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14. For the peace settlement the principal task with respect to economic demilitarization of Japan may therefore be summarized as follows: to review and if approved to make provision for the immediate implementation of the programme for the reduction of Japanese industrial war potential, as set forth in the proposals now before the Far Eastern Commission, to be completed prior to the final withdrawal of all occupation troops.

15. The Canadian representative on the Far Eastern Commission has been instructed to vote in favour of both papers mentioned in paragraph 12 above, subject to certain changes being made in the section on the aluminum industry in FEC 218. (A separate memorandum concerning Canadian interests in the Japanese aluminum industry is being prepared.) Interested departments of government consider the short term economic demilitarization programme which has been drawn up by the Far Eastern Commission to be satisfactory in its present form, but recommend that Canada should resist any further changes which would have the effect of further reducing Japanese industrial capacity.

III

Long Term Economic Controls

16. The short term programme for eliminating Japanese industrial war potential which has been discussed in Part II of this memorandum will have the effect of preventing for a limited period only the emergence in Japan of an industrial economy suitable for war production. Furthermore, the ban on primary war industries and the limits on the production capacities of war-supporting industries which are laid down in F.E.C. 084/19 will be valid only for the period of the occupation. If permanent economic demilitarization is to be achieved, some system of long-term controls over Japanese industrial development will be necessary. The permanent economic demilitarization of Japan was one of the objectives included in the Potsdam Declaration; moreover, the terms in which this objective is expressed clearly foreshadow the establishment of long-term economic controls (see paragraph 6 above). Such controls may well prove to be the keystone of any security system which may be established to prevent Japan from again disturbing the peace.

17. Economic Controls

In the first place economic controls would presumably be continuous and preventive, and, if properly administered and supported by the principal supplying countries of Japan, should make it extremely difficult for Japan to build up an air force, a navy, or a properly mechanized army.

18. Secondly economic controls would vastly simplify the method of applying pressure to Japan when minor violations of the peace treaty occur. In other words,