

on a basic reappraisal of its position and policies. The Canadian situation is itself changing and new perceptions are being brought to bear on the Canada-U.S. relationship. All this suggests that some adjustments in Canadian policy are unavoidable.

The first option would neither discount the fact of change nor deny the need to accommodate to it. But it would imply a judgment that, at least on the present evidence, the changes that have occurred or are foreseeable are not of a nature or magnitude to call for a basic reorientation of Canadian policies, particularly as they relate to the United States.

In practical terms, this would mean maintaining the general thrust of our trade and industrial policies, including a large degree of *laissez faire* in economic policy, a multilateral, most-favoured-nation approach as the guiding principle of our trade policy, emphasis on securing improved access to the U.S. market, the vigorous export of commodities and semi-processed goods, and continuing efforts to industrialize domestically by rationalizing production, in large part for export. Presumably, little or no change would be made in the present way of handling matters at issue with the United States, which is one of dealing with each problem as it arises and seeking to maintain something of a "special relationship".

New constraints

But there is another side to the coin. The changes that are taking place on both sides of the border point to new opportunities and new constraints emerging for Canada. We would aim at seizing the opportunities and managing the constraints to the best of our ability. In the process we would be concerned about the balance of benefits for Canada, but we would be less concerned about how any given transaction or act of policy fitted into some overall conception of our relationship with the United States.

Nevertheless, other things being equal, we would seek to avoid any further significant increase in our dependence on the United States and our vulnerability to the vicissitudes of the U.S. market and to changes in U.S. economic policy. An effort to diversify our export markets would not be incompatible with the first option; nor would a policy to take advantage of accelerating demand for our mineral and energy resources to secure more processing and employment in Canada and, generally, to reap greater benefits from this major national asset; nor would some further

moderate Canadian action to achieve greater control over the domestic economic and cultural environment.

In sum, this is essentially a pragmatic option. It would not, by definition, involve radical policy departures. It would deal with issues as they arose on the basis of judgments made in relation to each issue. It is not a static option because it would address itself to the solution of problems generated by an environment which is itself dynamic. One of its main attractions is that, we trust, it would not foreclose other options.

The precise implications and costs of this option are difficult to predict because they would vary significantly depending on developments over the short and medium term. Accommodation of current U.S. pre-occupations, however limited, would entail some costs and could involve an increase in our dependence on the United States. If U.S. difficulties proved more durable, and if significant improvements in access to other markets did not materialize, pressures might develop in the United States and in Canada for further special bilateral arrangements. Alternatively, if protectionist attitudes in the United States were to find reflection in official policy, we might be forced to seek other markets on whatever terms we could and perhaps to make painful adjustments in order to reorient our industry to serve mainly the domestic market.

On more optimistic assumptions about the course of U.S. policy and the future of the international trading system, the first option might be followed for some time with ostensible success. The real question is whether it comes fully to grips with the basic Canadian situation or with the underlying continental pull. There is a risk that, in pursuing a purely pragmatic course, we may find ourselves drawn more closely into the U.S. orbit. At the end of the day, therefore, it may be difficult for the present position to be maintained, let alone improved, without more fundamental shifts in Canadian policy.

Closer integration with the United States

The second option is to accept that, in a world where economies of scale are dictating an increasing polarization of trade and in the face of intensified integrating pressures within North America, the continuation of the existing relationship, based on the economic separation of Canada and the United States, does not make good sense, and to proceed from that con-