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Contributors

John McNally
Senior Policy Advisor
Scotiabank Economics
416.869.2801
john.mcnally@scotiabank.com

With research assistance from:
Neha Sarraf
Economic Analyst
Scotiabank Economics
416.869.2695
neha.sarraf@scotiabank.com

Eager Beavers: What Trade-Enabling Infrastructure Does Canada Need to Diversify Its International Clientele?

DIVERSIFYING GOODS TRADE TOWARDS OVERSEAS MARKETS WILL REQUIRE RETHINKING (AND RESHAPING) CANADA'S CURRENT TRADE INFRASTRUCTURE

- **Canada wants to diversify trade flows in the face of US protectionism. Doing so could bolster investment, and connect firms with overseas markets that demand the goods Canada can supply.**
- **Yet this shift will not be easy, fast, or cheap. With over 70% of goods leaving the country shipped by road, rail or pipeline, Canadian trade is deeply integrated with the US.**
- **Redirecting trade flows would require reshaping trade networks. Our analysis shows that for every 10% share of trade currently that gets redirected from the US elsewhere, the share of goods leaving the country from ports and airports increases by 5% and 3%, while the share crossing the border by road, rail and pipeline would decline by 8%.**
- **Supporting this shift means investing in marine and air infrastructure, and strengthening east-west investments in rail, road and intermodal capacity. Yet current federal spending estimates forecast road and rail to account for over 80% of infrastructure capex in the coming fifty years.**
- **A rebalanced portfolio is needed, along with increased spending. Public support (including the new $5B Trade Corridors Fund pledged by the federal government) has not been able to keep up with existing demand, let alone support growth.**
- **Tackling this issue would require private and public sector pushes to invest additional capital, advance deregulatory efforts, and overcome the inefficiencies causing national headaches.**

MORE PROACTIVE THAN REACTIVE

Canada's share of trade conducted outside the US is feeling a lot smaller than it did six months ago. As a result of recent US protectionism, export diversification—a perennial Canadian policy priority—has been thrust back into the spotlight. Policymakers have been leading the charge, with Canada's new federal government **pledging** a series of measures, including a $5B fund to build trade-enabling infrastructure and support overseas trade.

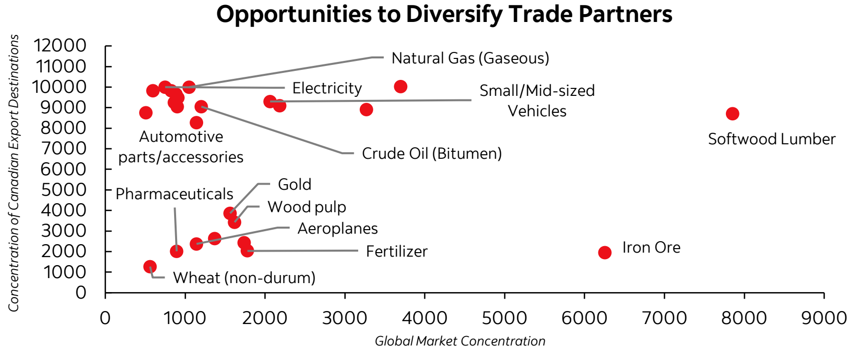
Selling more into non-US markets could resolve some challenges, but it may have little impact on near-term impacts from US protectionism. Diversification is unlikely to meaningfully reduce risk faced by the concentrated US trade relationship in the near-term. Volatility and uncertainty have so far been driven by frequent changes in trade policies that swing on a week-to-week or month-to-month basis. Selling into different markets would require investments and relationships that typically take years to bear fruit, likely offering little to offset volatility in the coming months. Expectations should also be clear around degrees of diversification sought. Given the geographic proximity of US markets, Canadian trade flows will likely remain integrated with our Southern neighbour, with diversification offering a hedge (or marginal benefits) to reduce overall risk.

This inability to redress near-term volatility may not prove immediately catastrophic, given that tariff bark has thus far outmatched bite. We calculate the current effective tariff rate on Canadian exports to the US to be roughly 4%. The Bank of Canada **analysis** estimated that economic scenarios roughly aligned with a shock of current magnitude could contract Canadian exports by 3.4% exports over the next eighteen months, and Scotiabank Economics' own analyses estimates a 4% decline by 2026. These shocks equate to roughly a $20–24B reduction in trade flows by the end of next year. This is smaller than threatened levels, and indicate the economic shock coming from reductions in exports may not be large enough to derail Canadian economic performance (barring any significant changes).

Yet the second-order effects of the trade shock—namely uncertainty brought about by trade tensions—are further dulling investment, worsening an underlying problem. Here, diversification can help. GDP data from Q1 2025 notes gross fixed capital formation declined by 3% from the previous quarter, indicating that souring business sentiment may translate into reduced capital flows. Much has been written about the need to bolster private investment in Canada, including by the Scotiabank Economics team. Commitments to grow sales in non-US markets could prove helpful for reducing US-linked uncertainty and getting capital flowing into overseas trade-linked projects. The rationale for this goes beyond hope. In chart 1, we developed an HHI index of market concentration for Canadian goods trade, which shows the diversity of both import and export markets for Canadian goods (higher figures indicate fewer producers, or a smaller number of markets demanding products). This chart shows that a wide range of international markets currently demand what Canada produces (low x-axis values), but that a number of Canadian products (i.e. autos, natural gas, crude oil, etc.) do not reach these diverse markets (high y-axis values). This implies Canadian producers likely have diverse market opportunities around the world they are not currently taking advantage of, but could. This likely remains the case despite recent trade data showing growth in exports to non-US countries, and Canada being on track to reach its 2018 Fall Economic Statement goal of growing non-US trade by 50% by 2025 (chart 2).

Chart 1

Global Demand for Many Products Exported by Canada is Diverse, Indicating Opportunities to Diversify Trade Partners



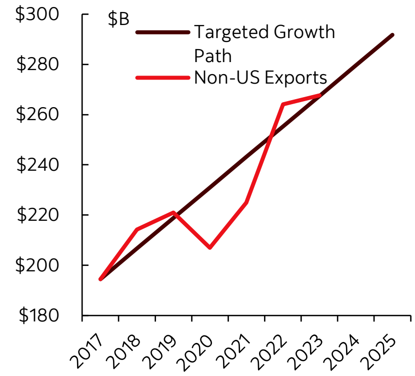
X-axis shows concentration of global markets demanding products. Y-axis shows concentration of markets Canada currently exports to. In both case, lower figures mean greater diversity, and higher figures mean greater concentration.
Sources: Scotiabank Economics, WITS.

RE-DIRECTING TRAFFIC

Meeting future diversification objectives may require changes to Canadian trade-enabling infrastructure. Trade with the US accounted for 76% of Canadian goods exports in 2024, and the country's infrastructure networks are largely designed to support exchange along this North-South corridor. Trade-enabling infrastructure in Canada is largely shaped by goods trade on land (chart 3). Road and railways accounted for 52% of overall goods exports that year, largely because they accounted for two thirds of total goods exports to the US. "Other" transport modes, which is primarily energy shipped via pipeline, accounted for a further 19% of total exports, and 25% of exports to the US. Marine and air accounted for less than 10% US-bound exports. By contrast, marine-based shipping accounted for 60% of total exports outside the US, and air freight accounted for an additional 35% (chart 4). Given that only one other country is

Chart 2

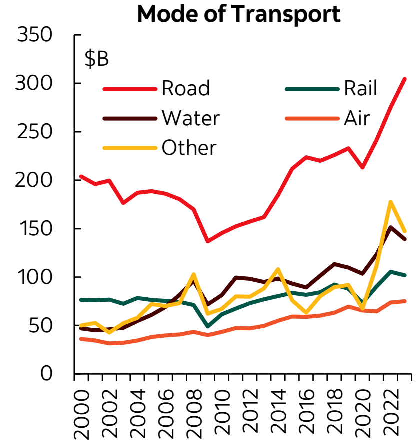
Canada On Track To Meet Current Diversification Target



Sources: Scotiabank Economics, Statistics Canada, Global Affairs Canada.

Chart 3

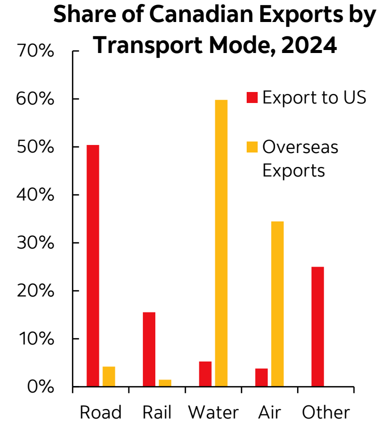
Canadian Goods Exports by Mode of Transport



Sources: Scotiabank Economics, Statistics Canada.

Chart 4

Share of Canadian Exports by Transport Mode, 2024

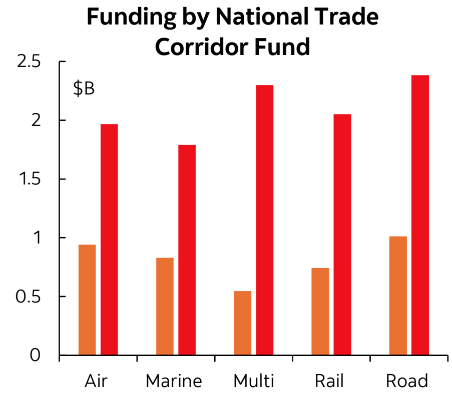


Sources: Scotiabank Economics, Statistics Canada.

accessible by land, diversifying trade will require marine and air infrastructure to ship goods, potentially representing growth in traffic and needed capacity.

If Canadian goods started heading more to other countries, then traffic flows moving through Canadian trade corridors might look quite different. Our rough, order of magnitude estimates indicate that for every 10% increase in the share of overall trade headed outside the US, the share of goods leaving the country by marine and air could increase by roughly 4% and 2% respectively. If trade with other countries grows, but trade with the US is unaffected, then overall levels leaving the country by road, rail and other (i.e. pipeline) would not be materially affected. However, if these increased sales came at the expense of goods redirected away from the US, the overall share of goods leaving the country by road, rail and pipeline could decline by roughly 5%, 1%, and 2%, respectively. In this scenario, investment in land-based trade networks would remain important, but focus would likely be on east-west links to support greater outflows from ports and airports. These figures are primarily illustrative of the scale of potential shifts required, with deeper analysis around existing capacity required to understand current readiness to accommodate shifts, but they do illustrate some potential trends. Overseas trade growth would largely be driven by energy and commodities shipped via port, and higher-value manufactured goods shipped by air.

Chart 5



Sources: Scotiabank Economics, Transport Canada.

Diversification might therefore shift capital spending needs towards marine and air infrastructure. Analysis conducted for the federal government's 2022 National Supply Chain Task Force **estimated** investment in road and rail may account for over 80% of total outlays for trade-enabling infrastructure in the coming decades. Modal shifts like those estimated above would likely see capital requirements evolve to greater emphasize port and airport expansion, alongside substantial investments in east-west transportation capacity, particularly if interprovincial trade flows increase.

BIG DREAMS REQUIRE CAPITAL AND CONCRETE

Keeping up with ambitions will require a mix of bolstering existing stock and supporting expansion. Marine and rail, in particular, will see capital needs grow. The Canadian Association of Port Authorities **estimated** marine ports would require $15–$21.5B in investment the next fifteen years, with nearly three quarters of spending dedicated towards expansion. These investments also need to account for needed investment into longer-standing challenges. A 2023 World Bank ranking on container port performance **placed** two of Canada's three largest ports in the bottom 15% of performers globally. The issues driving these low rankings (inefficiencies, long wait times, operational challenges, etc.) could persist if ignored. Rail, similarly, will also require higher capital outlays. The federal Supply Chain Task Force report **estimated** that, from 2020–2070, an annual average of roughly $5.7B in investment would be required within the rail sector. These levels represent a roughly 2.5x increase in annual capital **outlays** from the volumes invested into rail tracks, rolling cars, and maintenance upgrades over the last decade. Neither study on investment needs identifies assumptions about traffic growth, making it difficult to identify how diversification scenarios could impact figures.

Airport infrastructure and road networks, where freight makes up a smaller share of their overall traffic flows, may be more able to take directional changes in traffic in stride. For airports, **estimates** show cargo/freight shipping accounted for only 6% of revenues last year. From this sum, transborder/international cargo **accounted** for roughly half of total cargo/freight air trade in 2023. These figures are low enough that accommodating traffic growth away from the US may be largely manageable with existing infrastructure, although individual airports for whom international cargo represents a higher share of traffic may consider expansion. This may be particularly true if goods shipped by air are higher-value and physically smaller, as they would require less space to transport. The implications of growth for investment into road networks are less clear, given the uncertainties whether trade diversification would materially influence the outlook for road maintenance and investment above standard use/wear patterns and expected passenger vehicle usage.

Given that this is a federal priority, there is strong scope for government involvement, but yesterday's spending levels won't achieve today's aims. In 2017, the year of the most recent federal long-term infrastructure plan, the federal government **committed** roughly $10.1B to trade and transportation infrastructure projects (chart 5). Responsibility for allocating this funding has largely been led by Transport Canada's National Trade Corridors Fund and the Canada Infrastructure Bank, who have cumulatively allocated roughly $5B to $12B worth of projects as of Q3 2024/25. Despite this spending, supply appears to have been insufficient to meet demand. A brief from the Canadian Association of Port Authorities indicates the initial call for proposal from Transport Canada's fund received 357 expressions of interest, requesting roughly $17B of funding to advance $75B worth of infrastructure projects. Given that only $12B worth of projects have been supported thus far, it appears as if the majority of projects requesting public investment did not receive it. It is currently unclear how many of these unsupported projects were still pursued. Looking forward, it may be that many new projects do not require public funding to advance, given growing commercial opportunities, but some likely will need support. If they do, capital supply-related problems may persist, given that adding the additional $5B pledged by the new federal government in a **new** Trade Corridors Diversification Fund would still not meet demand seen in previous 2017-level funding requests.

CHOMPING AT THE BIT

Greater spending will almost certainly be required, but a focus on improving efficiency could lower overall price tags. Studies on US port efficiencies **found** improving efficiency to above-average levels lowered transit costs by 12%, while also increasing flow-through. Investments into efficiency improvements could therefore partially reduce capex required for new capacity, which could help realize benefits of diversification at lower cost (and potentially more rapidly). To advance this aim, tackling the suite of physical and operational bottlenecks **identified** in the 2022 National Supply Chain Task Force report could be prioritized, given industry groups have noted they **continue** to persist. Digitization's potential to enable real-time, end-to-end visibility as cargo moves from mode-to-mode could also be enabled by investing in greater data collection, coordination and sharing. If eyes turn towards the long-term, placing greater emphasis on resilience to physical climate impacts could also help lower tomorrow's costs by mitigating the risk that climate change shrinks the useable life of capital investments. Mitigating/managing these risks would require building greater redundancy into future transport networks, and investing more into regular maintenance to offset the effects of trends like sea-level rise and increased rates of erosion. These may contribute to higher price tags in the coming years, but will likely lower total costs in the coming decades.

To lower the barriers to greater private investments, governments should also revisit funding rules to see if they are preventing bodies tasked with managing trade networks from raising more capital. Some project types, including "first and last mile" infrastructure, feeder roads and short line rail, will likely require primarily public capital to advance. Others could require less if rules around raising capital were adjusted. Borrowing and financial limits imposed on port and airport authorities bear revisiting to **identify** whether current caps are inhibiting investment. Additionally, given higher debt levels borne by management bodies post-pandemic, mechanisms to enable greater private capital participation into specific projects should be explored. These steps, which could enable expansion in a credit-constrained environment, would align thematically with recent investment attraction **efforts** from Transport Canada.

The nature of this challenge—and opportunity of a new federal government seemingly keen to build—is one that requires keeping both eyes fixed on the long-run. Trying to rapidly realize the benefits related to diversification butts up against the reality that building infrastructure of any sort is an endeavor with long timelines. Recommendations outlined in this report can help expedite this process, but the gains of these endeavors will ultimately be felt only once projects are built. Yet they are potentially enormous. There is literally an entire world of opportunities Canada can seize, but it will require years of work, capital and patience to realize them. These traits, along with a clear focus on the challenges ahead, should guide the hands of politicians eager to reshape trading relationships for the future.

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