How Does Canada's Official Development Assistance Affect Its Exports?⊥

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Context

This policy brief highlights the main findings of an empirical study (Samy and Wu, 2026) commissioned by Cooperation Canada⊥. The empirical study examined the relationship between Canada's bilateral Official Development Assistance (ODA) and its exports, updating a previous analysis conducted by Bhushan and Siauw-Soegiarto (2017). This update is timely given growing interest in a trade-development nexus (TDN) in Canada (Tomlinson, 2026) and other donor countries. In the Canadian context specifically, much of the discussion around ODA in recent months has been focused on mutually beneficial partnerships at a time when the aid budget is being cut and increasingly privatized (Samy, 2026). The current government has also set a goal of doubling its non-US exports by 2035 (Government of Canada, 2025).

To be sure, Canada's international engagement reflects a longstanding commitment to advance its values and interests through diplomatic engagement, expansion of commercial relationships and international development programming. The latter, through ODA, can serve as a highly effective tool of Canada's soft power. While much of the existing literature has focused on the impact of aid on recipient countries, relatively few studies examine its effects on exports of donor countries (e.g. Bhushan and Siauw-Soegiarto, 2017, for Canada; Nowak-Lehmann et al., 2009, for Germany). In the Canadian context, this study therefore fills an important knowledge gap.

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Aid and Exports

Empirically, several mechanisms may underpin a positive relationship between ODA and exports. For example, aid can relax supply-side constraints in recipient countries by improving infrastructure, strengthening institutions, and fostering human capital development, thereby increasing their capacity to import from donor countries. Aid can also help build relationships, improve our understanding of how to operate in foreign markets, reduce informational and transaction barriers faced by Canadian firms, ultimately deepening diplomatic and commercial ties that facilitate market access.

Estimation Strategy

To examine the relationship between bilateral Canadian ODA and its exports, we estimate a gravity model using data on all recipients of Canadian aid over the period 1989 to 2024. The gravity framework, which relates bilateral trade flows to economic mass and trade costs, provides a well-established foundation for analyzing trade determinants and for incorporating policy variables such as aid flows. By exploiting variation across country pairs and over time, we identify whether, and to what extent, Canadian aid is associated with subsequent export performance, controlling for standard factors such as GDP, distance, and other bilateral characteristics. At the same time, concerns about reverse causality and omitted variable bias underscore the need for a careful empirical strategy, which the gravity model and our data structure help address by including country fixed effects (that is, different country characteristics) and time-varying controls (that is, variables that change over time within countries).

We thus estimate the following equation:

$$lnX_j = \beta_0 + \beta_1 lnGDP_{CA} + \beta_2 lnGDP_j + \beta_3 lnPop_j + \beta_4 lnDist_{CAj} + \beta_5 FTA\_TWO_{CAj} + \beta_6 ComLeg_{CAj} + +\beta_8 ODA_j + \varepsilon \qquad (1)$$

where:
X_j denotes Canada's exports to country *j*.
GDP_{CA} denotes the GDP of Canada.
GDP_j denotes the GDP of country *j*.
Pop_j denotes the size of the population of country *j*.
$Dist_{CAj}$ denotes the population-weighted distance between Canada and country *j*.
FTA_WTO denotes whether country *j* is a signatory FTA partner (1 = yes).
$ComLeg_{CAj}$ denotes whether Canada and country *j* share the same legal system (1 = yes).
ODA_j denotes the ODA disbursement to country *j*.

Main Findings

1) When we replicate the estimations conducted by Bhushan and Siauw-Soegiarto (2017) using data from 1989-2015, we are able to confirm the positive and statistically significant relationship between ODA and exports which they found in their study. However, this result does not hold when we improve the estimation strategy and update the analysis to include more recent data until 2024. We argue that this difference is partly the result of more aid being directed to low-income and fragile contexts in recent years – specifically during the 2020-2022 pandemic years – and weak purchasing power and limited demand for Canadian imports in these countries.

2) Our calculations indicate that the percentage of gross or net bilateral ODA from Canada to fragile countries peaked over the period 2016-2022, ranging from 69 to 74 percent. It should be noted that Canada's Feminist International Assistance Policy (FIAP) was also implemented as of 2017, which included a target of 50% of bilateral development assistance to sub-Saharan Africa. Furthermore, the fact that partner countries' GDP explain less of the variation in Canadian exports in recent years is an indication that Canadian export growth is increasingly being decoupled from growth in partner countries and is being crowded out by competing interests or cheaper alternatives (e.g. China for infrastructure and consumer goods).

3) To improve our estimates, we then control for both the unique histories of each country and global time shocks such as the 2008 financial crisis and the Covid-19 pandemic. We also considered lagged values of ODA, removed outliers on both ODA and exports, and excluded countries that received zero ODA from our analysis. For the 1989-2024 period, we find that net ODA has a positive and significant impact on exports after 4- and 5-years. **Every $1.00 of net ODA translates to an expected increase of Canadian exports of $0.04, but 4- and 5-years later**. These improved estimates yield positive but lower impacts on exports than previously reported (Bhushan and Siauw-Soegiarto, 2017) because of the growth decoupling mentioned above.

4) In fact, when we estimate equation (1) over different time periods, without removing outliers and without filtering the data, we find a positive and significant impact of net ODA after 3- and 4- years for the period 1989-2015 but a negative effect over the entire period (1989-2024). This confirms the unusual post-2015 period characterized by several endogenous shocks and change in Canada's aid policy.

5) When we segregate the data by income classification, we find that ODA had a positive and significant impact for Lower-Middle-Income Countries (LMICs). **Specifically, $1 of net bilateral ODA is correlated with a $0.02 increase in Canadian exports from 1989 to 2015 after 1- and 2-years. It is also correlated with $0.07 and $0.09 increase in Canadian exports, after 2 years and one year respectively, during the full period (1989-2024)**.

However, the relationship is inconsistent and insignificant for Low-Income Countries (LICs) and Upper-Middle-Income Countries (UMICs).

6) Overall, based on 3), 4) and 5), we do not find a significant contemporaneous relationship between ODA and exports. However, the relationship is positive and significant when we use lagged ODA. **This is in our view more realistic because we would expect ODA spent today to have an impact on exports a few years later, as opposed to an immediate impact.** The latter is only possible if we tie aid, which is a practice that Canada abandoned over a decade ago because of its inefficient nature.

7) Our examination of how countries move from "low and high" aid and trade categories over time shows an increasing occurrence of developing countries being stuck in some categories (e.g. high aid/high trade and high aid/low trade) in the post-2015 period than previously. We argue that this is partly due to a very uncertain post-2015 period that included the pandemic and geopolitical shocks, namely Russia's invasion of Ukraine and the resulting supply chain disruptions.

8) Finally, even if this was not the main objective of the study, our preliminary estimates indicate a higher impact for targeted aid. Specifically, **every $1 spent on Aid for Trade (AfT) generates over $14 of Canadian exports after 3 years and over $6 after 4 years (but statistically significant only for the former)**. Part of the explanation may be because of the way AfT is defined, but it does indicate the need for more research to verify the robustness of this finding. More importantly, this result would seem to indicate that targeted aid (in this case, AfT) can have a higher impact on our exports, short of tying aid directly.

Policy Implications

One way to think of Canada's international assistance is as a diversified portfolio where different instruments serve distinct purposes. Within that portfolio, ODA can be used as a commercial lever for mutually beneficial partnerships, but this should not be at the expense of ODA's core mandate, namely poverty reduction. From a trade perspective, the simple fact is that some countries, for example, low-income and/or fragile countries, may not be trade-ready so that ODA is needed to build the necessary soft and hard infrastructure for these countries to develop the sectors that can lead to mutually beneficial trade with Canada. In such cases, it would be unrealistic to expect ODA to be significantly correlated with exports. Yet, there are other countries where such opportunities already exist and could either be amplified, or could be developed, with the help of international assistance.

The statistical findings that we presented in this brief, and the accompanying study, reflect this structural reality: because Canadian ODA is deployed across a complex portfolio that prioritizes diverse partnerships and local agency, the aggregate linkage between ODA and Canadian exports naturally exhibits weaker, mixed correlations. A legally mandated, or informal, linkage between ODA and commercial interests would increase the likelihood of one-sided positive results between bilateral ODA and exports. The mixed outcomes that we observe are instead an empirical reflection of ODA's broader, multi-mandate approach.

Modern ODA operates as a strategic investment in global resilience rather than a blunt commercial export driver. While it funds vital capacity-building in vulnerable regions, ODA can effectively support Canada's long-term diplomatic and commercial interests, *provided that expectations are clearly differentiated by funding instrument, project types, country context, and time horizon*. In an interconnected global economy, retreating from international assistance amplifies systemic risks and exposes domestic markets to severe downstream disruptions from unforeseen social, political, or economic shocks (as demonstrated by the COVID-19 pandemic). Therefore, maintaining these targeted investments serves as a necessary buffer against global volatility, securing varied partnerships and win-win outcomes over the long term.

Ultimately, we must ensure that poverty-focused and humanitarian assistance are protected, while using more targeted support where genuine opportunities for mutually beneficial trade exist.

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