

5.4 Conclusion

The sentiment towards government policy in this industry is not entirely at odds with the bulk of the results we have uncovered in this report. To summarize:

- One of the greatest changes in the industry, the changing vertical organization, is almost entirely beyond government influence. Increasing technological intensity is driven by consumer demand. Proliferation of vehicles has lead firms to adopt flexible technology and environmental awareness has spurred the development of alternative fuel vehicles. While firms clearly benefit if the government covers part of their R&D costs, the greatest success story to date, the Toyota Prius, hardly benefited from government subsidies. It remains highly doubtful to what extent government intervention can successfully steer the industry. (Section 1)
- Decreasing or abolishing import tariffs on final vehicles will benefit consumers (somewhat) and hurt Canadian production (somewhat). The net effect on welfare is likely to be very small and actual estimates, like the ones we presented in this report, will be sensitive to modeling assumptions. (Section 2)
- The only candidate firm for near term investments in new assembly capacity in Canada is Nissan. Trade policy is likely to be of limited impact in securing such investment. Infrastructure or direct investment support are likely to be much more important. The Ontario government has already started talks. (Section 3)
- The parts sector is much more vulnerable to exchange rate fluctuations, raw material prices, and bankruptcies of large firms, factors largely beyond the Canadian government's control. The very limited export success of the Canadian industry beyond the U.S. is unlikely to be to a large extent the result of trade restrictions⁷². Of course, at the margin every-

⁷² Japan, the largest market after the U.S. and distinctly high-cost, does not charge any import tariffs, but Canadian producers have not made significant inroads.