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Third World Monetary Blocs:
Small State Choice or Great Power Hegemony?

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Abstract

Over the past forty years, enduring regional monetary institutions have been created in West and Central Africa (the franc zone), Southern Africa (the rand zone), the East Caribbean, and Western Europe (the euro). Short-lived or failed regional currencies can be found in East Africa, the post-Soviet successor states, Central America, and the Persian Gulf. Using the role of France in the franc zone as evidence, one common argument is that these regional efforts are merely by-products of hegemonic powers' ambitions and interests—imposed from above by great powers rather than chosen from below by newly independent states. A related argument focuses on the Southern African rand zone to suggest that regionalism thrives only where there is a regional hegemon or paymaster to support it.

I show that both versions of the hegemonic argument are incomplete and misleading. This paper examines the overall pattern of regional currency institution-building during the Cold War and after. I show that intra-regional hegemons have played no role in creating regional currencies except in the case of the rand zone and that the extra-regional hegemon hypothesis provides little insight outside the franc zone. Even in the case of the franc zone, the French role should not be exaggerated.

Overall, while the hegemonic explanation has value in these two cases, it is not the whole story even in those cases. And broadly comparing across all world regions—francophone Africa, anglophone Africa, Central America, the rouble zone, Southeast Asia, etc.—the common denominator is not hegemonic imposition, but small power choices.

Introduction

Over the past forty years, a surprising number of regional monetary blocs have been created or attempted. Several have been successful: the West and Central African franc zones, the Southern African rand zone, and the East Caribbean dollar have all endured for decades. The newly formed Euro zone may well endure as long. Others have been more short-lived, like the East African monetary union of the late 1960s or the former Soviet rouble zone of the early 1990s. Still others, such as Central America and Southeast Asia in the 1960s and the Persian Gulf in the 1980s, have been planned but never implemented.

Since many, but not all, of these blocs have their roots in colonial history, one common argument is that they are merely by-products of hegemonic powers' ambitions and interests—imposed from above by great powers, rather than chosen from below by newly independent states. This argument is often invoked to explain the CFA franc zones in West and Central Africa. As France allowed its colonies to achieve independence, it created and maintained regional economic institutions that would preserve its control of franc zone states. CFA institutions are therefore seen as little more than instruments of French domination.¹ Extrapolating from France, the argument suggests that regional currencies in the Third World are fundamentally different from Western Europe's monetary union because Third World states merely inherited institutions while European states deliberately built institutions. At the extreme, the argument suggests that there is little reason to look at the institutional choices of Third World governments at all.

There are useful elements in the hegemonic argument, especially in francophone Africa where France provided significant subsidies to induce its ex-colonies to retain regional ties. However, I show that the hegemonic argument is at best incomplete and often misleading. Even in the extreme case of francophone Africa, several ex-colonies defied the French and left the franc zone. Outside the franc zone, the argument has even less success. First, many hegemon states never even attempted to form regional currencies in their sphere of influence. For example, the United States, even at the peak of its fear of Castro's revolution in the Caribbean, paid little attention to embryonic regional currency institutions in Central America. Second, and more importantly, many hegemon states pushed regional currency institutions but failed. For example, Russia built a hegemonic currency bloc after the break-up of the Soviet Union, but quickly decided that the costs were too high and abandoned the effort. Similarly, the British preferred that newly independent colonies remain attached, but had insufficient leverage to accomplish their goals.

Overall, while the hegemonic explanation seems valuable in a handful of cases, it is limited even in those cases. And broadly comparing across all world regions—francophone Africa, anglophone Africa, Central America, the Rouble zone, Southeast Asia, etc.—the common denominator is not hegemonic imposition, but small power choices. To understand the pattern of regional currency blocs worldwide, we have to look within these newly independent states to understand their particular patterns of domestic politics.

This paper is divided into four sections. Section 1 looks at the overall pattern of regional currency institution-building during the Cold War and after, testing whether the presence of intra-regional hegemon states provides a general explanation for currency area formation. I find no support for the role of intra-regional hegemon states except in the case of the Southern African rand zone. Section 2 looks at the role of extra-regional hegemon states, including superpowers and former colonial powers. I find little support for the extra-regional hegemon hypothesis except in the case of the franc zone. Because the British cases are ambiguous, Section 3 looks in depth at the British role in a typical currency area: the Singapore-Malaysia-Brunei currency area. I show that Britain was largely a passive bystander during the rise and fall, and rise and fall, of post-colonial institutions in Southeast Asia. Section 4 discusses the implications of this argument for studies of regional currency institutions and post-colonial institutions more generally.

1 Bach 1995; McNamara 1989; Coussy 1995; Chipman 1987.

1. Intra-Regional Hegemony?

The argument that powerful states impose institutions on less powerful ones is fundamentally a realist one. While such arguments have been made in the context of particular institutions (like the franc zones), there is also a realist or realist-inspired literature that seeks to explain general patterns of regional institutions. This literature linking power and regionalism is diverse, but two hypotheses stand out.

The first is that intra-regional hegemons drive regional cooperation. Mattli proposes that beneficial regional cooperation is only achieved when there is a regional leader to supply cooperation. The leader's role includes creating a focal point solution and resolving distributional issues by the use of side payments.² Contesting Mattli's assumption of mutually beneficial cooperation, Gruber argues that powerful regional states can structure the choice of regional institutions in such a way that weaker states have little choice but to join. He asserts that key incidents of European and North American economic cooperation resulted from the ability of powerful states to institutionalize their preferences at the expense of weaker partners.³ Both authors lead us to expect, *ceteris paribus*, that regional institution-building is more likely in regions with strong intra-regional powers.

In order to test this argument, Table 1 presents an exhaustive list of all regional currency unions since 1960, including membership and dates of operation. Throughout this study, I define 'regional' to include any group of three or more geographically proximate, sovereign states. This excludes cooperation between geographically remote states (e.g., the U.S. and Panama), institutions which bind non-sovereign units (e.g., colonial currency boards), and institutions with no geographic focus (e.g., the Bretton Woods system). In accordance with the economics literature on currency unions, I define 'regional currency institutions' to include either countries sharing a single currency (e.g., the euro since 2002) or countries with separate currencies that are nonetheless 'irrevocably' fixed by treaty (e.g., the euro between 1999 and 2002).⁴

Table 1: Regional Currency Institutions Among Sovereign States (1960-Present)

INSTITUTION	DATES	MEMBERS	NOTES
West African Monetary Union	1962-present	Benin, Burkina Faso, Ivory Coast, Mauritania (1962-72), Niger, Senegal, Togo (1963-), Mali (1982-), Guinea-Bissau (1999-)	Mali was an initial signatory but failed to ratify. Renamed in 1994.
Central African Monetary Area	1962-present	Cameroon, Central African Republic, Chad, Republic of Congo, Gabon, Eq. Guinea (1985-)	
East African Currency Board; East African Monetary Union	1964-65; 1967-1971	Kenya, Tanzania, Uganda, Aden (Br. colony; EACB member only)	EACB formed in 1919 but its members were colonies until 1962-64. Union ended <i>de facto</i> in 1971 but <i>de jure</i> in 1977.
Malaysia-Singapore Monetary Union	1965-66	Malaysia, Singapore, Brunei (Br. Colony)	Malaysia and Singapore were a single state from 1963-65.
Rand Monetary Area	1974-present	Lesotho, South Africa, Swaziland, Namibia (1990-)	Renamed Common Monetary Area in 1986.
East Caribbean Currency Area; East Caribbean Central Bank	1978-83; 1983-	Anguilla (Br. Colony), Antigua and Barbuda, Dominica, Grenada, Montserrat (Br. Colony), St. Kitts, St. Lucia, St. Vincent	ECCA formed in 1965 but its members were colonies until 1978-83 period.

2 Mattli 1999.

3 Gruber 2000.

4 Gandolfo 1992. When a regional institution includes a combination of sovereign and non-sovereign units, I count both in the total membership. All regional classifications correspond to those in the United Nations' *Statistical Yearbook* except that I define Western Europe and Eastern Europe according to the Cold War fault line (United Nations 1996, Annex I). This results in 17 world regions.

INSTITUTION	DATES	MEMBERS	NOTES
Former Soviet Rouble Zone	1992-93	Armenia, Azerbaijan, Belarus, Estonia (1992), Georgia, Kazakhstan, Kyrgyzstan, Latvia (1992), Lithuania (1992), Moldova, Russia, Tajikistan, Turkmenistan, Ukraine (1992), Uzbekistan	All were part of USSR until 1991.
European Monetary Union	1999-	Austria, Belgium, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Greece (2001-)	

Table 2 presents evidence regarding the intra-regional hegemon hypothesis. Rows depict the economic concentration of all seventeen world regions based on the largest power's share of regional GDP. Columns depict the level of regional currency cooperation achieved. The left column, 'separate currencies', indicates that there was no regional currency in the region after 1960. 'Short-term' regional currencies lasted less than two years. 'Medium-term' currencies lasted at least two but less than ten years. 'Sustained' currencies lasted at least ten years. If the hypothesis were correct, cases should cluster around an axis from lower left to upper right, with high levels of concentration leading to more currency cooperation.

Table 2: Intra-Regional Powers as an Explanation for Regional Currency Institutions

LARGEST ECONOMY AS SHARE OF REGIONAL GDP	OBSERVED INSTITUTIONS			
	SEPARATE CURRENCIES	SHORT-TERM REGIONAL CURRENCY	MEDIUM-TERM REGIONAL CURRENCY	SUSTAINED REGIONAL CURRENCY
EXTREMELY CONCENTRATED (>80%)	North America (US) Central Amer. (Mex) Oceania (Australia)			Southern Africa (RSA)
CONCENTRATED (50-70%)	South Asia (India)	Former Soviet (Russia)		West Africa (Nigeria)
MODERATELY CONCENTRATED (30-50%)	East Asia (Japan) South America (Brazil) North Africa (Egypt)	SE Asia (Indonesia)		Caribbean (Dom Rep) Central Africa (Zaire)
NOT CONCENTRATED (<30%)	Middle East (Turkey) East Europe (Poland)		East Africa (Kenya) West Europe (Germany)	

Source for GDP data: Penn World Tables, Mark 5.6.

Notes: Largest GDP and Total Regional GDP averaged over 1960-92 time period, except in the former Soviet region. Largest power is noted in parentheses.

Bold type indicates cases that are especially problematic for hegemonic theory.

But, as the table demonstrates, regional currencies are present at all levels of economic concentration from highest to lowest and no particular level of concentration seems more likely to lead to successful monetary cooperation. While it would be hard to explain the rand zone without looking at South Africa's hegemonic role (93% of regional GDP), this region is more the exception than the

rule. Similarly hegemonic states—the US (92% of regional GDP), Mexico (88%), Australia (82%), and India (63%)—have made no serious attempts to create regional currencies. To make matters worse, Cohen points out that there is significant support in both Canada and New Zealand for a shared currency with the regional hegemon, but both the U.S. and Australia have rejected the idea.⁵

Furthermore, three of the four sustained regional currencies in the right-hand column—West Africa, Central Africa, and the Caribbean—actually *exclude* the supposed regional leader. In West Africa, for example, the strength of regional monetary cooperation results more from a desire to band together against Nigeria than from Nigerian leadership.⁶ Zaire and the Dominican Republic do not belong to Central African and Caribbean monetary institutions.

The other two cases in the rightmost columns—Western Europe and East Africa—are both problematic for the hegemonic hypothesis as well. West Germany accounted for only about 20% of Western Europe's GDP and Kenya only 14% of East Africa's. Some have argued that Germany's overall economic success, export performance, price stability, and dominance of bilateral relations made the country a *de facto* regional hegemon. But the cross-regional quantitative indicators suggest that Germany is closer to first among equals, than to intra-regional hegemony. As far as Kenya, we might notice that Kenya is only one-seventh of the regional GDP primarily because the UN includes seventeen countries in the East African region. However, if one looks at the smaller sub-region of the East African Community—Kenya, Uganda, Tanzania—Kenya still accounts for only 40% of the regional GDP, which is not significant concentration. Thus, both the East African and Western European cases suggest that intra-regional concentration is unnecessary for establishing significant monetary cooperation.

In the end, there are only two cases where the role of an intra-regional hegemon supports the hypothesis at all: the Southern African rand zone and the former Soviet ruble zone—and the ruble zone collapsed within two years. The intra-regional hypothesis does little to help explain worldwide patterns of regional monetary cooperation beyond the rand zone, at least in the post-World War II era.

2. Extra-Regional Hegemony?

The second realist hypothesis is that currency institutions are more likely in regions dominated by great powers from outside the region. For example, both Grieco and Crone focus on the hegemonic power of the United States after World War II.⁷ They explain the pattern of regional economic cooperation in Europe and Asia as a function of contrasting U.S. security interests in the two regions. Because the Soviet threat to Western Europe was so great, the U.S. promoted regionalism in Western Europe to create a strong counterweight to the Soviet Union. In Asia, bilateral security and economic ties between the U.S. and its Asian allies were sufficient to meet the less significant Soviet threat. Expanding their argument, we would expect regional institution-building to be driven by great powers with regional spheres of influence.

Testing this argument is more problematic than the intra-regional hypothesis because the two superpowers were involved in every region of the world during the Cold War era. Thus, if we define the independent variable as whether or not there was a plausible extra-regional hegemon, the variable does not vary. There was a potential hegemon everywhere.

Instead, I start with the major extra-regional hegemon and look at what they did with the opportunity to create institutions. During the post-World War II era, there have been four great powers with spheres of influence beyond their home region. These include the two superpowers, the U.S. and

5 Cohen 2004, 162-68.

6 As I will discuss in more detail below, fear of Nigerian domination is hardly a major cause of francophone monetary cooperation. Nevertheless, it is a unifying cause, and Nigerian leadership is not.

7 Grieco 1999; Crone 1993. Grieco also acknowledges, however, that states which forego their right to issue a national currency are particularly troubling for realist theory because it places such a strong emphasis on states jealously guarding their sovereignty; Grieco 1996.

U.S.S.R., and the two main colonial powers, France and Britain. All four had the opportunity to create regional currencies in their respective spheres of influence.⁸ Table 3 shows the regional spheres of influence of all four powers and classifies each region according to the type of regional monetary institutions that were established. Great powers are defined as having a sphere of influence in any region where they helped clients establish regional institutions of any type.⁹ Such regions are most likely cases for great powers to establish regional currencies because they have demonstrated the ability to influence clients. Great powers may obviously have influence in regions without regional institutions as well, but my restrictive definition of spheres of influence biases the argument in favor of finding great power influence. Since I want to show that great powers actually have little role in promoting regional monetary institutions, this bias is methodologically appropriate. The remainder of this section looks at each of the four great powers in turn.

Table 3: Extra-Regional Powers as an Explanation for Regional Currency Institutions

EXTRA-REGIONAL POWER	OBSERVED INSTITUTIONS			
	SEPARATE CURRENCIES	SHORT-TERM REGIONAL CURRENCY	MEDIUM-TERM REGIONAL CURRENCY	SUSTAINED REGIONAL CURRENCY
FRANCE	North Africa			West Africa Central Africa
UNITED KINGDOM	West Africa East Africa (Rhodesia) Middle East (Gulf)	Malaysia-Singapore	East Africa (Kenya)	East Caribbean Southern Africa
UNITED STATES	Central America South America West Caribbean Middle East (Gulf) South Asia (RCD) SE Asia (ASEAN) East Asia Oceania		Western Europe	
USSR	Eastern Europe			

France

France helped establish regional currencies in two of the three regions where it had significant influence after 1960: West and Central Africa but not North Africa. France is thus the clearest case for the argument that regional currencies are driven by extra-regional powers. But the hegemonic explanation explains neither the full pattern of institutional development nor the process of change. In fact, French influence was sometimes negative: on occasion, it drove countries *out* of the franc zone rather than keeping them in.

In order to facilitate its continued influence in post-independence West Africa, France provided both economic and military subsidies for regional cooperation. Post-independence regional central banks were tied to an operations account at the French Treasury, including overdraft privileges such that African

8 Other colonial powers had colonies only in their home regions or had isolated colonies in foreign regions dominated by the other great powers.

9 Regional institutions include cooperation by three or more geographically proximate countries or colonies on any economic or security issues.

deficits were covered automatically by French taxpayers. French trade, aid, and investment were contingent on participation in the franc zone. And, perhaps most importantly, France maintained a substantial troop presence in West Africa to guard against internal or external threats to friendly governments. West African governments gave up their currency sovereignty but gained substantial military and economic subsidies that proved irresistible for most—but not all—of these impoverished new states.¹⁰

In fact, the franc zone has too often been dismissed as a trivial case of political cooperation precisely because French political influence and economic subsidies were so large. Often overlooked, however, is the real influence African governments have had on the franc zone's institutions. At independence, relatively more developed West African countries like Senegal and Ivory Coast negotiated with France for more control over their regional central bank than the Central African countries (e.g., Cameroon and Gabon) gained over their regional bank. Moreover, in 1973 both sets of countries demanded—and received—greater control, or 'Africanization', of regional monetary institutions. Originally, France had half the seats on the banks' governing boards and required franc zone members to hold 100% of their reserves with the French Treasury. But to stave off rebellion by CFA members, France was forced to reduce its membership on the boards of both regional central banks, to move the board headquarters from Paris to Dakar and Yaoundé, and to relax reserve requirements. All these steps increased African control over franc zone decision-making.¹¹ More importantly, the very fact that France was forced to compromise to keep the franc zone intact points to the negotiated character of the franc zone. In short, the hegemonic explanation blinds us to the limits of France's control within the franc zone: France certainly guided the zone, but could not dictate.

Also overlooked are the various West African governments that have chosen to leave the franc zone and issue national currencies. The first important defector was Sékou Touré's Guinea, which chose to abandon the massive subsidies inherent in the franc zone. Touré's own words capture Guinea's choice eloquently: 'We prefer poverty and freedom to riches and slavery'. But his high-minded stance for independence outside the franc zone also reflected significant conflicts between Guinea and France over the development of Guinea's bauxite resources. For this reason, while French subsidies to Guinea would have been significant, continued French domination was seen by the Touré government as *inhibiting* rather than promoting Guinea's industrialization—'slavery' in Touré's words. Similarly, Mali under Modibo Keita left the franc zone in 1962, but, unlike Guinea, rejoined later. The other influential defector was Mauritania which chose to leave the franc zone in 1972. France's desire to prevent other defections was crucial to the Africanization of the franc zone discussed above.¹²

If French power and resources completely explain the West African franc zone, how do we explain the defections of one-third of its membership (three of nine)? Why was France forced to compromise with local members over institutional rules? The simple answer is that, while French power is undoubtedly a good first-cut explanation of the franc zone, nuanced understanding requires a careful look at domestic politics within the West African countries. Even in the best case for the hegemonic explanation, hegemony has its limits.¹³

10 On French relations with West and Central Africa, see Morgenthau 1964; Julienne 1967; Manning 1988; Chipman 1989; McNamara 1989; Boughton 1992; 1993a; 1993b; and Stasavage 2003a; 2003b.

11 Mukonoweshuro 1990, 256-57; Robson 1983, 152-53; McNamara 1989, 115-17; Helleiner 2003, 209-11; Stasavage 2003a, 35-37.

12 Neres 1962, 81; Adloff 1964, 200-201; Morgenthau 1964, 227; Crowder 1978, 303-4; McNamara 1989, 75; Kirshner 1995, 151-55; Stasavage 2003b, 90-91. Mali did not rejoin West African monetary institutions until 1982, but re-entered the franc zone de facto in 1968.

13 Stasavage reaches a similar conclusion: 'Unlike some classic descriptions of 'neo-colonialism' which assume that the former power alone has influence and choice, the Franc Zone is an arrangement which both French and Francophone African political elites have chosen to maintain'; 2003, 175.

United Kingdom

Although the British encouraged all its newly independent colonies to maintain regional economic cooperation,¹⁴ there is wide variance in regional cooperation in British colonies. Regional currencies in West Africa and the Federation of Rhodesia and Nyasaland were rapidly destroyed, with local leaders paying virtually no attention to British advice.¹⁵ At the other end of the spectrum, regional currency institutions were maintained in the East Caribbean and strengthened in Southern Africa.¹⁶ Perhaps most interesting are the middle-ground cases of Southeast Asia and East Africa where institution building fluctuated significantly across time.¹⁷ The mixed outcomes in this row might superficially suggest a moderate British role, but, looking closely, the British role is actually rather weak. Section 3 examines the typical Southeast Asian case using archival material to show that Britain explicitly chose to give its colonies wide latitude over post-independence institutional forms in hopes of creating positive bilateral relations with newly independent governments. Britain did play a role in Southern Africa by essentially handing Botswana, Lesotho, and Swaziland over to South Africa, but this case fits the intra-regional hypothesis better than the extra-regional one: There were no regional currency institutions in the area until years after Britain turned over responsibility to South Africa. Very little has been written about East Caribbean cooperation (and the British archives on this period are not yet open), but Benjamin Cohen's summary of post-independence cooperation in this region and East Africa pretty well describes Britain's institutional role in all its former colonies: 'they have been left more or less on their own by their former colonial master'.¹⁸ The variance in observed institutions has little to do with levels of British influence in each region, and more to do with local governments' interests and bargaining.

United States

Both Cold War superpowers also enjoyed regional spheres of influence, but neither created any regional currency institutions. During most of the post-war years, the United States enjoyed strong influence in Central and South America, the Caribbean, the Persian Gulf, South Asia, Southeast Asia, East Asia, and Oceania. Many of these regions did create trade institutions (e.g., the Central American Common Market, the Gulf Cooperation Council, the Caribbean Community, and ASEAN), but none created currency institutions even though several pledged to do so at some point. The goal of the U.S. during the early post-war years was to create and strengthen global monetary institutions (i.e., Bretton Woods), and even after the breakdown of global institutions the U.S. made no efforts to push regional currency institutions as a substitute.

Central America came closer than any other U.S.-dominated region to establishing regional currency institutions, and in fact made several institutional steps in that direction. For this reason, it is useful in shedding light on the nature of U.S. influence. A regional payments arrangement, the Central American Clearing House, was established in 1961.¹⁹ The objective of forming a monetary union was clearly stated in March 1963 in the Declaration of Central America, a document signed by five Central American heads of state and U.S. President Kennedy. Included in this declaration at San Jose, Costa Rica, was a pledge 'to establish a monetary union and common fiscal, monetary, and social policies within the program of economic integration'. Leaders hoped that a single currency might be achieved by 1970.²⁰

14 Helleiner 2003, 203-4.

15 UK Public Records Office [hereafter PRO], Colonial Office 1025/5A, 20 March 1953; Rathbone 1992; Rotberg 1964; PRO, Treasury, 317/225, 7 August 1963; PRO, Treasury, 317/225, 11 July 1963.

16 On the East Caribbean, see Liburd 1995; Davis-Panton 1995, 68-71. On Southern Africa, see Stuart 1992, 60-81; Lundahl and Petersson 1991, 271-317.

17 On East Africa, see Cooper and Asay 2003; PRO, Treasury 317/757, #2, 8 April 1965.

18 Cohen 1993, 199.

19 UNCTAD 1996, 130, 133-34; 1976, I:67-71; del Valle 1966; Moncarz 1973; Ziegler 1971, 26-30; Rietti 1979, 194-97.

20 Young 1965, 1-4, quote at 1; Shaw 1978, 31; Martin 1994, 102; Walter and Vitzhum 1967, 65; Orantes 1972, 58; Dell 1966, 60.

The next year, building on the San Jose declaration, Central American central banks signed an ambitious agreement to form a Central American Monetary Union (CAMU). The agreement formed a federation of regional central banks, the Central American Central Bank System, with a Central American Monetary Council as its highest organ.²¹ In practice the council's main function has been supervision of the existing regional clearing house, rather than forming a united currency. Discussions of using a unified currency—either a regional creation or the U.S. dollar—continued into the 1990s, but with no significant changes in national policies or institutions.²²

U.S. support for Central American regionalism was clearly a significant cause of its success. The Eisenhower administration began encouraging regional cooperation soon after Vice President Nixon's disastrous 1958 visit to Venezuela, and escalated support in reaction to the Castro revolution in Cuba.²³ The Kennedy administration expanded the effort still further under the well-known Alliance for Progress. One of the key U.S. accomplishments was the formation of the Central American Bank for Economic Integration (CABEI) with funds to promote regional development and integration. The U.S. provided generous funding to the regional bank and used that funding as leverage to encourage closer Central American ties. For example, to receive CABEI funding, countries had to join the Central American Common Market. This provision was instrumental in persuading Costa Rica to finally sign the regional treaty in spite of its traditional policy of isolation from other Central American countries. The depth of U.S. commitment to regionalism can be seen by the funds committed: U.S. funding for Central American integration in the years 1961 to 1966 was approximately \$17 million annually, compared to roughly \$80 million annually in bilateral aid *for the five countries combined*.²⁴

But, as long as the Central Americans were cooperating to keep Cuban influence out of the region, the U.S. had few strong preferences about the form of cooperation, and the U.S. made no special efforts to encourage regional monetary cooperation. For example, the 1963 San Jose declaration committing to regional currency cooperation was written by the foreign and economic ministries of the Central American countries before Kennedy arrived in the region. Kennedy 'offered the wholehearted support of the United States government to the governments of the region and to regional institutions in these endeavours', including new regional development funding. But U.S. negotiators did not push for the inclusion of monetary cooperation, nor did Kennedy even mention the topic in his six speeches and news conferences before, during, and after the conference. The U.S. did not oppose the formation of a Central American Monetary Union, but its establishment was in no way critical to U.S. goals in the region.²⁵

In a sense, the United States' most lasting contribution to regional currency cooperation in Central America was a negative one. As Helleiner emphasizes, the U.S. played a key role in the establishment of separate national central banks in the region in the 1940s and 1950s. Responding to local desires for strong central banks and autonomous monetary policies, U.S. 'money doctors' provided expertise and even encouragement for Third World governments considering strong national central banks. Influenced by Keynesian ideas, U.S. policymakers saw national central banks as a tool for governments in managing developing economies. Moreover, by being more supportive of governments' desire for national monetary management, the U.S. hoped to gain influence at the expense of Britain and other colonial powers.²⁶ By the time regional monetary cooperation reached the Central American agenda in 1963-64, national central banks were a powerful entrenched force

21 Del Valle 1966, 19-21; Young 1965, 26; UNCTAD 1976, I:67-69; Rietti 1979, 194-98; Meerhaeghe 1987, 10; Ziegler 1971, 52-54. The plan was updated in 1974 with the signing of the Central American Monetary Agreement; Rietti 1979, 194-98; UNCTAD 1996, 133.

22 Wilson and Griffiths 1999.

23 Landry 1972, 82-83; Martin 1994, 12-14; Orantes 1972, 29-31; Niess 1990, 95-96; Rabe 1988, 133-42.

24 Grunwald, Wionczek, and Carnoy 1972, 95-96; Niess 1990, 188.

25 Martin 1994, 103-7; Dell 1966, 60; U.S. Department of State 1963, 511-20.

26 Helleiner 2003, 187-97.

resisting a unified currency. Given that regional leaders delegated the task of completing the monetary union to central bankers with a stake in the status quo, it is not surprising that regional currency institutions never got off the ground. And notwithstanding its strong preference for regional economic cooperation, the United States never pursued a regional currency as a priority.²⁷

Western Europe was the one U.S.-dominated region to establish regional currency institutions, although it is hard to argue that the U.S. was a very influential force for monetary cooperation in the 1990s. Realists are quick to emphasize U.S. support for European regionalism in the 1940s, 1950s, 1960s, and even as late as the accession of Spain, Portugal, and Greece in the 1980s. But even Grieco admits that European Monetary Union was a local affair and not an American-led one.²⁸ Thus, there is no example of the U.S. superpower helping create regional currency institutions.²⁹

Soviet Union

The Soviet Union, unlike the United States, did make a serious attempt to build regional currency institutions in its sphere of influence in Eastern Europe. The region was heavily industrialized and tightly linked politically through the Warsaw Pact and economically through the Council for Mutual Economic Assistance (officially abbreviated CMEA but known popularly in the west as COMECON).³⁰ Circumstances were also favourable in that regional states had similar levels of economic development. Nevertheless, the Soviet Union was unwilling or unable to establish a regional currency in the area. Like so many other Soviet institutions, the region's 'transferable rouble zone' was basically a facade, a Potemkin village of supposed regional cooperation camouflaging ineffective economic integration.

The 'transferable rouble zone' was established in 1964 with 8 members and administered by the International Bank for Economic Cooperation (IBEC).³¹ The transferable rouble was defined similarly to the Soviet rouble, but the transferable rouble was only an accounting unit and was not convertible into Soviet roubles—or, for that matter, into gold, convertible currency, or any of the other CMEA currencies. In the non-communist world, payments arrangements involve limited exchange rate coordination whereby each member declares a parity between its currency and the accounting unit of the payments arrangement. The national central bank promises to convert its currency for the accounting unit at that parity value; in this way, surplus countries are protected from disadvantageous exchange rate fluctuations that might occur between the transaction date and the settlement date. But because national price levels in Eastern Europe were determined by bureaucratic fiat rather than by markets or by production costs, no real basis existed for setting uniform rates of exchange between national currencies and transferable roubles.³² As a result, the rate of exchange varied from product to product and from transaction to transaction. In essence, each country maintained a complicated, confusing, and variable array of exchange rates vis-à-vis the transferable rouble in order to insulate its own domestic economy from external influences. Surplus countries with transferable rouble balances had no assurance that they would be able to use their balances to purchase products they wanted from

27 Schmitter 1970, 20-23; del Valle 1966, 14-15; Wionczek 1969, 332.

28 Grieco 1996.

29 The U.S. did play a crucial role in forming the European Payments Union of the immediate postwar period, but the EPU was only a transitional arrangement toward full European participation in the global Bretton Woods system; see Eichengreen 1993; Yeager 1976, 410-23.

30 Meerhaeghe 1987, 206-23; Edwards 1985, 87-90; Korbonski 1971, 345-58.

31 IBEC was established by all the members of the CMEA except for Albania. See Meerhaeghe 1987, 219-21; Edwards 1985, 90-93, 351-53, 360-70; Brainard 1980; Brabant 1992; Wyczalkowski 1966. Cuba and Vietnam joined IBEC in 1974 and 1977, respectively. IBEC replaced an even less successful Multilateral Clearing Agreement which had begun in 1957; Kaplan 1992, 374; Meerhaeghe 1987, 219.

32 Exchange rates between transferrable rubles and national currencies were based in part on averages of past world market prices, but enough other conversion factors were introduced to make the rates largely arbitrary.

other countries: Each new deal would be determined in a bilateral, barter transaction, often at terms of trade inferior to those at which surpluses were built up. Thus, there was a strong systemic bias against building up transferable rouble balances, and no incentive to move beyond equally balanced, barter trade. According to one analysis, multilateral trade—when country X exports to country Y in order to purchase imports from country Z—amounted to no more than 1.5% of CMEA trade in the 1970s.³³

In simple terms, the weakness of the transferable rouble zone was that its roubles were not in fact transferable. Surpluses could not be exchanged even for other CMEA currencies at a predictable rate. Creditors could only use their transferable roubles in bargaining for their next barter transaction, and with no guarantee of obtaining favourable terms of trade. As a result, the region never really moved beyond barter trade and there were strong incentives to export outside the region in order to obtain convertible currency. Over time the volume of trade settled in convertible (i.e., Western) currencies increased.³⁴ For these reasons, the Soviet currency zone is better seen as a facade than a true example of currency cooperation.

Comparing all four great powers and superpowers, the evidence demonstrates that the importance of France in creating the franc zone represents an exception, and not the rule. Neither superpower created meaningful regional monetary institutions, even though they had opportunity to do so and much success influencing many other types of institutions. And the pattern of regional institutions in former British colonies has little to do with British influence. With the partial exception of France, the hypothesis that regional currency cooperation is more likely in regions dominated by extra-regional powers is simply not supported by the evidence.³⁵

3. Britain in Southeast Asia

This section examines the British role in greater detail, using Southeast Asia as an example. Archival evidence from a wide range of former British colonies suggests that Britain's hopes for regional cooperation were not matched with effective influence. As Helleiner emphasizes, Britain consistently encouraged its soon-to-be independent colonies to maintain regional currency arrangements that would bind them together economically as well as limit their governments' range for monetary discretion. British 'money doctors' of the period, based in the Bank of England, stressed the advantages of continued regional cooperation at every chance.³⁶

On the other hand, Britain was far more concerned with keeping former colonies in the sterling area—which provided significant support to the home country's troubled balance of payments—than with whether former colonies retained regional institutions. Aside from expert advice, Britain generally used neither carrots nor sticks to encourage regional cooperation. Even where Britain had strong defence interests, as in Singapore, Britain was reluctant to offend post-colonial governments by pushing unwanted regional ties. Often, regionalism was rejected out of hand by new governments, such as Ghana's refusal to discuss West African regionalism or Zambia and Malawi's refusal to cooperate with Rhodesia. Where local governments were willing to listen to Britain, as in Southeast Asia and East Africa, Britain had to tread carefully to avoid a backlash.

Federation of Malaya

The British colonies in the South China Sea were not closely integrated politically or economically until after World War II. Britain maintained at least fifteen colonies in the region, including Johore, Malacca,

33 Edwards 1985, 362; Brabant 1993, 52; Brainard 1980, 123.

34 Brainard 1980, 121; Kaplan 1992, 374.

35 To be clear, I am arguing that hegemons have not created regional currency institutions, leaving open the question of whether they could have but chose not to.

36 Helleiner 2003, 197-209.

Penang, Singapore, and Brunei. As Third World nationalism gained force after the war, the British began belated efforts to encourage integration, with the key result being the creation and independence of the Federation of Malaya in August 1957. Britain maintained close ties to the new federation, including an explicit promise of military protection that was unique among Britain's former colonies in Asia and Africa. Malaya for its part promised to keep its abundant foreign reserves in the sterling area.³⁷

The Malayan Federation reflects both the power and weakness of the British position in the region. On the one hand, Britain was able to combine most of its colonies on the Malayan peninsula—including Johore, Malacca, and Penang—into a single political unit. But Britain was unable to convince the strong-willed sultan of Brunei to join the federation (which, for practical purposes, meant that Brunei's neighbouring colonies Sabah and Sarawak would remain outside the federation for the time being). More significantly, Britain was unable to convince local leaders to include Singapore, the island located at the tip of the Malayan peninsula which contained the natural port for export of local goods to world markets.³⁸

Britain strongly preferred to combine all the colonies into a single political unit. As the Colonial Office summarized the situation for the Cabinet, Singapore gaining independence 'on her own [...] is difficult to contemplate'. And Singapore itself favoured integration with Malaya. But the Malayan peninsula colonies were sceptical of Singapore for two reasons. First, Singapore's size and large population of ethnic Chinese would upset the racial balance in the federation between Chinese and Malays, 'putting the Chinese in an overall majority'. Given the longstanding racial tension between the wealthier, more urbanized Chinese and the poorer native Malays, there was strong Malay hostility to a Chinese-majority federation. Second, Singapore was widely perceived as more sympathetic to 'subversive Communism', in large part as a result of its heavily urban and more educated population. Singapore's influential trade unions were seen by the Malaysians (and the British) as 'communist or near communist'. The other colonies feared that communist sympathizers who were so active in Singapore 'would infect the rest of the Federation'.³⁹

Common Currency

Malaya did join with Singapore, Brunei, Sarawak, and Sabah in a common currency after independence, but, surprisingly, this was at Malaya's instigation and met with British resistance. Under British rule, all fifteen colonies had operated a single currency board since 1951, but Malaya's independence necessitated revisions to existing relations. Malaya decided in early 1958 to create a central bank and proposed to negotiate a new currency area with Britain. This surprisingly cooperative offer by Malaya in part reflected the government's domestic difficulties: the (unilateral) design of the new Malayan currency note had been widely criticized domestically and had 'not proved an electoral asset, as it was hoped it would'. Initially, however, Britain opposed a continued regional currency. British reluctance was based on the differing legal status of the several political units. Because Brunei and Singapore were essentially self-governing (and Malaya fully independent), Britain saw itself as primarily the guarantor of the rights of the extremely underdeveloped colonies of Sarawak and Sabah.⁴⁰ Britain feared that a Malaya-dominated single currency would imperil the interests of the two colonies, and instead proposed a common currency for Brunei, Sarawak, and Sabah. When Brunei's sultan refused, Britain had no alternative—Sarawak and Sabah were too underdeveloped to go it alone—and accepted the Malayan proposal. As before, tensions between Malaya and Singapore were a stumbling block. Singapore desired closer relations, but Malaya was suspicious. In one official's eyes, 'Singapore's ardour only provokes antipathy' in Malaya. But the inclusion of Brunei, Sarawak, and Sabah effectively watered down Singapore's role enough to garner Malayan support. The revised

37 King 1957; Lee 1986, 7-38, 61-76; Drake 1969, 11-38, 83-99; Strange 1971, 97.

38 Lee 1986, 7-38, 61-76; Drake 1969, 11-38, 83-99.

39 PRO, Prime Minister's Office [hereafter PREM], 11/1367/71-94, 14 Jun 1956; PREM 11/3418/125-38, 27 Jun 61.

40 One indicator of these colonies' limited development was the serious difficulty the British faced in stamping out head hunting.

currency area was governed by a board with equal representation between Malaya, Singapore, and the other British colonies, along with one independent member. In the end, British support helped make regional currency cooperation possible, but only after Britain's initial opposition.⁴¹

Singapore Joins the Federation

The most important step toward regional cooperation fit with longstanding British preferences, but again without initial British support. In June 1960, Malaya proposed to allow Singapore to join the federation if Sarawak, Sabah, and Brunei could also be included. After long opposing Singapore's entry, the Malayan Prime Minister had reversed course, arguing to his cabinet that the best way to avoid another 'Cuba on its doorstep' was to bring Singapore inside the federation 'safely and constructively'. He had once hoped that separating Malaya from Singapore would keep the latter's bad influence at bay, but decided eventually on a long-run strategy of embracing Singapore to keep it under control.⁴²

As in 1958, however, the initial British response to the Malayan proposal was sceptical. Prime Minister Harold Macmillan noted to his private secretary, 'All this seems to me rather doubtful' but then added, 'I suppose it is worth considering'. British doubts about integration came once again from the underdeveloped political and economic institutions in Sarawak and Sabah. Britain was also concerned about Indonesian territorial claims against the two colonies and about giving Brunei's new constitution time to develop.⁴³

In the end, Britain supported the Malayan proposal because of the high value the British placed on cooperation between Malaya and Singapore and because Malaya made it clear that the status quo was no longer viable. British investment spanned the peninsula and the port, making close economic ties between the two a high priority for British economic actors. For the British cabinet though, the decision was closely linked to broader concerns about security policy in Asia during the Cold War. Singapore was seen as too small and economically dependent on the Malayan peninsula to survive as an independent state. But Singapore provided Britain with some of its most important military bases in Asia, especially a harbour that was ideal for the Royal Navy. Although Britain's colonial commitments were winding down, a strong British presence in the region was a central component of Western security policy in the fight against communism. Non-aligned Indonesia was of particular concern because of its frequently anti-Western policies and because it shared the island of Borneo with the British colonies of Brunei, Sarawak, and Sabah. Indonesia had in the past suggested bringing all the former British colonies and even the Philippines into a broader Malay-Philippine-Indonesian state ('Maphilindo'), dominated no doubt by populous Indonesia, and the British feared that a weak, isolated Singapore would be easy prey, as would Sarawak and Sabah. Thus, Malaya-Singapore cooperation and even integration was crucial if Britain were to retain her valuable bases and her overall security position in Asia. Singapore, Sarawak, and Sabah—but not Brunei, whose sultan rejected the merger—combined with Malaya to form Malaysia in September 1963.⁴⁴

Although Britain obtained long-desired Malaya-Singapore cooperation, the archival evidence contradicts the hegemonic interpretation. Malaya, not Britain, proposed the merger and, more importantly, set the terms by demanding the inclusion of Sarawak and Sabah to counteract the ethnic Chinese influence of Singapore. Britain was very reluctant to give its two small colonies over to larger Malaya, but Malaya insisted that they had to be included, and even sequenced before Singapore's accession. In the most striking departure from the hegemonic interpretation, the Malayan Prime Minister even threatened the British by suggesting a pullout from the regional currency that had been

41 PRO, Dominions Office [hereafter DO] 35/9952/8, 24 Jan 58; DO 35/9952/14, 19 Mar 58; DO 35/9952/18, 1 Apr 58; DO 35/9952/23A, 28 May 58; DO 35/9952/54, 21 Jul 59; DO 35/9952/55, 14 Mar 60; King 1957.

42 PRO, PREM 11/3418/179-81, 17 Jun 60; PREM 11/1367; PREM 11/3418/160-61, 26 May 61.

43 PRO, PREM 11/3418/178, 19 Jun 60; PREM 11/3418/176-77, 10 Jun 60.

44 Strange 1971, 98-99. PRO, PREM 11/3418/176-77, 10 Jun 60; PREM 11/3418/168, 27 Jun 60; PREM 11/3418/117-20, 26 Jun 61; PREM 11/3418/16-21, 16 Sep 61.

established only a few years before. In a letter to Prime Minister Macmillan, Prime Minister Tunku [Prince] Abdul Rahman Putra noted that the currency union between Malaya and the four British colonies ‘derogates materially from the Federation’s sovereignty’ and had been ‘subjected to constant criticism by political opponents’ in Malaya. Not fully controlling its currency was a somewhat humiliating position for the Malayan government, which was also concerned about the restrictive monetary practices of the currency board. The Tunku informed the British that his government was already ‘actively considering withdrawing’ and suggested that only a favourable British decision on political integration could keep the currency union intact. As a carrot to accompany this stick, he also guaranteed continued British basing rights after integration, although on somewhat less favourable terms than the status quo. Overall, the Malayan proposal was worse for the British than the status quo, but the Tunku made clear that the status quo itself was no longer viable. Under those conditions, accepting Malaya’s proposal was far preferable to the alternative. In layman’s terms, the former colony made the former colonizer an offer ‘too good to refuse’, and Britain wisely chose not to refuse. Singapore, Sarawak, and Sabah joined the renamed Federation of Malaysia.⁴⁵

Singapore Expelled

Further evidence of Britain’s weak influence is that Singapore was expelled from Malaysia less than two years later, and the British were not informed in advance by the Malaysians, much less consulted. The British found out through an unofficial source less than a day before the expulsion took effect.⁴⁶ At the same time, Malaysia retained Sarawak and Sabah which had only been joined to the federation to facilitate Singapore’s entry! The Malaysian government took pride in having kept the expulsion a secret, and British Prime Minister Wilson telegraphed Malaysia to complain that he was ‘astonished’ the federation had taken a step with such enormous security implications ‘without any consultation with us’. His major fear was Indonesia which had been involved in substantial hostilities (a period known as ‘confrontation’) with Malaysia and Britain on the island of Borneo since 1963. Indonesia claimed Borneo for itself, objected strongly to the merger of Sarawak and Sabah into Malaysia, and had promptly launched low-level military operations across the new Indonesia-Malaysia border. British forces were leading the fight against Indonesia, with some Malaysian units in support. Thus, Britain was understandably surprised at such a drastic unannounced step by its Malaysian ally.⁴⁷

Currency Negotiations

Recognizing that it could do nothing about Malaysia’s *fait accompli*, Britain quickly encouraged negotiations between Malaysia and suddenly independent Singapore about future economic and security cooperation. Relations between the two were very bitter with angry denunciations and public protests on both sides. All parties saw Singapore as having a very weak position because it was so economically dependent on Malaysia. At the time, the port city-state of Singapore relied mainly on transit trade to and from the rest of the Malayan peninsula and on British military spending. Many Malaysians believed Singapore was not viable on its own, and Singapore’s own Lee Kuan Yew had said much the same thing

45 PRO, PREM 11/3418/168, 27 Jun 60; PREM 11/3418/162-64, 17 Apr 61; PREM 11/3418/117-20, 26 Jun 61; Helleiner 2003, 206-8. See Gruber 2000 for a more general analysis of how the ability to shift the status quo unilaterally provides significant power in international bargaining.

46 Malaysia claimed Singapore forced the split by disloyalty, including political campaigning by Singapore’s ruling party throughout the Malayan peninsula. Singapore’s Lee Kuan Yew agreed to a peaceful split after Malaysian leaders made clear that the alternative was ‘communal violence and ‘bloodshed’.’ PRO, PREM 13/589/210, 9 Aug 65; PREM 13/589/209, 9 Aug 65; PREM 13/589/191, 9 Aug 65; DO 187/48/56A, 10 Nov 65; DO 215/205/11A/Brief No. 3, Apr 66.

47 PRO, DO 189/533/22A, 16 Aug 65; PREM 13/589/221, 8 Aug 65; PREM 13/589/220, 8 Aug 65. The low-level conflict with Indonesia claimed the lives of 64 British soldiers and involved a British military presence in Malaysia and Singapore of approximately 80,000 personnel; Strange 1971, 98.

several years earlier when he argued that Singapore must join the federation. As a result of these fears, Singapore favoured a common market and common currency to maintain its economic links to Malaysia.⁴⁸

Britain concurred. The High Commissioner in Singapore wrote that ‘Singapore has [...] a great struggle before her to maintain her present standards of activity and of living and to provide work and a satisfactory livelihood for her unemployed, against the backdrop of continuing reductions in British forces’. British leaders recognized, however, that Britain’s involvement in the negotiations would be risky and could be counterproductive. For example, the High Commissioner in Kuala Lumpur noted that the Malaysians clearly understood Britain’s interests ‘but at the same time are still touchy about what they regard as a domestic affair’. Briefing papers for Prime Minister Wilson emphasized, ‘Much as we wish to see the two countries co-operating, we cannot interfere in their affairs’. In particular, British intervention would almost certainly be seen by the Malaysians as helping weaker Singapore. This could stoke the fires of the same anti-Chinese passions that had led to Singapore’s expulsion in the first place and harden Malaysia’s position.⁴⁹

Malaysia’s priorities were different than Singapore’s. Because concerns about ethnic Chinese domination of the economy were so salient, the Malaysian government preferred economic separation. Malaysia also hoped to develop its own harbour facilities to reduce its dependence on transit through Singapore. As one news account emphasized, ‘the notion abroad here [is] that Malaysia can prosper without Singapore’. On the other hand, the government hoped to maintain strong defence links to Britain and recognized the value of Singapore’s military bases. To that end, Malaysia initially suggested cooperating on defence but not trade or currency. The central bank began plans to issue a solely Malaysian currency once the currency board agreement expired. Singapore countered that it would not agree to defence cooperation ‘without satisfactory undertakings on economic matters’.⁵⁰

In November 1965, three months after Singapore’s expulsion, Malaysia relented and proposed negotiations on a common currency that would be ‘shared but distinguishable’. The two sides agreed to continue the status quo for a transitional period and to begin discussing long-term currency arrangements as well as trade, defence, water rights, border controls, population movements, taxation, and other issues. The very fact that they were talking was a small victory for the British as well as recognition of how interdependent the two sides were. But it would not lead to lasting currency cooperation.⁵¹

During the 1965-66 negotiations on Malaysia-Singapore cooperation, currency was one of the few areas the two sides agreed on. Malaysia and Singapore tentatively agreed on a continuing union with a joint central bank, the Bank Negara Malaysia, issuing a single currency for both countries (and the British colony of Brunei). Singapore would contribute to the bank’s capital and have representation on the governing board. It would have a Singapore subsidiary to enable the two countries to keep separate the profits accruing to each side. The Singapore deputy governor would have full control over Singapore’s reserves. This high level of cooperation was surprising given the acrimony in other areas. For example, Singapore and Malaysia continued to bicker over treatment of ethnic minorities across the border and engaged in a small-scale trade war in late 1965. Security cooperation was harmed by Malaysia’s refusal

48 PRO, DO 187/48/17, 27 Sep 65; DO 187/48/18, 30 Sep 65; DO 215/205/11A/Brief No. 3, Apr 66; DO 189/533/85A, 8 Aug 66. Four decades later, the irony is that Singapore’s economy has left Malaysia in the dust. Malaysia’s per capita GDP in 2002, \$8800, makes it a Third World success story, but Singapore’s \$25,200 per capita GDP compares favorably with most first world countries. CIA, World Factbook.

49 PRO, Foreign and Commonwealth Office [hereafter FCO] 11/65/90, 11 Jul 67; DO 187/48/17, 27 Sep 65; DO 187/48/18, 30 Sep 65; DO 215/205/11A/Brief No. 3, Apr 66.

50 PRO, DO 215/205/11A/Brief No. 3, Apr 66; DO 189/533/9, 10 Aug 65; PREM 13/1832/not numbered, 25 April 66, Conversation between Prime Minister and Lee Kuan Yew; DO 189/533/22A, 16 Aug 65.

51 PRO, DO 189/533/54A, 3 Nov 65; DO 189/423/271E, 26 Aug 66, Tan Siew Sin statement to Malaysian parliament; DO 189/423/271E1/26 Aug 66, Lim Kim San statement to Singapore parliament.

to remove its troops from barracks in Singapore and by Singapore's diplomatic flirtation with Indonesia. Currency cooperation, with IMF mediation, seemed to be the most likely success.⁵²

Britain's Failed Coercion

During this period, the British largely maintained their distance from negotiations, with one painful exception. In early 1966, the British government tried to coerce greater Malaysian cooperation by threatening to withhold future defence aid until Malaysia and Singapore reached agreement. In April, the British government informed the Malaysian Finance Minister that before any new defence aid could be provided, Britain wanted to see a defence treaty binding Malaysia and Singapore. The government recognized that this statement would bolster Singapore's negotiating position, because Singapore refused to sign a defence treaty without corresponding economic cooperation, but feared committing new aid in an uncertain environment. The Malaysians were incensed and an anti-British press campaign broke out in Malaysia. Finance Minister Tan Siew Sin argued that the British position 'was to help [Singapore's] Lee Kuan Yew to blackmail [the] Malaysian Government', and accused the British of taking their 'traditional line of backing Lee Kuan Yew'. British documents support the assertion that Singapore was in fact stalling defence negotiations to force a more favourable settlement of economic issues. Malaysian leaders also pointed out that their defence planning had long been done on the assumption of future British aid, so that the British about face represented a serious 'breach of faith'. British officials had trouble countering this charge because they recognized that 'we could scarcely have done more during 1964-65 and early 1966 to lead the Malaysians to believe aid would be forthcoming'. Further fuel was added to the fire at World Bank meetings in May when the British refused to increase economic aid to Malaysia, even though many other countries did.⁵³

Realizing that they had overplayed their hand, British leaders almost immediately began to backtrack by reinterpreting the threat as a financial decision rather than a political one. Although Britain did face serious financial difficulties during the period, this required some 'creativity' since they had originally explained the decision to the Malaysians on political grounds. But when Tan Siew Sin visited London in May, the Commonwealth Secretary argued that although Malaysia-Singapore relations 'had been a factor' behind the aid cut, 'the reason for Her Majesty's Government's decision was primarily Britain's own financial plight'. Over the next few months, the British argued repeatedly that Britain's financial weakness was the motivating factor behind the Cabinet decision to halt new defence aid. The Chancellor of the Exchequer, for example, tried to convince Tan Siew Sin that it was solely the Treasury's decision and no reflection on Malaysia-Singapore relations—although documentary evidence makes clear that the Defence and Commonwealth Relations ministries had been in full agreement with the decision to use aid as leverage. By June, some internal British documents argue that the defence cut had been for financial reasons all along, and—oblivious to the contradictory paper trail of the previous several months—suggest real puzzlement that the Malaysians refused to believe them! The British High Commissioner in Malaysia pointedly reminded to London that if financial motives were decisive, perhaps that was what the Malaysians should have been told from the

52 PRO, DO 189/423/271E, 26 Aug 66, Tan Siew Sin statement to Malaysian parliament; DO 189/423/271E1/26 Aug 66, Lim Kim San statement to Singapore parliament; DO 169/483, Malaysian fortnightly summaries; DO 169/533/22A, 16 Aug 65; DO 169/533/84, 23 May 66. The Indonesia situation was very uncertain during negotiations because of the September 1965 rebellion against Sukarno. For several months, it was unclear what direction the Indonesian government would take. By June 1966, however, the anticommunist Suharto regime was in control, and Malaysia and Indonesia signed a peace agreement ending confrontation.

53 PRO, DO 169/430/383, 7 Jan 66; DO 169/430/413, 10 Feb 66; DO 169/430/434, 17 Mar 66; DO 169/431/461, 21 Apr 66; DO 169/431/462, 23 Apr 66; DO 169/431/465, 26 Apr 66; DO 169/431/471, 12 May 66; DO 169/431/488, 23 May 66; DO 169/431/489A, 23 May 66; DO 169/431/515 (attached note), 20 Jun 66; DO 169/349/8, 29 Jun 66; DO 169/349/13E, 19 July 66.

start. Nevertheless, he repeated the company line publicly, even suggesting to Tan Siew Sin that he had misunderstood what he had in fact been told earlier by more than one British official.⁵⁴

Britain's attempted coercion backfired completely. It hardened Singapore's negotiating position and caused a substantial anti-British backlash in Malaysia that damaged relations significantly. The British High Commissioner noted that the changed climate in Malaysia 'will prevent us from making any headway towards our objective of better cooperation between Malaysia and Singapore' and pronounced the policy 'counterproductive'.⁵⁵

One other interesting aspect of this case is that Malaysia responded to the British threat with a threat of its own to pull out of the British Sterling area. Finance Minister Tan Siew Sin noted repeatedly that Malaysia was the largest net dollar earner in the commonwealth and that it had kept its reserves in sterling 'out of sheer loyalty [...] though at some risk to ourselves'. Since Malaysia's sterling reserves amounted to the equivalent of US \$1 billion, converting Malaysian sterling to dollars could have had disastrous consequences for Britain's balance of payments, which was already under stress. As Tan Siew Sin explained in a June speech, 'If we had effected such a move, it could well have tipped the scales against sterling in view of its admittedly precarious position'. So Britain's attempted coercion not only failed, it provoked a very serious counter-threat—not exactly evidence of Britain's alleged control of the situation in its former colonies.⁵⁶

Failed Currency Cooperation

Britain's failed intervention appears not to have harmed the currency negotiations which had made so much early progress. In fact, Malaysia and Singapore seemed to have reached a final currency agreement under the auspices of the IMF. But cooperation broke down at the very last minute due to a dispute over the seemingly trivial issue of whether the Singapore subsidiary of the joint central bank would be legally incorporated in Malaysia or in Singapore. In August 1966, Singapore cancelled implementation of the agreement rather than risk having its share of the central bank's assets—i.e., all of Singapore's foreign exchange reserves—incorporated in Malaysia where a future Malaysian government could possibly seize them. The draft agreement promised that, in the event the union broke up, Singapore would automatically receive all its funds from the Malaysian central bank. But Singapore feared that its four-fold larger neighbour might choose not to honour the agreement in a future time period. As a result, Singapore chose to forego cooperation and issue its own separate currency. The Malaysian Finance Minister complained bitterly:

A [Malaysian] government which refuses to hand over to Singapore the assets lawfully due to it on the termination of the agreement would clearly be acting as international gangsters. I do not see

54 PRO, DO 169/431/476, 17 May 66; DO 169/431/484, 20 May 66; DO 169/431/489A, 23 May 66; DO 169/431/501, 3 Jun 66; DO 169/431/503, 8 Jun 66; DO 189/597/6, 22 Jul 66. One interesting question is whether British officials came to believe their own revisionist history. At least one Commonwealth Relations internal document argues that the main reason 'is in fact our financial position' although another notes that it is difficult to convince Malaysia of the new explanation when we 'cannot deny' having told them the opposite earlier. See DO 169/431/503, 8 Jun 66; DO 169/431/515 (attached note), 20 Jun 66.

55 PRO, DO 169/431/489A, 23 May 66. Notice also that when the British government did intervene, it intervened on the issue of defense cooperation. Economic cooperation, including currency union, was only involved tangentially because Singapore insisted on linking defense and economics. British cabinet discussions of the region reveal a single-minded focus on security issues—i.e., reducing overseas military commitments to economically sustainable levels. See PREM 13/889, 1964-1966 Far East.

56 PRO, DO 169/431/462, 23 Apr 66; DO 169/431/476, 17 May 66; DO 169/431/487, 20 May 66; DO 169/349/5, 27 Jun 66. When the Malaysian Finance Ministry's sterling threat failed, the ministry switched to finding ways to retaliate against British economic interests in Malaysia. For example, it widened the criteria for government procurement contracts to allow more American and other non-British bidders; DO 189/597/1, 17 Jun 66.

how any international agreement can provide for such a contingency. Clearly, the only absolute safeguard is to have no agreement at all with such a government if you have that fear!⁵⁷

In the absence of real trust between the two governments, no meaningful cooperation was possible. Malaysia and Singapore announced that they would issue separate currencies once their currency board arrangement expired in June 1967.⁵⁸

In the aftermath of the breakdown, Britain considered intervening, but chose not to. The earlier failed intervention would have made any new involvement even more costly. Private actors such as banks and chambers of commerce in both Malaysia and Singapore ‘deplore[d] the break as a retrograde step’ and strongly encouraged new negotiations. And British officials saw the currency split as clearly contrary to Britain’s own interests: ‘It may even be that the effects of a currency split prove in the long run to be more serious than the separation of 1965’. But the British government quickly decided that the situation was ‘so delicate’ that ‘we strongly doubt the wisdom of any intervention on our part however indirect’. British interference might ‘lead to both parties rounding very smartly on us’. As a result, Britain was careful not to offer even technical advice that might convey the impression of British pressure.⁵⁹

Britain did, however, continue to view each country’s participation in the sterling area as important enough to merit official intervention. For example, in late 1966 when Singapore seemed insufficiently committed to the sterling area and seemed to be reducing its sterling reserves to unacceptably low levels, the Bank of England pushed for action. This led to a meeting between the High Commissioner in Singapore and Minister of Finance Lim Kim San where the British government stressed the sterling area’s importance. Britain also offered the Bank of England’s help in drafting appropriate foreign exchange regulations for Singapore’s status as a sterling area member. Singapore accepted the help and did not depart the sterling area. Thus, while Britain viewed Malaysia-Singapore cooperation as too delicate to get involved, it was not hesitant about intervening on the bilateral issue of sterling area membership.⁶⁰

Singapore and Malaysia did try to minimize the damage from the currency break by discussing more limited cooperation after the currency separation in June 1967. The two countries agreed to currency swap arrangements between Malaysia’s central bank and Singapore’s new currency board to facilitate use of each other’s currencies and to try to keep exchange rates stable. Britain provided non-controversial technical help in these negotiations—e.g., providing Singapore with information about similar treaties in other parts of the world. But this agreement imposed no significant constraints on either government. Exchange rate stability would depend entirely on whether domestic circumstances in each country led the governments to pursue complementary policies.⁶¹

In sum, the historical evidence suggests Britain played only a weak role in determining the patterns of state-to-state cooperation that emerged after decolonization. The British government viewed Malaysia-Singapore economic cooperation as vital to Britain’s overall security policy in Asia and, on one occasion, tried to coerce Malaysia to cooperate. But the British effort failed and the two remained apart economically. Malaysia was able to resist British pressure and even responded with counter-threats that British policymakers took seriously. To be sure, Britain played a large role in determining state boundaries, both in pushing for the federation of the Malayan peninsula and in agreeing to join parts of

57 Drake 1969, 94.

58 PRO, DO 189/423/271E, 26 Aug 66, Tan Siew Sin statement to Malaysian parliament; DO 189/423/271E1/26 Aug 66, Lim Kim San statement to Singapore parliament.

59 PRO, DO 189/423/271E, 29 Aug 66; DO 189/423/272A, 2 Sep 66; DO 189/423/278, 7 Sep 66; DO 189/423/291B, 28 Oct 66; DO 189/423/307, 13 Dec 66; DO 189/423/286A (note), 19 Oct 66; FCO 11/64/1, 4 Jan 67.

60 PRO, DO 189/423/298, Whitehead memo; DO 189/423/305, 5 Dec 66.

61 PRO, DO 189/423/307, 13 Dec 66; FCO 11/64/1, 4 Jan 67; FCO 11/65/90, 11 Jul 67. This agreement too was repealed in 1973; Helleiner 2003, 205. Britain announced in 1967 that it would abandon its Singapore bases by 1971 as part of its withdrawal of forces ‘east of Suez’. This drastic step was driven by Britain’s increasingly desperate balance-of-payments position and meant that Britain was effectively renouncing the limited leverage it had over the two governments.

the island of Borneo (i.e., Sarawak and Sabah) to that federation later. But even here, Britain could not convince local leaders of the wisdom of including Singapore and Brunei in the federation, nor was Britain the driving force for the inclusion of Sarawak and Sabah. Britain had more success in keeping its former colonies inside the sterling area, but its overall support for regional cooperation was minimal.

4. Conclusion

Overall, neither realist hypothesis about regional institution-building turns out to be very helpful in explaining observed patterns of cooperation. With the exception of Southern Africa, intra-regional hegemonies are virtually irrelevant to the pattern of post-World War II regional currencies. With the exception of the franc zone, extra-regional hegemonies have played only a small role in driving regional currency cooperation. Thus, while hegemony clearly matters in some important cases, it does not provide a very satisfying explanation for the broader pattern of regional currencies.

The basic problem with the hegemonic explanation for regional cooperation is that hegemonies have rarely seen regional currencies as a key priority. Extra-regional hegemonies almost by definition have much more to worry about than what kind of currency institutions their regional clients are pursuing. The French did care, at least in West and Central Africa, but the British and Americans (and probably the Soviets) were largely indifferent to regional monetary cooperation. Both the British in Southeast Asia and the Americans in Central America strongly preferred some kind of regional economic cooperation, but the Americans ignored currency cooperation and the British were far more interested in Malaysia and Singapore's continued memberships in the sterling area. Hegemony may explain a lot of things, but it is a stretch to link it to regional currency projects, the franc zone notwithstanding. Put differently, France is such an outlier, that the real question is not why other hegemonies cared so little about regional monetary cooperation, it is why France cared so much.⁶²

On the other hand, colonial powers did leave significant institutional legacies that continue to shape post-colonial institutional trajectories. In this way, power politics does matter, but in a less direct way than traditional power-based explanations would suggest. Imperial powers as a rule did not impose specific post-colonial institutions as they granted statehood to former colonies. But by imposing national boundaries and creating regional institutions across those boundaries, imperial powers created possible 'focal point' solutions for post-colonial cooperation. This can best be seen when we remember how many regional currencies have been created over the past half century *in the absence of imperial foundations*: only the West European euro. In contrast, every other regional currency union or attempted currency union of the post-World War II era built on regional currency institutions established during colonial times (i.e., the West and Central African franc zone, the East Caribbean dollar, the rand zone, East African monetary union, Malaysia-Singapore) or when the region was a single state (i.e., the rouble zone).

As I have already shown, this does not mean that colonial powers simply imposed regional currencies on their former colonies. Rather, the existence of colonial regionalism seems to provide a 'constructed focal point' for post-colonial decision-makers.⁶³ Newly independent governments in the last half century generally pursued a national currency in line with the prevailing ideas of the age. But where colonial powers left a legacy of regionalism, governments had a second focal point to choose from. The failure of so many Third World regions to construct regional monetary institutions from scratch—e.g., in Central America—is testimony to the difficulty of creating a regional monetary focal point when the status quo favours national currencies. Newly independent governments in francophone Africa, anglophone Africa, the Caribbean, and Southeast Asia, and in dissolving states

62 A good summary of the literature on this issue, as well as a convincing answer to the question of French exceptionalism, can be found in Stasavage 2003a.

63 Schelling 1966, 131-41; Garrett and Weingast 1993, 181-85.

such as the Soviet Union and Yugoslavia have the luxury of a choice—between maintaining the existing institutions and creating new ones.

Of course, many newly independent countries have chosen to dismantle regional institutions rather than maintain them. Having a regional focal point is no guarantee that national leaders pursuing domestic priorities will prefer regionalism. Very often they prefer the autonomy and sovereignty benefits of a separate currency. In addition, some colonial regional currencies are more like ‘focal swamps’ than ‘focal points’: places everyone knows to avoid, rather than places to meet.⁶⁴ For example, the Federation of Rhodesia and Nyasaland was widely seen as a British plan to extend minority rule in East Africa. Not surprisingly, newly independent black-ruled Zambia and Malawi wanted nothing to do with that kind of regionalism, and the common currency died swiftly at the break-up of the federation.⁶⁵

But the existence of colonial institutions changes the choices available to states in powerful ways. Moreover, colonial institutions have lasting impact by reshaping political coalitions and domestic institutions, often in unintended ways. Local constituencies come to define their preferences in terms of the imposed institutions—either for or against—providing feedback into the choices of post-colonial governments.⁶⁶ Thus, hegemonically imposed institutions redefine later government choices in important ways. As a result, understanding the choice for regional currency institutions requires careful examination of the choices made by Third World governments.

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64 I thank my colleague Wade Jacoby for this insight and term.

65 Rathbone 1992; Rotberg 1964; PRO, Treasury, 317/225, 7 August 1963; PRO, Treasury, 317/225, 11 July 1963.

66 Cooper and Asay 2003.

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