

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.

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 1980s present new opportunities for strengthening Canadian partnerships abroad. Exciting prospects emerge from the growing importance of the newly-industrialized countries — Brazil, Mexico, Venezuela, Algeria, Saudi-Arabia, South Korea and those of the Pacific region. Along with the U.S. itself, these are now the high growth markets for our capital goods. The concentrated long-term development of bilateral relations with these countries is a basic emphasis of Canadian foreign policy for the 80s. Diversification is taking place. The new emphasis on bilateral relations with these high-growth partners to promote the substance of long-term economic relationships in our political interest, is meant to give greater body to the basic policy of the last years, in the light of the circumstances of this decade.

The Third World provides a frame of reference. The Third Option cannot be judged as if it were a finite act. It is a policy direction — not away from the U.S. — but towards other key areas of the world, where relations need to be developed on the basis of steps to strengthen the Canadian economy in the specified direction. Some important economic steps were taken to strengthen control over the Canadian economy and reduce its vulnerability — Petrocan, FIRA, Bill C-58 on the economic underpinnings of the broadcasting system. Economic downturn and the crisis in national unity over Quebec may have forestalled attention to others. The U.S. government has been able to

accept these steps quite easily in principle, even if particular applications ran against the grain of specific interests from time to time.

National economic development objectives are becoming clearer in Canada. Despite differences with the provinces on questions of jurisdiction and obvious differences in regional perceptions of short- and middle-term interests, a consensus is probably obtainable on basic Canadian development objectives. Government priorities are emerging on the economic development of Western Canada, the promotion of industrial adjustment in Central Canada, economic expansion of the Atlantic provinces, Canadianization of the energy sector, productive human resource policies, and the need to emphasize productive investment expenditures over subsidization.

The priority in foreign policy becomes the development of an external framework that facilitates the accomplishment of these objectives. Closer and stronger bilateral relations need to be pursued with several countries. Above all this objective requires the successful management of the U.S. relationship to which it is intimately linked. Whether this approach is called the "Third Option" of the "basic strategy", its realization is in Canadian interests — and in the interests of the U.S. as well. While there are basic differences in the make-up of our respective economies, to a large extent our economic problems are shared. The economic indicators in Canada relate to those of the U.S. and some of our structural adjustment experience is pretty much the same.

This being said, it is important for the U.S. to perceive accurately the extent to which Canadian economic policies are directed to distinctive structural features of the Canadian economy some of which are quite different from those of the United States. It is not a matter of different political philosophies: it is a question of different policy needs.

This is not clearly perceived by the public in the U.S., or by legislators in Washington, at present. When polled not long ago with the question of whether or not Canada and the U.S. should adopt a formal continental energy policy, 78 percent of U.S. Congressmen agreed and only seven percent disagreed. When informed Canadians were asked what they thought, 63 percent disagreed. This is but one example of how a potential policy conflict can arise.

Damaging conflict can certainly be avoided, but it must be recognized that, however friendly Canadians and Americans may be, the politics and the economic realities of the two countries require different approaches to economic development. Although the basic primacy of the private sector is a common value of the two economic systems, business interests often need representation at the government level. There will be many occasions in the future when respective national interests on specific bilateral issues will seem divergent in the short-term. U.S. policy-makers accept this as a natural state of affairs in a mature relationship. It has nothing to do with mutual friendship.

This fact of life makes coherent central management of the relationship with the United States vitally important. Issues cannot be dealt with piece-meal. The Canadian export price for natural gas cannot be set in a vacuum. The U.S. factor is a constant background presence for Canadian economic development decisions. In order to deal with that presence credibly and effectively, Canadian pol-