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Immigrant-led SME Exporters in Canada

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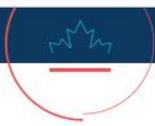


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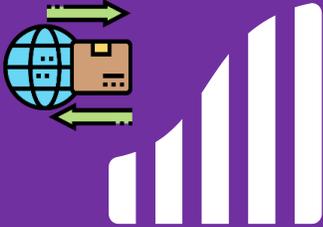
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CANADIAN SMEs'
EXPORT PROPENSITY



SME LEADERS'
EDUCATION LEVEL
IN CANADA



CANADIAN
SMEs
—
FOREIGN-BORN
AND
CANADIAN-BORN
LEADERS

WOMAN-OWNED SMEs'
EXPORT PROPENSITY
IN CANADA



INNOVATIONS



Executive Summary

Canada has a large, diverse, and highly educated immigrant population that makes an important contribution to the Canadian economy. This study examines the contribution of immigrant-led businesses to Canada's export performance and study find that Canada's foreign-born population is more outward-looking than is the Canadian-born population. Businesses led by immigrants, despite being smaller on average, are much more likely to export and derive a greater share of revenue from exporting. They also tend to export further afield; relying less on the United States as a market and exporting to more diverse markets. It is therefore beneficial to the growth and diversification of Canadian exports that the number of immigrant-led exporters has grown at twice the rate of that of Canadian-born exporters. Immigrant-women-led business are of particular note, exporting at a far higher rate than business led by Canadian-born-women. This study reaffirms the important contribution of immigrant-led business to the Canadian economy and to Canada's international trade performance.

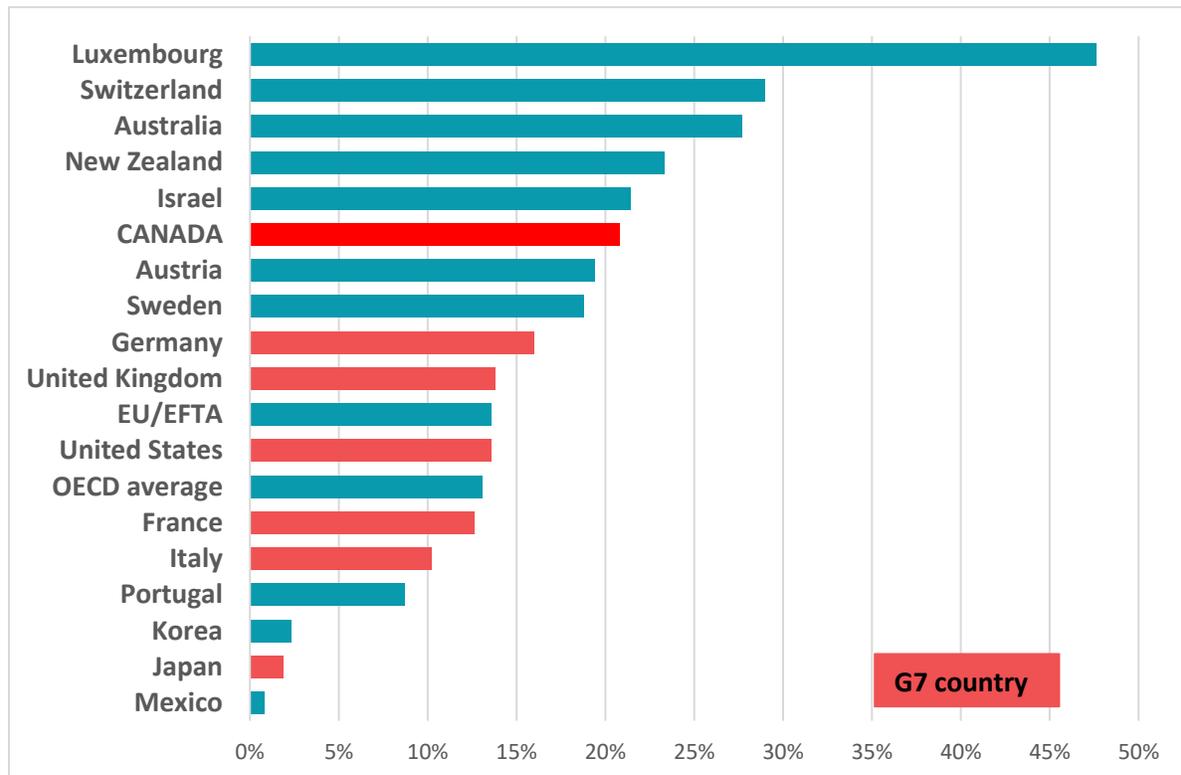
Key Findings

- ❖ Immigrant-led SMEs have a higher export propensity than Canadian-born led SMEs
- ❖ Immigrants maintain links to their home country which aid in their exporting. As immigrants in Canada come from a wide-range of countries, they make an important contribution to the diversification of Canadian exports
- ❖ Immigrant-led SMEs tend to operate in a greater proportion in high-intensity export industries
- ❖ The size of immigrant-led SMEs are however smaller than Canadian-born led SMEs
- ❖ The number of immigrant-led, export-oriented SMEs has grown faster than that of Canadian-born between 2014 and 2017
- ❖ One out of four SME is led by an immigrant in Canada
- ❖ Immigrant SME leaders tend to be more educated and they reported higher rates of technology adoption than Canadian-born leaders
- ❖ Immigrant business leaders may be an underutilized resource for helping other Canadian SMEs to internationalize and diversify their export markets
- ❖ Immigrant women-owned SME export nearly twice as often as Canadian-born women-owned SME

INTRODUCTION

Global immigration populations reached unprecedented levels over the past decades. From 153 million in 1990, they increased 78% to reach 272 million in 2019, which is much greater than the world population's increase (+45%). In Canada, immigration increased 58%, while the increase in the population reached 36% during the same time span¹. The contribution of immigrants to the economy of the host country has been demonstrated more than once, and the interest in this subject has accelerated in recent years. Not only in Canada, but also in the United States, UK and Australia, there is a higher tendency of business ownership for foreign-born than native-born. In Canada, over one in five Canadians is foreign-born, which places Canada 6th among OECD countries and first in the G-7, in 2018 (Figure 1).

Figure 1 – Percentage of Foreign-Born Population, OECD countries – 2018



SOURCE: OECD, [International Migration Outlook 2019](#)

Dungan et al, 2012, examined the contribution of immigrants to the Canadian economy using a macro-econometric forecasting model (FOCUS) and its effect on nominal GDP. According to the scenario that assume that new immigrants earn and contribute to GDP at the same rate as the domestic base-case work force, after 10 years, real GDP growth (+3.44%) is greater than population growth (+2.6%), so that real GDP per capita increases. There is no negative impact on unemployment and the overall effect on government balances is positive, as taxes paid by immigrants exceed expenditures.

¹ [International migrant stock 2019](#), United Nations, Department of Economic and Social Affairs, Population Division; International Monetary Fund (IMF), World Economic Outlook Database, April 2020; Statistics Canada, [Table 17-10-0040-01](#) Estimates of the components of international migration, quarterly & Statistics Canada, [Table 17-10-0005-01](#) Population estimates on July 1st, by age and sex.

In Canada, trade is an important contributor to the economy and is equivalent, in size, to two-third of GDP. Several studies, since Gould (1994), have found a robust correlation between the number of immigrants and exports. In the case of Spain (Peri & Requena, 2009), it has been demonstrated that a 10% increase of an immigrant community, in a Spanish province, increases exports to that country by between 0.5 and 1.0%.

Immigrants arriving in the host country have different backgrounds than native-born and the path they will take to ensure their economic survival will depend, largely, on the initial conditions that led them to leave their country. Many will choose to start a business, and a significant number of those will choose to export. Key questions that this study will attempt to address are:

- How do immigrant-led SMEs differ from Canadian-born led SMEs in their propensity to internationalize?
- How will the sector in which they operate influence their decisions to export their products abroad?
- Which regions of the world will be favoured?

The *Survey on Financing and Growth of Small and Medium-sized enterprises* (SME), conducted every three years by Statistics Canada, allows for a detailed assessment for these characteristics. One interesting feature of the survey is that it is possible to separate and compare the statistics linked with foreign-born or Canadian-born SME leaders, as it included a question on the place of birth of the primary decision maker (born inside or outside Canada). Through this paper, we will use the terminology “immigrant-led SME” to refer to the primary decision-maker who identified himself as being born outside of Canada and “Canadian-born led SME” to refer to the primary decision-maker who identified himself as being born in Canada, in the Survey. Based on the data retrieved from the survey, we analyzed those characteristics of the business and of the primary decision makers that have been shown to have the greatest effect on the firm’s decision to internationalize, such as the size industry, and innovation performance of the firm as well as the level of education their leaders.

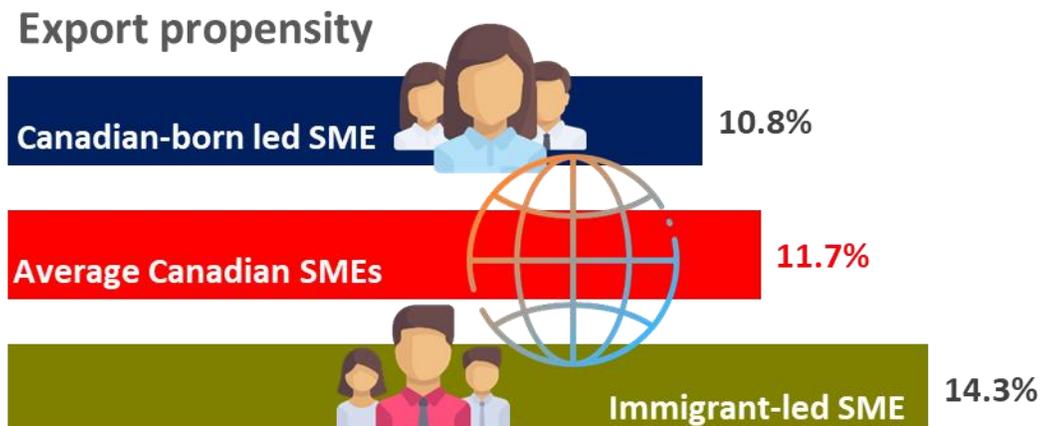
The propensity to export and factors leading to internationalization

In this paper, we have used Statistics Canada's *Survey on Financing and Growth of SMEs (the Survey)*. This survey was designed to determine the types of financing that Small and Medium-sized enterprises (SMEs) are using in Canada, but also gathers information on firm growth, engagement in international business activities, innovation and intellectual property, as well as owner characteristics. In addition, the Survey distinguishes between foreign-born and Canadian-born led SMEs, thus allowing the comparison of their respective export propensity.

Export propensity is defined as whether or not a firm exports to foreign markets. By analyzing the survey, we identified that the export propensity of immigrant-led SMEs, in Canada, reached 14.3% in 2017, significantly higher than the export propensity of Canadian-born led SMEs, which stood at 10.8% (Figure 2). In Canada, as of 2017, there were 85,631 SME that exported and of that number, 30.6% is led by a foreign-born. Export intensity is defined as the percentage of sales done abroad compared to in Canada; immigrant-led SMEs export intensity was 5.8%, while export intensity for Canadian-born led SMEs was 3.7% in 2017.

In the following sections, we will review SMEs' characteristics that lead to the decision to export abroad, such as the leaders' network of contacts, the sector in which the firm operates, the region where they export and the size of the firm.

Figure 2 – Export propensity-Immigrant-led SMEs, Canadian-born led SMEs, and all SMEs in Canada



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017.

Contact Network

More than one study has focused on the relationship between an immigrant firm's level of export activity and its network of contacts. Indeed, when entering the host country, immigrants will bring along a contact network from their country of origin and Rauch and Trindale (1999) have found that the network for many ethnic groups living outside their countries of origin will act as a catalyst. Once settled in the host country, they create formal or informal associations to which

coethnic businesspeople from both the host countries and the home country have access and will serve as nodes for information exchange, thus leading to ease the decision to export.

In addition to the contact network, immigrants will also bring with them a better knowledge on the culture of conducting a business in their home country. They will more likely be in a better position to understand the bureaucracy and way of doing business in their country of origin, as well as the language, if it differs from the host country. Consistent with other research done in the social network field, Ellis' (2000) findings support the hypothesis that knowledge of foreign market opportunities is commonly acquired via existing inter-personal links rather than collected via market research. As immigrants rely on their home-country connections as well as co-ethnic network and clientele, Wang and Liu (2015) found that immigrant might have a natural propensity to internationalize in their businesses practices, as their natural linkages with their home countries work as a bridge leading their businesses to the transnational markets. They also found that US-born Asian owned firms and firms with Hispanic and mix-racial ownership are more likely to have transnational activities than US-born while owned firms.

In Canada, using the Canadian Employer–Employee Dynamics Database² (CEEDD), Fung et al. (2019) have found that the information effect, which is represented as ‘the impact of immigrants’ knowledge about their source countries and their co-ethnic networks’, can reduce transaction costs and facilitate trade. They were also able to establish that immigrant-owned enterprises trade more intensively and that the total value of trade and the number of products (the extensive margin), as well as the average value per product (the intensive margin) are all higher for immigrant-owned enterprises than among Canadian-born enterprises. In addition to the contact network, we identified other characteristics that will lead a firm to internationalize. In the following sections, we will focus on the sector in which SME operate, and the region where they export.

Export-intensive sectors

Certain sectors of the economy are more conducive to exports as reported in a previous paper done by the Office of the Chief Economist (*Official-Language Minority Communities in Canada, January 2020*). The export intensity by sector has been analyzed using two reports from the Conference Board of Canada: “*What are the business characteristics of Indigenous exporters in Canada*” by Fiser, Adam, 2018 and “*Who has been left out of trade’s benefits*”, by Palladini, Jaqueline and Goldfarb, Danielle, 2018 that established the percentage of incomes that come from exports by Canadian firms. A previous paper done by the Chief Economist Office (*Official-Language Minority Communities in Canada, January 2020*) set the high-export intensity threshold to be 19% or more.

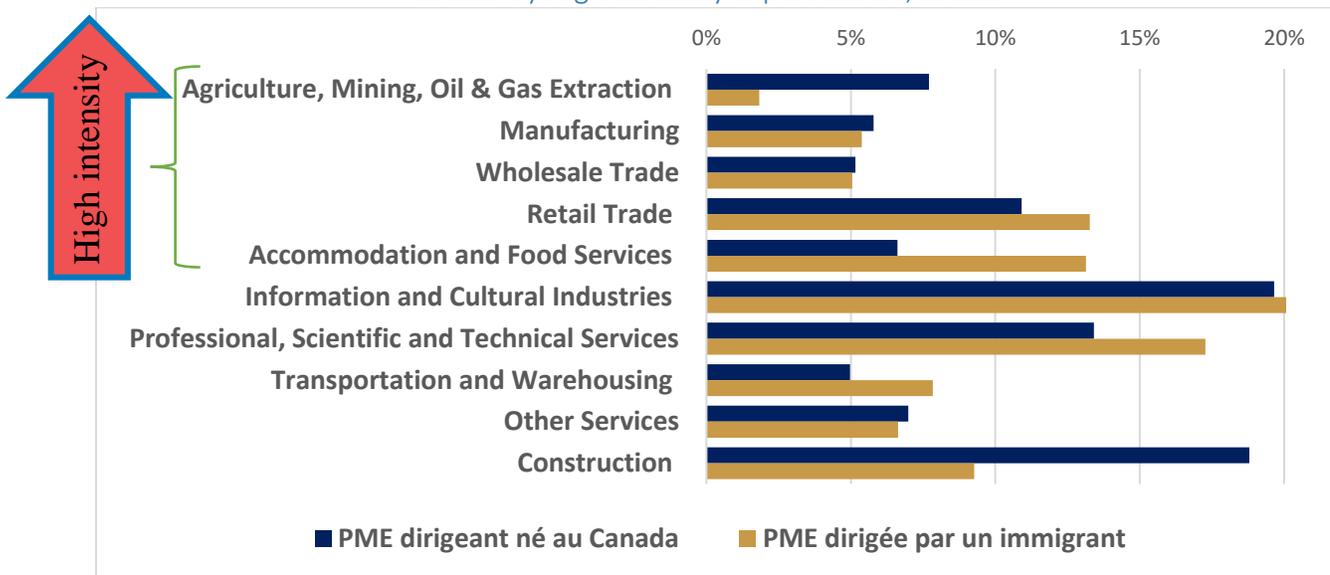
High-Intensity Export Sectors	Export Intensity
Agriculture, Mining, Oil and Gas Extraction	9.5% to 99%
Manufacturing	12.5% to 98.4%
Wholesale Trade	61.7%
Retail Sale Trade	61.7%
Accommodation and Food Services	19.3%

² Longitudinal administrative database of employers and employees, Statistics Canada, from 2001 to 2016.

Using the data from the Survey, we established that in 2017, in Canada, 38.7% of immigrant-led SMEs operated in the five highest export-intensive sectors, a modestly higher proportion than the 36.2% for Canadian-born led SMEs. Immigrant-led SMEs, however, are twice as likely to be operating in the Accommodation and Food Services sector in Canada, 13.1% operating in this sector, compared to 6.6% for Canadian-born led SMEs (Figure 3), this sector is among the lowest of the export-intensive sectors estimated at 19.3% in terms of export intensity.

Immigrant-led SMEs have also shown a higher presence in the Retail Trade sector, estimated to be 61.7% export-intensive, with 13.3% currently operating in that sector, compared with 10.9% for Canadian-born led SMEs. Immigrant-led and Canadian-born led SMEs are almost equally present in the export-intensive sectors Manufacturing and Wholesale Trade.

Figure 3 – Distribution of Immigrant-led and Canadian-born led SMEs, ranked by High-Intensity Export Sector, in 2017



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017 AND EXPORTS REVENUES BY THE CONFERENCE BOARD OF CANADA.

The Agriculture, Mining, Oil and Gas Extraction is the sector with the highest export-intensive value, and the presence of Canadian-born is much stronger than that of immigrants, with 7.7% of them operating in this sector, compared with 1.8% of immigrant-led SMEs.

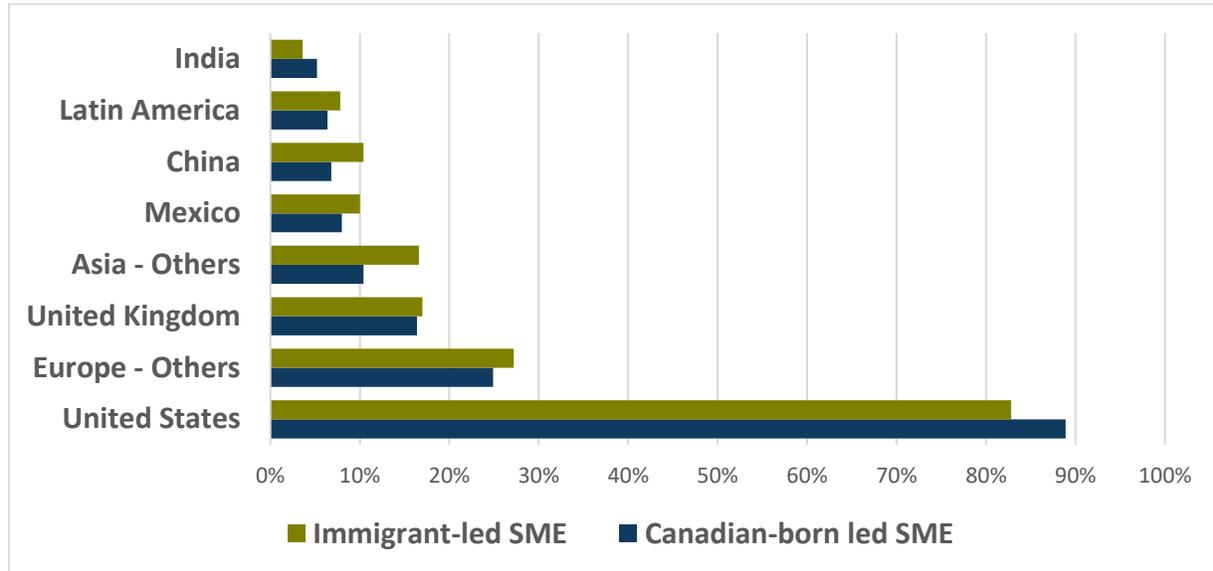
Although the analysis of export-intensive sectors indicated an advantage in favour of immigrant-led SMEs, their advantage is marginal and a larger proportion of Canadian-led SMEs indicated that they operate in the most export-intensive sector, the Agriculture, Mining, and Oil & Gas Extraction. On the other hand, immigrant-led SMEs are twice as likely active in the Accommodation and Food services sector, but this sector, in comparison, has shown to be of a lower export-intensity.

Countries / Regions where Canadian SME export

In Canada, in more than one study done over the last decades, it has been demonstrated that the presence of immigrants has a positive and significant effect on Canada’s trade with the regions of origin of immigrant owners but the effect with all partner regions is rather insignificant

or small on average. (Fung et al., 2019). In a previous study done in 1998 by Head and Ries and using Canadian trade with 136 partners from 1980 to 1992, in an augmented gravity equation, they established that a 10 per cent increase in immigrants is associated with a 1 per cent increase in Canadian exports to the immigrant's home country and a 3 per cent increase in imports.

Figure 4 – Propensity to export, by country or region for Immigrant-led SMEs and Canadian-born led SMEs, in 2017



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017.

Immigrants tend to export more to their home country as their knowledge of the market and the language will ease the transactions. The majority of studies agree that immigrant-owned enterprises trade more intensively, that the total value of trade, the number of products and the average value per product are all higher and the effect is more pronounced for the region of origin of immigrant owners (Fung et al, 2019).

From the Survey, we identified that immigrant-led SMEs, in Canada, export in a higher proportion to almost all regions/countries of the world, except for the United States and India (Figure 4). It is not surprising that Canadian-born Lead SMEs are more likely to export to the United States, as many people born in Canada will have significant exposure to U.S. culture, norms, legal system, etc., and will find this the most similar market to Canada, in addition to being geographically close. However, how can we explain the fact that more Canadian-born led SMEs export to India than immigrant-led SMEs?

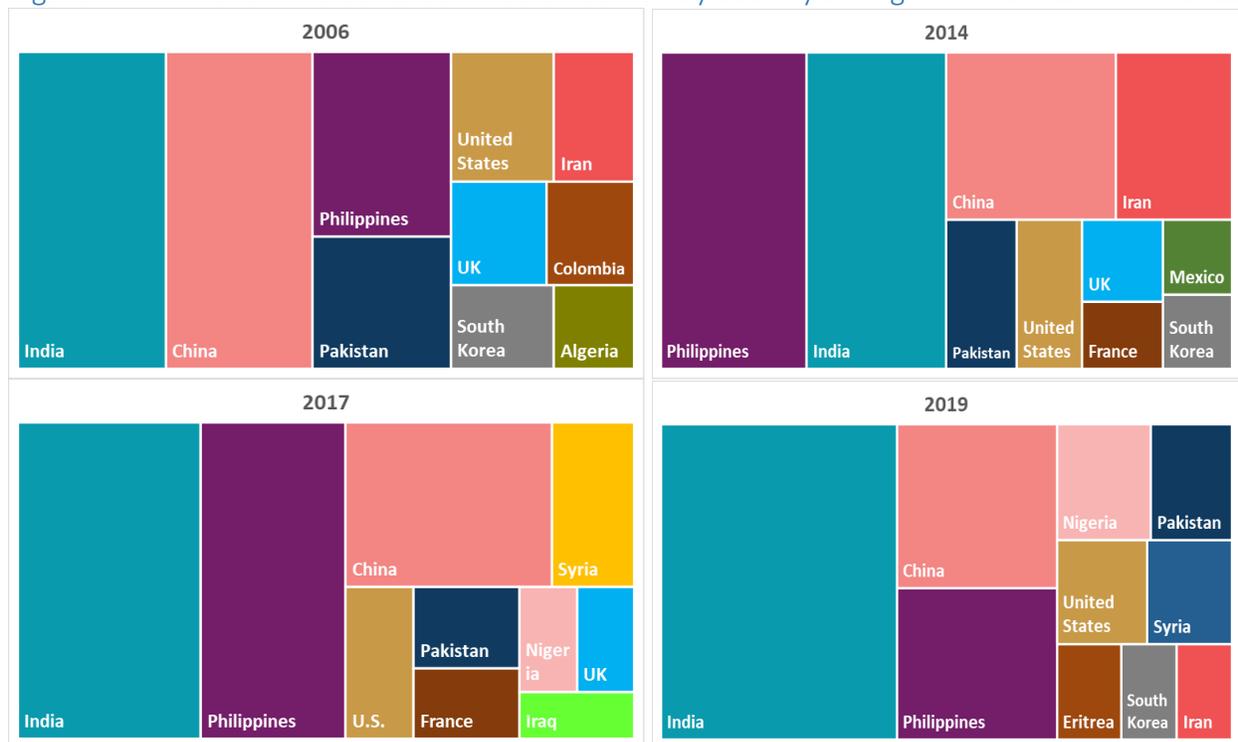
Origin of immigrant population in Canada

The survey indicated that 5.2% of Canadian-born led SMEs export to India, compared to 3.6% of immigrant-led SMEs. Is it possible that this phenomenon could be related to the successive waves of immigration to Canada and their likelihood of becoming an entrepreneur? Using the archived annual IRCC updates, and subsequent monthly updates³, which show the annual

³ Immigration, Refugee and Citizenship Canada. Facts and Figures 2015 to 2017: Immigration Overview - Permanent Residents - Annual IRCC Updates. And: Open Government, Permanent Residents – Monthly IRCC Updates.

number of permanent residents who have been admitted to Canada, we have found that India has always been an important source country for immigrants (Figure 5). From the early 1980s to the mid-1990s, India has continuously been among the top five countries of origin for new permanent residents admitted into Canada.

Figure 5 – Permanent residents admitted to Canada by country of origin between 2006 and 2019



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM DATA OBTAINED FROM IMMIGRATION, REFUGEES AND CITIZENSHIP CANADA, OPEN DATA, 2015, 2020

In 1996, India became the second largest country and by the early 2000s, it constituted the largest group of permanent residents admitted in the country. One possible hypothesis would be that the second generation, born in Canada but to parents of Indian origin, are also entrepreneurs and continue to export to their parents' country of origin. The results obtained by Green et al. (2016), reinforce that hypothesis. Of all the private incorporated businesses whose owners were immigrants in 2010 (Statistics Canada dataset's CEEDD), the largest group of owners were of Indian origin. Furthermore, Abada et al. (2012), as well as Hou and al. (2011), have studied the second-generation phenomenon and found that when controls for changes in demographic factors, the self-employment rate was about the same for the second-generation men and their fathers. This suggest that the second generation of immigrant entrepreneurs are as likely as their parents to become entrepreneurs.

Arcand, S. (2008) has interviewed second-generation of immigrants who's parents owned a business in Montreal and he arrived at a series of observations: the values of honesty, hard work and ambition promoted by their parents who owned a business were sources of inspiration for the second generation and led them to eventually taking over the business or starting up their own. The country where their parents immigrated, here Canada, is seen as a land of opportunity for many, and the decision to take over the business will depend, to a certain extent, on the type of business owned by the parents.

Export propensity to China, the third country of origin of newly admitted permanent residents in Canada between 2014 and 2017, is higher for immigrant-led SMEs (10.4%) than for Canadian-born led SMEs (6.8%). In the study by Rauch and Trindale, which established a causal link between the degree of export and the network with the immigrants home-country, it had also been determined that for products that have an established brand name within Southeast Asia, ethnic Chinese networks increase trade by over 150%. This also supports the hypothesis made in the previous section on the importance of the contact network.

Export propensity to Europe (United Kingdom and Other Europe) is high for all Canadian SMEs, while slightly higher for immigrant-led SMEs, as 27.2% of them reported that they exported to Europe (other than UK), compared with 24.9% of Canadian-born led SMEs. Many studies have focused their attention on links between immigration and exports and Peri & Requena (2009) focused on the size of the immigrant communities in Spain. Their basic assumption was that dealing with economies that have inefficient institutions, different culture and language, and where laws and regulations are not strongly reinforced would end up in very high trade costs. They analyzed whether the presence of immigrants within a firm will reduce the costs associated with exporting and they have found that for Africa, the region with the largest cultural differences with Spain and the lowest level of development, the network of immigrants have the largest effect in reducing trade costs.

They also found a correlation between the elasticity of exports and the size of the immigrant community by analyzing the export effect of immigrants in earlier years, when the immigrant communities were very small in Spain, versus later years. Their results show that the elasticities tend to be larger in provinces with higher immigrant density and in the later period. The effect of immigrants on exports was significantly larger in the later period (2002-2008), with an elasticity of total effect equal to 0.20 than earlier, which elasticity of total effect was 0.085. This may help explaining why Canadian SMEs' exports to Europe is high, as this group pertains to the third and fourth wave of immigration into Canada that started in 1890 and following the Second World War, making it one of the largest and oldest group admitted to Canada. The larger the group, according to Peri & Requena, the higher the elasticity (probability) of exporting.

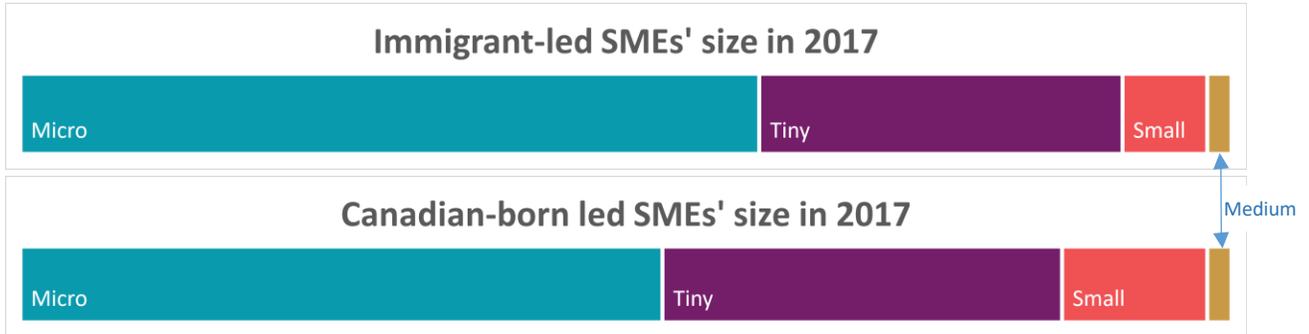
Export propensity to Latin American countries has proven to be rather low and reached 7.8% in the case of immigrant-led SMEs, compared with 6.4% for Canadian-born led SMEs. Exports to Mexico is just slightly higher, respectively at 10 and 8%. Exports to other Asian countries (except India and Japan), is much higher for immigrant-led SMEs (16.6%) than Canadian-born led SMEs (10.4%). Pangarkar (2007) has determined that SMEs seem to focus on attractive environment, especially in terms of growth rate. The growing influx of immigrants from Asia, combined with that region's economic performance over the last decade, might have enhanced the desire of immigrant from that region to do business with their region of origin. Other considerations can influence a firm's ability to export, and we analyzed whether firm size can be a determining factor in this regard.

Size of SME

Most studies found a positive relationship between firm size and export intensity (O'Rourke, 1985; Wagner, 1995; Majocchi et al., 2005), although some other studies did not come to that conclusion (Iyer, 2010). Larger firms tend to be more productive, making them more competitive internationally. They may also have more financial/human resources at its disposal and lead to increase opportunities to expand, thus export abroad. Despite this relationship between firm size and exporting, we have found that in 2017, 60.8% of immigrant-led SMEs reported running a microenterprise (1 to 4 employees) compared with 52.9% for their Canadian counterparts.

Canadian-born leaders reported a higher proportion when it comes to tiny (5 to 9 employees), small (20 to 99 employees) or medium firms (100 to 499 employees) – Figure 6. It is thus extra noteworthy the increased likelihood of exporting given the relatively small size of immigrant-led SMEs.

Figure 6 – SME size, Immigrant and Canadian-born led SMEs in Canada, in 2017



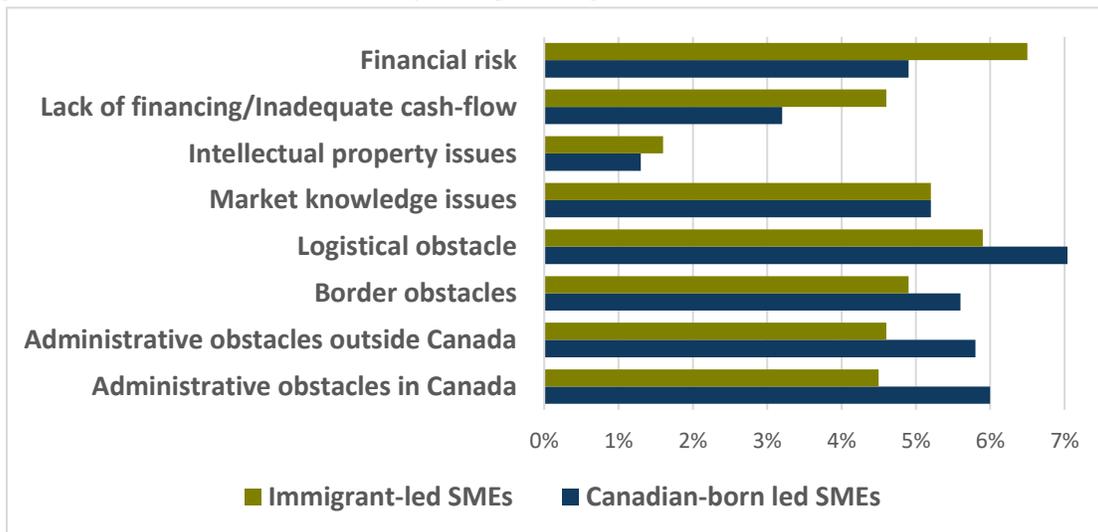
SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017.

Green et al. (2016) have also found that among the 2000 entering cohort that own a private incorporated business, the immigrant-owned businesses are mostly small, although the size will increase slowly as the cohort ages. Picot and Ostrovsky (2017) have established that immigrant-owned private incorporated companies tend to be smaller than those owned by Canadian-born, employing on average four paid workers, while the average is seven for Canadian-born private incorporated owned companies. If Canadian-born led SMEs are larger, in size, why do they tend to export less?

Reasons for not exporting

Although the main reason mentioned for not exporting, by both immigrant and Canadian-born led SMEs is the local nature of business, there are differences among the other reasons to explain why they do not export (Figure 7).

Figure 7 – Main reasons for not exporting, Immigrant and Canadian-born led SMEs, in 2017



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017.



Broadly, Canadian-born led SMEs identify issues directly related to exporting as being more important than do immigrant-led SMEs. For example, the most cited barrier noted by Canadian-born SME leaders at 7.1% was logistical obstacles. Canadian-born SME leaders were also more likely than immigrant SME leaders to mention that border obstacles and administrative obstacles (bureaucracy), in Canada and outside Canada, refrained them from exporting. Interestingly, a similar proportion of Canadian-born and immigrant-led SMEs market knowledge issues as a reason for not exporting. On the other hand, immigrant-led SMEs were more likely to cite what might be considered broader obstacles to growth as their primary reason for not exporting. The financial risks was the main reason given by immigrant SME leaders for not exporting, in 6.5% of cases, followed by the lack of financing (or cash-flow) in 4.6% of cases. This is also notable given the previous finding that immigrant-led SMEs are smaller on average than their Canadian-born led counterparts.

Growth in Canadian SME that export

We calculated that globally, between 2014 and 2017, the number of SMEs that export, in Canada, increased by 17.2%. There is, however, a stark difference in growth between immigrant-led SMEs and Canadian-born led SMEs. The number of SMEs that export and that are led by an immigrant grew by 26.5% over 2014-2017, compared to 13.7% in the case of Canadian-born led SMEs, during the same period, an increase almost twice as large (Figure 8).

Figure 8 – Increase in the number of SME Exporters, Immigrant and Canadian-born led SMEs, between 2014 and 2017



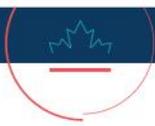
SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2014 AND 2017.

Not only the proportion of increase of SME that export was significantly more important in the immigrant-led group, the increase in the number of SME that were created during that period was also more important among the immigrant-led SME than Canadian-born led SMEs.

SME increase in Canada

The share of SMEs owned by immigrants has increased in recent years: Between 2014 and 2017, the number of immigrant-led SMEs increased by 24.7%, significantly outpacing the increase in Canadian-born led SMEs, at 15.8%. Combined with the previously observed trend, this suggests that immigrant-led SMEs increased their export propensity while Canadian-born led SMEs export propensity decreased somewhat.

Green et al (2016) have studied the cohort of immigrants who landed in 2000 and who filed a tax return at any time between 2001 and 2010. They have found that the tendency of immigrants to own private businesses surpasses that of the Canadian-born population after they have been in Canada for a decade, as immigrants improve their knowledge of the means of financing, the business networks and increase asset accumulation. Considering that assertion, we have pushed further this assumption: if immigrants tend to own private businesses in a higher proportion than the Canadian-born population when they have been in the country for a decade or more, would we be able to identify a trend by comparing the cohorts of immigrants who landed in Canada by their respective immigration category?



Since the 2016 Census, it is possible to classify immigrants admitted to Canada, since 1980, by their respective admission category. In Canada, immigrants are selected based on three main objectives: to enhance and promote economic development; to reunite families; and to fulfill the country's international obligations and uphold its humanitarian tradition (the Refugees) (Statistics Canada).

Between 1980 and 1999, on average, nearly one out of five immigrants was admitted through the Refugee category (Figure 9). Thereafter, the admission of Refugees started to decline, in favour of immigrants from the Economic category. Between 2011 and 2016, on average, 59% of immigrants came to Canada through the Economic category, an increase from 38.1% in 1980. 2016 being an exception due to the large number of Syrian immigrants admitted in Canada for humanitarian reasons.

Figure 9 – Distribution (in percentage) of immigrants in Canada, by admission category and year of immigration

Immigrants living in Canada, by admission category and year of immigration				
	Economic immigrants	Immigrants sponsored by family	Refugees	Other immigrants
1980	38.1	33.2	28.4	0.2
1990	41.4	34.5	23.2	0.9
2000	56.5	29.1	14.2	0.2
2010	65.2	23.9	9.7	1.2
2011	62.2	25.1	11.3	1.3
2015	60.5	25.5	12.6	1.4
2016	50.6	24.1	24.1	1.2

SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, CENSUS OF POPULATION, 2016.

In 2017, 25% of SMEs in Canada were led by an immigrant

Office of the Chief Economist, Global Affairs Canada, 2020

Economic immigrants have been selected for their ability to contribute to Canada's economy through their ability to meet labour market needs, to own and manage or to build a business, to make a substantial investment, to create their own employment or to meet specific provincial or territorial labour market needs. The government's policy of increasing the threshold for economic class immigrants may have had several long-term effects on the economic profile of Canadian economy, then suggesting that it resulted in a higher rate of SME start-ups in Canada over the last decades. Favoring the admission of Economic class immigrant supports findings from the Survey regarding the increase in the number of SMEs and in 2017, 1 out of 4 SME in Canada was led by an immigrant, an all-time high. Pushing further Green et al. assumption regarding the fact that

over time, immigrants improve their knowledge of the host country's way of doing business, we then focused on immigrant-led SMEs lifespan to see if they improved the average years into doing business.

SME lifespan

Many studies have established the fact that SMEs that belong to an immigrant tend to have a shorter lifespan than those belonging to native-born. We wanted to verify if this is still the case.

We know that Green et al. (2016) concluded that over time, immigrants increase their knowledge of the means of financing, and the analysis of the Survey reinforced that assumption. We identified that in 2014, 3.6% of Immigrant-led SMEs were unaware of financing sources available for the business, and that proportion decreased to 1.8% in 2017. As immigrants increase their knowledge and use of external financing, this should have an impact on the lifespan of their firm. Nevertheless, the analysis of the survey showed the opposite, the lifespan of immigrant-led SMEs has decreased over the studied period. In 2014, immigrant-led SMEs average lifespan was 15.2 years and in 2017, it decreased to 13.0 years. It should be noted that the lifespan of Canadian-led SMEs has also declined, although it is still higher than that of immigrant-led SMEs, where it stood at 17.9 years in 2017.

Would immigrants be overconfident in their potential to do business with their country of origin? Morgan et al. (2018) evaluated business-owned immigrant export in intensity and the relationship between export intensity and financial performance by focusing on overconfidence of the firm leaders, as it may alter their decision-making, thus accentuate risk-taking that brings to money-losing export activity. They have found that in practice immigrant owners can quickly evaluate the potential of a business idea and better position themselves to exploit the opportunity, hence growing faster and achieve high levels of wages. However, as they tend to perceive themselves as experts regarding international business operation, they are likely to overestimate the actual value of their human and social capital in such domain. This overconfidence may distort their judgment, accentuate risk-taking and bring to marginal or money-losing export activity and financial return may not compensate for the risks they are taking, thus leading to end their business earlier than expected.

Authors suggest that they might benefit from affordable advisory services in the host country and the Survey reinforced that assertion. Approximately 20% of immigrant-led SMEs hired an external consultant between 2014 and 2017, compared with more than 25% for Canadian-born led SMEs. According to Business Development Bank of Canada's (BDC) *5 essentials do's and don'ts of successful businesses*⁴, asking for outside advice is the second of five keys leading to success. Although it might be seen as an extra cost, immigrant SME leaders should instead see hiring an external consultant as an investment to a long-term lifespan. This also suggests that the host country could benefit from putting in place measures to assist immigrant entrepreneurs. It is notable then to remind ourselves that in identifying barriers to exporting, immigrant-led SMEs identify international challenges less-often than Canadian-born led SMEs, but identifying financing challenges as more important. This raises an important question if immigrant-led SMEs are in fact misjudging the risks linked to exporting.

⁴ The 5 do's and don't's of successful businesses, [bdc Study](#), 2014.

Technology adoption by immigrant and Canadian-born led SMEs

The survey allowed us to gather information on the level of adoption of new technologies by Canadian SMEs, more specifically on the degree of innovation, ownership of intellectual property or web site development.

Innovations

Innovation may consist of a new product or service, a product incorporating a new process or method, a new manufacturing process, new business practices or workplace organization, or even a new way of selling goods or services. Innovation has been found to be the number one key of SME successes, according to *5 essential do's and don'ts*. In 2017, 32.0% of SMEs led by an immigrant reported at least one type of innovation over the last three years, higher than 30.8% reported by Canadian-born led SMEs.

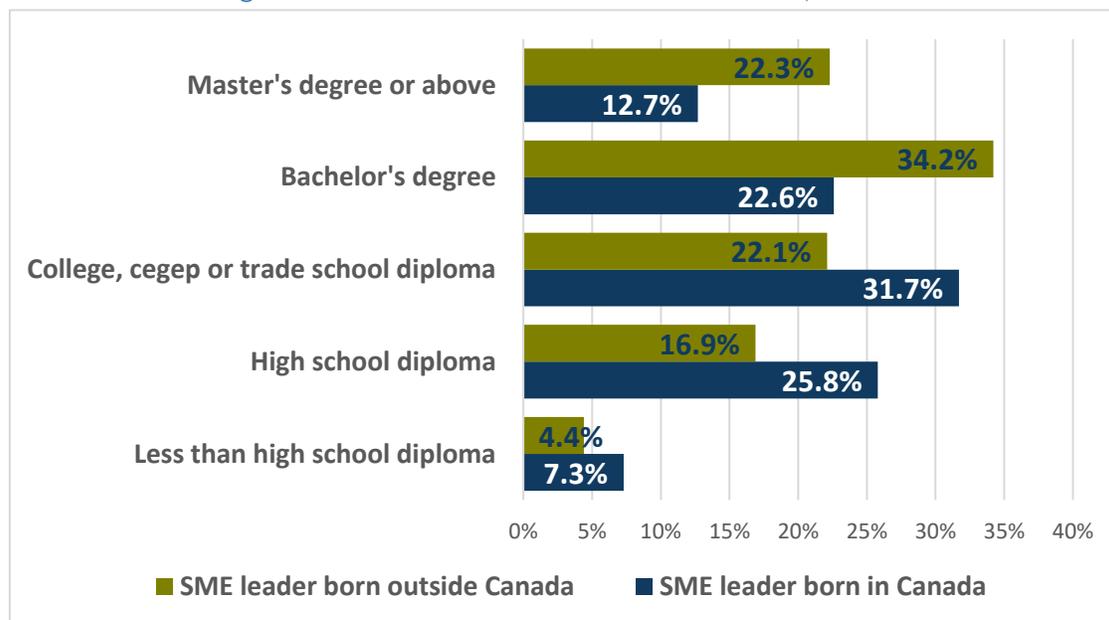
Intellectual property

Intellectual property (IP) is an important method for an innovator to realize returns on investments towards the improvement of a product or service. SME leaders were surveyed on Non-disclosure agreements, Trade secrets, registered industrial design, Patents and Registered trademarks. Again, immigrant-led SMEs reported a higher rate of holding at least one type of IP (30.1%) than Canadian-born led SMEs (25.9%).

Level of education of SME leaders in Canada

As noted earlier, policies related to immigration have evolved in recent years, both in terms of the categories of immigrants and the origins of these immigrants and we addressed another major change that occurred in 1993 with respect to immigration law. From then on, more points were awarded to immigrants with a high level of education.

Figure 10 – Level of Education of SME Leaders, in 2017



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, 2017.

While the number of annual immigrants remained at around 225,000 over the 1990s, the number of immigrants with university degrees rose from around 10,000 in the early 1980s to about 41,000 by 1995, and then it rose dramatically to about 78,000 by 2000, remaining stable after that time (Picot and Hou, 2009).

From the Survey, we observed that in 2017, compared to Canadian-born SME leaders, foreign-born SME leaders are more likely to have a bachelor's degree (34.2% vs. 22.6%), or a master's degree or above (22.3% vs. 12.7%) – Figure 10.

Green et al. (2016) have found that in Canada, immigrant with a bachelor's degree were 1.5 times more likely to be owners of private companies than immigrants with a high-school diploma or less. The probability that a company will export might be related, to a certain extent, to the owner's level of education, according to Fung et al. (2019). They have studied the immigrant-owned exporters and found that those whose owners have a bachelor's degree or above are more likely to export than those whose owners have a high school education or less and that owner with a higher level of education upon arrival are more likely to have positive effects on international trade than other immigrants are.

These figures are roughly equivalent to those obtained in the 2014 Survey and suggest that the modifications to the immigration law, that were made decades ago, brought the expected benefits to Canada. Immigrants create business, increase employment and work towards improving Canada's export capacity.

In 1993, in addition to allocating more points for education and/or economic class immigrant, emphasis was placed on the field of expertise of these immigrants, favouring those with training in IT or in engineering. Picot and Hou (2009) observed that economic class principal applicants and their spouses tend to be highly educated and, relative to the Canadian-born, are more likely to be in engineering and IT occupations.

Pangarkar (2007) mentioned that respondents in his study indicated that learning new knowledge was a key benefit of internationalization. This might suggest that owners with a higher education degree are in a better position to continue to self-learn over the years, hence increasing the probability that they will innovate and develop new products and technologies.

The OECD collects data on international comparison across EU (28), OECD countries and other selected G20 countries on the integration outcomes for immigrants and their children. A highly educated person is defined as having reached a tertiary education (ISCED Levels 5-8). Among OECD countries, Canada had reached the highest foreign-born education rate in 2017 (Figure 11).

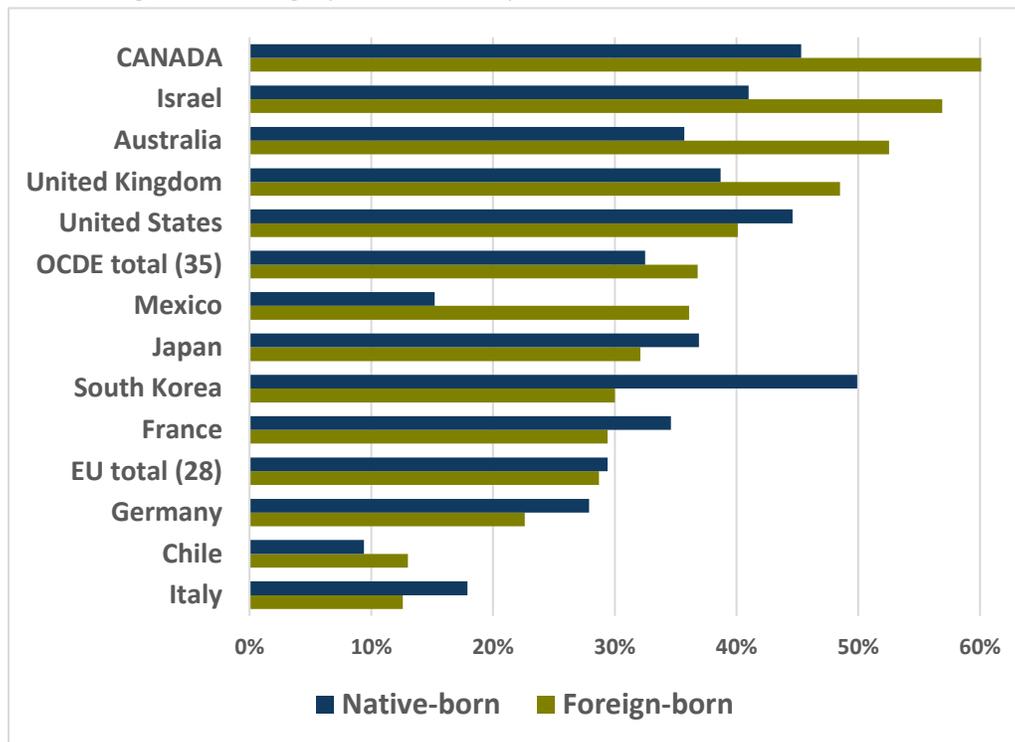
Picot and Ostrovsky (2017) took this analysis a step further in the *Immigrant Businesses in Knowledge-based Industries* by examining the role of immigrant entrepreneurs in the broader economy, and specifically in high-tech and knowledge-based businesses, using the Canadian Employer-Employee Dynamics Database. They found that 13.2% of private incorporated businesses owned by immigrants were located in the knowledge-based industries compared with 11.1% for Canadian-born.

Immigrant with a bachelor's degree are 1.5 times more likely to be owners of private companies than immigrant with a high-school diploma or less.

Immigration, Business Ownership and Employment in Canada. 2016

Green et al. Statistics Canada

Figure 11 – Highly Educated Population in OECD countries, 2017



SOURCE: OECD, SETTLING IN 2018, INDICATORS OF IMMIGRANT INTEGRATION

Looking closer at the economic class immigrants, while they were about as likely as the Canadian-born to own a private incorporated business, they were 1.8 times as likely to own a company in Science and technology-related field, and 2.0 times as likely to own a company in Engineering and IT.

In the United States, Hart et al. (2011) found that 16% of high-impact, high-tech firms in the U.S. have at least one immigrant founder. In San Francisco's Silicon Valley, in 2012, Chinese or Indian immigrants ran 43.9% of all high-tech firms (Yiang Liu et al, 2014).

Website

Owning a website is generally recognized as important for increasing sales, both locally and internationally. And although immigrant-led SMEs seem to be more innovative than Canadian-born led SMEs, the survey showed that a higher proportion of Canadian-led SMEs have a website, 54.9%, than immigrant-led SMEs, 49.5%.

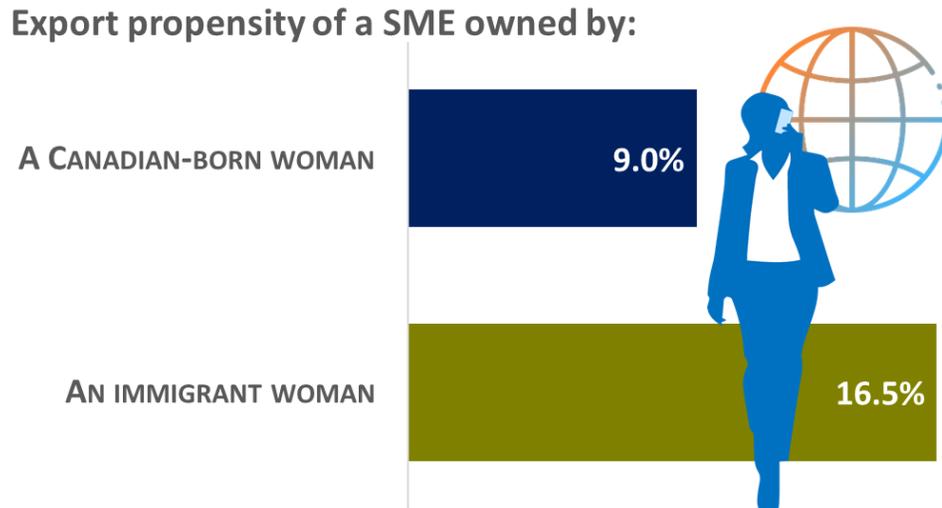


The export propensity of Immigrant and Canadian-born Women-owned SME in Canada

In 2017, there were additional questions introduced in the Survey that allowed for the calculation of the export propensity for women that own⁵ a SME and that are born in Canada or outside Canada. While in 2017 the overall export propensity for Canadian SMEs stood at 11.7%, SMEs owned by a woman born in Canada has been found to be lower than the overall rate, at 9.0%, while the export propensity for women that own a SME and that are born outside of Canada, reached 16.5% (Figure 12).

Not only the export propensity related to immigrant women-owned SME is higher than the overall export propensity, it is also nearly twice the rate than Canadian-born women-owned SMEs. On top of all the above analysis, other characteristics of immigrant women and entrepreneurs may help explaining this phenomenon.

Figure 12 – Immigrant and Canadian-born Women-owned SME Export propensity, in 2017



SOURCE: OFFICE OF THE CHIEF ECONOMIST, GLOBAL AFFAIRS CANADA USING DATA OBTAINED FROM STATISTICS CANADA, SURVEY ON FINANCING AND GROWTH OF SMALL AND MEDIUM ENTERPRISES, SPECIAL FEATURE, 2017.

On one hand, many studies have reported that women (both born in or outside Canada) will tend to be involved in services sectors such as fashion, beauty, or sewing, which are less export-intensive, as reported in Bélanger-Baur (2019). What distinguishes immigrant women from women born in Canada is the fact that they first start to capitalize on the co-ethnic market (Zhou, 2004). When they start their business, perhaps in search of a “niche”, or because of their knowledge of ethnic products or services, immigrant women will tend to offer goods or services that originate from their home country. Their clientele, mostly other immigrants, as reported by Zhou, 2004, will provide a homogenous market of well-understood customers with common beliefs and needs that can be capitalized on. Over time, they will expand their knowledge of the host-country, to achieve multicultural competence involving knowledge of both the co-ethnic market and the host country market (Essers & Benschop, 2007, 2009).

⁵ Ownership is defined as holding 51%+ of a firm.

They will thus broaden their customer base to serve both clients born inside and outside Canada, leading to own larger firms than their Canadian-women counterparts do. Many studies done on the subject have proven that larger firms lead to export more, which might explain why immigrant-owned SMEs have a higher rate of export. Female immigrant entrepreneurs will, as reported by (Collins & Low, 2010), capitalize on networks and resources from the country of origin to engage in import or export of goods or services. Or they will proceed to overseas investments in office, plant and machinery or direct management, marketing or technical support given to the overseas local agents or overseas suppliers. These women are identified as being “*transnational entrepreneurs*” (Essers & Benschop, 2007).

CONCLUSION

Canada is one of the countries comprising one of the highest proportions of immigrants in the world and we undertook this paper in order to compare the characteristics of Canadian SMEs led by immigrants and Canadian-born. As a trade entity, our goal was to inquire the extent to which having immigrant-led SMEs would improve Canada’s export capacities and a detailed examination on SMEs characteristics in Canada has led to a number of conclusions and trends.

One of the most compelling findings was to find that the ability to export to foreign markets, which is defined as the export propensity, is much higher for immigrant-led SMEs than their Canadian counterpart, amounting to 14.3% compared with 10.8%. From the extensive literature, this might lie in the extensive contact network of an immigrant from its birth country. Furthermore, our analysis has showed that immigrant-led SMEs tend to operate, in a larger proportion, in high-intensive export sectors and the analysis of exports by regions/countries has also given some advantage to immigrant-led SMEs, where they outnumbered Canadian-born led SME in most regions/countries.

We also found that over the last three years, immigrant-led SME Exporters increased in a much higher proportion than Canadian-born led SME Exporters, an increase that reached 26.5% compared with only 13.7% for their Canadian counterparts. We made assumptions that this might be related to the category of immigrants that were admitted into the country, as Canada has turned to favour economic class immigrants relative to other categories, such as the refugees or immigrants sponsored by family. On the other hand, we noted that immigrant-led SMEs continue to be smaller, in size, than Canadian-born ones and the expectation relative to lifespan is still lower.

Another significant finding was made when comparing the export propensity of women-owned SMEs by immigrant and by Canadian-born. Immigrant women-owned SMEs, in Canada, export nearly twice as more as Canadian-born women-owned SMEs. In regards to technology adoptions, immigrant-led SMEs have a higher tendency to innovate and get IP protection than their Canadian counterpart, although they were less numerous to claim having a website. The fact that immigration law has been modified to favour immigrants with training in IT or in engineering might explain why they will more likely be involved in a high-technology sector.

Finally, we assessed that government’s immigration policies may have long-term effects on the economic profile of a country. In Canada, the admission of immigrants answers to strict criteria’s and by choosing the country of origin and the category of the immigrants, Canada has favoured the admission of a highly educated immigrant-population. It seems that the second generation, born of immigrant-entrepreneur, will choose to continue the legacy and run or start a business, paving the way to increase Canada’s export capacities.

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