

Statutory List, that the first could be considered as a comparable alternative to the second since, generally speaking, the immediate economic effect of placing these firms on the List would be so much greater than the denunciation of the Commercial Treaty. In so far as Canadian trade with Japan is concerned, however, the addition of the three firms to the Statutory List would not, in practice, greatly alter the position which we have already adopted.

6. If, however, it is considered necessary to take further economic action against Japan, we would prefer your second proposal, viz: denunciation of the Anglo-Japanese Commercial Treaty to which (though not to the 1925 Supplementary Agreement) Canada is an adherent. But we are most doubtful of the wisdom of taking such a step as a direct reprisal for some specific act of Japanese aggression. We are inclined to think that the result of such an action would be merely to arouse anger among all elements in Japan. On the other hand, if notice of termination were to be given in a moment of comparative calm and were to be explained on the ground that increasing Japanese restrictions on British trade had made the continuation of the Treaty pointless, the results might be much more useful. Such an action would be interpreted by many Japanese as evidence that their Government had been unwise and even in official and trading circles there would be at least a tendency to recognize that there was some truth in the proffered explanation. It is conceivable that denunciation might result in increasing the alleged, though not very evident, cleavage between the commercial classes and the military and other super-patriots who have been chiefly responsible for Japan's external policy during the last ten years.

7. In this connection we feel that not the least of the general arguments in favour of denunciation of the Commercial Agreement is that it would put Commonwealth economic policy vis-à-vis Japan in line with the policy of the United States which we consider to be a point of high importance.

8. The fact that Treaty denunciation would become politically effective at once but would not become economically effective until twelve months had elapsed might strengthen the hands of those elements in Japan that are reputed to favour the adoption of a more conciliatory international policy.

9. The denunciation of the commercial agreement, in contra-distinction to the blacklisting of one or two firms, would produce a more or less equal effect throughout the trading community and would avoid the personal bitterness and concentrated hostility which would result from the adoption of your alternative proposal. In the present stage of nervous equilibrium in Japan a determined drive for war on the part of one of these great trading organizations—and this might well be the result of blacklisting—might quite conceivably become a decisive factor.

10. This is our tentative reaction to your proposals. We should like to have your further views as well as the opinions of our representatives in Japan. In this connection we would suggest that your Ambassador and the