

## **The dissolution of a monetary union: the case of Malaysia and Singapore**

**1965-75**

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Recent strains in the Eurozone in 2010 have highlighted the difficulties of operating a monetary union across a range of sovereign states. The emerging debt crisis of Greece, Italy and Ireland has also prompted suggestions that the Eurozone might fracture and there might arise monetary disintegration in Europe. This debacle highlights the difficulties of operating a single currency over a range of fiscal authorities, in a region with economies at different stages of development and per capita income. The examples of previous monetary disintegration are not very numerous, although there were several cases in the 1990s; the collapse of the Soviet Union and the creation of new states in eastern Europe 1992-94, the division of Yugoslavia into Slovenia and Croatia in 1991, the separation of the Czech Republic and Slovakia republics in 1992. A neglected episode is the division of Malaysia and Singapore in the 1960s and early 1970s.

This paper uses newly discovered archival material from the Bank Negara Malaysia (the Malaysian central bank) as well as from IMF technical advisers and the UK Treasury and Foreign Office and HSBC to trace how the process of monetary disintegration was managed successfully in the case of Malaysia and Singapore; from currency union with a single currency board, failed proposals to extend the Malaysian central bank into Singapore, efforts to issue currencies separately but have full interchangeability and finally the separation of the monetary systems but the continuation of exchange rate stability that limited policy independence. New data include detailed currency board and central bank balance sheets, comparison with the Hong Kong Currency Board, flows of currency repatriated from each territory after partition, Singapore/Malaysia exchange rates as well as internal policy documents. This paper reconstructs the policy stances taken by the protagonists during the prolonged negotiations that led ultimately to the successful separation of the two currencies. Given the challenges in accessing information in both Singapore and Malaysia, this primary evidence makes a substantial contribution to our understanding of the dynamics between the two states during this time of political conflict. The case confirms the benefits of a gradual process of monetary disintegration and offers fresh insights into how this was achieved between hostile states. It also identifies the basis of bargaining power and the limited role of multinational institutions in contributing to the outcome.

The case confirms the importance of a gradual process of disintegration for a successful partition, but puts greater emphasis on the limits to monetary independence despite the appearance of separate monetary institutions. The importance of a stable exchange rate between the two currencies and the continuation of a currency board in Singapore (against IMF advice) could have left Malaysia with little monetary independence, but archive evidence shows that they led Singapore on exchange rate movements despite Singapore being an important regional financial centre.