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FINANCIAL AND MONETARY COOPERATION IN EAST ASIA: THE SINGAPORE PERSPECTIVE

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1. Introduction

Singapore has yet to make any statement in favor of or against the idea of a common Asian currency. However, it has always emphasized that it does not wish to see the Singapore dollar being used outside the country. This policy of not allowing the Singapore dollar to be internationalized has been repeated so often, even amidst the Monetary Authority of Singapore (MAS)'s announcement of three major policy changes in August 1998 to allow for a wider use of the Singapore dollar. One is that domestically-run firms could borrow Singapore dollars from local banks for use in other countries. The second is that foreign entities could issue Singapore bonds in Singapore for use externally. The third is the further liberalization of rules to allow more foreign companies to list their shares in Singapore dollars on the local bourse. The only condition is that Singapore dollars obtained in Singapore must be converted or swapped into a foreign currency before they are remitted overseas.

These latest measures to liberalise the use of the Singapore dollar should eventually lead to a well-developed domestic financial market which, in turn, should make the local unit more attractive as a medium of exchange outside Singapore. If the Singapore dollar were to become more widely used as a medium of exchange, traders would have greater scope for settling their accounts in the domestic currency. Thus, they would gain from a reduction in exchange rate risks and transaction costs because the need to hold working balances or to trade in a multitude of foreign currencies is diminished. The "price" for Singapore is probably a greater volatility of its exchange rate. However, this is unlikely to be excessive.

The Singapore dollar has the potential to play a more important role in regional trade. Figures from Malaysia and Thailand (**Table 1**) show that the use of the Singapore dollar for trade settlement is only 4.4 percent of Malaysia's trade even though

Singapore accounts for about 16.2 percent of Malaysia's trade. This suggests that only one quarter of Malaysia's trade with Singapore is invoiced in the Singapore dollar. The use of the dollar in Thailand's trade with Singapore is much less as it is used to settle only 0.7 percent of Thailand's trade. As Singapore accounts for some 9.2 percent of Thailand's trade, it implies that the dollar is only used for 10 percent of trade between the two countries. Data is not available for Indonesia but anecdotal evidence suggests that the role of the dollar in Indonesia's trade with Singapore could be large. This is not surprising as a substantial amount of Singapore's outward-investment is in the Indonesia's islands of Batam and Bintan. If the dollar can also play a role as a store of value (or as a reserve currency), Singapore would reap the seigniorage (income derived by central banks from issuing money) gains from issuing domestic money to non-residents.

This short note is organised as follows: Section 2 examines the Singapore's experience with Brunei on a currency union. Section 3 examines Singapore's participation in international and regional financing facilities. Section 4 presents the views of Singapore leaders on financial cooperation in East Asia. Section 5 gives the conclusions.

2. Singapore's Experience With a Currency Union

Currently, no currency union exists among East Asian countries except the one between Brunei and Singapore. The particular currency union between Brunei and Singapore is not well-known, probably because it works so smoothly. As a currency union can also act as a bulwark against currency attacks, it ought to be studied closely by East Asian countries now contemplating closer monetary cooperation.

Singapore's experience with Brunei on currency union demonstrates that it is willing to be a part of a regional integration provided there is mutual benefit. In fact, from 1967 to 1973, Singapore had a currency inter-changeability arrangement with Malaysia and Brunei . Under that (tripartite) arrangement, the currency of one country was circulated in the other two countries as "customary tender" and accepted at par with the country's own currency. In 1973, Malaysia decided to opt out of this arrangement. Brunei chose to maintain the arrangement with Singapore.

Both Brunei and Singapore have benefited from the arrangement as they enjoy more stable currencies and an increase in their bilateral trade and investment. Speculators are deterred from attacking the two currencies as they have to contend with the combined reserves of the two countries. The costs to them are minimal. There is no sacrifice of seigniorage as both countries continue to issue their own currencies. Since Singapore pursues an active exchange rate policy, it incurs very little cost. As Brunei plays a passive role in conducting the joint exchange rate and monetary policy, the only cost to that country is the loss of its monetary autonomy. However, this loss is likely to be small as its national objectives happen to coincide with that of Singapore. Even with the arrangement, both countries are able to pursue their own economic goals such as full employment and price stability mainly because they are hosts to a large pool of foreign workers. If there is a shock to either of the two economies, adjustment in the number of workers can be made quickly to ameliorate the situation. It is thus not surprising that the arrangement has lasted for more than thirty years and is likely to continue for an indefinite future. Their experience with the arrangement should have an important bearing upon the formation of a greater monetary union in ASEAN or even within the larger framework of the entire Asia-pacific region.

However, Singapore's Senior Minister Lee Kuan Yew has expressed doubts that East Asia could move toward a monetary union ("Singapore's Lee Backs Yen Bloc", Far Eastern Economic Review, 8 June 2000). He quipped: "Can you imagine a Maastricht treaty for East Asia? It's already so difficult for the European states".

3. Singapore's Participation in Regional and International Financing Facilities

Singapore has been forthcoming with providing financial support to ASEAN members during the Asian financial crisis. In August 1997, Singapore joined other countries in providing a package of US$17.1 billion to help Thailand in tackling the financial crisis. In November of the same year, it joined other countries in pledging a package of US$38 billion to assist Indonesia.

As one of the 10 participants of the ASEAN Swap Arrangement (ASA), Singapore has contributed US$150 million out of the total US$ 1 billion (Details are shown in **Table 2** However, Singapore has yet to sign a bilateral swap arrangement (BSA) with any of the Northeast Asian countries (China, Japan and South Korea) as provided for under the Chiang Mai Initiative which was signed in May 2000. In the words of its Second Finance Minister Lim Hng Kiang: "Singapore will not secure credit facilities from Japan, China or South Korea in order not to crowd out its ASEAN neighbours" ("Currency swaps: S'pore won't. borrow from N-E Asian bloc", The Straits Times, 8 August 2001).

At the international level, Singapore is a participant of the New Arrangements to Borrow (NAB) which became effective in November 1998. The NAB are a set of credit arrangements between the IMF and 25 members and institutions to provide supplementary resources to the IMF, enabling it to deal with any situation which threatens the stability of the international monetary system. The NAB participants and their commitment are shown in **Table 3**. As can be seen from table, Singapore has committed US$340 million (or 1 percent) out of a total commitment of US$34 billion under these arrangements. The NAB co-exist with the General Arrangements to Borrow (GAB) which were created in 1962 by the major industrial countries to provide an additional source of financing to IMF members. Like the GAB, the NAB allows drawings on the resources by non-participants.

4. Views of Singapore Leaders on Financial Cooperation in East Asia

On the question of Asian Monetary Fund (AMF), Singapore leaders raised doubts about its efficacy and practicality. According to its Deputy Prime Minister Lee Hsien Loong, "the AMF proposal may look attractive superficially, but would be difficult in practical terms" ("Asian monetary fund 'not practical'", The Straits Times, 8 March, 2000). His view was that no Asian country was in a position to play financier except Japan, and she alone might not be enough to solve the problem. He also raised the question about which government would be in charge of the institution and which could be totally impartial. He concluded that it would be better to improve the IMF than set up an alternative mechanism. A similar view was expressed by its Senior Minister Lee Kuan Yew a month later ("SM Lee doubts efficacy of an Asian Monetary Fund", The Business Times, 10 June 2000). However, he added that if an AMF were eventually established, it would have to be subsidiary to the IMF rather than an alternative to the Washington-based institution. He argued that if "bitter medicine" has to be administered to crisis-hit countries (in the form of conditionality attached to the emergency loans), it is better that such remedies be administered by a practitioner from outside the region rather than by a “home doctor”. He doubted, for example, whether any nation would have been strong enough to persuade the Suharto’s government to make the necessary economic reforms.

5. Conclusions

Singapore’s experience with Brunei on a currency union seems to suggest that it is open to the idea of forming a currency union with other countries provided that there is mutual benefit. However, it seems that Singapore is wary of regional financing facilities which could undermine the efforts of the multilateral institutions such as the IMF and the World Bank. From the statements of its Ministers, it would appear that Singapore would prefer the use of the IMF facilities (or facilities coordinated at the international level) to combat any financial crisis in East Asia However, if regional financial facilities were to come to pass, then it would prefer that these be supplementary and complementary to the IMF facilities.

Table 1

Malaysia and Thailand:
Currency of Settlement of Foreign Trade, 1995-1996
(As percent of total settlement of foreign trade in goods)

	Malaysia		Thailand	
	1995	1996	1995	1996
US dollar	61.7	66.0	84.9	83.9
Japanese yen	8.2	6.8	7.2	8.2
Deutsche mark	3.2	2.8	2.2	2.4
Singapore dollar	4.4	3.5	0.7	0.7
Home currency	18.7	17.8	1.5	1.0
Pound sterling	1.2	1.0	0.8	0.9
Others	2.6	2.1	2.7	2.8

Source: Senivongs

Table 2
Contributions to ASA

Group I	Amount (US$ million)
Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei	150 each
Group II	
Vietnam	60
Myanmar	20
Cambodia	15
Lao	5

Source: Rana (2001)

Table 3
NAB Participants and Amount of Credit Arrangements

Participants	Amount (million of SDR)
Australia	810(2.38%)
Austria	412(1.21%)
Belgium	967(2.84%)
Canada	1,396(4.11%)
Denmark	371(1.09%)
Deutsche Bundesbank	3,557(10.46%)
Finland	340(1.00%)
France	2,577(7.58%)
Hong Kong	340(1.00%)
Italy	1,772(5.21%)
Japan	3,557(10.46%)
Korea	340(1.00%)
Kuwait	345(1.01%)
Luxembourg	340(1.00%)
Malaysia	340(1.00%)
Netherlands	1,316(3.87%)
Norway	383(1.13%)
Saudi Arabia	1,780(5.24%)
Singapore	340(1.00%)
Spain	672(1.98%)
Sveriges Riksbank	859(2.53%)
Swiss National Bank	1,557(4.58%)
Thailand	340(1.00%)
U.K.	2,577(7.58%)
U.S.	6,712(19.74%)
Total	34,000(100%)

Source: Kim et al (2000) pp. 23

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