



Could President Trump Cancel NAFTA?

Description

Negotiations between the U.S., Canada, and Mexico to update the decades-old NAFTA agreement got underway earlier this week to modernize the trade agreement that became the envy and model of free trade agreements around the world.

Negotiators always suspected that U.S. President Donald Trump would play his hand and threaten to cancel NAFTA if negotiations didn't proceed as he had planned, and that's exactly what happened earlier this week when he stated, "I think we'll end up probably terminating NAFTA at some point."

The remarks didn't come as a surprise to anyone, as Trump has made similar comments earlier this year, but what came as a shock was that the comments came so early in negotiations.

Both Canada and Mexico brushed off the comment, with Mexico's foreign minister noting, "No surprise: we're in negotiations. Mexico will remain at the table with calmness, firmness, and in the national interest."

The deputy trade representative who worked under President Obama commented on the move in a more direct manner: "You do that in the 11th hour in the negotiation — not at the throat-clearing stage ... I suspect President Trump will be unable to play that card again."

What does everyone want from a new NAFTA?

Among the changes the U.S. is seeking to make to the agreement are reducing the current trade deficit the U.S. currently runs primarily with Mexico, increasing domestic goods production, and potentially increasing taxes on imports.

With respect to Canada, the supply-management system surrounding the dairy industry has always been targeted as a barrier to new investments and products from other markets, and the U.S. will be keen on lifting those requirements.

Saputo Inc.'s ([TSX:SAP](#)) — the largest dairy producer and distributor in Canada — CEO Lino Saputo Jr. has noted in the past that opening Canada's markets would be a good thing provided it's reciprocal

to allow Saputo and others to expand further into the U.S. market.

Magna International Inc. ([TSX:MG](#))([NYSE:MGA](#)) is another company closely watching the ongoing negotiations. Magna is one of the largest automotive parts suppliers in the world, and many of the company's North American operations leverage the unified supply chain of the automotive sector that was created through NAFTA.

If that supply chain were to break or be heavily weighed down in tariffs and delays, Magna's bottom line would suffer, and countless jobs would be at risk, at least temporarily as the automotive giant shifts focus to other markets such as China and parts of Asia that are seeing increased demand.

Could NAFTA get scrapped?

There's always a small chance of NAFTA being torn up, as President Trump has threatened, but this is incredibly unlikely for a number of reasons.

First, the president doesn't have the authority to tear up NAFTA. That honour lies with the U.S. Congress, and lawmakers there are almost certainly going to reject an outright repeal. Some legal experts have argued that if the president were to even attempt to cancel NAFTA on his own, he would be in violation of U.S. domestic law.

Second, despite the U.S. president noting that NAFTA is "bad," it has been incredibly profitable for the U.S. and its trading partners. Mexico's labour market, Canada's raw materials, and the massive consumer market of the U.S. are all part of the same cog that runs the North American economy. Millions of jobs and billions in trade have come as a result of the agreement.

Finally, there's also the time needed to get an update completed. The U.S and Canada appear to be in no rush to get an updated NAFTA completed, focusing more on getting the right agreement in place. Mexico, however, prefers to get things done prior to its presidential election next year.

If anything, tweaks to balance out trade and update language applicable to today's market are what will come out of the negotiation.

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