Winners and Losers of a Tweaked or Torn NAFTA

Description

Last week, negotiators from Canada, Mexico, and the U.S. had the fifth round of talks aimed at modernizing the decades-old NAFTA agreement between the countries. The U.S. administration has been particularly tough on ensuring that the U.S. gets the best deal possible, but critics have noted that getting the best deal possible for one member can often result in a less-than-favourable result for other members.

The automotive sector has become the target in the latest round of negotiations. U.S. President Trump is pushing for changes to bring more manufacturing jobs back to the U.S.

Whether or not an agreement will be met remains to be seen.

Will U.S. manufacturing jobs return?

The decades-old agreement has been a net positive for all three countries, creating millions of jobs and setting up an integrated North American economy that sees billions of dollars of trade traverse the border daily. The automotive sector has become an integrated supply chain that is the envy of other nations.

Despite that success, critics on the treaty in the U.S. see the agreement as the root cause of manufacturing jobs leaving the U.S. These critics advocate that if the agreement were to be amended or torn up entirely, those jobs would return to the manufacturing centres in the U.S.

Companies such as **Magna International Inc.** (TSX:MG)(NYSE:MGA), which is one of the largest and most successful automotive parts manufacturers in the world, could stand to be one of the most impacted companies if the NAFTA agreement were to be torn up or completely rewritten.

President Trump has been critical of the automotive sector in recent weeks, pushing negotiators to increase the content amount that is U.S.-made in automobiles and increase regional content shares to upwards of 85% from the current 62.5%.

Both Canada and Mexico have argued that increasing those content shares will spell trouble for automakers and increase costs for consumers. Industry pundits have noted that in many cases, automotive manufacturers would prefer to pay a tariff rather than disrupt a global supply chain.

NAFTA and the dairy sector

Another area of concern is the dairy sector. The U.S. has been highly critical of Canada's protected dairy supply system, which insulates companies such as **Saputo Inc.** (TSX:SAP) from competition south of the border.

That same protectionism, however, also prevents Saputo from branching out into the U.S. and other markets as much as Saputo would have liked to.

This is one area of the agreement that could be good for Canada. Dairy was excluded from the existing free-trade agreement, which is why the U.S. is so keen on including it this time. The U.S. is the largest market for dairy in the world, and opening Canada's doors to U.S. dairy farmers could usher in a new era of competition, which could be good for the industry.

Could the president really tear up NAFTA?

One of the often-cited claims by President Trump is that he may just opt to tear up the agreement altogether, staying true to his protectionist agenda.

Whether or not he could do that, however, is an entirely different question. To cancel a treaty, Congress would be required to intervene, and most elected officials are far more versed in the intricacies of the agreement and the positive impact that it has had on the economies across the U.S.

The last rounds of NAFTA negotiations are set to complete next spring.

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2025/07/28
Date Created
2017/11/27
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