



How President Trump Renegotiating NAFTA Will Impact Your Portfolio

Description

The incoming Trump administration has made it clear that a renegotiation of parts of NAFTA will begin within a few weeks of this week's inauguration.

Here's a look at the key points of the agreement, what President-elect Trump intends to change, and how it could impact your portfolio.

What's NAFTA again?

The North American Free Trade Agreement (NAFTA), entered force in 1994 and has since become one of the largest and most lucrative trade agreements on the planet, comprising over 440 million people and US\$17 trillion worth of goods and services.

As per the U.S. Chamber of Commerce, the trade of goods between the three member nations skyrocketed from US\$337 billion in 1993 to US\$1.2 trillion by 2011.

The agreement focuses on a number of specific aspects of the economy that cater to the strengths of each nation, which in turn create a holistically stronger united market.

By way of example, manufacturing companies could leverage the raw materials in one country and then transport them to another country that specializes in processing those materials into finished products. Similarly, retailers have access to a wider market, and goods can be transported across borders without tariffs, which translates into lower prices for consumers.

Why does Trump want to re-open NAFTA?

President-elect Trump has been particularly vocal about renegotiating NAFTA to the benefit of U.S. jobs, but as of yet he hasn't singled out Canada specifically; rather, he's been commenting on Mexico.

What Trump's administration has told Canada via a formal notification letter this week is that the U.S. will be opening negotiations relating to NAFTA within days of the inauguration.

Specifically, the U.S. is seeking to discuss what is referred to as the “country of origin rules” and the dispute-settlement process in the agreement. The country of origin rules stipulate how much of a product can contain non-NAFTA materials yet still be exempt from duties.

The dispute-settlement process is the other area of concern. The U.S. has often gone on record, noting that the independent panels set up to handle disputes weigh too heavily in favour of Canada and Mexico and are largely unaccountable.

Industry pundits note that a significant portion of the renegotiation is targeted at Mexico and not Canada. As it stands, Canada is the second-largest trade partner to the U.S. with over US\$1 billion crossing the border each day. The inverse is far more grave — nearly 80% of all exports from Canada end up in the U.S. Canadian consumers purchase more from our U.S. neighbours than the U.K., Japan, and China combined.

What does this mean for your portfolio?

Rail-freight companies, such as **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) could see mixed results. Both railroads transport a significant amount of goods across the border in both directions. Imposing tariffs and delays on those routes could spell higher prices that are passed on to consumers and less freight traffic overall.

The flip side to railroads is that a protectionist agenda within the U.S. market could spell increased freight along routes within the U.S., particularly if the president-elect is able to return jobs to the “Rust Belt” states that won him the election.

The automotive industry is another net gainer from NAFTA that could be turned around if the agreement is modified or scrapped altogether. Automotive manufacturers such as **General Motors Company** ([NYSE:GM](#)) and **Ford Motor Company** ([NYSE:F](#)) have plants in Canada as well as Mexico, and both have drawn the attention of the president-elect for plans to expand facilities in Mexico over the U.S.

In any event, the Trump administration appears to be unfolding much like his campaign and subsequent election — unprecedented, unexpected, and shocking. Investors will just have to wait until after the inauguration to see what direction any NAFTA renegotiation will take.

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dafxentiou

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