U.S. Foreign Policy During a Canadian Sovereignty Crisis: Groping in the Fog of (Diplomatic) War

by

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"... it is a maxim founded on the universal experience of mankind, that no nation is to be trusted farther than it is bound by its interest; and no prudent statesman or politician will venture to depart from it." (George Washington, in a letter to Henry Laurens, on the topic of the "true and permanent" American interest in keeping French troops out of Canada, Nov. 14, 1778, in George Washington, A Collection; W.B. Allen, ed., Liberty Classics, 1988)

SUMMARY AND ABSTRACT

Sometimes you get more than you wish for. Quebec Sovereignists and Canadian Federalists alike have wished that NAFTA-driven economic and political cross-currents will move events in their direction. Like little Oliver's plea to the Beadle, like Samuel Gompers' one-word motto, everyone in Canada wants More, and they have been getting it from NAFTA and the American connection. Former Quebec Premier Parizeau quite likely hoped free trade's North-South market opportunities would stress and strain the Canadian confederation while providing new, politically safe markets for Quebec exports. Former Prime Minister Mulroney probably anticipated -- correctly so far -- that Quebec's NAFTA dividend, in the eyes of the average Quebecer at least, would be too great to be spent totally on expensive sovereignty. Perhaps Quebec's current Premier, Lucien Buchard, invited the American President to speak to a Quebec audience hoping to demonstrate a special relationship with the United States, but as it happened, critics of Quebec's sovereign ambitions throughout Canada applauded President Clinton's Mt. Tremblant speech, correctly seen as a strong American statement in favor of continued Canadian Federalism.

An all-around granting of the wished-for NAFTA dividend, along with the possibility of Canadian fragmentation, has reminded American policy makers just how vital are their continental interests. American moves to protect those interests may surprise Canadians who have not included the American factor in their hopes for the future.

Free trade is a blessing. It creates abundant new wealth for all. But the newly rich may spend their money unwisely, or without full consideration of the eventual consequences of their acts. NAFTA riches give Canada and Quebec more options. Every region in Canada has the wherewith all to purchase independence from central Canada. Ottawa. need no longer be the main source of money for the poor regions, nor must the rich provinces pay the tribute formerly demanded of them. NAFTA gives Canada new, rich North-South markets and makes East-West transfers more dependent than ever on political, not economic, persuasion and necessity. The United States, not the least beneficiary of NAFTA, has a profound national interest in maintaining the existing Continental equilibrium. The North American Free Trade Agreement, still undergoing refinement, over a decade after its negotiations began, is only the latest addition to what then-State Department chief Warren Christopher called the "complex architecture" of the North American political and economic alliance. The United States' interest in Canada has occupied the thoughts of American leaders ever since George Washington pointed out their importance.

But should the carefully constructed political and economic North American balance be shaken, all the interested parties will find themselves in the fog of diplomatic war, where their true long-run aims are out of sight, and the final outcome is in doubt.

Great Powers do not have neighbors or friends -- they have interests. Great Powers abhor border State instability. Complex vital interests are not clearly identified, efficiently pursued or fully preserved during a crisis.

The United States and Canada are connected by an interweaving of 320 treaties, thousands of agreements linking sub-national North American political entities, tens of thousands of private cross-border contracts and a billion dollars worth a day of exchanges of people, money, goods and securities. We share the costs and benefits of hundreds of billions of dollars worth of common assets, liabilities, responsibilities and opportunities. One end of every thread in that intricate fabric is connected with an American bank account, social situation, political constituency or military interest. Rips and rents in the tapestry command the immediate attention of American policy makers and interested private parties, as well as their advocates and adversaries.

Although Quebec sovereignists want the future of their province to be decided by Quebecers, and Canadian Federalists insist the Rest of Canada (ROC) must have a voice as well, they both forget that American vital interests require that the United States have a prominent, if not dominant, place at the table upon which any new plan for the political re-organization of North America will be drawn up. If American taxpayer money (at the behest of American investors) props up tottering Canadian financial markets, and if the many shared North American assets are restored to solvency by the same means and for the same reason, fragmenting Canada will find its policy options and bargaining power sharply limited by its expanded debt and diminished resources.

Charles Doran, head of the Canadian Studies Program at Johns Hopkins School for Advanced International Studies, has said that Quebec's sovereignty may initiate further fragmentation in ROC. Adding to this fragmenting stress are NAFTA-generated North-South trading opportunities and unintended down-stream consequences of short-sighted short-run strategies employed by American special interests seeking to improve their terms of trade, found in the myriad of North American public and private cross-border agreements.

The American Eagle is not hunting the Canadian lamb. Like every great power in peaceful, prosperous, democratic equilibrium, the United States prefers things as they are. The current strategic balance of U.S. continental interests has been adjusted and refined for more than 200 years. There is no desire, and there could be no coherent plan, to redesign the entire edifice within the six to twelve month interval that economic necessity would dictate if Canada comes apart. But the inevitable pressures of the emergency and the undeniable importance of the American interests at stake will cause American de facto negotiators (a group which will include, to the chagrin and dismay of official Washington, public and private lobbies) to dominate discussions over Canada's future, while short-sightedly increasing the likelihood of further fragmentation.

And so, while high-level American policy makers truthfully say they prefer a united Canada (a less centralized one is acceptable), Quebec sovereignty may be accelerated and exaggerated by powerful American players, forced to make imprudent compromises with their true long-run interests by the exigencies of time and the opportunism of special interests.

The final outcome is a North America redesigned in accord with American public and private directives, but quite possibly the result will be less elegant and efficient than is the careful balance of today's equilibrium. Hub and spoke will describe the over-all plan, with improved short-run American terms of economic, social and political trade. There will be a "what hit me" look on the faces of many former Canadians. Cooling their resentments will require reopening a wide range of issues, to right the unintended wrongs done in the heat of the moment.

INTRODUCTION

It's one world. Reduced Asian buying lowers commodity prices and weakens the Canadian Dollar. Dashing the ambitions of nationalists everywhere, a technology-driven communications revolution sweeps over cultural and political barriers. Tariffs, taxes, regulations and subsidies, along with other strategies of nation state patriots, steadily erode. But politics and diplomacy, slow to recognize and loath to accept a globe with diminished borders, take countervailing actions, not just to preserve old borders, but to draw additional ones. Logic may suggest that expensive insularity be suppressed, but the NAFTA revolution has not eliminated the force of nationalism.

NAFTA is an amalgam of rational, market-focussed reforms combined, by political necessity, with diplomatic compromise and half-measures. It produces a net universal benefit, but not an unmixed one. Because of NAFTA's power of economic rationality much of North America's economic activity is organized on a North-south basis. This conflicts with Canada's century-long effort to create east-west ties, beginning with its 19th century building of a subsidized, politically expedient, economically irrational railroad. NAFTA prosperity flows from a closer alignment of North America's markets. But this prosperity gives both Canada's nationalists and sovereignists, and not just those from Quebec, the means to accomplish -- or at least better promote -- their aims. And so North America -- or at least the Canadian portion of it -- is coming apart at the same time it comes together.

While Canada (including Quebec) uses its NAFTA profits to pay for political change, including what might be called "extra-rational" nationalistic change, the United States has confined itself to the economic side of the NAFTA game. But if Canada's equilibrium is threatened, the United States will not remain passive. Canadian fragmentation and realignment is linked to vital American great power interests -- and so Canada will not unilaterally control the final political and diplomatic outcome.

One source of North American instability is Quebec's aspirations. If accommodation is the regrettable but operational solution, good economic times make it easy to pay the costs of Quebec sovereignty and absorb the shock of Canadian East-West political fragmentation. North American diplomacy and foreign policy is powerfully affected by contrary pressures, complicating the search for equilibrium. As the Canadian Federation decentralizes under pressure from Quebec and NAFTA, American foreign policy must not only adjust itself, but the United States will attempt, compelled by political and economic necessity, to direct, control and unify the process whenever its national interest is affected. If Quebec does become sovereign, because of the limited time within which action must be taken, the American long-run interest will not always be achieved -- but it will be pursued vigorously. If there is a trade-off between the American and the Canadian interest, the United States cannot be expected to weigh both equally. In short, Canada's Crisis of Sovereignty, discussed North of the 49th parallel as if it were an internal problem to be negotiated and settled domestically (amicably or not), becomes rather a case of necessary superpower management of impermissible border state instability.

We insist in the strongest terms that no American malign or aggressive intent is involved. The American eagle is not hunting the Canadian lamb. Like any mature, democratic great power in a state of peaceful, prosperous equilibrium, the United States wishes things to remain as they are. Nor do we imply that NAFTA is a mistake for anyone. Canada's federation is challenged by a NAFTA-induced shift to North-South, regionalized trade, but Canada can more easily pay with its NAFTA dividend for its East-West welfare system. NAFTA prosperity, not the Minister of Finance, brought about the current government surpluses. For its part, the United States today enjoys record-breaking prosperity without inflation partly because Canadian imports, accelerated by NAFTA and the cheap Canadian dollar, reduce price pressures in many key American markets, including energy, autos, housing and high-end human capital. All North American policy challenges should have such happy components. We are intimating that maximum long run benefits can only be earned if policy makers on both sides of the border act in a prudent, deliberative, rational way, always in pursuit of the mutual good. But the pressure of time and the need to satisfy urgent special interests, as well as the absolute requirement to preserve at all costs the core factors supporting border equilibrium, mean American actions and priorities will dominate the near term outcome while imperfectly conserving all the benefits of the pre-existing complex architecture of the North American equipoise of interests.

QUEBEC

Quebec's politics confound pundits and participants alike. The secessionist Parti Quebecois (PQ), has won four of the past six elections, but the opposition pro-Canada

Liberal Party won a narrow plurality of the popular vote in 1998. The outcome was widely interpreted to suggest that the electorate is wary about Quebec independence, and the P.Q. government has since been cautious about its handling of the sovereignty issue.

Nonetheless the PQ remains committed to secession. Polls say Quebecers do not want to endure the trauma of a third independence referendum, but Premier Lucien Bouchard claims to have a mandate to hold one, even if he prefers to delay the vote to a more propitious moment, when so-called "winning conditions" would obtain. He thinks -- indeed, he insists -- the balance of opinion within Quebec will determine the province's political destiny. Whether it is conceivable that the PQ could win on a clear question with a clear majority, the conditions laid down by the Supreme Court of Canada last year, is problematic. Indeed, most observers doubt that the PQ can put the winning conditions together within the next five years. Still, citizens and policy makers, in doubt about Quebec's future ever since the first P.Q. victory in 1976, will have to continue to factor the possibility of a majority Quebec vote for independence into their calculations about the future.

Frustration and uncertainty, however, lie on both sides of the 49th parallel. Quebecers who think the Question is internal to them, federalists who believe the matter will finally be settled by domestic negotiation or Canadian constitutional reform, and policy wonks who design made-in-Canada schemes to maintain national standards for taxes, subsidies and regulation despite East-West fragmentation are all forgetting the Eagle.

But the Eagle matters. Canadians have frequently speculated on the terms of sovereignty negotiations between Quebec and the Rest of Canada (ROC) -- but few have recognized the inevitable presence of a third, highly interested and powerful negotiator, the United States. American diplomats were surprised and confounded by the close outcome of the 1995 referendum: a shift of only one percent of the vote would have precipitated a constitutional crisis in Canada and a diplomatic dilemma in the United States. All indicators tell us that if another referendum is prescribed, policy makers in the United States will not fear ruffling feathers in Ottawa or Quebec City. They will make it perfectly clear they have a stake in the possible breakup of Canada.

THE UNITED STATES

Giving voice to these concerns, Congressman Thomas Campbell of California, chairing a Sub - Committee of the House of Representatives International Relations Committee, issued a statement on May 6, 1997, that stressed the need for contingency plans in the event of Quebec's separation. His report warned that NAFTA would require re-negotiation, with both Quebec and the ROC in a weakened condition. United States interests to be accommodated would also include NATO and NORAD, the disposition of Canada's national debt and the condition of economically depressed people in the newly isolated Atlantic provinces. This is not all. What former Secretary of State Warren Christopher has called the "complex architecture" of interdependent interests -- diplomatic, military, commercial, legal and geopolitical -- is partially expressed in over

320 treaty-level agreements and amendments between Canada and the United States, dating back to the British-American Amity Accord (Jay's Treaty) of 1794, and covering everything from Indian trading rights to atomic energy. Moreover, the web of complex arrangements extends to many agreements that are internal to Canada, but help to serve the market that American exporters and importers need. It is further broadened by institutional accords between state governors and provincial premiers regarding everything from acid rain to water rights, cross-border power transfers and joint advertising campaigns to attract tourists.

In a January 1999 speech in Montreal, U. S. Ambassador to Canada Gordon Griffin addressed the issue of the mingling of American and Canadian shared security interests. He pointed out that "security is the bedrock on which we preserve our freedoms and build our economic prosperity." While lauding all that has been accomplished by the two neighbors over the years, he noted that shared security cannot be taken for granted. Indeed the ambassador asserted that in the past it was not always possible to take peace for granted. Thus , maintaining the existing arrangements, which are highly beneficial for both countries, "requires constant attention and effort." By implication, events which might destabilize the relationship run the risk of causing widespread deleterious consequences.

BACKGROUND REALITIES

As we noted earlier, NAFTA has created a North-South economic realignment.. Markets are now more integrated, sectorized and regionalized. The new economic geography might be just the final victory of market pressure, overwhelming years of artificial, politically inspired and protected East-West Canadian trade flows. Whatever the ultimate cause, a striking shift in trade flows and consequent market integration and mutual access has afforded a North American economic bounty. Back in 1981 domestic trade that crossed Canada's internal provincial borders was about as important as trade with other nations (mainly the U.S.A.): each accounted for a little less than 30% of GDP. Beginning with NAFTA in 1989, these shares began to shift, so that by 1997, booming North-South international trade amounted to over 40% of Canadian GDP, while the GDP share of slower growing East-West interprovincial trade had fallen to 20%. As Professor Thomas Courchene wrote on page 64 of the July/August issue of Policy Options, "Canada is less and less a single national economy and more and more a series of North-South, cross-border economies. We remain an East-West society, in terms of both a social and a human capital union. Our challenge is how to mount and East-West sharing system over a North-South trading system." As we shall show, the instability induced by this North-South, East-West conflict involves United States interests in manifold ways, and requires American neutral assent, active support or at least passive acceptance of various key reforms and adjustments. The difficulty of establishing a new Canadian policy equilibrium is vastly greater than it would be in isolation.

However long it takes, negotiating Quebec independence would certainly disturb the complex architecture of North American politics and trade in a fundamental way. It is clear that United States policy seeks to maintain the existing balance, trade-offs and delicate equilibrium that define the relationship. The background realities of the Canadian situation reinforce an American desire for Canadian unity. But because of existing, somewhat natural and long-established real fault lines that divide Canada, even now, into six distinct geographical regions, the possibility of Quebec sovereignty could lead to further fragmentation. The United States would then find itself facing as many as six negotiating partners:

1) AN ATLANTIC CANADA, too poor to be supported by a weakened ROC. Isolated, it might send economic refugees over the American border in numbers too large to be easily absorbed. Over the long term, some or all of the eastern provinces might even seek admission to the American union, and risk refusal on economic and political grounds. In the past, statehood or commonwealth status has been granted to supplicants only after a long wait, only in clusters that maintain the existing political party or the North-South/East-West balance in Congress, and only if the new units did not create new demographic or economic problems for the existing union.

2) A PACIFIC-ENERGY CANADA, too aware of its export earning power in U.S. markets, too rich to need central Canada, too long neglected to be loyal, too independent-minded to accept a back seat in negotiations, too aware of the costs it pays for equalization schemes ($4,000 per family per year) that annually transfer up to $17,000 per family in welfare benefits to Atlantic Canadians, and too ideologically alienated from the prevailing political climate in Ottawa to pay even more.

3) AN ABANDONED AND NEARLY ISOLATED TORONTO-OTTAWA, CENTRAL CANADA, for too long unwilling to share power, decentralize and diversify policy. Burdened with a disproportionate share of the pre-existing national debt, cut off from former political constituencies as well as raw materials and markets formerly held, it may have a hard time adjusting to the realities of much-weakened state. As the epicenter of Canadian Nationalism, it may not easily accept an enlarged sphere of American influence, nor would such attitudes be helpful while conducting necessary negotiations with American interests.

4) AN AGRICULTURAL MIDWEST, with volatile earnings and dependence on external markets characteristic of agricultural economies, much in need of free international markets in which to purchase required finished goods, both for investment and consumption, and feeling more affinity for its southern neighbors than the ROC. Loyalty from this region may be considerably dampened if marketing boards, subsidized transport, protected outlets for eggs, milk, poultry and other goods are no longer affordable by Ottawa. As NAFTA, the WTO and market pressures open the mid-continent to competitive cross-border flows of agricultural products, Canadian and American farm interests come into conflict at the same time they are presented with opportunities for organizational rationalization. An even closer union may be a desirable long-run outcome, especially from a consumer viewpoint, but getting there won't be easy.

5) THE NORTH (northern reaches of present-day Canada from Quebec to the Arctic and the Pacific) has elements that give it political cohesion including the recent political reorganization for self-governance. The population of Indians, Eskimos, other Aboriginals, Metis, Inuit and Canadians from the South, is unique to it. Especially in Quebec, many of these people have been alienated by government policies seen as inimical to their way of life. Moreover, endowments of natural resources and energy, as well as their location regarding air and sea routes, have provided them with assets they may wish to handle themselves. These Northern assets are as valuable to the United States as to Canada -- more so, when considering the larger size of the American economy, lesser relative domestic endowment of raw materials, and the strategic, military need for a peaceful northern buffer at the American border.

6) QUEBEC, the province that remains profoundly ambivalent about remaining Canadian. Even if the ROC holds together at first, Quebec's major player status will mean at least a three-way bargaining table for the hundreds of North American treaties and agreements. If Quebec (against expectations) manages to win significant concessions from the United States at such talks, other Canadian regional interests may be tempted to distance themselves further from the Federation, bargaining ever more aggressively at the province-to-state level, or even seeking their own kind of sovereignty.

Opportunistic demands from American special interests during crisis-driven renegotiation of the complex architecture could fragment Canada along these regional fault lines, but, whether separation of Quebec from the ROC leads to two Canadas or six, fragmentation must favor the United States at the bargaining table. It would find itself empowered as the hub in a classic hub and spoke arrangement, allowing it to negotiate for the best deal with the spokes. North-South trade links, increasingly attractive in a fragmented Canada, could only increase the bargaining power of the major player. A fragmentation scenario, however, would only be superficially advantageous for the United States, as it would set off a chain reaction of damage to the United States' portion of shared assets, the most important of which is the existing unified Canadian market, but also including losses to the productivity of other shared assets, industries, resources and public goods. Nonetheless, under crisis-driven conditions, the short-sighted special interest pressures may be irresistible.

It is likely that wholesale re-negotiation would expose conflicts between broad American interests, defended by the State Department, and constituency groups supported by or centered in Congress, the White House or special interest lobbies. Whatever the outcome, self-interest is the motive and the most far-sighted and rational representatives of the true United States national interest will urge continued Canadian unity on that basis, just as they do now. This has nothing to do with "taking sides". American preference for unity seems to favor the federalist side of the debate in Canada, but Washington could, if necessary, accommodate itself to a social union involving any devolution of power to the provinces short of independence.

IMMEDIATE ECONOMIC SETBACKS

American interests would be immediately affected by a successful Quebec referendum vote on independence, because of financial consequences set in motion even before negotiations could begin. About 50% of Canada's government debt matures inside of six months, and must be continually refinanced. Responding to immediate pressure from international investors, the Minister of Finance and the Bank of Canada would have to act. We might even speculate that the very existence of the Bank of Canada, at least in its present form, will be in jeopardy if fragmentation occurs, and its future could be cloudy even if the ROC remains in one piece. What is more, the Canadian dollar, not quite a G7 level currency even now, and especially so with the appearance of the Euro, would fall even more. As demand for it fell, its thin market would exhibit increased volatility. Logic suggests an official move to a currency board, or to adoption of the U.S. dollar, but political realities make this unlikely. Even if policy moved slowly in this direction, or not at all, private Canadian investors, savers, financial institutions and significant players would, quite on their own, and merely for self-preservation, make strong moves in the direction of dollarization.

Dollarization, always a possibility but now an idea put into serious political play by support from Quebec's finance minister, as well as wide-spread academic discussion of it, is a reasonable expedient because small central banks possessing insignificant foreign exchange reserves and operating within an international market for securities with daily trading volumes between one and two trillion U.S. dollars cannot enjoy independent monetary or fiscal policies. Interest rates, the market value of debt and equity, consequent solvency levels, credit availability and real liquidity levels are all set by international capital markets. Old fashioned government flexibility to tax and spend, to design policy to counter financial pressures, is limited more than ever by the willingness of taxpayers to bear the burden of it, because of the mobility of crucial factors, both money and modern human capital. But as Federal Reserve Chairman Alan Greenspan suggested in his July 1999 Humphrey-Hawkins testimony before Congress, dollarization could present American monetary authorities with an unprecedented and unwelcome trade-off: a time might come when exuberant American markets require cooling off, while an underperforming Canadian economy needs stimulus (or vise-versa). As the Chairman made quite clear, the law requires him always to place the interests of the United States first; any Fed chief would obey the same rule. As we show later in this essay, it is possible for a dollarized economy having substantial dollar-denominated taxable export earnings to conduct a limited kind of independent, dollar-oriented monetary policy, possibly in direct conflict with an opposite policy then in effect at the Fed. Such a situation would be most unwelcome in Washington.

If ROC, the fragments or Quebec instead choose to keep some version of the Canadian dollar, and conduct their own monetary policy, American factors would limit the possibilities significantly. (We doubt whether agreement could be achieved among such antagonists, but we put those concerns aside). After a Quebec vote to become sovereign, the status of government debt in Canada, national and provincial, would be of immediate interest to American bond holders. The United States Treasury might guarantee certain classes of Canadian debt, at least for the short term, allowing those U.S.

investors who wish to bail out to accomplish their aims. Another technique would be for the Treasury or the Federal Reserve to buy up Canadian debt at support-level prices. Either of these expedients for salvaging American investments, including pension and mutual funds, would suggest to American policy makers reason for pressuring Quebec and the ROC to limit their range of experimental monetary and fiscal policy.

This constraint would also be placed upon Canadian policy makers by the IMF, or, for that matter, by private international markets as represented by rating agencies such as Moody's, whose opinions on the prudence of Quebec and the ROC fiscal and monetary matters would become critically important during a sovereignty crisis. If the ROC fragmented after Quebec's departure, Canadian securities and currency markets would be thrown into chaos. The merest hint of capital controls (of the type that Finance Minister Paul Martin in Ottawa has already advocated for the Asian economies) could collapse Canadian securities prices and raise interest rates, while inviting domestic as well as international capital flight.

What are the implications of financial market reality for negotiating partners? The ROC and Quebec could recognize their weakness early, and sue for a role in a continental monetary and fiscal policy-making system, perhaps on the Euro-currency model. But political acceptance of this strategy is unlikely in the short run on either side of the 49th parallel. A more likely outcome is intransigence and indecision in the ROC, threatened capital controls, devaluation, taxation of foreign capital movements and other measures equally repugnant to American business interests. Because American auto makers, pulp and paper manufacturers, printing companies, media firms and others have assets located in Canada, gyrations in the dollar or in the value of those investments will directly effect American securities markets.

North American international real capital flows are huge; they include the movement of people as well as equipment, and final goods as well as objects in the process of production in the many cross-border integrated industries: autos, rail, fishing, agriculture, communication, lumber, construction, energy, etc. Interference with these flows through the use of investment review boards, subsidies limited to domestic producers, non-national treatment for U.S. entities, will antagonize American negotiators and their political constituents. On the other hand, Americans may wish to encourage some capital flows such as energy and raw materials, while preventing others, including immigration from Atlantic Canada.

PROCESS, STYLE AND GOALS OF AN AMERICAN NEGOTIATING TEAM

Confronted by the background realities and the immediate economic consequences of a Quebec referendum, the United States would insist on a seat at the bargaining table that defines the terms of disengagement. Keeping in mind that the present 320 treaty deep Canadian-American relationship is too complex to be fully reproduced, we must turn now to a negotiating scenario. What would be the immediate and pressing short term demands of the American team? Their style and strategy? What broad goals and vital interests will they choose to defend? And what could be the range of likely outcomes?

The American wish to preserve the existing order, would mean strong resistance to unilateral (Quebec and ROC) changes to the family of treaties and administrative understandings, internal and external, that today define its domestic and diplomatic relationship with Canada. A high priority on the part of the United States, in this respect, would be a guarantee of national treatment, that is "equal-to Canadian/Quebec" treatment for all U.S. citizens, firms and entities, especially full national consideration and protection for American investors who hold Quebec or ROC debt or equity securities. This would also involve limitations on subsidized trade, capital controls and changes in investment regulations.

The United States would also ask for national treatment for American-owned physical assets presently located in the newly established Canadian entities. These include, but are not limited to, automotive plants and related manufacturing facilities for parts, transportation and communication assets, resource and energy investments and pipeline and energy transmission systems. As well, the American team would insist upon a no-change policy on quasi-public, shared assets, such as the St. Lawrence Seaway, access to the Great Lakes and far-northern shipping lanes and North American air space, to fishing waters, transportation routes and environmental assets held in common. Preserving the effectiveness and unity of the military assets composing the integrated North American defence system would be of profound concern.

Short run goals of the American team would also place a high priority on maintaining the present military and diplomatic courtesies, agreements, cooperative ventures and practices; continuing with in-place cross-border cooperation with regard to law enforcement (criminal, civil, environmental and economic), and respect for current border management, including the passage of goods, capital, nationals, native americans and immigrants.

Confronted by these and other issues, the American negotiating style, driven by self-interest, will be potentially cold-blooded. In the face of disorder and crisis-driven negotiations, Quebec and the ROC cannot expect continued benefits from a long-term "special relationship" gone awry. A recent American proposal to levy a fee on border-crossing tourists created great anxiety in Canada, and revealed how sensitive issues between friends can become when border outlets are no longer open doors.

The border can indeed be classified as a politically sensitive location for American negotiators, since key cross-border industries and distributors of goods are represented in the United States by powerful lobbies. American negotiators can expect to hear from spokespersons for the automobile industry, air transport, energy, natural resources of all kinds, pulp, paper, lumber, fish and trucking as well as public agencies such as the St. Lawrence Seaway Authority, Great Lakes and North-West Pacific state and municipal governments and the Boundary Waters Commission. The team could also be expected to show sensitivity to demands of the American environmental movement and labor unions concerned with international trade.

Lobbying pressures from these American interests could create new priorities during the negotiations. For example, the cultural barriers now in place and jealously guarded by Ottawa will certainly be challenged by powerful American lobby groups representing the journalism, film and music industries (whatever the Heritage Minister in Ottawa might wish). In this sensitive area, federalist forces who pride themselves on their role as guardians of Canadian culture will not have Quebec's support at the bargaining table, since French Quebec cultural industries are safe behind a non-tariff linguistic barrier.

All in all, American negotiating style must be ad hoc and defer at the same time to current conditions. Short-sighted, narrow special interests in the United States must be expected to do battle for consideration with super nationalists in Quebec and the ROC. There are no formal succession rules in NAFTA or the Auto Pact, nor have we found any in the many other treaties linking present-day Canada and the United States. What is more, there is no fast track authorization for the President that allows for swift action during a crisis. Congress and the lobby groups will then have plenty of time to make their views known and quite possibly to achieve significant changes not possible under current conditions. If the negotiations take place before 2001, President Clinton's debt to American unions and some other anti-free trade interests make a strong defense of the pro-Canada provisions of NAFTA unlikely. At a minimum, in other words, redrafting of the many treaties needing revision will be slow, and subject to close scrutiny by Congress, lobby groups and the President's special interest supporters.

DOMINANT ISSUES FROM AN AMERICAN PERSPECTIVE

Aside from any concessions to American interest groups, Washington negotiators are likely to appear at the table with certain vital interest in mind, issues with priority status. They are geo-political; legal; military and diplomatic; public order and human rights, plus economic and commercial concerns, with particular attention to trade, immigration and border management.

When negotiations for disengagement begin, a geo-political dimension will immediately become apparent. True to its democratic tradition, Canada will be in a position to provide an example for other countries that will be or already have been exposed to violence and disorder because of similar ethnic and cultural divisions. United States negotiators will be placed in a position to proffer aid in creating a peaceful transition. They will insist, of course, that law enforcement continues along existing lines and that protection be provided for property rights, contract obligations, copyrights and intellectual property, and that no significant changes are unilaterally made to tax laws and treaties, or to cross-border enforcement of ATF laws, or legislation regarding drugs, money laundering or terrorist activity.

Military and diplomatic interests will concern all participants, but the United States will insist on a continuation of NATO and NORAD obligations and responsibilities and the status quo on overflights, sea access, surface and undersea naval movements, the transport of troops and arms, including nuclear weapons, plus a meeting of minds on a vital North American diplomatic stake in the UN, the IMF, the World Bank and other international bodies. At breakup, maintenance of public order above the 49th parallel would concern Americans, but in the absence of any perceived threat from a great power, the United States might heighten security at border points, but would be exceedingly unlikely to interfere with force. This is not to suggest that the United States would be unwilling, if asked, to provide security against terror or intelligence, logistical support and advisors.

The border must continue to have a "human face," to facilitate legitimate trade, and filter out illegitimate flows of goods, money, people, shared assets and integrated industries. American negotiators are also likely to press for a continuation of "privileged" border traffic in personnel and goods, including treaty rights of aboriginals to move goods and money, but they would oppose a change of status that moves these people in the direction of self-government. Nonetheless, aboriginals could easily obtain an independent place for themselves at the negotiating table by using the fluid situation to press for special advantages.

AFTERMATH

The probable outcome of negotiating the breakup of Canada presents, overall, a win-lose situation -- a kind of win for the United States on the one hand (in the sense that the U.S. will lose least among the three or more parties to any post-sovereignty negotiation, for reasons of its relative bargaining power if no other), and a loss on the other for the parts of Canada that remain. North American economic and political organization will quickly move to a "hub and spoke" plan, with the United States at the center, Quebec and the ROC at the rim with Mexico, the traditional weak power. A divided Canada will have a tough time standing up to American vital interests. Of some use might be a consideration of possible results in the negotiation's aftermath:

1) NAFTA, the Auto Pact and other treaties (which currently do not always serve affected American interests well), may be altered to the advantage of special interests within the United States. The dividends flowing from free trade have been in part a lubricant for some of Canada's dislocation, and so the feedback loop here may have the effect of diminishing -- for all players -- both the benefits and costs of the economically rational and politically destabilizing North-South trade flows. We see no automatic process, nor do we think a policy scheme can be or should be devised to re-establish Canada's former East-West economy. And so the backlash diminishment of NAFTA, should it occur, will not have the effect of restoring the status quo ante. It will merely mean the fragments of old Canada will be so much the poorer.

2) Ottawa and its institutions (The Bank of Canada, Department of Finance, and Parliament) will be much diminished in authority and relevance. Much of the negotiating following breakup will have taken place directly between special interest groups and provincial governments, especially those from the rich and well-endowed West. Quebec as an entity will aspire to a degree of respect on a par with the ROC. Ottawa will find its currency under attack and perhaps with a limited life expectancy. Canada's government,

its tax base diminished and its financing costs rising, will likely be incapable of raising funds in international markets without guarantees from Washington, the IMF or other solvent bankers. Its tax base smaller and poorer, Canada will have lost authority and respect, since it failed to keep the country intact. The problem mentioned earlier by Tom Courchene, mounting "an East-West sharing system over a North-South trading system" will be harder to solve, with Ottawa poorer and the provinces less committed to the Federation in general and to the idea of sharing in particular. The Fragments will more and more (even in the absence of full Quebec sovereignty) deal directly with American public and private interests. A good fraction of what is available to "share" with distant parts of Canada may be "sold off" in bargains with American and local interests before far-off Canadian claimants have a chance at it.

3) Negotiating poses a special problem. From the beginning disagreement will rise over just which persons and parties will be authorized to represent national interests. Official and self-appointed Americans will parley with diverse groups in Quebec and the ROC, including aboriginals, industrial leaders, provincial and municipal government functionaries, existing cross-border regulatory bodies such as the Seaway Authority and Boundary Waters Commission, environmental groups, and even, perhaps, some disaffected minorities such as Quebec Anglos. If, against the better judgment of professionals and those who understand the true, long range interest of Americans, U.S. negotiators should take advantage of turmoil and weakness in the authority of Quebec and the ROC, to serve too assiduously the American special interests, Canadian fragmentation might accelerate, certainly with troubling long-run consequences for North American political and economic stability.

4) If a fragmented Canada does result in more than two entities, Americans will not have the time or patience to consult widely in order to reach compromise positions in the UN, IMF, NATO, etc. Furthermore, a fragmented Canada will make it easier for Americans to expose and attack what they deem to be protectionist practices forbidden by NAFTA regulations. De facto, internal tariffs have long been an irritant for Americans, but they have been out of reach. A fragmented Canada, no longer a G-7 level player vis-a-vis the rest of the world, cannot expect to reach out to Americans for support with the World Trade Organization, the United Nations and the International Monetary Fund, for American players may prefer to look at the G22 level to gain needed international support for goals.

5) Finally (as noted earlier), to the extent that our scenario suggests losses for Quebec and the ROC, and this at the hands of American negotiators, it should be emphasized that these losses are not dependent on American malicious intent. Separation and fragmentation would create an economic and political vacuum into which the United States would be compelled to move, both from strategic necessity and irresistible pressure from interested citizens. Since the Monroe Doctrine was announced to the world in 1823, other world powers have been excluded from this hemisphere. It should be clear then that no other G7 player, France for example, will be welcomed if it attempts to expand its influence on the very borders of the United States.

THE LONG-RUN CONSEQUENCES

For over two centuries, there has been a certain ambiguity about Quebec's place in what was once British North America. As Canada evolved after the 1867 Confederation, there was little doubt that Quebec was becoming more and more a part of North America even as it became increasingly conscious about the need to preserve its language and culture in an overwhelmingly English-speaking environment. Arguably, Quebec has flourished, and can continue to do so, as an integral part of a Canada that is committed to maintaining its dual character. Yet underlying nationalist currents, which have never been far from the surface, have spawned a late 20th Century separatist movement that persists in its determination to make Quebec sovereign despite two referendum defeats and a raft of logical arguments for maintaining Canadian unity for both economic and cultural reasons. The 1998 Quebec election, muddled as the result was, keeps the cause and the threat alive, a threat which conscientious policy makers and planners must take seriously.

The realization of the dream of the Quebec nationalists remains elusive. But if it is ever realized and Quebec becomes an independent country, the result will not be the simple drawing of a new international border on the map. Many things on the continent will change. The negotiations to manage that change will be long, complex and arduous. Although the United States will have opposed the sovereignty option, if negotiations on independence ever do occur, the U.S. (defined here as a complex amalgam of interested public and private players), more than ever before, will be in a position to shape the destiny of a continent in a manner best suited to the protection of its own interests.

CONCLUSION

In the early years of the 18th Century, to counter what were already the more energetic settlements in New England, the French King built Louisbourg- then the most formidable military installation in the New World - at the inhospitable northern extremity of navigation on the St. Lawrence River. One courtier wit, endeavoring to express the Fort's staggering cost, said its towers could be seen from the streets of Paris. After the end of the half-century of conflict between the English and French development strategies for North America, the subtle Lord Dorchester devised the Quebec Act (1774), which created a competing claim to the western extremity of colonial America, and reduced the likelihood that French Canada, by then ruled from Whitehall, would find an interest in common with the upstarts to their South. For the next hundred-odd years, a complex interplay of British and Continental interests determined the international strategies of the polity that became Canada. The purpose was to use Canada as an instrumental make-weight able to spoil, muddle - or, in the case of the British/Canadian tilt toward the Confederacy during the Civil War, permanently cripple - the aims and aspirations of an ever-more challenging Republic.

Europe's attempts to hobble America failed. Ten years after the Civil War ended England's last best hope of limiting it, the United States was, arguably, the world's most potent economic power. Today, Canada's troubles will only add to American responsibilities. The United States enters the new millennium as the world's only superpower -- a status it did not seek directly, but acquired as a necessary corollary of the failed ambitions of others. America's age of active empire-building is long past- no American leader since Champ Clark has wished to carry the Stars and Stripes from the North Pole to Tierra del Fuego - nightmare fables of Canada as an unlucky rabbit in the Eye of the Eagle to the contrary notwithstanding. Even so, and although it certainly will not have schemed to bring it about - indeed though it will have applied its utmost diplomatic energy to oppose it - at the conclusion of Canada's sovereignty negotiations, the contradictory combination of powers and interests making up the multifaceted United States of America will, more than ever before, shape the destinies of North America, free from foreign constraint.