

## ECONOMIC VIEWPOINT

# Shifting Trade Winds: Risks and Opportunities for SMEs That Export

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### HIGHLIGHTS

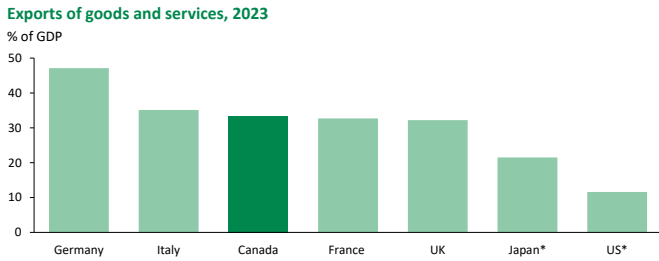
- ▶ For the third consecutive year, Desjardins Economic Studies has identified a theme for Small Business Week that we believe is top of mind for small and medium-sized enterprises (SMEs) in Canada. We asked members and clients what's on their minds, and they said the US presidential election and its potential economic implications are of enormous interest. For that reason, we have chosen to do a deep dive into the risks and opportunities facing SMEs in expanding their businesses across international borders in the face of uncertainty.
- ▶ Canada is a trading nation, and SMEs play a big role in supporting that status. About 40% of Canadian goods exports come from SMEs. But more can be done to increase their trade engagement, particularly with countries other than the United States. Indeed, while Canada's largest businesses are among the most trade-engaged in the OECD, many SMEs lag their advanced economy peers. They also tend to be more likely to trade with US companies as opposed to companies further afield for obvious practical reasons. That's particularly true if they are owned by someone born in Canada. Hence, immigration will continue to play an important role in supporting Canada's ongoing trade diversification.
- ▶ It is encouraging that Canadian SMEs have increased their export intensity and propensity over the past 10 years, thanks in part to digitization and to a greater share of services exports. Small tech startups like software developers are often "born global" since they create products and services for a global market. Indeed, SME exports of information and communication technologies, as well as professional, technical and scientific services, surged in the last decade. This trend is expected to accelerate in the years ahead.
- ▶ There are many benefits to SMEs engaging in international trade. SMEs that trade globally tend to be more innovative, productive and profitable. But they are also more likely to be exposed to risks posed by disruptions in global value chains, as occurred during the pandemic. Greater trade diversification is key to mitigating this risk, as is increasing trade across provincial borders. And while the barriers to exporting abroad are many, we believe they can largely be overcome through existing supports aimed at bringing Canadian entrepreneurship to the world.

A lot of ink has been spilled discussing Canada's role as a trading nation. But the contribution that small and medium-sized enterprises make to this status often gets less attention. In this report, we aim to highlight the important role played by SMEs in Canadian international trade, as well as the challenges they face and the opportunities that await if they overcome them.

### SMEs Are Increasingly Driving Canadian Exports

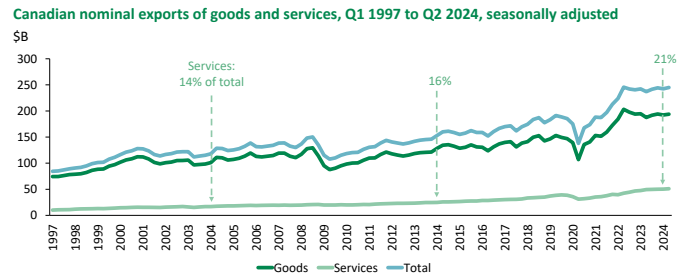
Canada is a country of exporters. In 2023, Canadian companies exported nearly \$770 billion in goods and almost \$200 billion in services. Canada is among the most trade-engaged countries in the G7. Last year, it ranked behind only Germany and Italy for exports of goods and services as a share of GDP (graph 1 on page 2).

**Graph 1**  
Canada Is More Trade-Engaged than Some Other G7 Countries



\* 2022 value.  
World Bank and Desjardins Economic Studies

**Graph 2**  
Canadian Exports Picked Up Sharply Post-Pandemic



Statistics Canada and Desjardins Economic Studies

But Canada is a big country, and its provinces and territories have vastly different economies. When it comes to trade, Manitoba had the greatest prevalence of exporters in 2022, followed closely by Ontario (table 1). Of the over 55,000 Canadian establishments that exported goods that year, more than 42% were operating in Ontario. But while Ontario contributed the greatest value to national exports in 2022 (over \$222 billion or 31% of total exports), the average value of exports per establishment was much lower than in most other provinces (at nearly \$10 million versus \$13.5 million nationally). Not surprisingly, it was commodity-producing regions that had the highest average value of exports per establishment.

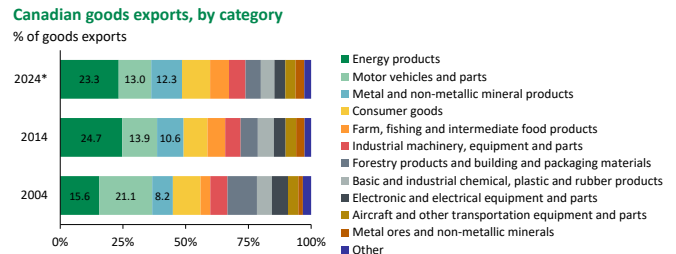
**Table 1**  
Ontario Is an Exporting Powerhouse

Province/territory	Exporters (2022)			Goods exports (2022)	
	Number per 1,000 establish.	Number	Distrib. (%)	Value (\$B)	Distrib. (%)
Ontario	55.0	22,443	42.1	222.4	31.0
Quebec	48.7	11,289	21.2	107.5	15.0
British Columbia	44.4	7,630	14.3	64.7	9.0
Alberta	44.0	6,042	11.3	209.0	29.1
Manitoba	55.2	1,867	3.5	30.6	4.3
Saskatchewan	48.5	1,637	3.1	38.3	5.3
Nova Scotia	38.5	957	1.8	6.3	0.9
New Brunswick	39.3	809	1.5	18.4	2.6
Newfoundland and Labrador	23.2	307	0.6	15.1	2.1
Prince Edward Island	49.9	260	0.5	2.1	0.3
Territories	30.3	86	0.2	3.2	0.5
Canada	49.2	53,327	100	717.6	100

Industry Canada (ISED) and Desjardins Economic Studies

Goods continue to dominate Canadian exports, with energy and mining products leading the way—and increasing their share over the last 20 years (graphs 2 and 3). In contrast, the share of motor vehicle and parts exports has declined by 8 percentage points in the past 20 years (the exact opposite of energy products). And services exports, while growing in importance, remain modest relative to goods exports.

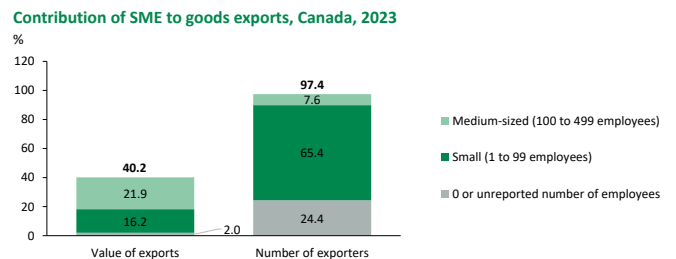
**Graph 3**  
Energy and Mining Products Are an Increasing Share of Goods Exports



\* 4 quarters ending Q2 2024.  
Statistics Canada and Desjardins Economic Studies

Exporters tend to be larger corporations. But Canadian SMEs play an essential role in many trade value chains. The majority (almost 90%) of exporters are businesses with less than 100 employees. If we add in medium-sized businesses (those with 100 to 499 employees), SMEs together represent over 97% of exporters and account for more than 40% of Canadian goods exported (graph 4).

**Graph 4**  
SMEs Account for over 40% of Canadian Exports



Statistics Canada and Desjardins Economic Studies

SME exports are concentrated in wholesale trade and manufacturing, representing \$148.5 billion and \$67.3 billion respectively, out of total exports of \$282.5 billion. And most sectors rely heavily on SME exporters. SMEs account for more than 73% of total exports in wholesale trade, 76% in the agriculture, forestry and fishing sector, and 70% in professional services (table 2).

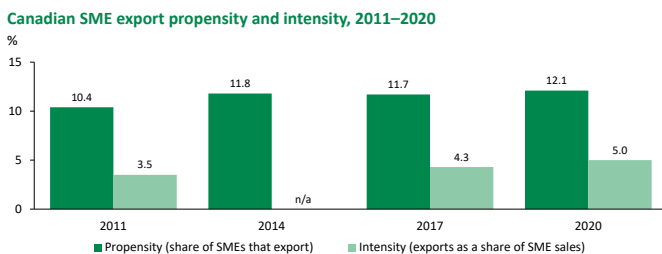
**Table 2**  
Canada Is Highly Reliant on SMEs for Its Wholesale Exports

Industry	SME* exports (2023)		
	Value (\$M)	As a share of total exports (%)	Over 50%
Manufacturing	148,545	41.7	
Wholesale trade	67,271	73.3	●
Mining, oil and gas	35,591	30.7	
Management of companies and enterprises	7,387	8.2	
Agriculture, forestry and fishing	5,999	76.1	●
Transportation and warehousing	3,748	65.2	●
Professional, scientific and technical services	3,335	70.0	●
Retail trade	2,074	59.5	●
Utilities	1,731	29.0	
Construction	1,715	90.3	●
Real estate	1,683	47.4	
Admin., support, waste mgmt., remediation services	1,065	54.3	●
Finance and insurance	919	7.3	
Other services (except public administration)	676	99.1	●
Information and cultural industries	360	91.9	●
Other**	264	85.9	●
<b>Total</b>	<b>282,485</b>	<b>40.2</b>	

SME: Small and medium-sized enterprises (1 to 499 employees); \* Includes businesses with 0 or an unreported number of employees; \*\* NAICS 61, 62, 71 and 72. Statistics Canada and Desjardins Economic Studies

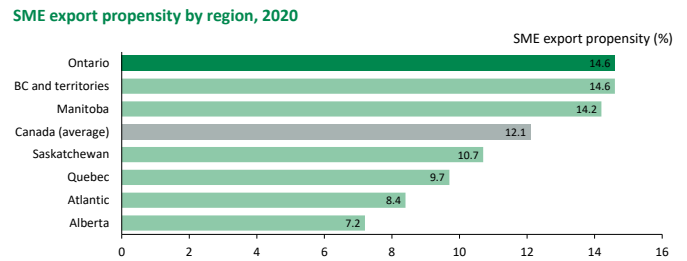
A recent study by Global Affairs Canada (GAC) found that SMEs have increased both their export propensity (share of SMEs that export) and intensity (exports as a share of SME sales) since 2011 (graph 5). For Canadian SMEs, exports represented on average 5% of total sales in 2020, compared to 3.5% in 2011. The share of SMEs that export rose from almost 10.5% in 2011 to over 12% in 2020, and this despite the turmoil of the pandemic. And Ontario SMEs lead the way: more than 14.5% of them export (graph 6). Given the importance of manufacturing for the Ontario economy, it therefore comes as little surprise that Canadian SMEs are most likely to export if they produce manufactured goods (38% of manufacturing SMEs export). Export propensity is also above average in wholesale trade, transportation and warehousing, and professional services, reflecting the growing importance of services exports among SMEs more generally (graph 7).

**Graph 5**  
SME Export Participation Is Growing



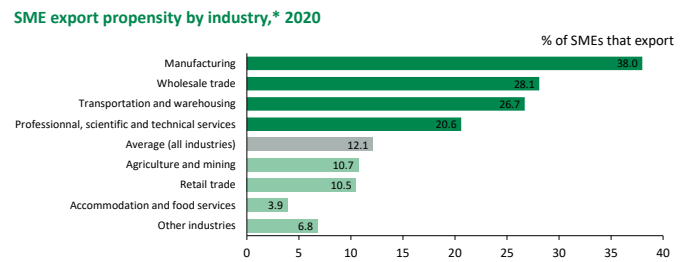
SME: Small and medium-sized enterprises (1 to 499 employees); n/a: not available. Global Affairs Canada and Desjardins Economic Studies

**Graph 6**  
Ontario SMEs Are More Likely to Export than Other Canadian SMEs



SME: Small and medium-sized enterprises (1 to 499 employees). Global Affairs Canada and Desjardins Economic Studies

**Graph 7**  
Manufacturing and Wholesale Have the Highest Rates of SME Exporters

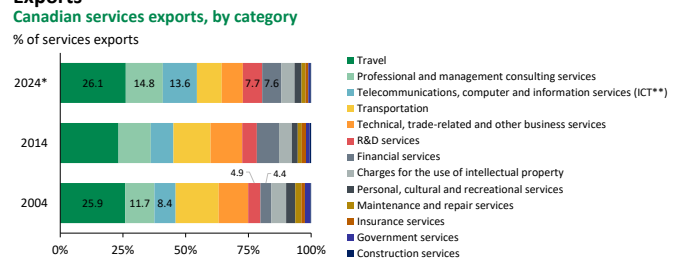


SME: Small and medium-sized enterprises (1 to 499 employees); \* Includes NAICS 51, 53, 56, 62 and 71. Data is not available for Construction and Other services. Global Affairs Canada and Desjardins Economic Studies

Services Exports Are Growing Quickly, Particularly Among SMEs

Global growth in the knowledge-based economy is visible in Canada's trade patterns. Services now represent 21% of Canadian exports, compared to just 14% twenty years ago. Notably, the proportion of exports in financial services, information and communication technologies (ICT), and R&D services has increased substantially over that period (graph 8).

**Graph 8**  
Financial, ICT and R&D Services Now Account for a Larger Share of Exports

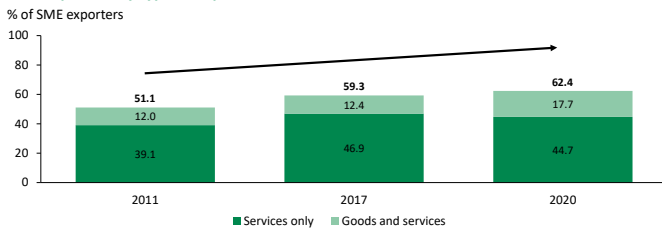


\* 4 quarters ending Q2 2024; \*\* Information and communication technologies. Statistics Canada and Desjardins Economic Studies

Jiang and Sekkel (2024) found that increased adoption of digital platforms has helped more SMEs go global, including micro-enterprises of one to four employees. And selling services has become more prevalent among SME exporters, in part thanks to this digitization. For instance, nearly 62.5% of SME exporters exported services in 2020, compared to only 51% in 2011 (graph 9). And while larger SMEs are more likely to export goods only, smaller ones tend to export services exclusively. In fact, micro-enterprises are more than twice as likely as medium-sized enterprises to export services. As Jiang and Sekkel explain, “businesses in the service-producing sector tend to be smaller than those in goods-producing sectors, for which economies of scale are more prevalent.”

**Graph 9**  
SMEs Are Also Exporting More Services

SME exporters by type of export,\* 2011–2020



SME: Small and medium-sized enterprises (1 to 499 employees); \* Remaining percentage = Goods-only exporters. Global Affairs Canada and Desjardins Economic Studies

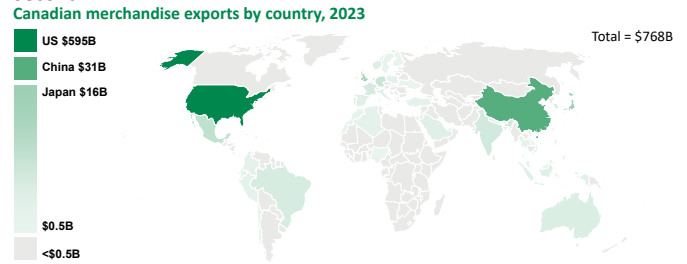
These trends bode well for services-exporting SMEs. Among SME exporters, just shy of 45% sell only services, while almost 18% sell both services and goods. And the number of SME exporters within services industries rose by a hefty 72% between 2011 and 2020. This was driven primarily by professional, scientific and technical services as well as transportation and warehousing.

Looking forward, we can expect knowledge-driven service industries to become increasingly export-oriented thanks to digital technologies. Indeed, small tech startups like software developers are often “born global” since they create products and services for a global market. According to McKinsey, half of all US SMEs in ICT were engaged in international trade as far back as 2007.

**Most Canadian Exports Are Still Destined for the US**

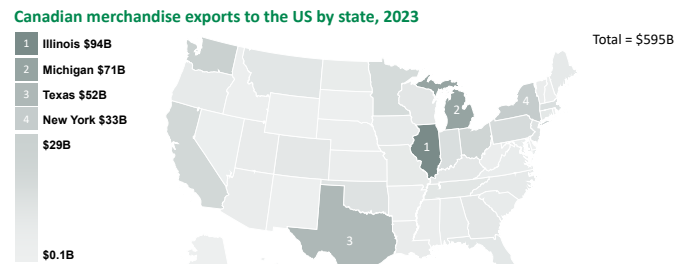
Despite some export diversification in recent decades, the US remains the destination of over three quarters of Canada’s goods exports, with China a distant second (figure 1). And Canada exports more to individual states like Illinois, Michigan, Texas and New York than it does to China (figure 2).

**Figure 1**  
Most Canadian Exports Are Destined for the US, with China a Distant Second



Industry Canada (ISED) and Desjardins Economic Studies

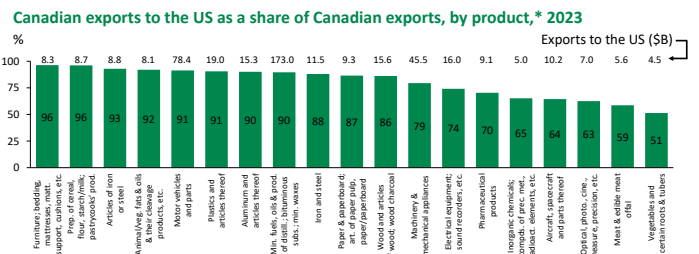
**Figure 2**  
Canada Exports More to Some US States Than It Does to China



Industry Canada (ISED) and Desjardins Economic Studies

Several Canadian industries depend extensively on the US market for exports. For 19 distinct products (representing 70% of total exports), the US accounts for over half of Canadian shipments abroad, with shares of 96% in the case of furniture and cereal preparations, and roughly 90% for our two largest export products—mineral fuels and oils and motor vehicles and parts (graph 10).

**Graph 10**  
For 19 Distinct Products, the US Is the Primary Export Destination



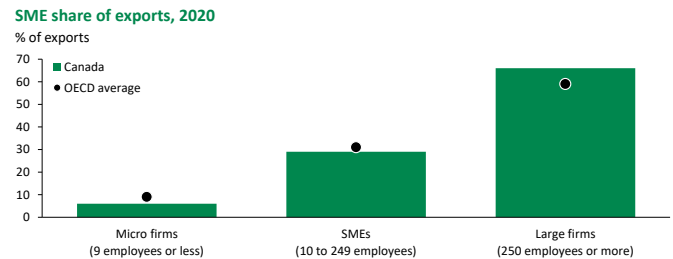
\* Products for which the US accounts for over 50% of Canadian exports. Industry Canada (ISED) and Desjardins Economic Studies

Canadian small businesses trade extensively with the US and Mexico. Their contribution is highest for exports to those two countries, at 18% (graph 11). If we include medium-sized enterprises, that share rises to roughly 40%. Canadian SMEs that export generally do so to the US, with roughly 84% of their export value destined for our southern neighbour. But that proportion has decreased substantially, down from over 89% in 2011, illustrating the same market diversification observed at the national level (graph 12). One difference, however, is that small firms are more likely to focus on the US only, while larger enterprises are more likely to export both to the US and to non-US destinations due to their size. Indeed, it is common for new exporters to choose the US as their first market. Once these businesses scale up and export more, they become able to grow and diversify into other markets beyond the US (Yu, 2019). That said, many SMEs also export to non-US destinations. As we'll discuss later, these tend to be run by recent immigrants to Canada who capitalize on their networks in their country of origin.

### Why SMEs Should Look to Trade Even More

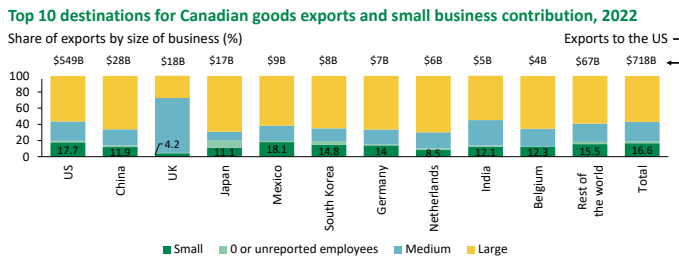
Despite the important role that SMEs play in Canadian trade, there is always room to improve. According to the [OECD's SME and Entrepreneurship Outlook 2023 \(OECD, 2023\)](#), Canada's microbusiness and SME share of exports lags behind the OECD average (graph 13). The opposite is true for large firms.

**Graph 13**  
Canadian SMEs Are Less Trade-Engaged than Their OECD Peers



Organisation for Economic Co-operation and Development (OECD) and Desjardins Economic Studies

**Graph 11**  
Small Businesses Contribute Most to Exports to the US and Mexico

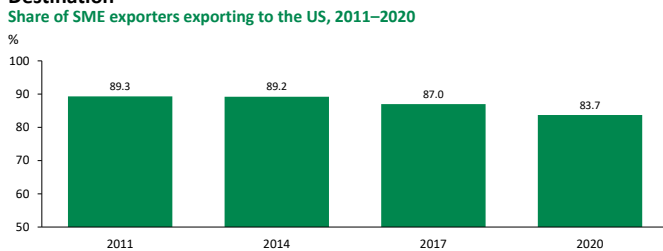


Note: Small = 1 to 99 employees, Medium = 100 to 499 employees, Large = 500 employees or more. Industry Canada (ISED) and Desjardins Economic Studies

### Trade Can Boost SME Productivity

SMEs are about [half as productive as large companies](#), yet they represent over 99% of Canadian businesses, roughly 50% of GDP generated by the private sector and 64% of the private labour force. Clearly, raising SME productivity through different means, including increased trade participation, could have a tremendous impact on Canada's economy, which is suffering from a [concerning productivity decline](#).

**Graph 12**  
Despite Some Diversification, the US Remains the Primary SME Export Destination



SME: Small and medium-sized enterprises (1 to 499 employees) Global Affairs Canada and Desjardins Economic Studies

By holding back productivity, insufficient trade engagement by SMEs could well be limiting Canada's growth opportunities. According to [ISED \(2015\)](#), "Exporting can also allow firms to operate more productively: additional experience and economies of scale can enhance efficiencies and reduce average production costs; meeting foreign demand can also fill production gaps and boost profitability." This comes with benefits not just to the broader economy but to individual companies. "Evidence shows that exporting firms compared to non-exporting firms have, on average, the following important characteristics: they are larger, more productive and more innovative; they have higher growth and revenues; they are more resilient to market shocks; they hire more workers, including women and other diverse population groups, pay higher wages and invest more in employee training; and they invest more in research and development, information and communications technologies, and machinery and equipment" ([Global Affairs Canada, 2019](#)). Indeed, according to [Statistics Canada \(2015\)](#), exporters pay wages that are about 14% higher on average than those paid by non-exporters.



Looking at industry data, firm-level studies show that manufacturers that enter export markets tend to experience rising productivity thanks to mechanisms such as specialization, learning by exporting and exposure to greater competition. They also tend to increase investments in R&D and training to develop capacities for absorbing foreign technologies and international best practices ([Statistics Canada, 2004](#)).

### Small Businesses in Big Value Chains

Firm-level analysis also shows that SMEs that are able to create close integration with larger companies experience measurably positive spillovers that boost productivity ([McKinsey, 2024](#)). Since large companies are often global in nature, SMEs securing connections with industry leaders are more likely to have increased international trade activity. In a way, closely knit networks—national and global—can compensate for lack of scale. Ties with larger companies (like becoming a subcontractor to a major global corporation) help SMEs secure better access to new markets, infrastructure, finance, talent and technology, with spillovers to their operational efficiency and productivity.

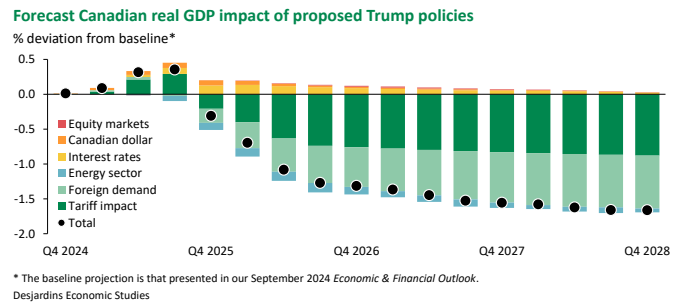
### What Are the Trade Risks on the Horizon?

Since the US presidential election and Brexit in 2016, trade risks have ramped up around the world. Today, many of those risks remain, albeit with the potential for further escalation. The 2024 US presidential election is just around the corner, and tariffs on Chinese exports are ratcheting up. Tensions in the Middle East are making headlines. And issues related to things like cybersecurity continue to lurk in the background. In this section, we explore some of the more pressing issues facing Canadian SMEs looking to increase their export activities.

### US Presidential Election

The upcoming US presidential election is an imminent threat to current global and North American trade arrangements. As we outlined in [our recent analysis](#) of the economic impacts of different US election outcomes on the Canadian economy, a Kamala Harris victory would probably look very similar to today's trade policy regime over the next four years. In contrast, a second Trump presidency could hit Canadian exporters extremely hard, particularly in the event of a Republican sweep (graph 14). That's because of his plan to apply a tariff of 10%—or even as much as 20%—on all US imports, regardless of country of origin. China would be subject to a 60% tariff. This would hobble not only large companies, but also SMEs that are particularly trade exposed.

**Graph 14**  
The Trump Policy Drag On Canadian Trade Would Be Substantial



### Trade with China

Regardless of the US election outcome, other trade tensions, primarily those with China, could directly and indirectly impact Canadian exporters. The Government of Canada recently signalled its intent to impose 25% surtaxes on Chinese steel and aluminum. It also announced the imposition of tariffs on Chinese-made electric vehicles. In response, China has threatened retaliatory tariffs on Canadian canola. Canadian exports of canola products to China totalled \$5 billion in 2023. This represents roughly 30% of Canadian canola exports and 0.2% of GDP. Canola is one recent example, but Chinese authorities could well decide to retaliate on other products that Canada exports in large quantities. These include coal products, iron ores, chemical wood pulp, copper ores, crustaceans, soybeans and wheat, which each represented over \$1 billion in Canadian exports to China in 2023. There could be other indirect consequences of import tariffs imposed by Canada. In the case of aluminum and steel, some manufacturers worry that tariffs could substantially drive up costs of certain specialized inputs used in the domestic production of electric vehicles and aircraft parts—inputs that aren't available domestically and for which North American supply chains are currently unable to meet demand ([Canadian Manufacturers and Exporters, 2024](#)).

### Other Challenges Faced by SMEs

Canadian SMEs face other challenges beyond just trade protectionism and geopolitical risk. These include market changes linked to digitization and new technologies (like [artificial intelligence](#) and [cybersecurity](#)), as well as climate change and broader environmental, social and governance (ESG) considerations. For instance, the European Union introduced a Carbon Border Adjustment Mechanism in October 2023 (see [European Commission \(2023\)](#) for more information). However, these challenges can also provide new opportunities for ambitious and enterprising small businesses. Other challenges include intellectual property protection; administrative and border issues inside and outside Canada; logistics; market knowledge; and financing and insurance ([Global Affairs Canada, 2019](#)).

## How Can SMEs Prepare for Shifting Trade Winds?

The challenges facing Canada’s exporting SMEs are many, but they aren’t insurmountable. Below we provide several recommendations that we hope will support SMEs in better capturing the opportunities that come with engaging in international trade.

### 1. Diversify your export markets.

The most imminent challenge for trade-engaged SMEs is the US presidential election in November, as it could result in a second Trump presidency. But this has been a live threat for some time. The best way to avoid the possibility of a unilateral change in the trade regime by one country is to diversify the countries where a business’s clients can be found and inputs can be sourced. Trade diversification has long been seen as the way Canada can reduce its exposure to the single US market. But it’s easier said than done. The good news is that Canada’s trade is more diversified than it was earlier this century, although the share of exports to the US reached its highest level since 2006 in 2023 (graph 15).

**Graph 15**  
Canadian Exports Are Moderately More Diversified Than 20 Years Ago



Statistics Canada and Desjardins Economic Studies

### 2. Expand into new provincial markets.

SMEs would also benefit from greater domestic supply chain diversification through increased interprovincial trade. The [International Monetary Fund \(2019\)](#) estimated that “complete liberalization of internal trade in goods can increase GDP per capita by about 4 percent and reallocate employment towards provinces that experience large productivity gains from trade.” This is also a policy area for which there is agreement across the political spectrum. Moreover, Statistics Canada [research](#) suggests that the productivity-enhancing benefits of entering new provincial markets are as important as those from entering new international markets. In the context of increasing cross-border

trade uncertainty, Canadian firms would be well advised to tap into the domestic market’s full potential coast to coast. To facilitate this, provinces must act to reduce internal trade barriers on the movement of goods and services across provincial borders.

### 3. Increase the resilience of your supply chains by developing a contingency plan and identifying new potential suppliers, including domestic ones.

To successfully integrate global trade networks, SMEs can lean on some of their distinguishing features. They are often more nimble and less bureaucratic than their larger peers, which can help them adapt to changing market dynamics ([McKinsey, 2024](#)). The ability to build business relationships and develop proximity with their customers is another key asset. The pandemic demonstrated SMEs’ ability to pivot rapidly, whether by changing their production lines or finding local resources to circumvent supply chain bottlenecks. With increased protectionism looming on the horizon, these capabilities will be key. Another advantage for SMEs is their greater and growing propensity to export services, as previously noted. This may serve them well given that supply chain disruptions (such as those in the Red Sea) should also impact goods exports more directly and heavily than services exports.

### 4. Increase digitization and modernization to help you connect with best-in-class global players and integrate global value chains.

Digital technologies are helping companies connect with customers and suppliers on a more global scale. For instance, e-commerce platforms can facilitate exports between small manufacturers and wholesalers, and offshore software services enable business-to-business trade between big and small companies across the world.

The pandemic demonstrated SMEs’ ability to pivot rapidly, such as by launching online payment and web platforms in agile and accelerated ways. Programs like the Canada Digital Adoption Program (CDAP) supported this transition, but the CDAP was broadly seen as overly bureaucratic and was ultimately ended ahead of schedule. Surveys indicate that smaller companies are less likely than larger firms to adopt new technologies like artificial intelligence, potentially leaving productivity and profitability gains on the table. A lack of time and trained staff to integrate these technologies into existing processes are often cited as [reasons](#) for low adoption. This lack of dynamism is not only a threat to growth, but also a vulnerability to foreign competition provided that SMEs in other countries become more competitive. Policy can play a role in helping to address these limitations.

## 5. Diversify your suppliers to include immigrant-led SMEs.

One area where Canada has had a significant advantage historically relative to other advanced economies is immigration. Immigrant-led SMEs are much more likely to engage in export activity than SMEs with Canadian-born business owners ([Global Affairs Canada, 2021](#)). This higher export propensity of immigrant-led SMEs has supported increased trade diversification, as these SMEs are less likely to be focused on the US than SMEs led by Canadian-born owners. Prior to the COVID-19 pandemic, Canada also had the most highly educated foreign-born population in the OECD. It should therefore come as no surprise that immigrant-led SMEs are also more likely to be competitive, innovative and led by a person with a bachelor's degree or higher than SMEs with a Canadian-born business owner.

But trade-engaged, immigrant-led SMEs have their own struggles. Whereas logistical, administrative and border obstacles are more likely to be cited by Canadian-born SME owners as the main reasons for not exporting, owners of immigrant-led SMEs are more likely to cite financial risk, lack of adequate financing and cash flow, and intellectual property issues. Many of these issues are relatively easily addressed by expanded lending by federal crown corporations like Export Development Canada (EDC) and the Business Development Bank of Canada (BDC).

## 6. Leverage existing export promotion programs.

There are several government programs available that aim to bring Canadian entrepreneurship to the world. These include various programs offered through EDC, BDC and [Global Affairs Canada](#), as well as GAC's Trade Commissioner Service, which links local businesses to trade experts in Canadian embassies across the globe. Many of these programs are specifically geared toward SMEs and early-stage exporters, such as GAC's CanExport SMEs, which provides up to \$50,000 in funding for SMEs expanding abroad. There are also sector-specific initiatives. The [Canadian Technology Accelerator](#) program helps companies in the ICT, digital and cleantech sectors seize growth opportunities abroad. [Canadian Heritage](#) funds an export program specifically for creative industries (such as the arts, audiovisual, interactive digital media and design sectors), with up to \$2.5 million in funding for eligible projects. Trade missions, export advice and support are also offered by provincial governments, chambers of commerce and industry associations.

SMEs looking to enter foreign markets would do well to fully leverage the wide range of resources available, including advisory services, export insurance, financial guarantees, loans and direct funding to take their trade activities to the next level.

## Conclusion

Canada is a trading nation, and SMEs play a big role in supporting that status. But more can be done to increase their trade engagement, particularly with countries other than the United States. In doing so, they can boost their productivity and profitability as well as reduce their exposure to shifting trade winds. Increased trade engagement would not only benefit SMEs, but also the economies of their home provinces and Canada as a whole.