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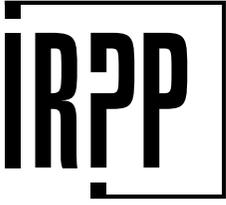
The Role of
Sub-National
Governments in
North American
Integration

Thinking
North
America



Earl H. Fry

Comments by
Gerald Boychuk



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The Art of the State II
Thinking North
America

Thomas J. Courchene,
Donald J. Savoie and
Daniel Schwanen, editors

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THIS YEAR MARKS THE 15TH ANNIVERSARY OF THE CANADA-US FREE TRADE Agreement (FTA) and the 10th anniversary of the North American Free Trade Agreement (NAFTA) coming into force. While these anniversaries would rather naturally have led to increased interest in ways to broaden and deepen our North American trading relationships, the tragic events of 9/11 have added homeland security as a complicating issue to the already full free trade agenda. With this in mind, in October 2003 the IRPP convened its second “Art of the State” conference around the theme “Thinking North America: Prospects and Pathways.” Outstanding experts from Canada, Mexico and the United States came together to explore new ideas, new instruments and new processes for enriching our North American experience in ways that at the same time preserve Canada’s freedom to manoeuvre. We attempted to remedy gaps in the public discourse and understanding of how three proud and sovereign nations could advance common causes and manage their increasing interdependence. In this context, it is a pleasure to acknowledge our partner in this endeavour, the Canadian Institute for Research on Regional Development at the University of Moncton.

The concrete result of this conference is the series of papers of which this folio is an integral part. The contributions will be released individually, but together form a collection that will explore a wide range of North American issues, including:

- ◆ The trade and economic dimensions of the Canada-US relationship
- ◆ The pros and cons of an enhanced institutional structure, including the possibility of a treaty for a revitalized community of North Americans
- ◆ The deep determinants of integration; whether a North American “citizenship” can evolve from current relationships; and whether new rights should be extended to private parties to give direct effect to commitments by governments
- ◆ The management of environmental issues
- ◆ The role of states and provinces in any future trilateral relationship
- ◆ How efforts at making North American integration work better should be seen in light of other international agendas being pursued by the three nations, in particular that of the Free Trade Area of the Americas

On behalf of the IRPP, I want to express my sincerest thanks to the many contributors to these volumes and to extend my appreciation of their efforts to develop their ideas to new levels of depth, clarity and relevance to policy. This is due in no small part to the diligence of the three co-chairs of the second “Art of the State” conference and editors of this collection: IRPP Senior Scholar Thomas Courchene, Senior Fellow Donald Savoie and Senior Economist Daniel Schwanen. It is their hope and mine that this series will be useful to all those involved in the multifaceted North American relationships and that, mindful of potential pitfalls ahead, this work will also help train our eyes on the rewards that the three nations could reap from improving those relationships.

Hugh Segal

Montreal, March 15, 2004

The Role of Subnational Governments in North American Integration

Introduction

IMAGINE IF CANADA WERE EMPOWERED WITH A *LORD OF THE RINGS*' EXPERIENCE AND could reconfigure North American geography. Would it be satisfied to replace the other side of its southern border with the nations of Nigeria, Bangladesh, the Dominican Republic, Italy, Russia, Poland, Austria, Tunisia, the Slovak Republic, Kuwait, Sweden and Morocco?

And if the United States were able to do the same, would it be pleased to find the Ivory Coast, Luxembourg, Armenia, Belarus, Argentina, Russia, Kazakhstan, Guatemala, Egypt and Malaysia on its northern border, or Lebanon, Romania, Luxembourg, Kazakhstan, Costa Rica and Guatemala sharing its southern boundary?

Politically and strategically, both Canada and the United States would certainly reject such a proposition because of the complications involved with dealing with such a vast array of developed and developing societies, but economically they might be tempted because of the excellent trade, investment and tourism opportunities that would arise from having so many nations situated within such close proximity of their borders.

At least in terms of comparative gross domestic product (GDP), this scenario currently exists in North America. Canada shares common land borders with 11 US states, and running east to west, the individual states produce respectively as much each year as the individual nations listed in the first paragraph. The same can be said for Canada's 10 provinces that either share or are close to sharing common borders or waterways with the United States along a border that runs 5,558 miles (including the border between Alaska, British Columbia and the Yukon). On the 2,066 mile southern border of the United States, neighbouring

Tamaulipas produces as much each year as Lebanon, Nuevo León as much as Romania, Coahuila as much as Luxembourg, Chihuahua as much as Kazakhstan, Sonora as much as Costa Rica and Baja California as much as Guatemala. Table 1 provides a more comprehensive look at how US states and Canadian provinces compare with nation-states around the world in terms of GDP. It also illustrates why such rich and varied opportunities exist for the North American business community in the world's largest regional market.

The North American Free Trade Agreement (NAFTA) brings together Canada, the United States and Mexico in a regional economic alliance with almost 430 million consumers. The combined GDP of its member states in 2002 was US\$11.7 trillion, and three-way trade in goods totalled US\$614 billion. When measured in terms of gross national income, NAFTA is an alliance of the world's largest, eighth largest, and ninth largest national economies (World Bank Group 2003). It also accounts for 7 percent of the world's population, but over 30 percent of the world's economic output.

Among the roughly 200 nation-states in the world today, only two dozen maintain federal systems of government that divide authority constitutionally between national and regional governments. Unlike the trend elsewhere in the world, all three NAFTA member states have federal systems. Canada has the most decentralized system, with the 10 provincial governments exercising more policy-making latitude than either the 50 US state governments or the 32 Mexican state governments (including the Federal District). Up until the present decade, federalism was strictly a facade in Mexico, with governmental authority being heavily concentrated among the Partido Revolucionario Institucional (PRI) leadership in Mexico City. Since the election of the Partido de Acción Nacional's (PAN) candidate Vicente Fox as Mexico's president in July 2000, some of the state governments have actually begun to exercise real authority, with their leaders making contacts and strengthening ties domestically and internationally, especially in the arenas of economic development, health care, education, agriculture and certain natural resources (Letarte 2003).

Many political leaders in the three national capital cities of Ottawa, Washington, DC, and Mexico City are hopeful that NAFTA will eventually be an integral part of the proposed Free Trade Area of the Americas (FTAA), and some perceive that North American economic integration should proceed unabated even after the original NAFTA agreement is fully implemented in 2008 (Fry

Comparable US State,
Canadian Provincial and
Nation-State GDPs
(US\$ billions)

State or province	Nation with comparable GDP
California (1,359)	#5 France (1,343)
New York (826)	#7 Italy (1,098)
Texas (764)	#8 Canada (700)
Florida (491)	#12 Brazil (497)
Illinois (476)	#13 South Korea (473)
Pennsylvania (408)	#14 Netherlands (387)
Ohio (374)	#15 Australia (387)
New Jersey (365)	#15 Australia (387)
Michigan (320)	#16 Russia (308)
Ontario (301)	#16 Russia (308)
Georgia (300)	#16 Russia (308)
Massachusetts (288)	#17 Switzerland (274)
North Carolina (276)	#17 Switzerland (274)
Virginia (273)	#17 Switzerland (274)
Washington (223)	#19 Sweden (222)
Maryland (195)	#20 Austria (190)
Indiana (190)	#20 Austria (190)
Minnesota (188)	#20 Austria (190)
Tennessee (183)	#21 Saudi Arabia (181)
Missouri (181)	#21 Saudi Arabia (181)
Wisconsin (177)	#22 Poland (177)
Colorado (174)	#23 Turkey (174)
Connecticut (166)	#24 Norway (172)
Arizona (161)	#26 Denmark (163)
Quebec (156)	#27 Argentina (154)
Louisiana (149)	#28 Indonesia (150)
Alabama (121)	#29 Greece (124)
Kentucky (120)	#30 Thailand (122)
Oregon (120)	#31 Finland (122)
South Carolina (115)	#32 South Africa (113)
Alberta (96)	#37 Egypt (98)
Oklahoma (94)	#38 Ireland (93)

State or province	Nation with comparable GDP
Iowa (91)	#38 Ireland (93)
Kansas (87)	#39 Singapore (86)
British Columbia (86)	#40 Malaysia (86)
Nevada (79)	#42 Colombia (80)
Utah (70)	#43 Chile (66)
Arkansas (68)	#43 Chile (66)
Mississippi (67)	#43 Chile (66)
District of Columbia (64)	#43 Chile (66)
Nebraska (57)	#45 Czech Republic (57)
New Mexico (55)	#47 Peru (55)
New Hampshire (47)	#51 Bangladesh (48)
Hawaii (44)	#51 Bangladesh (48)
West Virginia (42)	#53 Romania (41)
Delaware (41)	#53 Romania (41)
Maine (37)	#54 Nigeria (39)
Rhode Island (37)	#55 Kuwait (37)
Idaho (37)	#55 Kuwait (37)
Alaska (29)	#57 Morocco (35)
South Dakota (24)	#62 Kazakhstan (22)
Manitoba (23)	#62 Kazakhstan (22)
Montana (23)	#63 Slovak Republic (21)
Saskatchewan (22)	#64 Guatemala (21)
Wyoming (20)	#65 Croatia (20)
Vermont (19)	#66 Dominican Republic (20)
North Dakota (19)	#67 Tunisia (20)
Nova Scotia (17)	#73 Luxembourg (17)
New Brunswick (13)	#80 Belarus (14)
Newfoundland & Labrador (10)	#88 Ivory Coast (10)
Prince Edward Island (2)	#145 Armenia (2)

Sources: World Bank Group, "Total GDP 2002," 2002, www.worldbank.org; Statistics Canada, "Gross Domestic Product, Expenditure-Based, Provinces and Territories," 2003, www.statscan.ca; US Department of Commerce, "2001 Gross State Products," Bureau of Economic Analysis, 2002.

Note: Nation-state data based on gross national income estimates for 2002; provincial data for 2002; and state data for 2001. Number sign indicates actual GDP ranking.

2003). This article will look away from the national capitals and turn instead toward the state and provincial capitals, with the intent being to ascertain how these major subnational governments in North America are influencing this process of continental economic integration.

The Rationale for
Growing Subnational
Government Activity at
Home and Abroad

PROVINCIAL, STATE, COUNTY, MUNICIPAL AND OTHER TYPES OF SUBNATIONAL GOVERNMENTS have always been expected to protect and enhance the interests of the constituents whom they represent. This representation process has become much more complicated in the face of globalization. International trade in goods and services now equals about US\$7.5 trillion annually, equivalent to 23 percent of global GDP versus only 12 percent back in 1960. Approximately 36 percent of global merchandise trade is concentrated in four major regional trading groups: the European Union, NAFTA, Association of South East Asian Nations (ASEAN) and Mercado Común del Sur (MERCOSUR) (World Trade Organization 2003). Foreign direct investment (FDI), which provides an investor in one country with a controlling interest in a company in another country, has also flowed at unprecedented levels for most of the past decade, with much of this investment attributable to multinational corporations (MNCs). In 1960, approximately 7,000 MNCs were operational compared with 60,000 in 2002. These corporations in turn have over 800,000 affiliates and employ 54 million workers worldwide (UNCTAD 2002). Portfolio investment and international currency exchanges are also near record levels, and many people in Canada and the United States are international investors via their mutual funds and pension plans. Moreover, the movement of people across national borders has never been greater, with 715 million people visiting other countries in 2002, and a record 175 million immigrants living in nations other than their country of birth, double the figure of three decades ago (World Tourism Organization 2003; UN Population Division 2002).

Globalization means that many more jobs at the local level are dependent on what transpires internationally. In the United States, 12 million jobs are linked to

exports, almost seven million to foreign-owned companies situated on American soil, and one million to international tourism. Thirty-seven percent of all US exports are destined for the markets directly to its north and south, even though these two North American neighbours collectively account for only 6 percent of the world's GDP and 2 percent of the global population outside the United States. In Canada and Mexico, the dependency is much higher proportionally. Both countries export about 85 percent of their goods to the United States, and this represents over 32 percent of Canada's GDP and over 21 percent of Mexico's (compared with less than 3 percent of US GDP linked to combined exports of goods to its neighbours). Over one million Canadians and one million Mexicans work for US-owned corporations in their respective homelands, and Americans also comprise an overwhelming percentage of all foreign tourists visiting each country (Mataloni 2002; US Office of Travel and Tourism Industries 2003).

Some municipal governments in North America are also among the subnational actors becoming increasingly engaged internationally, and for good reason. Cities on a regional, national and global basis are competing against one another to attract businesses, manufacturing enterprises, research-and-development facilities and head offices in an effort to provide well-paying jobs for local residents and in the hope of developing world-class clusters, whether these clusters be related to the auto industry, steel, textiles, energy, transportation, information technology, biotech, or emerging fields linked to nanotechnology. A recent study by the US Conference of Mayors compared the annual production in metropolitan areas in the United States in 2001 with the GDPs of nation-states. The study revealed that if city/county metro economies were individual nation-states, 47 of the world's 100 largest "national" economies and 85 of the top 150 would be situated in US metropolitan areas (US Conference of Mayors 2001). Major municipalities such as New York City, with an annual local government budget approaching US\$45 billion, also spend more annually than do many national governments.

As the UN suggests, "A country's global success rests on local shoulders" (UN HABITAT 2001). In the United States, 84 percent of the nation's employment is concentrated in 319 metro areas. In Canada, the second largest nation in the world in terms of territory, over half of the population and jobs are concentrated in only four broad metropolitan regions, mostly sequestered close to the US border: Toronto and the Golden Horseshoe region of southern Ontario, Montreal, Vancouver and the lower British Columbia mainland, and the Calgary-Edmonton

corridor. This concentration in four major centres has prompted Diane Francis to label Canada as primarily “a handful of city-states” (Francis 2002). Further south, Mexico City is tied with Bombay as the world’s second largest megacity, and the Federal District and the state of Mexico together account for a third of Mexico’s total production (UN HABITAT 2001; Banco de Información Económica 2003).

Another manifestation of the local-global linkage is the cross-border movement of people, with most immigrants gravitating to large cities. In the United States, half of the foreign-born population resides in the Los Angeles, New York City, San Francisco, Miami and Chicago metro regions, which together account for 21 percent of the total US population. Today, 36 percent of New York City’s population is foreign-born, and almost 48 percent of the population over the age of five speaks a language other than English at home (US Bureau of the Census 2002). More than two-thirds of Californians who are 65 or older are non-Latino whites, in sharp contrast to the more than half of those younger than 18 who are Latino or Asian (*Los Angeles Times*, 2 September 2003). In Santa Ana, California, for example, which maintains the state’s fifth largest public school district, 74 percent of the residents speak Spanish as their first language and another 5 percent speak a language other than English (*Washington Times*, 28 January 2003). In Canada, 73 percent of immigrants arriving between 1990 and 2000 settled in Toronto, Montreal or Vancouver and almost 44 percent of all the residents in the Toronto metropolitan region were born outside Canada (McIsaac 2003; *The Globe and Mail*, 21 January 2003).

Consequently, “think globally and act locally” has become a truism in an era of globalization as local and regional levels of government attempt to implement policies that will assist their local constituents to take advantage of the positive features of globalization while mitigating the negative effects. Several studies have recently been completed in the United States that attempt to “map” globalization at the state or municipal levels to indicate in concrete terms how economic globalization is affecting the citizenry at the grassroots level (Shatz 2003; Bachman 2003; Erie 2003; Feinberg 2001; Fry and McCarlie 2002; Morris 2003; Treverton 2003). It is now very clear that globalization and rapid technology change do not treat all local jurisdictions equally and may even exacerbate long-standing regional disparities. The Silicon Valley has been a great beneficiary of globalization and has enjoyed an almost 10-fold increase in jobs during the last two decades of the twentieth century, whereas Detroit, Newark and several other US communities suffered through dramatic losses in manufacturing jobs, in large part because of

increased foreign competition. Residents of Connecticut still have almost twice the per capita income as residents of Mississippi (US Bureau of the Census 2002). The per capita annual production base in Newfoundland and Labrador is only 60 percent of Alberta's level, and only 2 of the 10 provinces are considered by the federal government to be "have" provinces, with the remainder classified as "have-not" provinces that are entitled to special transfer payments (Statistics Canada 2003). Globalization may offer opportunities for smaller subnational governments to make new inroads in terms of economic development, or it may actually widen the gap between the richer and poorer states and provinces.

There is also an "act globally and impede government locally" dimension to globalization. Over the past 15 years there has been a proliferation in bilateral, regional and international economic agreements, accords that at times clash with the jurisdiction carved out for subnational governments in federal systems. For example, NAFTA's Chapter 11 has resulted in the creation of NAFTA panels, which have already or may eventually render final decisions that run counter to state and provincial governments' policies. These subnational governments insist that in an effort to provide right-of-establishment and national treatment protection for North American corporations in all three member states, Chapter 11 has unfairly encroached on areas constitutionally reserved for these governments. Some of the most notable Chapter 11 cases have involved Metalclad's allegations against San Luis Potosi, Methanex's against California, Sun Belt Water's against British Columbia, Loewen Group's against Mississippi, Monde International's against Massachusetts, Azinian's against the State of Mexico, and Waste Management's against Guerrero (Soloway 2003). Commitments made by the three national governments in the World Trade Organization (WTO), the proposed FTAA, and other regional and international organizations also contain provisions that encroach upon state and provincial jurisdictions. William Schweke and Robert Stumberg assert that these types of agreements are leading to the creation of a "global constitution" that could "profoundly limit the autonomy and policy discretion of subnational governments in the United States" (Schweke and Stumberg 2000). Concern about such restrictions has prompted the California State Senate to establish the Select Committee on International Trade Policy and State Legislation. The intent of the committee is to assess the impact of trade agreements on California's laws and regulations and to develop an oversight and advice role for the state legislature. With California ranked as the world's fifth largest economy, representatives of the state

government are intent on protecting its formidable political and economic base within the US federal system and within North America as a whole.

The Political and
Economic Bases of North
America's Major
Subnational
Governments

IN PART AS A REACTION TO GLOBALIZATION AND THE INFORMATION AND Communication Technology revolution, US state governments have greatly expanded their own international involvement over the past two decades, and at the end of 2002, 37 of the states and the Commonwealth of Puerto Rico operated about 240 offices abroad, primarily for economic-development purposes (Council of State Governments 2002; Edisis 2003). In the face of the worst budgetary crisis to face the states in several decades, some of these offices abroad are being phased out beginning in 2003 as state governments divert scarce funds to Medicaid, welfare, education, prisons and deficit reduction. In 2001, US states spent about US\$190 million on their international programs, up from US\$20 million in 1982. They also employ about 1,000 people in their international divisions. In nearly all of the states, governors or lieutenant governors lead at least one international mission every year (Edisis 2003; National Governors' Association 2002).

Using US Department of Commerce state production data for 2001 and World Bank gross national income data for the year 2002, California, New York and Texas could be among the 10 largest nation-states in the world, with New York and Texas each producing more than Canada, and California producing more than Canada and Mexico combined. Among the top 25 nation-states in the world, one can add 21 states; among the top 50 nation-states, 38 states; and among the top 72 nation-states, all 50 states.

When compared with all of the other subnational governments in the world, the Canadian provinces are most likely the most active internationally and they have thus far avoided the major budgetary crisis experienced by their US counterparts over the past two years. Ontario's annual production base is about the same as Russia's, Quebec's is equivalent to Argentina's, Alberta's to Egypt's, and British

Columbia's to Malaysia's (World Bank Group 2003; Statistics Canada 2003). Provincial governments actually spend as much on international programs and have more personnel involved than the 50 American state governments combined, even though they collectively represent one-ninth as many people and have one-fourteenth the GDP base. Quebec alone, with its 7.5 million people and an annual production base somewhat larger than Louisiana's, operates 28 *délégations* abroad and has almost as many personnel involved in international programs as the 50 states to its south while spending over C\$100 million per year on international pursuits (Fry 2002; Letarte 2003). In the early 1990s, Ontario operated 19 foreign offices. These offices were abruptly closed by the government of Bob Rae, but some have now been reopened or will soon reopen within Canadian government facilities in New York City, Munich, Shanghai, London and Tokyo. Approximately 230 Ontario employees work on a variety of international programs. Alberta maintains nine foreign offices and has a budget of C\$3 million for its international relations programs and several million dollars more for trade-promotion and other related activities. British Columbia has pared its overseas offices from nine to one, but still has about 100 employees working on a broad range of international trade, investment and other programs. Its total international budget has been in the range of C\$20 million. The other provincial governments have much more modest programs and budgets, but they do sponsor a significant number of international trade missions, with many focused on the United States (Fry 2001).

Cross-Border Activities
of Subnational
Governments Within
North America

A DOZEN AMERICAN STATES NOW MAINTAIN THEIR OWN OFFICES IN CANADA AND 18 states have offices in Mexico (Council of State Governments 2002). Several governors have also directed trade missions to Canada or Mexico over the past few years. For example, Governor Jeb Bush of Florida travelled to Ontario in July 2003 to visit with then Premier Ernie Eves, discuss the merits of Florida-made products, encourage Ontarians to invest in Florida, and persuade Central Canadian residents to visit Florida in the winter instead of going to Cuba or Mexico. A year earlier,

Bush had spoken out strongly in protest when the US Immigration and Naturalization Service (INS) threatened to limit residents of Canada to a month-long stay in the United States instead of six months before having to apply for a visa. The INS altered its position, in part because Florida could have suffered a dramatic drop in visits by Canadian snowbirds (*Toronto Star*, 7 July 2003).

For each year since 1946, Canada has been the number one destination for US exports. Mexico ranked as the fourth largest destination for US exports in 1983, the third largest in 1993 and the second largest in 2002. China will soon overtake Mexico as the second largest foreign supplier of goods to the United States, but Mexico is firmly positioned to remain the second leading export partner. On a sub-national basis, Canada was the leading export destination in 2002 for products from 37 states and Mexico was number one for three states (US International Trade Administration 2003). The large provincial governments operate several offices in the United States and almost all of the provincial governments sponsor economic missions to the United States on a regular basis. Quebec and Alberta also maintain offices in Mexico, and Alberta has a sister-state relationship with Jalisco.

Canadian exports to the United States are now almost twice as large as interprovincial trade (Wolfe 2003). Regionally, business communities in at least 9 of the 10 Canadian provinces now export more to the United States than they do to the rest of Canada, so it is understandable that provincial governments want to be aware of and involved in decision-making concerning cross-border issues that can have a significant effect on the well-being of their local economies (Statistics Canada 2003). The Canada-US Free Trade Agreement (CUFTA) and NAFTA, which superseded it, have also had a profound effect on the economic orientation of most of these provinces. For example, Quebec exported the equivalent of 22 percent of its GDP to other countries in 1988, the year before CUFTA began to be implemented. In 2002, exports had increased to 38 percent of the provincial GDP, with 80 percent of these exports destined for US markets (Turgeon 2003). Alberta's exports have increased in value by 280 percent since 1988, and western Canadian exports in general almost tripled between 1988 and 2002, with 79 percent of these exports destined for the United States in 2002 versus 52 percent in 1988 (Government of Alberta 2003). Ontario has long been the province that is most dependent on access to the US market, and in 2002 a staggering 93.5 percent of its exports of goods went to the United States (Ontario Exports Inc. 2003).

Provincial government representatives have hundreds of meetings annually with US federal and state officials, and some premiers have recently suggested that provincial delegations be formed specifically to lobby directly in Washington, DC, on issues such as bilateral trade (*Globe and Mail*, 8 July 2003). Premier Ralph Klein of Alberta had a meeting with Vice President Richard Cheney in Washington in June 2001, and Premier Richard Hamm of Nova Scotia had a teleconference meeting with Cheney later in December, in part because their provinces have significant reserves of oil or natural gas that the Bush administration would like to see supplied to US customers. Both Ontario and Quebec have been granted an associate membership in the US Council of State Governments, and Quebec City hosted the annual meeting of this US organization in 1999. Several of the provinces have memberships in a wide variety of US or cross-border governmental organizations and periodically meet with state representatives. At the annual meeting of the western premiers held in British Columbia in June 2003, the provincial leaders discussed directly contacting the governors in the western US in an effort to end the ban on the shipment of cattle from Canada because of the mad-cow disease. Governments in Michigan and Ontario have agreed to accelerate plans to build a third transportation route between Detroit and Windsor, hoping to convince federal authorities to speed up the approval of the project (*Toronto Star*, 3 June 2003). Such a new transportation route is critical to Ontario because most of its production winds up in the United States, and it is critical to Michigan because the annual trade that occurs at this border corridor actually surpasses total US exports to Japan. Governor George Pataki of New York and then Premier Bernard Landry of Quebec also met occasionally and discussed the possibility of putting together a joint bid to host a future Winter Olympics. The governments of Alberta, British Columbia and the Yukon have joined with Washington, Oregon, Idaho, Montana and Alaska to form the Pacific Northwest Economic Region (PNWER) which co-ordinates issues on a regional, cross-border basis. At its thirteenth annual meeting held in Calgary in July 2003, hundreds of people gathered to hear reports from each of PNWER's working groups, including agriculture, border issues, energy (two separate groups), environment, forestry, health care, high technology, homeland security, infrastructure finance, sustainable development, tourism, trade and economic development, transportation and workforce development. The New England governors and eastern Canadian premiers have had their own organization in place for nearly 30 years and meet annually to explore

regional solutions to trade, investment, energy, environmental and other policy challenges. At their 2003 meeting held in Connecticut, these leaders deliberated on how to avoid future disruptions of electricity supplies (*Toronto Star*, 9 September 2003). Periodic meetings also occur among the Great Lakes governors and premiers. Hundreds of compacts and accords have been negotiated between state and provincial governments and the degree of interaction between these non-central government entities is almost unparalleled around the world.

To a certain extent, the provincial governments have developed their own foreign relations with the United States, or at least the regions of the United States. This policy stance is predicated primarily on economic necessity because of their companies' high dependency on unrestricted access to the US marketplace. Proximity and familiarity are other motivations for special provincial policies toward the United States. Whereas almost three out of four Americans live in a state that does not share a border with Canada, 96 percent of Canadians live in the seven provinces that do share a common land border with the United States. Canada is also the second largest nation in the world territorially, but two-thirds of all Canadians live within one hundred miles of the US border and four-fifths within two hundred miles.

Because of the legacy of centralization of authority in Mexico, governmental contacts between the US and neighbouring Mexican states along the shared border have been more modest, but they have certainly existed and have picked up some steam since Vicente Fox came to office in Mexico City. The Border Governors' Conference has convened annually since 1980 and brings together the leaders of California, Arizona, New Mexico, Texas, Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas. Its 2003 meeting was held in Chihuahua and its 2004 conference is scheduled for New Mexico. Legislators from these same states are also involved in the new Border Legislative Conference, which was formed in part by the Council of State Governments West and the Southern Legislative Conference. It has held meetings over the past two years in San Diego, Austin, Nuevo Laredo and Lake Tahoe to discuss such issues as commerce, security, water quality, air pollution and migration. In addition, the legislatures in Arizona, California, New Mexico and Texas all have committees that deal with cross-border issues. On a bilateral basis, the Sonora-Arizona Commission has existed for over 40 years in an effort to enhance co-operation between these neighbouring cross-border states. Similar commissions have been created by New Mexico and Chihuahua and by California and Baja California. Governor Gray Davis visited Mexico within

a month of his first inauguration and then hosted Mexican President Ernesto Zedillo for three days in May 1999. President Fox was the first world leader to visit President George W. Bush at his ranch in Crawford, Texas, after Bush's inauguration, but both were well acquainted with one another because they had met previously in Bush's capacity as governor of Texas and Fox's as governor of Guanajuato. At an even lower level of government, 24 counties have joined together to form the United States/Mexico Border Counties Coalition and it held its most recent annual meeting in Las Cruces, New Mexico. Table 2 lists some of the major cross-border commissions and groups involving US subnational government representatives and their counterparts from either Mexico or Canada.

Municipal officials in the three countries also get together on an infrequent basis, with many of the contacts made by city leaders who are close to the respective borders. For example, San Diego and Tijuana representatives meet fairly often, with San Diego officials appreciating the almost \$3 billion per year that is pumped into the county's retail sector by visitors from Tijuana and northern Baja California (*San Diego Dialogue*, December 2001). Other municipal leaders have banded together in an effort to promote north-south "Canamex" transportation corridors between Canada and Mexico, because trucking is the major mode of shipment for goods going north-south (Hart and Dymond 2001).

Approximately 28 percent of all immigrants in the United States come from Mexico, with over 23 million US residents either born in Mexico or of Mexican descent, double the figure of 1990 (US Bureau of the Census 2002; *Los Angeles Times*, 1 June 2003). The number of Mexican-born residents in the United States was officially estimated at 9.2 million in July 2002 versus 800,000 in 1970 (US Bureau of the Census 2002). Although very difficult to verify, Steve Hanke of Johns Hopkins University estimates that almost 25 percent of the Mexican adult workforce is currently employed or seeking employment in the United States (Hanke 2003). With so many Mexican-Americans and Mexicans living and working in the United States, cross-border contacts are proliferating dramatically. The governor of Oaxaca spoke in 2001 to the Oaxacan Foundation of Los Angeles and pledged to match three dollars from the local, state and federal governments in Mexico for every dollar sent by the Los Angeles group for infrastructure improvements in Oaxaca. Mexican states can also send representatives to the Mexico Trade Center in Santa Ana, California, where cross-border projects can be discussed and developed (*US Mayor*, 17 March 2003). The governors of Yucatan, Hidalgo, Nuevo León and the State of Mexico are

Border Commissions and Groups

Border Governors' Conference

Arizona, California, New Mexico, Texas; Baja California, Chihuahua, Coahuila, Nuevo León, Sonora, Tamaulipas

Border Legislative Conference

Arizona, California, New Mexico, Texas; Baja California, Chihuahua, Coahuila, Nuevo León, Sonora, Tamaulipas

Chihuahua — New Mexico Border Commission

Commission of the Californias

California, Baja California Norte, Baja California Sur

Council of Great Lakes Governors

Illinois, Indiana, Michigan, Minnesota, New York, Ohio, Pennsylvania, Wisconsin; Ontario and Quebec [associate members]

Idaho-Alberta Task Force

Montana-Alberta Bilateral Advisory Council

New England Governors and Eastern Canadian Premiers

Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont; New Brunswick, Newfoundland and Labrador, Nova Scotia, Prince Edward Island, Quebec

Pacific Northwest Economic Region (PNWER)

Alaska, Idaho, Montana, Oregon, Washington; Alberta, British Columbia, Yukon Territory

Sonora-Arizona Commission

among those who have recently travelled to Washington, DC, to meet with members of the US-Mexico Binational Council to share their insights.

In terms of cross-border economic relations between the United States and Canada, some states and provinces have taken matters into their own hands and subverted the faithful implementation of NAFTA or World Trade Organization (WTO) provisions. South Dakota has certainly done this from time to time with its onerous inspection practices aimed at slowing the inflow of Canadian cattle, hogs and wheat. Several states continued to discriminate against Canadian and other foreign beers in state government-operated liquor stores, in spite of warnings from the General Agreement on Tariffs and Trade (GATT) — the predecessor of the WTO — to cease from doing so. The Minnesota-Ontario flap over the conservation of sauger and walleye fish stocks in shared boundary waterways, and New York's decision to temporarily prohibit Ontario and Quebec companies from bidding on state and local government contracts because of alleged procurement discrimination in those two provinces, are other examples of state or provincial parochialism or protectionism (de Boer 2002). Some private companies in North America have also been dissatisfied with a variety of subnational government practices as manifested by the NAFTA Chapter 11 cases listed earlier.

FUTURE POLICY CONSIDERATIONS

ALTHOUGH PERIODIC RECESSIONS AND BUDGET CRUNCHES MAY SLOW THE DEVELOPMENT of programs at times, it is likely that many Canadian provincial and American state governments will continue to expand their continental and international linkages in order to cope more effectively with the effects of protracted economic globalization. The same will probably occur among Mexican state governments, but some uncertainty exists because of the poor showing of Fox's PAN party in the July 2003 legislative and gubernatorial elections, his lame-duck status up until the next presidential election in 2006, and the potential revival of the electoral fortunes of the once dominant and indeed oppressive PRI. Even in this case, however, it is difficult to perceive that PRI leaders, in the face of NAFTA responsibilities, and what has transpired domestically between 2001 and 2006, would ever attempt to revert back to the heavily centralized system of govern-

ment that characterized Mexico from 1929 until the end of the twentieth century. The six states that border the United States will continue to take advantage of their geographical position to strengthen ties with their neighbouring American states, and other Mexican states will also endeavor to expand their cross-border linkages in the spirit of NAFTA and further regional economic integration.

Ottawa, Washington, DC, and Mexico City can also do a much better job of consulting with these subnational governments before they ponder further economic integration on a continental basis. The Canadian government has the best track record in meeting with provincial representatives and taking into account their concerns and aspirations prior to approving CUFTA, NAFTA and the WTO. Especially in the case of CUFTA, the major provincial governments put together talented trade teams who wrote sophisticated position papers and bargained diligently for the interests of their respective governments. The degree of federal-provincial consultations waned somewhat with NAFTA and the WTO, and provincial governments would like much greater input if NAFTA is ever expanded or deepened, especially if serious consideration is given to the creation of a customs union, common currency, or the free movement of labour.

Consultations between Washington and the state governments have ranged from very sporadic to non-existent. Some state governments have demanded that meaningful intergovernmental discussions occur before the federal government enters into bilateral (most recently Singapore and Chile), regional (NAFTA, FTAA and Central America), or international (WTO) economic agreements. This has never happened, with the very minor exception of periodic sessions featuring federal trade officials held at the annual meetings of the National Governors' Association (NGA) and the Council of State Governments (CSG). Both the NGA and the CSG maintain international committees and have identified contact people in each state who are experts in global issues and are prepared to carry on fruitful discussions with representatives of the White House, the Office of the US Trade Representative (USTR), the Department of Commerce, or other pertinent federal entities. In contrast, officialdom in Washington perceives that it has the exclusive constitutional authority to enter into treaties and trade agreements and that state and city officials should express their views through their elected representatives in the House and the Senate. These federal officials would add that recent trade agreements have not been ratified exclusively by the Senate as stipulated in the Constitution for the approval of formal treaties, but rather through votes in both

chambers as agreed to in the fast-track legislation in effect for most of the period between the Gerald Ford and George W. Bush administrations. This dual-chamber ratification process should, it is argued, provide subnational government officials with an even greater voice in Washington via their elected representatives up on Capitol Hill. Some of the state officials counter by reminding Washington that international treaty obligations occasionally conflict with the areas of jurisdiction reserved to the states by the Constitution, and that this should necessitate direct discussions and even negotiations between the two levels of government officially recognized in the Constitution: the national and state governments.

If little in the way of direct discussion occurs in the United States, this is still better than the absence of any such discussions in the Mexican federal system. As a result of his own stint as governor and his views favouring enhanced federalism, Vicente Fox has at least discussed trade issues with state representatives and has pledged greater co-operation in the international economic arena, such as the opening of the Santa Ana trade office, which can be used by Mexican state officials. Nevertheless, this is still a minor step toward any meaningful federal-state dialogue and it is difficult to predict whether even the modest inroads occurring during the Fox administration will be carried on by his presidential successors.

In his "pluralist perspective" on North American institutions, Robert Wolfe suggests that a huge number of such institutions currently exist, whether they are formal or are created in the course of the millions of daily interactions within and among the NAFTA nations, including the more than 200 million crossings that occur at the Canada-US border annually or the more than 300 million such crossings at the Mexico-US border (Wolfe 2003). The 92 major subnational governments in the three member countries constitute an important part of this institutional framework and are influencing the course of North American economic integration on a daily basis. Ottawa has begun to recognize the importance of linkages in various parts of the United States as it has recently announced that it will open seven new consulates, upgrade two to consulates-general status, and appoint 20 honorary consuls in various parts of the United States (DFAIT 2003). Mexico City has had a huge increase in the number of its US consulates, in part to interact more easily with the millions of its citizenry who reside in the United States, and in part to express its point of view to subnational governments and their local business communities. Currently, the Mexican government operates 44 consulates in the United States and three in Canada.

Certainly, economic integration within North America may be strengthened much further even after the NAFTA accord is fully implemented in 2008. Wendy Dobson envisions a North American “economic space” and a common competition policy (2002a). Tom Courchene has been a consistent advocate of a North American currency union (2003). Michael Hart and William Dymond strongly advocate a much more open border, especially between the United States and Canada (2001). Robert Pastor recommends that several North American institutions be created and that the *amero* be introduced as the continent’s new currency (Pastor 2001). Vicente Fox supports the creation of a customs union and would like to see open borders for the movement of labour within a decade. The prospects for further economic integration could be enhanced if the following is done in relationship to the major subnational governments of North America.

First, *decrease the number of subnational government barriers to the free flow of trade and investment*. In commenting on the tenth anniversary of the implementation of Canada’s Internal Agreement on Trade, which was intended to lower inter-provincial trade barriers, Wendy Dobson labelled it a “non-event,” because little had been accomplished (2002b). Both Ottawa and the provinces must do more to make the Canadian domestic market truly seamless. Otherwise, the gap between inter-provincial trade and international trade with the US will continue to grow and some direct investment may be diverted to the United States or Mexico.

Stephen de Boer argues that there are also significant internal barriers in the United States and “until the issue of sub-federal engagement, particularly on the part of the US states, is addressed, it is difficult to imagine how meaningful integration initiatives can proceed” (2002, 20). He adds that “despite the relatively superior powers of Washington over Ottawa to enforce trade decisions, sub-federal non-compliance with international trade obligations is more of a problem in the United States than it is in Canada” (12). One significant problem facing the United States is the number of huge incentive packages offered by state and local governments to foreign investors, including hundreds of millions of dollars in incentives to foreign-owned automakers to set up facilities in Alabama, Kentucky and South Carolina (Fry 1998). Such incentives distort investment flows and may actually be diverting new investment from both Mexico and Canada.

Mexico is only at the beginning stages of reducing impediments to the movement of goods, services and capital among the states — impediments often

linked to local graft and corruption — and improvement in this arena will be a key part of bringing greater prosperity to the nation as a whole.

Second, *thoroughly study the implications of globalization on governance within federal systems.* Much more academic work is needed on what globalization actually is and how it affects North America in areas such as crime, culture, cyberspace, disease, economics, energy, environment, immigration, terrorism and weapons proliferation. Immigration, for example, is having a significant effect on regions of Canada and the United States, with the foreign-born population in Canada now surpassing 18 percent and in the United States approaching 12 percent, with more immigrants entering both countries during the 1990s than at any other period in history. In economic terms, how well can Mexico compete for low-skilled, labour-intensive jobs from other parts of North America when its wage rates are three times higher than China's? What is a viable economic strategy for Mexico within the parameters of NAFTA?

Furthermore, how is globalization affecting the development of federalism in the three North American nations? Is the trend toward entering into regional and international agreements by Ottawa, Washington and Mexico City effectively eroding the political authority of the provincial and state governments? In an era of "intermestic" politics, where it is extremely difficult to differentiate between what is "domestic" policy and what is "international" policy, are subnational governments as autonomous actors within their federal systems becoming less relevant (Manning 1977)? Indeed, would governmental decision-making be made less complicated and more efficient in an era of globalization by centralizing greater authority at the national level? Can a vibrant and energetic federal system survive the exigencies of globalization and unprecedented technology change, and if so, what changes need to be introduced in order to preserve the integrity of subnational governments?

Third, *set up a databank showing the areas of interdependence within North America and the types of interactions and number of agreements entered into by state and provincial governments.* More research is needed on the specific areas of North American interdependence and the roles played by the national and subnational governments in responding to the challenges of continental interdependence. For example, the electricity outage of August 2003 affected about 50 million people in Ontario and the northeast and midwest of the US. Earlier outages affected California, several other western states and British Columbia. Smaller outages have affected parts of California and northern Mexico. Which levels of government and what actors in the private sector have been responsible for these outages and what

must be done on a cross-border basis to avoid such major disruptions in the future? One possible solution would be greater and more regularized state and provincial government involvement in the North American Electric Reliability Council. This organization was created in 1968 to ensure that the bulk electric system in North America remains reliable, adequate and secure. Its membership comprises 10 Regional Reliability Councils, which account for virtually all the electricity supplied in the United States, Canada and a portion of Baja California. State and provincial government involvement might help tailor-make electrical needs on a regional basis and set up new standards for cross-border collaboration and compliance.

Canada now ranks as the largest foreign supplier of petroleum products to the United States, with 15.3 percent of total imports in 2002. Mexico was the fourth largest supplier in 2002, accounting for 12.1 percent of imports (US International Trade Administration 2003). What roles are being played or should be played by national and subnational governments in this transfer of energy? Was it advisable for the Alberta and Nova Scotia premiers to meet directly with the US vice president to discuss future energy shipments, or should such discussions have been channelled through Canadian federal government representatives? How easy will it be to reach a final agreement on softwood lumber when significant differences of opinion on an acceptable settlement exist among some of the Canadian provincial governments? Should these governments begin to lobby Washington directly on matters of prime concern to their constituents, and could they actually achieve unanimity among themselves on major policy issues?

The three national governments should also join with the subnational governments in ascertaining how many agreements, accords, pacts, memoranda of understanding and informal arrangements actually exist between the states and provinces in North America. Wolfe estimates that there are at least 270 agreements between the US states and the Canadian provinces (2003). This figure may actually be too low, because Roger Swanson's inventory of such agreements in the early 1970s added up to several hundred and Don Munton and John Kirton estimated the total to be over 400 in the mid-1990s (Swanson 1974; Munton and Kirton 1996). No one seems to have a good handle on the number and types of agreements entered into and interactions occurring among North America's major subnational governments and this type of information could be quite valuable, especially in view of the highly asymmetrical nature of the trilateral relationship in which Canadian and Mexican dependency on access to the

US market is so much greater than the US dependency on its northern and southern neighbours (Villeneuve 1998).

Fourth, *establish effective and regularized consultations between the national and subnational governments on international and "intermestic" issues*. Ralph Klein has publicly called for a new institutional structure within Canada that would guarantee that Ottawa would consult with the provincial governments before entering into any international agreement that could affect provincial areas of jurisdiction (Klein 2003). Such an arrangement would likely involve the First Ministers' Conference, where the prime minister could meet directly with the premiers to establish a permanent consultative mechanism. The new Council of the Federation, composed of representatives from the 10 provincial and three territorial governments, could provide the institutional structure for a meaningful intergovernmental dialogue. The council might also become the key institutional structure for the provinces to engage in regular dialogue and joint projects with the American and Mexican states. In particular, a relationship should be developed in the near future with the US National Governors' Association.

As emphasized earlier, intergovernmental consultations in the United States on CUFTA, NAFTA, FTAA, WTO, or any other international issues lag far behind the level of federal-provincial discussions in Canada. A meeting was held at the Office of the US Trade Representative in April 2003 in an effort to establish some form of meaningful dialogue, but these sporadic attempts to jump-start the process have been tried in the past without success. Earlier programs designated a single representative within each state, but these people were rarely contacted by Washington, and as administrations changed at the national and state levels, liaisons were lost in the shuffle. The best program would be to set aside time in the annual meeting of the National Governors' Association for the president to discuss pertinent continental and international issues with the governors. Having 51 people in the room with their array of staff would be much more awkward than the meeting of 11 heads of government in Canada, but it would at least represent a step in the right direction. Some consultations filtered through the Council of State Governments and the National Council of State Legislatures would also be helpful. In addition, with the help of some federal funding, states have begun to form regional commissions for economic development purposes. These groupings include the long-established 13-state Appalachian Regional Commission and newer organizations such as Northern Great Plains Inc. (Iowa,

Minnesota, Nebraska, North Dakota and South Dakota), and the Southwest Regional Border Authority (California, Arizona, New Mexico and Texas). Idaho, Oregon, Montana and Washington are in the process of forming a new commission, but all of these endeavors may be in jeopardy because of efforts in Congress to cut half of the proposed funding for regional commissions during fiscal year 2004 (*Christian Science Monitor*, October 2003).

The almost complete lack of sustained consultation between the federal and state governments on the one hand, and state and local governments on the other, regarding the future of NAFTA and other North American integration issues, is quite discouraging. The same can be said about a similar lack of inter-governmental consultations in Mexico, but this is at least understandable when one remembers the single-party authoritarian rule that characterized Mexico through the last seven decades of the twentieth century.

Fifth, *advise all state and provincial governments to establish strategic plans for coping with globalization and then institutionalize these plans.* As mentioned earlier, globalization in general and NAFTA in particular do not treat each province or state equally. Each major subnational government should develop its own strategic plan to take advantage of the positive features of globalization and mitigate as much as possible the negative dimensions. The strategic plan should include a candid assessment of the jurisdiction's major strengths and weaknesses, followed by a globalization checklist assessing the region's global infrastructure, international companies, international transportation and communications capability, international organizations, international media presence, international civic organizations, research-and-development facilities, higher education institutions, ethnic groups and associations, and other relevant features.

Sixth, *understand that border states and provinces do face a special set of challenges different at times from their nonborder counterparts.* Almost all of the groups listed in table 2 are exclusively composed of border states and provinces. There are currently 91 US ports of entry to Canada, 75 over land and 16 over bridges, and relatively open borders are especially important for many of these border governments in order to facilitate trade, investment and tourism activity in the post 9/11 period. The Transport Canada blueprint released in February 2003 provides some useful guidance, stipulating that the Canadian government will work collaboratively with the provinces, municipalities, stakeholders and US authorities to facilitate the secure and efficient movement of people and goods along corridors and

at border crossings through co-ordinated transportation planning, deployment of advanced technologies and border infrastructure improvements (Roth 2003). Such a commonality of interests encourages significant cross-border co-operation, and their close proximity to one another spills over into rendering assistance to fight forest fires and responding to other emergencies.

Regionalism at times trumps nationalism when it comes to ascertaining the best interests of individual states and provinces. The legislatures of Idaho, Oregon, Washington and Alaska each passed resolutions supporting Vancouver's successful bid for the 2010 Winter Olympic Games, even though Vancouver's selection could be viewed as hindering the chances of New York City securing the nomination to host the Summer Olympic Games in 2012 (*New York Times*, 7 May 2003). In 1995, a delegation from Baja California flew to South Korea to lobby Daewoo to build a US\$270 million television picture tube plant in Tijuana. California's trade and commerce secretary accompanied the delegation and vigorously supported the Mexican state's campaign. Trade officials in Sacramento recognized that no California city could compete with the low wages Tijuana could offer to Daewoo, but that San Diego would still benefit economically by local companies securing selected contracts and by having Daewoo executives work in Tijuana but live in San Diego. Consequently, the strategy was to support the bid of a subnational government in another country over bids made by communities in other parts of the United States (Fry 1998).

Conversely, because they are often dependent on revenues generated by the same natural resources as their cross-border neighbours, skirmishes can occur among border governments, as manifested by periodic subnational government disputes linked to lumber, potatoes, cattle, hogs, water and salmon. A recent example was Governor Frank Murkowski of Alaska telling a Calgary audience that Canada should remain silent while US political leaders decide whether subsidies should be offered for a natural gas pipeline from Alaska to the lower 48 states, in spite of the fact that a good portion of the pipeline is likely to run through Canadian territory (*Anchorage Daily News*, 30 September 2003). Such regionalized cross-border disputes obviously run counter to efforts to enhance continental economic integration.

The border region between the United States and Mexico faces the most severe challenges in the future. The 39 border municipalities in six Mexican states and the 24 border counties in four US states are home to more than 10 million residents, and the population in Mexico's border states has increased almost

eight-fold since 1940 (Instituto Tecnológico 2002). Near the end of the 1990s, 80 percent of *maquilas*, the in-bond assembly plants created after the inauguration of the bilateral Border Industrialization Program in 1965, were located in these border states. Moreover, about 300,000 workers cross the border legally every work day as they transit to jobs in the United States (Herzog 1999). The Mexican government has even instituted a program providing low-interest loans for Mexican-Americans or Mexicans who reside in the United States but want to buy a house in Tijuana. Prices for these homes run between US\$44,000 and US\$115,000, far below comparable housing costs just a few miles north in San Diego county (*San Diego Union-Tribune*, 29 June 2003).

Some very positive features are found along the border, but major problems also exist in terms of pollution, aquifer depletion, growing salinity, primitive infrastructure and housing, drug trafficking and illegal immigration (Instituto Tecnológico 2002). These problems will require intense state-to-state, city-to-city and national-government-to-national-government cross-border co-operation before they can be solved satisfactorily. Their solution, or lack thereof, will go a long way toward determining whether economic integration can work successfully between an advanced developed market and an emerging market.

Finally, *encourage subnational governments to engage in "foreign affairs" but to avoid the pitfalls of "foreign policy."* Subnational governments should certainly be engaged in a variety of continental and international activities that could lead to greater economic prosperity and a better quality of life for their constituents. These activities would fall within the realm of foreign affairs.

They are asking for trouble, however, if they persist in engaging in foreign policy. Activities that fall within this realm would include Massachusetts' sanctions on companies doing business with Myanmar, a host of state and local government sanctions against companies doing business with South Africa during the apartheid years, state and local government "sanctuary" programs that forbade local law-enforcement officials from co-operating with the INS in tracking down undocumented immigrants from certain countries, threats by California and New York City to prohibit certain Swiss banks from doing business with their governments unless they provide restitution to the families of Holocaust victims who had opened accounts in these banks prior to Second World War, and the recent warning by California and New York officials levelled at Unocal to end its joint venture in Myanmar or face severe economic consequences (*Los Angeles Times*, 2 September

2003). The actions of Ralph Klein and Ernie Eves, who sent letters to US Ambassador Paul Cellucci condemning Ottawa's position toward the US invasion of Iraq and expressing strong support instead for the Bush administration's position, might also fall within this "foreign policy" domain (*Toronto Star*, 21 March 2003).

Some of these causes or positions may be very laudable, but the entry of subnational governments into areas clearly reserved for their federal governments will exacerbate rather than facilitate the necessary intergovernmental cooperation that is currently needed to confront globalization successfully and to maximize the benefits of North American economic integration.

C o n c l u s i o n

IN SUMMARY, NORTH AMERICAN ECONOMIC INTEGRATION CONTINUES TO SOLIDIFY AT the national and subnational government levels and in the private sector. The state and provincial governments can play a positive role if Ottawa, Washington and Mexico City eventually decide to enlarge or deepen NAFTA after it is fully in place five years from now, even though such negotiations are unlikely to lead in the near future to such dramatic changes as a customs union, common currency, or the free movement of labour (Fry 2003). Ideally, the national governments will hold meaningful discussions with their subnational counterparts to ascertain how further integration might impact the political authority of the states and provinces and alter the overall system of federalism in each of the three North American nations. A failure to consult and negotiate in good faith could result in some setbacks and exacerbate tensions both at the intergovernmental level within each country and among some of the state and provincial governments on a cross-border basis.

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Comments

EARL FRY'S PAPER, "THE ROLE OF SUBNATIONAL GOVERNMENTS IN NORTH AMERICAN Integration" adopts, as its main focus, the question of how subnational governments in North America are influencing the process of continental integration. The paper raises both the question of the means by which they do so as well as whether such involvement conditions the actual outcomes and, if so, to what effect. The paper presents a large compendium of interesting empirical facts and makes a number of important observations regarding, most notably, the growing international involvement of subnational units in economic integration, the increasing pattern by which cross-border regionalism may trump nationalism, and the extent to which subnational jurisdictions may seriously impede deeper economic integration through subversion of the North American Free Trade Agreement (NAFTA) or World Trade Organization (WTO) provisions. The paper also outlines a number of substantive recommendations to enhance the prospects for further economic integration as well as recommendations for further study. However, the questions implicitly raised in the paper may suggest an even more significant program of research than its explicit recommendations for further study. The crux of the issue of the role of subnational governments in North American integration is how, *specifically*, have subnational governments been involved in the integration process and to what extent has this involvement mattered in terms of conditioning the outcomes of this process? Having a solid understanding of these issues is a prerequisite in formulating effective recommendations aimed at enhancing the prospects for further integration.

The need for rigorous empirical study that is sensitive to the peculiarities of each federation is highlighted by a number of marked asymmetries between

and within each of the three federations as outlined in the paper. First, the federal systems in the three countries are very distinctive, both in terms of the level of centralization and the roles of subnational governments in each. This will have an important impact on the role that subnational jurisdictions play in integration in each country, as well as the substantive impact that their involvement will have. Second, there are huge asymmetries in the economic weight of subnational jurisdictions in the three countries, with three American states having a higher gross domestic product than either Canada or Mexico. Such differences may convey differential abilities of subnational jurisdictions either to “fly under the radar screen” of international agreements if they are small enough or, alternatively, to openly challenge such agreements and seriously frustrate deeper economic integration if they are big enough.

Furthermore, important dynamics within and specific to each federation are likely to have important implications for how subnational governments have conditioned the process of economic integration. For example, the political dominance of Ontario and Quebec in the Canadian federation is not mirrored in the other two federations. Perhaps most importantly, Ontario is both the largest Canadian province and the most dependent on access to the US market (see table 1). For example, observers such as Courchene warn of the possibility of serious intergovernmental tensions resulting from any federal policy that hinders Ontario’s competitiveness across such diverse issues as bank mergers, marginal federal tax rates and even exchange-rate fixity. There is also significant variation within each country in levels of public support for deeper economic integration. Drawing again on the Canadian example, opposition to deepening integration is 50 percent in British Columbia and only 21 percent in Ontario (see table 2). That this is explained, in large part, by the softwood lumber dispute is patently obvious; however, it does not diminish the significance of the point. The federal-provincial and interprovincial dynamics generated from these variations in dependence on and support for continental integration will be specific to the Canadian situation and, undoubtedly, similar particularities exist in the other two federations. These are the types of internal dynamics that need to be much more deeply explored across all three federations in order to understand the role and impact of subnational governments in continental economic integration as well to assess the likely success of different approaches to fostering economic integration.

Ratio of US to
Interprovincial Exports,
by Province, 1989
and 2001

	1989	2001
Canada	0.83	1.91
Newfoundland	1.78	1.20
Prince Edward Island	0.29	1.03
Nova Scotia	0.50	1.12
New Brunswick	0.58	1.36
Quebec	0.70	1.73
Ontario	1.09	2.57
Manitoba	0.41	0.83
Saskatchewan	0.40	1.03
Alberta	0.65	1.66
British Columbia	0.93	1.57

Source: Adapted from Tom Courchene, "FTA at 15, NAFTA at 10: A Canadian Perspective on North American Integration." *North American Journal of Economics and Finance* 14 (2003), table 1.

Support for the Federal
Government Fostering
Closer Economic Ties
between Canada and
the US Overall, Fall
2002 (by region)

	Support	Oppose	Don't know
Atlantic	62	31	6
Quebec	76	21	3
Ontario	73	21	6
Prairies	51	38	11
BC/territories	48	50	1

Source: A.S. Alexandroff and D. Guy. "What Canadians Have to Say About Relations with the United States." *Backgrounders 73* (Toronto: C.D. Howe Institute, 2003), 8.

The paper recommends further study of a second important set of questions related to the role of subnational governments in North American integration: whether continental economic integration is centralizing or decentralizing and whether international agreements undermine the policy autonomy of subnational jurisdictions disproportionately to national governments. This issue raises a whole host of ancillary questions. As noted above, are some states and provinces, for various reasons such as size, more able than others to fly under the radar screen of international agreements or, alternatively, sufficiently powerful that they pose a more serious challenge to continental economic integration? Alternatively, might the increasing incidence of cases of NAFTA rules constraining the states and provinces noted in the paper reflect the growing significance of these jurisdictions rather than implying, as suggested in the paper, that their powers are diminishing? Might this pattern mean different things in each of the different federations? As the overall effects of continental economic integration and international agreements seem unlikely to be the same in these three very different federal systems, how are they likely to differ?

In addition to its suggestions for further study, the paper makes a number of substantive recommendations for enhancing the prospects of further economic integration. While relatively straightforward and commonsensical, these recommendations raise deeper questions regarding the process and institutions of continental economic integration that warrant further attention and discussion. The first recommendation is to strive to decrease the number of subnational government barriers to the free flow of trade and investment. This should be taken as a plea for further study. As Bob Wolfe crisply notes: “We need more research on the barriers that the US states erect against trade with each other. Do forestry firms in BC really want ‘national treatment’ in the United States? What legal weapons would their competitors in Oregon deploy then?” (2003, 16).

Having raised the issue of subfederal compliance, the paper does not offer an explicit suggestion for how this problem might be addressed. In the US context, according to de Boer, this is not an issue of federal ability to enforce compliance — it is an issue of federal willingness to do so (2002, 9). De Boer suggests that Canada seek “assurance of state compliance with commitments that have been made in international trade agreements” (16). He goes on to argue that voluntary compliance (through consultation) would be a useful tool but is “no substitute for Washington asserting its authority” and enforcing “mandatory compliance consis-

tent with the constitutional authority of the US federal government” (17). However, it is not clear why the US would be willing to take such an approach to subnational compliance considering that it is beyond the range of options that the Canadian federal government has been willing to employ (Skogstad 2001, 163).

A solution might lie in the other major substantive recommendation in Fry’s paper: the establishment of “effective and regularized consultations between national and subnational governments on international and intermestic issues.” In the Canadian case, this recommendation seems unlikely to improve the prospects for deeper integration. First, the academic consensus, at least, is that the Canadian system works pretty well. According to de Boer “the status quo...or a modified version of the status quo...is the most useful accommodation of both federal and provincial interests” (2002, 14). Skogstad concurs, arguing that “the workability of the current arrangements constitutes a powerful argument for the flexibility that comes with informal mechanisms...[which] are yielding domestic consensus on trade policy issues and minimizing conflict over sometimes difficult internal trade-offs” (2001, 172).

Second, it is difficult to see how provincial proposals — the Klein proposal requiring federal-provincial consultation or the British Columbia proposal requiring formal provincial ratification of agreements — would facilitate further economic integration. Such changes would increasingly shift the focus of decision-making from the federal level (where 100 of 172 House of Commons seats held by the governing party come from Ontario, which is the province both most dependent on and most favourable to cross-border economic integration) to the federal-provincial arena, in which most provinces depend less on cross-border economic integration and face less favourable public support for deeper integration. It is not surprising that Ontario has opposed a system giving an equal say to all provinces on this issue, preferring instead that greater weight be given to provinces with a greater stake in economic integration (Skogstad 2001, 171).

As the paper outlines, the claim that the existing system of federal-state consultation works relatively well does not hold in the US case. De Boer notes, “it could be argued that there is a relationship between the lack of prior consultation with the states and the federal unwillingness to enforce rulings” (2002, 9). This raises the question not only of how greater consultation would be undertaken in the United States but, more importantly, *why* greater consultation would be undertaken. This rather self-evident solution has not been vigorously pursued

thus far. Why not? Is it clear that greater federal-state consultation or federal enforcement of state compliance is in American interests? Does the lack of federal-state consultation and enforcement persist because this situation suits, as it has been claimed of existing institutions, the larger party in the relationship? (see Bélanger, qtd. in Wolfe 2003, 16.)

Finally, the whole issue of federal/subnational consultation and/or federal enforcement raises important strategic issues related to how the three countries each ought to manage the relationship. Should Canada's primary strategy be to encourage federal-state consultation and federal enforcement of state compliance in the US, thus helping to more firmly align Canada-US relations on an "Ottawa-Washington axis?" Alternatively, should Canada avoid trying to "treat the United States as a single point" and adopt, instead, a more "kaleidoscopic effort to defend Canadian interests in the United States" (Wolfe 2003, 17), including, presumably, deeper direct engagement of American states? In regard to this question, we also need to know much more about instances where state-province engagement has resolved potential disputes before they escalated to the level of formal disputes, obviously a difficult empirical task. What mix between these options of strengthening federal-level engagement (through strengthening internal process of federal-subnational engagement) or, alternatively, fostering deeper state-provincial engagement is likely to be most advantageous to enhancing the prospects for further economic integration? These broader questions move quite a distance beyond the subject matter of Earl Fry's paper; however, they are inextricably bound up with the issue of the role of subnational governments in North American integration. His paper provides a good basis from which to consider them.

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Gerard W. Boychuk specializes in public policy with a specific interest in social policy in the United States and Canada. He has co-authored (with Keith Banting) a study on convergence in Canadian and US social policy for the IRPP's North American Linkages project, and he is the author of a study examining the long-term possibility for distinctive social policy in the context of deeper labour market integration. He is also a co-investigator (with Debora Vannijnatten) in an SSHRCC-funded project on cross-border policy convergence at the subnational level.

Earl H. Fry is professor of political science and Endowed Professor of Canadian Studies at Brigham Young University. He previously served as special assistant in the office of the US trade representative, was Enders Professor at McGill University and Fulbright Professor at the University of Toronto. He is the author of *North American Economic Integration: Policy Options* (Center for Strategic and International Studies) and *The Expanding Role of State and Local Governments in U.S. Foreign Affairs* (Council on Foreign Relations Press).

Summary

In this paper, Earl Fry establishes the *prima facie* importance of North American border provinces and states to each other and more generally to the economy of the three NAFTA countries. Many of these subfederal governments have political and economic bases that are larger than those of most nation-states. Dr. Fry provides a wealth of evidence that US states and Canadian provinces are increasingly proactive in the management of commercial relationships across international borders.

Indeed, Canadian provinces and US states are now involved in a number of regional commissions and groups that transcend national borders. As well, there are many *ad hoc* exchanges between state governors and provincial premiers. These forums allow them to deal with issues of common interest, including, as Dr. Fry documents, providing support for federal policies that may foster regional interests, or taking a stand against federal policies that may hurt some states and provinces with common interests. Some of these forums also produce sophisticated studies of regional issues.

In fact, says Dr. Fry, the interests of states, provinces and even municipal governments may at times lie more in supporting the regional economy than in an alignment with a far-away jurisdiction in the same country. Conversely, he says, some of the most heated cross-border frictions can occur within regions, particularly those on both sides of a border that have a similar resource base.

Dr. Fry's analysis is that states and provinces are reacting to the impact of globalization and of the attendant mobility of products, people and capital on their jurisdictions. They are "thinking globally and acting locally" in response to what are sometimes perceived as the constraining effects of agreements signed by senior levels of government. They are also reacting, says Dr. Fry, to the inadequacy of the consultation the federal capitals have undertaken with subfederal governments on continental integration, although in his view the Canadian government has the best track record in this respect.

Mexican states have been the least involved in these cross-border relationships, but this is beginning to change with the somewhat less centralizing political environment there. Another spur to cross-border initiatives at the local level along the Mexican-US border is the record number of Mexican-born residents in the United States, a fact that has regional causes – and consequences – notes Dr. Fry.

In that context, the author suggests several steps pertaining to states and provinces that could enhance the prospects for further economic integration in North America. Among these, both the federal and subfederal levels of government need to better research and understand the impact of globalization on governance within their federal systems, because it is becoming increasingly difficult to differentiate between "domestic" and "international" policy. National and subnational governments should also take stock of their major interdependencies and the existing cross-border mechanisms and agreements that pertain to them. One possible outcome would be more regular state and provincial involvement in the management of sectors with important cross-border dimensions, such as energy.

Another step advocated by Dr. Fry is the establishment of effective and regularized consultation between the national and subnational governments on issues that have both international and domestic dimensions. In another recommendation, Dr. Fry advises states and provinces to draw a clear line between "foreign affairs," which are naturally a part of their responsibilities, and "foreign policy," such as commercial sanctions. The latter could create contradictions within nations and exacerbate rather than facilitate the intergovernmental co-operation needed to meet the challenges of North American integration.

This folio includes comments on Dr. Fry's paper by Gerard Boychuk. He notes that Dr. Fry's recommendations need to be examined in light of a number of important dynamics on the ground, such as the varying ability and willingness of subfederal governments within each country to either facilitate or frustrate integration. We should ask questions such as why the various levels of government in the US have not pursued the rather self-evident solution of greater intergovernmental consultation. We should also ask, says Dr. Boychuk, whether this solution would really be in Canada's interests, as opposed to other avenues such as deeper direct engagement with the US states themselves.

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