

instrument for the endogenous quantity level, we use the exporter's exchange rate—a valid cost shifter⁵⁸. The results in Table 4.15 are obtained from separate regressions for each of the three regions and for each of the five exporters. Even though the countries sell in the same import market, they will face a different residual demand, because they face different competitors.

Table 4.15. Elasticities of the residual demand curve for total automotive parts

	South Korea		China		E.U. (25)	
	market share	residual demand elasticity	market share	residual demand elasticity	market share	residual demand elasticity
Canada	0.6%	0.184 (0.63)	1.1%	-0.354 (2.12)	1.8%	-0.710 (2.88)
Japan	39.3%	-1.052	42.5%	-11.990	53.8%	-1.396
United States	15.9%	-1.464	8.1%	0.078	32.5%	-0.758
Euro-area	34.3%	-2.667	22.7%	-1.354		
China	5.5%	0.188			6.1%	-0.134
South Korea			22.0%	-0.743	3.1%	0.632

Note: Sample includes all imports of engines & engine parts and automotive parts and accessories over the 1995-2005 period. t-statistics in parenthesis

Even though Canada has a very small market share in each of the three markets, we find that it has a surprising amount of market power. The statistics are the inverse of the elasticities, as is customary in this literature. An estimate of -0.71 for Canadian exports to the E.U. corresponds to a residual demand elasticity of only 1.41. In the Chinese market, Canada is still estimated to have a decent amount of market power, with an implied elasticity of 2.83, significantly different from a perfectly elastic residual demand. Only in Korea, we find no

⁵⁸ One might argue that in this industry pricing is in US dollar and that the methodology will not be adequate. However, if that were really the case, one has to be willing to assume that the 30% appreciation of the Canadian dollar against the US dollar in the last two years has been absorbed by profit margins of Canadian suppliers or offset by productivity growth. Assuming a profit margin in excess of 30% in 2003 or productivity growth of 15% per year seem highly implausible.