

ville assembly plant. GM's Beacon project features heavy investments in human capital. Canada's largest automotive firm, Magna International operates a total of 60 R&D centres and test facilities, but only 8 in Canada. While regrettable for Canada, it is hard to imagine it being otherwise as only a quarter of its production facilities is located in Canada. In terms of policy, all the government can do is to create an environment conducive to R&D such that firms that reorganize have an incentive to locate research activities in Canada. Given the generous tax treatment of R&D in Canada, current policy seems adequate⁶⁸. It is certainly not obvious how trade policy can play a role.

In terms of high value-added production activities, Canada is keeping up better with the U.S. in the assembly sector than in parts. Table 5.1 compares the productivity record of the two countries in both automotive sectors. In the top panel, one can see that shipments per employee are equally large in both countries, in excess of \$1 million CDN. The fraction of value added is similar as well and slightly higher in 2002 than in 2000. Value added per employee was higher in Canada in 2000 and only slightly lower in 2002. The fraction of production workers is a bit lower in the U.S., which increases the 2002 U.S. labour productivity advantage slightly, but at \$433,574 (U.S.) versus \$405,963 (Canada) the values are extremely high. The significantly higher salary for U.S. production workers, 42% higher in 2002 (31% in 2001), is almost entirely the result of a much larger share of value added being paid out to workers in the U.S. than in Canada. The U.S. industry employs more and better paid salaried employees, but that explains only a small fraction of the gap in value added going to wages, 16.0% in Canada versus 24.5% in the U.S. The much vaunted lower wage cost in Canada, courtesy of the nationally funded health care system, seems to benefit predominantly the employer.

⁶⁸ See Van Biesebroeck (2006), "Impediments and Facilitators to Technology Adoption. A literature survey", report prepared for Industry Canada.