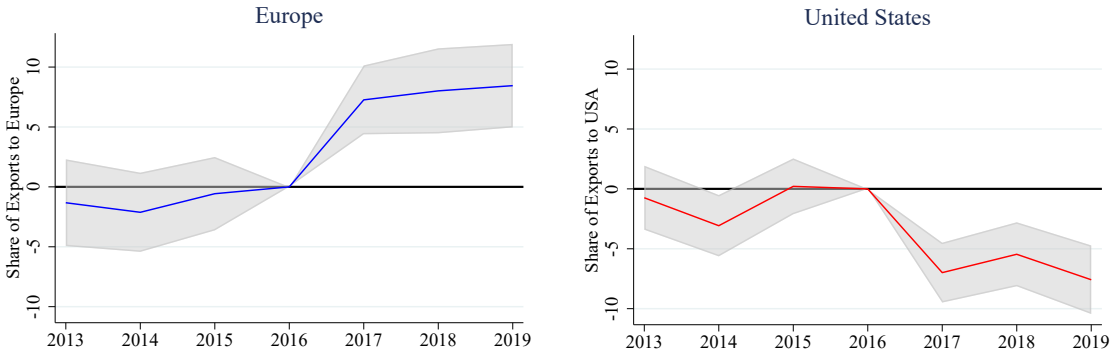
The same reallocation appears in each firm's export portfolio composition. Figure 5 shows the effect on export shares to each destination: by 2019, the share going to Europe is 8.4 percentage points higher, and the share going to the United States is 7.6 percentage points lower. Pooling the post-election years, we find that U.S.-oriented firms cut their export share to the United States by 5.9 percentage points (11%) and raised their share to Europe by 8.4 points (54%) (Table 8, columns 1 and

## Table 6: Exports to the U.S. and Europe

| Dep. Variable: | Exports to the U.S. (log, USD) | | | | Exports to Europe (log, USD) | | | |
|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| U.S.-oriented | -0.226** | -0.283** | -0.225* | -0.281** | 0.308*** | 0.275** | 0.288** | 0.250** |
| x Post | (0.113) | (0.119) | (0.116) | (0.124) | (0.119) | (0.123) | (0.122) | (0.127) |
| 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: Estimates of equation 3 for exports to the United States and Europe at the establishment-quarter level. The outcome is log exports to the United States in columns 1 to 4 and log exports to Europe in columns 5 to 8. Odd-numbered columns include establishment and quarter fixed effects; even-numbered columns include establishment and quarter × sector fixed effects. The rows labeled "Year FE" and "Year x Sector FE" refer to quarter and quarter × sector fixed effects. Columns 1, 2, 5, and 6 use the unbalanced panel; columns 3, 4, 7, and 8 restrict the sample to establishments active throughout 2013-2019. Standard errors are clustered at the establishment level.

## Figure 5: Share of Exports to Europe and the U.S.




Note: Estimates of equation 2 for the share of exports to Europe (left) and to the United States (right). The reference year (omitted) is 2016. Standard errors are clustered at the establishment level, and all estimates are displayed with 95% confidence intervals.

2).[16]

Exports to each destination are constructed from total exports and the destination share; therefore, the level and share results share underlying variation and are not independent evidence.

This reallocation is consistent with a diversification response to destination-specific risk. In Esposito (2022), risk-averse managers exploit spatial correlation of demand across countries to lower the variance. In our setting, the relevant cor-

[16]Percentages are computed relative to the mean of the dependent variable reported in Table 8: 5.94/54.5 = 10.9% for the United States and 8.43/15.6 = 54.0% for Europe.

relation is one of quality or taste rather than geography: high-income countries demand goods of similar type, so Europe is the closest available substitute for the U.S. market. Firms facing a threat concentrated in one high-income destination should therefore shift toward the other, as we observe.

Firms responded to a threat rather than to a realized cost: NAFTA's terms did not change over the period, so the reallocation cannot reflect a change in the cost of serving the U.S. market. The threat, however, lowered expected profits from serving that market, since the most plausible outcome of a renegotiation or withdrawal left Mexican exporters no better off than under NAFTA.

**Table 7: Export Concentration**

| Dependent Variable: | Export concentration (HHI) | | | |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| U.S.-oriented | -122.2* | -127.8* | -104.9 | -114.9* |
| x Post | (67.0) | (66.3) | (69.4) | (68.7) |
| Source | PEME | | | |
| Mean Dep. (pre-period) | 6,594 | 6,594 | 6,594 | 6,594 |
| FX control | | Y | | Y |
| Firm FE | Y | Y | Y | Y |
| Year FE | Y | Y | | |
| Year x Sector FE | | | Y | Y |
| Observations | 23,766 | | | |

Note: Estimates of equation 3 for the concentration of each establishment's exports across destinations at the establishment-year level. The outcome is a Herfindahl-Hirschman index, the sum of the squared shares (in percent) of an establishment's PEME exports going to each of the seven destinations; it ranges from 0 to 10,000, with lower values indicating exports spread across more destinations. Mean Dep. reports the mean of the outcome in the pre-election period (2013-2016). Columns 1 and 2 include establishment and year fixed effects; columns 3 and 4 include establishment and year × sector fixed effects. Even-numbered columns additionally control for the MXN exchange rate corresponding to each firm's dominant export destination (the MXN/USD rate for U.S.-oriented firms and the MXN/EUR rate for Europe-oriented firms). Standard errors are clustered at the establishment level.

The reallocation is suggestive of a diversification response. Table 7 shows that export-destination concentration decreases, but the effects are small and statistically significant only at the 10% level and for 3 of the 4 columns. Relative to Europe-

oriented firms, the index for U.S.-oriented firms declines by 105 to 128 points after the threat, or 1.6% to 1.9% of its pre-election mean.

## 5.4 Within Subindustry Effects

The reallocation is not driven by one or two large sectors. When we estimate equation 3 separately for the ten manufacturing subindustries with at least 700 observations, nine show the same pattern: the export share to the United States falls, and the share to Europe rises.[17] Splitting the sample reduces power, so several estimates are individually insignificant even where the sign pattern is consistent. Table 8 reports Transportation Equipment, Food, Chemicals, and Basic Metals; Table A.7 in the Online Appendix reports Plastics and Rubber, Beverages and Tobacco, Metal Products, Nonmetallic Mineral Products, Machinery and Equipment, and Paper.

**Table 8: 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: Estimates of equation 3 for the share of exports to the United States and to Europe. Columns 1 and 2 ("All") pool all manufacturing subindustries; the remaining columns estimate the equation separately by subindustry, where "Equipment" refers to Transportation Equipment. $\text{Post}_t$ equals one from 2017 onward. All columns include establishment and year fixed effects; in the subindustry columns, these are equivalent to year × subindustry fixed effects. Standard errors are clustered at the establishment level.

## 5.5 No Significant Effect on Exit or Capital

Had firms instead held back, the response would most likely appear in decisions that are costly to reverse. We find no statistically significant evidence of such a response. Figure A.2 shows that U.S.-oriented firms were not significantly more likely than

[17] The exception is Metal Products, where both shares decline, though neither decline is statistically significant.

Europe-oriented firms to exit after the threat. Figure A.3 shows no statistically significant effect on total fixed assets, and Table A.6 finds none on machinery and equipment, transport equipment, or real estate.[18]

The option-value framework predicts that a threat should operate on this margin (Handley and Limão, 2022), yet we find no statistically significant response on it. These estimates do not so much refute the framework as fall outside it: investment tied to serving the United States may well have fallen while investment tied to serving Europe rose, since producing varieties suited to a new market itself requires outlays. Our capital measures capture only the sum of the two, which shows no statistically significant change.

## 5.6 Robustness

Our firm-level design uses Europe-oriented exporters as the comparison group because they are also high-income countries, but Europe is not the only possible high-income comparison region. Figure A.6 instead uses firms that send more than half of their exports to OECD countries other than the U.S., Canada, and Mexico, and reaches the same conclusion: U.S.-oriented firms cut their export share to the United States and shifted it toward the comparison region.

The results also do not rely on the 50% threshold that defines the two groups either. Figure A.9 re-estimates the effect on total exports at thresholds of 60% (top) and 40% (bottom), the latter dropping firms that would otherwise belong to both groups. Figures A.10 and A.11 do the same for the export shares, and Figures A.5 and A.4 for destination-specific exports. The conclusions do not change.

Our main estimates use an unbalanced panel. Restricting the sample to establishments active throughout 2013-2019 yields consistent estimates of total exports and the U.S. and Europe shares (Figures A.7 and A.8).

Another possible concern is that exchange-rate movements specific to each group's

[18]The exceptions are office equipment and computer equipment, with positive coefficients of 0.089 (significant at the 5% level) and 0.069 (significant at the 10% level) (Table A.6, columns 3 and 4). A positive response runs opposite to the delay predicted by the option-value framework, and the coefficient on total fixed assets is −0.0006 and insignificant (column 1).

destination market, rather than the threat, drive the firm-level results. Time fixed effects absorb peso movements common across destinations but not divergence between the MXN/USD and MXN/EUR rates. We re-estimate equation 3 for the outcomes in Table 5 adding a group-specific exchange-rate control (MXN/USD for U.S.-oriented firms and MXN/EUR for Europe-oriented firms), in levels (Table A.2) and in logs (Table A.3). The point estimates stay close to those in Table 5 and remain statistically indistinguishable from zero in all twelve specifications in each table.

The firm-destination design faces a similar concern: if firms oriented toward the United States are more exposed to movements in the MXN/USD rate, the gradient in Table 4 could reflect currency exposure rather than the threat. Table A.4 adds the destination-specific exchange rate. The estimates are consistent with those in Table 4: both the decline and the gradient remain, and all estimates are significant at the 1% level.

# 6 Conclusions

Manufacturing firms operating in Mexico responded to the threat to NAFTA from the 2016 election outcome mainly by changing where they exported. We find no statistically significant change in how much they shipped. However, exports to the United States fell relative to other destinations, and the decline was larger among firms most dependent on the U.S. market. This was driven by export composition: U.S.-oriented firms cut exports to the United States by 25% and raised exports to Europe by 32%, shifting 5.9 percentage points of their export share away from the United States.

This margin of adjustment may not be available everywhere. Mexican firms could redirect shipments to Europe in part because European buyers demand goods of a quality similar to those bought by U.S. buyers. The free trade agreement with the European Union, already in force, may also have eased the shift, although Mexican exporters could have served European markets under MFN tariffs even without it.

A country facing the same threat with fewer alternative markets might have had to absorb more of it through lower output, lower investment, or exit.

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# Online Appendix

# Trade Policy Threats and the Reallocation of Export Destinations

*by* Roman Acosta, Germán Augusto Campos Ortiz, and Miguel Ángel Talamas Marcos

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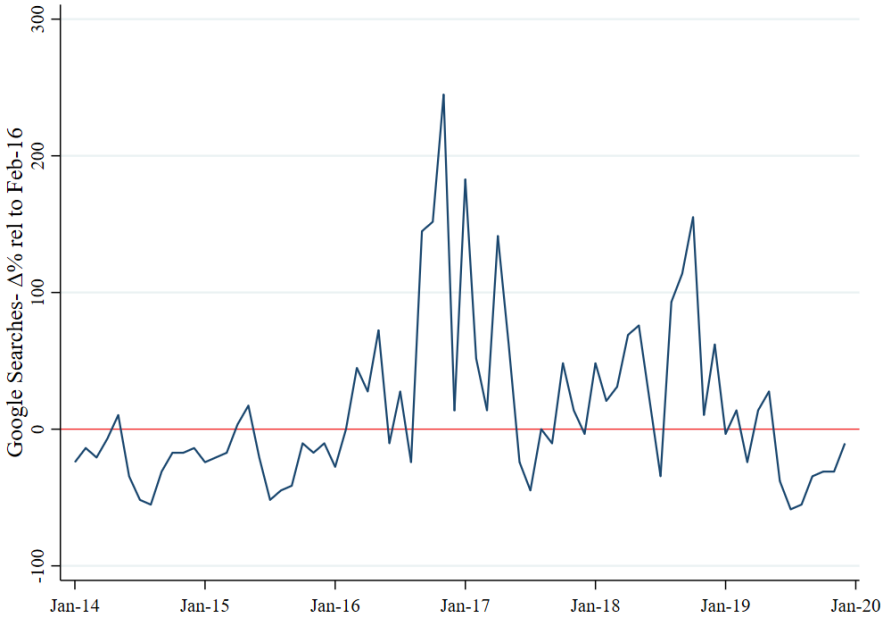
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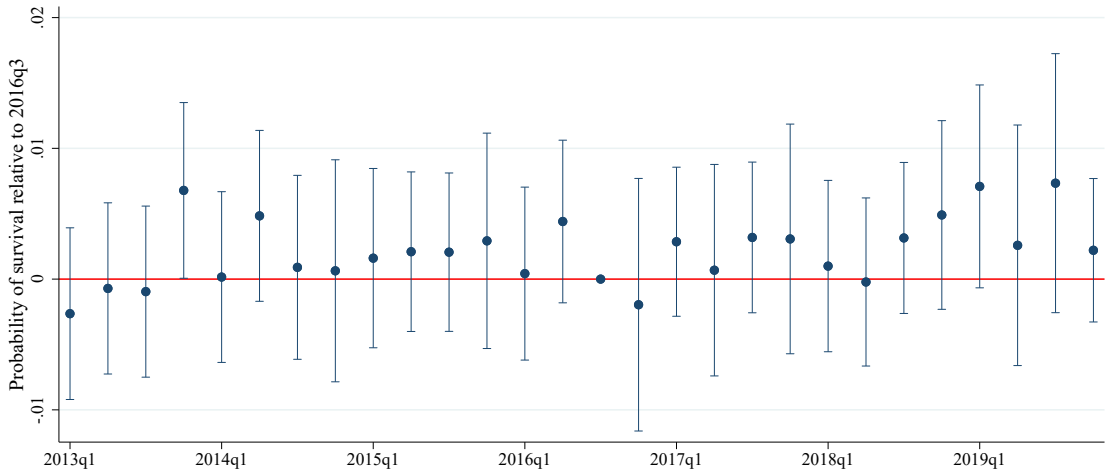
# A Figures

**Figure A.1: NAFTA Google Searches**



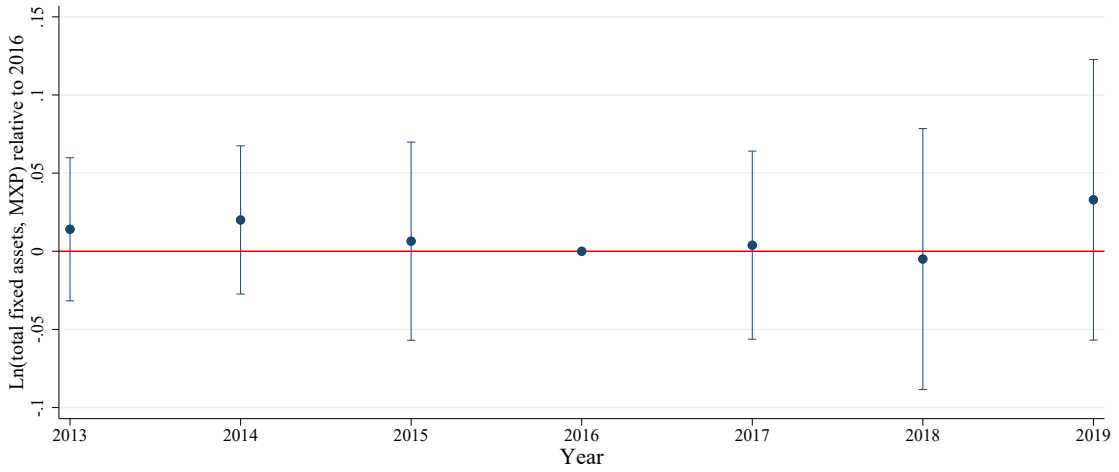

Source: Google Trends.
Note: The figure displays the percentage difference for NAFTA searches in the United States relative to February 2016.

## Figure A.2: Exit




Note: The figure presents the estimated effect of the trade policy threat 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.

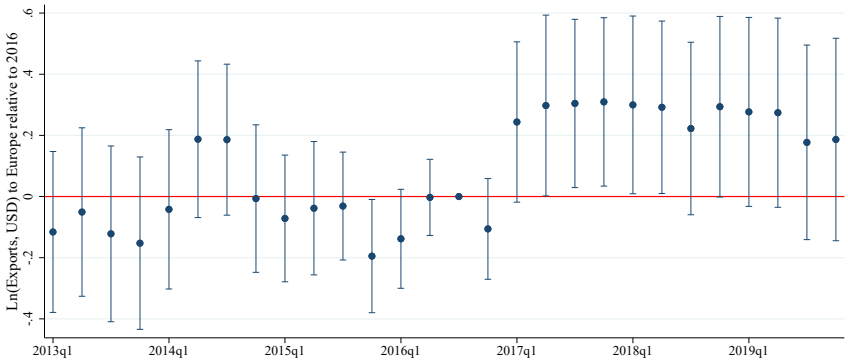
## Figure A.3: Total Fixed Assets



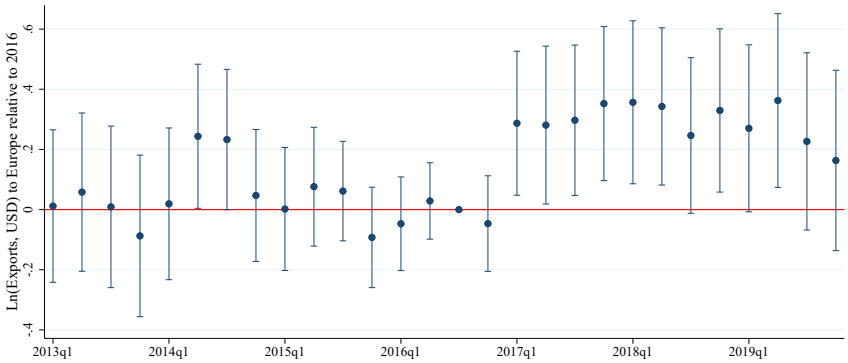

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on total fixed assets estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. 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.4: Robustness: Exports to Europe - Alternative Thresholds

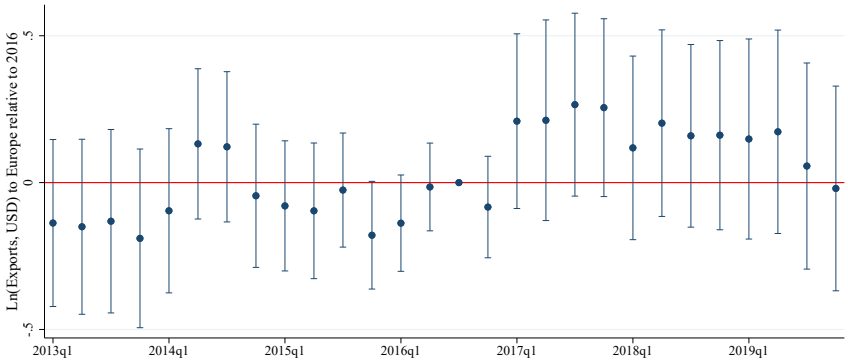
**(a)** Panel A




**(b)** Panel B



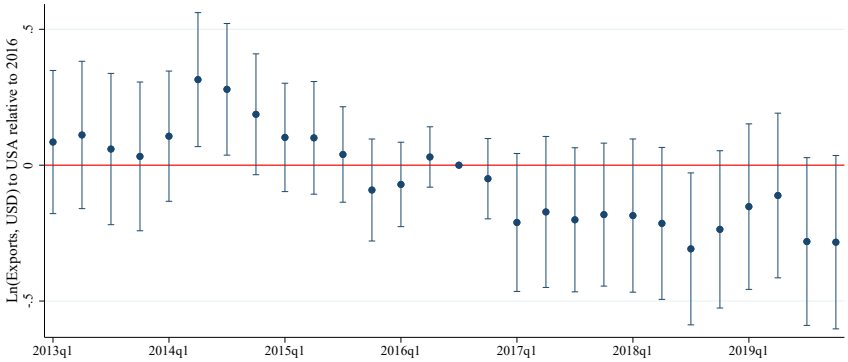

**(c)** Panel C



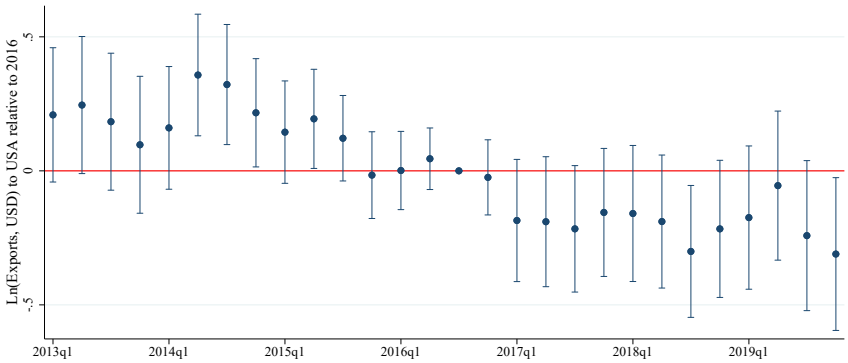

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on exports to Europe estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. Exports to Europe are constructed by multiplying each establishment's monthly exports by its share of exports to Europe, linearly interpolated month by month between consecutive annual PEME shares (the January value equals that year's share), and summing over the quarter. 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.5: Robustness: Exports to the United States - Alternative Thresholds**

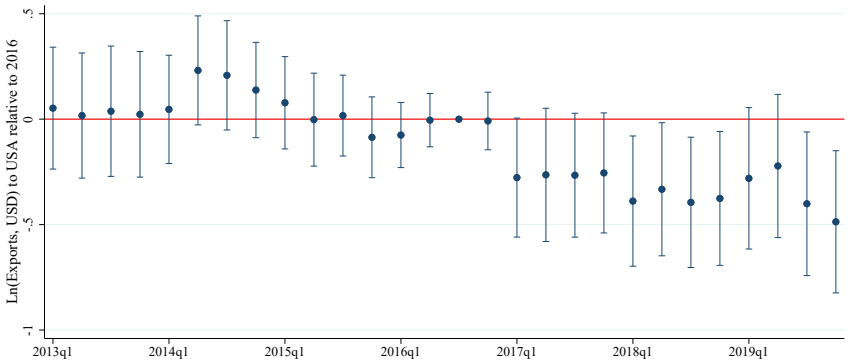
**(a)** Panel A




**(b)** Panel B

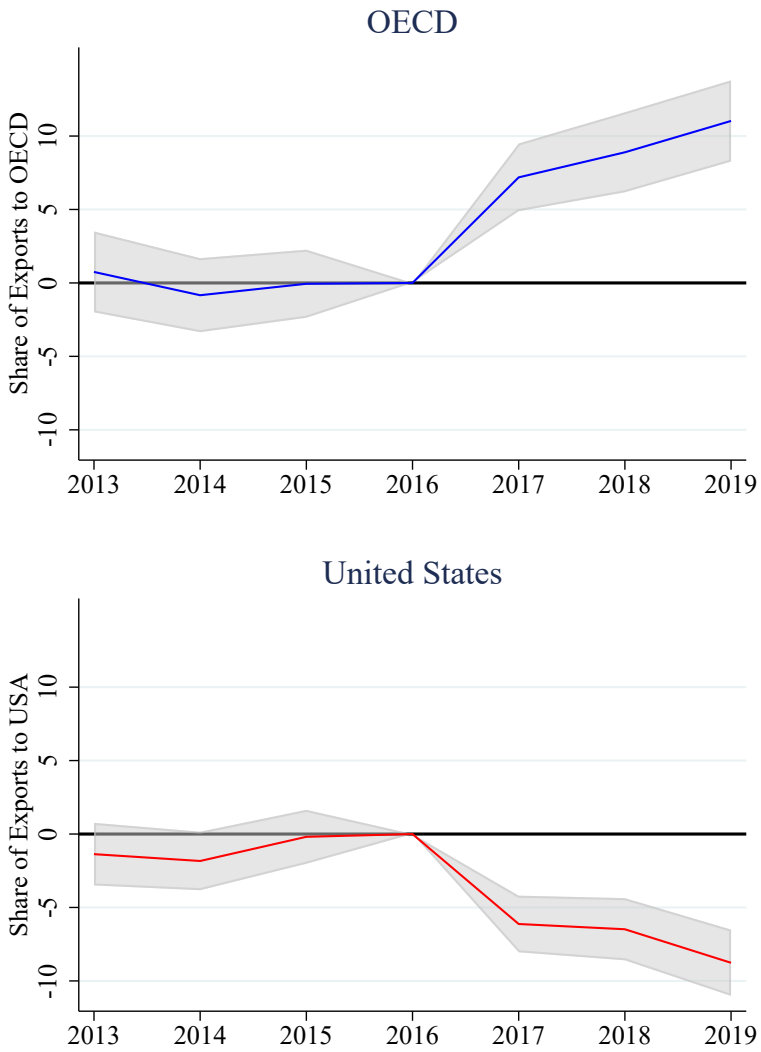



**(c)** Panel C



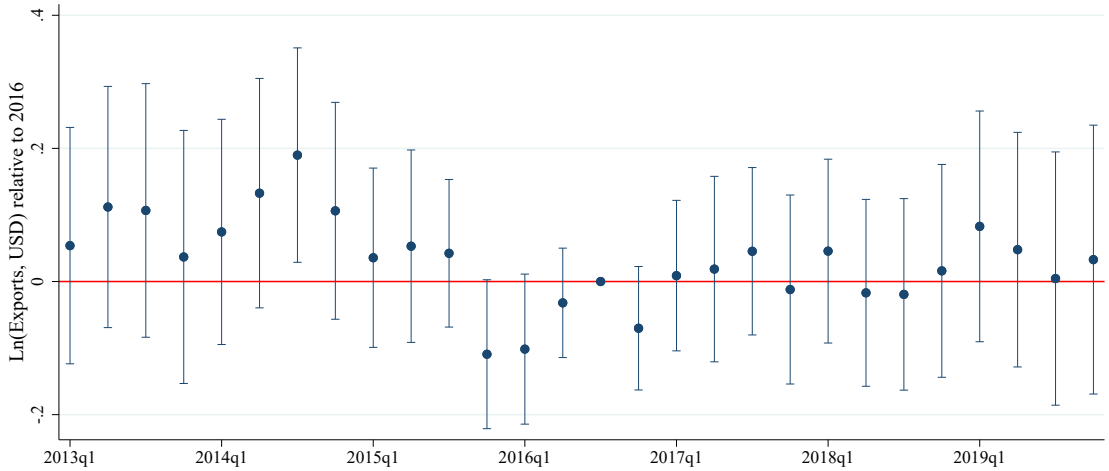

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on exports to the United States estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. Exports to the United States are constructed by multiplying each establishment's monthly exports by its share of exports to the United States, linearly interpolated month by month between consecutive annual PEME shares (the January value equals that year's share), and summing over the quarter. 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.6: Robustness: Share of Exports to OECD and the U.S.**



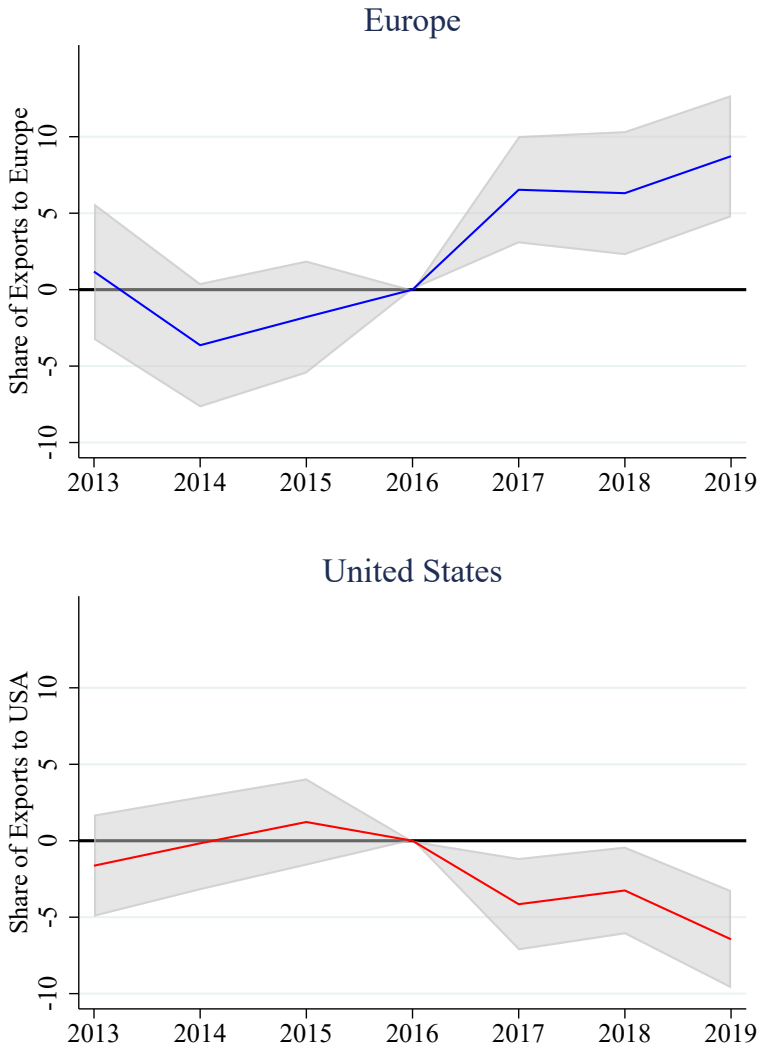

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on the share of exports to OECD countries other than the United States, Canada, and Mexico (top) and to the United States (bottom) estimated using equation 2. Different from Figure 5, the control group consists of firms that sent more than half of their exports to OECD countries other than the United States, Canada, and Mexico 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.7: Robustness: Exports (Balanced Panel)**



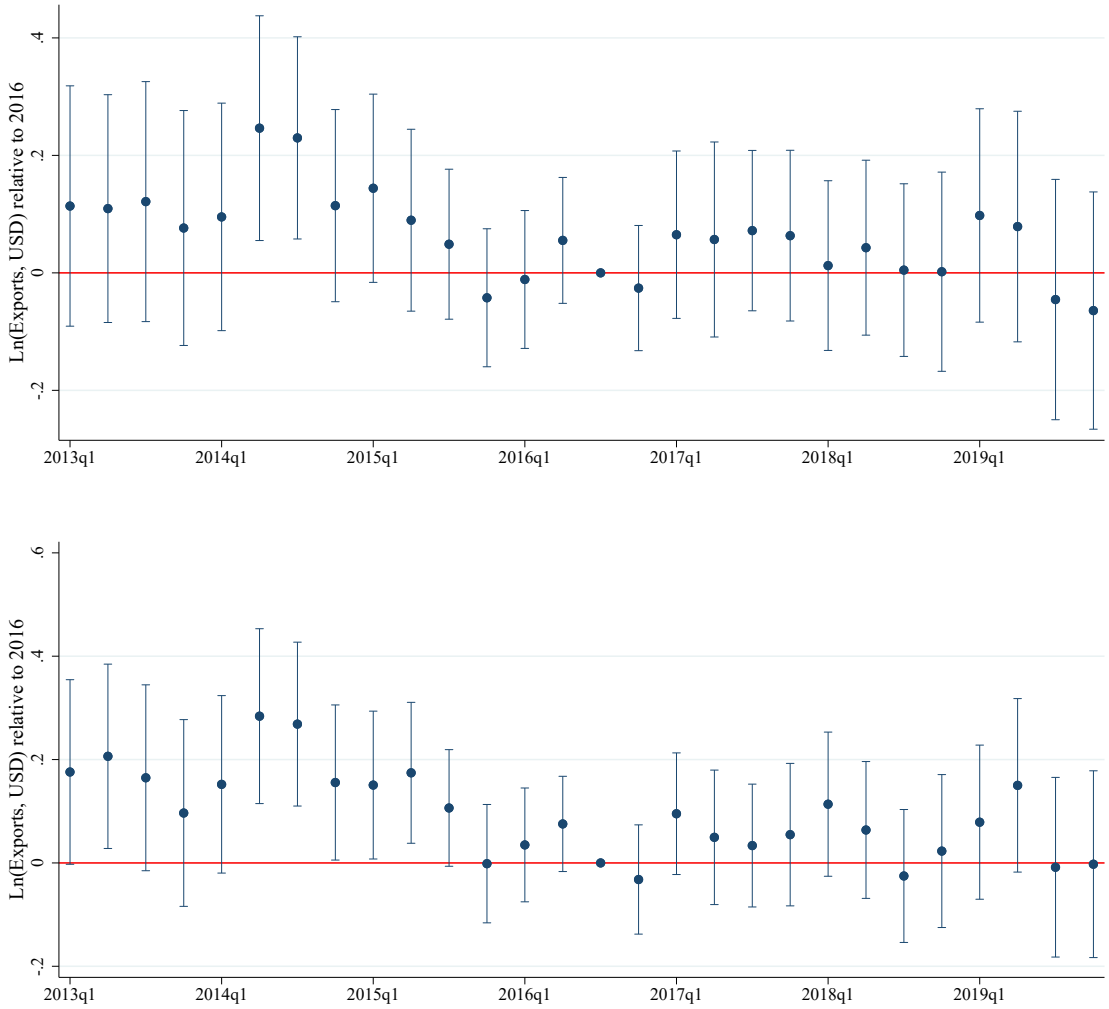

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on manufacturing exports estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. 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.8: Share of Exports to Europe and the U.S. - Balanced Panel**



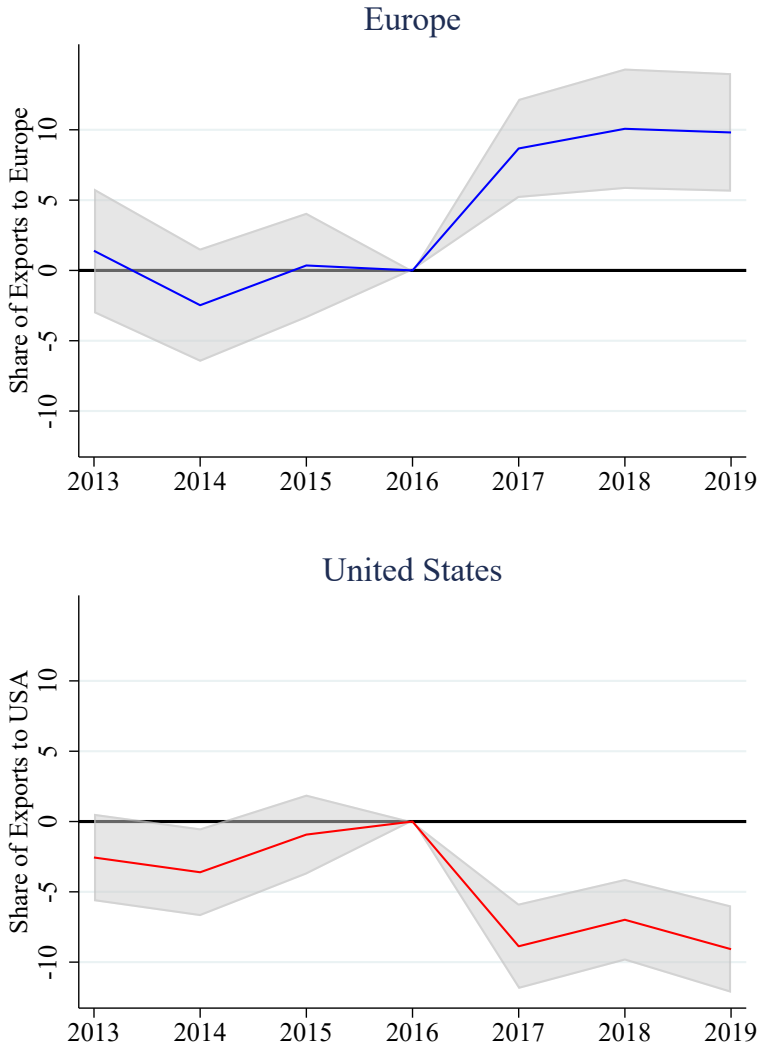

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on the share of exports to Europe (top) and to the United States (bottom) estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. 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.9: Robustness: Exports - Alternative Thresholds



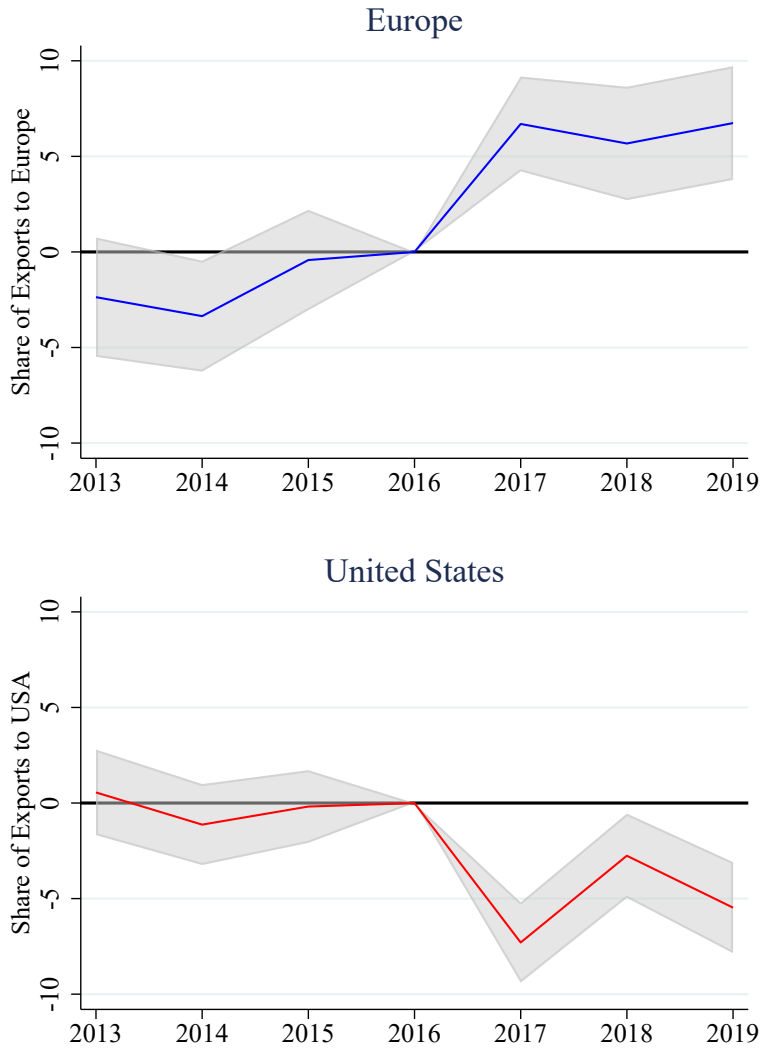

Note: The figure presents the estimated effect of the trade policy threat originating from the 2016 presidential election upset on manufacturing exports estimated using the following equation $Y_{it} = \sum_{\tau \neq t_0} \delta_\tau \cdot (\text{U.S.-oriented}_i \times \mathbf{1}\{t = \tau\}) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. In the top panel, 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. In the bottom panel the threshold is 40% for both groups, and establishments sending more than 40% of their exports to both Europe and the United States are excluded. 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: Robustness: Share of Exports to Europe and the U.S. - 60% Cutoff**




Note: The figure presents the estimated effect of the trade policy threat 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.11: Robustness: Share of Exports to Europe and the U.S. - 40% Cutoff**




Note: The figure presents the estimated effect of the trade policy threat 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 and Production: Robustness to Exchange-Rate Control (Levels)

| 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 | 0.005 | -0.0026 | 0.0038 | -0.0051 | 0.0171 | -0.0026 | 0.0993 | 0.0678 | 0.0224 | 0.0084 | 0.0206 | 0.0068 |
| x Post | (0.03) | (0.026) | (0.026) | (0.026) | (0.066) | (0.067) | (0.091) | (0.093) | (0.055) | (0.053) | (0.055) | (0.053) |
| Source | EMIM | | | | EMIM | | | | PEME | | | |
| FX control | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 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 trade policy threat originating from the 2016 presidential election upset on exports and production estimated using equation 3, additionally controlling for the MXN exchange rate corresponding to each firm's dominant export destination (the MXN/USD rate for U.S.-oriented firms and the MXN/EUR rate for Europe-oriented firms), at the establishment-year level. 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 to 12). Within each outcome, the first two columns measure values in USD and the last two in MXN. Odd-numbered columns include establishment and year fixed effects, while even-numbered columns include establishment and year × sector fixed effects. Standard errors are clustered at the establishment level.

## Table A.3: Exports and Production: Robustness to Exchange-Rate Control (Logs)

| 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 | 0.004 | -0.0043 | 0.0038 | -0.0062 | 0.0280 | 0.0150 | 0.0937 | 0.0720 | 0.0127 | -0.0067 | 0.0108 | -0.0084 |
| x Post | (0.02) | (0.024) | (0.024) | (0.024) | (0.061) | (0.063) | (0.085) | (0.088) | (0.057) | (0.054) | (0.057) | (0.055) |
| Source | EMIM | | | | EMIM | | | | PEME | | | |
| FX control (log) | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y | Y |
| 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 trade policy threat originating from the 2016 presidential election upset on exports and production estimated using equation 3, additionally controlling for the natural logarithm of the MXN exchange rate corresponding to each firm's dominant export destination (the MXN/USD rate for U.S.-oriented firms and the MXN/EUR rate for Europe-oriented firms), at the establishment-year level. 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 to 12). Within each outcome, the first two columns measure values in USD and the last two in MXN. Odd-numbered columns include establishment and year fixed effects, while even-numbered columns include establishment and year × sector fixed effects. Standard errors are clustered at the establishment level.

## Table A.4: Export Share and Exports to the United States by Pre-Period Export Orientation: Robustness to Exchange-Rate Control

| Dependent Variable: | Total exports (USD, log) | | Total exports (log) | | Export share | |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| USA x Post | -0.245*** | -0.282*** | -0.194*** | -0.223*** | -1.210*** | -2.896*** |
| | (0.024) | (0.025) | (0.030) | (0.031) | (0.256) | (0.302) |
| Source | PEME | | PEME | | PEME | |
| Orientation pre | All | USA | All | USA | All | USA |
| Year FE | Y | Y | Y | Y | Y | Y |
| Firm x Dest FE | Y | Y | Y | Y | Y | Y |
| Observations | 248,787 | 166,509 | 248,787 | 166,509 | 248,787 | 166,509 |

Note: The table presents the estimates of the effect of the trade policy threat originating from the 2016 presidential election upset on the export share and the log of exports to the United States, relative to a firm's other destinations, based on equation 1 at the establishment-destination-year level, restricting the sample by each firm's pre-treatment (2013-2016) export orientation and additionally controlling for the MXN exchange rate against the currency most relevant to each destination (USD for the U.S., Canada, and Oceania; EUR for Europe; CNY for Asia; ZAR for Africa; BRL for Latin America). The outcome is the log of exports in USD (columns 1-2), the log of exports in MXN (columns 3-4), and the export share in percent (columns 5-6). "All" includes all establishments; "USA" restricts the sample to establishments whose main pre-treatment export destination was the United States. All columns include year and firm-by-destination fixed effects. Standard errors are clustered at the establishment level.

## Table A.5: Export Share and Exports to Europe: Firm-Destination-Level Estimates

| Dependent | Export share | | | | Total exports (log) | | | |
|---|---|---|---|---|---|---|---|---|
| Region: | EUROPE | | | | EUROPE | | | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Region.-oriented | 0.253 | 0.211 | 0.415** | 0.616*** | 0.280*** | 0.304*** | 0.039 | 0.092*** |
| x Post | (0.242) | (0.256) | (0.203) | (0.211) | (0.038) | (0.040) | (0.032) | (0.034) |
| Source | PEME | | | | PEME | | | |
| FX control | | Y | | Y | | Y | | Y |
| Year FE | Y | Y | Y | Y | Y | Y | Y | Y |
| Dest FE | Y | Y | | | Y | Y | | |
| Firm x Dest FE | | | Y | Y | | | Y | Y |
| Observations | 251,510 | 251,510 | 248,787 | 248,787 | 251,510 | 251,510 | 248,787 | 248,787 |

Note: The table presents the estimates of the effect of the trade policy threat originating from the 2016 presidential election upset on the export share and the log of exports (in MXN) to Europe, relative to a firm's other destinations, based on equation 1, replacing $\text{US}_r$ with $\text{Europe}_r$, at the establishment-destination-year level. Columns 1, 2, 5, and 6 include year and destination fixed effects, while columns 3, 4, 7, and 8 include year and firm-by-destination fixed effects. Even-numbered columns additionally control for the MXN exchange rate corresponding to each destination. Standard errors are clustered at the establishment level.

## Table A.6: 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 trade policy threat originating from the 2016 presidential election upset on measures of capital based on the following equation $Y_{it} = \delta \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_{t,I} + \mu_i + \varepsilon_{it}$. The variable $\text{U.S.-oriented}_i$ 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. $\text{Post}_t$ equals one from 2017 onward. Standard errors are clustered at the establishment level.

## Table A.7: Share of Exports to the U.S. and Europe - by Subindustry: Additional Subindustries

| 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 trade policy threat originating from the 2016 presidential election upset on the share of exports to the United States and to Europe based on the following equation $Y_{it} = \delta \cdot (\text{U.S.-oriented}_i \times \text{Post}_t) + \lambda_t + \mu_i + \varepsilon_{it}$, estimated separately for each subindustry, so the year fixed effects $\lambda_t$ are equivalent to year $\times$ subindustry fixed effects. 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. Post$_t$ equals one from 2017 onward. Standard errors are clustered at the establishment level.