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### Canada and Continental Integration under NAFTA since 9/11

Before globalization became an overarching concern among social scientists, countries’ domestic politics were analyzed as if each existed in a separate, autonomous compartment. Students of contemporary politics must now examine whether new forms of global governance have significantly transnationalized national political systems. New forms of regional integration, in which nation-states sign political and economic agreements with their neighbours create a conundrum: is it worth surrendering domestic policy-making autonomy generated by supranational or intergovernmental institutions in order to gain the potential economic benefits accruing from the expansion of the market?

This dilemma hit Canada in the federal election of 1988 when John Turner unsuccessfully attacked Prime Minister Brian Mulroney for negotiating the Canada-United States Free Trade Agreement (CUFTA) which, he maintained, would condemn Canadian sovereignty to the dustbin of history because federal and provincial governments would lose their capacity to legislate in their publics’ interests. But once having replaced Turner as leader of the Liberal Party and defeated the Progressive Conservatives in the 1993 election, Jean Chrétien proceeded to sign the even more intrusive North American Free Trade Agreement (NAFTA), which also brought Mexico into an enlarged continental system.

If we are to understand what changes CUFTA and NAFTA have brought to Canadian politics, we first need to recognize how elements of continental governance had already affected the Canadian state’s structures and functions well before the advent of what is generally, if misleadingly, referred to as “free trade”.

#### I Continentalism before Free Trade

The pattern of Canadian economic development was largely set in 1879 by John A. Macdonald’s National Policy, which attempted to create a more self-sustaining economy out of the disparate colonies he had helped cobble together at Confederation over a decade before. Ottawa instituted a tariff that would generate revenue and induce would-be entrepreneurs from Britain and the United States to install their factories alongside those of local businesses, which were equally protected from the competition of foreign imports. The National Policy helped create the transnational corporation (TNC) in the late nineteenth century, when such manufacturers as Massey-Harris, which had emerged to service the domestic market for farm machinery, expanded overseas. By the twentieth century, however, Canada became a victim of TNCs since this new technique of corporate

management at long distance allowed expanding U.S. enterprises to retain ownership and control of their production processes north of the border, where their dominance created a deep-rooted Canadian managerial and technological dependence in many sectors. Of the economy.

In certain domains, the two countries' relationship was formally institutionalized in order to manage cooperatively certain common, but potentially conflictual, issues. For example, dealing with the flow and pollution in the lakes and rivers that were bisected by the 49th parallel was entrusted to the binational International Joint Commission (IJC) in 1909. Otherwise, the social, cultural, and economic relations between the two neighbours were generally managed without establishing overarching institutions.

The achievement of Canada's formal political sovereignty only occurred in 1982 when the British parliament passed the final act that ceded to Canada the power to amend its constitution, re-christened the Constitution Act, 1982. But by this time, the cumulative impact of a century of demographic, economic, and cultural flows across a porous, 7,000-km.-long border had turned Canada into a largely integrated territorial extension of its giant neighbour's various political, economic, societal and cultural systems.<sup>1</sup>

While it is true that Canada's federal, provincial, and municipal governments enjoyed substantial freedom in their ability to respond to the democratically expressed will of their publics, its intimate relationship with the capitalist world's hegemon had already considerably limited its autonomy. In this section we will demonstrate that, while some policy areas remained independent before "free trade", the Canadian government's control over other sectors had already become noticeably circumscribed.

The Cold War marked an important watershed in consolidating Canada's military dependence on its southern neighbour. During these four decades, when Washington's highest priority was security from the Soviet Union's nuclear threat, Canada's military stance was best described by the principle of "defence against help". This meant that if Ottawa did not provide what the Americans considered adequate land, sea, and air defence of Canadian territory against enemy attack, they would act alone with minimal consideration given to Canada's opinion. The most visible expression of the resulting military integration was the North American Air Defence Organization (NORAD), in which the Royal Canadian Air Force operated as an integral part of the U.S. Strategic Air Command. The extent to which the Pentagon determined Canadian military policy was illustrated in 1983 when, despite Prime Minister Pierre Trudeau's desire to suffocate the arms race, he found himself obliged to escalate the arms race by allowing the United States to test the next generation of its weaponry, the Cruise missile, over Canadian territory.

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<sup>1</sup> John Redekop, "A Reinterpretation of Canadian-American Relations," *Canadian Journal of Political Science* 9:2 (June 1976), 227-43.

The economic counterpart to Ottawa's accepting American strategic direction was Washington's permitting, through the Defence Production Sharing Agreements, Canadian arms manufacturers to bid for Pentagon military contracts. Since most of these companies were branch plants of American defence corporations - the Cruise missile's guidance system had been developed in Litton Industries' plant in Toronto - the Canadian military sector was in effect part of what U.S. President Eisenhower at the time called the military industrial complex.

Integration in other sectors followed the path pioneered by these Defence Production Sharing Agreements. In 1965, the Auto Pact, which allowed conditional free trade in automobiles and parts, changed the inefficient production of cars in American-owned branch-plants for Canada's small domestic market into rationalized manufacturing for the entire continent.<sup>2</sup>

At the level of civil society, most of the labour force was continentally institutionalized under American trade-union leadership. Consequently, more radical Canadian workers on occasion found themselves forbidden to go on strike. A further impact was that, for the first half of the 20th century, the Canadian left was hobbled in its efforts to develop a socialist party, because Canadian labour unions were forbidden by their U.S. leadership from actively supporting a political party. This domination was so resented by workers in automotive assembly plants that they declared their independence from the United Auto Workers in 1984 and set up the breakaway Canadian Auto Workers union. The CAW's autonomy ran counter to the trend towards continental integration, but in the union movement the rapid growth of militant and progressive public-sector unions widened the ideological gap between the two countries' labour movements.

With respect to environmental considerations, the management of transborder air movements did not come under the mandate of the IJC and therefore could not be dealt with through its good offices. As a result, Canadian politicians found themselves powerless to have Congress take the actions they wanted to reduce the air-borne acids spewed by the coal-burning electricity generators of the Ohio River Valley into the air that crossed the border and were killing central Canada's lakes as acid rain.

There were also parts of the economy which retained their autonomy. Where the corporate players were highly regulated, as in financial services, the Canadian sector was quite separate from the American system. Banking, for instance, was controlled by the federal Bank Act, whose periodic amendments protected the Canadian ownership of half a dozen nation-wide chartered banks which were so efficient that they left foreign banks only limited operating space.

Canadian ownership combined successfully with advanced technology in another sector of the economy, steel, where the processing of domestic iron reserves into high-grade steel produced efficient inputs for the booming auto sector. Although more efficiently smelted than its U.S. competition, Canadian

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<sup>2</sup> Melvyn Fuss and Leonard Waverman, "Auto Production and Trade in North America: Protectionism vs. Free Trade," Toronto: C.D. Howe Institute, March 1988.

steel was excluded from the American market by various protectionist barriers that kept the respective steel industries separate.

In other non-institutionalized areas, Canadian autonomy varied from high to low, depending on the level of U.S. involvement. The limits on Canada's social policy, for instance, were determined simply by the depth of its federal, provincial, and municipal governments' pockets. If politicians were willing to take the lead and their voters were willing to pay the requisite taxes, the social safety net could be made as strong as they wanted. In the 1960s and 1970s, for example, the governments of Prime Ministers John Diefenbaker, Lester Pearson, and Pierre Trudeau attempted the construction of a relatively generous welfare state without suffering any interference from the United States, whose interests were not affected by these manifestations of local Canadian politics.

By contrast, where Hollywood dominated the silver screens of the country, no serious government effort to push back its monopoly and open space for Canadian filmmakers was tolerated by Washington.

As for its foreign policy, even when Ottawa's view of the international system coincided with U.S. perceptions, the exercise of Canada's diplomatic autonomy could cause friction. Trudeau's decision to recognize the government of the People's Republic of China, for example, met with extreme displeasure from President Nixon even though he was about to do the same thing. Normally, the Canadian government accepted the limitations defined by U.S. Cold-War strategy and, according to the doctrine known as "quiet diplomacy," expressed any disagreements discreetly behind the scenes.

Ottawa's wariness when dealing with Uncle Sam suggests that a quarter of a century after World War II, the Canadian-American relationship was managed according to an implicit set of norms which had evolved over many decades, and were understood by the major players. Behaviour patterns – whether formally institutionalized or not – had gradually become sanctioned by custom. Conflicts were resolved on an ad-hoc basis with the commonly accepted understanding that a dispute over one issue should not be linked to other areas of the bilateral relationship. Generally, problems between the two governments were addressed through officials consulting and negotiating behind closed doors. When, in its foreign economic policy, the U.S. made decisions which would hurt not just Canadian interests but American interests in Canada, Washington would normally offer Ottawa an exemption in return for specific concessions.

Shockingly, on August 15, 1971, U.S. President Richard Nixon abruptly shattered the foundation upon which this informally regulated relationship had been based. Announcing the suspension of the U.S. dollar's convertibility into gold, which effectively ended the international monetary regime set up after World War II, he went even further. His newly-imposed surcharge on all imports into the U.S.A. would be levied on Canadian exports, which would be treated essentially the same as goods entering the economy from other countries.

After vainly attempting to gain an exemption from the duty, the Trudeau government produced a policy paper outlining three alternative strategies for dealing with Canada's economic vulnerability to such unilateral American actions. Rejecting the status quo (the first option) and dismissing the second option of increasing its continental integration, Ottawa adopted the "third option" to diversify its economy through expanded investment and trade relations with Europe and Japan. The industrial-policy side of the Third Option included more rigorous screening of new foreign investment in order to increase the benefits to the economy from foreign takeovers of Canadian companies or expansions of existing foreign-owned TNCs. The Foreign Investment Review Agency (FIRA) was duly set up in 1974 to wring concessions from foreign investors setting up shop or expanding their operations in Canada.<sup>3</sup>

It was one thing to restrain the expansion of foreign corporations. It was something else entirely for Ottawa to try to expel American firms from a sector in which they were already firmly entrenched. When the Trudeau government tried to Canadianize the petroleum industry with its 1980 National Energy Program (NEP), which discriminated against U.S. companies, it failed in good part due to the integral importance of Canadian energy resources to the U.S. economy.<sup>4</sup> The giant U.S. oil and gas TNCs exerted enormous pressure on Washington to force Ottawa to respect what they considered their property rights in Canada. Washington's strenuous resistance to Ottawa's attempt to restructure the petroleum economy showed to what extent Canadian governments were already governed by an implicit set of rules, one of which was the principle of "national treatment," which meant that established American firms should be treated the same way as domestic companies.

By the early 1980s, it was evident that the commercial agreements Ottawa had negotiated with the European Community and Japan as part of its Third-Option strategy had produced little of tangible value. Canadian corporations were already investing more abroad than foreigners were investing in Canada. As they penetrated the American and other foreign markets, entrepreneurs gave up their traditional desire for government protection from foreign competition on their home turf in favour of supporting trade-and investment-liberalizing measures. The Business Council on National Issues (BCNI) expressed this change in opinion vocally, and keenly lobbied for a re-orientation of Canadian economic policy. When, in response to the business community's changed thinking, the Macdonald Royal Commission recommended in 1985 that Canada formally shift from the third to the second option and deepen continental integration by signing an economic agreement with the United States, Brian Mulroney quickly seized on this advice and entered into negotiations with U.S. President Ronald Reagan about a broad new deal to integrate the two economies.

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<sup>3</sup> James Laxer, *The Liberal Idea of Canada: Pierre Trudeau and the Question of Canada's Survival*. Toronto: James Lorimer & Co., 1977.

<sup>4</sup> Canada, Department of Energy, Mines and Resources, *The National Energy Program*, 1980.

CUFTA, which came into effect on January 1, 1989 and NAFTA, which came into effect exactly five years later, turned what had been an informally regulated relationship into what Ronald Reagan called the economic constitution of North America. It is to the implications of this new mode of continental integration that we now turn.

## II Integration under a Continental Constitution

CUFTA did not genuinely create "free" trade, because the United States retained its antidumping (AD) and countervailing duty (CVD) laws with which it continued to harass Canadian exports such as steel and softwood lumber. While Washington insisted on maintaining its own right to impose these sanctions, Ottawa had accepted significant constraints which tightened the limitations on its autonomy established over the previous decades. In such fields as agriculture, industrial policy, energy policy, and telecommunications, CUFTA's stated goal was to accelerate economic integration.

Canada's continental relationships entered a new phase in 1994 when NAFTA redefined "North America". Having been a synonym for the English- and French-speaking areas north of the Rio Grande, it now included the United States' other neighbour, Spanish-speaking Mexico, thus adding a trilateral complexity to Ottawa's relationship with Washington. Attaching a poor, authoritarian developing economy into the continental system raised concerns that labour, social, and environmental policies would come under the pressure known in Canada and the United States as the race to the bottom or downward harmonization.

More consequential for Canada was the third change. Together with the World Trade Organization (WTO), which in 1995 created a new form of global economic governance, these continental agreements placed severe limitations on the policy-setting capability of Canada and Mexico. NAFTA created continental rules in line with the common neoconservative values of its signatory governments. These new policy guidelines proved so intrusive that they could best be understood as comprising an external constitution for each of their members.

Constitutions are simply so much printed paper until they are applied and interpreted. By 2004, after a decade's experience, the significance of Canada's external constitution was becoming clearer in various sectors of Canada's political economy.

In the automobile industry, many of the original qualms expressed by Canadian auto workers about the expected exodus of jobs from Canada to the United States (because Canadian value-added requirements for the assembly of cars had been abandoned) and to Mexico (because of its lower wages) did not materialize immediately. For several years, Ontario remained a competitive site for auto production and foreign direct investment in the automotive sector. With the Auto Pact's remaining protections dismantled in 2000 following a ruling by

the WTO, the institutional framework established for Canada's industry disintegrated. In the face of the massive subsidies offered by the southern American states (which attracted Mercedes Benz and BMW to open new plants), and in the face of the very low labour costs available in Mexico, Ontario's share of new North American assembly plants fell drastically. Of eighteen new assembly plants built or announced in North America since 1990, Canada received one.<sup>5</sup> NAFTA's rules of origin, which only specified how much "North American" - as opposed to Canadian - content was required in every car assembled, had deprived the Canadian governments of the legal sticks that the Auto Pact had once provided them to persuade the automobile TNCs to locate their activities north of the border.

With capital markets, production processes, and distribution systems becoming globalized, Canadian chartered banks found they had to widen their international operations if they were to retain their corporate clients who were expanding abroad. Because it did not liberalize the American financial services marketplace, NAFTA had little impact on Canadian banks, over which the federal government still maintained a high degree of prudential control.

Global governance has had more impact. In response to the WTO's Financial Services Agreement, which contained Canada's commitment to remove limits on foreign ownership of financial institutions, Ottawa changed the ownership restrictions on Canadian banks which will make them both more attractive and vulnerable to foreign takeover. Having been limited to owning a maximum of 10 per cent of a chartered bank's shares, another corporation can now own 20 percent of its voting shares – enough to gain effective control. Invoking the principle of national treatment, foreign corporations could now gain effective control of Canadian banks.

Canadian steel exports have been particularly targeted by U.S. AD and CVD actions, with the result that every Canadian steel manufacturer has put its new investment in the United States. The effect has been that Canadian steel companies have now become active members in the U.S. industry's main lobby organization, the American Iron and Steel Institute. With a Canadian presiding over the industry's labour union, the United Steel Workers of America, the Canadian sector is becoming an integral part of what was formerly its American competitor.

The principle of national treatment for investment enshrined in both NAFTA and the WTO has meant that Canadian governments can no longer discriminate in favour of their own energy producers and consumers. In the words of former Alberta Premier Peter Lougheed, CUFTA signified that there could be no "son of NEP." In other words, Canadian governments could never again try to husband depleting energy reserves for the benefit of Canadian industry and consumers. The export of nonrenewable oil and natural gas supplies to the

<sup>5</sup> Canadian Auto Workers, *Getting Back in Gear* (Toronto: Canadian Auto Workers, 2002).

insatiable American market has escalated rapidly under free trade. At the same time as the petroleum market integrated continentally, regulations passed by Washington's Federal Energy Regulatory Commission have increased pressure on the major provincial electricity utilities to privatize and integrate their generation and distribution systems into American power grids.

In sharp contrast with labour policies in the Keynesian era, when governments attempted to create full employment with industrial policies favouring domestic enterprise and fiscal policies stimulating consumer demand, neoconservatism recommends that governments should steer rather than row the economic boat. According to this vision, free trade was going to generate jobs by liberating the entrepreneurial forces of the marketplace. Any job losses caused by corporate rationalization would be offset by better, high-value-added jobs generated by the economic growth resulting from continental economic integration. Prime Minister Mulroney failed to provide the promised adjustment policies to ease the pain of job losses caused during the transition. As a result, several hundred thousand manufacturing jobs were lost in the immediate aftermath of CUFTA, and, with productivity growth continuing to decline, it took ten years for manufacturing employment to regain its pre-free-trade level.

In response to American trade unions' concerns about job losses resulting from free trade with Mexico, the North American Commission on Labour Cooperation (NACLCO) was established to defend labour rights continentally. In practice, the NACLCO's eleven labour rights were only as significant as their means of enforcement. None of the eight standards prescribing trade union rights was enforceable through dispute settlement. Only three technical labour standards – protection for youth or children, health and safety, and minimum wages – were enforceable, but the dispute procedures were designed to make it virtually impossible to win a case.<sup>6</sup>

The NACLCO turned out to be an ineffectual U.S. effort to prevent Mexico from using its low-cost labour to competitive advantage. Because the Canadian workplace was not the object of American concern, it was less affected by the NACLCO's enforcement provisions. Not only did NAFTA fail to make its members enforce their labour standards, it did not even forbid governments from lowering their protections for workers, which is what the Mike Harris government in Ontario proceeded to do in the late 1990s. This trilateral commitment to improve labour conditions and prevent a race to the bottom in continental labour standards proved merely a rhetorical commitment, as did efforts in the area of continental environmental regulation.

Environmental considerations in North America have been affected in differing ways depending on the sector. The IJC retains responsibility for oversight over surface waters along the two national boundaries, but has no authority over the all-important aquifers under the ground whose levels will

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<sup>6</sup> Ian MacDonald, "NAFTA and the Emergence of Continental Labour Co-operation." *American Review of Canadian Studies*, (summer 2003).



determine the availability of surface water supplies in the future. Air remains prey to political struggles between corporate interests and citizens in all three countries. NAFTA's Commission for Environmental Cooperation (CEC) was presented as an instrument to ensure that economic growth occurred at the continental level in an environmentally sustainable way, but its mandate to introduce an element of citizen participation in a transnational institution was impeded from the moment of its inception by the three member governments, which do not want to cede any of their policy-making authority to an autonomous transnational body. Environmental sustainability remains a tertiary consideration, overshadowed by the pressures for economic growth and market liberalization that are NAFTA's driving force. In addition to being stymied institutionally, enlightened environmental management at the national level has been undermined by NAFTA's dispute settlement mechanisms.

NAFTA provides for the resolution of general disputes arising from the agreement by a process of binational panels that are prescribed in Chapter 20. These panels make recommendations to NAFTA's Free Trade Commission (FTC), which is made up of the three countries' trade ministers and retains the political responsibility for trying to resolve the conflict. Although NAFTA was meant to take "politics" out of intergovernmental disputes, the FTC's superiority over the Chapter 20 panels means that, in the end, disputes are settled not through international law but through intergovernmental arm-wrestling. As a result, Chapter 20 dispute settlement has had only had marginal success in addressing general conflicts between Canada and its principal continental partner.

Disputes over anti-dumping or countervailing duties are handled through a different set of binational panels whose rules are specified in Chapter 19. Because of the ad-hoc manner in which each dispute settlement panel is established, the difficulty in finding impartial adjudicators to staff them, and the United States' reluctance to comply with many of their rulings – even though they are supposedly binding, Chapter 19 has not mitigated the U.S. harassment of Canadian exports which was the chief reason Canada wanted a free-trade agreement in the first place. The still-unresolved dispute over American AD and CVD actions against Canadian softwood lumber exports symbolizes the failure to achieve an effective continental judicial governance.

Through the provisions of its investment chapter, NAFTA gives precedence to corporate expansion over environmental sustainability. Chapter 11 allows foreign investors to challenge domestic regulations in international tribunals, which can overturn federal, provincial, or municipal government measures deemed to "expropriate" their companies' earnings.<sup>7</sup> Ethyl Corporation of Virginia, which produces MMT, an octane-enhancing chemical feared to be a neurotoxin, pursued the government of Canada before a Chapter 11 tribunal arguing that Ottawa's legislated ban on trading the fuel additive had cost it U.S. \$250 million in lost

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<sup>7</sup> Steven Shrybman, "How NAFTA Overrides National Sovereignty: Recent cases show dangers of letting investors sue governments," *The CCPA Monitor* 7:9 (2001).

business and future profits.<sup>8</sup> Backing down, Ottawa, settled out of court and agreed to pay U.S. \$13 million dollars in damages as well as to issue a public apology to Ethyl Corporation. Another Chapter 11 arbitration invalidated a Canadian ban on exporting PCBs, a ruling made in conformity with the multilateral environmental agreement known as the Basel Convention on the Control of Transboundary Movement of Hazardous Waste. The environmental governance generated by this new investor-state dispute settlement process constitutes regress: it has generated a regulatory chill because policy makers fear to pass regulations that impose costs on polluting American TNCs which might then launch expropriation claims.

In the related area of social policy, the impact of transnational governance has been minimal. Each government remains master of its own house, with its actions and decisions still being determined by its financial resources and its ideology. In Canada's case, neoconservative demands for cutting taxes and reducing government spending led to a self-generated weakening of the social safety net. Despite the resulting convergence of Canadian with American social policies, disparities between rich and poor remained less acute than in the wealthier United States. To the extent that neoconservative thinking is generated in the business community, which, facing competition from lower-wage countries, presses for reducing the social wage and forcing workers to take jobs with fewer protections and benefits, then even domestic neoconservatism connects to continentalizing forces.

Continental restructuring of the economy also impinges on Canadian politics through the "hollowing out" of corporate Canada. Every time a branch-plant head office closes down and relocates its managerial functions to the TNC's headquarters, the local community loses the high-end managerial jobs, the spin-off employment it had generated in the legal, accounting, advertising, software, information technology and related industries, plus the charitable donations that help maintain the public domain. The active process of mergers and acquisitions in which Canadian corporations get taken over by foreign TNCs cannot be controlled by FIRA, whose authority has been circumscribed by NAFTA to investigating only the very largest corporate takeovers.

Government in the area of Canadian culture has been sharply affected by its new international economic constitution. When Time Warner, through *Sports Illustrated Canada*, tried to violate the spirit of the Canadian policy forbidding split-run editions of American magazines from flooding the Canadian market with dumped editorial copy, Ottawa passed legislation to block this initiative.<sup>9</sup> Washington successfully took Canada to trial in a dispute lodged at the WTO where it managed to have not just Canada's present policy declared illegal but to

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<sup>8</sup> David Schneiderman, "NAFTA's Takings Rule: American Constitutionalism Comes to Canada," *University of Toronto Law Journal* 46 (1996), pp. 499-537.

<sup>9</sup> Ted Magder, *Franchising the Candy Store: Split-Run Magazines and a New International Regime for Trade in Culture*. Orono: Canadian-American Center, University of Maine, 1998.

invalidate several other programs designed to promote the presence of Canadian magazines on Canadian newsstands. When Ottawa attempted a different regulatory approach to achieve the same end, Washington invoked the exemption of cultural policy from NAFTA's rules and threatened such dire retaliation that the Canadian government was forced to open its market to split-run magazines. If the *Sports Illustrated* case is a harbinger of the future, it suggests that cultural governance in North America consists of Washington aggressively using the new trade rules to support its entertainment corporations' efforts to extend their dominance in their peripheral markets.

### III Continental Integration after September 11, 2001

In light of Washington's shift from its focus on trade and investment liberalization to national security in its war on terrorism, Ottawa was obliged to revert in its security policy to its Cold-War stance of "defence against help." It had to convince the Americans that its borders remain secure for the passage both of goods and of people. In a situation in which the U.S. government declares the issues so important that those who are not with its counter-terrorism agenda are against it, Canada has been compelled to prove its loyalty in foreign policy. Sending troops to fight for the Americans in Afghanistan in order to placate the Bush administration conflicted with a Canadian foreign-policy tradition privileging peacekeeping over war-making.

Whether it was Northern Command (the Pentagon's reorganization of U.S. defence for the North American military theatre) or the Homeland Security Department (which reorganized all US agencies bearing on national security), the continental governance affecting the two peripheries had reappeared as two binational relationships in which Mexico and Canada each relate separately to the one state that dominates their politics.

But when, in proclaiming its right to wage preemptive war, the United States government insisted on attacking Iraq without providing credible proof of Saddam Hussein's connection with global terrorist networks or his possession of weapons of mass destruction, the Chrétien government refused support for an initiative not legitimated by United Nations approval. With Chrétien finding his position supported by Mexican president Vicente Fox, continental governance in this instance of high diplomacy turned out to be non-existent. The hegemon was resisted by a temporary coalition of two unwilling peripheral neighbours.

Given the contradiction between NAFTA's trade-expanding mandate, which lowered national borders, and Washington's security policy, which raised barriers between the U.S. and its two neighbours, it is remarkable that no trilateral summit was held to deal with the emergency resulting from the American trade blockade following the Al Qaeda attacks. NAFTA has not generated a continental governance able to cope either with common critical trade issues or with more general problems facing the three North American states. The unilateral measures taken by the United States to ensure its own security with little

consideration given to its northern or southern neighbours' interests illustrates the power asymmetry existing at the continental level. These measures further affirmed that NAFTA, originally a useful policy instrument to the United States, could easily be sacrificed by Washington to more urgent policy imperatives. Unlike the European Union's elaborate supranational institutions created to manage that continent's integration, North America remains one hegemon and two peripheries which are capable of exercising only partial control over their domestic political fortunes.

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