

Trade Tensions and Integration: Italian Firms' Expectations Facing Trump's Tariffs and the EU Single Market

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Abstract

This paper explores the effects of U.S. President Donald Trump's "liberation day" tariffs on Italian manufacturing enterprises and their forward-looking economic expectations. The evolving U.S. trade policy – marked by escalating tariff threats, temporary suspensions, and eventual negotiation with the EU, culminating in the agreement for a 15% base tariff in July – has created a climate of uncertainty that is weighing heavily on firms' outlooks. We find that the tariffs significantly reduce enterprises' expectations for 2025, independent of actual exposure to the U.S. market. We also find that the extent of a firm's export diversification – measured by the number of foreign markets served – fully explains the variation in expectations. Less diversified firms are shown to be far more vulnerable to tariffs than others. Our findings highlight that exposure to global trade policy uncertainty extends well beyond firms directly engaged with the U.S., underscoring diversification as a critical determinant of resilience. Diversification within the European Single Market proves nearly twice as strong as in extra-EU markets, underscoring its stabilizing role for tariff-exposed firms.

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Summary

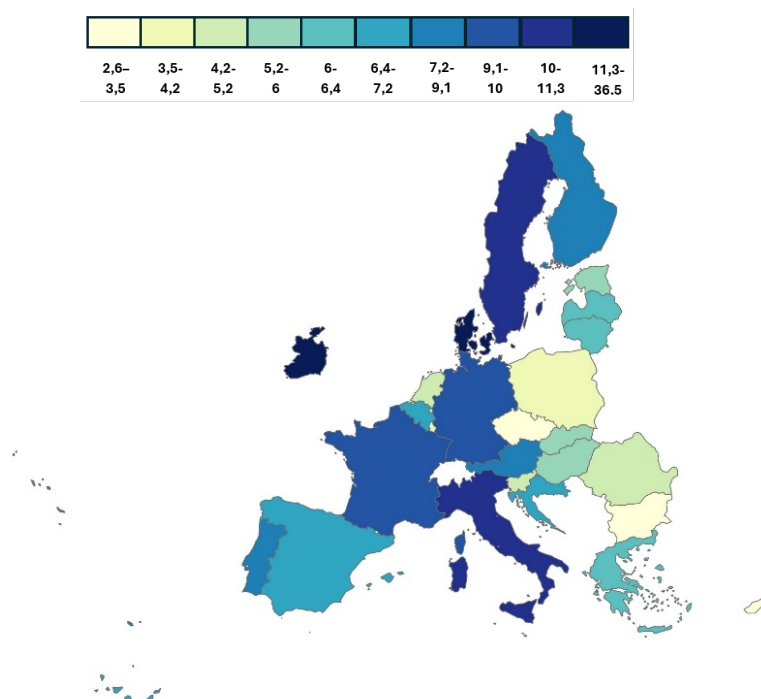
- This paper empirically investigates the impact of U.S. President Donald Trump's 2025 tariff campaign on Italian manufacturing firms in terms of turnover expectations, with particular attention on how diversification affects a firm's exposure to external shocks.
- The analysis draws on a special survey conducted between April and June 2025 by the Centro Studi Tagliacarne–Unioncamere, covering 2,300 Italian manufacturing firms.
- We find that tariff shocks significantly influence firms' turnover expectations, though the transmission mechanisms extend far beyond direct exposure to the U.S. market. Indeed, spillover effects seem to operate primarily through indirect channels.
- Export diversification is shown to act as a key mechanism of resilience, as the tariff shocks disproportionately affect less diversified firms, whether they export to the U.S. or not.
- The European Single Market emerges as a key driver of export diversification, with effects almost twice as strong as those for extra-EU markets among firms exposed to tariffs or trading with the U.S.
- However, the relationship between diversification and resilience is non-linear. While limited diversification increases vulnerability, broader international portfolios allow firms to offset losses in one market through stability in others. Besides being a critical threshold, diversification therefore becomes a decisive buffer against trade shocks.
- The results of the analysis underscore the importance of policies that support firms' capacity to diversify export markets, particularly for SMEs facing high fixed entry costs.
- Trade agreements—such as the EU–Mercosur Partnership—play a strategic role in expanding accessible markets and reducing systemic dependence on a few destinations.
- Regarding specific policy instruments, export incentives stand out as the main ones requested by enterprises to contrast U.S. tariffs.
- Smaller firms show a stronger need for direct forms of assistance—such as financial support and service provision—highlighting the crucial role of territorial institutions in sustaining SME competitiveness, especially given the strong variability in exposure to U.S. markets across Italian provinces.
- Policy efforts should primarily aim at enhancing firms' export intensity, and secondarily at expanding both the number of exporters and the diversification of export destinations. These priorities reflect Italy's position below the EU average in export intensity but above it in both the number of exporting firms and export market diversification.
- At a broader level, the findings align with the renewed focus on industrial policy and economic security, where resilience emerges as a central pillar of competitiveness in an era of global uncertainty.

1. Introduction

Donald Trump's new tariff regime marks a significant departure from the trade liberalizing trajectory that has shaped the global economy over the past several decades. When Trump's "liberation day" tariffs took effect, hitting partners and adversaries alike, they elevated the U.S. effective tariff rate to its highest level since the Smoot-Hawley Tariff Act of 1930. The result was a profound reshaping of global trade relations, followed by a reduction in global growth expectations (International Monetary Fund, 2025) and, most importantly, a surge in economic uncertainty. These developments have profound implications for Italian firms, which extend far beyond the macroeconomic sphere (Ministry of Economy and Finance, 2025) and reach the firm level. Indeed, as uncertainty increases, Italian enterprises engaged in international trade are confronted with a far more volatile economic environment. Cost pressures mount due to higher input prices, supply chain disruptions increase operational risks, and shifting market access conditions complicate export strategies. While some firms may benefit from temporary or sector-specific protection, many more face higher input costs and reduced market access, which in turn erode their profit margins.

This study contributes to the literature on international trade and firm behaviour, as it analyses the effects of U.S. President Donald Trump's "liberation day" tariffs on Italian manufacturing enterprises and their forward-looking economic expectations. Italy provides an especially relevant case study for at least two reasons. First, it is a medium-sized open economy well integrated into international supply chains, and with a significant share of exporting firms (Figure A1 in the Appendix). As such, the effects of global trade frictions can be sizeable and measurable. Additionally, Italy figures among the most exposed EU economies when measured by the share of manufacturing value added exported to the U.S. (Figure 1), which makes this sector particularly vulnerable to the policy shocks created in Washington (in the Appendix, Tables A1–A2 report details on Italian manufacturing firms exporting to the U.S.). Indeed, according to the data, Italy is the third EU country in terms of the share of firms exporting to the U.S. (Figure A2 in the Appendix).

The paper seeks to shed light on the impact of tariffs and the role of geographic diversification of exports in shaping firms' profitability. In particular, it investigates how trade policy shocks, specifically the tariffs introduced by the Trump Administration in 2025, affect firm expectations. To this end, it addresses three main research questions. First, *how do tariffs influence the forward-looking expectations of firms?* Second, *does direct exposure to American markets amplify the effect of tariffs on turnover expectations?* Finally, *to what extent does the geographic diversification of exports mediate or exacerbate the direct effect of tariffs on turnover expectations?* To address these questions, we rely on the findings of a survey conducted in 2025 (from April to June) by the Centro Studi Tagliacarne–Unioncamere on a representative sample of 2,300 Italian manufacturing firms, analysed through econometric techniques.

Figure 1: Exposure to tariffs by country

Source: Authors' elaboration based on the OECD trade in value added database (TiVA). Exposure of the manufacturing sector to the U.S., calculated as the share of manufacturing value added exported to the United States.

The contribution of this study is twofold. First, the paper provides original and timely evidence of the impact of U.S. tariffs perceived by Italian enterprises. Drawing on unique microdata, the analysis captures how firms' expectations and strategic orientations respond to sudden disruptions in the global trading environment. Second, the paper seeks to identify potential levers to mitigate the effects of tariffs. By doing so, it contributes to the broader debate on industrial policy and competitiveness in an age of heightened tensions and renewed geopolitical uncertainty. Indeed, the tariff episode analysed here aptly illustrates how exogenous policy shocks can expose structural vulnerabilities in global value chains, underscoring the limits of market self-adjustment in the face of systemic uncertainty. It is within this context that industrial policy has reemerged (e.g., Juhász et al., 2024) as a legitimate tool in strengthening firms' resilience, supporting export market diversification, and fostering strategic upgrading. The interaction between external shocks and domestic policy responses thus provides fertile ground to reassess the design of industrial policies in open economies.

From a European perspective, these questions are particularly pressing. The European Union's response to the ongoing geopolitical recession, built upon the concept of de-risking, has placed great emphasis on the Single Market as a pillar of resilience. For enterprises it represents a compelling avenue through which to absorb or mitigate the negative repercussions of external shocks, including tariff escalation abroad. Although recent assessments have designated the Single Market as unfit for the current international landscape and challenges (Letta, 2024), with estimates of its frictions being equivalent to a 44% tariff rate (Adilbish et al., 2025), research by the European Commission shows that intra-EU trade has become considerably more fluid and frictionless than extra-EU trade (Durà and Pasimeni, 2025), underscoring its potential as a diversification channel. For

Italian firms this means that intra-EU market diversification can function as a de-risking strategy in an era of policy volatility. Consistently, the Bank of Italy (Venditti et al., 2025) emphasises that greater European integration in capital and investment markets is essential to reinforce resilience and competitiveness in open economies.

The paper is structured as follows: Section 2 situates the analysis within the complex policy context that has emerged among escalating tariff threats, retaliations, temporary suspensions, and trade deals. In Section 3, we provide a brief overview of the existing literature on the topic. Section 4 outlines the data. Section 5 illustrates the empirical overview of the Impact of Trump's Tariffs on Italian firms. Section 6 describes the econometric strategy. Section 7 discusses the results. Section 8 concludes the paper.

2. Policy context

The Trump Administration has advanced, from the outset of its electoral campaign, a revisionist agenda for the global financial and economic system. To address the perceived imbalances of the system, the Administration identified trade policy, and tariffs in particular, as the principal tool to overhaul the international economic order (Miran, 2024). Yet, despite this centrality, the defining feature of U.S. trade policy thus far has been its ambiguity, as announcements were followed by delays, retaliations, and threats. The resulting policy environment was therefore marked by an unprecedented degree of uncertainty. This section examines the evolution of tariffs up to September 10, 2025.

Trump launched his tariff campaign on February 1, 2025, when, invoking the International Emergency Economic Powers Act (IEEPA), he announced a 25% tariff increase on imports from Canada and Mexico, alongside a 10% increase on imports from China. While a thirty-day pause was introduced regarding the two neighbouring countries, levies on China took effect on February 4. On February 10, the Administration expanded its scope by announcing a 25% increase in tariffs on aluminium and steel, this time invoking its authority under Section 232 of the 1962 Trade Expansion Act. The pause on Canada and Mexico ended on March 4, when the U.S. introduced a differentiated regime, consisting of a lower 10% tariff on imports of Canadian energy products and a 25% tariff on all other Canadian goods and all imports from Mexico. On the same day, Trump hit Chinese goods with an additional 10%. Two days later, however, the U.S. backtracked on the 25% tariffs on Canada and Mexico, announcing they would only apply to USMCA (United States-Mexico-Canada Agreement) noncompliant goods. As steel and aluminium tariffs took effect on March 12, the EU announced a retaliatory tariff package targeting up to €26 billion of American goods. On March 26, the U.S. escalated further by announcing 25% tariffs on foreign-made auto imports, again invoking Section 232.

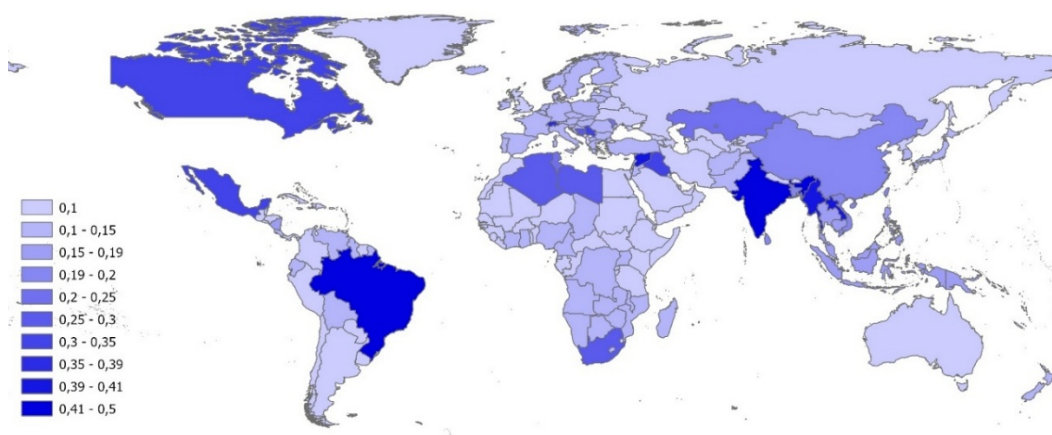
When “Liberation Day” arrived on April 2, a clear pattern of unexpected announcements, postponements, carveouts, threats, and occasional retaliation had been established (McKibbin et al., 2025). Further exacerbating a climate of uncertainty, the Administration announced the long-anticipated reciprocal tariffs, which applied to as many as 185 countries and were divided into two main categories: a universal tariff of 10% on all imports, effective from April 5, and higher and more targeted tariffs ranging from 10% to 50% on individual countries,

according to the size of the trade deficit. Among the most consequential measures were a 34% tariff increase on Chinese products and a 20% tariff increase on imports from the EU, which applied to Italy.

As the trade conflict with China escalated, with threats reaching a tariff rate as high as 145%, the U.S. announced on April 9 a 90-day pause on other countries, during which rates would be reduced to the 10% baseline, allowing for bilateral negotiations to begin. On April 11, the Trump Administration announced further exemptions for smartphones and other consumer electronics. Such backtracking allowed financial conditions to ease but did little to dispel the underlying uncertainty (Lombardi et al., 2025). Significantly, the EU suspended its retaliatory tariffs and accepted Trump's offer to negotiate. The first trade agreement, cutting punitive tariffs to 10% on most goods, was signed between the U.S. and the UK on May 8.

Negotiations with the EU continued throughout June and July against the backdrop of legal challenges. In June, the U.S. Court of International Trade declared all tariffs adopted through IEEPA illegal. Nevertheless, the Trump Administration doubled steel and aluminium tariffs, adopted through Section 232, before announcing deals with several commercial partners. Finally, on July 27, the United States and the European Union reached a tariff agreement. Under the framework negotiated between European Commission President Ursula von der Leyen and President Trump, the EU accepted a broad-based U.S. baseline tariff of 15%, crucially applied to automobiles. Steel, on the other hand, was exempted from this arrangement and instead placed under a quota system. Although bilateral agreements have helped to partially mitigate tariff levels, they currently stand at their highest level since the adoption of the Smoot-Hawley Tariff Act of 1930 (Figure 2 illustrates the global distribution of U.S. tariff levels).

Figure 2: Trump's tariffs



Source: Authors' elaboration. Tariff rates as of September 1st, 2025, WhiteHouse.gov

In light of these developments, uncertainty has remained the defining feature of this process. The Trump Administration repeatedly demonstrated its willingness to reverse course or escalate tensions, leaving open the possibility of further tariff measures at any moment. It is within this unstable and unpredictable framework that firms were compelled to make strategic decisions.

3. Literature review

The effects of trade tariffs have been central to international economics ever since their conception. The classical theory of comparative advantage, developed by Ricardo, first demonstrated how trade liberalization resulted in mutual gains. Later, factor model approaches, namely the Heckscher-Ohlin model, emphasized the distributional effects of tariffs. Building on these foundations, modern trade theory then incorporated heterogeneous firms (Melitz, 2003), providing a micro-founded explanation for why only the most productive firms engage in exporting and how trade costs, and therefore tariffs, induce reallocations. Alongside these theoretical advances, historical analyses, especially on the Smoot-Hawley tariffs, have long provided empirical evidence of the contractionary effects of protectionist measures. The wave of tariffs imposed during the U.S.–China trade conflict of 2018–2019 also generated new empirical literature, documenting that tariffs substantially reduced imports, were largely passed through into domestic prices, and inflicted non-trivial welfare costs (Amiti, Redding & Weinstein, 2019; Fajgelbaum et al., 2020).

In parallel, a complementary line of work has examined the firm-level implications of tariffs. This theoretical insight has been supported by empirical evidence. Benguria et al. (2025) show that Chinese firms exposed to heightened trade policy uncertainty during the trade war reduced investment, curtailed R&D expenditures, and saw declines in profitability, underscoring the firm-level channels through which tariffs propagate. In this context, President Trump’s unprecedented tariff campaign in 2025 has spurred a rapidly expanding literature on both global macro effects and firm-level consequences. Early simulations by McKibbin et al. (2025) at the Peterson Institute for International Economics suggested sizable global output losses, as did recent estimates provided by international institutions (European Central Bank, 2025). Ignatenko et al. (2025) offer structural estimates of welfare effects and distributional consequences of the April 2 “Liberation Day” reciprocal tariffs, while Naudé and Cameron (2025) examined the European Union’s response to tariffs, specifically assessing the implications for their exports. Recently, the Ministry of Economy and Finance also estimated the impact of the U.S.-EU deal of July on the Italian economy (Ministry of Economy and Finance, 2025). Firm-level analysis on Italian firms can therefore contribute to this growing literature.

Finally, within the European discourse, growing literature has situated trade developments within the broader Single Market architecture. Letta (2024) and Adilbish et al. (2025) note the institutional and regulatory constraints that weaken the Single Market’s role within the increasingly fragmented world economy. Nevertheless, Durà and Pasimeni (2025) provide an extensive review of three decades of empirical evidence on the European Single Market (SM), confirming that it has produced significant and sustained positive effects on trade integration, productivity, and welfare across Member States.

4. Data

To analyse the impact of U.S. tariffs we rely on data from a survey conducted by the Centro Studi Tagliacarne-Unioncamere (Italian Union of Chambers of Commerce) in 2025 (April – June) on a sample of approximately 2,300 Italian manufacturing enterprises that have between 5 and 499 employees. This fresh data allows us to assess not only firms’ economic performance prospects but also their economic sentiment regarding Trump’s

tariffs, considering that the survey was conducted from April to June (Trump’s “Liberation Day” occurred on April 2).

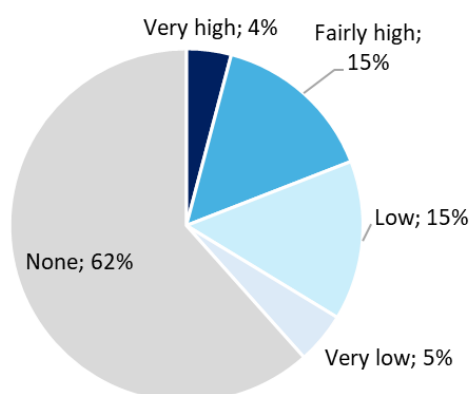
The sample corresponds to almost 2% of the Italian company population. The sampling procedure ensured the statistical representativeness of the data (with an oversampling of medium-sized firms) by considering both exhaustive and random sampling criteria. Three dimensions of firms were considered in the stratification: i) Industry (nine economic activities of section C of the manufacturing industry of the Nace Rev. 2 classification); ii) size class in terms of employees (5-9, 10-49, 50-249, 250-499); iii) geographical location (Northwest, Northeast, Centre, South and Islands). The survey was conducted using the CATI method (Computer-Assisted Telephone Interviewing) by a professional contractor to collect both qualitative and quantitative information about the company; several preliminary meetings were held with the contractor to explain to the interviewers the exact meaning of the questions, particularly in relation to the new questions, such as those on the impact of Trump’s tariffs. The quality of the data was then validated.

5. The Impact of Trump’s Tariffs on Italian firms: An Empirical Overview

The descriptive evidence provided by the figures allows us to trace the differentiated impact of Trump’s tariffs across Italian firms. Figure 3 offers the first general measure of exposure, showing that a sizeable proportion of companies perceive themselves as affected by the tariff measures. This broad perception indicates that the tariffs are not confined to a niche of exporters but rather resonate across different segments of the Italian productive system.

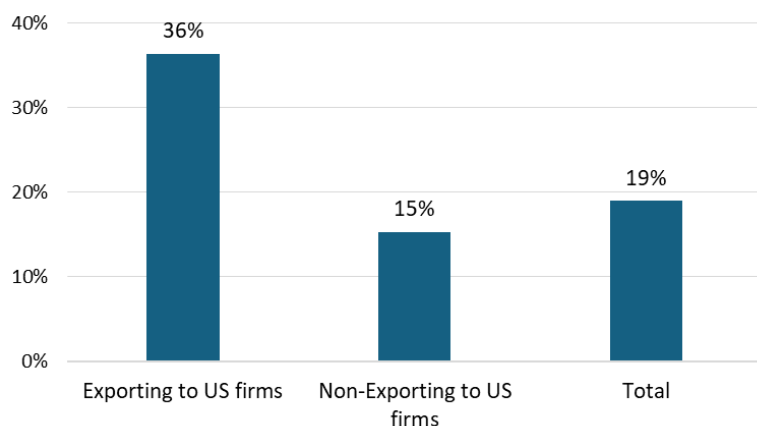
A more nuanced picture emerges in Figure 4, which distinguishes firms according to their direct export relationship with the United States. As expected, the share of firms reporting a very or a fairly high impact is significantly larger among exporters to the U.S., underlining the direct transmission channel of the tariff policy. Non-exporters to the American market also report non-negligible effects, suggesting the presence of spillovers through global value chains and increased competition in European markets from firms redirecting their products away from the U.S.

Figure 3: The impact of Trump’s tariffs on businesses, % of firms



Source: Centro Studi Tagliacarne 2025 survey

Figure 4: Percentage of firms reporting a very or a fairly high impact of Trump's tariffs: Comparing firms exporting to the U.S. and those not exporting.

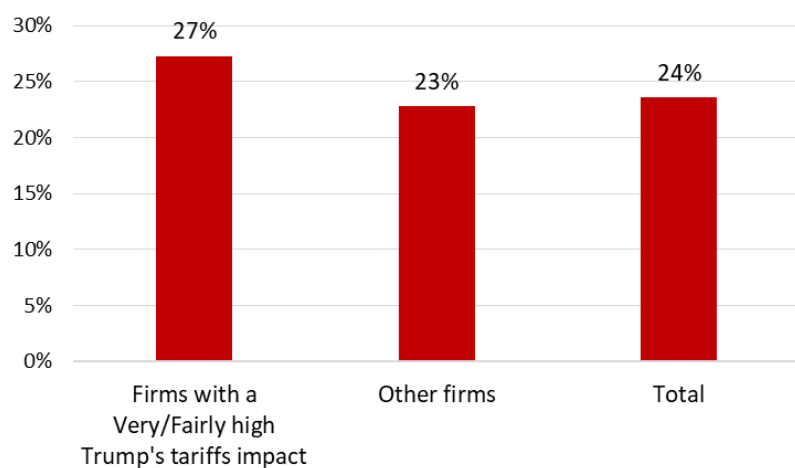


Source: Centro Studi Tagliacarne 2025 survey

Turning to the expectations for the near future, Figure 5 highlights the correlation between the perceived intensity of tariff impact and anticipated turnover reductions in 2025. Firms that assess the impact of tariffs as high are much more likely to predict significant revenue losses, providing evidence that expectations are shaped directly by the intensity of exposure to trade barriers. This reinforces the role of tariffs not only as a current shock but also as a factor shaping firms' future outlook.

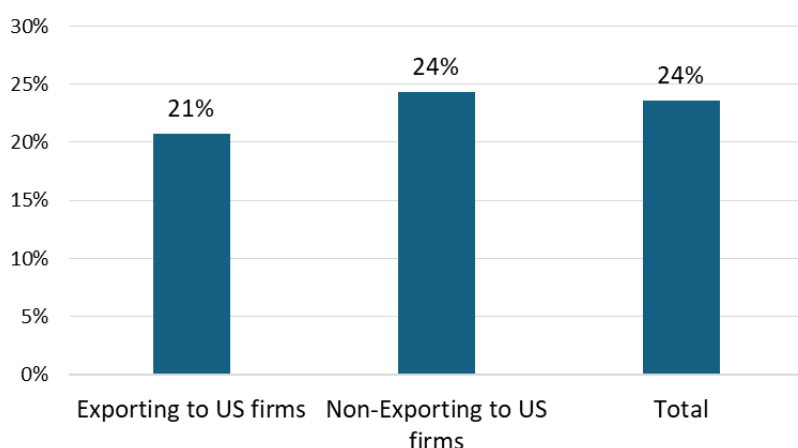
Figure 6 complements this view by comparing expected turnover reductions between firms exporting to the U.S. and those not exporting to the U.S. Here again, exporters stand out with a notably higher probability of foreseeing a contraction in sales, pointing to the vulnerability of firms integrated into transatlantic trade flows. Non-exporters, while relatively less pessimistic, still display a considerable share expecting losses, confirming that tariff measures can propagate indirectly through the wider economy.

Figure 5: Percentage of firms reporting expected turnover declines in 2025, by impact of Trump's tariffs



Source: Centro Studi Tagliacarne 2025 survey

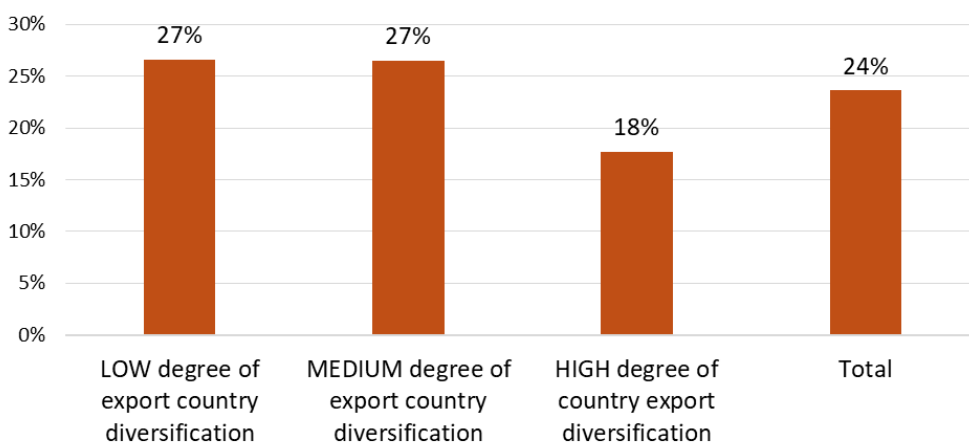
Figure 6: Percentage of Firms Reporting Expected Turnover Declines in 2025: Comparing firms exporting to the U.S. and those not exporting



Source: Centro Studi Tagliacarne 2025 survey

Finally, Figure 7 introduces the dimension of export country diversification. The results clearly indicate that firms with a broader geographical spread of export markets are less prone to anticipate turnover reductions. Conversely, companies dependent on a narrower set of foreign destinations report higher expectations of revenue decline. This finding underscores the role of diversification as a protective strategy, mitigating the risks associated with market-specific shocks such as U.S. tariffs.

Figure 7: Percentage of firms reporting expected turnover declines in 2025, by level of export country diversification.



N.B. The degree of diversification is calculated using tertiles.

Source: Centro Studi Tagliacarne 2025 survey

Taken together, the figures portray a consistent narrative: Trump's tariffs are perceived as a relevant constraint for Italian firms, with stronger effects on those directly linked to the U.S. market and on less diversified exporters, while firms with a wider international reach appear relatively more shielded from adverse expectations.

Further details on the specific types of impacts and firms' responses to U.S. tariffs based on businesses' answers to the survey are reported in Tables 1-2.

Table 1: Main impacts of Trump's tariffs on firms, % multiple choice

Channels of Impact	%
Direct impact on exports: Reduction in exports to the United States	41.6
Increase in procurement costs (goods and services) from the United States (e.g. in case the EU imposes tariffs on imports from the U.S.)	28.6
Indirect impact on exports: Decrease in sales of intermediate goods, semi-finished products, and services incorporated into products of other countries destined for the U.S. market	24.2
Increased competition from companies redirecting their sales markets from the U.S. to the EU	17.4
Slowdown/suspension of investment in expanding production capacity (e.g. due to increased uncertainty about economic outlook, reduced resources following export losses, etc.)	9.4
Slowdown/suspension of hiring programs (e.g. due to increased uncertainty about economic outlook, reduced resources following export losses, etc.)	5.8
Opportunities to enter new and specific market segments in the U.S. as a result of high tariffs applied to China (e.g. products previously supplied by China may now be sourced from EU companies)	5.8
Slowdown/suspension of investments in environmental sustainability (e.g. due to increased uncertainty about economic outlook, reduced resources following export losses, etc.)	4.0
Slowdown/suspension of investments in digital transformation (e.g. due to increased uncertainty about economic outlook, reduced resources following export losses, etc.)	3.1
Other	3.1
Don't know / Cannot yet be assessed	4.8

Source: Centro Studi Tagliacarne 2025 survey

Table 2: Firms' strategic responses to Trump's tariffs, % multiple choice

Strategic Responses	%
We will increase the prices of goods and services sold in the United States	24.3
We are seeking alternative export markets outside the U.S., with a preference for EU countries	20.1
We are seeking alternative export markets outside the U.S., with a preference for extra-EU countries	13.6
We are willing to absorb the tariff costs in order to maintain our sales presence in the U.S. market	13.5
We plan to increase production at our company's existing U.S.-based facilities	1.8
We plan to relocate or establish some production facilities in the United States	1.4
Other	2.4
No strategy planned	46.6

Source: Centro Studi Tagliacarne 2025 survey

6. Econometric strategy

The empirical framework relies on a probit specification, which is the appropriate econometric strategy for models with binary realizations (Wooldridge, 2010, pp. 453–459). In this context, the main model estimates the probability that firms anticipate a decline in turnover in 2025, conditional on their declared exposure to the tariff shocks introduced under the Trump administration in 2025. Specifically, the probit model is specified as follows:

$$\text{Prob}(\text{Turnover_drop} = 1)_i = \Phi(\beta_0 + \beta_1 \text{Tariff_shock}_i + \beta_2 C_i + \varepsilon_i) \quad [1]$$

where *Turnover* where *Turnover_drop* is the dependent variable, which takes the value 1 if the expectations of a turnover reduction in 2025 are reported and 0 otherwise. The key explanatory variable is *Tariff_shock*, which captures the exposure of firm *i* to the tariff shocks mentioned previously: specifically, it is a binary variable valued 1 if the firm declares being affected by the tariffs, 0 otherwise.¹ Finally, C_i represents a vector of control variables included to account for firm-level heterogeneity and other observable factors that may influence the probability of expecting a decline in turnover. $\Phi(\cdot)$ is the cumulative distribution function of the standard normal distribution, which maps the linear index into probabilities bounded between zero and one. Finally, ε_i is the error term, assumed to follow a standard normal distribution, independent of the regressors $N(0,1)$ that account for exogenous influence factors. Since the coefficients of probit models do not directly reflect marginal effects on the probability of the outcome, marginal effects were computed to provide an economically meaningful interpretation. Accordingly, all the results reported in the paper refer to estimated marginal effects rather than to the raw coefficients of the probit model. The probit regression model was

¹ The binary variable *Tariff_shock* was constructed from a survey question measuring the perceived impact of tariffs, originally coded on a scale from 1 (very high impact) to 5 (no impact). For the estimation it has been defined a dichotomous variable equal to 1 for responses 1 and 2, and 0 otherwise. This choice is intended to capture the tariff effect more clearly, without diluting it by including intermediate cases.

adopted with reference to the models having *Turnover_drop* and *Tariff_shock* as dependent variables (Table 6, Model A, B, C, D, F, G, H and for robustness checks Table 8 models A, B, C, D). A standard OLS was instead adopted for the model having *Export_countries* as dependent variable (Table 6, Model, E) since it is a continuous variable (number of foreign markets served). The description of all variables is reported in Table 3, while Table 4 reports summary statistics.

To assess the potential concern of multicollinearity, Variance Inflation Factors (VIFs) have been computed for all explanatory variables, based on auxiliary OLS regressions. The results, reported in Table 5, show that VIF values range between 1.14 and 2.21 across the full set of covariates, including the key regressors of interest (tariff shock exposure, U.S. export status, and diversification). These values are well below the conventional threshold of 10 (Yoo et al., 2014), indicating that multicollinearity does not pose a serious issue in the hypotheses.

In cases where the dependent variable was continuous, the analysis was complemented by Ordinary Least Squares (OLS) regressions, both to evaluate specific relationships and to perform robustness checks. OLS was employed mainly to assess the link between U.S. export activity and country-export diversification, measured by the number of foreign markets served. The specification follows the classical form:

$$Y_i = \beta_0 + \beta_1 X_i + \delta^T C_i + \varepsilon_i \quad [2]$$

where Y_i denotes the diversification measure (number of foreign markets served), X_i is the binary indicator of exporting to the United States, C_i is the vector of control variables, and ε_i is the error term assumed to be mean zero and homoskedastic with finite variance $N(0, \sigma^2)$.

The framework developed investigates the simultaneous relationship between exporting to the United States, country-export diversification and expectations of turnover reduction. In particular, we investigate whether the relationship between exporting to the United States and firms' expectations of turnover reduction operates through a mediation channel related to the country-export diversification. More specifically, if exporting to the U.S. is expected to yield a negative (positive) effect on turnover reduction expectations, it is possible to investigate whether there exists a mediation channel capable of influencing this effect. Following Hayes (2018), a mediation framework has been adopted in which international diversification – proxied by the number of foreign markets served – is specified as the mediating variable between U.S. export activity and turnover expectations. Within this setting, the Structural Equation Model (SEM) is employed to disentangle the mechanisms at work. The model allows us to quantify: 1) the direct effect of exporting to the United States on the likelihood of reporting expected turnover reduction; 2) the indirect effect transmitted through country-export diversification, and 3) the total effect obtained by combining the two. This approach provides a systematic assessment of whether diversification mitigates the impact of tariff shocks on firms' expectations. Formally, the SEM can be expressed through the following set of equations:

$$\text{Mediator } (M_1): M_{1i} = \iota_{M_1} + \alpha_1 X_i + d_1^T C_i + \varepsilon_{M_{1i}} \quad [3]$$

$$\text{(Outcome) } Y: Y_i = \iota_Y + c' X_i + b_1 M_{1i} + d_4^T C_i + \varepsilon_{Yi} \quad [4]$$

where M_i denotes the mediator, measured by the firm's degree of international diversification and proxied by the number of foreign markets served, which reflects the extent to which reliance on the U.S. market is offset by broader export activity. X_i is the treatment variable, defined as a binary indicator equal to 1 if firm i exports to the United States, capturing the firm's direct exposure to the U.S. market. The dependent variable, Y_i , is a binary outcome equal to 1 if the firm expects a reduction in turnover in 2025 and zero otherwise, thus representing firms' perceptions of their vulnerability to adverse trade shocks. Finally, C_i is a vector of firm-level controls that accounts for observable heterogeneity in size (as number of employees), age, geographic location, and industry affiliation. In this specification, the SEM framework allows us to distinguish between different channels through which U.S. export activity affects expectations of turnover reduction. The coefficient c' identifies the direct effect, capturing the impact of exporting to the United States on turnover expectations net of diversification. The parameters a and b jointly determine the indirect effect, which operates through the mediator: exporting to the United States increases (or decreases) the degree of diversification (a), and diversification in turn reduces (or amplifies) the likelihood of expecting a turnover decline (b). The product ab thus quantifies the mediated channel. The total effect of U.S. export activity on firms' turnover expectations is given by the sum of the direct and indirect effects, $c' + ab$, which provides a comprehensive measure of how exporting to the United States shapes firms' perceived exposure to tariff shocks, both through immediate dependence on that market and through the mitigating role of diversification.

Table 3: Variables Description

Variables	Type	Description
Dependent variable		
<i>Turnover_drop</i>	Dummy	1 = if the firm reports expectations of a turnover reduction in 2025; 0 = Otherwise
Main Independent variables		
<i>Tariff_shock</i>	Dummy	1 = if the firm declares being affected by tariff shocks; 0 = Otherwise
<i>Export_countries</i>	Discrete	Number of countries the firm exports to
<i>Exp_US</i>	Dummy	1 = if the firm exports to the U.S.; 0 = Otherwise
<i>Tariff_shock_dirUS</i>	Dummy	1 = if the firm declares being affected directly by tariff shocks; 0 = Otherwise
<i>Tariff_shock_indUS</i>	Dummy	1 = if the firm declares being affected indirectly by tariff shocks; 0 = Otherwise
<i>Tariff_shock_divstrat</i>	Dummy	1 = if the firm declares that it will adopt diversification strategies in response to tariff shocks; 0 = Otherwise
Control variables		
<i>Age</i>	Discrete	Number of years since inception
<i>Employees</i>	Discrete	Number of employees
<i>Geographical location</i>		
<i>Region_NO</i>	Binary	1 = if firm belongs to North West Italy geographical area; 0 = Otherwise
<i>Region_NE</i>	Binary	1 = if firm belongs to North East Italy geographical area; 0 = Otherwise
<i>Region_CE</i>	Binary	1 = if firm belongs to Centre Italy geographical area; 0 = Otherwise
<i>Region_SI</i>	Binary	1 = if firm belongs to South and Islands Italy geographical area; 0 = Otherwise
<i>Industry</i>		
<i>Ind_food</i>	Binary	1 = if firm belongs to Food Industry; 0 = Otherwise
<i>Ind_textile</i>	Binary	1 = if firm belongs to Textile Industry; 0 = Otherwise
<i>Ind_wood</i>	Binary	1 = if firm belongs to Wood Industry; 0 = Otherwise
<i>Ind_chem</i>	Binary	1 = if firm belongs to Chemicals Industry; 0 = Otherwise
<i>Ind_minerals</i>	Binary	1 = if firm belongs to Minerals Industry; 0 = Otherwise
<i>Ind_metals</i>	Binary	1 = if firm belongs to Metals Industry; 0 = Otherwise
<i>Ind_elec</i>	Binary	1 = if firm belongs to Electric Industry; 0 = Otherwise
<i>Ind_mech</i>	Binary	1 = if firm belongs to Mechanics Industry; 0 = Otherwise
<i>Ind_furniture</i>	Binary	1 = if firm belongs to Furniture Industry; 0 = Otherwise

Table 4: Summary Statistics

	Obs.	Mean	Std. Dev	Min	Max
Dependent variable					
<i>Turnover_drop</i>	2,370	.236	.425	0	1
Main Independent variables					
<i>Tariff_shock</i>	2,370	.19	.393	0	1
<i>Export_US</i>	2,370	.177	.382	0	1
<i>Export_countries</i>	1,049	16.277	21.016	0	123
<i>Tariff_shock_dirUS</i>	2,370	.146	.353	0	1
<i>Tariff_shock_indUS</i>	2,370	.070	.255	0	1
<i>Tariff_shock_divstrat</i>	2,370	.1	.30	0	1
Controls					
<i>Employees</i>	2,370	59.816	72.822	4.5	491.040
<i>Age</i>	2,370	31.300	16.56	0	191
<i>Region_NO</i>	2,370	.363	.481	0	1
<i>Region_NE</i>	2,370	.320	.470	0	1
<i>Region_CE</i>	2,370	.177	.382	0	1
<i>Region_SI</i>	2,370	.140	.347	0	1
<i>Ind_food</i>	2,370	.121	.326	0	1
<i>Ind_textile</i>	2,370	.104	.306	0	1
<i>Ind_wood</i>	2,370	.078	.269	0	1
<i>Ind_chem</i>	2,370	.097	.296	0	1
<i>Ind_minerals</i>	2,370	.048	.215	0	1
<i>Ind_metals</i>	2,370	.197	.397	0	1
<i>Ind_elec</i>	2,370	.081	.273	0	1
<i>Ind_mech</i>	2,370	.155	.362	0	1
<i>Ind_forniture</i>	2,370	.117	.362	0	1

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

Table 5: Variance Inflation Factor (VIF)

Variable	VIF
<i>Tariff_shock</i>	1.44
<i>Export_US</i>	1.84
<i>Export_countries</i>	2.20
<i>Tariffs_shock_dirUS</i>	1.57
<i>Tariffs_shock_indUS</i>	1.14
<i>Tariff_shock_divstrat</i>	1.16
<i>Region_NE</i>	1.32
<i>Region_CE</i>	1.28
<i>Region_SI</i>	1.32
<i>Ind_food</i>	1.75
<i>Ind_textile</i>	1.59
<i>Ind_wood</i>	1.73
<i>Ind_chem</i>	1.41
<i>Ind_minerals</i>	2.12
<i>Ind_metals</i>	1.68
<i>Ind_elec</i>	2.21
<i>Ind_mech</i>	1.72
<i>Age</i>	1.14
<i>Employees</i>	1.48
The VIF is calculated after OLS regression.	

7. Results and discussion

7.1 Tariffs shock and turnover expectations

The results of the empirical analysis are reported in Table 6, which displays the marginal effects obtained from the probit estimations, and the coefficient in the case of OLS. All regressions were estimated *ceteris paribus*, incorporating controls for geographical area, firm age, firm size, and industry. The specification and description of these controls are provided in the previous Tables 3 and 4.

Regarding the first model (Table 6, Model A), we test the hypothesis that tariffs affect firms' expectations regarding turnover. We find that firms reporting exposure to U.S. tariffs exhibit a higher probability of expecting a decline in turnover in 2025 (*Turnover_drop*): the marginal effect (ME) of the variable *Tariff_shock* (binary = 1 if the firm declares being affected by tariff shock) is positive and statistically significant (ME = 0.055, $p < 0.01$). This finding constitutes the first and most salient evidence of the effects of tariffs on firms' performance expectations.

Building on this first result, a natural extension of the analysis consists of augmenting the baseline model with an additional control variable: a binary indicator of firms' export activity toward the United States (*Export_US*) (Table 4, Model B). This allows us to control for a potential cofounder factor since the tariffs may mainly influence the firms exporting to the U.S. The results of the probit estimation indicate, for the variable *Tariff_shock*, an increase both in the magnitude of the Marginal Effect (ME) and in the statistical significance of the effect captured by the baseline model (ME = .060, $p < 0.01$). Conversely, the variable *Exp_USA* is positive but is not statistically significant (ME = -.031, $p > 0.1$). These findings suggest that the effect of tariffs cannot be explained merely by whether a firm exports directly to the United States. Rather, the shock exerts a systemic impact that permeates the broader production fabric, increasing the likelihood of turnover reduction even for firms not directly engaged in the U.S. market. In other words, tariffs generate indirect transmission effects – through costs, supply chains, and domestic competition – that shape firms' expectations regardless of their degree of direct integration with the U.S. economy.

7.2 Tariff shocks and turnover expectations: disentangling the role of U.S. exporting

Given the availability of firm-level information on exports to the U.S., it was deemed appropriate to distinguish the effect of the *Tariff Shock* across two sub-samples: firms directly exporting to the United States and those not engaged in that market (Table 6, Models C and D). For this purpose, the baseline probit model was estimated separately for the two groups. The results obtained appear, at first glance, counterintuitive. In the sub-sample of non-exporting firms to the U.S., the marginal effect of the *Tariff Shock* is even higher than in the previous estimates, amounting to .081 and significant at the 1% level. By contrast, in the sub-sample of direct exporters to the United States, the estimated effect is very small (ME = .005) and not statistically significant.

These findings suggest that the impact of tariffs does not primarily concentrate on firms directly exposed to the U.S. market, but rather spreads more intensely through indirect channels, affecting, above all, firms operating exclusively in the other markets.

Considering these last results, another question concerns whether firms exporting to the United States exhibit a higher degree of export country-diversification compared to those without direct commercial ties to this destination. This issue is relevant since, as explained above, the probit estimates indicate that the tariff shock effect is concentrated almost exclusively among firms not directly linked to the U.S. market. Table 7 reports descriptive statistics for the variable *Export_countries* (continuous variable measures the total number of countries reached by a firm's exports) in the two subsamples of exporters and non-exporters to the United States. As shown in Table 7, firms exporting to the United States display, on average, a much higher level of diversification: on average, around 33 countries served, compared with the average of around 6 countries for non-exporters to the U.S.²

Furthermore, when estimating a linear regression with *Export_countries* as the dependent variable and *Export_US* (binary = 1 if the firm exports to the U.S.) as the main explanatory variable, the effect emerges as markedly strong. *Ceteris paribus*, the estimated coefficient of *Export_US* is 19.323 and highly significant ($p < .01$) (Table 6, Model E). These findings suggest that firms exporting to the United States are significantly more diversified in their international markets. This higher degree of diversification can provide a buffer against country-specific shocks, allowing these firms to reallocate exports and mitigate losses when confronted with adverse trade measures. By contrast, firms without direct commercial ties to the U.S. market typically operate with a much narrower export base. Their limited export country diversification makes them more vulnerable to spillover effects from tariffs—such as higher input costs, disruptions in global value chains, or intensified domestic competition—since they have fewer alternative markets in which to absorb these pressures.

Taken together, these results provide a coherent explanation for the apparently counterintuitive evidence from the probit models: the stronger impact of tariff shocks on non-U.S. exporters is not attributable to their direct exposure, but rather to their weaker diversification and, consequently, their lower capacity to absorb and redistribute risk across multiple markets.

7.3 Tariff Shocks and turnover expectations: how export country diversification works

Given the strong association between U.S. exporters and broader international market diversification, as documented above, the natural extension of the analysis is to inquire whether it is not merely the act of exporting to the United States *per se*, but rather the degree of diversification that conditions the likelihood of reporting tariff shocks. To address this point, two probit specifications are presented in Table 6. In both cases, the dependent variable is *Tariff_shock*.

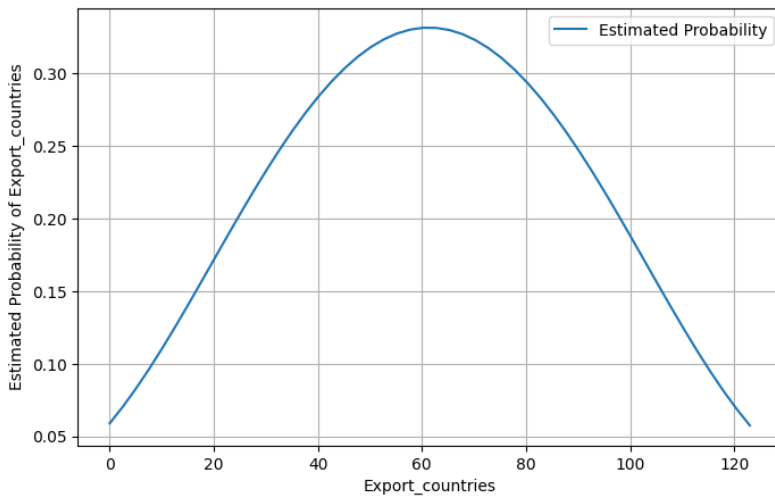
This exercise not only corroborates the results previously obtained but also provides a broader extension of the analytical paradigm under development. By shifting the focus from the mere presence of export ties with the U.S. to the more general dimension of international market diversification, the analysis moves beyond a binary distinction and uncovers a richer structure of heterogeneity in firms' exposure to tariff shocks. Model F (Table

² The distribution is also markedly wider in the first group: the number of destination countries ranges from a minimum of 1 to a maximum of 123, with a standard deviation of approximately 22. In contrast, among non-exporters to the United States, the range extends from 0 to 77 countries, with a lower standard deviation of about 11.

6) introduces *Export_countries* as the main explanatory variable, while the dependent variable (*Tariff_shock*) is the probability of being affected by the tariff shock. By incorporating the squared term of *Export_countries* to capture potential nonlinearities, we find that while the linear term is positive and statistically significant ($p < .01$), the squared term turns negative and equally statistically significant ($p < .01$).

The illustration of the non-linear relation between the two variables *Export_countries* and *Turnover_drop* is reported in Figure 8. This concavity is far from trivial. It indicates that the marginal effect of diversification is not constant but instead follows an inverted-U trajectory.

Figure 8. Predicted probability of tariff shock by the number of export destination countries



Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey and Istat data

At lower levels of diversification, expanding the number of export destinations indeed heightens the probability of perceiving tariff shocks, as firms extend their commercial presence and, with it, their susceptibility to the ripple effects of trade restrictions. Yet, as diversification deepens and the portfolio of foreign markets broadens further, the dynamic shifts: the negative quadratic term reveals that additional destinations progressively mitigate the perceived exposure. In other words, once a critical threshold of international diversification is crossed, firms appear to move from vulnerability to resilience. At this stage, the multitude of markets functions as a protective shield, allowing adverse shocks in one area to be compensated by stability or growth in others.

Considering the sequence of results presented so far, it is possible to return to the original probit specification in which the dependent variable is *Turnover_drop*, namely the probability that firms declare expectations of a reduction in revenues. At this final stage, however, the model is enriched by the inclusion of two additional explanatory variables that have emerged as central in the preceding analyses: the dummy for direct exporting to the United States (*Export_US*) and the continuous measure of the number of export destinations (*Export_countries*).

This specification, reported as Model G in Table 6, therefore brings together the key dimensions of the analysis:

- i) exposure to tariff shocks (*Tariff_shock*); ii) direct commercial linkages with the U.S. market (*Export_US*);
- iii) and the degree of diversification of international activities (*Export_countries*). The results mark a turning

point in the interpretation of the mechanisms at play. The marginal effect of *Tariff_shock* remains positive (ME = 0.30) but loses statistical significance, as does *Export_US* (ME = .027). In contrast, *Export_countries* emerges as statistically significant and negative (ME = -0.002, $p < .10$).

Table 6. Baseline results: U.S. tariffs and effect, turnover expectations and country export diversification

	All firms	All firms	Firms not exporting to the U.S.	Firms exporting to the U.S.	All firms	All firms	All firms
	Probit	Probit	Probit	Probit	OLS	Probit	Probit
	Turnover_ drop	Turnover_ drop	Turnover_ drop	Turnover_ drop	Export_ countries	Tariff_ shock	Turnover_ drop
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
Main Independents							
Tariff_shock	.055** (.022)	.060*** (.022)	.081*** (.026)	.005 (.100)			.030 (.034)
Export_US		-.031 (.024)			19.323*** (1.03)		.027 (.035)
Export_countries						.009*** (0.001)	-.002* (.001)
Export_countries_sq						-.001*** (.000)	
+ Controls							
Obs.	2,370	2,370	1,950	420	1,049	1,049	1,049
Pseudo - R2	.032	.032	.031	.059		.112	.053
R2					.532		

Sample of firms, regression model and dependent variable at the top of the column. The table displays: i) average marginal effects after probit regression and coefficients of OLS; ii) standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

Table 7. Number of export destinations: Comparing firms exporting to the U.S. and those not exporting

Variable	Obs	Mean	Std. Dev.	Min	Max
Firms exporting to the U.S.	420	32.464	21.778	1	123
Firms not exporting to the U.S.	1,950	5.469	11.330	0	77

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

This outcome is a substantive reconfiguration of the explanatory framework: what initially appeared as a direct effect of tariff shocks on firms' expectations of turnover reduction is, in fact, overshadowed once the role of diversification is accounted for. This implies that neither the perception of being directly affected by tariff measures nor the condition of exporting to the U.S. market *per se* can explain the propensity of firms to expect revenue losses once diversification is taken into consideration. Instead, it is export market diversification itself that matters. A broader export portfolio significantly lowers the probability that firms will anticipate a downturn in turnover.

In other words, diversification acts as a protective mechanism: firms that serve a wide range of markets are less likely to internalize the tariff shock as a threat to their turnover, since they can offset adverse conditions in one destination with stability or opportunities in others.

This finding resonates with the intuition developed in the previous models: firms with limited international reach—proxied by those not exporting to the U.S.—appear more exposed to tariff shocks, partly because their concentration leaves them without alternative outlets. By contrast, once a certain degree of diversification is reached, the exposure to country-specific shocks diminishes, and expectations of turnover loss become less sensitive to the trade measures imposed by the United States. In this sense, Model G offers not only a confirmation but also an extension of the broader paradigm under development: trade shocks matter, but their translation into firms' expectations of performance is filtered and conditioned by structural characteristics of internationalization.

Thus, the empirical evidence points toward a central conclusion: resilience to external shocks is not determined solely by geography (whether a firm exports to the U.S.) or by perception (declaring to be affected by tariffs), but rather by the underlying architecture of the export portfolio. The more diversified this portfolio, the lower the probability that shocks crystallize into pessimistic expectations about revenues. Diversification emerges therefore as the critical variable, transforming vulnerability into resilience and shaping the way firms anticipate and react to external disruptions.

7.4 The simultaneous relationship of U.S. exporting, country export diversification and turnover expectations

The analysis is further enriched through the specification of a Structural Equation Model (SEM), which allows for the disentanglement of the direct and indirect pathways linking U.S. export status to firms' expectations of a turnover drop.³ The illustration of the results of the application of the SEM model, as well as its main statistics, are reported in Figure 9 and in Table 8. As defined in equations [3] and [4], the model identifies *Export_countries* as the mediating variable (M_1), orienting the influence of *Export_US* (X) onto the outcome variable *Turnover_drop* (Y), while conditioning the full set of controls. In the mediator equation [3], the coefficient α_1 is positive and highly significant (19.328, $p < .01$), confirming that exporting to the United States is strongly associated with a substantially broader export country portfolio. In the outcome equation [4], the direct effect (c') of *Export_US* on *Turnover_drop* is positive but statistically insignificant (.028). By contrast, the path through the mediator – i.e., the indirect effect of *Export_US* on *Turnover_drop* – is both negative and significant (−0.26, $p < .10$). This suggests that country export diversification supports firms exporting to the U.S. in lowering the probability of a turnover decline.

This set of results carries two important implications. First, it demonstrates that exporting to the United States per se does not significantly increase the likelihood of expecting a reduction in revenues. Second, it highlights the central role of diversification: the expansion of export destinations associated with U.S. export status exerts

³ We chose the Structural Equation Modelling (SEM) to disentangle the direct and indirect effects among the variables. However, the test of correlation between the error terms of the equations is not significant, indicating that the results from the separate regressions reported above are statistically efficient.

a protective influence, lowering the probability of turnover decline. In other words, the structural mediation mechanism captured by equations [3] and [4] reveals that country diversification is not merely a correlate of internationalization, but the key factor that transforms exposure to trade policy shocks into resilience.

Figure 9. SEM Model visualization



Note: The figure reports the coefficients of the structural equation model including the control variables. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$, ns: not significant.

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

Table 8. SEM model statistics

	Coefficient	Std error
<i>Direct effect</i>		
Export_US → Turnover_drop	.028	.034
<i>Indirect effect</i>		
Export_US → Turnover_drop	-.026*	.017
<i>Total effect</i>		
Export_US → Turnover_drop	.002	.029

Note: control variables included. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

7.5 Robustness checks

The suggestions and results discussed thus far can be further validated through a set of robustness checks, presented in Table 9. This table reports four additional models designed to confirm the main hypotheses developed in the previous sections. The first specification (Table 9, Model A) investigates the effect of exporting to the United States on a binary outcome variable, *Tariff_shock_divstrat*, which indicates whether a firm plans to address the tariffs imposed by the Trump Administration through diversification strategies. Estimating a probit model with *Tariff_shock_divstrat* as the dependent variable, we find that *Export_US* yields a positive and statistically significant marginal effect (ME = 0.058, $p < .01$), conditional on the full set of controls. Substantively, it suggests that the more firms are directly exposed to the U.S. market, the more likely they are to adopt diversification strategies specifically as a response to tariff shocks. This is also valid for firms that declare being affected by tariff shocks (ME of *Tariff_shock*: 0.155, $p < 0.01$).

A further robustness exercise introduces a refinement of the tariff shock variable by distinguishing between two specific channels: *Tariff_shock_dirUSA*, which captures whether firms expect to be directly affected by U.S.

tariffs, and *Tariff_shock_indUSA*, which instead captures indirect exposure, for example through supply chains or competitive pressures. Both variables are defined conditional on firms reporting the experience of a tariff shock. Three probit models were therefore estimated with *Turnover_drop* as the dependent variable and alternative combinations of these channels as the main explanatory variables, separately for exporters and non-exporters to the U.S.

Model B in Table 9 estimated the subsample of exporters to the U.S. The results indicate that *Tariffs_shock* is positive (.20) but not significant, while *Tariff_shock_dirUSA* is negative (−.042) and likewise insignificant. Model C in Table 9, also restricted to exporters to the U.S., includes *Tariffs_shock* and *Tariff_shock_indUSA*. Here the coefficients do not remain statistically significant. By contrast, Model D, estimated on the subsample of non-exporters to the U.S., yields a very different pattern: both *Tariffs_shock* (ME = .062, $p < .05$) and *Tariff_shock_indUSA* (ME = 0.112, $p < .01$) are positive and statistically significant.

Table 9. Robustness Check: Heterogeneous response strategies to U.S. tariffs among firms exporting to the U.S. and those not exporting

	All firms	Firms exporting to the U.S.	Firms exporting to the U.S.	Firms not exporting to the U.S.
	Probit	Probit	Probit	Probit
	Tariff_shock_divstrat	Turnover_drop	Turnover_drop	Turnover_drop
	(A)	(B)	(C)	(D)
Main Independents				
Tariffs_shock	.155*** (.012)	.020 (.044)	-.005 (.042)	.062** (.023)
Export_US	.058*** (.013)			
Tariff_shock_dirUS		-.042 (.045)		
Tariff_shock_indUS			.079 (.066)	.112*** (.037)
+ Controls				
Obs.	2,370	420	420	1,950
Pseudo - R2	.188	.061	.062	.036

Sample of firms, regression model and dependent variable at the top of the column. The table displays average marginal effects after probit regression; ii) standard errors in parentheses. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

Taken together, these three robustness checks provide strong confirmation of the analytical framework developed so far. The results show that tariff shocks exert a marked and statistically significant effect only on firms that do not export to the United States, and crucially this effect operates through the indirect channel. By contrast, firms that do export to the U.S. appear essentially indifferent to tariff shocks, with neither the direct nor the indirect measures producing significant changes in their turnover expectations.

This asymmetry conveys two important insights. First, exporting to the United States functions as a proxy for a broader structural characteristic: the degree of international market diversification. Firms exporting to the U.S. market are not insulated from tariffs because of geography alone, but because their wide portfolio of markets

allows them to dilute the risks of country-specific shocks. Second, the strong marginal effects observed among non-exporters point to the role of uncertainty in shaping expectations. The Trump tariffs, conceived as much a political manoeuvre as an economic measure, generated a climate of uncertainty that weighed most heavily on firms with narrow export portfolios. Such firms, concentrated in a limited set of markets, anticipated that sooner or later the repercussions of U.S. trade policy would reach them as well. In this sense, the significant coefficients in the non-exporter to the U.S. subsample capture not only the transmission of costs and competitive pressures but also the broader expectation that political shocks, by their very nature, eventually spread beyond their immediate targets.

7.6 The Role of the Single Market in Firms' Export Diversification Strategies

Among the possible diversification strategies, and considering Italy's membership in the European Union, it is particularly relevant to explore the role of the EU Single Market. To this end, we disentangle firms' country diversification strategies by distinguishing between those oriented towards EU markets and those targeting extra-EU regions.

The results, presented in Table 10, indicate that firms declaring to have been affected by tariffs (*Tariffs_shock*), as well as those exporting to the United States (*Export_US*), are more likely to pursue export market diversification strategies, both within the EU and beyond. However, it is worth noting that the marginal effect is stronger for diversification within the EU Single Market compared to extra-EU regions (ME = 0.128 vs. 0.075) – with regard to firms affected by tariffs (*Tariffs_shock*).

Table 10. Firms' Export Diversification across EU and Extra-EU Markets

	Tariff_shock_ divstrat	Tariff_shock _divstrat_UE	Tariff_shock_div strat_extraUE
	(A)	(B)	(C)
Main Independents			
Tariffs_shock	.155*** (.012)	.128*** (.011)	.075*** (.010)
Export_US	.058*** (.013)	.032*** (.012)	.038*** (.010)
+ Controls			
Obs.	2,370	2,370	2,370
Pseudo - R2	.188	.166	.153

Sample of firms, regression model and dependent variable at the top of the column. Tariff_shock_divstrat_UE: dummy variable = 1 if the firm declares that it will adopt diversification strategies targeting the EU market in response to tariff shock. Tariff_shock_divstrat_extraUE: dummy variable = 1 if the firm declares that it will adopt diversification strategies targeting the extra-EU market in response to tariff shock. The table displays average marginal effects after probit regression; ii) standard errors in parentheses. *** p < 0.01, ** p < 0.05, * p < 0.1.

Source: Authors' elaborations on Centro Studi Tagliacarne 2025 survey

8. Conclusion

The reorientation of U.S. trade policy under President Trump has been more than a temporary deviation from trade liberalization. Indeed, it has redefined the environment within which globally integrated firms operate. For Italian manufacturers, this shift has meant grappling with higher costs, shifting market access, and, most importantly, pervasive uncertainty. Against this backdrop, the present study offers timely empirical evidence on the impact of Trump's tariffs on Italian enterprises. To the best of our knowledge, it represents one of the first empirical contributions at the firm level on this issue. Specifically, the paper set out to investigate three main research questions. First, simply put, whether tariffs had any influence on the firms' forward-looking expectations. Second, whether direct exposure to the U.S. market had any effect on turnover. Finally, given the relevance of diversification within the current geoeconomic environment, it is worth examining whether international market diversification in trade mediates the impact of tariffs on firms.

The analysis reveals that tariff shocks significantly shape firms' turnover expectations, though the transmission mechanisms are not confined to direct exposure. Instead, spillover effects operate more strongly through indirect channels, disproportionately affecting firms with limited export market diversification. By contrast, firms exporting to the U.S. market—characterized by broader international portfolios—are better positioned to mitigate adverse trade measures, as diversification provides alternative markets to absorb negative shocks. Moreover, the findings point to a non-linear role of diversification: at low levels, expanding the number of destinations may heighten vulnerability. However, besides being a critical threshold, it becomes a source of resilience, enabling firms to offset losses in one market with stability in others. Overall, export market diversification emerges as the pivotal mechanism through which internationalization transforms exposure to trade policy shocks into a buffer against revenue declines.

A – Policy recommendations

The findings, therefore, underscore the centrality of market diversification in shaping firms' resilience to trade policy shocks. Nevertheless, policy implications must be drawn with full awareness of the fact that entering new markets requires substantial fixed costs in marketing, certification, compliance, logistics, and distribution networks. These barriers weigh particularly heavily on smaller enterprises, which often lack the resources and know-how to overcome them. As a result, less diversified firms are more exposed to international policy shocks, such as sudden tariff changes, and their expectations deteriorate more severely in times of global uncertainty. This fragility extends beyond firms directly exporting to the U.S., affecting the wider production system and highlighting systemic asymmetries that undermine resilience.

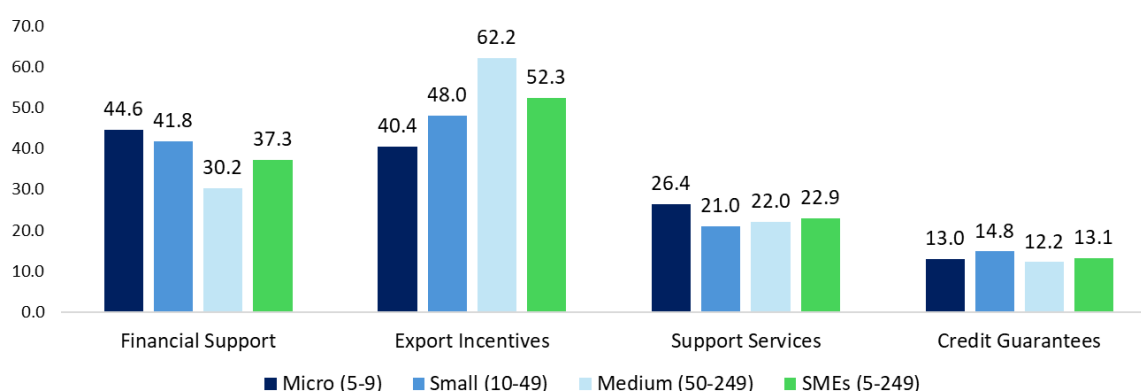
More specifically, policies should work on two levels. At the micro level, policies should aim to lower the barriers to market diversification and provide SMEs with concrete support to internationalize through different interventions, such as: i) financial instruments (grants, soft loans, co-financing, vouchers) to mitigate the fixed costs of entering new markets; ii) tailored support services (training, regulatory assistance, market intelligence, B2B platforms); iii) credit guarantees and risk-sharing mechanisms to facilitate access to financing and protect firms against the risks of international transactions.

A concrete best practice in this area is the SEI Project (Support for Italy's Export), launched by Unioncamere (Italian Union of Chambers of Commerce). The initiative leverages the Chamber of Commerce system to guide

firms abroad through information, training, and guidance services. Since 2021 more than 10,500 enterprises have benefited from the project, receiving over 62,000 specialized services with the support of dedicated export promoters. This experience demonstrates how territorial institutions can act as effective catalysts, translating industrial policy objectives into practical, accessible tools for SMEs.

According to the results of the Centro Studi Tagliacarne-Unioncamere 2025 survey (Figure 10), export incentives emerge as the primary support instrument requested by enterprises. However, it is worth noting that instruments more closely related to direct assistance—such as financial support and service provision—are disproportionately requested by smaller firms, thereby confirming the crucial role of institutions in sustaining the competitiveness of SMEs. Furthermore, policies should primarily focus on increasing firms' export intensity and, secondarily, on expanding the number of exporting firms and also on the country export diversification. This is because, compared with the EU average, Italy performs below in the former case and above in the latter two (Figures A3-A4 in Appendix).

Figure 10. Most effective support instruments for mitigating the impact of Trump's tariffs, % (multiple choice)



Source: Centro Studi Tagliacarne, 2025 survey

At the macro level, industrial and trade policies must create a more favourable environment for exporters in at least two directions. The priority, in this regard, is strengthening the EU Single Market by reducing regulatory fragmentation, increasing transparency, and cutting red tape, particularly in services and product standards. According to the Eurochambres survey (Eurochambres, 2024), the effective functioning of the EU Single Market is hindered by several barriers, including heterogeneous contractual and legal practices, divergent national regulations in the provision of services, limited transparency regarding country-specific requirements, regulatory burdens, discrepancies in national product standards, and restricted access to reliable information. Collectively, these factors generate a fragmented business environment that constrains firms' capacity to exploit the full potential of the Single Market.

Furthermore, the pursuit of new trade agreements with key partners is essential to broaden market opportunities and reduce excessive reliance on a limited number of destinations. In this respect, the political agreement between the EU and the four founding members of Mercosur for a ground-breaking EU-Mercosur Partnership Agreement represents a significant step forward, as it addresses tariff barriers and other critical issues at a time when global trade relations risk being shaped predominantly by unilateral measures. The

agreement with Chile and Indonesia, as well as the negotiation for a comprehensive Free Trade Agreement with India, go in the same direction.

Ultimately, these results point to the return of industrial policy and renewed concerns for economic security, both of which rest on the concept of de-risking (Juhász et al., 2024; Farrell and Newman, 2025). According to an Economist Intelligence Unit survey (Economist Impact, 2025) conducted among business leaders worldwide, the third most cited reason for optimism about the future is the growing attention and support provided by national governments. Export diversification should not be seen, therefore, as the sole responsibility of individual firms, but as a collective good. Territorial institutions such as Chambers of Commerce – particularly well placed to assist SMEs – are essential intermediaries that lower entry barriers and extend the reach of policy measures. The territorial dimension is indeed a key factor, given the marked heterogeneity in exposure to exports to the United States across provinces (Figure A5 in Appendix). Repositioning these institutions at the centre of industrial strategy ensures that resilience is built from the bottom up, reinforcing local ecosystems while enhancing the competitiveness of the national economy.

B – Limitations and directions for future research

The several limitations of this study point to promising avenues for future research. First, it would be valuable to examine the effects of Trump's tariffs across sectors, given the heterogeneous nature of their trade relationships with the United States. Second, a specific focus on multinational firms could provide important insights into corporate strategies and behaviour in the face of tariff shocks. Third, further investigation into how the degree of export exposure to the U.S. shapes the impact of tariff shocks on firms would contribute to a more nuanced understanding of these dynamics.

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10. Appendix

Table A1. Number of Italian manufacturing exporting Firms: comparing firms exporting to the U.S. and those not exporting to the U.S., 2022

Size Class	Firms exporting to U.S.	Firms not exporting to U.S.	Total exporting firms
<i>Number of firms</i>			
Micro	6,904	16,769	23,673
Small	10,841	16,143	26,984
Medium	5,353	3,067	8,420
Large	1,121	225	1,346
Total exporting firms	24,219	36,204	60,423
<i>Percentage By Row</i>			
Micro	29.2%	70.8%	100%
Small	40.2%	59.8%	100%
Medium	63.6%	36.4%	100%
Large	83.3%	16.7%	100%
Total exporting firms	40.1%	59.9%	100%
<i>Percentage By Column</i>			
Micro	28.5%	46.3%	39.2%
Small	44.8%	44.6%	44.7%
Medium	22.1%	8.5%	13.9%
Large	4.6%	0.6%	2.2%
Total exporting firms	100%	100%	100%

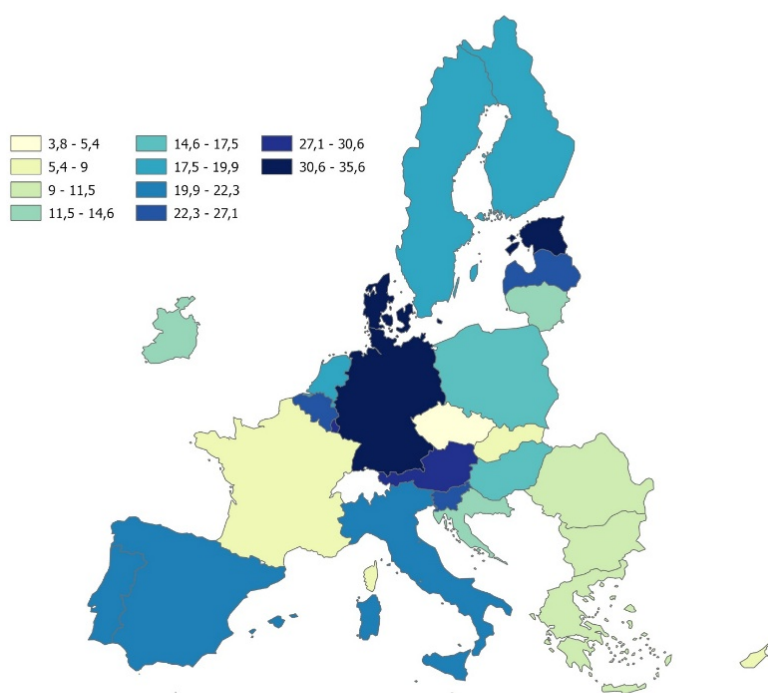
Source: Centro Studi Tagliacarne elaboration on Istat data

Table A2. Export value of Italian manufacturing firms: comparing firms exporting to the U.S. and those not exporting to the U.S., 2022

Size Class	Value of export to U.S.	Value of export not to U.S.	Total export value
Value (billion euro)			
Micro	729.5	5,676.8	6,406.3
Small	4,701.6	51,372.7	56,074.3
Medium	14,650.9	133,821.2	148,472.0
Large	28,976.8	212,548.4	241,525.2
Total exporting firms	49,058.8	403,419.1	452,477.9
Percentage By Row			
Micro	11.4%	88.6	100%
Small	8.4%	91.6	100%
Medium	9.9%	90.1	100%
Large	12.0%	88.0	100%
Total exporting firms	10.8%	89.2	100%
Percentage By Column			
Micro	1.5%	1.4%	1.4%
Small	9.6%	12.7%	12.4%
Medium	29.9%	33.2%	32.8%
Large	59.1%	52.7%	53.4%
Total exporting firms	100%	100%	100%

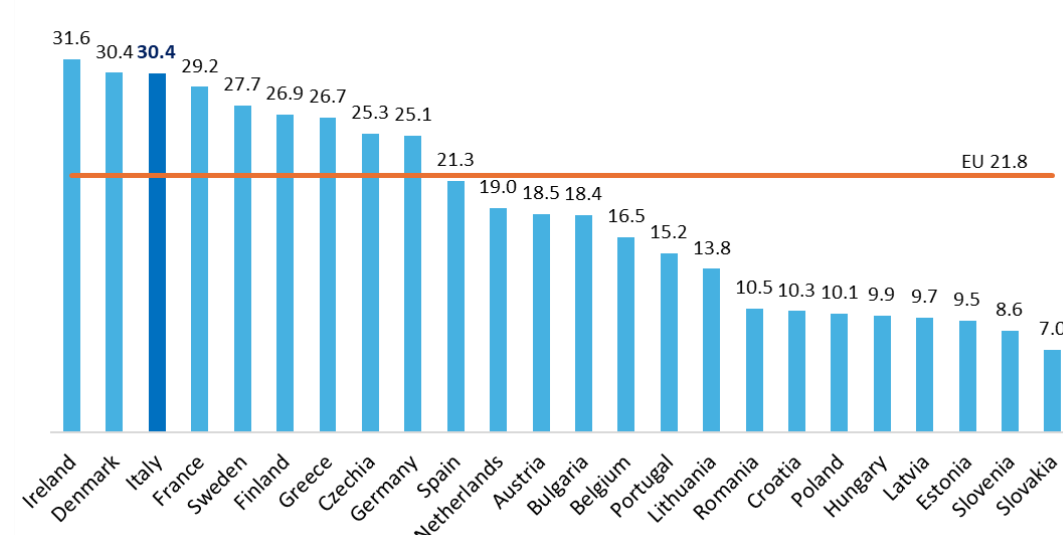
Source: Centro Studi Tagliacarne elaboration on Istat data

Figure A1: Exporting firms as a share of total firms, manufacturing, 2023



Source: Centro Studi Tagliacarne elaboration on Eurostat data

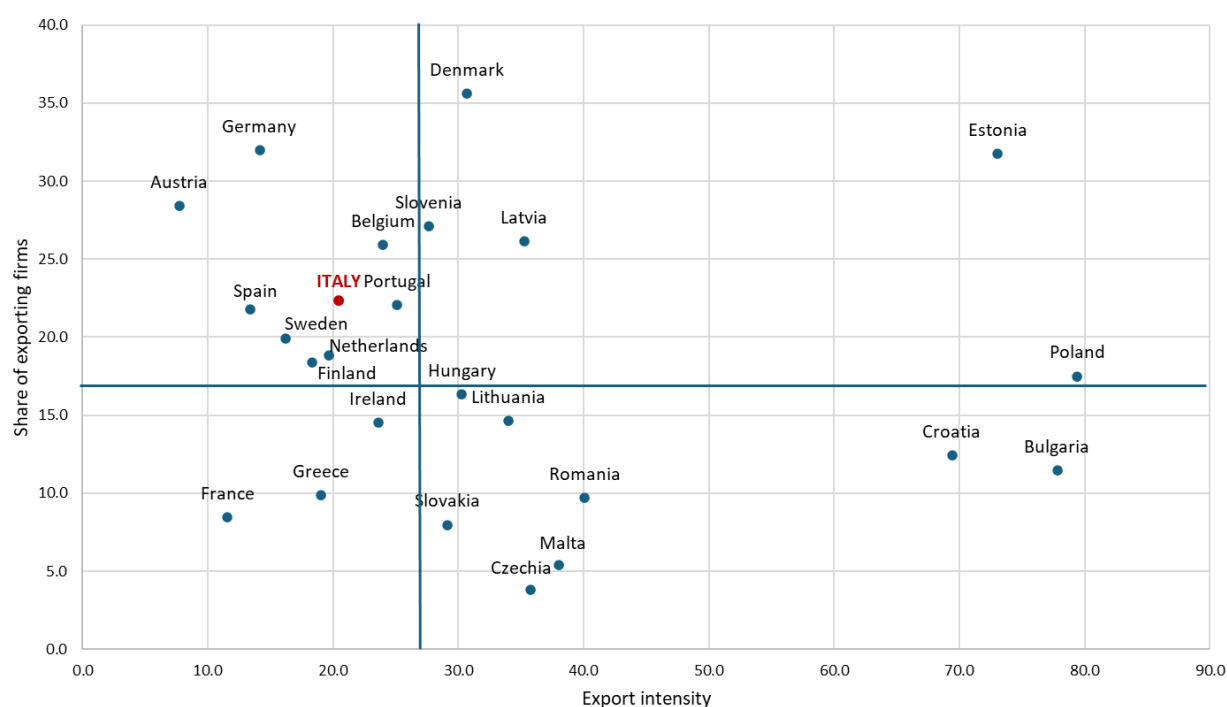
Figure A2: Share of exporting firms to the United States over total exporting firms, industry except construction, 2023 (%)



N.B: Cyprus, Luxembourg and Malta data not available. The share for Italy differs from those reported in Table A1 due to a slight difference in the definition of exporting firms and to the different sector of activity considered.

Source: Centro Studi Tagliacarne elaboration on Eurostat data

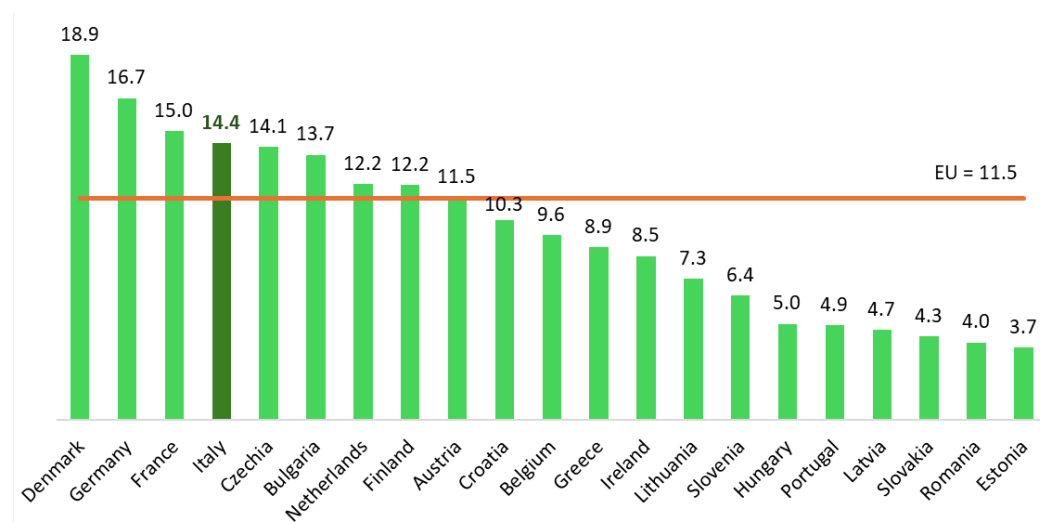
Figure A3: Share of exporting firms and export intensity, manufacturing, 2023



Share of exporting firms: Manufacturing exporting firms as a share of total manufacturing firms. Export intensity: Share of manufacturing exporting firms with exports accounting for 50% or more of total turnover

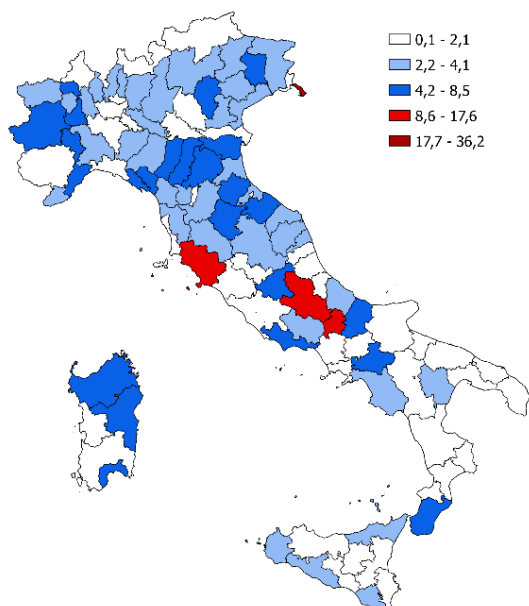
Source: Centro Studi Tagliacarne elaboration on Eurostat data

Figure A4: Export country diversification: Share of firms exporting to 20 or more countries out of total exporting firms, industry except construction, 2023 (%)



Source: Centro Studi Tagliacarne elaboration on Eurostat data

Figure A5: Share of exports to the United States in total turnover, 2022 (%)



Source: Centro Studi Tagliacarne elaboration on Istat data