ECONOMIC VIEWPOINT

How SMEs Are Adapting to Trade Turmoil

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HIGHLIGHTS

- **Small and medium enterprises (SMEs) across the country have adapted rapidly to volatile trade conditions in 2025.** Canadian firms quickly responded to surging US tariffs by complying with the Canada-US-Mexico trade agreement (CUSMA), which helped shield the vast majority of exports from duties. They also diversified their suppliers to more trade-friendly regions.
- **But uncertainty has been damaging nonetheless.** Smaller businesses are less insulated than larger ones from frequent tariff changes, swings in the exchange rate and cost increases. They also lack the negotiating power of larger firms, which means that many have had to bear much of the burden of tariff costs, instead of passing it on to their customers.
- **Trade diversification is becoming a vital strategy for exporting SMEs**, although progress will be measured in years as opposed to months.
- **Interprovincial trade is gaining traction**, with significant progress in reducing internal barriers and SMEs reporting they are increasingly turning to Canadian customers and suppliers.
- **Government support has ramped up** at both federal and provincial levels, helping SMEs manage tariff impacts and diversify export markets.
- **The SME trade profile is evolving**, with more immigrant-led and micro-sized businesses entering international markets, increased exports to non-US destinations, and a growing role for digitally delivered services.
- **Many conditions are needed for SMEs' future success**, including continued diversification efforts, measurable advances in interprovincial trade, investments in innovation, adapted and sustained government support, and minimal administrative burden to doing business.

Introduction

What a difference a year can make! During Small Business Week 2024, we published an analysis on the risks and opportunities for small and medium-sized enterprises (SMEs) that export. At that time, the US presidential race was still in full swing. Tariffs and trade wars were a distant possibility: promised by Trump during the campaign, they were generally dismissed as a negotiating stance. And the United States remained the stable centre of the global trading and financial systems.

All of that was upended with the inauguration of President Trump for a second term in January 2025. Since then, tariffs have risen and fallen. Many are still in place on US imports from around the world, including from Canada. Exemptions were introduced, and then some were revoked. Firms have adapted to this unpredictable and volatile environment as best they can, quickly complying with trade deals that seemed an afterthought just a year ago. A rush to diversify trading partners has proven more difficult than many hoped, given our proximity to, and integration with, the US economy. At the same time, a more modest trade tussle with China targeting agrifood products has exacerbated Canada's trading challenges. Retaliatory tariffs further complicated circumstances for SMEs in the early months and summer of 2025.

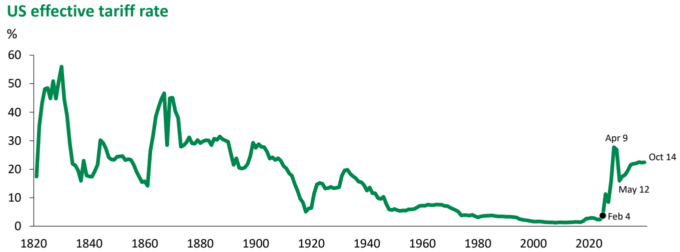
All told, it's been a tough year for Canadian businesses big and small. But companies are adapting to these new circumstances, and none more so than SMEs. In this note we'll look at the current state of trade for SMEs, how they've adapted to the rapidly changing trade environment, and what can be done to insulate them from further volatility and support future growth and profitability.

The Times They Are A-Changin'

US-Canada Tariff Tit for Tat

With the re-election of US President Donald Trump on November 5, 2024, the world was jolted into a new US trade policy reality. Once the centre of the rules-based global trading system, the US administration has raised import tariffs considerably on many of its major trading partners. The volatility that accompanied the migration and fentanyl tariff announcements in February and March was followed by jaw-dropping tariff rates rolled out on "Liberation Day" (April 2). And while the resulting financial market volatility led the US administration to ease up on its early aggressive tack, it has since incrementally ratcheted up import tariffs, seemingly with each new trade deal that has been struck. At over 20%, the effective tariff rate on US imports is now as high as it was when William McKinley was President around 1900, and greater than it was following the infamous Smoot-Hawley tariffs that deepened the Great Depression in the 1930s (graph 1).

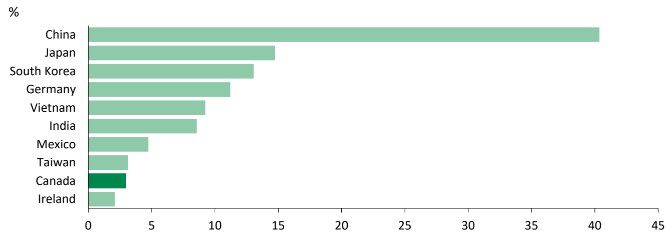
Graph 1
US Tariffs Remain at their Highest Level in a Century



U.S. Census Bureau, U.S. International Trade Commission, Douglas W. Irwin, Peterson Institute for International Economics and Desjardins Economic Studies

However, Canada has managed to escape the worst ravages of US tariffs. As of July 2025 (the most recent data available), Canadian exports were subject to an effective tariff rate of just 3%, well below the double-digit rates faced by many Asian and some European countries (graph 2). The exemption made for CUSMA-compliant goods in many of the tariff-related executive orders, combined with the subsequent rapid pace of CUSMA compliance by Canadian businesses, has meant that the vast majority of exports from Canada are now entering the US duty-free—88% in July (table 1). While the relatively benign tariffs applied to imports from Canada could be reversed in 2026

Graph 2
Canada Has So Far Been Spared the Worst of US Tariffs



U.S. International Trade Commission and Desjardins Economic Studies

Table 1
Vast Majority of Canadian Exports to the US Are Exempted from Tariffs

	Industry	Share of exports (%)	Tariff-free (%)
1	Crude petroleum	23.18	99.28
2	Non-ferrous metal (except aluminum)	6.70	99.88
3	Automobile and light-duty motor vehicle manufacturing	5.26	2.84
4	Goods returned (exports for Canada only)	4.47	95.57
5	Petroleum refinery products	3.34	99.38
6	Aircraft engines and engine parts	2.08	95.82
7	Other motor vehicle parts	1.96	75.00
8	Natural gas	1.96	99.99
9	Sawmill products**	1.63	99.97**
10	Other special classification provisions	1.57	54.51
11	Shellfish fresh/chilled/frozen; shellfish products	1.35	100.00
12	Bread and bakery products	1.34	99.82
13	Plastics materials and resins	1.17	99.81
14	Iron and steel and ferro-alloy steel products	1.09	20.05
15	Meat products (excl. poultry)	1.09	99.99
16	Heavy-duty trucks and chassis	1.06	99.49
17	Motor vehicle gasoline engines and engine parts	1.03	92.33
	Total	**100.00**	**88.40**

* July 2025. Industries (6-digit NAICS) representing 1% or more of total are illustrated. Aluminium = 1.4% entering tariff-free. ** Although sawmill products were generally exempt from US import tariffs thanks to CUSMA compliance (in July), Canadian exporters do pay anti-dumping and countervailing duties.
U.S. International Trade Commission and Desjardins Economic Studies

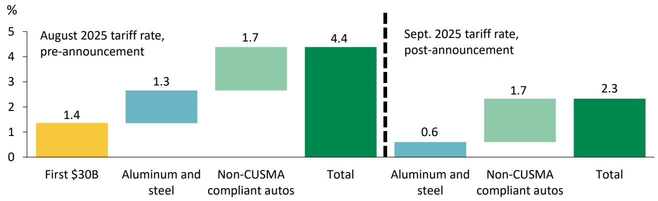
with the CUSMA review and possible renegotiation process, circumstances for Canadian exporting companies could be much worse.

Early in the trade war, the Government of Canada responded in kind to US tariffs by levying its own customs duties on imports from south of the border. This tallied up to about $90B of goods tariffed, spanning autos to aluminum, steel to strollers and windchimes to wheelchairs. Consequently, costs to households and businesses went up, squeezing budgets and boosting inflation. The Bank of Canada stayed on the sidelines as a result, split between cutting rates to boost a slumping economy and wanting to avoid further fuelling the still-elevated inflation rate. Fortunately for everyone north of the border, our analysis found the elimination of Canadian counter tariffs on many imports from the US on September 1 is expected to spur growth while reducing inflation (graph 3 on page 3). The Bank of Canada cited this as one of the reasons it was able to cut the overnight policy rate at its September decision, and we expect the central bank to cut interest rates twice more before it's done.

So, after a year of volatility, here's where Canada stands: facing a relatively low tariff rate on exports to the US and imposing a relatively low tariff rate on goods imported from the US. And while this will still put economic activity on a lower path than it

Graph 3
As of September, Tariffs on Imports from the US are Being Removed

Canadian estimated effective tariff rate on US imports

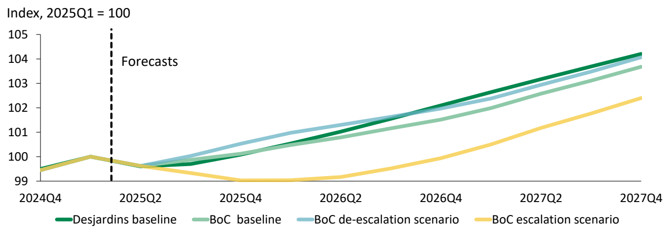


Statistics Canada, Department of Finance Canada and Desjardins Economic Studies

would have been on otherwise, our outlook for the Canadian economy is now more positive that we had feared even just a few short months ago. Our outlook is now somewhere in between the Bank of Canada's current tariff and de-escalation scenarios, although the downside risk of increased trade tensions with the US remains an ever-present danger (graph 4).

Graph 4
While Our Outlook Has Improved, the Downside Scenario is Still There

Real GDP level forecast scenario



BOC: Bank of Canada
Bank of Canada, Statistics Canada and Desjardins Economic Studies

Building a Great Trade Wall with China

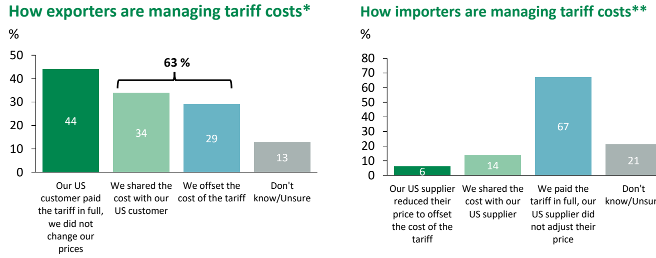
While the trade tumult with the US has generated the most headlines this year, Canada has been fighting a multifront trade war that includes China. In October 2024, Canada levied 100% tariffs on imports of electric vehicles and 25% tariffs on imports of steel and aluminum from China. China then hit back, with 100% tariffs on imports of canola oil and meal, as well as peas, plus 25% tariffs on pork and seafood, in March of this year. Chinese canola tariffs were later expanded to include a 76% levy on seeds in August 2025. This is having a significant impact, since two-thirds of Canadian canola seed exports are generally destined for China (2024). Consequently, exports of agricultural and animal products have been hit with the double whammy of US trade policy volatility and Chinese import tariffs in 2025, further hobbling the sector at a time when it was already struggling.

SME and Sector Impacts of the Trade Tumult

2025 has been a wild ride for Canadian companies. But smaller businesses are less insulated than larger ones from frequent tariff changes, swings in the exchange rate and cost increases. As we've heard from many organizations, it is the uncertainty that has been most damaging: businesses have struggled to protect their margins in an ever-changing context where forecasting and budgeting appropriately become extremely complex.

The impact of US tariffs was felt more strongly among Canadian SMEs in the manufacturing, natural resources, wholesale trade and transportation sectors, according to a recent survey (CFIB, August 2025). SMEs who generally export to the US were faced with both a reduction in demand from their US clients and a partial increase in their costs. Indeed, smaller firms do not have the negotiating power of larger firms, and a majority of Canadian SMEs appear to have either covered the full cost of the tariff themselves (instead of their US customer) or shared the cost with their US customer (graph 5). In contrast to US tariffs, Canadian retaliatory tariffs affected a broader range of industries. For importing SMEs facing Canadian counter tariffs, two-thirds paid the tariff in full since their US supplier did not adjust their price (CFIB, July 2025).

Graph 5
Most Canadian SMEs Had to Absorb Some Tariff Costs



* 157 responses. ** 885 responses. SMEs: Small and medium businesses.
Canadian Federation of Independent Business and Desjardins Economic Studies

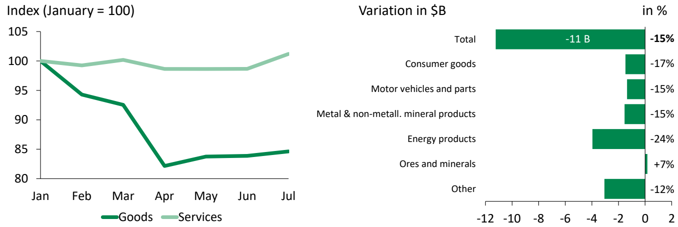
Because smaller exporters are more likely to export only to the US (while larger ones are more likely to export to both the US and non-US destinations due to their size), pivoting to other export destinations was all the more challenging. But according to a CFIB survey, about one-third of businesses have already pivoted away from the US (at least in a partial way), and one third are considering it. What's more, two-thirds of businesses that normally trade with the US are now turning to Canadian suppliers or customers, over one-third to EU partners, and more than 20% to Mexican ones.

Going forward, although we don't expect a major deterioration in international trade relationships, the situation remains fluid. SMEs will need to demonstrate the same kind of resilience they displayed during the pandemic when supply chains, trade and consumer confidence were also disrupted. This requires flexibility and a delicate balancing game for SMEs as they manage inventories, secure customer relationships and establish prices to protect margins.

What We See in the Data

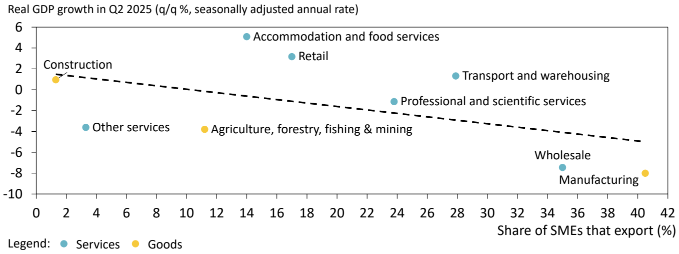
Export data by firm size is unfortunately not available on a monthly or quarterly basis. Hence, it's hard to assess the impact of recent trade disruptions on SME export volumes specifically. However, the drop in Canadian goods exports since the beginning of this year has been broad-based (graph 6) and is certain to have impacted exporters of all sizes, particularly those in sectors with a high export propensity (graph 7).

Graph 6
The Decline in Goods Exports This Year Has Been Broad-Based



*Seasonally adjusted, balance of payments basis
Statistics Canada and Desjardins Economic Studies

Graph 7
SMEs in Manufacturing and Wholesale Are Most Exposed to Export Disruptions
Export propensity and GDP growth, by industry

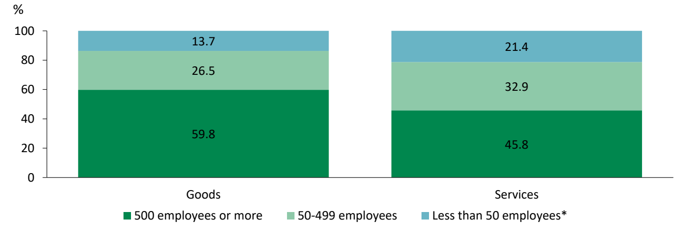


Statistics Canada, Global Affairs Canada, and Desjardins Economic Studies

Those facing steeper sector-specific tariffs and duties are experiencing greater difficulty (manufacturers of aluminum, steel or copper products, automotive, softwood lumber). This is also the case for sectors that depend heavily on cross-border trade (transportation, wholesale trade).

With some exceptions like wholesale trade and transportation and warehousing, services exporters generally fared better than goods exporters. This has probably helped soften the blow for some SMEs: smaller firms are more heavily represented in services exports (graph 8).

Graph 8
SMEs Account for More Than 50% of Services Export Value

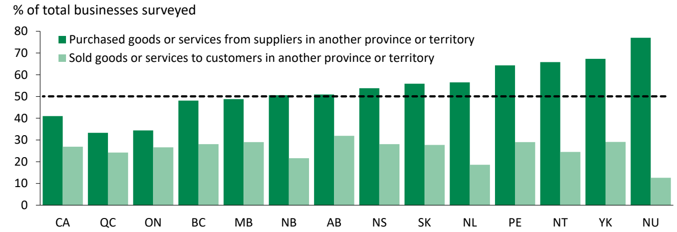


*Includes zero or undisclosed number of employees.
SMEs: Small and medium businesses (businesses with less than 500 employees).
Global Affairs Canada and Desjardins Economic Studies

Interprovincial Trade: Progress and Outlook

Canadian companies not only trade abroad, but also across interprovincial borders. According to Statistics Canada (2025), nearly half of Canadian businesses purchased goods or services from other provinces from 2023 to 2024, with 6 of the 10 provinces and all three territories passing the 50% mark (graph 9). The central Canadian provinces—Ontario, Quebec and Manitoba—and British Columbia were the exceptions. The top three sectors to engage in interprovincial trade over this period were wholesale trade, manufacturing, and information and cultural industries. Notably, despite their propensity to purchase from other provinces, Canadian firms are far less likely to sell products and services to other provinces, instead preferring to peddle their wares locally. Firms cited geographic barriers as the main obstacles to interprovincial trade, including transportation costs, distance between point of origin and destination, and delay between placing and receiving orders.

Graph 9
Nearly Half of Canadian Businesses Purchase Goods or Services from Other Provinces
Businesses that conducted interprovincial trade, 2023 to 2024



Statistics Canada and Desjardins Economic Studies

However, lack of profitability was also cited as one of the top three obstacles to selling goods and services in another province or territory.

Barriers to interprovincial trade have long been a thorn in the side of businesses in Canada. Examples of non-geographic obstacles include prohibitive barriers, technical barriers and regulatory/administrative barriers (CFIB, 2015). Internal trade barriers restrict the movement of workers, reduce consumer options, fragment markets, weaken competitive dynamics, and prevent businesses from achieving optimal production scale—all of which can slow productivity growth (International Monetary Fund, 2019). Estimates suggest that real GDP could be as much as 8% greater in the long run if these barriers were to be completely eliminated (MacDonald Laurier Institute, 2022). And while estimates of this substantial magnitude have been rightly and thoughtfully challenged, the direction of the economic impact is indisputably positive.

According to the CFIB (2025), there has been more movement on the interprovincial trade front in 2025 than in the entirety of the decade that came before. The annual report card they prepare on the state of internal trade has seen its sharpest increase in a single year to date (graph 10). The best performer is Nova Scotia, boosted by its "committing to mutual recognition of goods (including food), services, and investments with other jurisdictions that pass similar laws." And while this catalyzed action in other jurisdictions such as Ontario, Quebec, Manitoba, BC and PEI, none have gone quite as far as Nova Scotia. Indeed, patchwork agreements and memoranda of understanding (MOUs) have become increasingly common, raising concerns about diluting the potential for true mutual recognition. Meanwhile, the Government of Canada is also doing its part with the *Free Trade and Labour Mobility in Canada Act*, which removed federal barriers to internal trade and promoted worker mobility. As of July 1, 2025, the number of federal exceptions was reduced from 39 to 19, largely due to changes in requirements applied to government procurement. While not collectively a substitute for the free flow of goods across the Canada-US border, with limited evidence of positive impact in this year's data so far, lower internal trade barriers are a low-cost way to help fill some of the void left by lower US demand for Canadian products.

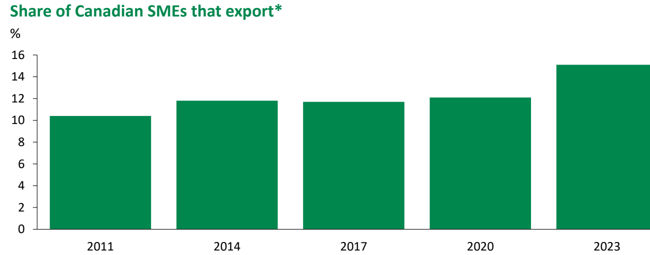
Graph 10
Internal Trade Barriers Fell in Most Canadian Provinces in Early 2025

Canadian Federation of Independent Business and Desjardins Economic Studies

The Trade Profile of SMEs Is Transforming

Knowledge of and experience with international trade among Canadian SMEs are clearly growing. The share of SMEs that export has never been higher: as of 2023, it was 15.1%—a substantial improvement over previous years (graph 11). And while larger SMEs are more likely to participate in trade than smaller ones, there are a growing number of very small businesses entering international markets.

Graph 11
The Share of SMEs That Export Has Never Been Higher

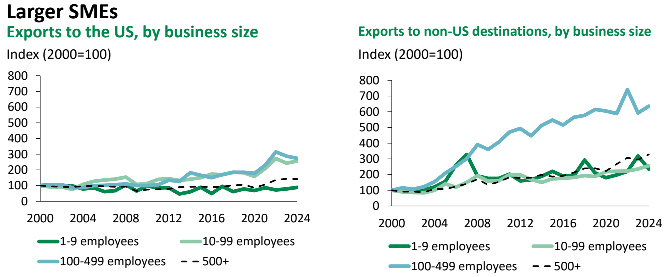


*SMEs: Small and medium businesses (businesses with less than 500 employees).
Global Affairs Canada and Desjardins Economic Studies

Despite the present trading challenges, there are reasons to be hopeful of SMEs' flexibility and resilience in navigating supply chain disruptions and diversifying their customer and supplier base. They had already done so during the pandemic years. And if we look at longer-term trends, the portrait of small- and medium-sized exporters is transforming in positive ways:

- **A greater impact of immigrant-led SMEs in trade.** According to analysis by Global Affairs Canada, the single most important factor in explaining the sharp rise in export propensity among Canadian SMEs is the role played by immigrant-led businesses (i.e., businesses that are majority-led by someone born outside of Canada). Immigrant-run SMEs have increased both in number and in their tendency to export since 2017. These businesses are more likely to export (20% of them export, vs. 13% for those owned by persons born in Canada), more likely to export to diverse destinations other than the US, and more likely to invest in innovative products and processes.
- **SMEs are increasingly exporting to non-US destinations**, thereby diversifying risks. Exports to non-US destinations have generally grown at a faster pace, though they did begin from a lower starting point (graph 12 on page 6). That doesn't mean that the process has been stable over time: the share of exports destined to the US decreased from 2000 to 2011 but

Graph 12
Exports to Non-US Destinations Have Grown Particularly Fast Among Larger SMEs



*SMEs: Small and medium businesses (businesses with less than 500 employees).
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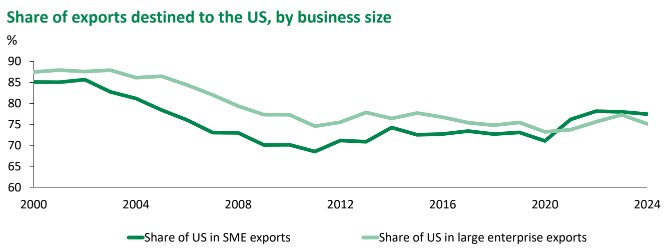
Graph 13
Diversification Away from the US Has Stalled Since 2012



*SMEs: Small and medium businesses (businesses 1 to 499 employees).
Statistics Canada and Desjardins Economic Studies

then moved higher (graph 13). Most SME export volumes are still destined for the US (77% in 2024, compared to 75% for large businesses of 500 employees or more).

- **Digitally delivered services are growing** in importance, which decreases barriers to trade for smaller firms. Services that can be delivered digitally across national borders include software, as well as audiovisual, financial and engineering services, none of which are subject to tariffs.
- **Much of the recent growth in export participation has come from the smallest SMEs.** Since 2014, businesses with 1 to 4 employees increased their export propensity the most (up 4.4 percentage points to 13.5%) (Global Affairs Canada).

Barriers and Challenges to Trade

While export participation has improved among SMEs, still more needs to be done to alleviate barriers and challenges, and to efficiently disseminate information to businesses. As highlighted by Global Affairs Canada, "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." And this is especially relevant given that "a growing number of very small businesses are entering international markets with limited experience and familiarity."

A survey of exporting and non-exporting SMEs highlights the most frequent barriers:

1. Logistics (a barrier that is steeper for goods exporters and is linked to Canada's vast territory and relative distance from global markets beyond the US).
2. Market knowledge.
3. Administrative barriers within and outside Canada.
4. Border obstacles or other technical barriers to trade. The latter can take the form of certifications, norms, and the product adjustments needed for new markets (as highlighted in our recent study on diversification in Europe).
5. Financial risk or lack of financing.
6. Intellectual property (more likely among professional and scientific services sector).

Government Programs Helping SME Trade

To help support SMEs as they increase their exporting activity and diversify trade away from the US, all levels of government have introduced measures to build a bridge between the trade practices of the past and the unknown future ahead. On September 5, Prime Minister Carney made good on the new Strategic Response Fund promised in the Liberal Party of Canada's election platform. With a price tag of $5B, the new fund is intended to help firms in all sectors impacted by tariffs adapt, diversify and grow. The federal government also expanded support by up to $1B over three years for SMEs impacted by tariffs through the Regional Tariff Response Initiative. That's in addition to expanded loans for SMEs, now up to $5M, through the Business Development Bank of Canada, as well as additional targeted relief for the agricultural sector. There were also measures introduced earlier in the year, including enhanced lending by Export Development Canada to support trade diversification and accelerated access to Employment Insurance benefits.

Canadian provinces differed significantly in their tariff relief commitments during the 2025 budget season. The Ontario government was particularly proactive in teeing up support for tariff-impacted workers and businesses, setting aside $7B in its Budget 2025. Measures included enhancing the Ontario Made Manufacturing Investment Tax Credit ($1.3B) and expanding the Skills Development Fund ($1B). Meanwhile, the Government of Quebec announced spending of more than $800M over five years to provide transitional assistance to businesses affected by US tariffs (including loans of up to $50M per business) and to foster market diversification, among other measures. Other provinces have generally been more measured, preferring to wait for greater clarity on the level, breadth and impact of tariffs before committing to new measures.

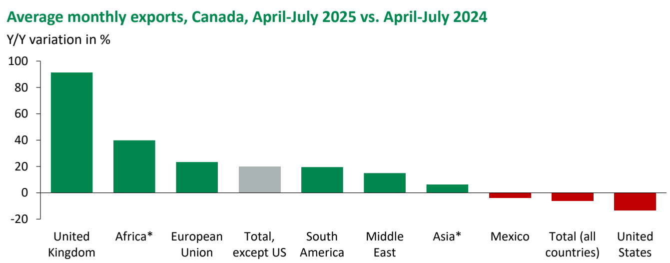
Charting the Future for Trading SMEs

As we laid out above, SMEs are already proactively adapting to the highly uncertain trade environment. And governments are lending a helping hand to those industries most impacted by tariffs. They are taking action to reduce interprovincial barriers and to spur export diversification away from the US. Going forward, what can be done to insulate SMEs from further volatility and support future growth and profitability? We offer some suggestions below.

1. Continue Diversification Efforts

The impact of US trade policy is already visible in export data. Exports to non-US destinations moved in the opposite direction from those destined for the US during the months where tariff turmoil was at its peak (graph 14). This is encouraging, but far from a definite reversal. In order for Canadian SMEs to reduce their vulnerability to trade disruptions south of the border, efforts will need to be maintained over time. Similarly, government assistance to further trade diversification should be sustained over multiple years, as this will be a decade-long endeavour.

Graph 14
Latest Data Shows Export Growth to Destinations Outside the US



*Excluding Middle East.
Statistics Canada and Desjardins Economic Studies

2. Further Reduce Barriers to Interprovincial Trade

Efforts by provincial governments to facilitate interprovincial trade are essential and should be accelerated. Building and upgrading the necessary transportation infrastructure will also be a cornerstone of success—it should help interprovincial shipments and open up new international East-West trade corridors. The infrastructure investment announcements and major projects shortlisted by the federal government are a step in the right direction. Bringing those across the finish line will be the next and most challenging step.

3. Help Businesses Innovate and Invest

The risk in the current environment, marked by uncertainty, is that small businesses press pause on investments that would otherwise lay a foundation for future growth and productivity gains. This could prove harmful in the medium to long term, which is why it's important to maintain the initiatives and adapted financial support, both public and private, that foster innovation and investment in the SME ecosystem.

4. Pay Attention to High-Growth Services Sectors

Since the profile of trading SMEs is changing, in line with the transformation of our increasingly knowledge-based economy, special attention should be paid to sectors expected to leapfrog others in the decades ahead. This includes several service industries which are bound to be increasingly traded worldwide, thanks to digitalization. According to Innovation, Science and Economic Development Canada, the highest concentration of high-growth firms (based on employment growth) in Canada can be found in information and cultural industries (7.5%); professional, scientific and technical services (5.8%) (which includes services ranging from engineering to software development); and finance and insurance (4.9%). On the export front, computer services have experienced especially strong growth and are expected to continue with that trend (Goldfarb and Suominen, 2025). This includes things like software development, information technology (IT) consulting and data processing. Supporting these businesses in their international engagements will likely require adapting tools and advice to their particular needs and the distinct barriers that they face (fewer customs and transportation queries, more intellectual property and legal counsel).

5. Improve the Ease of Doing Business

Lastly, government assistance programs for SMEs shouldn't create disproportionate administrative burdens for smaller firms. Tracking program adherence and surveying businesses on the effectiveness of programs is an important step to making sure SMEs are leveraging the public funds at their disposal. Governments also have a role to play in anticipating and easing potential constraints like labour shortages, inadequate transportation infrastructure, or regulations and bureaucracy hampering the free flow of goods across provinces.

Conclusion

The early evidence we have on hand shows that SMEs are clearly adapting to today's rapidly changing and highly uncertain trade environment. However, the challenges are significant, and they can't do it alone. Governments have stepped up to help support the transition toward greater interprovincial and international trade diversification, but more needs to be done, and this assistance must be maintained for it to be successful. Similarly, business owners need to sustain their efforts over time, by continuing to demonstrate ambition, innovation and a willingness to take risks to chart new courses for growth.