economic development depends to a large extent on the economy and well-being of another country.

These facts, however, provide leverage to both countries. While the U.S. market is vital to Canada, many Canadian exports are vital to the U.S. While U.S. based interests have great influence over the nature and pace of economic development in Canada, they also have a high stake in participating in Canadian development in a manner which is as creative and productive as Canadians feel they have a right to expect.

While the two governments do not run the economic relationship in a day-to-day sense, they are necessarily involved in a general way. The nature of the Canadian economy and society has required government involvement to channel aspects of long-range development in beneficial ways. Similarly, it is axiomatic that the benefits of development have to be worked at by Canada. They will not fall out of a free trade, free investment, free-for-all continental economy. This is not an option for Canadian development. Benefits for Canadian industry, however, do not necessarily mean a cost to U.S. private interests, but Canadian policy needs to adopt a strategic approach to succeed. How do we use the levers we have? How do we use our strengths to compensate for our weaknesses? How do we serve the interests of all the country and not just a part? The answers to these questions are the basis for planning for the relationship with the United States.

Canadian vulnerability

It is going to be a difficult and dangerous world in the 80s and 90s. Canadian vulnerability to its swings, shifts, and shocks, calls for the development of instruments which give the national interest some increased discretion over developments. This is what the Canadianization part of the National Energy Program intends to do. The U.S. government understands this clearly. In President Ronald Reagan's inaugural address, speaking of neighbours and allies, he said "we will not use our friendship to impose on their sovereignty, for our own sovereignty is not for sale." This is the point. It is a matter of sovereignty — not in the legal sense, but in the discretion over the securing of national interests which, inevitably, are not identical for both countries.

Suggestions that have been made by various political representatives in the United States for the development of continental policies range from functional cooperation in technical areas to continent-wide policies for resources, food and technology. There may well be functional benefits from a continental approach in a few select fields such as environmental control — although these should be examined closely. On the other hand, continent-wide policies in such areas as energy and resource management could lock Canada more closely into another country's interest and future while reducing the freedom to manage our own interest and future. Yet, because of the different nature of the two economies, the economic interests are not identical and separate national attention and management are called for.

The Third Option remains valid as an assumption of Canadian foreign policy even if it no longer needs to be cited as a constant point of reference. The Canadian emphasis on bilateral relations with economic partners, based on Canadian economic development objectives, which Secretary of State for External Affairs Mark MacGuigan recently spoke of is, in effect, an updating of the Third Option policy. It recognizes the prime importance of the relationship with the U.S., but stresses the vital need for coordinated Canadian policies to develop key relationships with other countries as well.

In reviewing, or re-visiting the Third Option, a decade after its introduction, one is struck by its misinterpretation over time. Basically, it was rooted in the need for a domestic economic strategy — "a long-term comprehensive 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". That is the exact language of the option as used in Mitchell Sharp's paper setting it out (see *International Perspectives*, Autumn 1972 special issue).

It was never meant to shift exports from the U.S. to somewhere else. It states clearly that the "United States would almost certainly remain Canada's most important market and source of supply by a very considerable margin". It did, however, seek diversification of Canada's foreign relationships and greater balance in other ties. Key bilateral relationships elsewhere in the world needed to be developed more effectively as a counterweight to the U.S. but also to provide new opportunities for development. It was not diversification for its own sake — but to add new weight to our relations. ** verified by Mr Sharp 197

The option has been called a failure because it did not lead to a general diversification of export growth. This is true in one respect — the European Community, where the commercial relationship with Britain declined in importance. On the other hand, the relationship with the Federal Republic of Germany, grew both in quantity and quality. In fact, in 1980 the Community took almost $8 billion of Canadian exports. This marked a dramatic recovery in Canada's share of world exports and underscored the continuing importance of the Community for Canadian interests. The Third Option is not the basis for Canada seeking closer relations with Europe — these are merited on their own.

Japan overtook Britain as Canada's second largest trading partner in 1972. Since then, trade with Japan has more than tripled, accompanied by a $2 billion surplus, though the quality of manufactured and further processed goods exported does not accurately reflect Canada's industrial and technological capacities. Canada is seeking an economic partnership with Japan and not just a trading relationship. This has not yet been achieved in an adequately balanced form.

The 1980's present new opportunities for strength-