

SECRET

MINISTER OF FINANCE,  
MALAYSIA.

The Treasury,  
Kuala Lumpur.  
17th August, 1966.

The Hon'ble Mr. Lim Kim San,  
Minister for Finance,  
Fullerton Building,  
Singapore, 1.

Dear Kim San,

I thank you for your letter dated 13th August, 1966 which you handed to me personally in Singapore that same evening.

2. You will remember that we discussed your proposal that the Deputy Governor for Singapore should be incorporated as a corporation sole in Kuala Lumpur on 4th August and I indicated to you then that this proposal would be contrary to a basic principle that was originally agreed upon between the two Governments, viz. that Bank Negara Malaysia may be allowed to undertake central banking operations in Singapore as an existing legal entity under section 56 of the Central Bank of Malaysia Ordinance, 1958. The reasons why Malaysia finds your latest proposals unacceptable have been set out in my letter to you dated 8th August, 1966 in this series and it should not be necessary for me to amplify these reasons further.

3. I should like, however, to put the record straight in so far as you have indicated in paragraph 2 of your letter under reply that you are troubled by what you term "the haste" with which both of us are making decisions of great import with considerable long term repercussions and your fear that "we must arrive at a decision so suddenly, either to go on with the proposals which have taken months to work out or to throw them overboard in a matter of days".

4. You will be aware from the records that there has really been no haste at all in considering this question of currency and banking arrangements between Malaysia and Singapore. This subject was in fact considered even at the time when Singapore had not joined the Federation of Malaya and was revived immediately after Singapore Day. Proposals for these arrangements were made to you by Bank Negara Malaysia in a memorandum to you dated 12th November, 1965 and you will recall that the Governor of the Bank held preliminary discussions with you and your officials on the same day for the purpose of clarifying these proposals. Subsequently and with our joint agreement, a request was made to the International Monetary Fund for expert advice on the technical aspects of the Bank's proposals. I need not at this stage elaborate on the Fund's report, as the Director, Central Banking Services of the Fund who headed this mission, submitted a report to you as well as to me in March 1966, after the mission had visited both Malaysia and Singapore in November/December 1965. You are aware that the Fund mission commented favourably on the main principles and general framework of the Bank's proposals for the operation of a common currency and banking system between our two countries.

5. Further discussions were then held by the Bank with your officials on these proposals and on 9th May, 1966, you wrote to the Governor to say that the proposals of the Bank for common currency and banking arrangements between Malaysia and Singapore, and in particular providing for separate physical control and management of the respective foreign reserves of the currency of both countries were acceptable in principle to your Government and could form the basis for detailed negotiations. You also stated in this letter that your Government had authorised the commencement of such negotiations on matters of detail.

6. After consultation with me, the Governor replied to you on 30th May this year conveying my agreement that detailed negotiations should commence. In view of the fact that alternative arrangements for currency must be made in good time before 12th June, 1967, when the Currency Board ceases to perform currency issuing functions, I asked my officials who formed the negotiating team to aim at completing such negotiations within one month of their commencement purely in order that all arrangements for the issue of currency by Bank Negara Malaysia should be made at the earliest date possible.

7. Subsequently, we both agreed that the International Monetary Fund should be asked to assist again on the technical aspects of these negotiations and the Fund was most prompt in meeting this request in that U Tun Thin, Deputy Director, Asia Department and U San Lin, Adviser, Central Banking Services of the Fund arrived on 7th June this year in this country for this purpose.

8. The events that followed are in the records. The two negotiating teams went to work in earnest on 10th June and completed their negotiations on 5th July. I am aware, as I believe you are, that these negotiating teams, the Governor and his officials and the Fund mission, spared no effort in their determination to work out a draft Agreement and worked long hours at each meeting to achieve this purpose. I think it is true to say that in no other negotiations between our two countries since the separation have there been such sustained and exhaustive efforts as in these series of meetings and discussions.

9. The official team for Singapore indicated at the last meeting between the two sides on 5th July that they had no further reservations to make on the agreed draft Agreement, apart from a minor one concerning the nomenclature of the organisation of the Bank in Singapore, and both sides agreed to transmit the draft to their respective Governments for consideration. Whilst I have informed you that I am prepared to recommend to the Malaysian Government that this draft Agreement should be accepted, as indeed it has been on our side, it is a matter for regret that your Government has not found it possible to accept the outcome of these negotiations in a similar fashion.

10. Since then we have had two further meetings at Ministerial level, viz. on 4th and 13th August respectively, in order to try and resolve the doubts which you now have in your mind. I cannot, therefore, agree in such circumstances that I have been acting in haste on this subject; this outline record of events will show that this matter has been engaging the attention of both of us continuously over a long period of time and any decision that is now made has been arrived at after full and careful consideration.

11. To sum up, we would have been ready to issue currency on 12th June, 1966, when Singapore separated from Malaysia last August. In order to accommodate Singapore, however, we agreed to postpone the issuing of currency by Bank Negara Malaysia for a whole year to June 1967 and we went through not

less than eighteen meetings in ten months, to try to reach agreement with Singapore. The International Monetary Fund sent two missions to advise and help and the last mission went away with the firm impression that both Governments would accept the draft Agreement in view of the fact that their respective officials had already agreed to it. I doubt that the I.M.F. would be happy to send a third mission after all the trouble they took to explore this question from every possible angle, especially when their advice has been rejected by the Singapore Government. Under these circumstances, it is a gross travesty of the facts to suggest that there has been haste in dealing with a matter of vital and far-reaching importance.

12. In paragraph 3 of your letter under reply you state that all you seek is that Singapore should not be in a worse position than Malaysia if the Agreement should be terminated. This very point has been specifically provided for in the Agreement because in the event of its termination by either party, the whole of the assets and liabilities shown in the books of Bank Negara Malaysia, Singapura would "without further assurance or conveyance" be deemed to be transferred to the successor of Bank Negara Malaysia, Singapura, as from the date of termination. Nothing can be more explicit than this. Your real fear is that we may not honour that Agreement. The only answer to this is clearly to have no agreement at all.

13. The only other alternative proposal put forward by you that Singapore's reserves should be vested in the Deputy Governor for Singapore as a corporation sole would, in effect, mean having two central banking organisations with one currency. This is equivalent to having two captains on a ship and I have yet to hear anyone seriously suggesting that such a combination is workable. As you yourself are fully aware, even if the proposed draft Agreement had been accepted and implemented by the two Governments, it would require a considerable amount of understanding and goodwill on both sides to make it work. If, for example, at any time the economic and trade policies of the two Governments were to be widely divergent, it is clear that the Agreement would have to be terminated even then. The last arrangement suggested by you would make it unworkable from the very start.

14. I must express my personal regret that all this lengthy and sustained effort should have come to nothing and that we have had to agree to disagree ultimately. The announcement to be made public this afternoon regarding the outcome of these negotiations will no doubt prove a disappointment to the public at large, just as it is to me, but I am satisfied that we in Malaysia have done our very best to meet your requirements. Beyond that it is not possible to go.

Yours sincerely,

Sd.

(Tan Siew Sin)