



Populism as a ‘corrective’ to trade agreements? ‘America First’ and the readjustment of NAFTA

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Accepted: 17 May 2021
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Abstract

The past few years have seen an upsurge in populist politics around the globe. Yet, its potential impact on the liberal international order has been analyzed mainly from a discursive perspective, and much less is known about actual policy implications. Adopting an ideational approach to populism and taking the case of the NAFTA renegotiation process as a building block in the liberal economic order, this article studies the populist imprints of the revised agreement. First, we demonstrate how the populist division of society between ‘the corrupt elite’ and ‘the honest people’ and the emphasis on popular sovereignty were used as narrative frames in criticizing NAFTA. In a second step, through selected provisions, we show how alterations to NAFTA are considered as ‘populist corrections’ to guarantee greater representation for ‘the people’ and better safeguards for popular sovereignty under the USMCA. The article concludes with a discussion of potential implications for global trade.

Keywords Populism · Trade policy · Trump · NAFTA · USMCA · Global trade

Introduction

Although the impact of populism has been assessed predominantly through the prism of national politics, Friedman Lissner and Rapp-Hooper (2018) rightly argued that the recent rise of populism around the world was likely to put great pressure on the liberal international order (LIO). In fact, frustrating moves within, and verbal attacks on the legitimacy of international organizations (IOs), multilateral agreements, and regional integration processes, coupled with the advocacy of revisionist policies (Jenne 2021) are integral parts of populist playbooks at the international level. Beyond the obvious case of Brexit, efforts by the former US administration under Donald J. Trump to paralyze the World Trade Organization (WTO) and the World Health Organization (WHO), its withdrawal from the Paris Climate Accord,

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and its determination to re-negotiate regional and bilateral trade deals, to name just a few such moves, are all the more relevant given the country's hegemonic position within the LIO (Stokes 2018). Yet, while Trump's populism has been analyzed, most studies have focused on general foreign policy strategies (Biegon 2019; Brands 2017; Goldgeier 2018), and have concentrated on political narratives with little consideration of actual policy implications (Homolar and Scholz 2019; Magcamit 2017; Skonieczny 2018a). In response, the aim of this article is to provide a more systematic and practical view of how populist sentiments actually translate into policy measures. To this end, given the central role that trade plays in global economic governance and populist rhetoric (Skonieczny 2018b), the article looks at the US, Mexico and Canada Agreement (USMCA). It is a perfect example. The revised North American Free Trade Agreement (NAFTA) has been an important building block in global economic governance and the LIO system, and its renegotiation was instigated by a populist hegemon, so that the revised agreement may be studied for populist imprints.

The article builds on the quasi-mainstream, ideational approach to populism (Mudde 2017; Stanley 2008), positing that populists (1) question the existing ideational basis of the LIO on the grounds that it supports political elites against citizens/voters and portray themselves as the voice of 'the people'; that they (2) claim the existing LIO undermines the notion of popular sovereignty; and that they (3) are likely to propose solutions to remedy these real or perceived shortcomings of the contemporary global system. In line with the argument made about the link between populism and democracy (Kaltwasser 2012), the article analyzes how revisions of NAFTA were supposed to embody 'populist corrections' of the existing framework (cf. Stokes 2018).

The added value of the article is both analytical and empirical: it provides a framework that formulates expectations about the policy implications of populism for global economic governance, and, in investigating the NAFTA renegotiation process, it presents an in-depth case study of measures influenced by populism, thereby contributing to a better, micro-level understanding of the phenomenon. While the article may prove relevant for scholars of international politics, it also enriches the literature on the policy impacts of populism.

It is structured as follows. First, we propose an analytical framework that connects populism as a thin-centered ideology (Mudde 2004) to the criticism of the LIO. Secondly, we analyze Trump's 'America first' policy in the light of renegotiation of the NAFTA agreement. Over and above scrutinizing the president's narrative, we study the administration's trade policy measures in order to assess the impact of populism. It concludes with a short discussion on broader implications for global trade in the era of populism.

Populism and the liberal economic order under Trump

While different approaches to populism are currently under discussion (Aslanidis 2015; Moffitt and Tormey 2013), there is growing consensus around the ideational approach, which considers populism a thin-centered ideology (Mudde 2004; Stanley



2008) that (1) divides society into 'the honest people' and 'the corrupt elite,' (2) underscores the existence of antagonism between these groups, and (3) overemphasizes the notion of popular sovereignty, arguing that politics should be about fulfilling 'the will of the people.' Populism as a thin-centered ideology lacks substantive responses to all aspects of the political, and attaches itself to other 'thickening' ideologies from left to right, which then determine their definition of 'the people' and 'the elite.'

Given the focus of the study at hand, we take a detailed look at the literature linking populism to the LIO, foreign and trade policy. With regard to the LIO, Friedman Lissner and Rapp-Hooper (2018) and Patman (2019) argue that internal and external pressure on the LIO system creates fertile ground for populism, while Ikenberry (2018) and Lake (2020) identify populist backlash politics as a threat for the LIO, given that populism poses a critical challenge to the building blocks of the LIO, to liberal democracy. Additionally, Drezner (2019) considers economic populism to be a threat to the liberal economic order. What all these studies have in common is a macro-perspective which mentions the challenge posed by populism but provides little empirical analysis of how this threat manifests itself.

As regards foreign policy, while the impact of international politics on (domestic) populism is more thoroughly analyzed (cf. Verbeek and Zaslove 2017), the nature of populist foreign policy and the repercussions of populism in the international arena are mapped out to a much lesser extent (Verbeek and Zaslove 2019). Furthermore, while the main focus is often laid on populist (party) positions on various foreign policy topics (cf. Coticchia and Vignoli 2020), less consideration is given to the actual outcomes or manifestations of populist sentiments, or to how populist preferences translate into global policy measures. This trend is also apparent in the literature on Trump's foreign policy. While Holland and Fermor (2021) describe Trump's populism as a revitalization of 'Jacksonian populism,' Friedman Lissner and Rapp-Hooper (2018) argue that Jacksonian populism and unilateralism—as manifested in Trump's 'America First' policy—simply makes the pattern of US global engagement unpredictable. Peterson also perceives a potential threat posed by populism, although he stresses that 'continuity often trumps change in US foreign policy' (Peterson 2018: 40), and consequently, Trump's impact should not be overstated. Furthermore, while Biegon (2019) considers populism as the means in Trump's foreign policy strategy of de-investment in the LIO, Homolar and Scholz (2019) show how populism-inspired insecurity narratives (e.g., talk about others taking advantage of the 'American carnage') helped him secure election victory in 2016. In general, as Lacatus points out, 'populism motivates President Trump's approach to foreign policy, marked by a move away from the core principles of the post-war US global project—internationalism, commitment to open trade, and engagement with multilateral rules and institutions for the advancement of the liberal order' (Lacatus 2021: 33). While most studies describe how populism informed Trump's foreign policy rhetoric about a 'globalist liberal elite' allegedly conspiring against 'the American people,' little has been said about how actual measures by the administration were supposed to cure the situation.

A more in-depth study of the populist impact is also lacking in discussions of US trade policy under Trump. In fact, most work focuses on the discursive impact



of populism on trade policy orientations. Skonieczny (2018b) considers trade politics as a story about identities, and argues that Trump's trade policy is based on his foreign policy narratives that deems partners either worthy or unworthy, much in line with a populist division between 'the deserving people' and 'the undeserving non-people.' Magcamit (2017) identifies four existential threats as means of populist securitization in Trump's trade narrative. Job-stealing immigration, 'stupid' free-trade agreements, a climate change agenda, and a 'dishonest' China are key components in the President's rhetoric. Focusing yet again on discourse, Boucher and Thies (2019) analyze how Trump's populist messages on trade policy influenced the salience and framing of the issue on social media, especially among his supporters. Once again, while the rhetorical impact of populism has been previously analyzed, actual policy manifestations of a populist ideology have not been studied. For example, Noland (2018) describes three recurring themes in Trump's trade policy (trade balances, currency manipulation, and bad trade deals) with the actual policy measures attached. But he does not link the issue to populism at all.

All in all, it may be argued that, while the populist impact on Trump's discourse about the LIO, foreign and trade policy has been analyzed, a more in-depth understanding of how populist ideas actually translate into global policy measures is still lacking (cf. Skonieczny 2021). Moreover, populism is either simply mentioned in relation to foreign or trade policy (Brands 2017; Drezner 2019; Friedman Lissner and Rapp-Hooper 2018), or, when adopted as a prism for analysis, it is either not embedded within an ideational approach (Biegon 2019; Magcamit 2017), or not all its components are taken into consideration (Boucher and Thies 2019; Homolar and Scholz 2019). In what follows, an analytical framework is consequently proposed that builds on all elements of the ideational approach, and aims to understand how populist sentiments may translate into actual policy measures.

Populism and global trade policy

In the light of the ideational approach to populism, the societal division propagated by populists in the context of global trade is likely to emerge between governing elites—whom they characterize as 'the corrupt elite' and as proponents of the existing global order—and the forgotten, ordinary people—whom they define as the 'pure people,' citizens living and working in their home countries often disadvantaged by the existing LIO and in particular by trade agreements. The 'elite' covers mainstream politicians, established institutions, as well as academics who, according to populist narratives, act against the interests of ordinary citizens. Although the discord between these two groups describes a vertical relationship, Brubaker (2017) also underlined the relevance of animosity in the horizontal dimension between 'us' and 'them,' i.e., between 'the deserving people' and for lack of a better word, 'the undeserving non-people.' Economic or cultural reasons are usually given for antagonism between these two groups. Economically, ordinary citizens/voters are portrayed by populists as 'losers of globalization' as opposed to advocates of globalization who supposedly conspire with 'the non-people,' i.e., migrant workers jeopardizing the job security of average people. Culturally, the situation is similar, but the focus



is more on threats to national identity and culture. IOs and trade agreements are viewed as tools to undermine national traditions in policy-making and national identity through migration. As Lamp (2020: 1365) points out, 'many workers, especially those who have held jobs in a particular industry for many years (sometimes going back for generations), feel invested in their jobs in a way that is akin to a piece of personal property; their jobs are bound up with their history, their identity and their status in the community.' Consequently, seemingly economic issues such as unemployment often contain a normative element, as well, which is key for populist narratives (i.e., 'the *honest* people' vs 'the *corrupt* elite.' The remedy that populists are expected to pursue is to shift the existing framework in favor of 'the people,' however defined. In contrast to previous, elite-orchestrated deals, securing job opportunities, better working conditions, and markets for the goods and services of 'the people' (cf. Scherrer and Abernathy 2017) are likely elements in trade agreements irrespective of their broader economic implications (on relative short term gains versus absolute long-term ones see Brands 2017; Magcamit 2017).

In addition, popular sovereignty is a crucial factor in political decision-making for populists. Combined with the anti-plural conception of 'the people' (Müller 2014), the idea that institutions should not stand in the way of fulfilling 'the general will of the people' forms the basis of liberal democratic criticism of populism. Nevertheless, applied to the international arena, populists consider transnational and international institutions, including trade agreements, to be impediments to the notion of popular sovereignty. Populists use current criticism of IOs—including corruption, dysfunctionalities, lack of accountability, or the inability to reform themselves—to question their existence and legitimacy, often claiming they will correct the failures and shortcomings of the existing LIO. The expectation is that populists (1) will oppose multilateral settings as elite constructions that decrease their relative power positions, that they (2) will advocate more veto opportunities within transnational arrangements, and that they (3) abstain from long-term commitments to better secure 'the will of the people,' that they (4) will advocate stricter enforcement rules to guarantee fair treatment, and that they (5) will rely more on national trade laws to defend the interests of 'the people.' This is in line with the argument of some scholars who stress that populism may act as a corrective to the shortcomings of liberal democracy (Kaltwasser 2012). While populism is believed to strengthen political inclusion by giving voice to a wider group of citizens, it allows them to influence decisions more by limiting the institutional constraints of liberal democracies (e.g., the rule of law, checks and balances, human rights, etc.). The emerging illiberal democracies (Mounk 2018) describe a political system very much in line with populist ideology under which 'the will of the people' is carried out against the political establishment (i.e., those trying to preserve institutional *status quo*) with preferably no limitations. Populism is thus offered as a corrective to the 'inclusionary defect' of some liberal democracies. However, as much of the literature on populism and democracy rightly claims, this remedy may become threatening in the long run if the necessary countermeasures and checks are not in place.

To illustrate the argument, the article examines the renegotiation process of NAFTA. Two features are analyzed: the extent to which criticism of the status quo reflects a populist ideology, and the degree to which select measures of the new



USMCA echo populist claims to better safeguard the interests of ‘the people’ and guarantee a higher level of popular sovereignty. Assessment of the first issue is based on a study of populist discourse. To substantiate the existence of a populist narrative, we used excerpts from Donald Trump’s tweets and speeches complemented by comments from senior administration officials covering the period 2016–2019. Official Congress and USTR documents were also included in the analysis. In addition, we recur to reporting by the *Financial Times* and the *Washington Post*. Coding followed established methods as described in Rooduijn and Pauwels (2011) and Hawkins et al. (2019),¹ and, given the context-dependent nature of populist discourse, were human coded. Analysis of the populist discourse was deemed essential for the second step, as it often provided the rationale for particular measures under the USMCA. However, given that no previous attempt has been made to study actual manifestations of a populist ideology in terms of concrete trade policy measures, we reach out to other studies on populist policies for inspiration (e.g., on welfare policies Krause and Giebler 2019; Schumacher and van Kersbergen 2014). Also, based on the analytical framework advanced above, we interpret individual acts in relation to our expectations. While additional adjustments and fine-tuning are expected in the future, we believe that our contribution may serve as a point of departure.

The ‘America First’ slogan and the renegotiation of the NAFTA agreement

During the 2016 presidential campaign, Donald Trump had repeatedly criticized existing and proposed US trade agreements. He described the Trans-Pacific Partnership (TPP) under negotiation as ‘a horrible deal’ and vowed to renegotiate or withdraw from NAFTA on multiple occasions.² Although many expected that, once he was President, Trump’s consistently harsh position³ would change, this hope did not materialize. He continuously questioned existing trade deals, which he considered to be ‘very stupid’ (Twitter, March 3, 2018). As far as NAFTA was concerned, President Trump labelled it as ‘one-sided’ (Twitter, January 26, 2017), ‘a bad joke’ (Twitter, January 18, 2018), and ‘old, very costly, and anti-USA’ (Twitter, December 13, 2018). NAFTA came into effect on January 1, 1994 after numerous rounds of negotiations between Canada, Mexico, and the United States. Ever since, trade among the three countries has increased exponentially as a result of integrated transnational supply chains. Currently, US trade with Canada and Mexico amounts to more than \$1trillion annually. Although data suggests a steady annual deficit in

¹ The unit of measurement was either a sentence or a paragraph (depending on the source). Anti-elitism was assessed by critical reference to a cultural, economic or political ‘elite,’ ‘bureaucracy,’ or ‘establishment.’ People-centrism was identified through reference to ‘people,’ ‘citizens,’ ‘public,’ ‘nation(al),’ ‘we,’ ‘us,’ ‘our country,’ ‘our people,’ and ‘the American people.’ Lastly, popular sovereignty was recognized through mentions of cultural, economic or political ‘sovereignty,’ ‘will of the people,’ ‘interests of the people.’

² ‘Policy details lost in the din of debate,’ *Financial Times*, November 8, 2016.

³ ‘Trump’s hard line on trade goes back decades,’ *The Washington Post*, March 8, 2018.



merchandise trade for the US (Villarreal and Ferguson 2017), many trade experts argue that looking only at trade deficits from a zero-sum perspective might be misleading in judging the economy and the measures needed to improve it. In fact, as a Congressional Research Service (CRS) report points out, 'it is not feasible to use trade agreement provisions as a tool to decrease the deficit because trade imbalances are determined by underlying macroeconomic fundamentals, such as savings-investment imbalance' (CRS 2019: 14). Were the American people to save more, demand for imports would decrease, and the trade imbalance would thus improve. Additionally, greater savings would generate domestic investment and much-needed increases in productivity and global competitiveness for American products, which could lower annual trade deficit levels. Instead, the Trump administration offered a populist reading of the situation: 'corrupt elites' were accountable for the shortcomings of NAFTA, which exploited hard-working Americans and robbed the US of its economic sovereignty. In response, only Trump asserted that he could change the situation by representing 'the people' in trade matters. Indeed, in a Tweet concerning trade relations with China, President Trump claimed that only he was able to deliver on the promise to make better trade agreements: 'He [President Xi—the authors] and I are the only two people that can bring about massive and very positive change' (Twitter, December 3, 2018).

The Trump administration equated multiple actors with the governing elite or the so-called 'political establishment' responsible for the failures of NAFTA. First and foremost, previous administrations were blamed for entering into and preserving 'disastrous trade agreements' (Twitter, August 3, 2019). President Trump alleged that instead of structural reasons deriving from the malfunctions of capitalism domestically, it was weakness in bargaining that resulted in disadvantageous trade agreements. As he put it:

I do not blame China, or any other country, of which there are many, for taking advantage of the United States on trade. If their representatives are able to get away with it, they are just doing their jobs. I wish previous administrations in my country saw what was happening and did something about it. They did not, but I will.⁴

While this simplistic approach resonated well with his electorate, it distracted attention from the actual challenges to the economy.

Secondly, safeguarding institutions of the LIO were vehemently criticized for their allegedly unfair behavior against the interests of ordinary citizens. As President Trump argued, 'unaccountable international tribunals and powerful global bureaucracies' have sapped the sovereignty of nations.⁵ Furthermore, he claimed, that 'The WTO is unfair to the US' (Twitter, April 6, 2018), and referring to China he argued that 'The WTO is BROKEN when the world's RICHEST countries claim to be developing countries to avoid WTO rules and get special treatment' (Twitter, July

⁴ 'At summit, Trump returns to tough stance on trade,' The Washington Post, November 12, 2017.

⁵ 'Robust emphasis on sovereignty echoes president's domestic agenda,' The Washington Post, September 20, 2017.



26, 2019). In general, the Trump administration talked about ‘cheaters’ of the existing trade system (Twitter, 26 July 2019) that treat the American people ‘unfairly’ (Twitter, 10 June 2018). In response, already in March 2017, the Trump administration claimed that it would aggressively defend American sovereignty over matters of trade and was prepared to ignore rulings by the WTO.⁶ Later, in October 2017, Robert Lighthizer, the USTR, insisted that it was ‘reasonable to ask whether the rules of trade are causing part of the problem [i.e., trade deficits in the US—the authors].’⁷ The Trump administration reiterated that it was not attempting to destroy the existing trade architecture, but to redesign the dispute settlement mechanism, indicating a willingness to correct rather than to abolish. This rhetoric, however, was belied by reality. The US administration effectively paralyzed dispute settlements within the WTO by obstructing the nomination of new judges for its Appellate Body.⁸ Furthermore, in December 2017, the USTR argued that the WTO should return to its own mandate and should stop judicial over-reach.⁹ Yet, the White House seemed to acknowledge the practices of the WTO when it served American interests. In October 2019 the President boasted on Twitter: ‘The U.S. won a \$7.5 Billion award from the World Trade Organization against the European Union’ (Twitter, October 3 2019).

The third group representing the ‘political establishment’ in the US administration’s populist narrative is special interest groups. Early in the re-negotiation process of the NAFTA agreement, the USTR’s office claimed that measures proposed by the government were ‘opposed by entrenched Washington lobbyists and trade associations.’¹⁰ Allegedly, these special interest groups also included Democrats in Congress who were criticized for having waited months after the agreement was signed before putting the USMCA up for a vote. The political cleavage was depicted as running between the president (i.e., the true representative of ‘the people’) (Twitter, 8 October 2019) and its political rivals (Democrats and interest groups) who supposedly had an interest in the status quo of the LIO and its various components.

Determining who the citizens are in Trump’s trade policy narrative is much less multi-dimensional. Given the President’s focus on repatriating steel and manufacturing jobs¹¹ and negotiating better agreements for the agricultural sector, in most instances, he equated ‘the people’ with ‘American workers’ (e.g., Twitter, August 14 2017), or more generally with ‘farmers, workers & taxpayers’ (Twitter, June 10, 2018). Interestingly, however, as Lamp (2020) points out, not all workers were treated equally in Trump’s narrative. While steelworkers featured high on the list, textile workers and service sector personnel received much less attention in the president’s discourse, suggesting a particular divide between different types of workers

⁶ ‘White House says U.S. may ignore some WTO rulings,’ The Washington Post, March 2, 2017.

⁷ ‘A policy bent out of shape?’, Financial Times, October 2, 2017.

⁸ ‘Global trade needs an independent referee,’ Financial Times, December 10, 2019.

⁹ ‘A protectionist advance if far from inevitable,’ Financial Times, December 29, 2017.

¹⁰ ‘Business turns on Trump over revising NAFTA?’, Financial Times, October 7, 2017.

¹¹ ‘Trump’s victory challenges the global liberal order,’ Financial Times, November 10, 2016.



and citizens. Also, as Holland and Fermor (2021) nicely demonstrate, Trump's populist narrative equated the exploited 'people' with the white, male working class.

The next central dimension of populist narratives concerns the issue of popular sovereignty. President Trump himself has long argued that multilateral trade agreements were economically disadvantageous for the US. He also considered multilateralism as a constraint on the economic sovereignty of the American people. As he put it: 'we will no longer (...) enter into large agreements that tie our hands, surrender our sovereignty and make meaningful enforcement practically impossible.'¹² Consequently, instead of multilateral settings where the US faces multiple trading partners defending their interests in concert vis-à-vis the US, thus allegedly rendering the US government's attempt to represent and defend 'the will of the people' ineffective, Trump prefers to (re-)negotiate bilateral trade agreements. In his words, 'bilateral deals are far more efficient, profitable and better for OUR workers' (Twitter, 17 April 2018). This strategy was implemented in the new USMCA which was first agreed upon bilaterally by Mexico and the US in August 2018, joined later by Canada.¹³ In similar manner, instead of pursuing the TPP, the Trump administration prioritized bilateral trade agreement settings with Japan and South Korea.

The 'America First' slogan also includes the enforcement of US trade law with the alleged aim of increasing economic sovereignty and thus better representing 'the will of the American people' (Twitter, 8 October 2019). The Trump administration rigorously applied national trade law to end perceived or real unfair trade practices against the US. On the one hand, the administration applied Sect. 301 of the 1974 Trade Act, which allows retaliatory measures if unjust, unreasonable and discriminatory practices are initiated against the US. On the other, it used Sect. 232 of the 1962 Trade Expansion Act, which allows restrictions on imports on the basis of national security considerations to put into practice the other component of the 'America First' slogan that links American trade relationships with national security strategy. As President Trump claimed in a tweet: 'I would use every lawful tool to combat unfair trade, protect American workers, and defend our national security' (Twitter, March 22 2018). In fact, Trump's invocation of a steel and aluminum tariff was a case in point, which had also been used to pressure its trading partners under NAFTA to conclude a new trade agreement.

'An amazing deal for a lot of people'—populist proposals reflected in the USMCA?

In May 2017, the Trump administration sent a 90-day notification to Congress of its intent to begin talks with Canada and Mexico to renegotiate NAFTA. Negotiations officially began in August 2017 and the agreement was concluded in September 2018. The proposed USMCA was signed on 30 November 2018, and the ratification process commenced in all three countries. The new agreement consists

¹² 'On Trump's trade trip to Asia,' The Washington Post, November 15, 2017.

¹³ 'Pact boosts Mexican optimism,' Financial Times, August 29, 2018.



of 34 chapters and 12 side letters. Even though the Trump administration was enthusiastic about the new trade agreement, the International Trade Commission estimated a mere 0.35% GDP increase for the US with the USMCA, and much of that growth was expected because of the elimination of uncertainties as opposed to direct effects.¹⁴ While most sectoral trade advisory committees welcomed some of the changes initiated by the USMCA, concerns were also voiced by the same actors about potential negative impacts (see advisory committee reports¹⁵ on USTR website). Nevertheless, President Trump himself argued that ‘The USMCA is a historic transaction’ that ‘solves the many deficiencies and mistakes in NAFTA’ (Twitter, October 1 2018). In general, according to a document provided by the Congressional Research Service, the USMCA.

retains most of NAFTA’s market opening measures and most of its chapters, while making notable changes to auto rules of origin, dispute settlement provisions, government procurement, investment, and intellectual property rights (IPR) protection. It also modernizes provisions in services, labor, and the environment. New trade issues, such as digital trade, state-owned enterprises, anti-corruption, and currency misalignment, are also addressed (CRS 2019: 2).

As the aim of this article is to assess what impact populism has on trade policy directly and on the LIO indirectly, we now turn to the provisions of the newly adopted USMCA. Through selected measures, we address the extent to which individual sections under the USMCA confirm ‘populist corrections.’ The aim is to highlight how alterations to NAFTA are used to delineate who ‘the people’ are and how measures are depicted as a ‘victory’ for ‘the people’ and as safeguards for implementation of ‘the will of the people.’ Our aim is therefore not to focus on the correctness of these arguments and measures, but rather to use them in assessing the impact of populism. While it is not possible to evaluate all changes within this paper (from provisions concerning intellectual property rights through performance requirements in investment and environmental standards to the telecommunication sector), the selection of topics provides a good indication of populist impacts.

A deal for ‘the people’

Given that Trump claimed NAFTA was a disadvantageous agreement for American workers and farmers, it was expected that the USMCA would improve matters for these groups. As it turned out, however, advantages were more restrictive and exclusionary in nature, which is a clear indication of a populist understanding of ‘the people.’ Two sections are relevant in this regard: that on the rules of origin (ROO) regulations, and that on the agricultural sector.

¹⁴ ‘Pact boosts Mexican optimism,’ Financial Times, August 29, 2018.

¹⁵ <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/advisory-committee>.



ROO provisions help assure signatories of free trade agreements (FTA) that the benefits of a trade deal apply only to goods produced wholly or in large part in their home countries. FTAs generally incorporate ROO provisions and use different systems to calculate regional value content levels. While the USMCA did not change the general rules of origin arrangement in NAFTA, given the objective of the Trump administration to bring manufacturing jobs back into the US and improve the ratio of the car industry specifically in the overall trade deficit, the new trade agreement led to changes in the automotive sector. Under NAFTA, cars, light trucks, engines and transmissions were supposed to have 62.5% North American content, while auto parts had to be at least 60% North American made. The new USMCA gradually increases the ROO provision to 75% for cars and sets out additional requirements expected to help US trade imbalances, boost US manufacturing, and ensure national security. First, to assist the raw material industry, at least 70% of the steel and aluminum used for cars now has to originate from North America. Secondly, the USMCA effectively introduced quotas—2.6 million passenger vehicles from Canada and Mexico, and a given amount of car parts annually. Thirdly, for the first time in a trade agreement, the USMCA introduced wage requirements stipulating that 40–45% of North American car content be made by workers earning at least \$16 per hour. The Trump administration expects these achievements to ‘help to preserve and re-shore vehicle and parts production in the United States.’¹⁶ A report by the USTR further states that the USMCA ‘will create a more balanced, reciprocal trade that supports high-paying jobs for Americans.’¹⁷ As Vice President Mike Pence claimed, the USMCA would ‘finally give workers the level playing field to be able to compete and win on the global stage.’¹⁸ In addition, the US administration also asserted that the USMCA would create \$34 billion worth of new investment in the automotive sector, would boost auto parts purchases by \$23 billion, and would create 76,000 new jobs within the car industry.¹⁹ Clearly, the expectation was to improve the situation of the workers in the automotive and steel industries. Changes in ROO measures reflected the Trump administration’s understanding of ‘the people,’ with product-specific rules of origin resolutions being more stringent for the automotive and adjacent steel sectors and more flexible for the chemical²⁰ and textile industries.²¹

As for the latter, a similar argument can be advanced. Although NAFTA aimed to liberalize trade in agricultural produce among the signatories, it preserved quotas and tariff-rate quotas. While it added new bilateral agreements between Mexico and the other two parties, it maintained the existing agreement between the US and

¹⁶ https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA-Autos_and_Auto_Parts.pdf.

¹⁷ <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/factsheets/rebalancing>.

¹⁸ ‘Pence goes on the road to garner trade deal support,’ *Financial Times*, April 26, 2019.

¹⁹ <https://ustr.gov/sites/default/files/files/Press/Releases/USTR%20USMCA%20Autos%20White%20Paper.pdf>.

²⁰ In general, they introduced greater flexibility and clarity along with alternative rules in the applicable ROO.

²¹ Revised rules allowed for the use of textile inputs not generally available in North America, and *de minimis* percentages of non-originating inputs were increased from 7 to 10%.



Canada that regulated the trade of this sector in the Canada-USA FTA, under which Canada excluded its dairy, poultry, and egg sector from tariff elimination. One of the main objectives of the US government during the NAFTA renegotiation process was to gain access to Canada's supply management in the aforementioned sectors, which also suggested whose interests the administration considered more relevant (i.e., who 'the people' were in the farming sector). As a result, Canada agreed to an increase of the duty-free quota for poultry from 47,000 to 57,000 tons in six years, and an additional 1% annually for another 10 years. Similarly, egg imports from the US were increased to 10 million dozens annually. According to Vice President Mike Pence, the USMCA would increase US agricultural and food exports by more than \$2 billion annually,²² benefitting the 'great patriot farmers' in President Trump's parlance.²³ In return, the US provided more access to Canadian dairy, sugar, peanuts, and cotton, thus creating more competition within these sectors for American farmers. According to a document from the USTR's office, the government expected the new agreement to 'advance United States agricultural interests in the most important markets for America's farmers, ranchers, and agribusinesses' which would 'support food manufacturing and rural jobs.'²⁴

Strengthening popular sovereignty

A second 'populist corrective' would be to provide better safeguards for 'the will of the people' in trade measures. In line with the expectations formulated in the analytical framework, we found that various alterations to NAFTA were interpreted as a boost to the economic sovereignty of the American workers.

First, the USMCA provides for stricter enforcement of national labor laws. The rationale behind such provisions is to ensure that countries do not disobey labor laws in order to attract investment and increase trade profits. Violations are subject to dispute settlement procedures. The USMCA requires participating countries to adopt and maintain the provisions in the International Labor Organization's Declaration of Rights at Work that relate to working hours, minimum wages, safety and health regulations. In addition, the new agreement commits Mexico to complying with supplementary requirements (e.g., recognition of collective bargaining, independent labor courts). To this end, the dispute settlement chapter has been amended with a so-called Rapid Response Mechanism with the aim of monitoring and enforcing labor rights in Mexico at particular facilities. Although these measures clearly reflect an actual extension of the economic sovereignty of American workers, Lighthizer stressed that officials participating in the monitoring activity were merely 'labor attachés,' and not 'labor inspectors.'²⁵ Nevertheless, while Lighthizer was often

²² 'Congress must pass the USMCA,' The Washington Post, July 15, 2019.

²³ 'Trump claims win over Mexico,' The Washington Post, June 10, 2019.

²⁴ <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/factsheets/market-access-and-dairy-outcomes>.

²⁵ 'Trade deal back on track after dispute,' The Washington Post, December 17, 2019.



skeptical about the demands for further protections of labor rights (coming from the Democrats and labor unions), he claimed that the new labor enforcement provisions 'will help to level the playing field for American workers.'²⁶ Vice President Mike Pence was more specific about the group impacted, which once again demonstrated the administration's concept of 'the people': 'American auto workers will have the opportunity to compete and win like never before.'²⁷

Second, dispute settlement mechanisms were revised. The general (i.e., state-to-state) dispute settlement provisions of NAFTA have not changed with the adoption of the USMCA, although certain chapters and sections are no longer subject to dispute settlements. Criticism centered more on the investor-state dispute settlement (ISDS) mechanism. President Trump had often railed against the ISDS system, arguing that it was a threat to US sovereignty.²⁸ In contrast, business groups stressed that the elimination of the system would harm American businesses and workers. In the end, broader alterations were applied to ISDS under the USMCA that are likely to have greater implications for other FTAs and also bilateral investment treaties the US frequently signs. Even though foreign investors never won an ISDS case against the US under NAFTA, the Trump administration set out to adjust the existing framework. Under the USMCA, the practice of ISDS between Canada and the USA has ended. With regard to Mexico and the United States, ISDS is limited to government contracts in the natural gas, power generation, infrastructure, transportation, and telecommunications sectors. In addition, exceptions apply in cases where direct expropriation claims are filed, and all domestic remedies have been exhausted. Clearly, the changes initiated indicate an attempt to restore and strengthen the economic sovereignty of the US against other actors. In the words of Lighthizer: 'The more limited availability of ISDS under USMCA reflects the Administration's broader efforts to ensure that our trade and investment rules respect our sovereignty and the right to regulate, reduce defensive litigation exposure, and reduce or eliminate incentives to outsource production and jobs.'²⁹

Third, enforcement and revision systems were modified. On the one hand, stricter origin verification processes (among them eliminating loopholes for getting around regional content value thresholds) were introduced across the various sectors. Additionally, a fairer, non-discriminatory grading system was introduced in the agricultural sector, which was viewed as a tool for increasing the economic sovereignty of American farmers vis-à-vis their Mexican and Canadian counterparts. In order to avoid potential renegotiation difficulties, on the other hand, the US administration pushed for adoption of a sunset provision in the USMCA. The new agreement commits signatory parties to reviewing the agreement after six years, and—provided that they settle on continuing their cooperation—the trade agreement is to remain

²⁶ <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/july/us-names-panelists-usmca-labor-enforcement>.

²⁷ 'Congress must pass the USMCA,' *The Washington Post*, July 15, 2019.

²⁸ 'Business groups warn on NAFTA future,' *Financial Times*, August 25, 2017.

²⁹ <https://www.finance.senate.gov/imo/media/doc/SFC%20Hearing%206-18-2019%20QFR%20Responses%20FINAL.pdf>.



in force for another 16 years. What impact this might have on investments is yet to be seen. The aim here once again was to ensure greater economic sovereignty of the US. As Lighthizer explained it in a Congressional hearing: ‘The USMCA’s review and term extension mechanism will help ensure that the agreement is working as intended and continues to serve the interests of the United States.’³⁰

Conclusion

This article set out to analyze how the populist narrative, embedded in US President Trump’s ‘America First’ slogan, translated into specific attempts to correct real or perceived imbalances and deficiencies of NAFTA. First, we showed that the critical rhetoric of the Trump administration about NAFTA corresponded with populist ideology. It described NAFTA as a corrupt deal orchestrated by ‘an elite,’ which included both national and transnational actors (such as Democrats, special interest groups, and IOs), to the disadvantage of ‘the American people.’ Furthermore, NAFTA was identified by Trump as a constraint on the economic sovereignty of the US and ‘American workers and farmers.’ In a second step, we looked at the USMCA with the aim of identifying how individual measures were intended to serve as ‘populist corrections’ to NAFTA. Our findings show that on the one hand, provisions clearly indicate that ‘the people’ did not include all American workers and farmers. Rather, they were equated with ‘the Jacksonian fold community’ (Biegon 2019) of dairy farmers and car and steel industry workers, which corresponds with the findings of other studies (Holland and Fermor 2021; Lamp 2020). On the other hand, we found that various alterations were initiated with the underlying aim of strengthening the economic sovereignty of the US government, and ‘American workers’ vis-à-vis their Canadian and Mexican counterparts.

Although it is too early to make any prognosis on the effectiveness of populist economic nationalism,³¹ the renegotiation of NAFTA might have major implications for the global trade system. First, as a potential positive outcome, the principles of worker-focused trade policy may rebalance the substance of trade agreements and regimes in favor of wage-earners. In fact, as Lighthizer put it, the Trump administration’s trade policy approach ‘has sought to balance the benefits of trade liberalization with policies that prioritize the dignity of work’ (Lighthizer 2020). Nevertheless, at this point it has to be stressed that the populist notion of ‘the people’ actually hides the fact that trade deals will lead to winners and losers even among workers and farmers (see USITC 2019). In fact, a populist division of the society between ‘the people’ (who deserve special attention in trade deals) and ‘the non-people’ (who might be disadvantaged by them) is likely to recreate the criticism that the existing system is responsible for job losses. As the head of the International Association of

³⁰ <https://www.finance.senate.gov/imo/media/doc/SFC%20Hearing%206-18-2019%20QFR%20Responses%20FINAL.pdf>.

³¹ For a collection of studies see e.g., the website of the Peterson Institute of International Economics, www.piie.com.



Machinist and Aerospace Workers pointed out, the USMCA will do little if anything to keep American jobs from moving to Mexico.³²

Second, a populist objective to ensure higher levels of inclusion is likely to lead to two separate but interrelated outcomes. First, it may challenge multilateral settings. Re-negotiating bilateral and regional trade agreements with the aim of 'correcting deficiencies' might lead to bilateral trade agreements weakening the WTO even more. Shifting from multilateralism to bilateralism can, however, be tricky. For example, the USMCA foresees that disputes in the field of public procurement between Canada and the US are still settled through the WTO Appellate Body. In addition, the complex web of FTAs where individually relative gains may be secured might prove costlier at the aggregate level and may lead to constant renegotiations to adjust existing agreements, which could undermine global trade stability. Secondly, the increased economic sovereignty of ordinary citizens may be interpreted as an intrusion into the national sovereignty of others, as the case of labor attachés indicates. Yet another element that may impact the LIO is a potential increase in the role given to national trade law in trade negotiations and agreements. Special regulation, as the case of Sect. 232 of the 1962 Trade Expansion Act (on national security-based limitations) has demonstrated, might influence and ultimately alter trade agreements in the name of 'the economic sovereignty of the people.'

Over and beyond the shift toward bilateralism, populist economic nationalism may have a major impact on the LIO. For example, the Trump administration focused solely on trade deficits and devised measures that might not lead to any relief in this regard, as more complex, macroeconomic reasons may be responsible for those imbalances. To what extent such agreements prove to be sustainable in the long run is yet to be determined. Nevertheless, all the above-mentioned factors are likely to increase unpredictability within the existing global trade system and could lead to greater uncertainty and, as a side-effect, produce trade agreements with disadvantages even worse than those populists promised to fight against.

Funding Open Access funding enabled and organized by Projekt DEAL.

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³² 'President sees good signs on meeting Hi,' The Washington Post, December 2, 2018.



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