

they would make possible minor penalties for minor crimes. A system of continuous economic controls would permit the application of limited as well as comprehensive sanctions, and such action could be taken long before Japan would be in a position to commit overt acts of aggression.

19. Conversely, a system of flexible economic controls would permit the Allied Powers to keep a constant check on Japan while permitting her to resume gradually her normal functions as an independent nation. Initially imposed restrictions could be relaxed progressively as a peaceful economy develops in Japan.

20. Finally, in the case of Japan, exterior controls over imports of certain strategic raw materials, together with other economic restrictions, will go a long way toward keeping in check the development of those industries which form the back-bone of a war economy. For example, Japan has to rely on imports for practically all the raw materials needed in the manufacture of iron and steel. Similarly with aluminum: of all the large aluminum producing countries, Japan is among those most deficient in the natural resources requisite for economical production; in the past she has had to rely heavily on imports for her supply of bauxite and, in addition, found it necessary to supplement domestic production of aluminum with large imports of aluminum ingots.

21. Military Guarantees.

Such economic controls as are devised for Japan will probably have to be supplemented by a military agreement between the principal allied powers to guarantee the continued demilitarization of Japan. If a system of economic restrictions is not devised, however, the control of Japan after the peace treaty would have to depend almost entirely on these military guarantees. A security system of military character, involving the stationing of troops in or near Japan by the great powers, might not be entirely conducive to peace and stability in the Pacific area. The overriding consideration, particularly for the United States and the U.S.S.R., might well become not the demilitarization of Japan but the securing of strategic advantage in the Far East. The emergence of new points of friction between these two powers in the north Pacific area might adversely affect our own security. If these considerations are to be given any weight, it would follow that Canada's interests would be best served by a security system for Japan based on economic controls rather than one which was predominantly military.

22. Moreover, a security system which was purely military in character could not be nearly so flexible as one based mainly on economic controls. It would amount to the removal of all direct controls exercised by the Allied powers during the critical period after the end of the occupation. Should Japan attempt to build up her war potential again and embark on a career of aggression, her history might quite likely follow the