

peace settlement.

4. As a Pacific power and as a prospective participant in the Japanese peace settlement Canada will share with the other nations concerned the responsibility of establishing conditions of peace and stability in the Far East. As a major trading nation we will be particularly concerned with security measures vis-a-vis Japan in the economic field. Security must be our primary consideration in the peace settlement; once the requirements of security are satisfied, however, it is in our interests to ensure that no unnecessary obstructions are put in the way of free multilateral trade.

5. The purpose of the ensuing sections of this paper is to show what has been accomplished with respect to a short-term economic demilitarization programme, how this programme might be completed at the peace conference, to discuss certain aspects of long range economic controls for Japan, and to indicate what types of control appear to be feasible and likely to be most acceptable to Canada. It is not possible at this stage to formulate any fully-rounded proposal for long term supervision of the Japanese economy; even if it were possible, the Canadian government would not wish to commit itself in advance to support the adoption of any particular plan or to participate in its implementation. It is hoped that the material supplied will be useful as a basis for discussion.

## II.

### Economic Demilitarization

6. The pattern of post-surrender economic activity in Japan was laid down in the Potsdam Declaration of July, 1945:

"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. To this end access to, as distinguished from control of, raw materials shall be permitted. Eventual Japanese participation in world trade relations shall be permitted."

7. A general programme for the economic demilitarization of Japan was laid down in the basic post-surrender directive issued by the United States Government to the Supreme Commander for the Allied Powers in September, 1945:

#### "1. Economic Demilitarization

"The existing economic basis of Japanese