

**RISKS FOR CANADA IN A NAFTA RENEGOTIATION**

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January 9, 2017

**CONCLUSIONS**

- U.S. President Elected Donald Trump presents a “7 Point Plan to Rebuild the American Economy by Fighting for Free Trade”. The fourth point says: “Tell NAFTA partners (Canada and Mexico) that we intend (the U.S.) to immediately renegotiate the terms of that agreement...” And keeps saying: “If they don’t agree to a renegotiation, we will submit notice that the U.S. intends to withdraw from the deal”.
- From 1993 (NAFTA was launched in January 1994) to 2015 exports in Canada have increased 180% in nominal USD terms, 230% have increased the exports for the U.S. and 633% have increase the exports for Mexico. Who’s the winner? (Tables I, II and III)
- In 2015 Canada’s exports to NAFTA Partners were 75.6% to the U.S. and 1.5% to Mexico. Too much dependency on the U.S. (Table IV)
- In the last 6 years (2010 to 2015) Canada has had an annual average trade deficit of 7.8 billion CAD (Table VI)
- From the 7 largest trade partners Canada has: 2 have trade surplus in all 6 years, 4 have trade deficit all 6 years and one has a mix behavior. The U.S. has had an annual average surplus of 41.9 billion CAD and the UK of 8.5 billion CAD. This is, Canada exports more than imports from these countries. On the contrary, China has an annual average deficit of 12.6 billion CAD, Mexico 9.1, Germany 8.0 and the European Union 6.8 billion CAD. This is, Canada exports less than imports from these countries. Japan has a mix behavior. (Table V and VI)
- The inauguration of Donald Trump as 45<sup>th</sup> President of the U.S. will be held on Friday, January 20, 2017. Until then, we really don’t know what his next steps as president will be.
- Canada has a huge dependence on the trade surplus with the U.S. Every possible action to avoid losing this surplus should be taken. On the contrary, immediate and intelligent actions have to be taken by Canada as a country to increase exports to China, Mexico, Germany and the European Union to avoid this deficit trend. And a plan to increase exports to other countries and avoid such a big dependency on the U.S. trade has to take place.
- At the end, many scenarios can be foreseen with the future of NAFTA and each of them will mean a completely different strategy: a) nothing changes, b) limited updates to NAFTA, c) renegotiation, d) complete change of the free trade agreement, e) breakdown of the NAFTA.
- We believe that a 23 year old agreement (the NAFTA) will at least needs an update for the benefit of all three countries and the region. Intelligent negotiators are needed to deal with Trump’s team and get the best for Canada’s side.

## CONTENT AND TABLES

In the Trump / Pence web site, a “7 Plan to Rebuild the American Economy by Fighting for Free Trade” is presented. The fourth point says: “Tell NAFTA partners (Canada and Mexico) that we intend (the U.S.) to immediately renegotiate the terms of that agreement...” And keeps saying: “If they don’t agree to a renegotiation, we will submit notice that the U.S. intends to withdraw from the deal”. Also the second point says: “Appoint tough and smart trade negotiators to fight on behalf of American workers”. The first point talks about withdrawing from the TPP, and points 5, 6 and 7 are aimed towards China. Link: <https://www.donaldjtrump.com/policies/trade/>

**Table I: Exports of Manufactured Goods in Billions of Current USD**

	Canada	USA	Mexico
Year 1993	147	457	52
Year 2015	411	1,510	381
Increase %	180%	230%	633%
Increase \$	264	1,053	329

Sources: Table prepared by Acus Consulting with data from StatCan, US Bureau of Economic Analysis, INEGI Mexico

As we can see on Table I, from 1993 to 2015 the exports in USD have increase for Canada in 180%, for the U.S. 230% and for Mexico 633%. In absolute amounts, U.S. has increased \$1,053 billion USD, Mexico \$329 and Canada \$264. In spite of this, Canada still exports more than Mexico since the base in 1993 was much bigger for Canada (\$147) than for Mexico (\$85).

**Table II: Exports of Manufactured Goods in Billions of Constant USD of 2015**

	Canada	USA	Mexico
Year 1993	241	750	85
Year 2015	411	1,510	381
Increase %	70%	101%	347%
Increase \$	170	760	296

Note: An accumulated inflation CPI for the US from December 1993 to December 2015 of 64.1% based on data from US Bureau of Labor Statistics

In Table II we have updated all 1993 figures with US inflation to make figures more comparable. Still here, all three countries have increase in real terms their exports.

**Table III: Exports Relative to Size of the Economy (billions of USD)**

Year 2015	Canada	USA	Mexico
Exports	411	1,510	381
GDP	1,551	17,947	1,144
Exports / GDP	26%	8%	33%

Sources: Table prepared by Acus Consulting with data from StatCan, US Bureau of Economic Analysis, INEGI Mexico

In Table III we have the exports relative to the size of the economy of each of the NAFTA countries. Seems like Canada can still export more considering the size of its economy and considering the exports of Mexico compared to its GDP.

**Table IV: Exports of Manufactured Goods in Billions of Current USD within NAFTA Partners**

	Canada	USA	Mexico
Year 2015	411	1,510	381
To Canada	N/A	281	11
To USA	310	N/A	309
To Mexico	6	236	N/A
To Canada	N/A	18.6%	2.9%
To USA	75.6%	N/A	81.1%
To Mexico	1.5%	15.6%	N/A
Total NAFTA	77.1%	34.2%	84.0%

Sources: Table prepared by Acus Consulting with data from StatCan, US Bureau of Economic Analysis, INEGI Mexico

The largest dependency on exports to the U.S. is from Mexico (81.1%), followed closely by Canada (75.4%).

**Table V: The Six Most Important Trade Partners for Canada in 2015 (millions of USD)**

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Total trade (X+M)	Total trade (X+M)	Exports (X)	Exports (X)	Imports (M)	Imports (M)	Trade balance (X- M)
Total	839,132	100.0%	410,784	100.0%	428,348	100.0%	-17,564
USA	594,404	70.8%	310,499	75.6%	283,905	66.3%	26,594
China	47,211	5.6%	16,784	4.1%	30,427	7.1%	-13,643
Mexico	20,559	2.5%	6,194	1.5%	14,365	3.4%	-8,171
U.K.	19,740	2.4%	12,988	3.2%	6,752	1.6%	6,236
Japan	16,447	2.0%	7,919	1.9%	8,528	2.0%	-609
Germany	14,755	1.8%	3,048	0.7%	11,707	2.7%	-8,659
Subtotal	713,116	85.0%	357,432	87.0%	355,684	83.0%	1,748
All the rest	126,016	15.0%	53,352	13.0%	72,664	17.0%	N/A

Source: Table prepared by Acus Consulting with data from StatCan

Total trade (column a) is the sum of exports and imports and measures the size of the trade with a foreign country. As we can see (column b), in 2015, 70.8% of the trade of Canada is with the U.S. This is, a clear concentration in one country means a strategic risk for Canada. By any mean we are suggesting to reduce the trade with the U.S., but rather increase the trade with other countries.

In 2015, 85.0% of Canada's trade is in 6 countries (the European Union is not considered in this table as a country).

In column (g) the trade balance is presented. This is, the subtraction of exports minus imports. A negative trade balance means Canada is exporting less than importing from that country. On the contrary, a positive trade balance means Canada is exporting more than importing from that country.

In 2015 Canada has a deficit of close to 18 billion USD. From these six countries, the largest surplus is with the U.S. (\$27) followed by the U.K. (\$6). On the contrary, a large deficit can be seen with China (\$14), Germany (\$9), Mexico (\$8) and Japan (\$1).

**Table VI: Trade Balance for Canada in the Last Six Years (2010 to 2015) in Billions of CAD**

	2010	2011	2012	2013	2014	2015	Average
Total	-9.7	0.6	-13.3	-6.6	4.8	-22.5	-7.8
USA	35.2	47.9	40.6	44.6	49.0	34.0	41.9
European Union	-3.2	-3.2	-3.2	-9.2	-8.4	-13.5	-6.8
China	-12.2	-10.6	-10.6	-10.0	-15.0	-17.4	-12.6
Mexico	-7.2	-8.0	-9.0	-9.6	-10.4	-10.4	-9.1
U.K.	7.4	8.8	11.5	7.4	7.9	8.0	8.5
Japan	-0.3	1.9	0.0	1.3	1.9	-0.8	0.7
Germany	-4.5	-6.2	-8.2	-8.5	-9.6	-11.1	-8.0

Source: Table prepared by Acus Consulting with data from StatCan

From the 7 largest trade partners Canada has: 2 have trade surplus in all 6 years, 4 have trade deficit all 6 years and one has a mix behavior. The U.S. has had an annual average surplus of 41.9 billion CAD and the UK of 8.5 billion CAD. This is, Canada exports more than imports from these countries. On the contrary, China has an annual average deficit of 12.6 billion CAD, Mexico 9.1, Germany 8.0 and the European Union 6.8 billion CAD. This is, Canada exports less than imports from these countries. Japan has a mix behavior.

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About Acus Consulting. This firm supports companies, organizations and government agencies in financial and strategic analysis, investment project evaluations, financial modeling, valuation of ongoing companies, financial planning, risk analysis and decision making. Acus Consulting works in consulting projects and offers seminars and workshops of finance for executive training. It is based in Toronto.

About Alberto Calva. His expertise field is finance and economy. He has been a business consultant for more than 20 years. He has given seminars and workshops in 8 different countries having trained with this around 10,000 executives and entrepreneurs from 20 different countries. He has a unique mix of academic, practical, entrepreneurial, hands on experience and board member background. He holds a Bachelor degree of Industrial Engineering, a Master degree of Economics and an MBA with a major of Finance.

About this report. We prepare several reports every month regarding financial, economic and business issues. These reports are sent free of any charge to our database of clients and friends. We have been preparing and sending our reports for 20 years. We send each report to around 16,000 people.

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