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GLOBAL STUDY: BY BOOSTING THEIR EXPORTS JUST 1%, MMEs COULD ADD A COMBINED \$12.5 BILLION TO THEIR ECONOMIC IMPACT

MMEs in Canada contribute \$350 billion to the economy; directly employ almost 1 in 5 Canadians; and think sustainable business practices will improve their profitability

Exports currently account for only 11% of revenues at Canadian mid-market enterprises (MMEs) – a significantly smaller percentage than their global peers (29% or \$200 billion). This is according to a global study by HSBC in conjunction with Oxford Economics which explored the views of 1,400 MME senior executives in 14 countries, including Canada, and looked at in-depth economic analysis.

The study also estimates that, globally, if MMEs boosted their export-based revenues by just 1%, they would increase their economic impact by \$12.5 billion across the economies surveyed in the study.

MMEs in Canada employ more than 2.5 million people which is relatively high compared with other countries surveyed. The country's 6,800 MMEs contribute \$350 billion of market sector gross value added (GVA), which together with supply chain and consumption effects is 40% of Canada's GVA. Their direct contribution to GVA grew by 7% between 2012 and 2014, slightly faster than the market economy as a whole.

“Mid-market enterprises are the unsung heroes of the global economy — not large enough to influence government policy, but too big to benefit from incentives and support afforded to smaller companies,” **said Linda Seymour, Executive Vice President and Country Head of Commercial Banking at HSBC Bank Canada.** “They force established, dominant players to raise their game through their more agile nature.”

The study found that compared to their global peers, Canadian MMEs have the same level of confidence in both their local and global economies, and they find it easier to export (47% v. global average of 36%). They are also now finding it easier to export than they did just three years ago.

Compared with other nations, Canadian MMEs are:

- less concerned with domestic economic uncertainty (48% v. global average of 55%) and expanding into new domestic markets (15% v. global average of 18%);
- more likely to believe that entry into new international markets would be one of the main contributors to their financial performance over the next three years (15% v. global average of 11%);
- more likely to believe sustainable business practices will improve growth and profitability (66% v. global average of 59%);

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- more aware of customers demanding more customized products (64% v. global average of 54%); and
- less concerned about a growing threat of competition from large companies (49% v. global average of 65%) or small companies (26% v. global average of 41%).

Canadian MMEs have very strong trading links to the US, which received an estimated 70% of Canadian MME exports, much of that from the mining sector. At the same time, one-quarter of MME supply chain purchases come from overseas with just under half of these purchases originating from the US.

“Canadian MMEs are resilient and flexible”, **added Ms. Seymour**. “However, they need to diversify into foreign markets if they want to continue to drive their productivity.”

The GVA contribution of the MME sector is primarily driven by: mining, manufacturing and business services, each of which contribute between one-quarter and one-fifth of MMEs’ direct contribution to Canadian GVA. While mining accounts for the largest share of MME GVA, labour productivity in the sector is extremely high and it makes a much smaller employment contribution than the other sectors. In employment terms, manufacturing is the largest MME sector, providing jobs for over 480,000 people. Business services and wholesale and retail are also significant sources of employment.

“Canadian MMEs have an entrepreneurial approach and beyond their economic value, they have much to teach us. These companies are often privately-owned specialists in their field that maintain a direct line to their customer base and as such contribute to the diversity and dynamism of the wider economy,” **added Ms. Seymour**.

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Notes to Editors:

1. Methodology

The objective of HSBC and Oxford Economics’ 2017 ‘Entrepreneurial heartland of MMEs’ research is to estimate the direct contribution of MMEs in 14 countries, their openness to trade as well as their wider contribution through supply chain and consumption ‘multiplier’ effects.

The research covers the following 14 countries: Australia, Canada, China, France, Germany, Hong Kong, India, Indonesia, Mexico, Saudi Arabia, Singapore, the UAE, the UK and the US.

In this report, MMEs are defined as companies with between 200 and 2,000 employees. All sectors are covered with the exception of public administration, education and health,

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which are more vulnerable to policy-related factors and are therefore more difficult to compare across countries.

- MMEs' direct contribution to their local economy is measured according to their Gross Value Added (GVA) contribution to a country's Gross Domestic Product (GDP), and to the sales (turnover) and employment they support.
- MME's openness to trade is measured using OECD data on imports and exports, assuming that MMEs have a similar propensity to import and export as other firms in their country and sector.
- MMEs' contribution through supply chain and consumption 'multiplier' effects is estimated using detailed 'input-output' tables from the OECD and national statistical offices. The consumption impact reflects the economic activity supported when employees in MMEs and in their supply chains spend their wages on other firms' products and services.

In addition to the economic research, HSBC and Oxford Economics have conducted a qualitative survey – via phone – of senior executives at 1,400 MMEs (100 per country), between July and August 2017. Using a standard questionnaire, the survey aimed at exploring their views on external opportunities and threats, strengths and weaknesses, strategic priorities over the next three years and priorities for investment.

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