

market power for Canadian firms. The results are relatively similar once we limit the estimation to only a single sub-sector of automotive parts, but many parameters become unstable.

While Canada has some market power, the implied residual demand elasticities we find for Japan, the E.U., or the U.S. are notably lower. Only in the Chinese market do Canadian firms have more pricing power than the U.S. In contrast, Chinese firms are never estimated to have any significant market power and the only negative coefficient for South Korea, for its exports to China, is estimated very imprecisely (t-statistic is 1.21)—even though its market share is quite large. These results are intuitive as we would expect the countries with the most developed automotive industries to have the most sophisticated and differentiated goods, and hence the largest market power—which lines up well with the estimates in Table 4.15.

In light of these results and the very low market share for Canada in automotive parts exports to South Korea, China, and the E.U., we think that it is plausible to assume Canadian firms will not act strategically in their response to tariff policy changes, as was assumed in Section 4.4.