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Reference..........

Mr. Reed c.c. Mr. Scanlon

How "Rich" is Singapore

I have jotted down a few debating points which may help towards an answer to Sir A. Snelling's minute of 30 November.

2. He argues that Singapore has not behaved like a loyal and co-operative member of the sterling area. Formally this is true; evidently Singapore did not consult us on her proposed diversification. I imagine that the Singaporeans must be aware of the extent of the pressure which was exerted on Malaysia when they proposed a measure of diversification, and would therefore be aware of the difficulties which would probably have been placed in her way if she had acted loyally. Singaporean Ministers will, in fact, have faced a straightforward conflict of loyalty. For they will have seen it as their clear duty to preserve, as best they could, the value of Singapore's reserves. Their assessment presumably was that this duty over-rode their obligations to the sterling area as a whole. The consequent action may have been embarrassing for the U.K., but the counter-argument is that the U.K. itself has not been over-zealous in protecting the interests of holders of sterling. The resignation of the Chancellor of the Exchequer, purportedly on the grounds that he had broken faith with sterling area members, is a poor recompense for a decline in the value of their reserves.

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3. His other main point is that Singapore has now shown by her own figures to be "richer" than we realised. If the figures are anywhere near correct, this again is true. But I am not sure that it is very relevant to the mitigatory aid exercise. Singapore has pursued cautious and conservative financial and foreign exchange policies, which have laid great stress on the stability of its currency. The magnitude of her reserves is in large measure a consequence of these policies. We have encouraged her in such policies: it would indeed hardly have been in our interest to encourage different policies which might have involved a run-down of reserves followed by the presentation of the begging bowl. Furthermore as the example of Hong Kong shows a high level of reserves is considered prudent for a country which depends so heavily on the confidence of foreigners in seeking to maintain and develop its position as a financial & trading centre.

4. It would, I think, be reprehensible to penalise Singapore (e.g. by reducing mitigatory aid) for pursuing policies which are in her interests and which we approve. We should, rather, be thankful that we are mounting the mitigatory aid exercise in a country which may be strong enough to maintain its credibility in the face of a loss of a major slice of its national income, and which has a little fat to fall back on in the not improbable event that mitigatory aid will be inadequate fully to secure its objectives.

DGH

(D. G. Holland)
6 December, 1967