

ECONOMIC VIEWPOINT

Productivity: Diversifying Trade Could Help Re-Energize Canada's Leading Firms

By Jimmy Jean, Vice-President, Chief Economist and Strategist

HIGHLIGHTS

- ▶ Canada's productivity lag is also affecting the nation's most productive companies. Even firms at the productivity frontier can't assume their productivity will continue to grow at a rapid pace.
- ▶ Several indicators suggest competitive pressure has weakened in Canada. Recent Statistics Canada research shows that the most productive firms may be most affected by this trend.
- ▶ Trade diversification may help reignite productivity by exposing Canadian companies to new competitors, larger markets and new sources of knowledge and capital.
- ▶ Access to larger markets can also help firms scale up and expand internationally, two strategies linked to increased productivity and innovation.

Canada's productivity challenge is often framed as a matter of catching up: less productive companies just need to invest more, adopt new technologies and scale up to become more like the top firms. But what happens when the leading firms slow down as well?

Although the most productive companies still, by definition, have the highest productivity levels, this doesn't necessarily mean they're seeing faster productivity growth.

Companies at the Top of the Distribution Have Also Lost Momentum

An Organisation for Economic Co-operation and Development (OECD) [analysis](#) published in 2026 offers some insight into what's happening with Canadian firms. The contrast between the first half of the 2000s and the second half of the 2010s is striking: productivity growth among the frontrunners slowed sharply.

Between 2002–2007 and 2014–2019, growth in value added per worker at frontier firms—meaning the top 10% in terms of productivity within each industry—fell from about 4% per year

to less than 0.5%. Meanwhile, at laggard firms, it held steady at around 1.5% (graph 1).

Graph 1
The Loss of Momentum Is Most Pronounced Among Frontier Firms

Average annual growth rates in value added per worker within firms



Organisation for Economic Co-operation and Development and Desjardins Economic Studies

The most productive firms aren't becoming less productive than the others, since their starting point is already much higher. But their weakening momentum means that the engine pulling the top end of the distribution higher has lost much of its kick.

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A [previous study](#) by Statistics Canada had already shown that productivity growth declined at frontier firms after 2000. That means Canada's productivity problem also affects the ability of the highest-performing companies to keep improving.

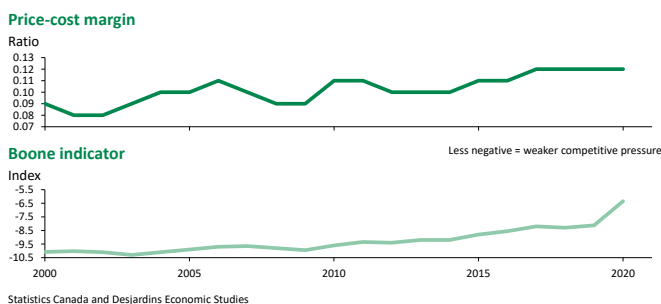
Can Competition Keep the Momentum Going?

This finding raises another question: What could explain why some of our top performers are losing steam? Among the possible mechanisms examined in recent studies, competition is of particular interest.

Competitive pressure can also change the economic incentives that businesses are facing. The need to defend market share, attract new clients or respond to new entrants can drive investment, innovation and improvements in business practices.

Several indicators suggest competitive pressure has weakened in Canada since the early 2000s (graph 2). The [Competition Bureau](#) reached the same conclusion when it looked at the period between 2000 and 2020.

Graph 2
Several Indicators Point to a Weakening of Competitive Pressure

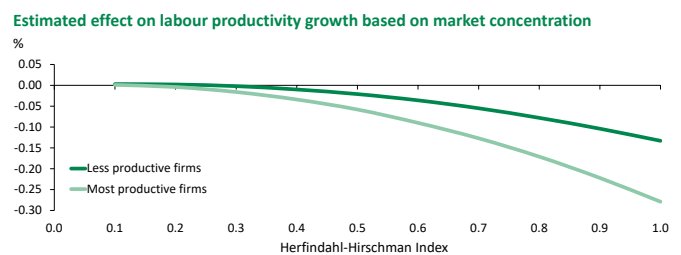


Since 2000, both the price-cost margin and the trajectory of the Boone indicator suggest competitive pressure is weakening in Canada (graph 2).

Top Performers Seem Especially Sensitive

The Statistics Canada [data](#) are revealing when firms are grouped according to their initial productivity levels. As concentration increases, estimated productivity growth declines for all firms, but more sharply for those in the top decile for productivity (graph 3).

Graph 3
When Competition Fades, Leaders Lose More Momentum



Faryaar, Rosell and Stegnjaic, Statistics Canada and Desjardins Economic Studies

This casts Canada's productivity challenge in a new light. Competition can push less productive firms to do better, but it can also drive firms that are already top performers to keep improving.

Consequently, the real challenge lies in getting the most productive firms to sustain or accelerate the pace of their productivity growth. They don't have the luxury of being

BOX Three Ways of Measuring Competition

The **Herfindahl-Hirschman Index** (HHI) measures market concentration based on the market share of the firms in that market. It's calculated by squaring each firm's market share and then adding up the results. The higher the HHI, the more economic activity is concentrated in a small number of firms. For example, a market made up of four firms, each accounting for 25% of sales in that market, would have an HHI of 0.25, while a monopoly would have an HHI of 1.00.

The **price-cost margin** measures the difference between the price that firms can ask for a product or service and the estimated marginal cost of producing it. It provides an idea of a firm's market power.

The **Boone indicator** measures the extent to which greater efficiency results in stronger market performance. The more negative the indicator is, the bigger the reward for efficient firms and the stronger the competitive pressure. In contrast, a less negative indicator points to weaker competitive pressure.

complacent, despite their position at the productivity frontier. They still need to invest, innovate and continually improve how they operate. Competition can help keep the pressure on them to improve.

Diversification Changes the Landscape

This interpretation takes on added significance as efforts to diversify trade gather momentum. In the first seven months of 2026, the nominal value of Canadian exports to markets outside the United States went up by 52% compared to the same period in 2024. That brought their share of total exports to 34%, the highest in more than four decades.

However, much of this increase came from gold, which doubled in price over the period, and from an increase in oil exports to overseas markets, particularly through the Trans Mountain Pipeline.

The shift to new markets has been much slower for manufactured goods. For many Canadian firms, the US market offers advantages in terms of proximity, size and supply chain integration that are hard to replicate elsewhere.

Increasing exports to Europe or Asia often means higher transportation costs and longer delivery times. It also involves adapting to meet different standards while building distribution networks. Firms will also need to compete with companies that are already well established. To successfully diversify, Canadian firms will have to invest, adapt their products and processes and improve their efficiency.

Expanding into Broader Markets to Fuel Growth

[Our research](#) on exporting SMEs has already shown that firms that engage in international trade tend to be more innovative, productive and profitable. It also highlighted the potential that can be unlocked by Canadian SMEs further diversifying into markets outside the United States.

Targeting larger markets can help firms grow, increase sales volumes enough to make investments profitable and encourage the development of greater operational and trading capacities. For some firms, this expansion may also justify direct investment abroad to move closer to clients, suppliers or new sources of expertise and capital.

International expansion therefore opens up additional channels for productivity gains. A Statistics Canada [study](#) found that multinationals are roughly 23% more productive, on average, than otherwise comparable non-multinational firms. Much of this advantage was already evident before they achieved multinational status, but the authors identified further gains

resulting from the lessons learned once they start operating abroad. In particular, they highlight the role of R&D, intellectual property development and the ability to learn from both domestic and foreign markets.

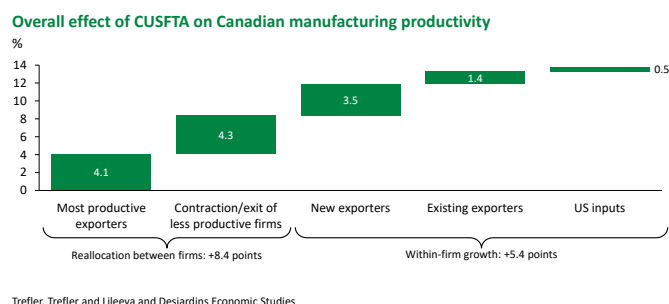
International expansion can expose firms to new technologies, management practices and knowledge networks. Their ability to absorb this knowledge and integrate it into their operations can, in turn, lead to more gains, creating a virtuous cycle.

The First Free Trade Agreement with the US Set a Precedent

The first Canada-United States Free Trade Agreement (CUSFTA), which was signed in 1987 and came into force in 1989, provides a useful precedent. [Research on its impact](#) shows that giving Canadian firms access to larger markets led to significant productivity gains in the manufacturing sector.

Global Affairs Canada cited [research](#) by Daniel Trefler, including work produced with Alla Lileeva, that showed productivity in the Canadian manufacturing sector improved by 13.8% after the agreement's tariff concessions were implemented. About 8.4 points resulted from the expansion of the most productive exporters, combined with the contraction or exit of less productive firms. The remaining 5.4 points reflected gains within the firms themselves, particularly through investments by new and existing exporters and improved access to US inputs (graph 4).

Graph 4
Trade Liberalization Increased Productivity Through Several Channels



Above all, this historical example shows that trade liberalization can influence productivity through several channels at once. It can shift economic activity toward the most productive firms, while encouraging them (or others) to invest, adapt and become more efficient.

Can't Waste a Good Crisis

Trade diversification can simultaneously expand market opportunities for Canadian businesses, expose them to new competitors and sources of knowledge and reduce the geographic concentration of their markets.

This is particularly important for firms at the productivity frontier, as even they can't assume their productivity will continue to grow at a rapid pace. If diversification, heightened competition and international expansion inspire our best firms to improve even further, it could once again prove the wisdom of the old adage to "never let a good crisis go to waste."