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# STATE OF TRADE 2025

## Small and medium enterprises taking on the export challenge



Cette publication est aussi disponible en français sous le titre :

*Le point sur le commerce 2025 : Les petites et moyennes entreprises qui relèvent le défi de l'exportation*

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Cat. No. FR2-8E-PDF

## Message from the Minister

I am pleased to present **Canada's 2025 State of Trade report** offering a comprehensive snapshot of Canada's international trade and economic performance in 2024.

Trade is an integral part of the Canadian economy, representing approximately two-thirds of Canada's GDP. Exports alone support almost 4 million—or close to 1 in 5—Canadian jobs.

In 2024, despite ongoing trade and economic uncertainty globally, Canadian trade in goods and services experienced modestly higher growth than in 2023. Exports rose by 1.9% to reach \$997 billion, while imports increased by 2.9%, surpassing \$1 trillion for the first time, a testament to the tenacity of Canadian importers and exporters.

These numbers underscore the world's continued confidence in Canadian goods, services, talent, and innovation, and in Canada as a sound investment destination, with near record levels of foreign direct investment in 2024.

All of this bodes well for Canadian businesses and investors looking to expand into new markets abroad, even as they continue to grapple with uncertainty in a rapidly changing global context. And Canada's commitment to creating opportunities for exporters in new markets like the dynamic, fast-growing, Indo-Pacific region economies is stronger than ever.

I invite you to explore this year's focus on small and medium-sized enterprises (SME), and on newcomers to Canada who are succeeding in exporting. SMEs account for the largest share of employment and economic activity in Canada, and despite the inherent challenges of international trade, an increasing number of Canadian SME exporters – including those who are new to Canada – are venturing into international markets. They contribute to economic growth and productivity, higher wages for workers, and help to build bridges between their original and adopted home countries.



Robust trade leads to strong economies and a brighter future for Canadians from coast to coast. Canadian entrepreneurs – and those who do business with Canada – benefit from 15 free trade agreements spanning 51 countries that open doors to more than 61% of the world's GDP and 1.5 billion potential consumers. And we're working to add to this network.

Regardless of where they are on their export journey, Canadian businesses can leverage programs and supports offered by *Canada's trade toolkit*: export-focused organizations such as the Business Development Bank of Canada, the Canadian Commercial Corporation, Export Development Canada, the Trade Commissioner Service, and others. And Canada will continue working to create the right conditions to support Canadian businesses of all sizes and industries as they bring their products, services, and innovation to the world and attract foreign talent, capital, and investment here.

I look forward to updating you on the success of these efforts in future State of Trade reports.

A handwritten signature in black ink, appearing to be 'Maninder Sidhu'.

**The Honourable Maninder Sidhu**  
Minister of International Trade



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# Executive Summary

In 2024, global economic growth remained measured and steady, leading to a slight improvement in Canadian trade expansion compared to 2023. The continued decline in inflation, particularly among advanced economies, enabled major central banks worldwide to reduce interest rates, supporting the global economy and trade. However, heightened economic and trade policy uncertainty exerted downward pressure on global economic sentiment. In the context of these conflicting factors, the world economy grew by 3.3% in 2024, slightly below the 3.5% expansion observed in 2023. Global merchandise trade volumes made a modest recovery, expanding by 2.5% in 2024 after a decline in 2023.

The Canadian economy expanded by 1.6% in 2024, slightly faster than in 2023. Consumption was the primary driver of economic expansion, fueled by strong population growth, steady wage gains, easing inflation, and lower interest rates. However, a decline in business investment adversely affected overall growth. Additionally, Canada's Gross Domestic Product (GDP) per capita declined for the second consecutive year, and the unemployment rate increased over the course of 2024, disproportionately affecting young workers, newcomers, and workers in lower-wage industries. On an industry basis, there was broad-based economic growth among services-producing industries, while the picture for goods-producing industries was more mixed. Mining, quarrying, and oil and gas extraction enjoyed robust growth, whereas manufacturing saw a contraction.

Reflecting the measured performance of the world economy and global trade, the value of Canadian goods and services trade expanded moderately in 2024 and showed an improvement from the growth experienced in 2023. Exports increased by 1.9% to reach \$997 billion, while imports grew by 2.9% to surpass \$1 trillion. Metals and non-metallic mineral products, particularly gold, along with travel services, were significant contributors to export growth. Conversely, exports of motor vehicles and parts declined as there was reduced production in several assembly plants. Geographically, the expansion of Canadian goods exports was predominantly supported by increased shipments to the United Kingdom, driven by higher gold exports.

Foreign Direct Investment (FDI) flows into Canada surged by 36.2% to \$85.5 billion, marking the second-highest level in history. However, Canadian direct investment abroad (CDIA) decreased by 2.0% to \$123.5 billion, primarily due to a decline in mergers and acquisitions.

The outlook for 2025 is characterized by uncertainty stemming from new and potential additional tariffs and general uncertainty in the trade sphere. The proliferation of import duties could disrupt global supply chains and dampen investor confidence. Consequently, short-term global economic growth is unlikely to reach the average level achieved in the two decades leading up to the global pandemic, which benefited from the integration of China into global supply chains, significantly impacting Canadian trade.



For a medium-sized, open economy like Canada, a deterioration in the global trade environment will have profound consequences. While no segment of the Canadian economy is entirely insulated from international developments, small and medium-sized enterprises (SMEs) could be disproportionately affected. Although most SMEs in Canada do not directly participate in trade, their international engagement has increased in recent years, most notably observed through a rapid rise in the share of SMEs that export. Exporting is inherently challenging, and typically, only the most productive SMEs can sustain a presence in international markets.

Participation in exporting is greatest among larger manufacturing SMEs, as well as SMEs that are innovative and hold intellectual property (IP). Interestingly, recent trends reveal a notable increase in exporting by SMEs that do not match this profile: namely smaller firms exporting at

least in part services. Furthermore, immigrant-led SMEs have played a key role in this increase, making a significant contribution to Canada's expanding base of exporting businesses. SMEs led by immigrants have been leading the way in this international expansion with an increase in both the number of SMEs led by immigrants and the propensity for these businesses to engage in trade – from an already high level.

Despite this progress, SMEs continue to face numerous barriers that hinder both their entry, and subsequent expansion, into global markets. Evidence presented in this report shows that Canada's Trade Commissioner Service (TCS) plays an important role in helping Canadian SMEs overcome these barriers, and not only grow their exports but also diversify toward a greater number of markets, adding to their resilience. Even so, exporting is difficult, and it is often the large, close by and familiar U.S. market where



most Canadian SMEs first try out exporting before they expand to other international markets. The same is also true for U.S. SMEs, with more of these firms exporting to Canada than to any other country. Canada is close, it has similar business practices and is governed by transparent rules, which make it an indispensable market for U.S. SMEs.

There is also clear evidence that Canadian SMEs are diversifying their export markets, supported by Canada's network of trade agreements. These agreements are not only for large multinationals; by lowering trade barriers and simplifying rules, they make it easier for Canadian SMEs to expand abroad. Nonetheless, knowledge gaps persist—particularly in understanding how to effectively leverage these trade agreements. The Government of Canada provides support to SMEs for expanding abroad, including through the TCS, which can help them overcome general challenges to international trade and to understanding specific markets. Data suggests that these efforts have a high rate of return, contributing to TCS-assisted SMEs exporting one-fifth more in value, and to more markets, than comparable firms that do not work with the TCS. Given that SMEs represent the majority of Canadian businesses and employ most private sector workers, enhancing their international participation would be a powerful source of dynamism in the Canadian economy. Doing so not only supports SME growth, but also contributes to broader gains in productivity and economic resilience.

# PART 1

## 2024 in review



# At a glance



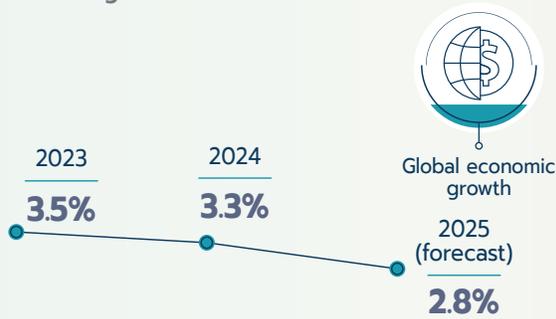
**Global economic growth and trade:** In 2024, global economic growth posted a measured **3.3%**, slightly below the **3.5%** expansion seen in 2023. Likewise, global merchandise trade volumes showed a moderate recovery, expanding **2.5%** in 2024, after a decline in

the previous year. Key factors that supported growth include slowing inflation and the concurrent monetary policy easing. Meanwhile, increased economic and trade policy uncertainty put downward pressure on economic sentiment.

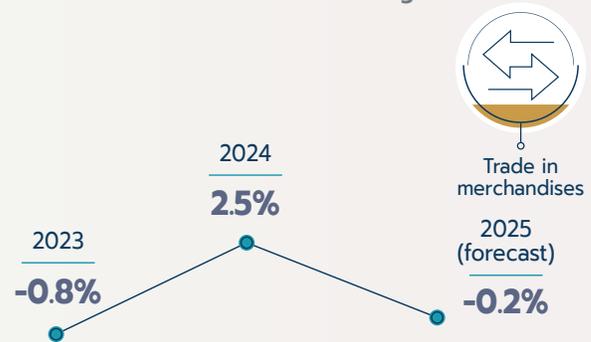
FIGURE 1

## At a glance – Global gross domestic product (GDP) growth and global merchandise trade volume growth

Global GDP growth



Global merchandise trade volume growth



**Canada’s economic performance:** The Canadian economy grew by **1.6%** in 2024, slightly faster than in 2023. Growth proceeded at a steady pace and was the second highest among G7 countries. Strong household

consumption was the main driver, supported by population growth, wage gains and lower interest rates. However, business investment declined, impacting overall growth.

FIGURE 2

## At a glance – Canadian economy snapshot



**Canada's international trade performance:** In 2024, Canadian trade in goods and services experienced modestly higher growth than in 2023. Exports rose by **1.9%** to reach \$997 billion, while imports increased by **2.9%**, surpassing \$1 trillion for the first time.

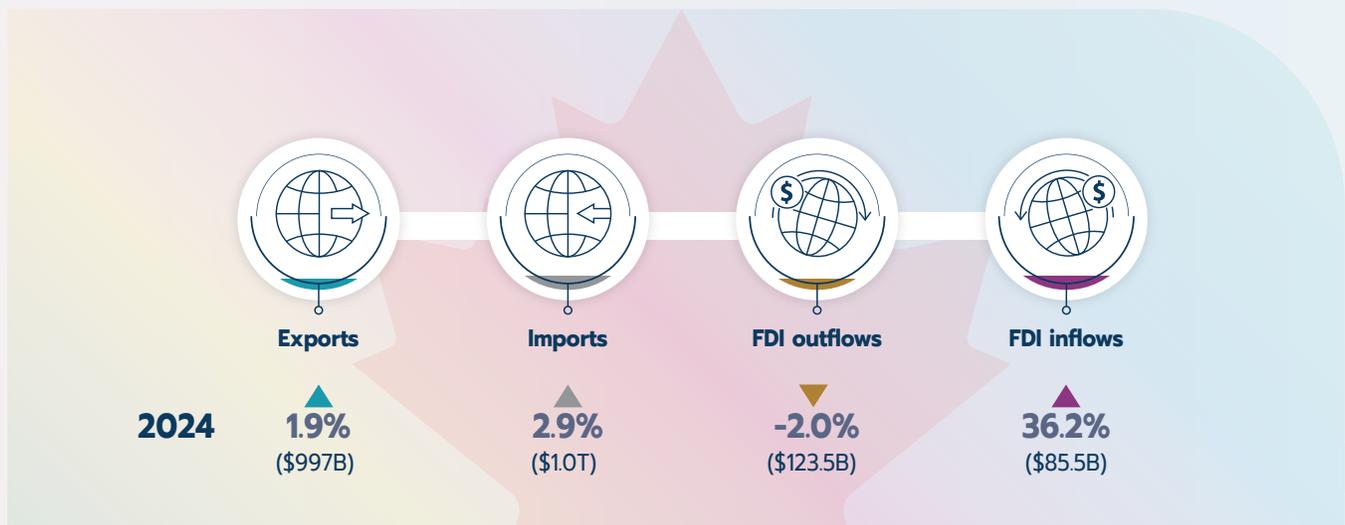
- **Sectoral highlights:** Metals and non-metallic mineral products, in particular gold, and travel services were significant contributors to export growth. Conversely, exports of motor vehicles and parts experienced a decline as a result of lower production.

- **Regional trade trends:** Canadian goods exports expansion was mainly supported by growth in shipments to the United Kingdom, driven by increased gold exports.

**Foreign Direct Investment (FDI):** FDI flows into Canada surged by **36.2%** to \$85.5 billion, the second highest level in history. However, Canadian direct investment abroad (CDIA) flows decreased by **2.0%** to \$123.5 billion, driven primarily by a decline in mergers and acquisitions.

FIGURE 3

At a glance – Canadian international trade and investment snapshot



**Looking ahead:** The outlook for 2025 is marked by uncertainty due to new and potential additional tariffs and trade tensions; widespread tariffs could disrupt global supply chains and dampen investor confidence, impacting Canadian trade significantly. As a result,

short-term global economic growth is unlikely to reach the average level achieved in the two decades leading to the global pandemic, which benefited from the integration of China into the global supply chain.

# 1.1

## Introduction



The year 2024 was characterized by measured global economic growth and moderate trade progress, which translated into steady performance for the Canadian economy and international trade. Beneath the surface counteracting forces were at work. The slowdown in inflation and easing global interest rates created a supportive environment for economic and trade expansion. However, this positive setting was tempered by ongoing geopolitical conflicts worldwide, as well as by rising uncertainty in trade and economic policies, which have increased even further so far in 2025.

Part 1 of the State of Trade 2025 report looks at the drivers of economic, trade and investment performance in the global and Canadian economies in 2024 and expectations for 2025. Section 1.2 provides a detailed review of global economic and trade performance in 2024, as well as future perspectives. Section 1.3 examines Canada's economic performance in 2024 and presents a short-term outlook for the Canadian economy and international trade. Section 1.4 highlights Canadian trade performance in 2024, by sector and by trading partner. Lastly, Section 1.5 reviews Canada's foreign direct investment performance in 2024, by sector and by investment partner.



## 1.2

### Global context

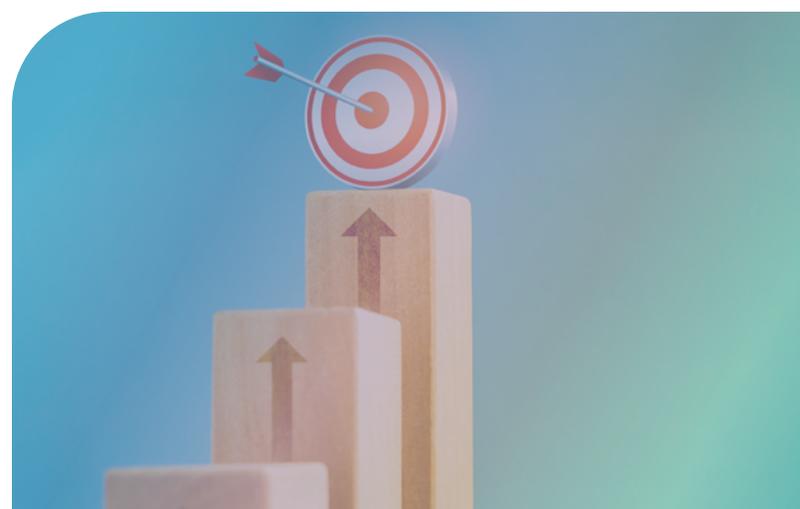


Global economic growth remained subdued in 2024, advancing 3.3%, which aligns with trends observed in recent years (International Monetary Fund, 2025). Key factors that influenced the world economy in 2024 include the continuation of global disinflation, the easing of monetary policy, the increased uncertainty surrounding economic and trade policy, and divergent economic growth among regions.

Looking at each driver, global disinflation, lower inflation than previously experienced, continued; the increase in global consumer prices declined from 8.6% in 2022 to 5.7% in 2024. Disinflation was even more pronounced in advanced economies, dropping from 7.3% in 2022 to 2.6% in 2024. Despite some signs of persistent inflation in a few products and locations, the general downward trend in price increases led central banks around the world to begin lowering interest rates in 2024. By the end of the year, major central banks such as the Federal Reserve, the Bank of England, and the European Central Bank had all dropped their policy interest rates multiple times.

While monetary policy has become more accommodative, uncertainty around economic and trade policy increased by the end of 2024 due to bouts of political instability in some Asian and European countries, such as the brief declaration of martial law in South Korea. These events added political uncertainty on top of on-going military conflicts in the Middle East and Eastern Europe. Lastly, the trade policy uncertainty index (Caldara, et al., 2020) spiked by the end of 2024 as the threats of tariffs came back at the forefront of trade policy discussions.

A key theme in 2024 was divergent economic growth. While advanced economies grew 1.8% in 2024, the main driver was the United States which gained 2.8%. The United States benefited from strong domestic demand, as consumer spending remained robust, the labour market stayed resilient with a low unemployment rate, and fiscal policy was supportive. Growth in the Euro Area was weaker at 0.9% as its largest economy, Germany, experienced a real GDP decline of 0.2%, the second annual contraction in a row. Germany's lagging performance largely reflects continued weakness in its manufacturing sector and goods exports. One of the bright spots in the Euro Area was Spain, where the economy grew 3.2% in 2024, thanks to record-breaking numbers in the tourism sector. In the United Kingdom, economic growth was modest (1.1%) in 2024 as economic activity stagnated in the second half. Japan's economy edged up 0.2% in 2024, with a large contraction at the beginning of the year due to cautious consumers' spending, weakening exports, and disruptions in the automotive sector.

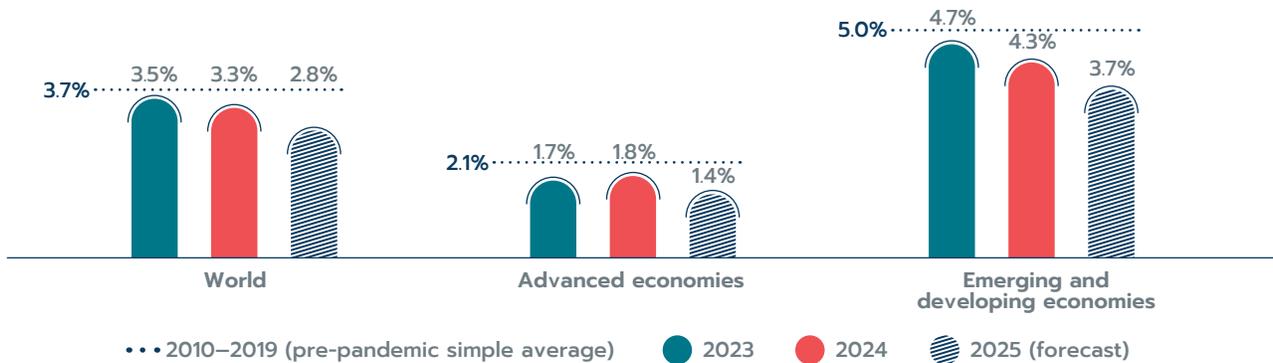


## 1.2 GLOBAL CONTEXT

In 2024, economic growth among emerging and developing economies was 4.3%, down from 4.7% in 2023. This rate is lower than the 5.0% simple average for the last decade (2010–2019). Unlike in advanced economies, global disinflation was slower in emerging and developing economies, with growth in consumer prices dropping from 9.5% in 2022 to 7.7% in 2024. Economic growth also slowed in China, falling from 5.4% in 2023 to 5.0% in 2024 as consumer consumption continued to face

difficulties due to low confidence stemming from a weak property market. In recent years, economic growth in China has been weaker than the 7.7% simple average growth rate achieved over the last decade (2010–2019), and it is one of the main reasons behind the overall slowdown in growth in emerging markets and developing economies. Growth in India also slowed in 2024 to 6.5% from 9.2% in 2023 as industrial activity decelerated faster than expected.

**FIGURE 4**  
Annual real GDP growth

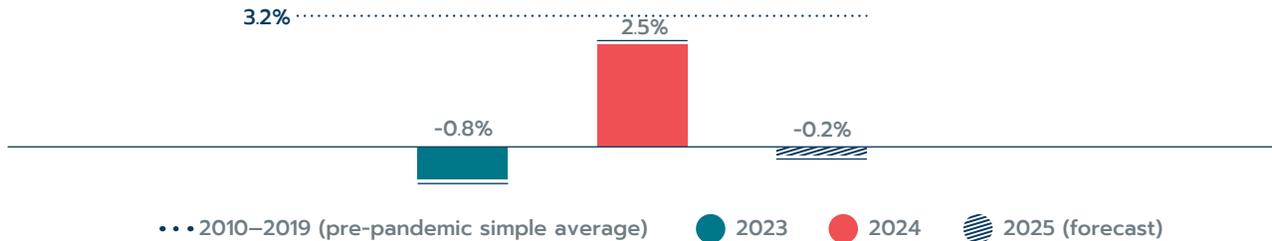


Data: International Monetary Fund, World Economic Outlook (April 2025)  
Source: Office of the Chief Economist, Global Affairs Canada

Turning to global trade, merchandise trade volumes made a modest recovery to expand 2.5% in 2024. This comes after a decline in 2023 caused by high energy prices and inflation, both of which weighed on demand for trade-intensive manufactured goods. Declining interest rates in 2024 in many countries helped boost consumption, investment, and international trade in spite of a sharp rise in trade policy uncertainty by the end of 2024.

Among the top regions, trade in Asia contributed the most to the growth in world merchandise trade volume in 2024, with moderate contributions from North America and Europe acting as a drag on the overall performance. The weakness in European trade was mainly driven by chemicals and vehicles on the export side, and by machinery on the import side.

**FIGURE 5**  
**Growth in global merchandise trade volume**



Data: Netherland Bureau for Economic Policy Analysis (CPB), World Trade Organization Forecast  
 Source: Office of the Chief Economist, Global Affairs Canada

In 2024, global FDI flows increased by 1% compared to 2023, reaching USD 1,485 billion. However, excluding large fluctuations in certain European economies—namely Luxembourg, the Netherlands, and to a lesser extent Belgium, Ireland, Switzerland and the United Kingdom—global FDI flows actually declined by 9.0%. This decrease mainly reflected changes in intra-company loans, with a more modest contribution from reduced FDI equity flows. With respect to global FDI inflows, Canada ranked 3rd in 2024 with USD 64 billion, following the United States (USD 308 billion) and Luxembourg (USD 106 billion). For FDI outflows, Canada placed 5th in 2024 with USD 86 billion, behind the United States (USD 299 billion), Japan (USD 204 billion), China (USD 172 billion), and Luxembourg (USD 109 billion). The outlook for 2025 remains uncertain, with moderate global GDP growth projected over the next two years amid rising trade barriers and evolving policy dynamics (Organization for Economic Co-operation and Development, 2025a).

**LOOKING AHEAD**

The global economic outlook for 2025 and 2026 has deteriorated markedly as a result of intensifying trade tensions and heightened policy uncertainty (International Monetary Fund, 2025). In April 2025, the IMF is forecasting global growth of 2.8% in 2025 and 3.0% in 2026, down from earlier projections of 3.3% for both years in the IMF January outlook. This downward revision reflects the broad economic fallout from recent U.S. tariffs and subsequent retaliatory measures from key trading partners like China, all of which have significantly disrupted global supply chains. Compounding these challenges is the erratic implementation of U.S. trade measures—marked by abrupt pauses and limited exemptions that have further clouded the policy environment and undermined investor confidence. Of note, the unpredictability around tariff actions and their implementation has made forecasting more difficult than usual.

## 1.2 GLOBAL CONTEXT

Growth expectations have been revised downward across both advanced and emerging economies, with the former projected to expand by just 1.4% in 2025 and emerging markets by 3.7%. Growth in the United States and China is expected to slow, at 1.8% and 4.0% respectively, while the euro area is projected to gain a modest 0.8%, weighed down by Germany's industrial slowdown and soft external demand. However, Spain, the fourth largest economy in the European Union, stands out as an exception, with a projected growth rate of 2.5% in 2025, buoyed by reconstruction efforts following severe flooding events and momentum from 2024 where the country experienced record tourism performance.

Global trade volumes are also under pressure, with the World Trade Organization (WTO) forecasting, in April 2025, a 0.2% decline in world merchandise trade for 2025—a stark reversal from the 3.0% expansion projected in October 2024 (World Trade Organization, 2025). The WTO warned that should the U.S. reintroduce its most severe tariff measures, and trade policy uncertainty continues to spread, global trade could shrink by as much as 1.5%, representing the sharpest contraction since the pandemic-induced downturn in 2020. The regional impacts of these developments are highly uneven: according to the WTO, North America is expected to experience the most pronounced retreat. In contrast, the WTO projects that Asia and Europe will see marginal trade growth as significant trade diversion is anticipated in the wake of US-China tensions, boosting Chinese exports to regions outside of North America.

### BOX 1 Exchange rate

In 2024, the Canadian dollar depreciated against the currencies of all of Canada's major trading partners. Most notably, there was a significant decline against the U.S. dollar in the last months of 2024. The exchange rate dropped from 0.751 CAD/USD at the start of the year to 0.695 CAD/USD by the end of December, representing a decrease of 7.5%.

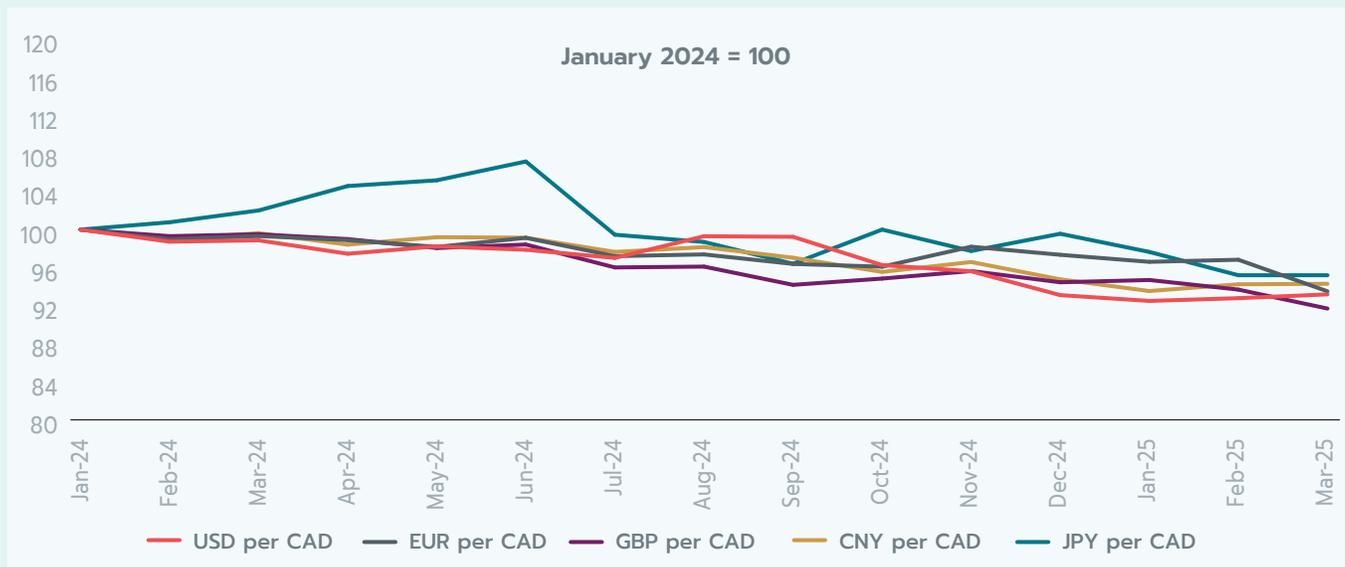
Two major factors explain the Canadian dollar's retreat in 2024. First, uncertainty at the end of the year due to anticipated U.S. tariffs on Canadian goods and their potential impacts on global trade and financial markets led to a higher exchange rate risk premium. This foreign investors' compensation for risk accounted for about two-thirds of the Canadian dollar's depreciation (Fontaine, 2025). Other developed country currencies experienced a similar trend; however, Canada's currency depreciation was more pronounced given its high exposure to changes in U.S. trade policies. Second, relatively lower interest rates in Canada made returns on Canadian dollar-denominated investments less attractive compared to investments in U.S. dollars. This increasing interest rate differential between Canada and the United States, which was at its widest in June 2024, accounted for a more modest part of the depreciation of the Canadian dollar than the uncertainty arising from tariffs.

## 1.2 GLOBAL CONTEXT

In early 2025, the Canadian dollar was fluctuating around 0.696 CAD/USD due largely to the continued uncertainty over U.S. tariffs on Canadian goods, reaching a 22-year daily low in February. During this period, the Canadian dollar also depreciated further against the Japanese yen, the euro, and the British pound, driven by Canada's strong economic ties to the United States as well as some relative strengths in Europe and Japan. As a result of a weaker currency, some Canadian exports may become more competitive. However, products with a high level of imported intermediate content may not benefit as much.

At the time of writing, there are ongoing fluctuations in international currency markets. Traditionally, the U.S. dollar was considered a safe haven and it appreciates during periods of uncertainty. However, with much of the uncertainty coming from U.S. trade policy of late, there are signs that other currencies may be filling the role of safe haven and have appreciated vis-à-vis the U.S. dollar.

**FIGURE 6**  
**Evolution of the Canadian dollar against the currencies of major trading partners**  
**(foreign currency units per CAD, January 2024 = 100)**



Data: Bank of Canada

Source: Office of the Chief Economist, Global Affairs Canada

## 1.3

### Canadian economic performance



The Canadian economy expanded 1.6% in 2024, slightly faster than in 2023. While steady, this growth rate is the second highest among the G7 and above the median G7 rate (1.1% in 2024) for the third year in a row.

Consumption was the main driver of Canada's economic growth in 2024, as household consumption grew 2.4% and government consumption expenditures expanded 3.7%. Strong population growth, steady average wage gains, easing inflation, and lower interest rates were some of the factors that supported household consumption.

Inflation continued on its downward trend, dropping from 2.9% year-over-year in January 2024 to 1.8% in December. By the end of 2024, most major components of the consumer price index were posting below historical average year-over-year growth. However, inflation in a few major components remained elevated—in particular shelter costs, which include rent and mortgage interest. With solid signs that inflation was improving, the Bank of Canada lowered its target for the overnight interest rate multiple times throughout 2024, ending at 3.25% in December from its peak of 5.0% before June. Lower interest rates are expected to support household consumption and business investment in the future.

Business investment weighed on growth in 2024, falling 1.4%, with declines in all major groupings except intellectual property, which stagnated. This is the third consecutive year where business investment in residential structures has dropped in Canada. At the same time, government investment increased 7.3% in 2024, which partially mitigated the decline in business investment.

Subtracting the impact of prices, real exports grew 0.6% and real imports grew 0.7% in 2024. As a result, net trade (exports minus imports) slightly detracted from economic growth in 2024.

On a per capita basis, Canadian GDP declined for a second consecutive year. The past few years have seen strong, temporary rise in immigration, and this has been a factor in the recent decline in GDP per capita. Given that newcomers typically earn less than the average Canadian upon arrival, a large one-time increase in the number of newcomers has weighed on average income and productivity in the short-term, but this should not be misinterpreted to imply that those already in the country are becoming worse off (Finance Canada, 2024).

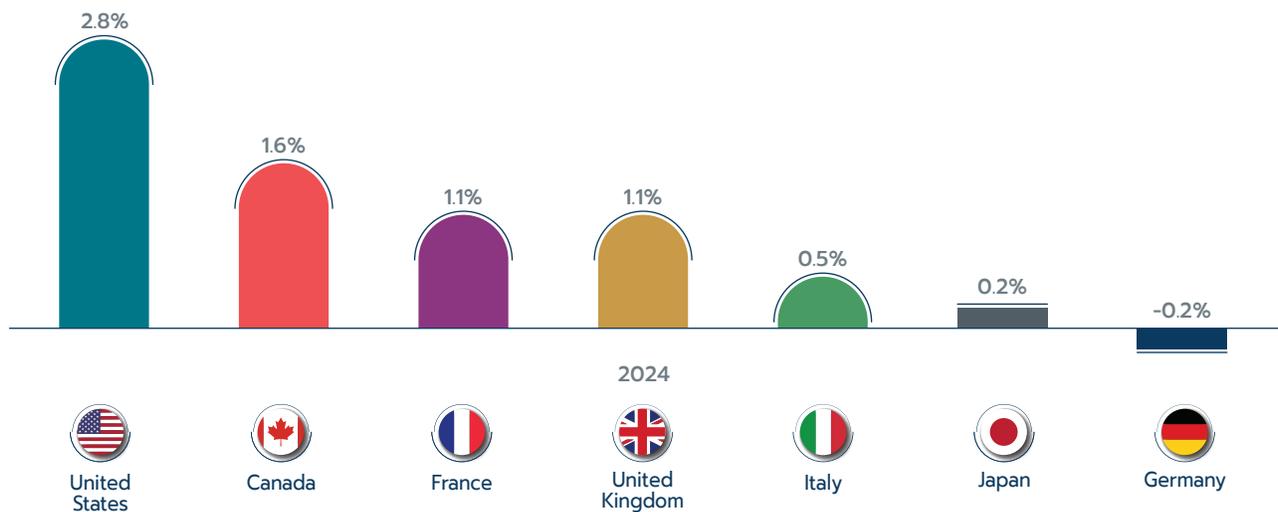
Historically, newcomers have managed to integrate well in the Canadian economy over time; combined with the government of Canada's investments in economic growth, it means that the weakness in GDP per capita is largely temporary and not systemic (Finance Canada, 2024).

### 1.3 CANADIAN ECONOMIC PERFORMANCE

Strong population growth led to a strong increase in the labour force, which outpaced growth in employment. As a result, the unemployment rate increased a full percentage point over the course of 2024, from 5.7% in January to 6.7% in December. Bearing the blunt of this increase in unemployment were young workers (15 to 24 years old). The unemployment rate among young workers increased 3.3 percentage points over the course of 2024 to reach 14.2%. Meanwhile, the unemployment rate in the prime working age population (25 to 54 years old) only increased 0.5 percentage points to reach 5.6%, a level below the pre-pandemic simple average (2010–2019). Stability in the unemployment rate for the prime working age population was another factor that supported household consumption. Other segments of the population that have been disproportionately impacted by a higher unemployment rate include new immigrants and workers in lower wage industries, such as accommodation and food services, and information, culture and recreation.



**FIGURE 7**  
Real GDP growth for G7 countries in 2024



Data: G7 National Statistical and Economic Agencies, retrieved through Macrobond  
Source: Office of the Chief Economist, Global Affairs Canada

### 1.3 CANADIAN ECONOMIC PERFORMANCE

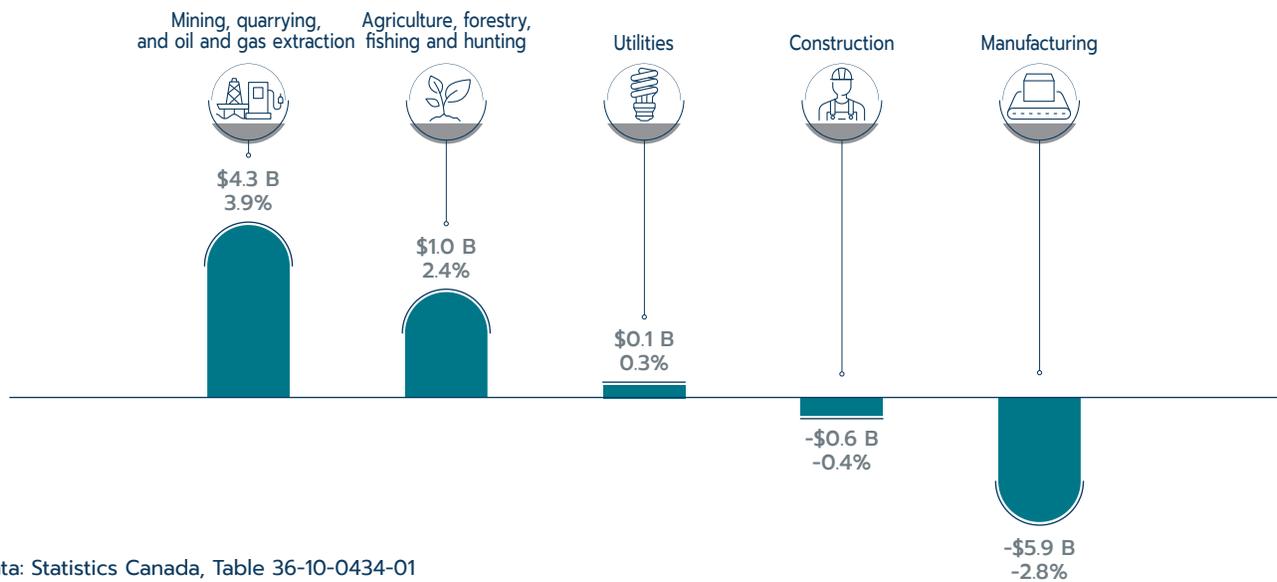
#### INDUSTRY PERFORMANCE

Services-producing industries rose 2.3% and were the main driver of growth, despite increasing at the slowest pace since 2020. On the other hand, goods-producing industries remained stable (+0.1%) in 2024, after undergoing a contraction in 2023.

There were some diverging trends in the different goods sectors, in particular between the top two Canadian merchandise export sectors: manufacturing; and mining, quarrying and oil and gas extraction. The latter was the largest driver of economic growth within the goods-producing industries, its real GDP rising 3.9% or \$4.3 billion, making this the fourth consecutive year of expansion. Strong economic growth in this sector translated into robust growth in exports of metals and non-metallic mineral products (see section 1.4).

On the other hand, real GDP in the manufacturing sector declined 2.8%, the largest drag on growth among goods-producing industries. This was the manufacturing sector's largest decline since 2020. The transportation equipment subsector was the primary contributor to the contraction in manufacturing, as activity at motor vehicle parts manufacturing decreased, with several Ontario assembly plants temporarily idled or operating below capacity due to shifting production decisions. Weaknesses in economic activity in motor vehicle parts manufacturing were reflected in lower exports of motor vehicles and parts (see section 1.4).

**FIGURE 8**  
Real GDP growth in goods-producing industries, 2024



Data: Statistics Canada, Table 36-10-0434-01  
Source: Office of the Chief Economist, Global Affairs Canada

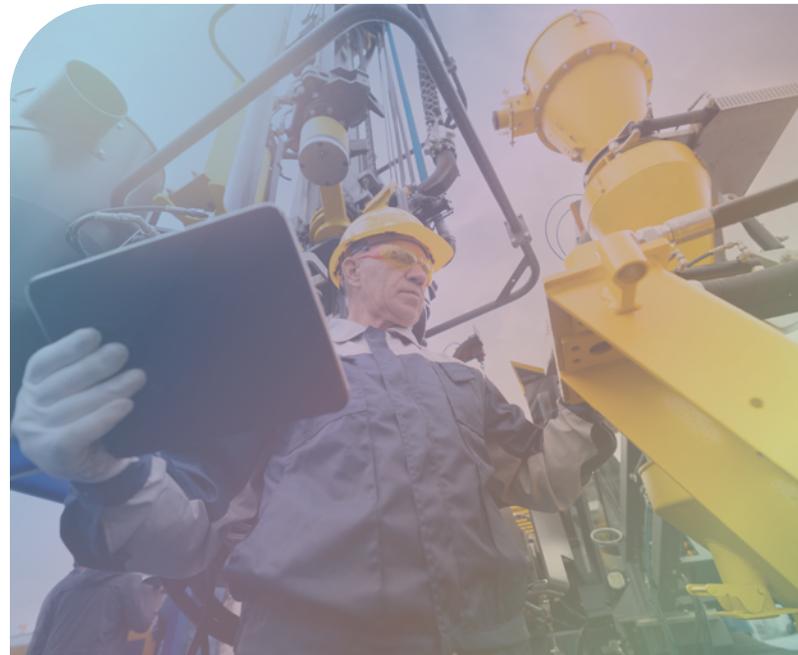
### 1.3 CANADIAN ECONOMIC PERFORMANCE

Real GDP growth within the services-producing industries was broad-based, with gains in 13 of 15 services sectors. Services-producing industries now account for 75% of economic activity in Canada, a share that has been steadily increasing.

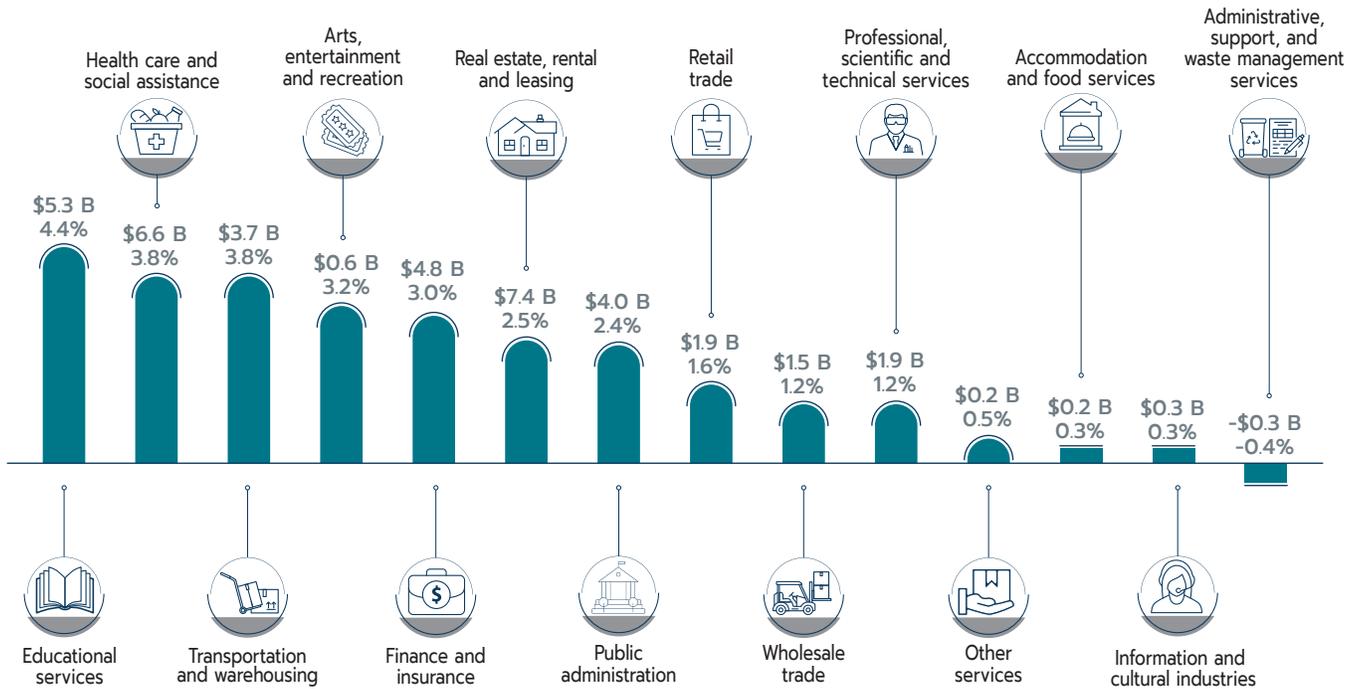
Among services-producing industries, the wholesale trade sector is the most involved in Canada's international merchandise trade. In fact, this sector was the largest importer of merchandise in 2023 even when goods-producing industries are included. Real GDP in the wholesale trade sector grew a modest 1.2% in 2024, an improvement from 2023 when economic activity in this sector was relatively flat. The most important driver of economic growth in the wholesale trade sector was personal and household goods wholesaler-distributors, and this is reflected in the robust growth in exports and imports of consumer goods (see section 1.4).

While it doesn't directly export or import a large quantity of products or services, the transportation and warehousing sector is a key factor in international trade as it facilitates the movement of products and people. Real GDP in the transportation and warehousing sector expanded a solid 3.8% in 2024, due to growth in air transportation, urban transit systems, and pipeline transportation. Pipeline transportation was supported by the completion of the Trans Mountain pipeline expansion project, which began operations in the spring of 2024. This project provided Canadian crude oil producers with further export opportunities.

Among services-producing industries, the largest international traders of commercial services are the professional, scientific and technical services industries, the information and cultural industries, and the finance and insurance industries. After three years of robust expansion, economic growth in the professional, scientific and technical services industries was more modest in 2024, rising by 1.2%, the weakest growth since 2015 if we exclude the Covid-19 pandemic. In the information and cultural industries, real GDP inched up 0.3%, the weakest growth since 2013 if the Covid-19 pandemic is excluded. On the other hand, economic activity in the finance and insurance industries expanded a robust 3.0% in 2024, a marked improvement over the rate of 0.5% registered in 2023. The geopolitical context, the U.S. election and announcements around policy rate decisions contributed to increased activity in financial markets. In summary, mixed economic growth results from these three industries translated into a moderate expansion in exports of commercial services (see section 1.4).



**FIGURE 9**  
Real GDP growth in services industries, 2024



The management of companies and enterprises sector was excluded from the graph due to its very small GDP  
 Data: Statistics Canada, Table 36-10-0434-01  
 Source: Office of the Chief Economist, Global Affairs Canada



**LOOKING AHEAD**

Canada’s economic outlook for 2025 is marked by exceptional uncertainty, primarily stemming from the unpredictable trajectory of U.S. tariffs and trade policy more generally, and their future impact (Bank of Canada, 2025). Although the Canadian economy ended 2024 on a relatively solid footing—with inflation close to the 2% target and household spending reaching its highest pace in over two years—rising trade tensions have since stalled that momentum. Given the prevailing uncertainty, the Bank of Canada outlined two distinct scenarios in its April 2025 Monetary Policy Report. In the first scenario, most tariffs introduced since the onset of the trade conflict are gradually removed through negotiation, though the process remains

### 1.3 CANADIAN ECONOMIC PERFORMANCE



turbulent and undermines business confidence. In this perspective, the Canadian economy is projected to grow by 1.6% in 2025 and 1.4% in 2026. Following a front-loaded surge in exports in early 2025—driven by firms rushing shipments ahead of anticipated U.S. tariffs—export volumes are expected to dip sharply in the second quarter before rebounding in the latter half of the year. This recovery is expected to continue into 2026 and beyond, with full-year export growth contributing only 0.1 percentage points to economic growth in 2025 and 0.5 percentage points in 2026. Contributing to this rebound is the anticipated mid-2025 completion of new liquefied natural gas (LNG) export terminals and increased throughput on the Trans Mountain pipeline.

The second scenario envisions a broader and more prolonged trade conflict, with additional U.S. tariffs leading to a full-scale global trade war. In this case, the Bank of Canada expects Canadian GDP to grow by just 0.8% in 2025 and to contract by 0.2% in 2026, with four consecutive quarters of negative growth before a slow recovery takes hold later in 2026 and into 2027. In this scenario, Canadian exports are forecasted to decline through mid-2026, weighed down by reduced U.S. demand and a broader slowdown in global trade. Over time, prolonged trade barriers would structurally weaken Canada’s export performance, as firms face challenges in diversifying away from the U.S. market and in establishing new trading relationships.

# 1.4

## Highlights of Canada's international trade performance

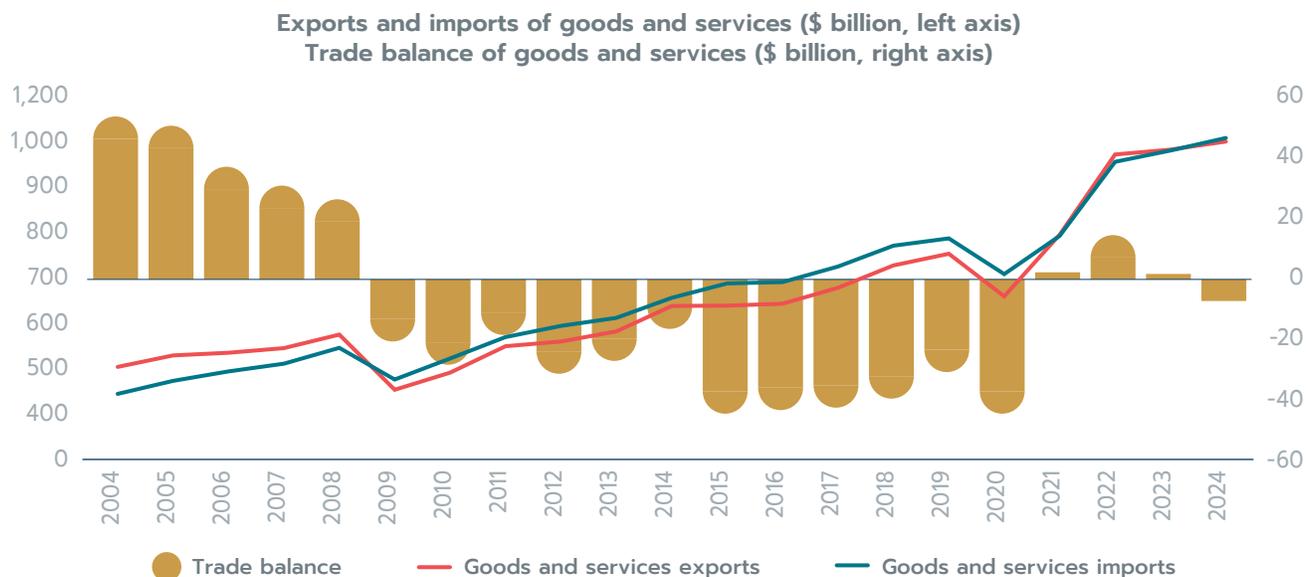


Reflecting the measured performance of global economic and trade, the value of Canadian goods and services trade expanded moderately in 2024. Exports ticked up 1.9% to reach \$997 billion, and imports grew 2.9% to reach over \$1.0 trillion. This is a slight improvement from 2023 when exports of goods and services expanded 1.1% and imports grew 2.6%. However, these numbers are below the pre-pandemic simple average growth rate (2010–2019), where exports and imports grew at an annual average rate of 5.3%.

Stripping out the price effects, export and import volumes of goods and services grew 0.6% and 0.7%, respectively, in 2024. Canada posted a small trade deficit in goods and services of \$8.1 billion in 2024, the first since 2020, and the trade-to-GDP ratio declined to 65.1% from 66.6%.

Note: This section describes the year's trends in goods and services trade on a balance-of-payments basis. See the Office of the Chief Economist's Annual Merchandise Trade Report for a review of Canada's goods trade in 2024, on a detailed country-by-country customs basis.

**FIGURE 10**  
Canada's goods and services trade



Data: Statistics Canada, Table 36-10-0014-01.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

Growth in goods trade was weaker than in services trade in 2024, with goods exports growing 1.2% and imports expanding 2.0%. While this is an improvement from 2023, the growth rates in 2024 were much weaker than the pre-pandemic (2010–2019) simple average annual growth of 5.0% and 5.1% for goods exports and imports, respectively.

After four years of volatile growth and declines in the double digits, growth in Canada's largest export category, energy products, was much more subdued in 2024 at 1.7%, or \$3.0 billion. The completion of the Trans Mountain pipeline expansion in May 2024 provided Canadian crude oil producers with better access to international markets and early signs show that this has helped with Canada's energy exports to key Asian markets such as China, Hong Kong, and Singapore. In the last seven months of 2024, when the Trans Mountain expansion was completed, the non-U.S. share of Alberta's crude oil export value rose to 4.1%, up from 0% for the same period in 2023.

In dollar value, goods export grew \$9.0 billion in 2024. The largest contributor was metals and non-metallic mineral products, which expanded by \$10.5 billion, driven by higher exports of unwrought gold, silver, and platinum group metals, and their alloys. Metals and non-metallic mineral products were once again Canada's second largest export category after energy products, overtaking motor vehicles and parts, which fell to third place.

The largest drag on goods exports growth in 2024 came from motor vehicles and parts, which declined 7.2%, or \$7.3 billion, due to lower Canadian production stemming from several Ontario assembly plants being temporarily idled or operating under capacity as a result of shifting production decisions. This decline brought exports of motor vehicles and parts back to a level similar to the one seen in 2019, prior to the Covid-19 pandemic.

Consumer goods exports, Canada's fourth largest export category, rose \$5.5 billion in 2024 to become the second largest contributor to the growth of goods exports. In percentage terms, consumer goods exports grew 6.3%, a marked improvement from the growth rate of 1.7% seen in 2023. The largest contributors to the growth of consumer goods exports were food, beverage and tobacco products, and pharmaceutical and medicinal products.

Total goods imports grew \$15.2 billion in 2024. The largest increases were in consumer goods, and in farm and fishing products, which expanded by \$7.7 billion and \$3.3 billion, respectively. On the other hand, declines occurred in imports of energy products and industrial machinery and equipment. All other product groups expanded.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

**TABLE 1**  
Canada's goods trade by major product category, 2024

PRODUCT CATEGORY	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)
<b>EXPORTS</b>			
Farm and fishing products	58.6	-4.1	-2.5
Energy products	177.1	1.7	3.0
Metal ores and non-metallic minerals	26.0	-11.4	-3.4
Metal and non-metallic mineral products	102.6	11.3	10.5
Chemical, plastics and rubber products	42.7	0.5	0.2
Forestry products	47.8	2.3	1.1
Industrial machinery and equipment	50.5	-1.7	-0.9
Electronic and electrical equipment	34.6	4.2	1.4
Motor vehicles and parts	94.5	-7.2	-7.3
Aircraft and other transportation	32.2	5.5	1.7
Consumer goods	91.5	6.3	5.5
<b>TOTAL</b>	<b>779.0</b>	<b>1.2</b>	<b>9.0</b>
<b>IMPORTS</b>			
Farm and fishing products	31.8	11.7	3.3
Energy products	40.2	-9.1	-4.0
Metal ores and non-metallic minerals	20.5	9.9	1.8
Metal and non-metallic mineral products	64.6	1.0	0.6
Chemical, plastics and rubber products	61.3	2.7	1.6
Forestry products	34.9	4.7	1.6
Industrial machinery and equipment	88.5	-1.7	-1.6
Electronic and electrical equipment	87.8	2.0	1.7
Motor vehicles and parts	142.6	0.5	0.7
Aircraft and other transportation	27.6	5.3	1.4
Consumer goods	157.8	5.1	7.7
<b>TOTAL</b>	<b>785.8</b>	<b>2.0</b>	<b>15.2</b>

Data: Statistics Canada, Table 36-10-0020-01.

Source: Office of the Chief Economist, Global Affairs Canada.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

Canada trades with all regions of the world, southward to the U.S. and Latin America, westward to the Indo-Pacific region, and eastward to Europe, Middle East, and Africa. In 2024, there were broad-based declines in Canadian goods exports in all directions, with the notable exception being eastward to the United Kingdom. The growth of goods exports to the United Kingdom was sufficiently large to compensate for the declines to other destinations (details are found below). On the goods imports side, growth occurred with major partners in the southward and westward directions, but there was a decline with major partners in the eastward direction.

In the southward direction, the United States is Canada's largest trading partner. Canadian goods exports to that country fell 0.2% in 2024 due mainly to weaknesses in motor vehicles and parts, marking the second consecutive year of goods exports decline. Goods imports from the U.S. grew 1.0% in 2024, the fourth consecutive year of expansion; however, it registered the weakest growth rate since 2020.

Goods exports to Mexico, Canada's other trading partner in the Canada-United States-Mexico Agreement (CUSMA), declined 1.3%, due mainly to lower exports of farm, fishing and intermediate food products. This is the second consecutive year of decline in goods exports to Mexico. Goods imports from Mexico expanded 2.4% in 2024, supported by growth in imports of electronic and electrical equipment and parts, and farm, fishing and intermediate food products.

In the westward direction, most of Canadian trade is with the Indo-Pacific, a region identified as promising for Canada in the Indo-Pacific Strategy (Government of Canada, 2022). In 2024, Canadian goods exports to the Indo-Pacific region dropped \$1.6 billion, led by declines in exports to Hong Kong, Japan, and China (in this report, the Indo-Pacific refers to the largest nine Indo-Pacific countries where balance-of-payment trade data are available). The decline in goods exports to Hong Kong was driven by a lower

quantity of gold while lower goods exports to China were driven by farm, fishing and intermediate food products. Furthermore, there was escalating trade tensions between China and Canada in 2024, as Canada introduced tariffs on Chinese electric vehicles, steel, and aluminum, while China launched an anti-discrimination investigation into Canadian actions in September 2024. Despite all this, Canadian exports of energy products to China reached an all-time high in 2024, partially mitigating lower exports of other key products to that country. Goods imports from the Indo-Pacific region grew \$6.7 billion in 2024, partially reversing the drop of \$8.5 billion registered in 2023. Growth in goods imports from the Indo-Pacific was widespread in 2024, with the sole exceptions of Hong Kong and Taiwan.

In the eastward direction, Canada's two largest trading partners are the European Union (EU) and the United Kingdom. Goods exports to the EU experienced a slight growth of \$0.1 billion in 2024, after decreasing by \$1.9 billion in 2023. There were lower goods exports to Germany, the Netherlands, Spain, and Belgium but growth in exports to Italy, France and other European Union partners. Goods imports from the EU fell by \$0.7 billion, mainly due to lower imports from Germany and Italy. The weakness in overall goods trade with Germany took place in the context of two consecutive years of economic decline in Germany.

Canada's goods exports to the United Kingdom expanded \$13.3 billion in 2024 and this gain was the main reason for Canada's goods exports growth to the world in 2024. If the United Kingdom is excluded, Canada's goods exports would have declined overall in 2024. Growth in goods exports to the United Kingdom in 2024 was driven mainly by an increased volume of gold exports.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

**TABLE 2**  
Canada's goods trade with main trading partners, 2024

PARTNER	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)	PARTNER	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)
<b>EXPORTS</b>				<b>IMPORTS</b>			
United States	591.5	-0.2	-1.3	United States	489.4	1.0	4.9
Mexico	9.5	-1.3	-0.1	Mexico	29.4	2.4	0.7
European Union	34.7	0.2	0.1	European Union	73.9	-0.9	-0.7
- Belgium	3.9	-6.9	-0.3	- Belgium	7.0	4.3	0.3
- France	4.4	2.2	0.1	- France	6.3	1.3	0.1
- Germany	6.8	-5.9	-0.4	- Germany	19.8	-6.0	-1.3
- Italy	3.3	22.3	0.6	- Italy	9.2	-5.4	-0.5
- Netherlands	7.2	-4.8	-0.4	- Netherlands	6.5	8.6	0.5
- Spain	2.0	-10.9	-0.2	- Spain	3.8	5.9	0.2
- Other EU	7.1	10.5	0.7	- Other EU	21.3	0.0	0.0
United Kingdom	29.5	82.0	13.3	United Kingdom	9.9	-8.9	-1.0
Indo-Pacific region	72.0	-2.1	-1.6	Indo-Pacific region	113.0	6.3	6.7
- China	30.4	-2.2	-0.7	- China	61.5	2.2	1.3
- Japan	15.1	-5.5	-0.9	- Japan	16.4	8.3	1.3
- South Korea	7.7	9.3	0.7	- South Korea	14.9	30.4	3.5
- India	5.4	2.9	0.2	- India	5.9	7.5	0.4
- Singapore	2.2	27.8	0.5	- Singapore	2.0	11.0	0.2
- Australia	3.1	-0.6	0.0	- Australia	2.8	9.6	0.2
- Indonesia	2.3	-0.6	0.0	- Indonesia	2.0	29.2	0.4
- Taiwan	2.1	1.3	0.0	- Taiwan	4.0	-5.4	-0.2
- Hong Kong	3.7	-26.3	-1.3	- Hong Kong	3.4	-10.3	-0.4
Rest of the world	<b>41.8</b>	<b>-3.0</b>	<b>-1.3</b>	Rest of the world	<b>70.1</b>	<b>7.0</b>	<b>4.6</b>
<b>TOTAL</b>	<b>779.0</b>	<b>1.2</b>	<b>9.0</b>	<b>TOTAL</b>	<b>785.8</b>	<b>2.0</b>	<b>15.2</b>

Data: Statistics Canada, Table 36-10-0023-01.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

Canadian services exports expanded by \$9.3 billion, or 4.5%, in 2024, the weakest growth since 2010 if we exclude the Covid-19 pandemic. The largest source of services exports growth was travel services, which increased by \$7.0 billion in 2024. Travel services have been the largest driver of services exports growth since 2022 due primarily to the large increase in the number of international students in Canada. Tuition, housing and other spending by these students are considered education-related travel services. Going forward, the Government of Canada has implemented a lower cap on international student enrollment, which means the growth in travel services exports might not be as strong in the future.

The second largest contributor to services exports growth was commercial services, which rose \$2.7 billion, or 2.2%. The growth in exports of commercial services in 2024 was mainly due to a rise in financial services; however, lower exports of telecommunications, computer, and information services partially offset the gains. Transportation services exports remained virtually flat, experiencing negligible changes in 2024. Lastly, government services exports declined by \$0.3 billion, or 13.3%.

Canadian services imports increased by \$13.2 billion in 2024, with only government services dampening the expansion. Travel services imports led the growth at \$6.4 billion, as the number of Canadians travelling abroad continued to recover from the lows of the pandemic era. In second place, commercial services imports grew by \$4.2 billion, followed by transportation services, rising \$2.9 billion. The growth in commercial services imports came mainly from financial services and telecommunications, computer, and information services.

**TABLE 3**  
Canada's services trade by major service category, 2024

SERVICE CATEGORY	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)
<b>EXPORTS</b>			
Commercial	125.2	2.2	2.7
Travel	68.3	11.4	7.0
Transportation	22.6	-0.2	0.0
Government	1.7	-13.3	-0.3
<b>TOTAL</b>	<b>217.8</b>	<b>4.5</b>	<b>9.3</b>
<b>IMPORTS</b>			
Commercial	120.1	3.6	4.2
Travel	59.4	12.1	6.4
Transportation	37.7	8.2	2.9
Government	1.9	-12.3	-0.3
<b>TOTAL</b>	<b>219.1</b>	<b>6.4</b>	<b>13.2</b>

Data: Statistics Canada, Table 12-10-0144-01.  
Source: Office of the Chief Economist, Global Affairs Canada.



## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

Geographically, growth in services exports and imports was broad-based, as declines occurred with very few major trading partners of Canada.

In the southward direction, Canadian services exports to the United States grew 2.0%. This was the weakest growth since 2020 and weaker than the simple average annual growth of 6.4% observed in the pre-pandemic era (2010–2019). In value terms, services exports to the U.S. increased by \$2.2 billion, led by growth in travel services and transportation services. Meanwhile, a decline in commercial services exports of \$0.2 billion partially offset advances in other sectors.

A similar pattern was observed for services imports from the United States in 2024. Growth was the weakest since 2020, and weaker than the simple average of the pre-pandemic era. Services imports from the U.S. rose \$1.0 billion, mainly due to growth in commercial services. At the same time, declines in all other services had a downward effect on growth.

Services exports to Mexico grew by a substantial 21.6% in 2024. While growth was slower than in 2023, it was still much higher than the pre-pandemic (2010–2019) annual simple average of 12.5%. Services imports from Mexico also posted strong growth at 29.5% in 2024, much higher than the 7.0% annual average over 2010 to 2019.

In the westward direction, services exports to the Indo-Pacific region expanded by \$3.3 billion, or 9.8% (this includes only the nine Indo-Pacific countries for which services trade data are

available). Growth was led by services exports to India, which grew \$2.1 billion, or 14.6%, in 2024, much slower than the growth rate registered in recent years. Services exports to India were driven by the growth in the number of Indian international students coming to Canada. Services imports from the Indo-Pacific region posted a robust growth of \$3.3 billion, or 15.1%, with widespread gains in imports from all nine Indo-Pacific countries where services trade data are available.

In the eastward direction, exports to the European Union increased by a robust \$1.8 billion, or 8.1%, mainly supported by growth in exports of travel services and commercial services. Services exports growth was widespread with gains recorded in Belgium, France, Germany, Italy, the Netherlands, and Spain.

Services imports from the European Union grew \$3.6 billion, or 14.0%, led by increases in imports of commercial services and travel services. Similar to exports, growth in services imports from the European Union was widespread among Canada's major partners, with only Spain experiencing a decline.

Growth in services exports to the United Kingdom also rose by a robust \$1.2 billion, or 12.2%, in 2024. Growth was led by transportation services, which gained \$433 million, followed by travel services, which expanded \$399 million, and commercial services with an increase of \$325 million. Services imports from the United Kingdom grew \$0.6 billion, or 5.5%, mainly due to the increase of travel services imports.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE

### TABLE 4

#### Canada's services trade with main trading partners, 2024

PARTNER	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)	PARTNER	VALUE (\$B)	ANNUAL GROWTH (%)	ANNUAL GROWTH (\$B)
<b>EXPORTS</b>				<b>IMPORTS</b>			
United States	109.3	2.0	2.2	United States	121.9	0.8	1.0
Mexico	3.8	21.6	0.7	Mexico	5.8	29.5	1.3
European Union	24.3	8.1	1.8	European Union	29.2	14.0	3.6
- Belgium	1.9	49.3	0.6	- Belgium	1.2	18.5	0.2
- France	6.3	11.9	0.7	- France	4.7	8.1	0.4
- Germany	4.1	5.0	0.2	- Germany	4.5	17.4	0.7
- Italy	0.8	7.7	0.1	- Italy	2.6	9.5	0.2
- Netherlands	2.3	4.3	0.1	- Netherlands	2.9	15.7	0.4
- Spain	0.7	4.0	0.0	- Spain	1.4	-14.6	-0.2
- Other EU	8.3	2.1	0.2	- Other EU	11.9	20.4	2.0
United Kingdom	10.6	12.2	1.2	United Kingdom	11.0	5.5	0.6
Indo-Pacific region	36.8	9.8	3.3	Indo-Pacific region	25.3	15.1	3.3
- China	8.2	8.4	0.6	- China	4.2	17.6	0.6
- Japan	2.4	8.9	0.2	- Japan	3.7	18.8	0.6
- South Korea	1.9	13.5	0.2	- South Korea	0.9	9.4	0.1
- India	16.1	14.6	2.1	- India	3.5	8.2	0.3
- Singapore	1.4	-5.9	-0.1	- Singapore	3.2	14.7	0.4
- Australia	3.0	10.5	0.3	- Australia	1.7	23.2	0.3
- Indonesia	0.3	3.2	0.0	- Indonesia	0.2	14.4	0.0
- Taiwan	0.7	-2.5	0.0	- Taiwan	1.3	17.1	0.2
- Hong Kong	3.0	-0.4	0.0	- Hong Kong	6.7	14.1	0.8
<b>Rest of the world</b>	<b>32.9</b>	<b>0.6</b>	<b>0.2</b>	<b>Rest of the world</b>	<b>25.9</b>	<b>15.4</b>	<b>3.5</b>
<b>TOTAL</b>	<b>217.8</b>	<b>4.5</b>	<b>9.3</b>	<b>TOTAL</b>	<b>219.1</b>	<b>6.4</b>	<b>13.2</b>

Data: Statistics Canada, Table 12-10-0157-01.

Source: Office of the Chief Economist, Global Affairs Canada.

## BOX 2

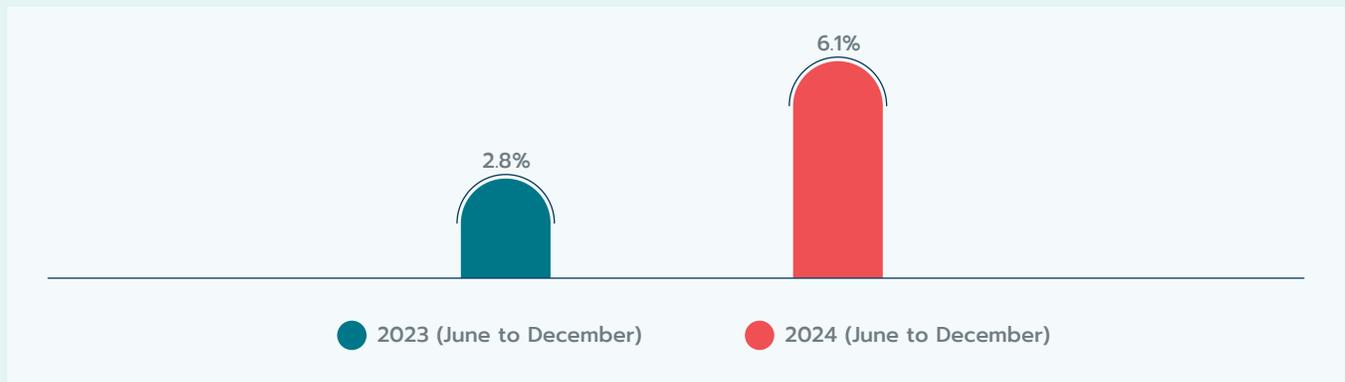
### Crude oil export diversification

Over the last decade (2015-2024), 97% of Canada's crude oil exports, in value, were sent to the United States. This is due to a number of factors, the foremost being that Canada's pipeline and transportation infrastructure is set up for exporting to the U.S. market. However, in May 2024, the expansion of the Trans Mountain pipeline was completed, opening new markets in Asia for Canadian crude oil. Early data show that this pipeline expansion has played a role in more than doubling the share of Canadian crude oil exports to non-U.S. markets.

Canada has three main crude oil producing and exporting provinces: Alberta, Saskatchewan, and Newfoundland and Labrador, which in 2024 accounted for 84.3%, 8.5% and 5.1% of Canadian crude oil exports, respectively. Crude oil exports from Newfoundland and Labrador are shipped to relatively diverse markets, with only 62.7% headed for the United States in 2024, a share that is lower than the 76.4% of overall Canadian merchandise exports going to that country. On the other hand, crude oil exports from Saskatchewan and Alberta are concentrated in one market, with 100% and 99.8% heading to the United States in 2023, prior to the expansion of the Trans Mountain pipeline.

## FIGURE 11

### Share of Canadian crude oil exports to non-U.S. markets



Data: Statistics Canada via Global Trade Atlas.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.4 HIGHLIGHTS OF CANADA'S INTERNATIONAL TRADE PERFORMANCE



Following its expansion, the Trans Mountain pipeline now has a capacity of approximately 890 thousand barrels per day (Mb/d), a significant increase over its prior capacity of approximately 300 Mb/d. Crude oil from Alberta can now be delivered via Trans Mountain to the Westridge terminal in Burnaby, B.C., where it is loaded onto crude oil tankers for maritime export. Other key throughput points of this pipeline include the Parkland Refinery in Burnaby, and Sumas, B.C., from which crude oil is exported to Washington State.

In the last seven months of 2024 after the expansion of the Trans Mountain pipeline, the non-U.S. share of the value of Alberta's crude oil exports was 4.1%, up from 0% for the same period in 2023. Furthermore, heavy crude oil exports from Alberta to non-U.S. markets by sea achieved a price of \$94.96 per barrel over the last seven months of 2024, which is slightly higher than the \$93.81 per barrel received for exports by pipeline to the United States during the same period.

While intracontinental pipelines remain the primary export mode for Canadian crude oil by a long shot, with the vast majority destined for the United States, the increased maritime export capacity provides an opportunity for diversification. Alberta's crude oil shipped out of Canada by sea in the last seven months of 2024 ended up mainly in China (59%), Singapore (15%), Hong Kong (12%) and the United States (11%).

Although the expansion of the Trans Mountain pipeline has already helped Canadian oil producers diversify their exports markets, there is potential for further diversification. The Westridge Marine Terminal has indicated it can load up to 630 Mb/d. As of April 2025, available data show that throughput at the Westridge terminal has not exceeded 450 Mb/d. Challenges to increasing exports from the Westridge terminal are mainly linked to operational issues at the Port of Vancouver, as there is currently high traffic in its narrow shipping channels, which limits the number of tankers that can be loaded each month. The Port of Vancouver has taken actions to increase shipping capacity. For example, it is in the process of installing navigation aids to facilitate night-time transits, which should increase the number of tankers loaded per month by the third quarter of 2025. These facts highlight that there is room for further diversification through the Trans Mountain pipeline, however these potential gains are relatively modest compared to the amount of crude oil exported to the United States.

# 1.5

## Canadian foreign direct investment performance



In 2024, Canada’s outflows of foreign direct investment slightly decreased, while inflows posted solid growth. More specifically, after increasing by 15.3% in 2023, Canadian direct investment abroad (CDIA) flows declined by 2.0% to reach \$123.5 billion in 2024. Conversely, foreign direct investment (FDI) flows in Canada maintained their growth trajectory in 2024, recording a robust 36.2% increase (up from 5.3% in 2023) to reach \$85.5 billion, the 2nd historical high (after the \$125.5 billion recorded in 2007). These levels for both CDIA and FDI in 2024 are above their respective past ten-year average (\$94.9 billion for CDIA and \$54.8 billion for FDI).

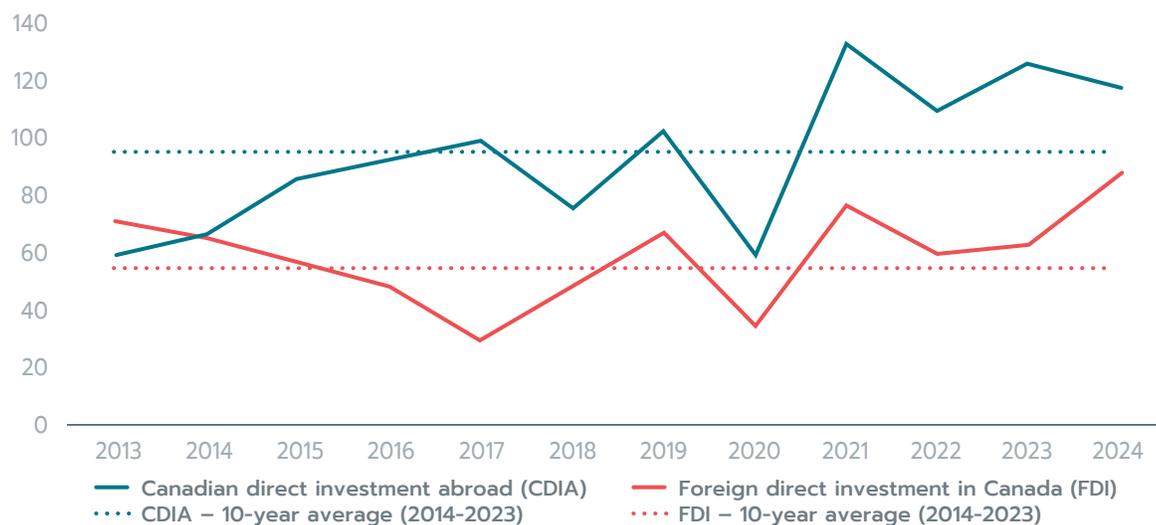
The slight decrease in CDIA outflows in 2024 (\$2.5 billion) was primarily driven by mergers and acquisitions (M&As), which declined

\$16.2 billion (-27.6%) after a solid increase in 2023 (\$31.4 billion). Reinvested earnings (REs) and other flows increased the total amount of CDIA by \$1.5 billion (+2.3%) and \$12.1 billion (+654%), respectively.

The robust advance of 36.2% (\$22.7 billion) in FDI inflows was mostly driven by an increase in (i) M&As, which rose \$19.8 billion, the strongest growth since 2018 (\$19.9 billion), and (ii) other flows (\$5.2 billion), which increased despite recording a slowdown compared to 2023 (\$15.1 billion). However, reinvested earnings reduced the FDI flows by \$2.2 billion in 2024.

As illustrated in Figure 12, CDIA flows exceeded FDI flows in 2024, continuing a trend that has persisted since 2014.

**FIGURE 12**  
Canada’s flows of foreign direct investment



Data: Statistics Canada, Table 36-10-0025-01.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.5 CANADIAN FOREIGN DIRECT INVESTMENT PERFORMANCE

### SECTORAL COMPOSITION

With respect to sector concentration, nearly three-quarters of CDIA flows in 2024 (74.7%) occurred in the following sectors: finance and insurance (27.7%), trade and transportation (25.9%) and management of companies and enterprises (21.0%).

In 2024, CDIA flows decreased by \$2.5 billion compared to 2023 (from \$126.0 billion to \$123.5 billion). This decline was largely driven by the finance and insurance sector (-\$31.4 billion), which saw its largest annual drop in value since the beginning of this data series in 2007. The trade and transportation and other industries sectoral flows witnessed increases during the same period, rising by \$34.7 billion and \$3.0 billion, respectively.

Notably, flows can sometimes be negative, as in the case of (i) divestitures and repatriation of earnings, when money is flowing back to the foreign parent company, (ii) an affiliate making a loan to its parent company, or (iii) an affiliate reimbursing a loan it took from its parent company. Sometimes, the total value of negative transactions by some affiliates can outweigh the total value of positive transactions from other foreign affiliates, resulting in a negative outcome for that year's total flows.

Similar to CDIA, three sectors accounted for more than three-quarters of FDI flows in 2024: manufacturing (47.2%), energy and mining (19.1%) and trade and transportation (11.1%).

Compared to 2023, FDI flows in 2024 were up \$22.7 billion (from \$62.8 billion to \$85.5 billion). The sectors contributing the most to this increase were manufacturing and energy and mining.

Specifically, flows for the manufacturing sector more than doubled in 2024, reaching \$40.4 billion from \$17.1 billion in 2023. This represents the highest level since 2007 (\$65.4 billion). Flows for the energy and mining sector also more than doubled, rising from

\$6.6 billion in 2023 to \$16.3 billion in 2024, following two consecutive years of decline (-\$2.0 billion in 2022 and -\$6.4 billion in 2023).

Conversely, some sectors such as finance and insurance (-\$5.5 billion) and management of companies and enterprises (-\$4.2 billion) saw their flows decline compared to 2023 (Table 5).

**TABLE 5**  
CDIA and FDI flows by sector, 2024

INDUSTRY	VALUE (\$B)	CHANGE FROM 2023 (\$B)	CHANGE FROM 2023 (%)
<b>CANADIAN DIRECT INVESTMENT ABROAD</b>			
Energy and mining	6.7	-5.8	-46.4
Manufacturing	9.2	-4.6	-33.1
Trade and transportation	32.0	34.7	1,291.9
Finance and insurance	34.2	-31.4	-47.8
Management of companies and enterprises	26.0	1.7	6.8
Other industries	15.4	3.0	24.0
<b>TOTAL</b>	<b>123.5</b>	<b>-2.5</b>	<b>-2.0</b>
<b>FOREIGN DIRECT INVESTMENT IN CANADA</b>			
Energy and mining	16.3	9.7	146.3
Manufacturing	40.4	23.2	135.5
Trade and transportation	9.5	0.5	5.1
Finance and insurance	0.8	-5.5	-87.4
Management of companies and enterprises	1.4	-4.2	-75.0
Other industries	17.2	-1.0	-5.3
<b>TOTAL</b>	<b>85.5</b>	<b>22.7</b>	<b>36.2</b>

Data: Statistics Canada, Table 36-10-0026-01.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.5 CANADIAN FOREIGN DIRECT INVESTMENT PERFORMANCE

### GEOGRAPHIC COMPOSITION

The United States remained the top destination for CDIA, accounting for 53.2% (\$65.7 billion) of total outflows in 2024. However, that country was also the main contributor to the overall decline, with a drop of \$35.6 billion, the largest decrease since 2018 (-\$39.3 billion). This contraction comes after a record increase of \$51.2 billion in 2023.

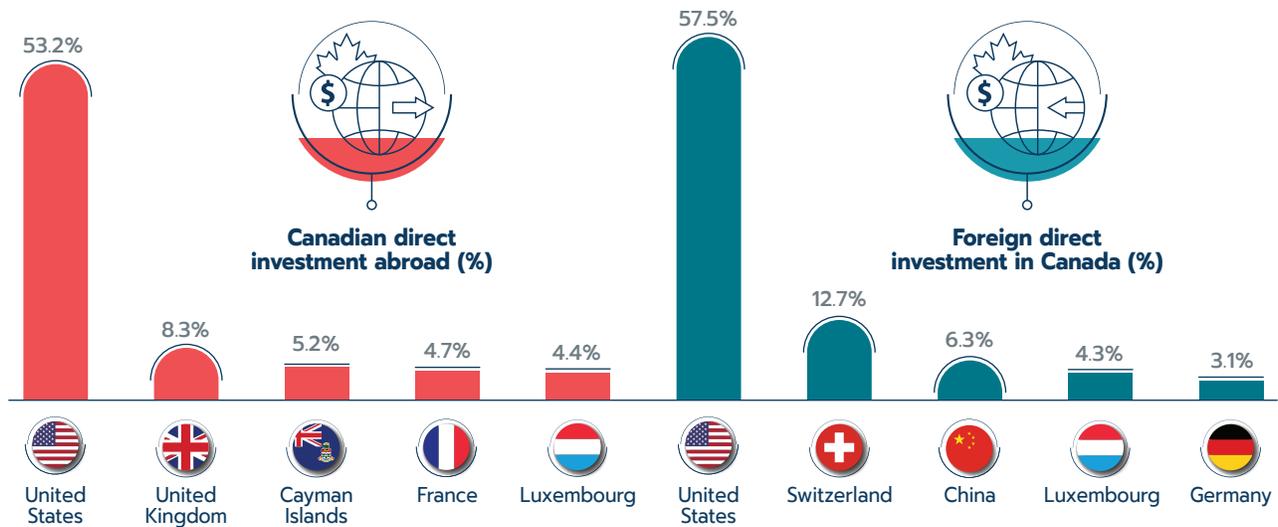
The United Kingdom was the second largest destination of CDIA flows in 2024 with a 8.3% share of the total. Notably, the United Kingdom

has been in the top 5 destinations for the last 13 years, except in 2020 (10th) and 2021 (9th). Other main recipient countries in 2023 were the Cayman Islands (5.2%), France (4.7%) and Luxembourg (4.4%).

Compared to 2023, only the United States and the United Kingdom remained in the top five CDIA destinations in 2024, while the three other countries in the top five destinations this year replaced Barbados (now in 8th place), Mexico (6th), and Hong Kong (15th).

FIGURE 13

Top five countries' shares of total CDIA and FDI flows, 2024



Data: Statistics Canada, Table 36-10-0473-01.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 1.5 CANADIAN FOREIGN DIRECT INVESTMENT PERFORMANCE

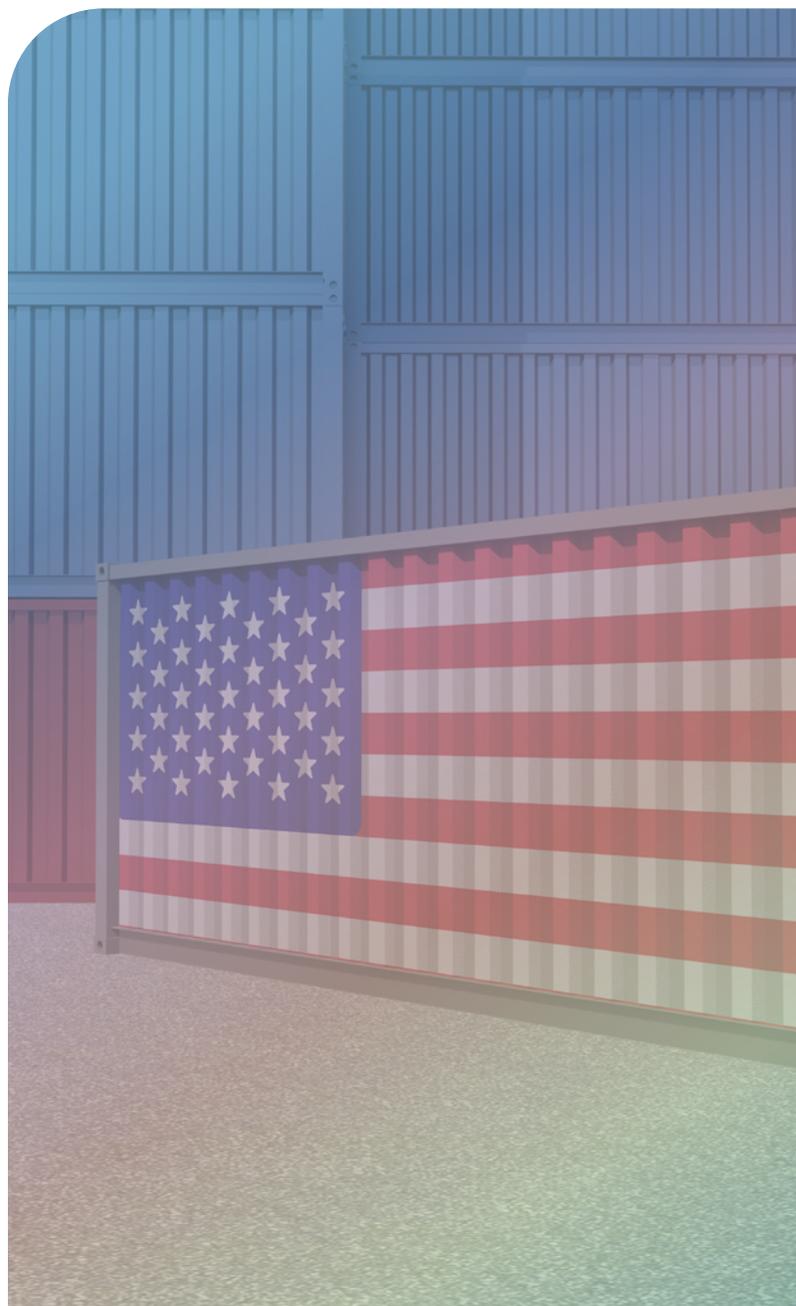
Likewise, the United States remained the largest investor in Canada in 2024, accounting for 57.5% of total FDI inflows, a share well above the average for the last decade (2014–2023: 47.7%). Switzerland (12.7%) ranked as the second-largest investing country, moving up two spots from fourth place last year, while China (3rd) and Luxembourg (4th) entered the top five, replacing Japan (6th) and Netherlands (8th) this year.

**TABLE 6**  
CDIA and FDI flows, 2024 – Top five countries

COUNTRY	VALUE (\$B)	CHANGE FROM 2023 (\$B)	CHANGE FROM 2023 (%)
<b>CDIA DESTINATIONS</b>			
United States	65.7	-35.6	-35.1
United Kingdom	10.2	4.9	93.5
Cayman Islands	6.4	3.6	128.8
France	5.8	6.3	1,270.9
Luxembourg	5.5	7.8	332.9
<b>TOTAL</b>	<b>123.5</b>	<b>-2.5</b>	<b>-2.0</b>
<b>FDI SOURCES</b>			
United States	49.2	10.2	26.2
Switzerland	10.9	7.0	179.9
China	5.4	5.9	1,150.6
Luxembourg	3.7	2.8	330.4
Germany	2.7	-0.8	-23.9
<b>TOTAL</b>	<b>85.5</b>	<b>22.7</b>	<b>36.2</b>

Data: Statistics Canada, Table 36-10-0473-01.

Source: Office of the Chief Economist, Global Affairs Canada.



## 1.5 CANADIAN FOREIGN DIRECT INVESTMENT PERFORMANCE



It should be noted that both CDIA and FDI flow data reflect the immediate destination/investor information and refer to the last country through which the investment transited before reaching its destination. This is different from data based on the ultimate destination/investor, which are more accurate but not available for flows. As a result, flow data may not accurately reflect investments from countries that invest via intermediaries (e.g., China or Japan) or that act as intermediaries (e.g., the Netherlands, Hong Kong or the Cayman Islands).

In conclusion, Canada's foreign direct investment outflows saw a slight decline in 2024, while inflows experienced strong growth. Nevertheless, both CDIA and FDI remained above their respective ten-year averages. In the coming year, uncertainty surrounding potential Trump-era tariffs and the likelihood of a trade war could have negative repercussions on the Canadian economy, impacting both CDIA and FDI flows.

# PART 2

## The internationalization of small and medium enterprises (SME)



# Key messages



## STATE OF SME INTERNATIONALIZATION

- Most businesses in Canada are SMEs and SMEs account for the majority of private sector employment across the country.
- Although a modest proportion of SMEs participate in trade, their share has never been higher—as of 2023, the share of SMEs that export reached **15.1%**, a significant improvement over previous years.
- Three-quarters of the rise in export propensity among SMEs since 2017 is due to immigrant-run SMEs, which increased in number as well as in their tendency to export.
- Participation in exporting is highest for larger SMEs and for SMEs in the manufacturing sector, although growth was robust for SMEs that export services, either exclusively or in conjunction with goods.
- SMEs that export are much more likely to also import, to invest in innovation and to adopt new technologies.

## THE CHALLENGES OF EXPORTING

- The increase in export participation of Canadian SMEs seen in section 2.1 is matched by a decline in the perception of barriers to exporting.
- However, SMEs already involved in trade are reporting more challenges with exporting—likely due to the growing number of very small businesses entering international markets with limited experience and familiarity.
- SMEs owned by women and those led by foreign-born Canadians report barriers to exporting at notably higher rates than the Canadian average. There is some evidence that gender inequality in international markets may be a potential barrier to further growth in export participation by women-owned businesses.
- While export participation has improved, there is a need to better promote Canada’s broad network of trade agreements—particularly by helping SMEs understand these agreements and how to take advantage of them.
- Still, evidence shows that SMEs benefit significantly from trade agreements, with the level of exports increasing on average by **13.1%** following the implementation of a trade agreement, and growth rates for exports accelerating.



## 2.1

### State of SME internationalization



Most businesses in Canada are small or medium-sized enterprises (SMEs). That is, businesses with at least one employee but less than 499 employees. In total, there are about 1.1 million SMEs in Canada, with a large majority of them being small enterprises (98.1% have less than 100 employees). SMEs account for most of Canada's employment, with small businesses being responsible for 5.8 million Canadian jobs, and medium-sized, 2.1 million; SMEs account for 63.7% of all private sector employment in Canada (Innovation, Science and Economic Development Canada, 2024). The contribution of SMEs to the Canadian economy has not changed significantly over time. With SMEs representing such a large share of the Canadian economy and employment, their ability to be innovative and productive directly supports Canada's economic growth and the high living standards of Canadians. Internationalization is an important means by which SMEs can become more productive and innovative, and expand. A full discussion of how participation in trade supports growth, productivity and innovation is offered in the 2019 State of Trade report. Furthermore, as SMEs employ so many Canadians, and are found in every sector of the Canadian economy, they also help to ensure that the benefits of trade reach all segments of Canadian society.

The purpose of this chapter is to examine trends in the internationalization of Canadian SMEs with a focus on exporting, through a review of the rate of internationalization, including how it differs by firm size and sector, as well as how owners' characteristics impact internationalization.

Additionally, there has been a growing participation in exporting by SMEs, including a notable jump in the most recent data that will be explored. The chapter will provide a foundational understanding of the internationalization of Canadian SMEs in support of the next chapter, which will delve more deeply into the challenges that SMEs face in exporting as well as their use of trade agreements.

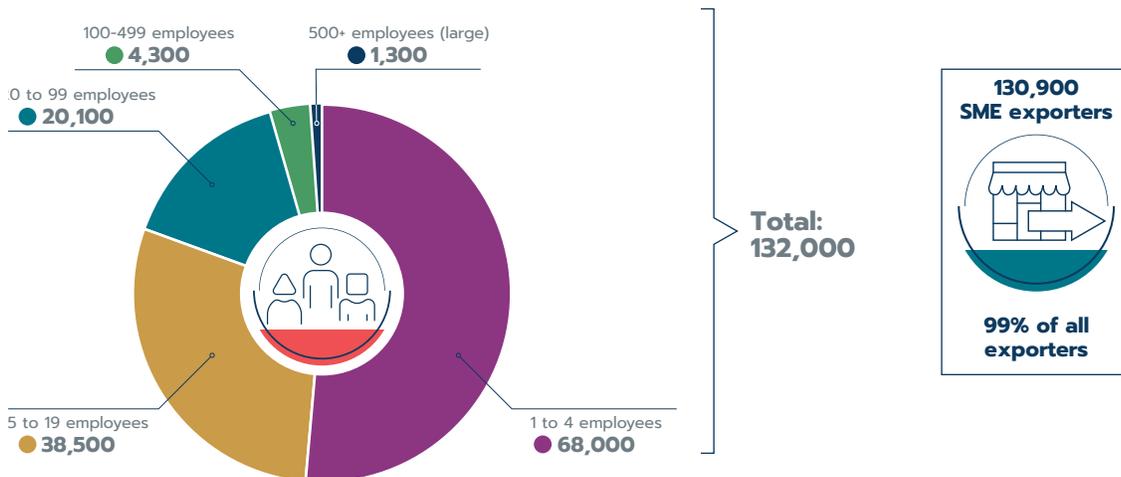
Any discussion of engagement in exports must begin by an acknowledgement that international trade is a difficult undertaking. To export a product, it is first necessary to find a customer in an unfamiliar foreign market. There may be important language and cultural barriers to overcome. If a good is being exported, it will need to be transported over a certain geographic expanse, but it will also have to navigate export and import procedures and rules as it crosses at least two international borders; one set as it leaves Canada and another set as it enters the foreign market. There is the added risk of receiving payment in another currency and if there is a problem in being paid, the added difficulties of having a contract enforced in two jurisdictions. A product may need to be customized for the foreign market and this may extend to the packaging and labeling. These can amount to a lot of challenges to overcome, and for an SME with limited expertise and resources, exporting can feel unreachable. Given the recognized benefits of participating in trade but also the many possible challenges, especially for smaller firms, numerous programs are available to get help.

## 2.1 STATE OF SME INTERNATIONALIZATION

As of 2023, there were roughly 132,000 exporters in Canada. Of those, all but 1,300 were SMEs. Of SMEs exporting, about half had between one and four employees (i.e. micro-SMEs) and another quarter had between 5 and 19 employees. That is, most exporters are in fact rather small businesses. As previously noted, while these small businesses showed a jump in their propensity to export, still relatively few actually do so. SMEs with between

20 to 99 employees have a notably higher share of exporters—20,100 are exporting. Finally, medium-sized firms, those with 100 to 499 employees, have the highest share of exporters; but still, only 4,300 of them are exporting. It is also notable that these larger SMEs, which have a higher propensity to export, are also more likely to export goods.

**FIGURE 14**  
Number of exporters in Canada, 2023



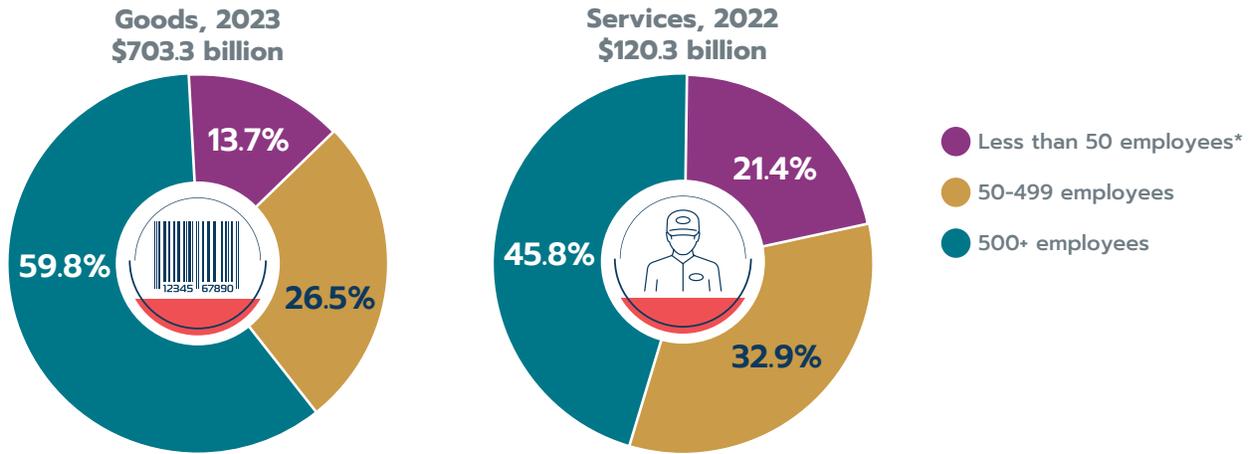
Note: Values rounded, large does not include services.  
Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.

Although most exporters are SMEs and most SMEs that export are relatively small, the reverse is true for export value. A small number of large enterprises account for most of the value of exports. For goods, large firms, those with 500 or more employees, account for nearly 60% of the value of goods exports and nearly 50% of the value of commercial services exports,

while representing nearly 2.6% of goods exporting firms. By contrast, SMEs with 50 to 499 employees account for just over a quarter of the value of goods exports and nearly a third of services exports. SMEs with less than 50 employees, which represent the large majority of exporters, make up only 13.7% of the value of goods exports and 21.4% of services exports.

2.1 STATE OF SME INTERNATIONALIZATION

FIGURE 15  
Value of exports by firm size



Note: Less than 50 employees include zero or undisclosed number of employees.  
Data: Statistics Canada, Trade by Enterprises Characteristics.  
Source: Office of the Chief Economist, Global Affairs Canada.

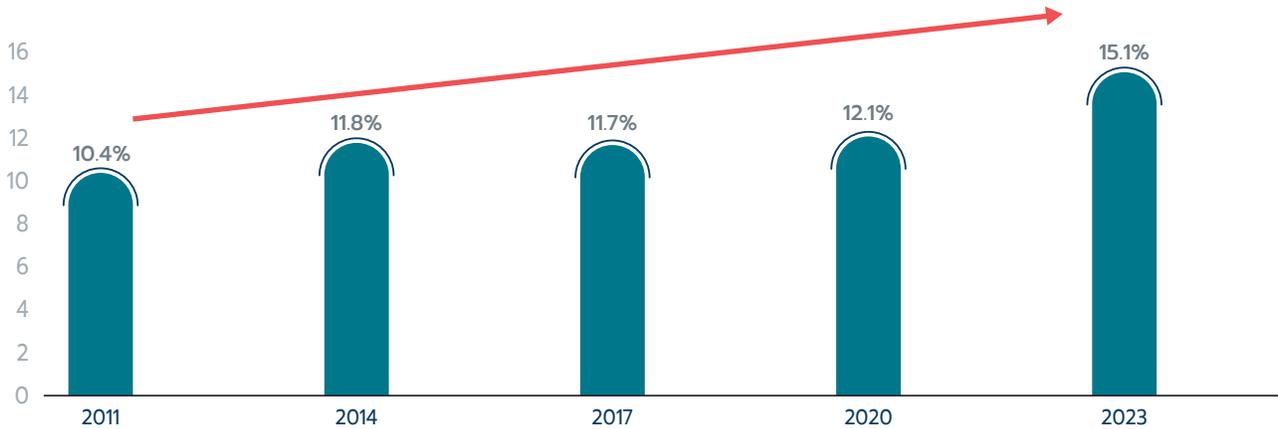


## 2.1 STATE OF SME INTERNATIONALIZATION



Despite all of the challenges, a good number of SMEs dare to embark on the export journey and the rate of participation has never been higher. The share of SMEs that export reached 15.1% in 2023, a sharp increase from 12.1% in 2020 and 10.4% in 2011. The recent rise following the pandemic is worth investigating along with the characteristics of SMEs that export.

**FIGURE 16**  
Share of SMEs that export



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.

It remains the case that larger firms are more likely to export. In 2023, 29.9% of medium-sized firms (those with 100 to 499 employees) exported compared to only 13.5% of micro firms (those with 1 to 4 employees). As previously indicated, this is because exporting is not only difficult, but costly. For example, a Canada-based SME selling in a foreign market is competing

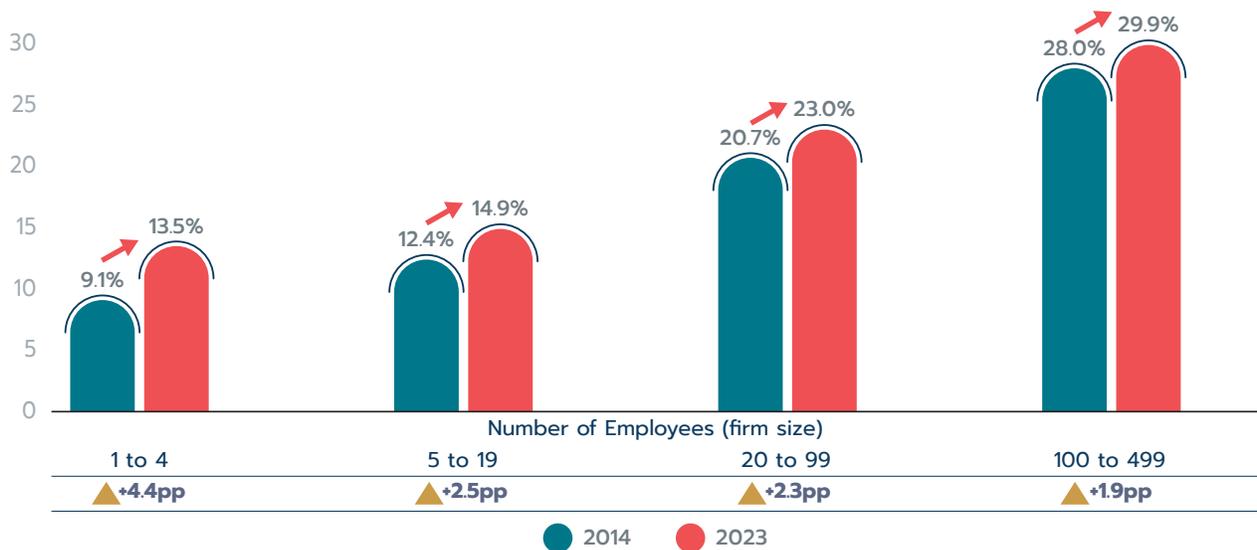
against local suppliers that do not have to ship their product as far, do not need to pay applicable tariffs, if any, know the market better, etc. As such, the Canada-based firm will need to be especially productive to sell at a competitive price in the foreign market. Because larger firms tend to be more productive, they also show higher rates of exporting. Furthermore, a larger

## 2.1 STATE OF SME INTERNATIONALIZATION

firm may have more resources, which will help it overcome the challenges of exporting. Research has found a positive relationship between firm size and the propensity to export (Melitz, 2003). Exporting and productivity are, in fact, a two-way street. First, a firm needs to have a certain level of productivity to be competitive in international markets and thus to “self-select” into exporting.

Second, after engaging in exporting, the firm learns from international competitors, benefits from economies of scale and, through other means, “learns by doing” and becomes more productive. Through these two dynamics, exporters tend to become more productive than non-exporters (Global Affairs Canada, 2019).

**FIGURE 17**  
Share of SMEs that export, by size



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.



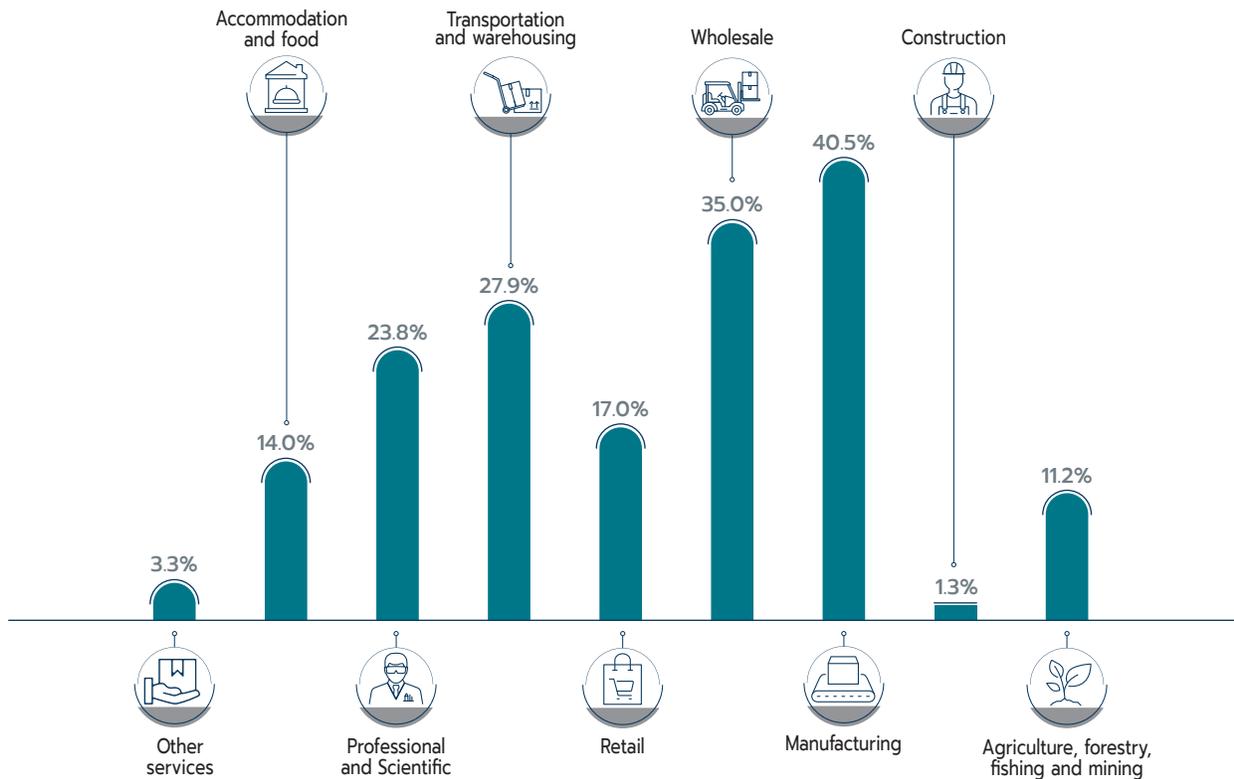
## 2.1 STATE OF SME INTERNATIONALIZATION

When it comes to examining the rise in export propensity among Canadian SMEs over time, it is notable that SMEs of all sizes show an increase, but the gain was largest for smaller firms. Micro SMEs (those with SMEs to 4 employees) increased their export propensity the most—up 4.4 percentage points compared to 2014, to 13.5% in 2023. This represents an advance of about 50%. Not only was this the largest gain in percentage terms, but because these very small firms are so numerous, accounting for about half of SMEs that export both goods and services, they effectively drive the increase. SMEs with 5 to 19 employees also saw a notable increase of 2.5 percentage points to 14.9% in 2023. These firms account for about one-third of SME exporters. SMEs with between 20 to 99 employees showed an increase of 2.3 percentage points, while medium-sized firms registered a gain of 1.9 percentage points. Although these advances were not as large as those of smaller firms, both were notable and continue a trend of steady increases over the past years.

Looking at the propensity of SMEs to export, in addition to size, it is also important to take an industry perspective. The lowest shares of SMEs engaged in exporting are in the Construction and Other services categories. Most construction firms in Canada are relatively small and focus on doing local construction or renovations and serve exclusively a local market. The Other services group includes an eclectic mix of services, everything from auto mechanics to pet groomers. Needless to say, this is also not an industry that would be expected to have a high share of exporters. By contrast, 40.5% of SMEs in the Manufacturing sector export. Manufacturing products are more conducive to exporting; however, aside from their natural tendency to be exported, they must also compete with imports in Canada. As such, exporting becomes a necessity to either grow or risk going out of business, leaving only the most productive firms. Furthermore, there tends to be more economies of scale in manufacturing, which means that as they grow in size, manufacturing firms become more productive. The Wholesale, and Transport and Warehousing industries also have relatively high export propensities as they play an important role in providing connections between the domestic and international markets. Professional and Scientific services is an industry of particular note as being one of the few services-producing industries with a high tendency to export. 23.8% of SMEs in this industry are exporting, which is a sizable increase from the 20.4% that exported in 2017.



**FIGURE 18**  
Share of SMEs that export, by industry



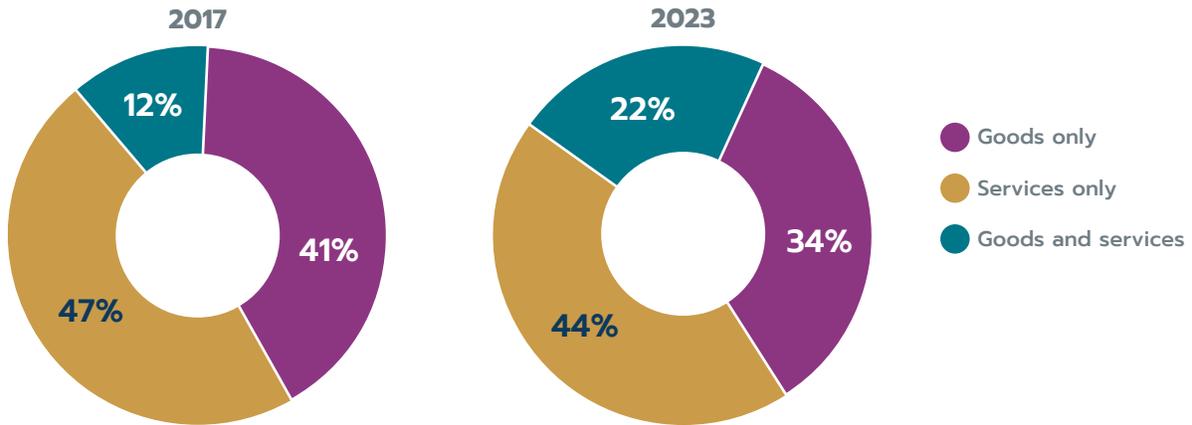
Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.

It is also possible to look at what these SMEs are exporting. 44% of SMEs export only services, roughly one third export only goods and 22% export both goods and services. There has been a sizable change over time, with much of the growth in exporting coming from businesses selling services abroad. In many cases, they export only services, but the largest growth came from firms selling both goods and services. This correlates with evidence that one of the fastest growing areas of trade is the export

of services that are linked to goods (The Conference Board of Canada, 2015). This can be a manufacturer that, in addition to selling a widget, also provides a multi-year contract to service that widget. It can also be an SME in the services industry that predominantly exports services, such as environmental services, but in so doing also provides goods; in this example, it could be environmental goods both of its own make or that of partners, to support its work.

## 2.1 STATE OF SME INTERNATIONALIZATION

**FIGURE 19**  
Share of SME exporters

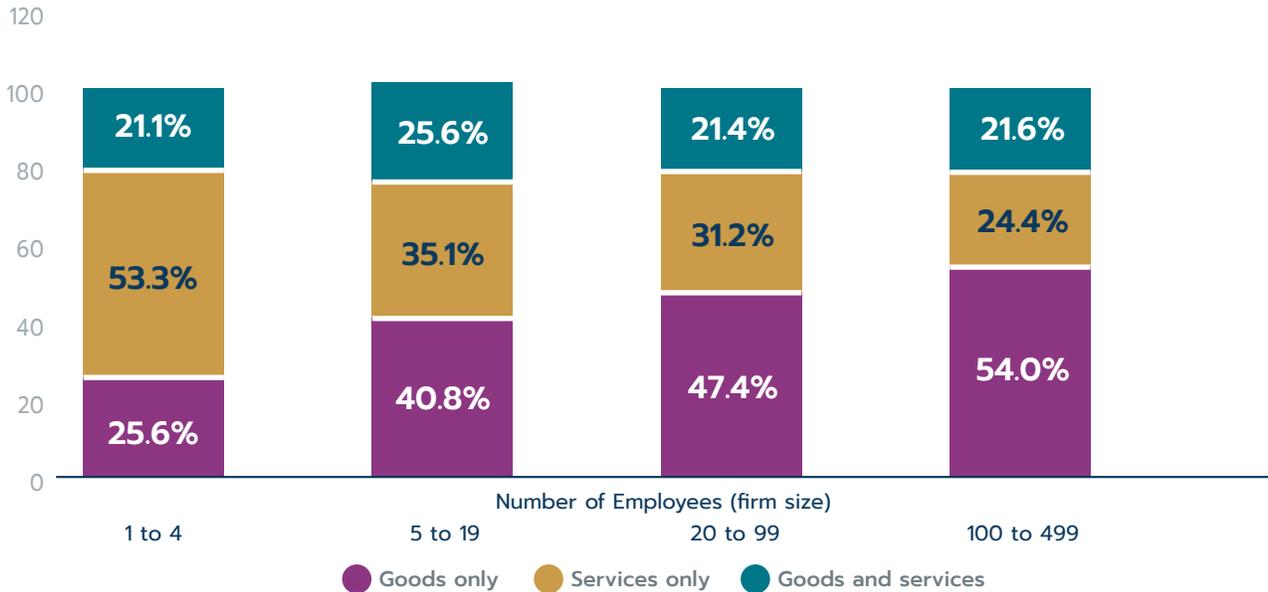


Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.



There is a strong relationship between the size of SMEs and what they export. As previously noted, manufacturing firms tend to be larger on average and benefit from economies of scale. It may then be no surprise that more than half (54.0%) of medium-sized SMEs export goods only, while another 21.6% export goods and services. By contrast, smaller exporters are much more likely to export services. Looking specifically at micro-SMEs, 53.3% export only services. An interesting observation is that there is a highly similar share in all groups of SMEs that export a combination of goods and services. Looking at where the growth in export propensity has taken place, it is most squarely in smaller SMEs that export both goods and services, and to a lesser extent, SMEs that are selling services on their own.

**FIGURE 20**  
**What SMEs of different sizes export**



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
 Source: Office of the Chief Economist, Global Affairs Canada.

It can be hypothesized that with most of the growth in exporting concentrated in smaller firms, specifically those selling either goods and services or just services, there would be a strong link with e-commerce. There could also be a link to technology more generally, either because it makes it easier to do business internationally, or to trade some services that were not previously tradable. While that may be the case, the evidence is not conclusive. It is true that SMEs that export are more likely to adopt technology, but it is difficult to identify a causal link. For example, there was only a modest increase in technology adoption by the smallest firms. There was also only a small increase in the use of

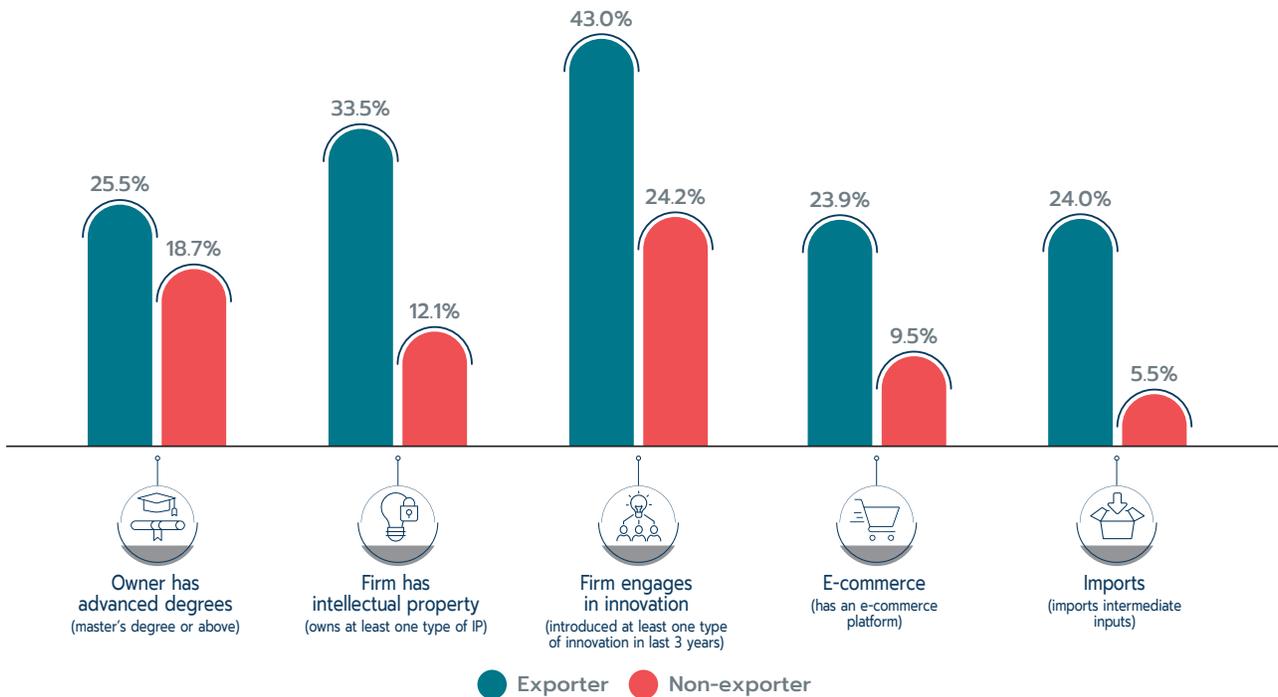
e-commerce, websites and other digital tools by exporters. It may simply be that some SMEs are both interested in adopting technology and in exporting, without one driving the other. A well-run firm may be more likely to use advanced technology, innovate, and also export. This in fact is a common observation. We have previously noted the link between exporting and productivity. The same is true for innovation and technology adoption. Firms engaged in trade tend to be more innovative and more likely to adopt technology; in part, this is because they were high-performers in these areas prior to exporting, and in part because exporting encourages them to continue to outperform (Aghiom, et al., 2018) (Baldwin, et al., 2016).

## 2.1 STATE OF SME INTERNATIONALIZATION

Delving deeper in the causation is beyond the scope of this report, but the most recent evidence suggests that these links are as strong as ever. In terms of ownership, SMEs run by an owner with an advanced degree, i.e. a Masters degree or above, is much more likely to export. This factor has become more important over time. For example, in 2017 only 21.5% of exporters had an advanced degree compared to 25.5% in 2023. This likely results from a

combination of two factors: more Canadians now have an advanced degree, and, more importantly, some sectors, like Professional and Scientific services, tend to be run by owners who have an advanced degree, and also have increased their participation in trade. As a point of comparison, only 16.8% of SME owners in the Manufacturing sector hold an advanced degree while the proportion reaches 34.7% in the Professional and Scientific services sector.

**FIGURE 21**  
**Characteristics of SME exporters vs. non-exporters**



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
 Source: Office of the Chief Economist, Global Affairs Canada.

## 2.1 STATE OF SME INTERNATIONALIZATION

Evidence of a strong link between exporting and innovation is also underscored by the observation that 43.0% of exporters report having engaged in at least one type of innovation in the past three years compared to only 24.2% among non-exporters. Given this higher level of innovation, it is then no surprise that 33.5% of exporters report owning intellectual property (IP) compared to 12.1% of non-exporters. It was noted previously that being more productive is essential to price competitiveness for exporters that must compete in a foreign market. Owning IP would also be key to allowing an SME to sell something unique rather than just competing on price. Although the increase in technology adoption between 2020 and 2023 was not large, it could help explain the increase in export propensity, and it remains true that exporters are more likely to adopt technology. Although the distinction in the rate of technology adoption between exporters and non-exporters tends to decrease for some forms of technology that have become more ubiquitous, the more advanced or complicated technologies tend to be adopted at a higher rate by exporters compared to non-exporters. For example, 23.9% of exporters have their own e-commerce platform compared to 9.5% of non-exporters.

One driver of exporting that is often overlooked is importing. As previously noted, there is a strong link between exporting and productivity. An important driver of productivity is imports (Kasahara and Rodrigue, 2005). For a company, especially in manufacturing and more particularly those producing complex goods, it is not possible to be the best producer of all of the components of a product. It thus not only makes sense, but improves productivity, to find the best components, which may very well be from

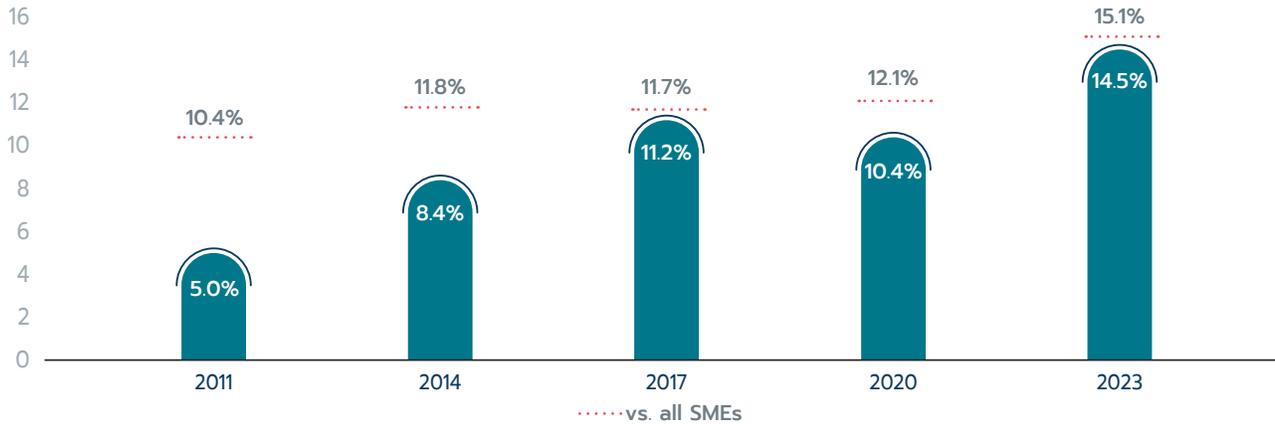
foreign suppliers (Kasahara and Lapham, 2013). Given the link between importing and productivity, it is not surprising that 24.0% of exporters also report importing intermediate inputs that are used in production. The corresponding rate is more than four-times higher than for non-exporters.

In addition to the substantial increase in SMEs' export propensity overall, the share of female majority-owned SMEs has increased even more. In 2011, when these statistics were first collected, only 5.0% of female majority-owned SMEs exported, which was less than half the rate for all SMEs. By 2017, the difference had almost closed with 11.2% of female majority-owned SMEs exporting compared to 11.7% for SMEs overall.

Evidence suggests that technology played an important role in narrowing the gap as female-owned SMEs were particularly enthusiastic adopters of e-commerce, allowing these SMEs, which tend to be smaller on average and more likely to be in retail or to export services, to increase their participation in trade (Sekkel and Wang, 2022). During the pandemic, the gap widened but as of 2023, the difference in export propensity between female majority-owned SMEs and all SMEs stood at only 0.6 percentage points. It appears that most of the gap in export participation by female majority-owned SMEs is linked to the fact that these firms tend to be smaller and operate in sectors that are less likely to export. Whether these SMEs are hindered by other factors associated with female ownership is less clear. Given that the export propensity gap has closed considerably, the bigger obstacle to increasing the participation of women-owned businesses in trade is that only 17.8% of SMEs in Canada are majority-owned by women.

## 2.1 STATE OF SME INTERNATIONALIZATION

**FIGURE 22**  
Share of female majority-owned SMEs that export



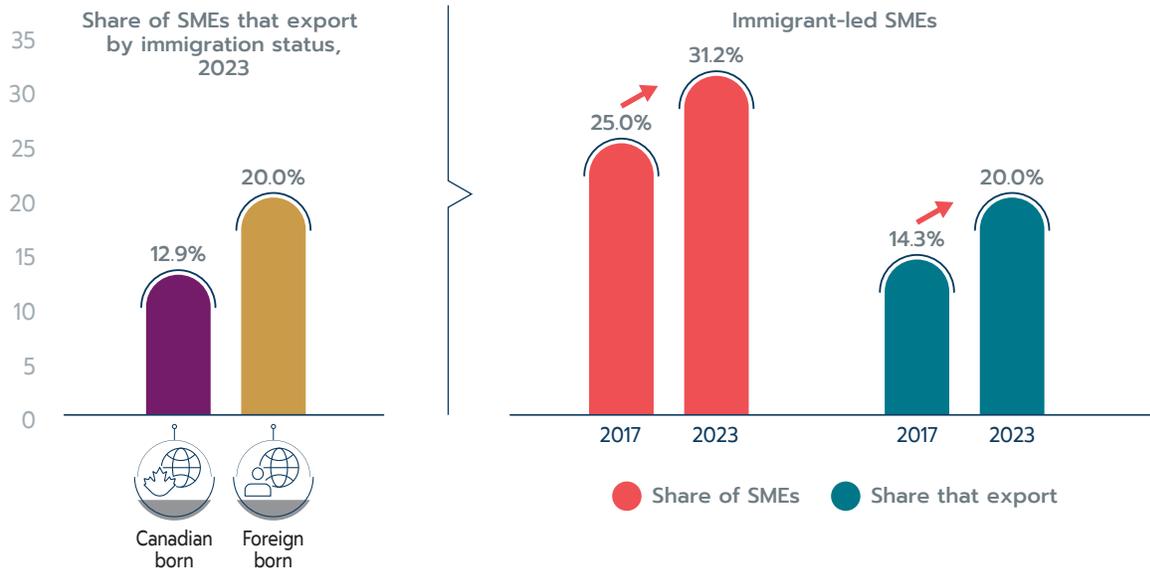
Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.



Immigrant-led businesses make an important contribution to the export performance of Canadian SMEs, and as it turns out, the single most important factor in explaining the sharp rise in export propensity among Canadian SMEs is the role played by immigrant-led businesses. In this context, immigrant-led refers to businesses that are majority led by someone born outside of Canada. 31.2% of all SMEs in Canada are run by immigrants and these businesses make an important contribution to Canadian SMEs exports. One-fifth (20.0%) of immigrant-led businesses engage in exporting. This is substantially higher than the 12.9% observed for SMEs with a Canadian-born decision-maker. Even more dramatically, three quarters of the increase in the rate of exporting by Canadian SMEs since 2017 are due to SMEs run by immigrants. This increase comes from both a rise in the proportion of SMEs in Canada that are run by immigrants, from 25.0% to 31.2% between 2017 and 2023, and from a sharp increase in the tendency of immigrant-led SMEs to export, which has jumped from 14.3% to 20.0%.

2.1 STATE OF SME INTERNATIONALIZATION

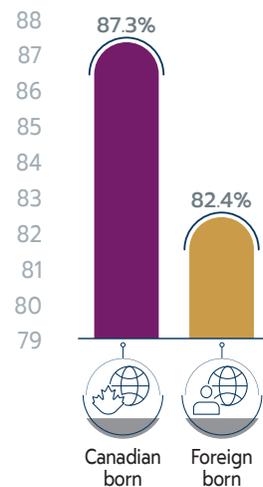
**FIGURE 23**  
Immigrant-led SMEs



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.

Not only have immigrant-led SMEs made an important contribution to the increase in exporting, but they have also been a significant player in the diversification of Canadian exports. It is well-established that immigrants tend to have a greater focus on international markets and may have foreign connections, including to their home country, that support their businesses in exporting (Head and Ries, 1998). Immigrant-led SMEs are less focused on the United States as an export market in comparison to non-immigrant-led SMEs, and they are also less geared toward advanced economies such as Europe and Japan. Somewhat surprisingly, they export less to Mexico and Latin America. By contrast, they are far more focused on China, India, Other Asian countries, and All Other countries, including Africa and the Middle East.

**FIGURE 24**  
Share of SME exporters that export to the United States, by birthplace of decision-maker, 2023

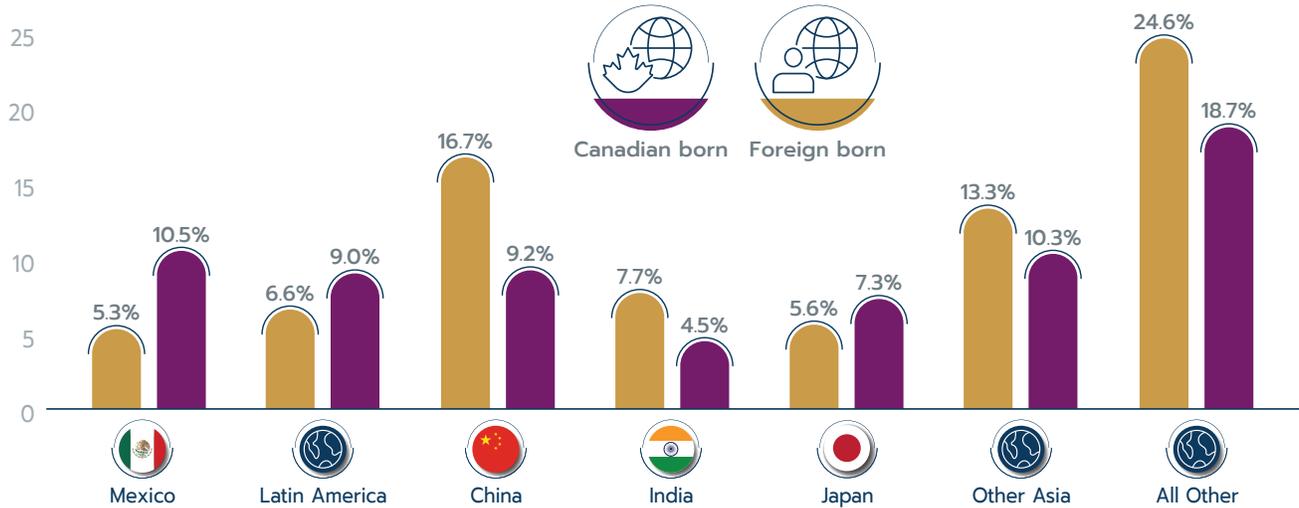


Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
Source: Office of the Chief Economist, Global Affairs Canada.

2.1 STATE OF SME INTERNATIONALIZATION

FIGURE 25

Share of SME exporters that export to various destinations, by birthplace of decision-maker, 2023



Note: Latin America excludes Brazil and "All other" excludes Europe.  
 Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
 Source: Office of the Chief Economist, Global Affairs Canada.

BOX 3

Navigating export obstacles: insights from Indigenous entrepreneurs

Indigenous-owned SMEs are less likely to export and face unique challenges compared to the average Canadian SME. To better understand their experiences, Global Affairs Canada’s Office of the Chief Economist partnered with the Canadian Council for Indigenous Business. They heard from 2,603 First Nations, Métis and Inuit firms through a national survey and case studies conducted in three Indigenous communities. Together, they co-published two reports that present the results of this work:

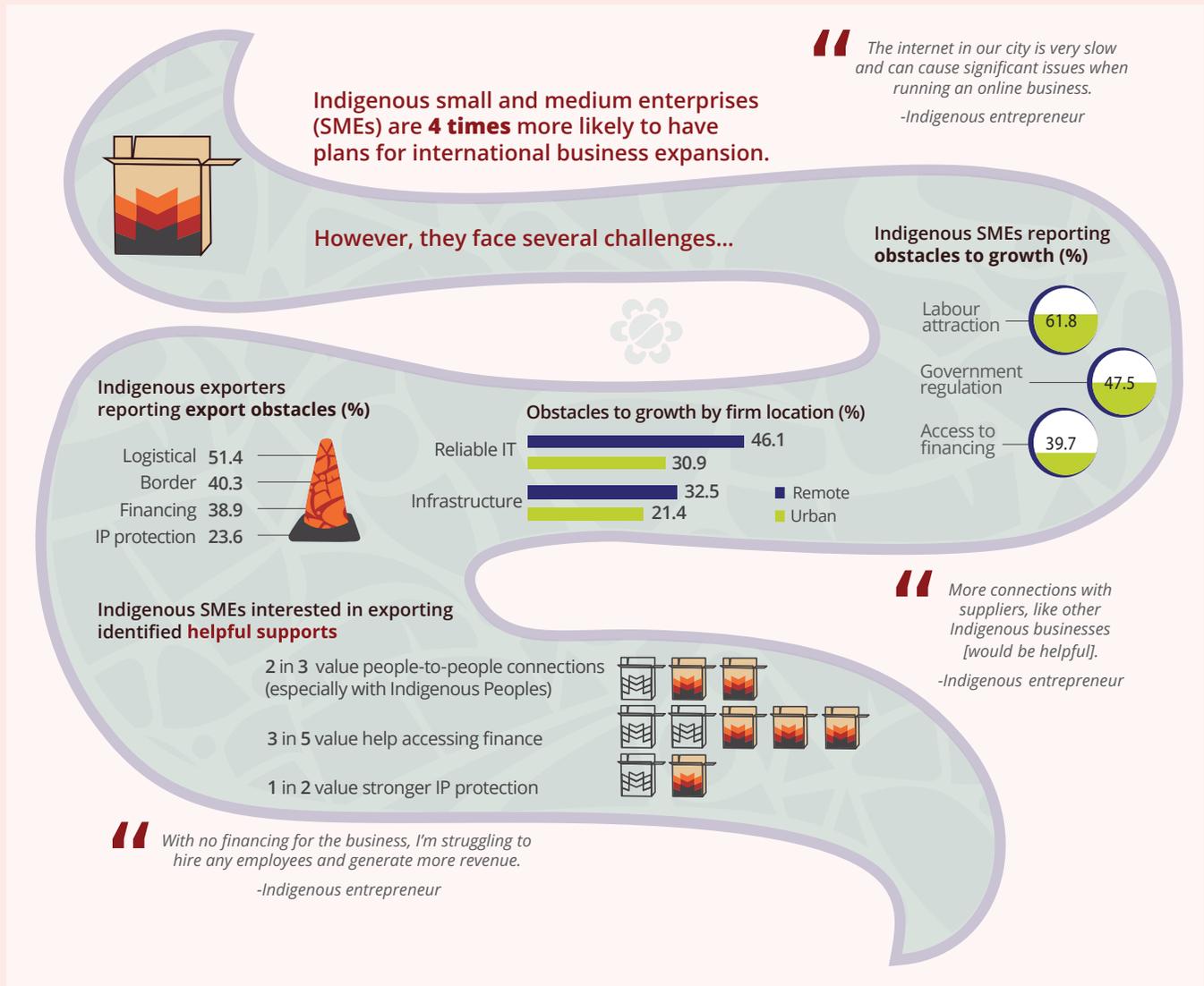
1. *Adāwe: Export experiences of Indigenous entrepreneurs* (Canadian Council for Indigenous Business and Global Affairs Canada, 2023)
2. *Atāmitowin: Identifying and overcoming challenges facing Indigenous exporters* (Canadian Council for Indigenous Business and Global Affairs Canada, 2024)

*Atāmitowin*—the Cree word that means “to trade”—explores the challenges Indigenous SMEs face in growing their business and exporting, as well as the policies and supports they deem useful. The ability to attract labour, government regulation and access to financing were the top impediments to growing a business as reported by Indigenous-owned SMEs, and physical and digital infrastructure affected firms in remote areas more particularly. When exporting, logistical obstacles were most commonly reported, along with border administration, financing and intellectual property protections. When asked about what supports Indigenous exporters value, people-to-people connections topped the list—in particular, connections with other Indigenous clients around the world—followed by help in accessing financing and stronger IP protection.

## 2.1 STATE OF SME INTERNATIONALIZATION

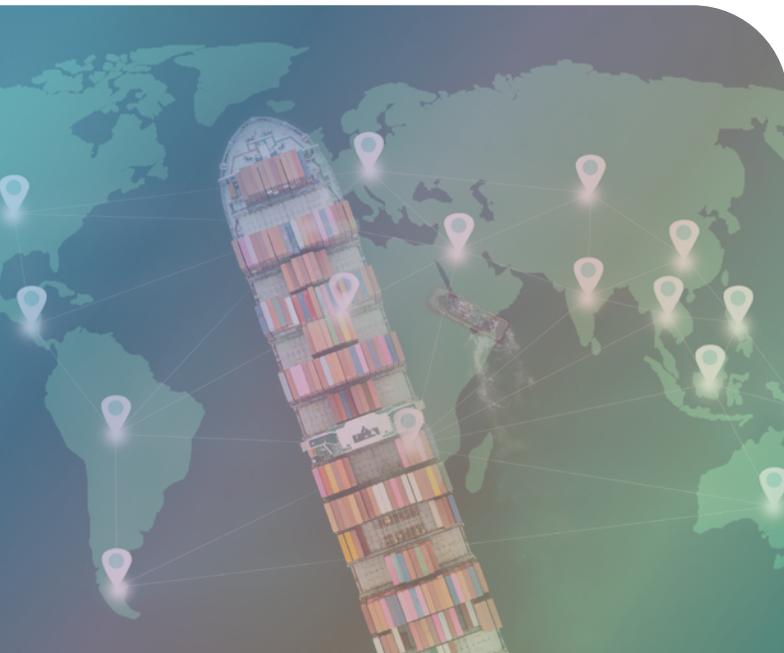
These findings were reinforced in discussions with Indigenous-owned businesses in Indigenous communities where case studies were conducted. A summary of the findings, along with quotes from Indigenous businesses can be found in Figure 26.

**FIGURE 26**  
Summary of findings in Atāmitowin

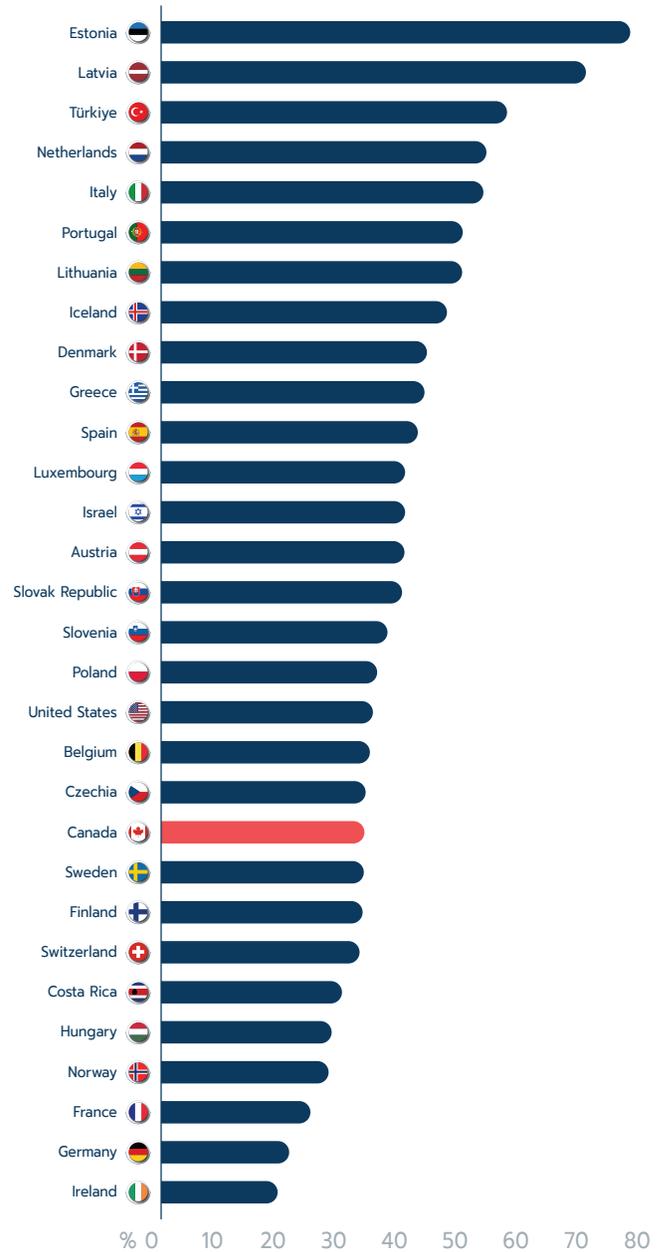


## 2.1 STATE OF SME INTERNATIONALIZATION

The fact that exporting is difficult and that only the most productive firms engage in exports applies to all countries, not just Canada. As is the fact that productivity increases with firm size. As a result, a common challenge across countries is the relatively low share of SMEs that export and the relatively small share of export value accounted for by SMEs. Canada ranks in the bottom third of OECD countries in terms of the share of the value of goods exports accounted for by SMEs. It is important to note here that the OECD definition of an SME is somewhat different from that which has been used in this report, encompassing firms having between 0 and 249 employees. Ranking in the bottom third of OECD countries should not be seen negatively however, as the driver of SMEs share of export value is varied. For example, tiny Estonia and Latvia rank very high, with 77% of Estonia's goods exports accounted for by SMEs because that country does not have many large businesses that export. Similarly, Germany and France display a very low share of SME exports because large firms dominate their exports.



**FIGURE 27**  
SMEs' share of goods exports value, by select OECD countries



Data: 2022, OECD.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 2.1 STATE OF SME INTERNATIONALIZATION

Up to this point, the focus has entirely been on exporting, but that is only part of the story. There are various forms of international commercial engagement, and the most important for SMEs is importing. 8.3% of SMEs import goods that are used directly in their production, often referred to as intermediary goods. As previously discussed, this trade is important for improving productivity and helping a business become more competitive both in Canada and in exporting to foreign markets. 50.1% of manufacturing SMEs import for this purpose, while 9.8% of SMEs import goods simply to resell them in Canada. Not too surprisingly, this is an important activity for SMEs operating in Wholesale (53.9%) and Retail (29.1%), and it is the most predominant form of international engagement for women-owned SMEs, which coincides with their high level of participation in Retail. 2.6% of SMEs report buying services from abroad (i.e. importing services). This is likely a vast understatement given the predominance of foreign firms in some industries such as software and web services. It may simply be that the process is so seamless that it is not thought of as importing a service. Not only does importing potentially help a firm become more competitive, it can also be its first international exposure. It can help an SME understand how trade takes place, expose them for the first time to a foreign market, and allow them to make contacts. Looking at goods only, for which more precise data are available, there were an estimated 161,000 SMEs that imported in 2023—more than three times the number of businesses that exported goods.

Another form of international engagement that is often overlooked is the indirect participation in exporting. This can take several forms. One is to sell an intermediate input to a firm that then exports, which is also often referred to as being part of a global value chain (GVC). Participating in exporting in this way can also be a gateway to more direct exporting. By selling a product or providing a service to an exporter— in many cases a larger business or even a multinational located in Canada— suggests that your products are competitive, can expose the firm to the requirements of a demanding client, and more generally to foreign buyers (Global Affairs Canada, 2009, 2011). An SME can also participate indirectly in exporting by selling to a wholesaler or other intermediary. 2.0% of SMEs report using intermediaries to export. The intermediary can help to find foreign buyers, arrange logistics, etc., but as for GVCs, it suggests that the firm's products are competitive internationally. Even some large multinationals use wholesalers, distributors and other intermediaries to sell their products in some markets.

Direct exporting has been the focus of much of this report and so will not be covered further here, which leads to the final and deepest form of international engagement—foreign investment. Foreign investment means owning foreign assets and having a presence in a foreign country. This is considered the deepest form of international engagement both because it is more complex as it could require paying foreign taxes, employing foreign staff, etc., which all adds to complexity and cost, but may still be desirable for a number of reasons, such as to develop a brand, produce in a foreign location, or control distribution. In the services sector, a foreign presence may be necessary to generate foreign sales. Because foreign investment is difficult, it is also the rarest form of international engagement for SMEs; in

## 2.1 STATE OF SME INTERNATIONALIZATION

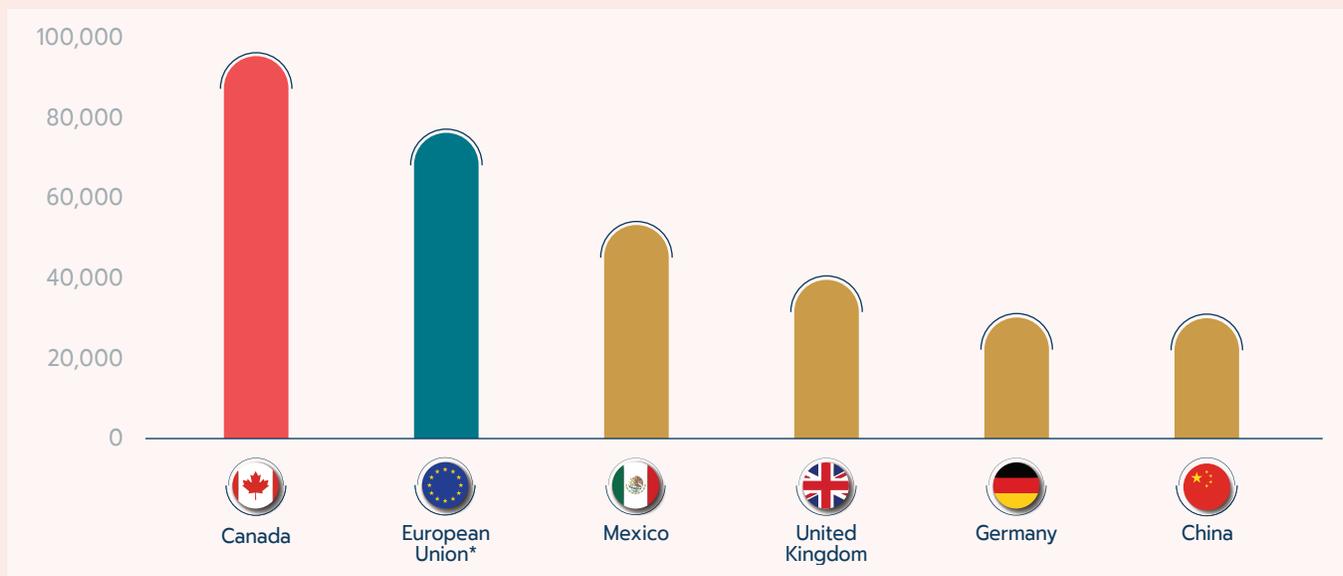
effect, only 0.5% of SMEs do so and even among medium-sized SMEs, only 0.8% report having foreign investments; the ratio is 1.9% among exporters. To achieve some of the benefits of foreign investment but with less of its costs and complications, a contractual agreement may be contemplated. One form of this approach is to hire a foreign business to produce on the

firm's behalf rather than invest in setting-up a foreign subsidiary or branch to undertake production directly. This is often called contract manufacturing or outsourcing. As of 2023, 2.0% of SMEs reported doing this, a share that rises to 5.0% among manufacturers. This rate is still much lower than exporting, but five times higher than direct investing.

### BOX 4 U.S. SMEs exporting to Canada

Like in Canada, SMEs are the backbone of the U.S. economy. As of July 2024, there were 35 million small businesses in the U.S., representing 99.9% of all enterprises. These businesses employed 59 million Americans and, since 1995, they were responsible for 61% of job growth (USA Facts, 2024). As is the case for Canada, most exporters are in fact small businesses. According to the U.S. Chamber of Commerce, 97% of all exporters are SMEs and they account for 1/3 (US\$413 billion) of export value (US Chamber of Commerce, 2023). There is no export market more important for U.S. SMEs than Canada. In excess of 90,000 SMEs export to Canada, which is more than to any other country. In fact, more U.S. SMEs export to Canada than to all 27 EU countries combined!

**FIGURE 28**  
Number of U.S. SME exporters by destination (top 5 countries and EU, 2022)



\* 27 EU countries combined.  
Data: U.S. International Trade Administration.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 2.1 STATE OF SME INTERNATIONALIZATION

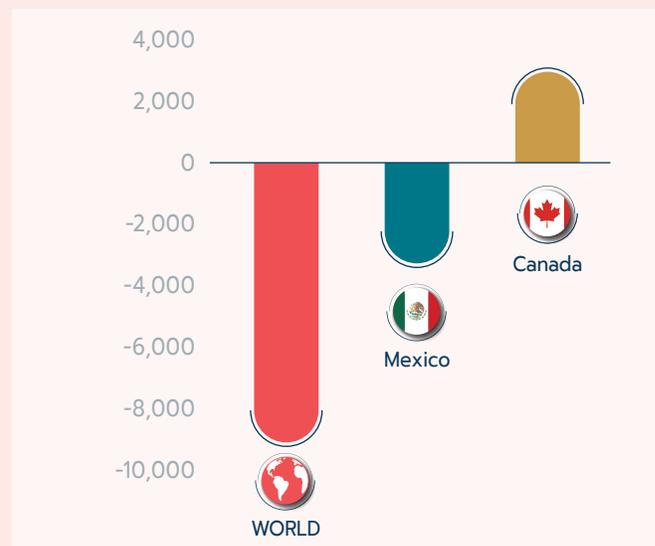
Recognizing the importance of trade for SMEs within North America, policy-makers added a number of features to the Canada-US-Mexico Trade Agreement (CUSMA), also known as USMCA in the U.S., to support the full participation of small businesses to trade. This includes a dedicated chapter on small business aimed at increasing cooperation and establishing information-sharing tools that will help SMEs better understand the benefits of the Agreement. Other sections of CUSMA also contain features to reduce costs, increase predictability and facilitate cross-border transactions. They are designed to make it easier for SMEs to find information and to engage in trade (US International Trade Administration, n.d.).

It is notable that the number of U.S. SMEs exporting to Canada has grown by nearly 3,000 between 1999 (the year prior to the Agreement coming into force) and 2022 (the latest year for which data are available). This expansion is even more remarkable considering that the total number of U.S. SMEs that export fell over this period, making Canada a rare bright spot in support of U.S. SME international expansion. The value of U.S. SME exports to Canada also increased by 42% since the implementation of CUSMA (USMCA).

A joint study by the U.S. Chamber of Commerce and Google found that small business exports contribute significantly to the U.S. economy, generating US\$541 billion in output and supporting more than 6 million jobs (US Chamber of Commerce: Technology Engagement Center, 2019). With Canada being the top export destination for U.S. SMEs, Canada was specifically noted as a key market for U.S. SME exporters for the same reasons that the U.S. is the top market for Canadian SME exports, namely that it is a large and rich market right next door, it is transparent in its rules, and CUSMA (USMCA) establishes a level playing field that is especially important for SMEs.

Exporting contributes to the growth of small businesses and allows them to support good quality well-paying jobs. Canada is the most important export market for U.S. SMEs just as the U.S. is the most important export market for Canadian SMEs. Open trade between the two countries has been beneficial for small businesses on both sides of the border.

**FIGURE 29**  
Change in number of U.S. SME exporters by destination – pre-CUSMA (1999) to most recent (2022)



Data: U.S. International Trade Administration.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 2.2

### The challenges of exporting



#### MAIN CHALLENGES WITH EXPORTING

Canadian SMEs are increasingly expanding into international markets. However, most still do not export—largely because doing so is difficult. Only the most productive firms can handle the costs and challenges of exporting and successfully compete abroad. Exporting offers significant potential benefits, which makes it important for policymakers to understand the specific barriers SMEs face. Such understanding can help reduce those barriers or support businesses in overcoming them. This section explores the main challenges SMEs encounter when going global, especially in exporting. This includes barriers that prevent SMEs from exporting in the first place, those that may inhibit exports from growing or diversifying to new markets as well as barriers that prevent the full utilization of trade agreements.

While Section 2.1 provides a general overview of SME exporters, this section focuses on the specific export barriers they report. The most commonly cited reason for not exporting is the “local nature of the business.” This is understandable, as many SMEs—such as hair salons or convenience stores—are not suited to international trade. Over 90% of SMEs cite this as their main reason for not exporting. Although one might expect technology to make more goods and services tradable, this metric has remained unchanged over the past decade. Since this barrier is difficult to address through policy, it is excluded from further analysis here.

Looking beyond the “local nature of the business”, the remaining obstacles are more relevant for policymakers. Most striking is that in parallel to the notable increase in the number of SMEs that export, there has been a significant decline in the perception of barriers to exporting. From 2014 to 2023, the perception of barriers to exporting has dropped sharply. This is true across all indicators for which there is comparable data in 2014.

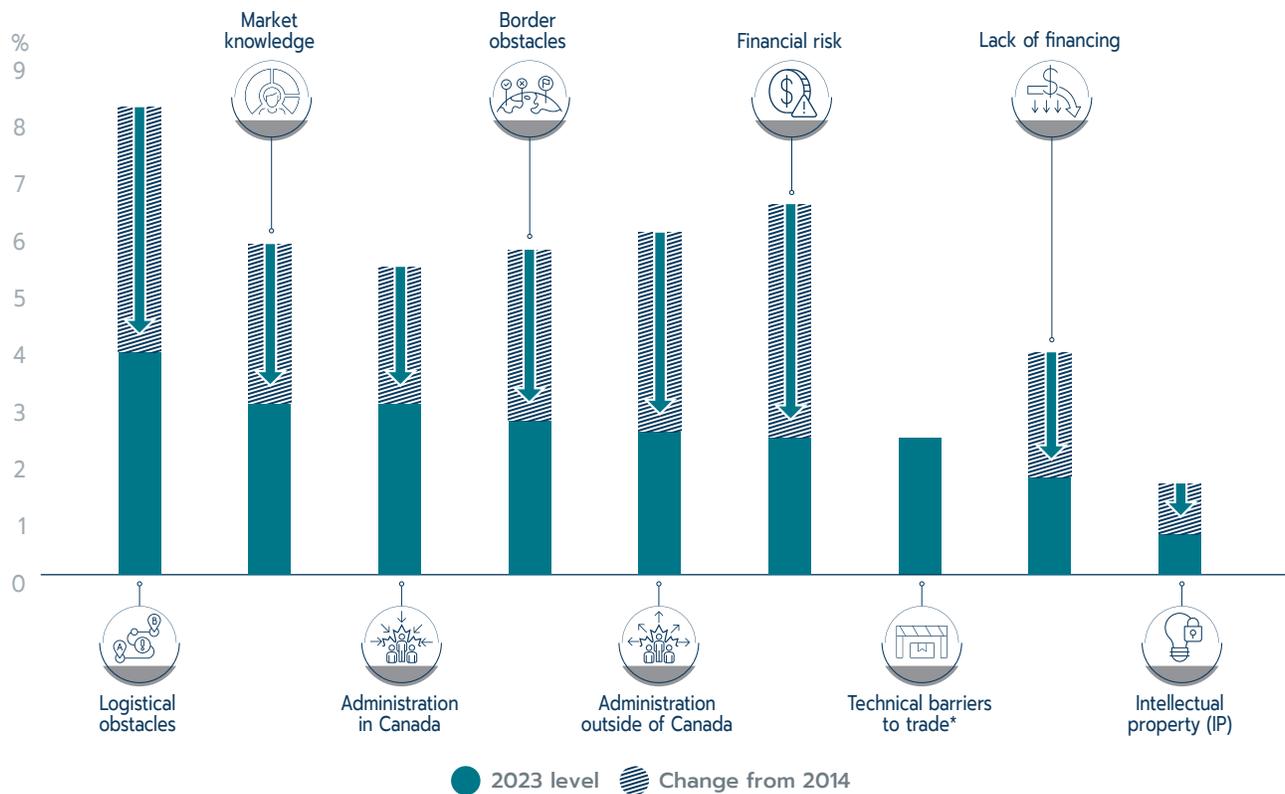
Among non-exporting SMEs, logistics stands out as the most frequently cited barrier. This isn’t surprising — exporting often involves overcoming significant distances, especially for Canadian firms. Canada’s vast geography and its relative remoteness from most global markets aside from the United States (U.S.) make logistics a critical challenge. But distance alone isn’t the only issue. The availability, cost, and ease of using transportation and logistics infrastructure also play a major role. This barrier doesn’t affect all businesses equally. Mid-sized firms are more likely to report logistics as a challenge—7.9% of SMEs with 100 to 499 employees cite it as an obstacle, compared to just 3.2% of those with 1 to 4 employees. This likely reflects the fact that goods-producing SMEs, which tend to be larger, are more involved in exporting and thus more impacted by logistics. For instance, 15.3% of manufacturers identify logistics as a primary barrier, compared to only 3.6% of SMEs in the Professional and Scientific sector. Despite remaining the top barrier since 2014, logistics has also seen one of the largest declines in the number of SMEs identifying it as a major trade challenge.

## 2.2 THE CHALLENGES OF EXPORTING

Financial risk experienced the largest drop in perceived importance among export barriers. In 2014, it ranked as the second most significant obstacle to exports for non-exporting SMEs, but by 2023, it had fallen to sixth place. Manufacturers continued to view it as a more pressing issue than services-producing firms, with the exception of Wholesale trade, which also rated it highly. Administrative barriers outside Canada also declined in importance, slipping from third place in 2014 to fifth place in 2023. This barrier was most frequently cited by SMEs in the Professional and Scientific sector— which is unsurprising as foreign regulations tend to pose greater challenges

for services-based firms (Organisation for Economic Co-operation and Development, 2025b). Rounding out the second through fourth most cited export barriers were market knowledge, administrative obstacles in Canada, and border obstacles. While all three saw notable declines in perceived importance, their relative rankings rose because other barriers fell even more sharply. These rankings were largely driven by SMEs in Manufacturing and in Wholesale trade—sectors more involved in zgoods exports—which consistently identified these as key challenges.

**FIGURE 30**  
Non-exporting SMEs’ reasons for not exporting



\* Question not asked in 2014.

Note: Excludes “local nature of business” as reason for not exporting.

Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.

Source: Office of the Chief Economist, Global Affairs Canada.

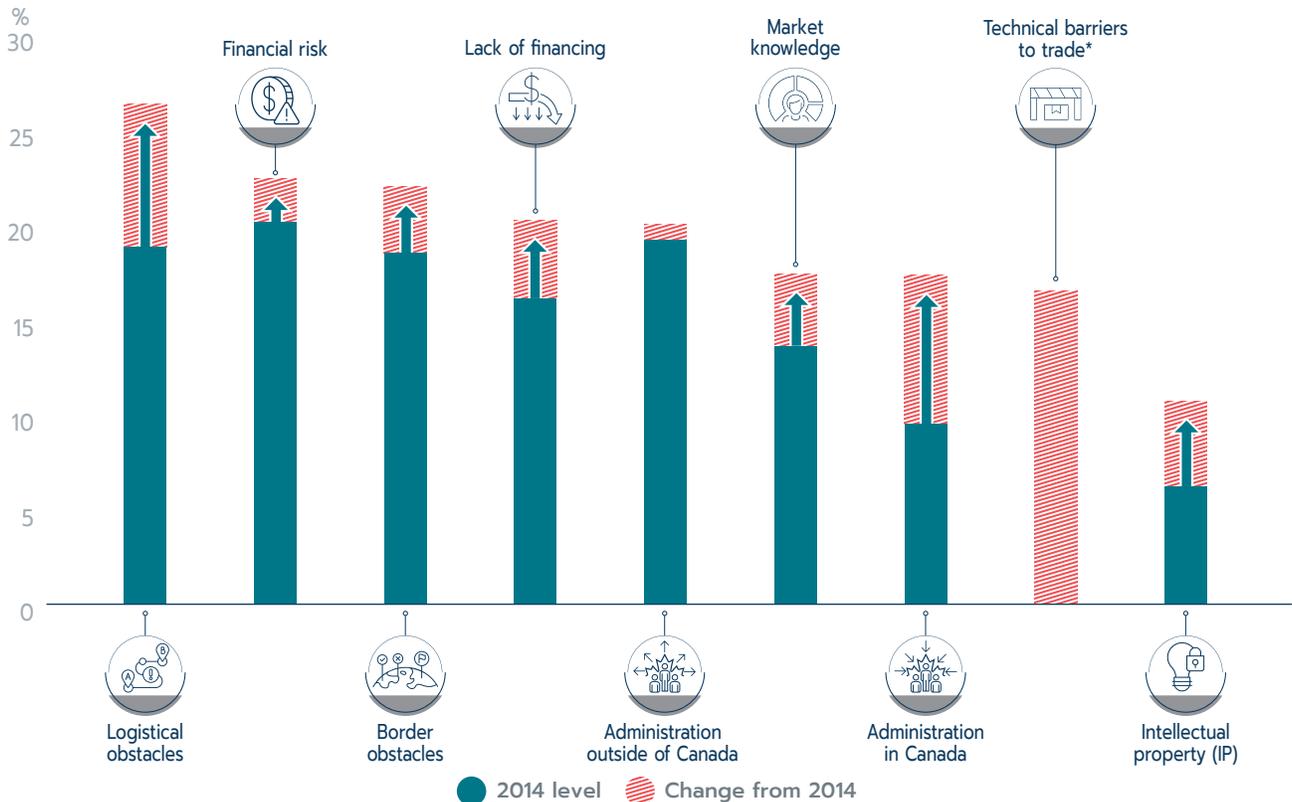
## 2.2 THE CHALLENGES OF EXPORTING

Interestingly, SMEs in the manufacturing sector report nearly every export barrier—except for intellectual property—as more significant than the average SME. This could be because manufacturers are more likely to consider exporting or already have some experience, and specific challenges are holding them back. Alternatively, it may reflect the reality that, despite years of trade liberalization, exporting goods internationally remains relatively difficult.

While non-exporting SMEs have seen a decline in perceived export barriers over the past decade, the opposite is true for exporters. Across all comparable indicators from 2014

to 2023, exporters reported a worsening view of trade obstacles. This may be because many SMEs that previously didn't export have since entered international markets—and for new exporters, the challenges can be especially daunting. This trend is further supported by the fact that smaller firms generally perceive greater difficulties, and the increase in perceived barriers over the past decade has been more pronounced among them. Notably, much of the recent growth in export participation has come from the smallest SMEs.

**FIGURE 31**  
Perception of barriers by SME exporters (seen as moderate or major obstacle to exporting), 2023



\* Question not asked in 2014.

Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.

Source: Office of the Chief Economist, Global Affairs Canada.

**BOX 5**  
**Impact of the Trade Commissioner Service**

In 2024, Canada’s exports were equal to about one-third of the country’s economy. Yet, a relatively small share of Canadian businesses participated in exporting, a pattern that isn’t unique to Canada. As discussed in the second part of this report, exporting can be expensive and risky, especially for smaller businesses, as firms often need to invest up front to understand foreign markets and scale to serve them, find overseas customers and navigate unfamiliar regulations. These hurdles can potentially be too high for many small businesses to overcome.

In Canada, the Trade Commissioner Service (TCS) provides expert guidance to help businesses prepare for international trade, connect with potential clients and partners abroad, uncover global opportunities and access funding and support programs. With a presence in over 160 cities worldwide, the TCS offers Canadian exporters a strategic advantage for connecting with commercial opportunities globally.

Analysis by the Office of the Chief Economist at Global Affairs Canada shows that the TCS generates positive outcomes for Canadian exporters. By comparing clients of the TCS to similar firms that don’t use the TCS, using a technique called propensity score-matching and firm-level data from Statistics Canada and the TCS, it is possible to isolate the effects of working with the TCS while removing other drivers of success (Van Biesebroeck, et al., 2015).

The results are compelling: in the latest analysis, businesses that used TCS services over 2000 to 2022 exported 20.1% more in value, sold to 20.4% more countries, and exported 3.0% more product varieties than similar firms that were not TCS clients.

**FIGURE 32**  
**Improved performance (%) of TCS-assisted businesses compared to firms that did not receive TCS services, 2000 to 2022**



Data: Statistics Canada and Trade Commissioner Service.  
 Source: Office of the Chief Economist, Global Affairs Canada.

## 2.2 THE CHALLENGES OF EXPORTING

As for non-exporters, logistics remains the top barrier cited by exporting SMEs. Interestingly, it is the only barrier where larger SMEs—particularly those with 100 to 499 employees—report greater difficulty than smaller firms. Moreover, for medium-sized exporters, concerns about logistics have grown over time. This trend may be partly explained by the ongoing supply chain disruptions that began during the pandemic, a topic explored in more depth in *Canada's State of Trade 2023*.

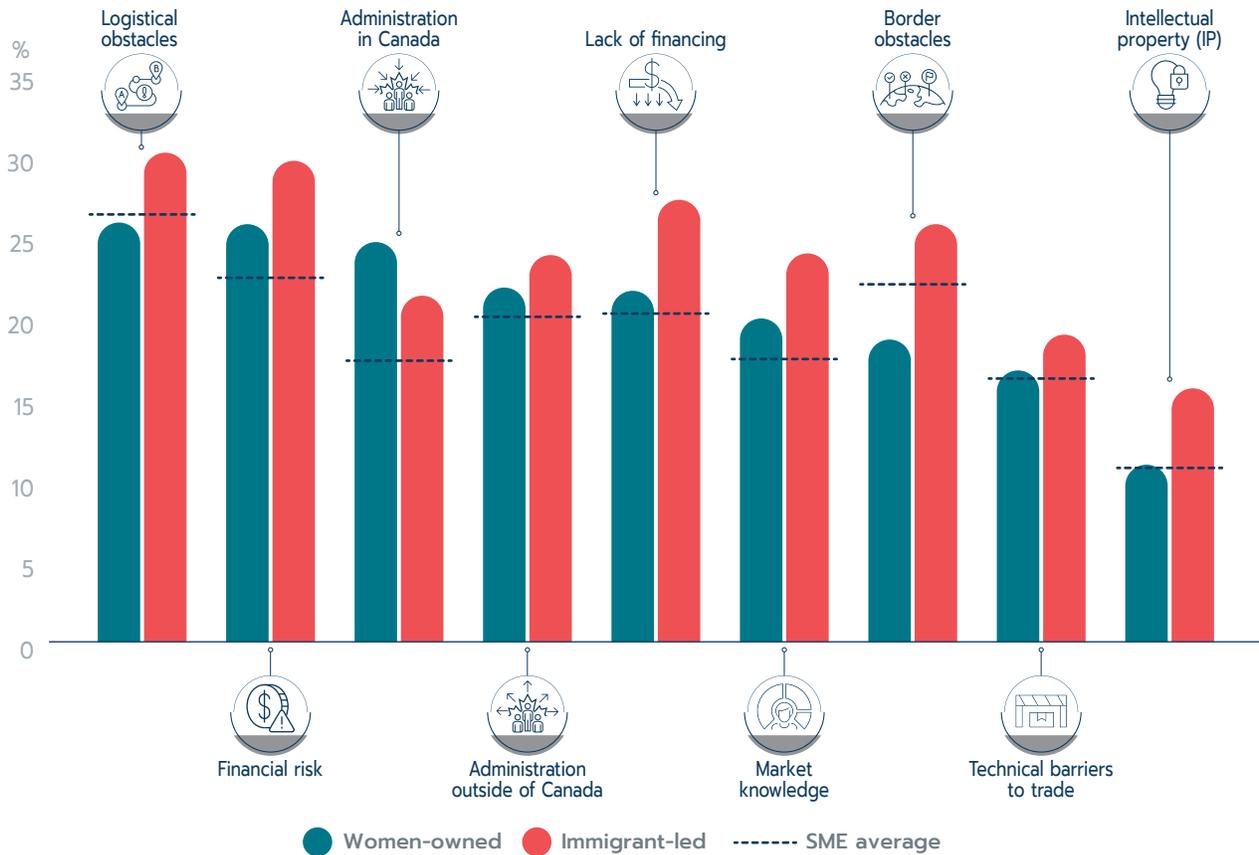
Following logistics, financial challenges are among the most significant barriers to exporting for SMEs. Financial risk ranks as the second most cited obstacle, while lack of financing or cash flow comes in fourth. Notably, these financial issues are seen as much more problematic by SMEs already engaged in exporting than by those considering entering foreign markets. Conversely, market knowledge and administrative barriers in Canada are rated more highly by non-exporters but become less of a concern for firms once they begin exporting. Rounding out the top five barriers are border-related issues and administrative obstacles outside of Canada.

Export barriers vary significantly by industry. SMEs in the Manufacturing sector—more likely to export goods—report greater challenges related to borders, logistics, and technical barriers than the average SME. In contrast, SMEs in the Professional and Scientific sector, which tend to export services, are more concerned with intellectual property (IP), financial risk, and market knowledge than the average SME. Firm size also plays a role. Larger SMEs (those with 100 to 499 employees) generally report fewer barriers, particularly when it comes to financing and market knowledge. Interestingly, SMEs

around the world consistently identify similar export challenges. Common issues include border procedures (such as forms, paperwork, and understanding regulations), access to financing, regulatory hurdles in target markets, and limited market knowledge (World Trade Organization, 2016). Although not captured in the Canadian survey, other studies frequently highlight a lack of specialized skills and knowledge within SMEs as a key barrier (Zulelli et al., 2025). These challenges are not unique to advanced economies—they are also widely reported in developing countries (Hashim, 2012).

Perceptions of export barriers vary notably based on the characteristics of the SME owner. Women-owned SMEs (defined here as 100% ownership) tend to view nearly all export obstacles as more significant than the Canadian average—with the exceptions of border and logistics issues. This trend likely reflects two factors: women-owned businesses are generally smaller, making them more sensitive to barriers, and they are less likely to export goods, which are typically more affected by logistics and border challenges. Instead, women-owned SMEs are more likely than the average SME to cite administrative requirements in Canada—such as rules, regulations and legal obligations—as major obstacles, followed by financial risk and limited market knowledge. However, it is difficult to determine how much of the difference is due to firm size and industry versus factors directly related to gender, such as discrimination, differing backgrounds, or varying perceptions of risk.

**FIGURE 33**  
**Perception of barriers by women-owned and immigrant-led SME exporters**  
**(seen as moderate or major obstacle to exporting), 2023**



Data: Statistics Canada, Survey on Financing and Growth of Small and Medium Enterprises.  
 Source: Office of the Chief Economist, Global Affairs Canada.

Immigrant-led SMEs report a higher perception of export barriers than both the average Canadian SME and women-owned SMEs. Like the broader SME population, they identify logistics as the most significant challenge. However, the biggest differences lie in finance-related barriers—specifically, financial risk and lack of access to financing. This may suggest that immigrant business leaders face greater difficulty in securing funding, or they may be more risk-averse when it comes to financial matters. Interestingly, one of the smallest gaps between immigrant-led and average SMEs is for administrative barriers outside of Canada—an

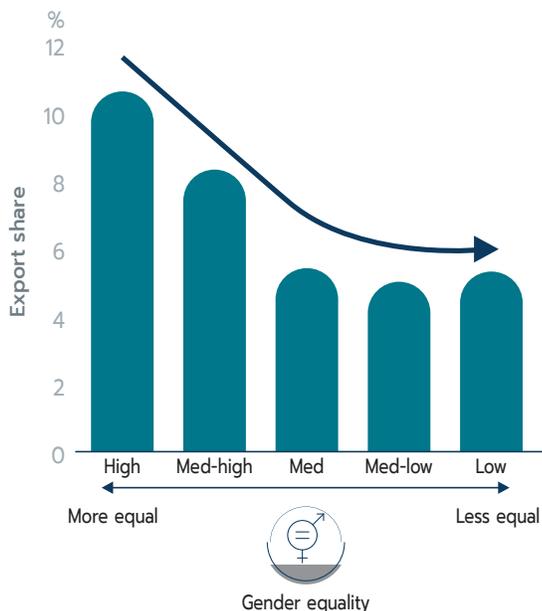
area where immigrants may have more familiarity than Canadian-born decision-makers. Compared to women-owned firms, immigrant-led SMEs generally perceive more obstacles, with one exception: women-owned businesses are more likely to cite domestic administrative requirements as a major challenge.

One unique challenge women-owned businesses may face in exporting—unlike their male-owned counterparts—is gender discrimination. Using a specialized dataset that breaks down export values to Canada’s top 40 trading partners by majority male- and majority female-owned firms

## 2.2 THE CHALLENGES OF EXPORTING

(excluding equally owned or unidentified ownership), we can examine how gender inequality affects trade opportunities. When this data is compared with a United Nations index of gender equality, a clear pattern emerges: Canadian women-owned firms export significantly less to countries that score poorly on gender equality. In other words, global gender inequality may be limiting trade opportunities for women entrepreneurs. Improving gender equality worldwide could help unlock greater export potential for women-owned businesses and contribute to broader trade growth—highlighting a compelling reason to integrate gender considerations into trade policy and agreements.

**FIGURE 34**  
Exports by women-owned businesses and gender equality in destination markets



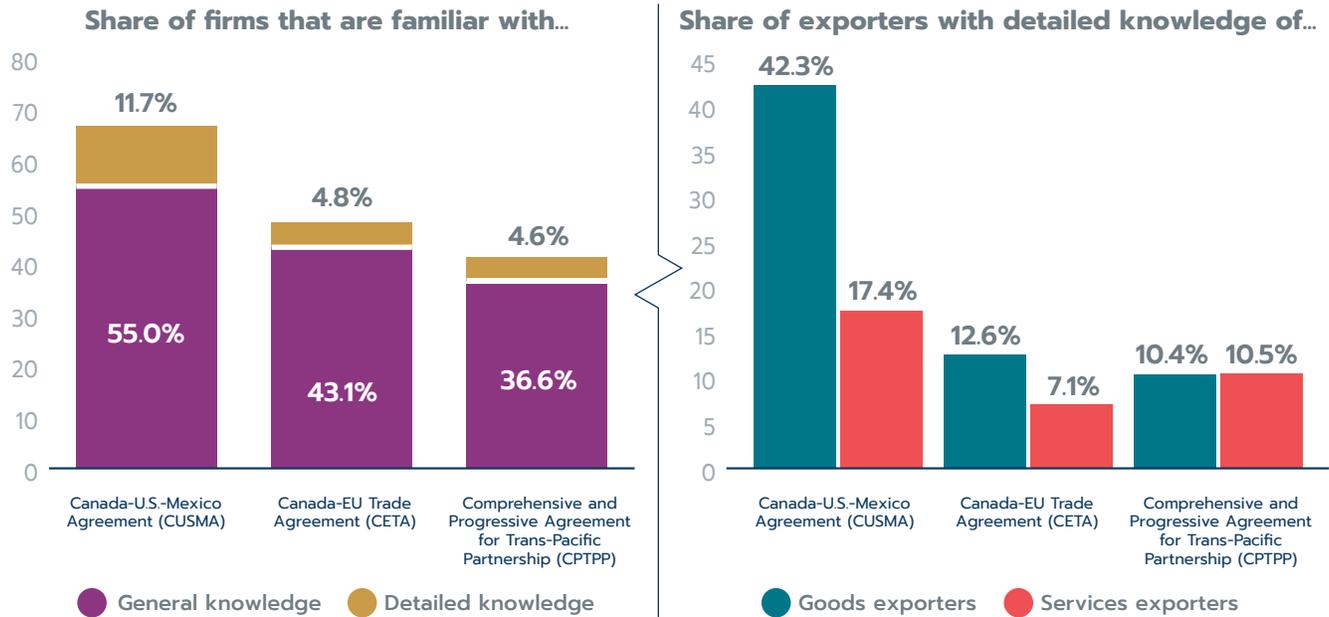
Export share is average share of merchandise exports accounted for by women majority-owned businesses for top forty export destinations. Gender equality is based on score in gender inequality sub-index of UN Human Development Index. Source: Calculation by the Office of the Chief Economist, Global Affairs Canada.

### CANADIAN SMES ARE BENEFITING FROM TRADE AGREEMENTS

International trade offers a wide range of benefits—it expands consumer access to goods and services, lowers prices, supports specialization, drives firm growth, and boosts wages. Beyond economics, trade fosters connections between people and nations. To unlock these advantages, governments negotiate trade agreements that reduce barriers and promote fair, mutually beneficial trade. These agreements not only lower tariffs—reducing variable trading costs—but also aim to simplify regulations, increase transparency, and address fixed costs that can hinder participation. However, for many SMEs, navigating trade agreements remains a challenge. Limited resources, lack of awareness, and the complexity of compliance can prevent them from fully benefiting from these opportunities.

Overall, awareness of trade agreements among Canadian businesses is mixed—and generally low among SMEs. A recent survey on free trade agreement knowledge found that one-third of businesses were unaware of the Canada-United States-Mexico Agreement (CUSMA), which governs trade with Canada’s largest partner, the United States, and third-largest, Mexico. While CUSMA is frequently in the news, awareness was lower at the time the survey was conducted. Encouragingly, only 8.3% of goods-exporting businesses were unaware of CUSMA. However, just 11.7% of all businesses said they understood the agreement’s details—a figure that rises to 42.3% among goods exporters. Even so, this is relatively low considering that 89.2% of SMEs export to the United States, suggesting that more than half of these exporters lack a clear understanding of the agreement that governs their trade.

**FIGURE 35**  
**Familiarity with trade agreements**

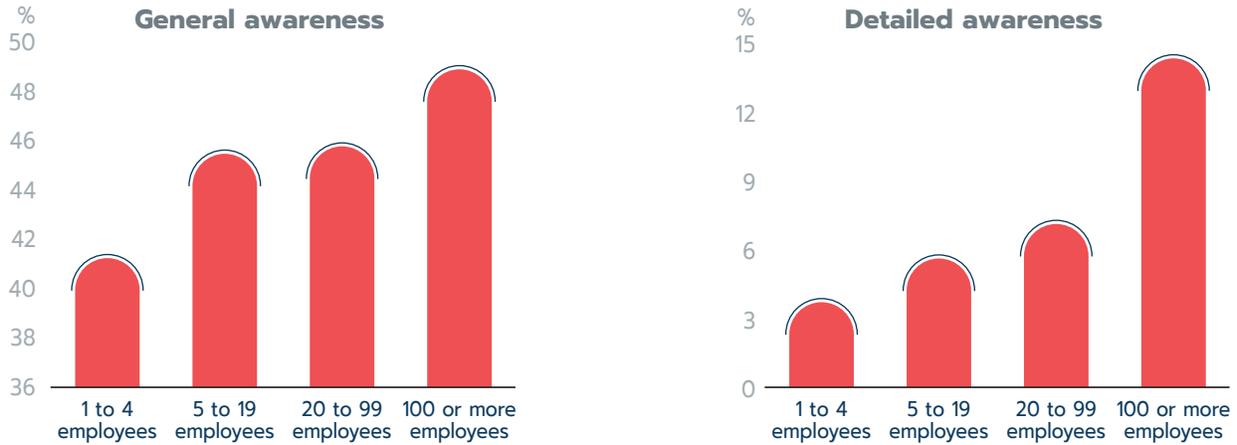


Data: Statistics Canada, Canadian Survey on Business Conditions, fourth quarter of 2021.  
 Source: Office of the Chief Economist, Global Affairs Canada.

Awareness of Canada’s other major trade agreements is notably lower than for CUSMA. For the Canada-European Union Trade Agreement (CETA), 43.1% of firms are aware of its existence, but only 4.8% understand its details. Among goods exporters, this figure rises to 12.6%—an improvement, though still well below the level seen for CUSMA. Awareness among service exporters is even lower. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is less well-known than both CUSMA and CETA, with one exception: service exporters report slightly higher awareness of CPTPP details than of CETA. These findings are consistent with a European Parliament report that found that even among SMEs actively trading with a region, many are unaware of the relevant FTA, and even fewer firms understand its specific provisions (European Parliament, 2021).

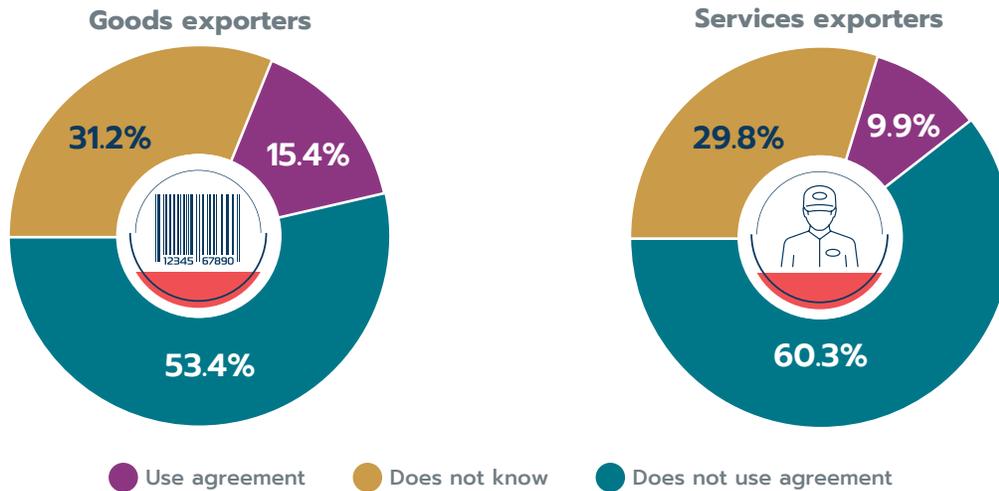
Knowledge of trade agreements also declines with firm size. For example, while 14.3% of firms with 100 or more employees are familiar with the details of CETA, only 3.7% of micro enterprises (1 to 4 employees) report the same. Similar trends are observed across other agreements. When it comes to actually using CETA, 15.4% of goods exporters and 9.9% of services exporters report doing so. However, usage drops sharply among smaller firms—fewer than 10% of businesses with under 100 employees use the agreement. Usage rates are also lower among women-owned (8.9%) and immigrant-owned (8.7%) businesses, highlighting a significant gap in knowledge and utilization among smaller firms, service providers, and equity-seeking business groups.

**FIGURE 36**  
Awareness of CETA agreement by firm size



Data: Statistics Canada, Canadian Survey on Business Conditions, fourth quarter of 2021.  
Source: Office of the Chief Economist, Global Affairs Canada.

**FIGURE 37**  
Use of CETA agreement by Canadian exporters



Data: Statistics Canada, Canadian Survey on Business Conditions, fourth quarter of 2021.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 2.2 THE CHALLENGES OF EXPORTING

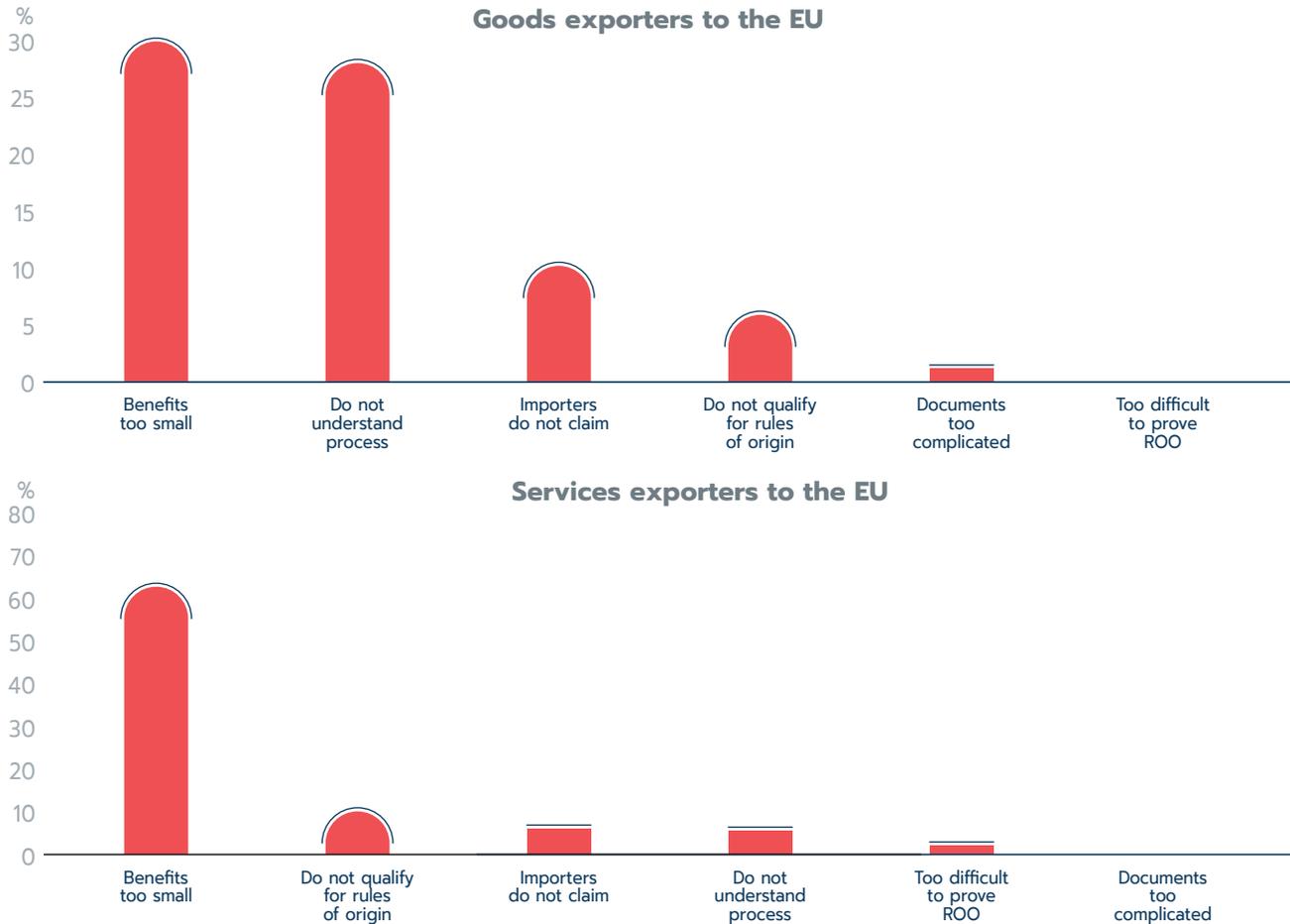
From a product-level perspective, Canada’s trade agreements are generally well utilized. As of 2024—the most recent full year of data availability—93% of the value of Canadian exports to the United States that were subject to tariffs (excluding energy) made use of CUSMA. In contrast, utilization of the Canada-European Union Trade Agreement (CETA) was lower, at 59%, indicating room for improvement. This raises an important question: how can FTA utilisation be improved, particularly among SMEs? While this section focuses on CETA, similar patterns are observed for CUSMA and the CPTPP but with a lower share of firms not using CUSMA and higher rates for the CPTTP.

For both goods and services exporters to the European Union (EU), the most commonly cited reason for not using trade agreements is that the perceived benefits are too small. This may be valid in cases where the EU’s Most Favoured Nation (MFN) tariff rate – the rate charged to WTO members – is already zero or very low, offering little additional advantage. Additionally, the de minimis rule—which exempts low-value goods from tariffs—can make formal agreement use unnecessary. For example, in 2024, the U.S. threshold was US\$800, making it more practical for SMEs shipping small packages to rely on this exemption. The EU’s threshold, however, is much lower at €150, making its use less relevant. It is also possible that some exporters underestimate the benefits of trade agreements due to limited understanding, as previously noted.

Among goods exporters to the EU, the second most cited reason for not using CETA is a lack of understanding of the process. This highlights a clear information gap. In many cases, it is the importer—not the exporter—who must claim the agreement’s benefits to receive a tariff reduction. The third most cited reason is that importers are not claiming these benefits, suggesting a need for better outreach to both exporters and importers. Other reasons, such as goods not meeting rules of origin (ROO) requirements, are cited less frequently. Encouragingly, issues related to documentation complexity or showing proof of ROOs are rarely mentioned. For services exporters, aside from the perception of limited benefits, few other barriers are reported—and many do not apply to services trade. Unfortunately, little information exists on the use of FTAs for services trade and so it is difficult to benchmark these survey results against actual utilization rates.



**FIGURE 38**  
**Why firms say they do not use CETA**



Data: Statistics Canada, Canadian Survey on Business Conditions, fourth quarter of 2021.  
 Source: Office of the Chief Economist, Global Affairs Canada.

**SMEs BENEFITING FROM FTAs**

Beyond improving awareness of FTAs, there is growing recognition that SMEs face unique challenges in using them—challenges that often differ from those of larger firms. This has prompted changes not only in how trade agreements are negotiated but also in their content. The inclusion of SME-specific provisions in FTAs has increased significantly: from just 16% of agreements before 2000, to 55% in the 2000s, and 73% in the 2010s (World Trade

Organization, 2022). These provisions range from enforceable commitments to recommendations and cooperative measures. Some agreements include dedicated SME chapters, while others integrate SME-relevant elements into sections on services, e-commerce, or procurement (Monteiro, 2016). Research shows that reducing the “fixed costs” of trade—such as administrative hurdles—is especially important for SMEs (Koo, 2021). Canada’s FTAs reflect this approach, with many including SME-specific chapters and features

## 2.2 THE CHALLENGES OF EXPORTING

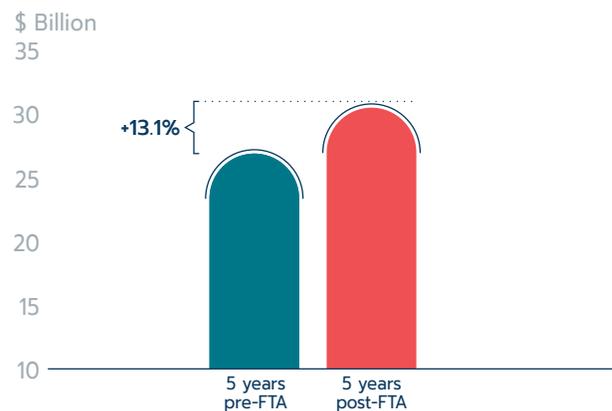
designed to simplify paperwork, improve access to information, and address the practical challenges SMEs face. For more information on Canada’s strategy, see *Global Affairs Canada: Trade and Small and Medium-Sized Enterprises*.

While more trade agreements now include SME-specific provisions, and efforts to support SME participation are growing, a key question remains: to what extent do SMEs actually use and benefit from these agreements? Unfortunately, there is limited research in this area—largely due to insufficient data and methodological challenges that make systematic, empirical analysis difficult. Martinez (2024) notes that most findings on SMEs and FTAs come from surveys, which often suffer from small sample sizes and survivorship bias, as they typically include only firms that are still active in trade. One major challenge is the volatility of SME exports, which can fluctuate significantly year to year, making trend analysis difficult. Canada also has numerous FTAs, each entering into force at different times, complicating efforts to isolate the impact of any single agreement.

Compounding this, Canada’s two largest FTAs outside of CUSMA—CETA and CPTPP—came into effect just before the COVID-19 pandemic, which had a major impact on trade and economic activity. Another constraint has been the historical lack of detailed data. Only recently has Canada begun to collect trade data by firm size, which started in 2000. To properly assess the impact of an FTA, researchers typically need at least five years of data before and after implementation. This limits meaningful analysis to agreements that came into force between 2004 and 2020—a period that includes just 10 Canadian FTAs covering trade with 45 countries.

An analysis of SME export levels before and after the implementation of free trade agreements shows a clear positive impact. On average, SME goods exports were 13.1% higher in the five years following an FTA compared to the five years prior. Since this reflects total export value, the results are influenced by Canada’s largest trading partners. For instance, SME exports rose by 14.5% to the United Kingdom (UK), 49.5% to South Korea, and 31.2% to Germany. In contrast, exports increased only modestly to the Netherlands and declined to Japan—rounding out the top five destinations covered by FTAs during the observation period. While some of this growth could be attributed to broader economic trends or price increases, the impact of FTAs remains significant. For comparison, the average export growth rate to non-U.S. markets over the same period was just 5.7%—less than half the rate observed for FTA partners.

**FIGURE 39**  
SME export values pre- and post-FTA  
(average annual value, 5 years before the FTA vs. 5 years after)

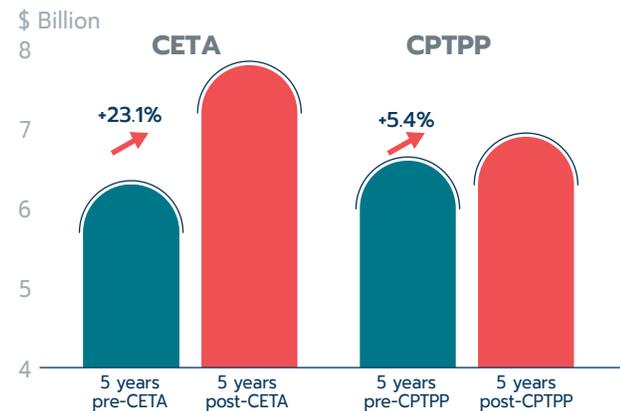


Data: Statistics Canada, Trade in goods by exporter characteristics.  
Source: Office of the Chief Economist, Global Affairs Canada.

## 2.2 THE CHALLENGES OF EXPORTING

Focusing on Canada’s two largest FTAs implemented during the period, SME exports to the EU were, on average, 23.1% higher annually in the five years following the provisional entry into force of CETA in September 2017, compared to the five years prior. For the CPTPP, which came into effect in December 2018, the increase was more modest at 5.4%. Notably, exports to Japan—Canada’s key CPTPP partner—were slightly lower on average after the agreement. It is important to consider that the five-year post-agreement period for both CETA and the CPTPP overlapped with the height of the COVID-19 pandemic, which significantly disrupted global trade. In that context, the strength of the observed FTA effects is particularly remarkable.

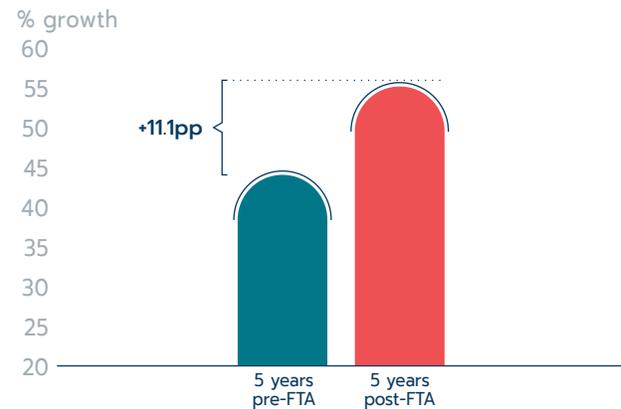
**FIGURE 40**  
SME export values for CETA and CPTPP (average annual value, 5 years before the FTA vs. 5 years after)



Data: Statistics Canada, Trade in goods by exporter characteristics.  
Source: Office of the Chief Economist, Global Affairs Canada.

In addition to the change in average level, one can also look at the change in the growth rate of exports. Taking a simple average of all FTAs that meet the criteria, the growth rate of exports was 11.1 percentage points higher in the post-FTA period than in the pre-FTA period. This further highlights the positive impact of FTAs. Because this technique uses a simple average, the size of the trade partner is not a factor, underlining the impact of trade agreements on smaller trading partners and the dynamic impact of FTAs on growth rates. By way of comparison, Global Affairs Canada (2024) looked specifically at the Canada-Peru FTA. It found that the value of exports by SMEs increased in the years leading up to 2009, when the agreement came into force, but peaked in 2011 and declined for a number of years afterwards until leveling off.

**FIGURE 41**  
SME average export growth rates, FTA partners



Data: Statistics Canada, Trade in goods by exporter characteristics.  
Source: Office of the Chief Economist, Global Affairs Canada.

### CONCLUSIONS

SMEs play a vital role in the Canadian economy, representing the vast majority of businesses across all provinces and territories. Their international expansion offers significant benefits, including enhanced growth, productivity, innovation, and higher wages for workers. However, entering foreign markets is challenging—even for large firms—and especially so for SMEs with limited time and resources. SMEs that are already larger and more productive domestically are more likely to expand internationally. These firms often share common traits, such as having owners with advanced degrees and a strong focus on innovation and intellectual property. Interestingly, one of the strongest predictors of exporting success is prior experience with importing.

The share of SMEs engaged in exporting has reached an all-time high, with a notable surge in recent years, particularly following the pandemic. This expansion has been driven in large part by immigrant-led SMEs, once again highlighting the dynamism and economic contribution of immigration to Canada. This recent uptick builds on a steady trend of increasing SME participation in exports, alongside a growing emphasis on services within Canada's export portfolio. A particularly encouraging development is the rising export activity among women-owned

businesses. While the export propensity of these firms has grown significantly, they remain underrepresented overall in business ownership and tend to be smaller and concentrated in a limited number of sectors. Moreover, gender biases among international trading partners may raise additional barriers, underscoring the importance of Canada's efforts to promote equitable trade opportunities for women entrepreneurs.

As SME export activity has increased, perceptions of barriers to exporting have declined. However, once firms begin exporting, they often encounter practical challenges related to logistics, border procedures and financing. Governments aim to mitigate these obstacles through various initiatives, including trade agreements. Evidence shows that SMEs are indeed leveraging these agreements and benefiting from them. The value of SME exports to trade agreement partners has grown substantially, even amid the disruptions caused by the pandemic. Nevertheless, more support is needed to help SMEs understand and utilize these agreements effectively. Organizations like the Trade Commissioner Service (TCS) play a crucial role in bridging the knowledge gap. In effect, data suggests that businesses accessing TCS services export more, and to a wider range of destinations!

## BOX 6

### MNEs' role in the Canadian SME sector

According to 2022 data (latest dataset available), there were about 15,840 multinational enterprises (MNEs) among Canada's SMEs, accounting for 1.7% of the total. These companies include both Canadian MNEs (CMNEs) and foreign MNEs (FMNEs) and are considered SMEs based on their Canadian employment level—499 employees or less—regardless of their global presence.

By size, very few MNEs are small SMEs (i.e., enterprises with 1-99 employees); they made up just 1.3% of firms. However, their share increased with size, reaching 24.4% for firms with 100-249 employees, and 44.1% for firms with 250-499 employees. This trend illustrates that MNEs, while few in number among very small businesses, were quite important among medium-sized enterprises.

Overall, FMNEs consistently outnumbered CMNEs across all categories of SMEs, underscoring the strong presence of foreign-owned firms in Canada's SME population. For example, among companies with 100-249 employees and 250-499 employees, FMNEs represented more than double the number of CMNEs.

**TABLE 7**  
Number of enterprises by size and type of ownership, 2022

ENTERPRISE SIZE (NUMBER OF EMPLOYEES)	CMNEs	FMNEs	ALL ENTERPRISES (CMNEs, FMNEs AND NON-MNEs)	SHARE OF MNEs (%)
1-99 employees	4,541	7,962	941,679	1.3
100-249 employees	668	1,583	9,215	24.4
250-499 employees	301	785	2,460	44.1
<b>TOTAL</b>	<b>5,510</b>	<b>10,330</b>	<b>953,354</b>	<b>1.7</b>

Note: For the purposes of this analysis, enterprise size is divided in 3 categories: 1-99 employees, 100-249 employees, and 250-499 employees.

Data: Statistics Canada, Activities of Multinational Enterprises in Canada program; data received in January 2025.

Source: Office of the Chief Economist, Global Affairs Canada.

## 2.2 THE CHALLENGES OF EXPORTING

With respect to export propensity, 2022 data showed that it increased with firm size, regardless of ownership type. Medium enterprises exhibited the highest export propensity across the board: 63.5% for CMNEs and 56.8% for FMNEs, compared to 39.3% for all enterprises. In addition, across all firm sizes, both CMNEs and FMNEs showed significantly higher export propensities than the “All enterprises” category. This suggests that firm size and multinational status were both key drivers of SME participation in exports.

**FIGURE 42**  
Share of small- and medium-sized MNEs that export, 2022



Note: Figures may differ from other sections in this report due to differences in the coverage of industry sectors under various surveys or programs.  
Data: Statistics Canada, Activities of Multinational Enterprises in Canada program; data received in January 2025.  
Source: Office of the Chief Economist, Global Affairs Canada.

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