



The End of NAFTA: Here's What Could Happen

Description

Even before the agreement came into effect, NAFTA drew more than its fair share of critics. The decades-old agreement between the U.S., Canada, and Mexico has been the source of incredible growth in all three countries and, more recently, the source of criticism.

Negotiators from all three countries have been attempting to modernize the agreement over the last few months, with little, if any, progress being made so far.

U.S. president Donald Trump has been an outspoken critic of the agreement, making it a campaign promise to update or scrap the agreement, calling it on multiple occasions a bad agreement for the U.S. that needs to be updated to address growing trade deficits.

Here are the major disputes and how they can impact your portfolio.

Automotive sector

The North American automotive sector is part of a continental, if not global, supply chain that was set up and tweaked following the Free Trade Agreement and then the NAFTA agreement.

Today, that global supply chain has raw materials, automotive components, and vehicle assembly plants on both sides of the border. In fact, it's common for a vehicle to cross over the U.S.-Canada border a half-dozen times before being finished and sent to a dealership.

That cross-border transport consists of both trucking and rail elements, which could not only become a challenge for automotive parts heavyweight **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), but it could cause problems for **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) as well as **Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) if the current agreement is significantly altered.

Nearly 30% of revenue from both railroads comes from the U.S., with nearly two-thirds of that revenue stemming from exports from Canada bound for the U.S.

Despite this risk, railroads remain [outstanding investment options](#), and Magna's well-diversified international footprint and global supply chain would eventually more [than compensate](#) for any adjustments owing from a NAFTA shift.

Will NAFTA get torn up?

Despite the very vocal critics of the agreement, NAFTA has proven to be an immense success for all three nations, and while there's no harm in updating the agreement for the current economy and job market, the prospects of the agreement being scrapped entirely are slim due to a few often-omitted points.

First, public opinion is mixed, but not overly against the agreement. Americans in the Midwest rustbelt region often view NAFTA as the source of their woes, refusing to accept that there are other reasons that jobs in that region vanished.

Second, the economic impact of tearing up the agreement could be profound on both sides of the border. In the U.S., where there is more (but still not a majority) of anti-NAFTA supporters, could see the economy shrink by 300,000 jobs, as well as slash growth and cause prices to rise according to recent studies on the matter.

Finally, tearing up NAFTA is easier said than done and comes with its own problems. As much as he claims that he could, President Trump would need to get approval from the U.S Congress to tear up an international agreement, which could take a significant time to pass, if it did at all. Thirty states benefit from NAFTA, and 13 million jobs on both sides of the border are dependent on the treaty. That level of economic activity will be difficult to pass.

The next round of negotiations is set to begin next week in Montreal.

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dafxentiou

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