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Aid, Trade and Economic Partnerships: What the Evidence Says for Canada.

As Canada seeks to double non-US exports by 2035, interest is growing in whether international assistance can also support trade diversification. **New research commissioned by Cooperation Canada and conducted at the Norman Paterson School of International Affairs** provides timely evidence on this question.

Building on earlier Canadian research, the study examines the relationship between Canadian Official Development Assistance and Canadian exports to 155 partner countries from 1989 to 2024. Its findings suggest that development cooperation can contribute to longer-term commercial relationships, while also underscoring the limits of treating aid primarily as a trade instrument.

At a time of fiscal constraint, global instability and renewed interest in the trade-development nexus, the study offers important guidance for how Canada can pursue stronger economic partnerships without compromising the poverty-reduction purpose and development effectiveness of its international assistance.

> Canadian bilateral aid can contribute to longer-term economic relationships, but it should not be repurposed as a short-term export-promotion tool. The results are highly dependent on the country context and type of assistance. Poverty-focused and humanitarian assistance should be protected and measured against development and humanitarian outcomes, not seen as primary drivers of commercial interests.

Key Findings

1. **Export benefits appear over the medium to longer term**

   In the study's preferred filtered model, every $1 of net bilateral ODA was associated with approximately four cents in additional Canadian exports four to five years later. This suggests that aid may help build relationships, institutions and economic capacity that support future trade, but it is not a major or automatic export lever.

2. **Country context matters more than the overall aid total.**

   The clearest positive relationship was found in lower-middle-income countries. Over the full 1989–2024 period, every $1 of net bilateral ODA to these countries was associated with approximately an additional seven cents in Canadian exports two years later and nine cents one year later.

3. **The composition of Canada's aid portfolio helps explain mixed overall results.**

   Since 2015, a larger share of Canadian bilateral assistance has gone to countries affected by conflict, fragility, and thus weak purchasing power, and during major global shocks, including COVID-19.

Between 2016 and 2022, approximately 69% to 74% of Canada's bilateral ODA went to fragile countries. These environments generally have less immediate capacity to purchase Canadian goods and services, while much of the assistance is directed toward humanitarian, poverty-reduction and stabilization objectives.

4 **Targeted Aid for Trade may have greater commercial potential.**

The study identifies a potentially significant, but preliminary, association between targeted Aid for Trade and Canadian exports. It estimates that every $1 in bilateral Aid for Trade was associated with approximately $14.09 in Canadian exports three years later. Given the size and preliminary nature of this estimate, it should be interpreted cautiously. The finding points to the need for further research and could inform the design of carefully evaluated pilot initiatives. For this analysis, Aid for Trade includes selected bilateral assistance for economic infrastructure, productive sectors, and trade policies and regulations.

Policy Implications

Canada should not try to make every aid dollar perform the same function.

Poverty-focused and humanitarian assistance should be protected and measured against development and humanitarian outcomes. Where countries have the productive capacity, and there is a genuine alignment between local priorities and economic opportunity, Canada can use additional, targeted instruments to strengthen trade capacity and longer-term economic partnerships.

1 **Protect poverty-focused ODA.**

Maintain a protected core of at least **$5.5 billion** annually for poverty reduction, humanitarian response and in the most vulnerable contexts. These investments must be measured against development and humanitarian outcomes.

2 **Use different instruments for different objectives.**

Do not redirect poverty-focused ODA toward short-term commercial goals. Trade promotion should be funded through trade and economic-policy envelopes, while targeted development-trade instruments should be additional and clearly defined.

3 **Expand targeted Aid for Trade where conditions are right.**

Pilot and evaluate support for economic infrastructure, productive capacity, local businesses, cooperatives, regional value chains and trade facilitation, particularly in countries where partner priorities and market conditions create realistic opportunities for longer-term trade.

4 **Maintain clear development guardrails.**

All development-trade programming should remain untied, locally led, transparent and additional, while advancing local value creation, decent work, gender equality, human rights and environmental sustainability.

5 **Measure results by context and over time.**

Assess humanitarian aid, poverty-focused programming and Aid for Trade separately. Evaluation should reflect country context and recognize that any commercial effects may take several years to emerge.

6 **Strengthen the evidence base.**

Undertake further research and independently evaluated pilots to identify which forms of Aid for Trade deliver the strongest development results and under what conditions they also support longer-term Canadian economic relationships.