

### 4.5.3 *Import competition*

Even though the calculations would be straightforward, we refrain from carrying out the same type of analysis as in the previous section to study increased import competition in Canada. We expect it would result in very implausible estimates because the large domestic automotive assembly sector imports a lot of OE parts that already enter duty free. For example, while Canada exported \$29.2 million worth of parts to Japan in 2004, imports stood at \$1743.2 for a deficit of \$1713.9 millions. Obviously the majority of these parts enters the assembly process and do not incur any duties. Given the small size of the aftermarket, discussed earlier, especially relative to the large volume of imports, any estimate of the fraction of imports going to the aftermarket would be subject to a very large margin of error.

With South Korea, the E.U., and China, the Canadian deficit in parts is also very large, running to \$266.0, \$636.3, and \$664.7 million respectively, in 2004. Including trade with the US and Mexico, total parts imports in Canada were \$42,859 million in 2004 which was approximately 10 times larger than the entire aftermarket parts sales.

Given that in Table 4.10 the rubber tires and parts & accessories industries—the two sectors containing the bulk of aftermarket parts—were estimated to have the lowest demand elasticities of all automotive industries, import responses are likely to be moderate. The effects on import values abroad we estimated in the previous section are a combination of price declines and quantity increases. In sectors with a lot of product differentiation (low demand elasticity) as the aftermarket parts sector, quantity increases will be low—less harm to the Canadian industry, but these will be accompanied by more moderate price declines—smaller benefits for the Canadian consumers.

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penetrate each other's market. In 2003, only 3774 Japanese passenger cars were sold in Korea and 2573 Korean cars in Japan, which represent a market share of 0.28% and 0.04% respectively.