

Apart from the renewed and regrettable escalation of violence, the most striking development in the Middle East is the growing importance of that region's oil reserves to a world increasingly preoccupied by the prospect of energy shortage and associated balance-of-payments questions.

All of these changes have significant implications for Canada, providing both challenges and opportunities which must be met with skill and imagination.

The most rewarding and, at the same time, the most exacting of our relations are, of course, those with the United States. In response to growing Canadian concern that vital decisions affecting the evolution of our relations with the United States must be examined, not simply in terms of their short-term economic implications but of their long-term meaning for Canada's political, cultural and economic destiny, my departmental officials and I embarked upon a comprehensive assessment of our relationship with our neighbour. Our central task was to determine whether "it is possible to devise a means of living distinct from but in harmony with the United States". This study, published last October in *International Perspectives*, revealed three broad paths or options open to us:

- (1) We could seek to maintain more or less our present relationship with the United States with a minimum of policy adjustment.
- (2) We could move deliberately toward closer integration with the United States.
- (3) We could pursue a comprehensive, long-term strategy to develop and strengthen the Canadian economy and other aspects of our national life and in the process to reduce the present Canadian vulnerability.

The first option involves a minimum of deliberate policy change, maintaining more or less intact the present pattern of our economic and political relationship. However, this option assumes a static situation which does not exist.

The second option accepts the proposition that the intensifying relationships inherent in modern society and in economies of scale tend to generate a momentum for closer integration with the United States. However, to pursue such a course would be to ignore the enormous disparity in power between the United States and Canada. In our circumstances, the process of economic harmonization, once in motion, is more likely to spill over and to dominate other areas of our national life.

A central purpose of the third option would be to make the Canadian economy more resilient to external shocks. The path to this objective is the development of a much more balanced and efficient economy. The option involves actively encouraging specialization and rationalization. It looks to the emergence of healthy industrial and service enterprises in Canadian hands. This course seeks to avoid the situation, in which by dealing with bilateral