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- 5 -

elements in Japanese economic activity to prevent concealed or disguised military preparations; the elimination in Japan of those selected industries or branches of production whose chief value to Japan is in preparing for war; the prohibition of specialized research and instruction directed to the development of war-making power; and the limitation of the size and character of Japan's heavy industries to its future peaceful requirements, and restriction of Japanese merchant shipping to the extent required to accomplish the objectives of demilitarization.

"The eventual disposition of those existing production facilities within Japan which are to be eliminated in accord with this program, as between conversion to other uses, transfer abroad, and scrapping will be determined after inventory. Pending decision, facilities readily convertible for civilian production should not be destroyed, except in emergency situations."

16. General MacArthur has stated on a number of occasions that the military phase of the occupation is complete; one may therefore assume that the tasks outlined in the section entitled "Disarmament and Demilitarization" quoted above have been accomplished. The principal tasks laid down in the programme for economic demilitarization were accomplished early in the occupation. The exact levels of those industries which were to be subject to restrictions and the disposition of production facilities which are to be eliminated have not yet been determined, however, owing to a lack of agreement between the member nations of the Far Eastern Commission.

17. Whatever the progress of the various demilitarization measures, if they are to be made effective for a further limited term after the peace settlement, or made permanent, appropriate clauses must be written into the peace treaty and some supplementary agreements between the Allied powers may have to be drawn up. It is therefore necessary to review the measures already taken in the light of Canadian security requirements generally. For purposes of the Canberra conference, recommendations as to the proper extent of demilitarization for Japan, the measures necessary for the enforcement of this demilitarization, and the nature and extent of economic controls for Japan, and certain questions of territorial adjustment will be required.

18. In formulating the recommendations mentioned above you may wish to take account of the following considerations:-

(a) it would seem undesirable for the Allied powers to impose conditions on Japan which would make it impossible for the Japanese to develop a viable economy or maintain proper order within their own borders. The Potsdam Declaration provided that "Japan shall be permitted to maintain such industries as will sustain her economy and permit the exaction of just reparations in kind, but not those which would enable her to re-arm for war". A drastically reduced standard of living would be a greater impediment to the development of political democracy and would foster the growth of totalitarian movements.

(b) Plans for reconstruction and economic development