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## HOW GLOBALIZATION AND FREER TRADE ARE CREATING A NEW ARCHITECTURE OF NORTH AMERICA

*Stephen Blank\**

### I. THE FUNDAMENTAL INTENT OF THE CANADA-U.S. FTA

The Canada-U.S. Free Trade Agreement ("FTA") came into existence on January 2, 1989 as U.S. President Ronald Reagan and Canadian Prime Minister Brian Mulroney concluded four years of preparations and negotiations. The agreement, says one member of Canada's negotiating team, was "the most comprehensive and far-reaching trade agreement ever signed between two sovereign nations."<sup>1</sup>

It is easy to misunderstand the fundamental nature of the agreement—to see it as a trade agreement and starting point for U.S.-Canada economic integration. In reality, the FTA was *not* the beginning of the process of economic integration between the United States and Canada and is *not* concerned primarily with trade.

Rather, the agreement marked the recognition by both countries of the high levels of bilateral economic integration that had already been achieved. It was less an effort to stimulate new trade than to stabilize an emerging environment in which vast and rapidly increasing interdependencies made each side vulnerable to actions by the other. Finally, it acknowledged the need to develop new rules and practices that would lessen the danger that the gains of wider markets would be eroded by unilateral actions.

A massive increase in cross border trade due to falling tariff levels was not anticipated. Although high tariffs remained in force on some products, about 65% of all merchandise imports from the United States into Canada and about 70% of all merchandise imports from Canada into the United States were already duty-free, and trade between the U.S. and Canada already constituted the world's greatest

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1. Michael Hart, *The Canada-United States Free Trade Agreement: The Negotiating Process*, in *NEGOTIATING FREE TRADE: CONTRASTING STRATEGIES ON THE U.S.-CANADA TRADE AGREEMENT* 69, 69 (Guy Stanley ed., Institute for U.S.-Canada Bus. Studies 1989).

bilateral relationship.<sup>2</sup>

The Canada-U.S. agreement is not, in this view, a up-dated version of the 1957 Treaty of Rome, the objective of which was to increase trade and heighten integration among its members or, indeed, the various GATT Round accords. It is much closer in intent to the EC/92 agreements which are less aimed at increasing trade than at laying out a wide array of new arrangements dealing with the emerging political, economic, regulatory and legal infrastructure of the European Community. The Canada-U.S. agreement resembles the U.S.-Japan Structural Impediments Initiative in that it focuses mainly on the structure of the two economic and political systems rather than on water's-edge barriers to the movement of goods and services.

If high levels of economic integration preceded the FTA, the agreement nonetheless intensified the process of building new political, administrative and regulatory structures and practices for managing a relationship which transcends national control over national economies. With the new dispute settlement mechanism, we see the emergence, however modest, of a binational system of law, precedent and practice. And by raising levels of confidence that the process of bilateral economic integration will not be interrupted, the FTA has also been a powerful stimulus to cross-border corporate reorganization and rationalization.<sup>3</sup>

## II. A "NORTH AMERICAN ECONOMIC SPACE"

In a fundamental sense, the Canada-U.S. FTA was not about trade. Much, probably the largest share, of Canada-U.S. trade occurs within companies. It is more accurate to talk about complex, cross-border production and marketing networks than trade in a classic sense of arm's length transactions across national borders. What results is a much "deeper"—more "structural"—integration that builds upon the trade-based linkages of the "GATT era".<sup>4</sup>

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2. EARL FRY, CANADA'S UNITY CRISIS: IMPLICATIONS FOR U.S.-CANADIAN RELATIONS 3-4 (1992) (citing Data from Survey of Current Business, March 1992).

3. See STEPHEN BLANK & STEPHEN KRAJEWSKI, STRATEGIC CHANGE AND THE MANAGEMENT OF FIRMS ACROSS NATIONAL BORDERS IN NORTH AMERICA (The Americas Society 1993 Working Paper No. 3); See also Isaiah Litvak, U.S. Multinationals: Repositioning the Canadian Subsidiary, 3 BUS. IN THE CONTEMP. WORLD 111 (1990); See also JOSEPH D'CRUZ & JAMES FLECK, YANKEE CANADIANS IN THE GLOBAL ECONOMY (The National Centre for Management Research and Development, 1988).

4. For a discussion of the notion of "complex interdependence" see ROBERT O. KEOHANE & JOSEPH S. NYE, POWER AND INTERDEPENDENCE: WORLD POLITICS IN TRANSI-

Allan Gotlieb, a former Canadian Ambassador to the United States and a noted legal scholar, recently suggested how the integration of economies in North America is making international law in its traditional sense increasingly irrelevant.<sup>5</sup> Relations between the U.S. and Canada are much less structured by international rules and regulations, he says, than by domestic policies which shape trade and investment flows and influence competitive advantage.

Gotlieb notes that economic integration gives rise to an increasing number of regulatory incongruities. For example, while it might well be deemed good business practice for an American power authority to offer deep discounts to its corporate customers who sell in to American clients, it is viewed as a violation of trade law if Hydro-Quebec provides a similar discount to its customers who trade with the same American clients. If we have free trade, he argues, regulatory arrangements based on national sovereignty must be revised, and the same rules should apply to all when they are dealing in the same markets.

Gotlieb speaks of the gradual emergence of a "new jurisprudence", the beginnings of which are already visible in the Canada-U.S. dispute settlement process. This new jurisprudence builds on the domestic legal structures of the two nations, but constitutes a substantially new addition to their legal systems. He sees in the future a tri-level legal and political structure in North America: An over-arching North American framework, with national systems and strong regional systems within this.

American and Canadian firms are evolving new strategies and structures for new North American markets.<sup>6</sup> They cannot continue to operate low-output, high-cost branches that formerly sheltered behind high Canadian tariffs. The more open Canadian economy forces firms to restructure operations in the context of global, continental or regional interests. In research currently underway at the Americas Society in New York, a survey of senior executives from some 30 *For-*

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TION 24-29 (1977). But Albert Bressand adds a much deeper understanding of the changing nature of corporate networks. See, for example, Albert Bressand, *Beyond Interdependence: 1992 as a Global Challenge*, 66 INT'L AFFAIRS 1 (1990).

5. Allen Gotlieb, "International Law in a North American Economic Space", Address before the Americas Society/Canadian Affairs (Nov. 21, 1991).

6. See STEPHEN KRAJEWSKI, ADJUSTING TO THE NEW NORTH AMERICAN COMPETITIVE DYNAMIC: THE EXPERIENCE OF U.S. SUBSIDIARIES IN CANADA (Americas Society Working Paper No. 2); See also STEPHEN BLANK & STEPHEN KRAJEWSKI, STRATEGIC CHANGE AND THE MANAGEMENT OF FIRMS ACROSS NATIONAL BORDERS IN NORTH AMERICA (America's Society Working Paper No. 3, 1993).

tune 500 firms shows that more than 75% of these companies have already put in place a North American strategy and that the majority of them have developed a North American structure as well. We found no firms that were restructuring specifically to take advantage of a "Canadian" market. Rather, restructuring has been undertaken to enable firms to compete more effectively in wider global, continental or regional markets.<sup>7</sup>

For many businesses, it makes much more sense for a division in Southern Ontario or New York to supply a region composed of Eastern Canada and the Northeastern states than to ship across the continent to Vancouver. The economic logic of an emerging North American economic space is eroding the political logic of national economies. The Canada-U.S. FTA, an emerging "new jurisprudence" in North America and new corporate structures and strategies are all responses to the same phenomenon—a new economic "architecture" of North America.

### III. A NEW "ARCHITECTURE" OF NORTH AMERICA

Developments in North America suggest that the conventional state-centered approach is now inadequate to an understanding of emerging political, economic, legal and corporate systems, at least in North America. This is not meant to suggest that those proponents of "globalization" are accurate when they contend that borders are becoming irrelevant in a world characterized by increasingly widespread markets.<sup>8</sup> Rather, the point is that notions of sovereignty that have structured thinking about international relations and the international economy since the late 19th century, and particularly since the end of World War II, must be revised in light of current developments.<sup>9</sup>

The state as it emerged in the post-World War II era defined most social systems in national terms—not only law and force, but education, the economy, social welfare, industrial development and research and development as well. But the state-centered system is

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7. BLANK & KRAJEWSKI, *supra* note 6.

8. Kenichi Ohmae is probably the best known advocate of this view. See KENICHI OHMAE, *THE BORDERLESS WORLD* (1990). See also Kenich Omhae, *Managing in a Borderless World*, HARV. BUS. REV., May-June 1989 at 152.

9. Andrew Shonfield observes that a key characteristic of the postwar era was increased control over national economies by public authorities and the "pursuit of intellectual coherence" in the form of "long-range national planning." Andrew Shonfield, *MODERN CAPITALISM; THE CHANGING BALANCE OF PUBLIC AND PRIVATE POWER* 64, 67 (Oxford University Press 1965).

breaking down. The United States and Canada, for example, are sovereign states. But they are coming increasingly to share a single economy and sovereign control over national economies is eroding.

Kenichi Ohmae, the well-known Japanese management consultant, feels that the concept of national borders will soon become obsolete or irrelevant.<sup>10</sup> But we are not moving toward Ohmae's "borderless" world. Rather we are heading toward a world of multiple borders, many of which are overlapping, and political authorities on different levels which increasingly share (and compete to control) functions. The outcome of present trends will not be the simple erosion of the state-system either upward, into some sort of North American sovereign entity, or downward, to the independence of various sub-national regional entities, but rather the emergence of a more complex system of "linked loyalties" and "pooled sovereignties".

In his recent book on "the transformation of Western Europe", William Wallace describes nicely the emergence of a system of multi-layered loyalties:

The emergence of a diffuse sense of European identity has *not* led to a transfer of loyalties from the national to the European level, as some foresaw. What we have observed across Western Europe over the last two decades is a shift towards multiple loyalties, with the single focus on the nation supplemented by European and regional affiliations above and below.<sup>11</sup>

#### IV. STRONGER REGIONS WITHIN NORTH AMERICA

Trade and investment flows have not grown evenly across borders. Instead, flows of goods, services, capital and people have deepened between particular areas in each country.<sup>12</sup> They create new

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10. See Ohmae, *supra* note 8.

11. WILLIAM WALLACE, *THE TRANSFORMATION OF WESTERN EUROPE* 33 (1990).

12. We lack good disaggregated (by state and province) trade and investment flow data. For anecdotal evidence see, Prem Gandhi, *Trade and Investment Flows in New York State: Effects of the Free Trade Agreement*, in *ECONOMIC OPPORTUNITIES IN FREER U.S. TRADE WITH CANADA* 89 (Fredric C. Menz & Sarah Stevens eds., 1991); Richard M. McGahey & Jonathan P. Doh, *Effects of Freer Trade on New York State: Economic Impact and Policy Considerations*, in *ECONOMIC OPPORTUNITIES IN FREER U.S. TRADE WITH CANADA* 101 (Fredric C. Menz & Sarah Stevens eds., 1991); see also Michael Goldberg & Maurice D. Levi, *The Evolving Experience along the Pacific Northwest Coast called Cascadia*, 7 *THE NEW PACIFIC* 28-32 (1992). On similar developments in Western Europe, see Martin Kolin-sky, *The Nation-State in Western Europe: Erosion from 'Above' and 'Below'?*, in *THE NATION-STATE: THE FORMATION OF MODERN POLITICS* (Leonard Tivy, ed. 1985).

interests and sharpen regional differences—a new economic structure which has profound consequences for how we will organize and live our lives in the future. Thus at the same time as we see the emergence of an over-arching Canada-U.S. FTA, we also see heightened regional differentiation within North America.

Freer and vastly increasing trade and investment flows give regions within nations much greater choice in economic development. Freer trade with the United States, rather than leading to the “Americanization” of Canada—so feared by Canadian economic nationalists, has really opened up the door to greater differentiation within the Canadian and American economies.

Canada is one of the world’s most trade-based economies. Among the G-7, only Germany trades more as a percentage of its Gross Domestic Product.<sup>13</sup> But Canada’s economy is really four distinct regional economies: British Columbia, the prairies, central Canada (itself an increasingly uncertain amalgam of Ontario and Quebec), and Atlantic Canada, and Canada’s economic performance from the mid-1970s onward shows the impact of these regional diversities. International economic integration has intensified the tendency for Canada’s regional economies to relate to each other as a zero-sum game in which good times for one region are achieved at the expense of the others. When international commodity prices boom, central Canadian manufacturers complain. When natural resource prices fall, the resource producing regions in Canada’s West suffer while Toronto feels no pain at all. This regionalization of economic trends stimulates internal migration flows which further add to regional imbalances.

The internationalization of the American economy has also intensified regional disparities. U.S. states, no less than Canadian provinces, compete increasingly for foreign investment and to promote local exports.<sup>14</sup> More broadly, American states seek to create competitive advantage with new mixes of extractive and distributive policies, by reorganizing administrative structures and by launching new initiatives in support of education, science and advanced technology.<sup>15</sup>

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13. CANADA 1991: AN INTERNATIONAL BUSINESS COMPARISON 28 (1992).

14. See James D. McNiven, *Challenge and Response: The Rise of State Export Development Policies in the U.S.*, DISCUSSION PAPERS IN INTERNATIONAL BUSINESS, No. 80, April 1989; Japan Economic Institute, *Globalization, Economic Realities Force States to Reassess their Overseas Programs*, in JEI REPORT, No.19A, May 15, 1992; Earl Fry, *The U.S. States and Foreign Economic Policy* (unpublished paper prepared for the Conference On Managing Foreign Relations In Federal States, March 11-12, 1992).

15. See Jurgen Schmandt, *Regional roles in the governance of the scientific state*, in GROWTH POLICY IN THE AGE OF HIGH TECHNOLOGY: THE ROLE OF REGIONS AND STATES

What these developments suggest, following Michael Porter's notion of "clusters of excellence",<sup>16</sup> is that clusters are more likely to develop for many industrial sectors at regional and local rather than national levels, and that a North American economic geography is emerging, characterized by increasing specialization and competition among sub-national and cross-border regions. As Porter himself has emphasized, "competitive advantage is often highly localized in regions or even cities."<sup>17</sup>

Economics more than ethnicity help us understand developments, for example, in Quebec. Rita Dionne-Marsolais, a leader of the Parti Quebecois, writes that "while the rest of Canada believes Quebec's aspirations are basically cultural, in reality they are strongly economic."<sup>18</sup> About 45% of Quebec's gross product is exported, she says, half to the rest of Canada, half to international markets. Since the mid-1970s, Quebec sales in Canada have grown at 3% a year, but Quebec sales to international markets have increased at an annual rate of 15%. As barriers to trade and investment have declined and trade and investment volumes increased, Quebec, Dionne-Marsolais concludes, has learned that its destiny lies increasingly in its economic relationships outside of Canada. Globalization has enhanced Quebec's self-consciousness and self confidence.

Regionalization of our economies accounts for the growing importance of cross-border entities such as "Cascadia" (made up of Oregon, Washington, British Columbia and Alaska)<sup>19</sup> or "PNWER"—the "Pacific Northwest Economic Region"—an association of state and provincial legislators from Alberta, British Columbia, Alaska, Oregon, Washington, Montana, and Idaho.<sup>20</sup> Cascadia, a new agreement between Alberta and Montana on regulating cross-border trucking, and the complex relationship between New York's energy needs, environmental considerations and the future of Hydro Quebec's James Bay project all illustrate the emergence of new crossborder regional interests.

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14 (Jurgen Schmandt & Robert Wilson eds. 1990).

16. MICHAEL PORTER, *THE COMPETITIVE ADVANTAGE OF NATIONS* 131-75 (1990).

17. Michael Porter, *Japan Isn't Playing By Different Rules*, N.Y. TIMES, July 22, 1990, at 13.

18. Rita Dionne-Marsolais, *The FTA: A Building Block for Quebec*, 21 THE AMERICAN REV. OF CANADIAN STUDIES 245 (1991).

19. *State Industrial Policy; Et in Cascadia, Ego*, THE ECONOMIST, Feb. 29, 1992 at 28.

20. Mindy Cameron, *Moving Beyond Lattes, Grunge and Flannel*, THE SEATTLE TIMES, Jan. 3, 1993, at A18.



NAFTA's impact, for example, will be felt mainly in the Mexican states that border the Rio Grande and in California and Texas. Even without an agreement, a new, cross-border economic region is emerging. Socrates Rizzo, the governor of the state of Nuevo Leon was recently cited in *The Economist* as saying, "We're moving towards the integration of Texas and north-east Mexico into a single region." The same article notes that hundreds of Texan and Mexican companies have poured across the border to open offices, start up joint ventures or set up distribution arrangements.<sup>21</sup>

What is happening between Monterrey and northeastern Mexico and the border area of Texas around San Antonio, and elsewhere along the U.S.-Mexico and the U.S.-Canada border, is not the result of a free trade agreement. It is the force that is driving these agreements!

The new architecture is not oriented solely on a north-south axis. Japanese and Pacific trade and investment flows are also shaping the new North American architecture. About 40% of all U.S. exports to Japan, for example, originate in three states—California, Washington and Oregon.<sup>22</sup> The interests of these states are influenced substantially by this deepening Pacific relationship. Some Americans, whose jobs may be at risk because of Japanese imports, were offended by Nintendo's offer to purchase the Seattle Mariners. But not in the Pacific Northwest, where Japanese are huge buyers of Boeing jets, forest products and other regional goods.<sup>23</sup>

Similarly, one economist writes that in California, hundreds of millions of dollars in special industrial tax credits that can be traded among Californian, Japanese, Malaysian, Singaporean and other Pacific Rim companies have been issued in coordination with Japan's Ministry of Finance.<sup>24</sup> A consortium of private California banks, backed by the Japanese Ministry of Finance, offers risk-calibrated deposit insurance for their largest depositors, and an increasingly large number of accounts there are now denominated in yen. "It's not that California has become any less a part of the U.S.," the author observes, "it's just that the state has also become a more explicit part of

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21. *It's Happening in Monterrey: Mexico*, THE ECONOMIST, June 27, 1992, at 50.

22. Matt Rothman, *The Western Edge*, BUSINESS TOKYO, Aug. 1991, at 17.

23. Timothy Egan, *Wave of Japan-Bashing Stings Pacific Northwest*, N.Y. TIMES, Feb. 4, 1992, at A1.

24. Michael Schrage, *Should California Be G-8?*, INTERNATIONAL ECONOMY, Oct.-Dec, 1990 at 76.

the Pacific Rim.”<sup>25</sup>

## V. IMPLICATIONS OF THE NEW ARCHITECTURE

One critical implication is the eroding capacity of central governments to “manage” what are no longer national economies. In both Canada and the United States, economic globalization reduces the capacity of the central government to protect regions from the impact of changes in international price movements or to create durable prosperity.<sup>26</sup> As Richard Simeon observes of Canada in particular:

I think it is clear that globalization reduces the power and capacity of *all* governments. In the Canadian case, however, it is the federal government that is most likely to be the greatest loser in the long run. Its powers are most constrained; it has the least ability to develop coherent policies, since it must balance so many regional interests; and it has less jurisdiction over the kinds of quality-of-life issues that are likely to become the major areas of government innovation in the future.<sup>27</sup>

In both countries—not just in Canada—changes in the federal system are shifting many new responsibilities and powers to states and provinces. The second great revolution in American federalism since the 1930s was in large part a response to the changing place of the United States in the global economy.<sup>28</sup> The first revolution, born of the Depression and World War II, concentrated enormous spending and policy making power in Washington. The second, since the Carter and Reagan Administrations, dispersed much of this back to the states. One analysis of US federalism notes that Federal grants, which accounted for 26% of state spending in 1980, now account for only 18%, and policy-making and financial responsibilities have gone hand in hand.<sup>29</sup> The same article continues that, “While Washington makes empty promises of national strategies, the states have been quietly

25. *Id.*

26. See Stephen Blank et al., *Redefining Sovereignty for the 21st Century*, 21 *THE AMERICAN REV. OF CANADIAN STUDIES* 329 (1992).

27. Richard Simeon, *Globalization and the Canadian Nation-State*, at 53, in *CANADA AT RISK? CANADIAN PUBLIC POLICY IN THE 1990S* (G. Bruce Doern & Byrne B. Purchase eds., C.D. Howe Institute 1992).

28. See ALICE RIVLIN, *REVIVING THE AMERICAN DREAM: THE ECONOMY, THE STATES AND THE FEDERAL GOVERNMENT* 8-16 (The Brookings Institution 1992).

29. *Washington Passes Paralysis on to the States*, *THE ECONOMIST*, Feb. 9, 1991, at 27.

coping with transport bottlenecks, energy policy, environmental degradation and poverty . . . . It is the states dealing with issues Washington is too timid to address."<sup>30</sup>

Both countries confront serious institutional frictions that are accentuated by this shifting balance of power between central and state/provincial authorities. In Canada, the failure of central governmental institutions to represent regional interests has long been a source of frustration among non-Central Canadians,<sup>31</sup> and demands for institutional reform increased dramatically in the negotiations over constitutional reform.<sup>32</sup> What began as the "Quebec Round" of negotiations following the collapse of the Meech Lake Accord was quickly transformed into a much wider debate over the nature of Canada's constitutional system as a whole.<sup>33</sup>

On the U.S. side, state governments are often poorly structured to bear the kind of social and fiscal responsibilities they now confront. Archaic state fiscal systems and state legislatures which heavily over-represent rural interests are common problems. Alice Rivlin, one of the most highly regarded American economists, has recently laid out a "blueprint for pushing power down to the states and cities."<sup>34</sup> In an interview published in *Fortune*, she observes, "Part of the reason for the public's low confidence in government is that no one's sure who's in charge of what. I'm proposing a stricter division of labor."<sup>35</sup> In this interview, Rivlin says that the federal government should manage social insurance, foreign affairs and areas where activities cross state borders, as well as finance the health care system.<sup>36</sup> States should be responsible for a productivity agenda that includes education, training, community development, housing and the infrastructure.<sup>37</sup> She suggests that some fiscal and policy responsibilities might be exercised by groups of states working together.<sup>38</sup>

30. *Id.*

31. See R. Kent Weaver, *Political Institutions and Canada's Constitutional Crisis, in THE COLLAPSE OF CANADA?* 7 (R. Kent Weaver ed., The Brookings Institution 1992); See also PETER BRIMELOW, *THE PATRIOT GAME; NATIONAL DREAMS AND POLITICAL REALITIES* 77 (1986).

32. See THOMAS J. COURCHENE, *IN PRAISE OF RENEWED FEDERALISM* 10-22 (1992).

33. See Anthony Westell, *Why We're Having Trouble Making a Silk Purse Out of a Sow's Ear*, *TORONTO GLOBE AND MAIL*, Nov. 21, 1992, at D4.

34. RIVLIN, *supra* note 28.

35. Suneel Ratan *Shifting Power Out of the Beltway*, *FORTUNE*, June 29, 1992, at 25.

36. *Id.* at 36.

37. *Id.*

38. *Id.*

These tensions are not limited to North America, but are rising in all other advanced industrial nations, particularly those with federal systems of government. One report recently observed how negotiations in Germany between the federal government and country's 16 states have been deadlocked as they have tried to change the German constitution to clear the way for the Maastricht Treaty on European union.<sup>39</sup> The article described this disagreement about the federal nature of the Republic and about control over its foreign policy in very familiar terms:

At stake is how far the states will be given an effective veto of any future transfer of sovereignty to European Community institutions, and how far they will be given co-decision-making rights with the Bonn Government on EC legislation. Senior German officials accuse the states of seeking to turn the country into a loose confederation . . . .<sup>40</sup>

It is inappropriate, however, to try to conceptualize these changes simply in terms of transfer or devolution of authority within existing federal systems. What is going on is more complex than this.

The direction of change is not toward a "borderless" world, but toward more complex political organizations. As national borders no longer define the boundaries of social systems, those boundaries will assume a rather wider range of shapes. For example, efforts to heighten competitive advantage are more likely to be undertaken successfully, at least for many sectors, at local and regional rather than national levels and, similarly, most observers feel that education is more likely to evolve as a local or regional rather than a national responsibility. But many environmental issues transcend regional or even national borders, and few would deny the need to maintain national or international rules that ensure economic openness. An adjustment policy for North America's automotive industry might be more rationally organized by Ontario, Quebec and several states rather than as one dimension of a coast-to-coast Canadian national policy.

In this sense, what is happening in North America may well be moving us closer toward what Europeans call "subsidiarity"—that decisions should be devolved to the lowest level of government capable of handling them—than to more traditional definitions of federal-

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39. Quentin Peel, *Bonn and Länder hit Maastricht Deadlock*, *FINANCIAL TIMES*, June 12, 1992, at 2. See also David Goodhart, *System Without a Centre—but with History on its Side*, *FINANCIAL TIMES*, Oct. 21, 1988, at 21.

40. Peel, *supra* note 39.

ism.<sup>41</sup>

It is clear that a general trend toward devolution will also create substantial needs for re-centralization of authority in certain areas. Standards and rules are required to maintain a "level playing field", for example, in terms of trade, treatment of investment and fair competition. In the emerging system of governance in North America, national sovereignty will be unbundled both downwards and upwards and the boundaries of new systems of authority will differ from traditional national borders.

What all of this suggests, finally, is that competition among authorities for control over different systems is likely to increase and could well dominate politics for the foreseeable future. Rivlin emphasizes the need "to sort out functions of government—both between the federal government and the states and within the states—to clarify missions and make sure everyone knows who is responsible for which activities."<sup>42</sup> Barring some sort of ecological emergency, the revival of aggressive authoritarian rule in the former Soviet Union or some yet unforeseen disaster, sorting out who is responsible for what is probably going to be the most difficult problem we will face over the next decades.

Sorting it out would be difficult at the best of times. These are not the best of times.

First, all parties bring a certain "baggage" with them into the game. Globalization has disrupted long-established patterns of social relationships. The import-substitution-based economy of John A. Macdonald no longer exists and, without this, many Canadians fear that they possess insufficient common interests to maintain Canadian identity and cultural coherence.<sup>43</sup> Less profound, but still painful, the effects of the integration of the U.S. economy into global markets are taken by many Americans as evidence of national decline.

As national sovereignty and the capacity of central governments to guarantee prosperity both erode, it is scarcely surprising that there

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41. B. Guy Peters, *Bureaucratic Politics and the Institutions of the European Community*, in *EURO-POLITICS: INSTITUTIONS AND POLICYMAKING IN THE "NEW" EUROPEAN COMMUNITY*, 110-111 (Alberta M. Spragia ed., The Brookings Institution 1992).

42. RIVLIN, *supra* note 28, at 180.

43. See Giles Gherson, *Canadian Continentalism and Industrial Competitiveness*, in *CANADA AMONG NATIONS 1992-1993: A NEW WORLD ORDER?* 155 (Fen Osler Hampson and Christopher Maule eds., Carleton University Press 1992)(providing an excellent review of Canadian second thoughts about the Free Trade Agreement); see also Maude Barlow, *The Free Trade Agreement Fails Canada*, 21 *THE AMERICAN REV. OF CANADIAN STUDIES* 163 (1992).

is a strong economic nationalist/protectionist backlash. Nor should it be surprising that this movement unites groups on the Canadian left and the American right and much of the North American labor movement. Groups on Canada's left are as fiercely determined to preserve Canadian sovereignty as those on the American right, while the restructuring of North American industry has been borne heavily on the backs of industrial workers.

The grinding recession, the battering American and, even more, Canadian firms have taken and the escalating number of lost jobs all keep eyes focused on shares of a shrinking pie.

The pain is more intense because the impact of globalization comes on top of an on-going revolution in the way we make things. Driven by slow growth, heightened global competition and the availability of new technology, the structure of production and employment is changing in the 1990s in a way comparable only to the revolution of mass production in the 1880s and '90s. What this means is that many of the most secure North American workers in the post-World War II world—our core middle class of high school educated, unskilled, blue collar industrial workers and the vast service economy that grew around them and their factories—are being left high and dry as firms struggle to compete by adopting new capital driven technologies.

One cannot deny, finally, there is danger that political systems could lurch in unexpected directions. History is not short of ironies. Economists from Adam Smith to Karl Marx were sure that the thrust of capitalism was fundamentally international and that it would destroy the surviving remnants of medieval state systems. But the world of the 20th century and modern industrial capitalism was shaped far more by statesmen like Bismark, by "gas and water" socialists like the Fabians and by Meiji reformers, all of whom saw the rising industrial system in the service of the modern state. The emergence of the new industrial era at the end of the 19th century coincided not with a new internationalism driven by international markets or by international classes, but rather by intense and vicious nationalism.

The danger is that the growing regionalization of the North American economy could lead to fragmentation, regional trade barriers and exclusiveness, or to efforts to revive old national sovereignties. But the opportunities are enormous: enhanced efficiency, more rapid growth and greater regional variety and autonomy.

