CHART OF THE WEEK

4 March 2026

US-CHINA TARIFFS AND THE GLOBAL REALLOCATION OF CHINESE EXPORTS: IMPLICATIONS FOR ITALY

In 2025, US-China trade tensions led to a sharp drop in US imports from China, while Chinese exports to other regions increased, indicating early signs of trade diversion. For Italy, estimates point to limited but notable export displacement, concentrated in specific sectors, alongside potential gains from lower-cost Chinese intermediate and capital goods. Italian firms report stronger competitive pressures and heightened uncertainty, particularly among exporters. Despite the challenges posed by tariffs and the redirection of Chinese exports in 2025, Italian exports have proved resilient, with growth recorded especially towards the United States.

US import growth weakened markedly in 2025, driven by a sharp decline in imports from China amid escalating trade tensions. At the same time, Chinese exports proved resilient overall[1], growing by 5.5% despite a 20% fall in shipments to the United States. Export growth to other regions remained robust, notably to the Eurozone (+8%), ASEAN (13%), Latin America (7%) and Africa (26%). A key question arises as to whether and to what extent this trend indicates trade diversion in response to higher US tariffs or other adjustment mechanisms: indeed, delays in implementation and policy uncertainty complicate a timely assessment of tariff-induced trade reallocation.

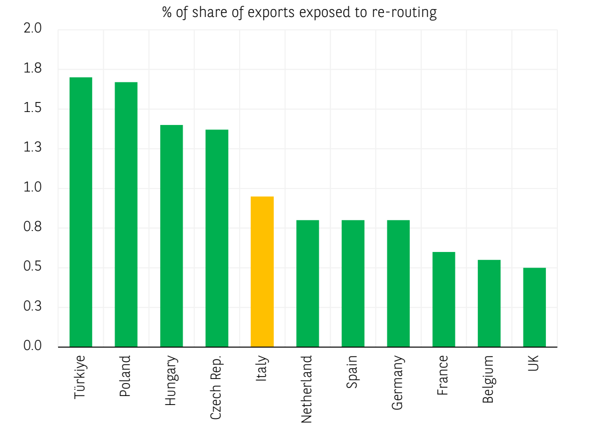
Although the empirical evidence is still limited, early indications of trade diversion are apparent, especially in consumer goods, where higher US tariffs on Chinese products are accompanied by a notable rise in Chinese export growth to other destinations. Based on alternative trade elasticity assumptions[2], Chinese exports to the US could decline by between USD 90 bn and USD 310 bn per year[3].

The Bank of Italy has estimated, for a selection of countries, the share of exports that could be displaced by surplus Chinese supply resulting from trade deflection[4]. For Italy, displaced exports would represent approximately 1% of total exports under the upper-bound elasticity scenario (around EUR6.4 bn). While lower than in most emerging market economies, this share is among the highest in advanced economies, especially when compared to Germany and France (*see chart, left panel*). Under the lower-bound elasticity scenario, the share falls to approximately 0.3% (around EUR 1.9 bn).

Italy's Sectoral Exposure to Chinese Trade Deflection

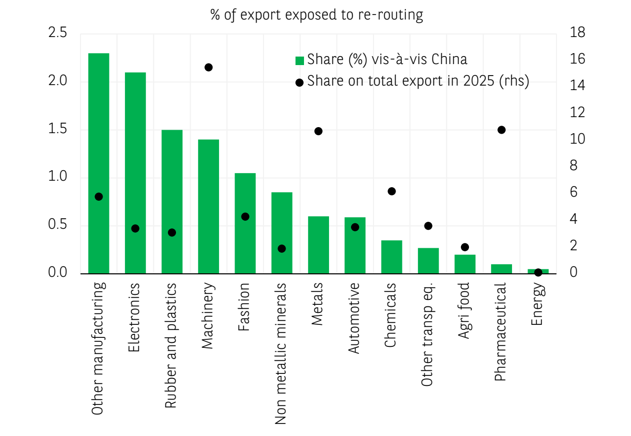
The impact varies significantly across sectors (*see chart, right panel*). The most affected industries include other manufacturing (such as toys), electronics, rubber and plastics, and machinery. By contrast, pharmaceuticals and other transport equipment, although highly exposed to US tariffs, show below-average exposure to trade deflection.

Trade deflection of Chinese goods might impact Italy's exports marginally, although more than Germany's and France's



SOURCE: BANK OF ITALY, ISTAT, BNL CALCULATIONS

Italy's sectoral exposure to Chinese trade deflection varies significantly across sectors



SOURCE: BANK OF ITALY, ISTAT, BNL CALCULATIONS

1 ECB, "Global trade redirection: tracking the role of trade diversion from US tariffs in Chinese export developments", in Economic Bulletin, Issue 1/2026.
2 A lower bound of -0,75 and an upper bound of -2,5, consistent with estimates from the 2018-2019 US-China trade war.
3 Bank of Italy, "The effects of US tariffs on Italian firms: an ex ante micro-level perspective", Questioni di economia e finanza, no 994, December 2025.
4 For each product, the Chinese exports diverted from the United States are redistributed across alternative destinations in proportion to China's existing export share in each country. It is assumed that, within each market, the surplus of Chinese goods displaces foreign producers according to their respective market shares.

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At the same time, additional Chinese supply on the domestic market could reduce input costs for Italian firms. Approximately 60% of Italy's imports from China consist of intermediate and capital goods. Trade deflection could therefore act as a positive supply shock for firms using these inputs, potentially leading to a reduction in production costs in certain sectors.

Between May and June 2025, the Survey on Inflation and Growth Expectations conducted by the Bank of Italy gathered Italian firms' assessments of the potential effects of increased Chinese supply in their reference markets in the short run: 34% of manufacturing firms and 24% of service firms anticipated a rise in Chinese competitive pressure, with expectations more prevalent among exporters. Most firms indicated intensified competition and downward pressure on selling prices as the main transmission channel. A smaller, but still significant, share highlighted lower intermediate input prices. Firms more exposed to trade deflection also reported heightened medium-term uncertainty and greater caution in their investment plans.

However, against a challenging international backdrop, characterised by trade tensions and changing global dynamics, the overall impact of tariffs turned out to be less severe than expected so far. Italian exports proved more resilient than anticipated, recording year-on-year growth of 3.3%, with particularly strong performance in the United States (+7.2%), which remains the second-largest export market after Germany. The trade surplus reached EUR 50,746 million, significantly bolstered by the substantial surplus in non-energy products (EUR 97,685 million).

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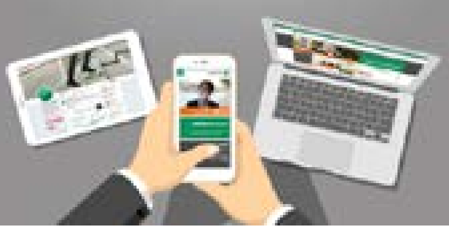

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