

## **Singapore's Economic Development, 1961-1965**

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### **ABSTRACT**

In 1961, Singapore launched her first Development Plan with the main purpose to bring rapid economic growth to the small island. Singapore also needed to generate a large scale economy to satisfy its own domestic needs as well as the needs of the global market. The merger with Persekutuan Tanah Melayu (PTM) or the Malayan Federation enabled her to gain access to plenty of natural resources available in Malaya and also guaranteed Singapore a reliable source of water needed for its industrial activities. The confrontation that had occurred between Indonesia and Malaysia, combined with internal political problems, fastened Singapore's wish to merge with the Malayan Federation. This study revealed that Singapore had always wanted a peaceful environment and quick conflict resolution in order to ensure the development and prosperity of the state. As a small state, Singapore had no choice but to be wise and careful in handling issues related to its sovereignty and in conducting relations with its neighbouring countries. In conclusion, Singapore has always worked hard to overcome any obstacle to its economic development and handle conflicts with its neighbouring countries with care to ensure its national interests and survival in the Southeast Asia region.

*Keywords:* National development, economic growth, political competition and political recognition

### **INTRODUCTION**

After PAP (People's Action Party) came into power in July 1959, the leader of Singapore launched the 1961-1964 Development

Plan. In order to achieve the objective of the plan, Singapore brought up the plan to merge with the Federation of Malaya.<sup>1</sup> The merger with the Malayan Federation would enable Singapore to conquer a large domestic market. This was important because Singapore realised that its entrepot policy would not be able to generate a large scale economy needed, and in fact,

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the policy would actually limit the growth and development of the country itself.<sup>2</sup> This article explains the relationships between Singapore and its neighbouring countries, the British Government, as well as the influence of the socialist Front and its importance in the context of economic development and the ruling power.

### **BACKGROUND OF SINGAPORE**

Since the time of British occupation in Singapore in 1819, both Singapore and Malaya have been regarded as one single entity or sole unit for Britain<sup>3</sup> in terms of trading relations and political cooperation.<sup>4</sup> Tunku Abdul Rahman (Tunku) never denied the importance<sup>5</sup> of Singapore to the Federation of Malaya, especially in terms of historical connections,<sup>6</sup> relations between both governments, industries and socio-cultural linkages, as well as economic relations that would lead to broader cooperation between both countries.<sup>7</sup>

The economic advantage in the Malay states had encouraged and fastened the pace of growth and development of Singapore. Thus, Singapore proposed that Malaya should focus more on agriculture programme, alongside with conservation and replanting programme, in order to guarantee a continuous supply of these products to Singapore. On the other hand, the World Bank had recommended Singapore to focus more in its industrial policies.<sup>8</sup> As a result, Singapore tried it best to take part in all kinds of industries, including iron and steel industry. The country hoped to be the largest iron and steel distributor in

Southeast Asia [Indonesia (3.1%), Malaysia (1.5%), Thailand (1.1%), Burma (0.8%), and Philippines (2.1%)]. Japan and India were the largest distributors in Asia with 59.7% and 18.1%, respectively, while other distributor countries contributed below 3.3% of iron and steel. Even so, the amount was not enough to meet the world demand. Hence, Singapore attempted to boost the 'entrepot trade' activity to 'entrepot industrial' activity when a Common Market or Joint Market was agreed by all.

To achieve that vision, Financial Minister of Singapore, Goh Keng Swee supported the plan for Singapore to merge with the Federation of Malaya to overcome the problems that Singapore had been facing, especially the problem of water supply needed by Singapore to run its industrial activities. Nonetheless, the need for a long-term water supply was not a new issue to Singapore. Therefore, the water supply factor was one of the main reasons why Singapore wanted to merge with the Malayan Federation apart from the need for more raw material supply that was also crucial to run multiple industries in the country.

### **THE NEED FOR WATER SUPPLY**

Indeed, the need to secure water supply to Singapore had long been realized by the British, particularly for public and military consumptions. Water Treaties to ensure water supply for Singapore were signed in the year of 1858 and 1956 between the state of Johor and the British (City Council of Singapore). However, these treaties

did not guarantee adequate water supply to Singapore in the long run due to the rapid population growth and the economic activities on the island.

Meanwhile, the demand for water had increased from 32.6 million gallons in 1950 to 50.1 million gallons in 1955.<sup>9</sup> By 1955, Singapore faced a crisis where it almost ran out of water supply until 1960.<sup>10</sup> To overcome the problem, Singapore took several steps to increase its water supply, which cost it as much as 8 million pounds.<sup>11</sup> A proposal to increase normal and emergency water supply was also planned for the sake of the future.<sup>12</sup> Following the implementation of the 1961-1964 Singapore Development Plan and the 1967 Industry Plan, the demand for water increased 20 million gallons per day. As much as S\$67.1 million was spent to get new water supply from the state of Johor. To make this project successful, the needs for communication system, ports, water and electrical generator, due to the increasing demand in the electricity as well as gas and water supply, increased rapidly to meet the needs of foreign investments in Singapore.

### **THE NEED OF FOREIGN INVESTMENT**

Singapore started to boost its industrial development after the completion of various infrastructures since early 1960s. Thus, the Chairman of the Inter-governmental Committee of the Malayan Federation, Lord Lansdowne recommended Singapore to join the formation of Malaysia so that a Common Market could be established.<sup>13</sup> The World

Bank Mission or IBRD reported that the investments increased after the formation of Malaysia as it was supported by a well-developed banking system and strong currency. This phenomenon convinced the Singapore Economic Development Board (EDB) to play its role in the financial sector. Singapore believed that the problem of unemployment would also be solved if the value of investment successfully reached S\$1,000 million to S\$1,200 million for the period of more than 10 years.

However, Singapore's move to accelerate the growth of its industrial sector could be seen as a rushing step. Many of the country's policies were criticized by the Socialist Front, including the monetary policy, citizenship issue, security issue and also the issue of the local autonomy. For the government of Singapore, a country could only achieved rapid overall growth and development through the development of the industrial sector, as shown by the achievement of some countries such as Japan, the United States of America and European countries. On the other hand, in the opinion of the World Bank Mission, Singapore was actually trying to negotiate the steps needed towards its merger with the Malayan Federation.

### **NEGOTIATION AND STEPS TOWARDS THE MERGER**

The proposal for a merger between Singapore and the Federation of Malaya was raised by the Deputy Prime Minister of Singapore, Toh Chin Chye and Prime Minister Lee Kuan Yew (Lee) in 1955.

In addition, Toh also brought up issues such as the problem of unemployment, the lack of natural resources and the need for continuous water supply, particularly for the industrial activities of the country.

In the memorandum about the merger, Singapore explained that its desire to merge with the Federation of Malaya was based on ethnicity ties and common historical, culture, economic and political background between the two governments.<sup>14</sup> These relations and ties grew even closer two years after Malaya achieved its independence from the British on 31<sup>st</sup> August, 1957. Lee hoped that the merger would also lead Singapore to achieve its own independence that was soon become a reality in 1963. London Talks were held between 20<sup>th</sup>-22<sup>nd</sup> November, 1961 and the Joint Statement by the British Government and the Government of Malayan Federation was distributed on 23<sup>rd</sup> November about the proposal to create the Federation of Malaysia that consisted of the Malayan Federation, Sabah, Sarawak and Singapore.

However, the idea was opposed by the Socialist Front, which claimed that the merger itself was a consolidation for Tunku's own political objectives.<sup>15</sup> To deny this claim, Lee issued a White Paper on 23<sup>rd</sup> August 1961 upon the agreement between Singapore and the Federation of Malaya to merge. The White Paper also outlined the constitution, executive, legislation, administration, financial as well as the local autonomy under the control of Singapore. The opposition doubted on how Singapore could share power in terms of income

distribution and expenditure on education that varied between the Government of Malayan Federation and Singapore.

According to the merger plan, the Federal Government of Malaysia would control over the economy of Singapore. The Federal Government also had an exclusive jurisdiction over currency, banking, foreign exchange, capital issue, public loan, trade, business, industry, shipping, communication and transportation. Furthermore, the Federal Government also had the right to collect all types of taxes, including Income Tax and Excise Duty. These conditions became the main concerns of the people in Singapore and Borneo who feared for Malays' domination. Therefore, Lee had always wanted the citizens of Singapore to have political awareness for the future of the island.

Mean while, the Chairman of the Socialist Front, Lee Siew Choh agreed on the merger proposal that was proposed on 29<sup>th</sup> August 1961, with the condition that Singapore would be fully integrated into the Federal Government of Malaysia like Penang, Melaka and other Malay states as one of the states in Malaysia. In the statement of Lim Chin Siong as the Secretary-General of the Socialist Front on 17<sup>th</sup> September 1961, Lim said that Singapore should not be seen and treated differently with other states in Malaysia and demanded that Singapore should be given priority and other advantages like the rest of the states. Lim's statement obviously increased the popularity of the Socialist Front. PAP estimated that the Socialist

Front would be able to dominate a larger part of the Federation, as well as the fields of education and labour according to the party's relevancy after the merger. In terms of moral, however, population support for the Socialist Front would definitely affect the integrity of PAP.

Even so, Lee was not afraid of the opposition from the left wing in the party since Lim Chin Siong was the only leader that was loud enough in going against the PAP. Lee then informed the British officials in London that he wanted to prevent these left wing party members from going against the decision to merge with the Federation of Malaya. Lee also said that he did not want these people to create disturbance before a decision about the merger could be reached.<sup>16</sup> Two weeks later, the British organized a programme to prevent and expose the tactics of the Socialist Front as proposed by its Special Branch in Singapore. Lim Chin Siong was then shortlisted by the authority of Singapore for arrest. This measure subsequently decreased Lim's influence in the trade union. According to a report, the Special Branch in Singapore did not pass all the work to eliminate communist elements in Singapore solely to the Federal Government. Singapore was also involved in the efforts to eliminate communist elements, but it chose to put the responsibility in the hand of the Federal Government so that its involvement would not be seen as a conspiracy. In Lee's conversation to the Acting Commission in the U.K, Lee gave the assurance that Britain supported the idea to arrest Lim Chin

Siong after the referendum and before the merger. Hence, the arrest of Lim after the referendum would give Lee the confidence that majority of the citizens of Singapore supported the merger. In addition, he also made justification that the arrest of Lim did not lead to any form of resistance from the people based on the wish of the majority of the poll.

Two years after joining Malaysia, Lee then told Harold Wilson that the Common Market had yet to be established.<sup>17</sup> This had previously raised criticism from the Socialist Front during a debate in the Legislative Council in 1962 upon PAP's move in wanting to merge with the Federation of Malaysia.<sup>18</sup> In fact, it was difficult to establish the Common Market as a result of the confrontation policy practiced by Indonesia towards Malaysia. Besides, Singapore suffered from huge losses when many of its industries were moved to Malaysia. Singapore claimed that the Federal Government of Malaysia was trying to gain total control over Singapore's income and also the structure of customs and excise duties, although the right to do so was actually subjected to the jurisdiction of Singapore. Malaysia, however, did not agree with Singapore because Kuala Lumpur did not want the export duty to be excluded for foreign products. This means that any imported products ranged outside of Malaysia's Common Market would be subjected to import tariffs.

Even Lansdowne's statement did not give any benefit to Singapore. The main purpose behind his statement was to help and

save British traders and their entrepot trade in Singapore.<sup>19</sup> At that time, Britain was still practising a profitable approach for British investors and traders, such as by maintaining lands belonging to the British Company in Singapore. For the Singaporean authority, on the other hand, these lands which had been leased to the British Company could be used for the implementation of the 1961-1964 Development Plan.

### **THE ISSUE OF BRITISH-OWNED LAND IN SINGAPORE**

In the efforts to implement Singapore's development plan, lands had become a key element in determining the effectiveness of such plan. One example of these strategically located British-owned lands in Singapore is the British Naval Base. The British realized that their interests in Singapore must be continued by maintaining their position in the Naval Base as well as a few other locations that they owned on that island.

In addition, British also feared that lands of its hold in Singapore would fall into the hand of the Singaporean authority after Malaysia Day, which was after the formation of the Federation of Malaysia on 16<sup>th</sup> September 1963. Therefore, it was clear that the British had tried its best to make sure that the U.K Services had rights over these lands according to Para (2) Annex.<sup>20</sup> In a meeting with the Federal Government of Malaysia, British openly stated their readiness to acquire lands in Singapore based on the current market value of lands on the island in case Singapore

would want those lands back. Singaporean authority, however, refused to sell lands as wide as 25 ¼ acres in Pasir Panjang that worth £11,406 based on the current market value at that time.<sup>21</sup> This was because Singapore had planned to develop phase B of a hydroelectric project in that particular area to generate electricity for its industrial projects.

To enable Singapore to get back those lands, the authority drafted the Land Acquisition Ordinance (LAO), so that any step taken by them would not be considered as trespassing. J.D. Higham from the Colonies Office (who replaced Golds, A. A. to chair CRO meeting) then stated that the main objective for the British, i.e. to maintain their hold on the British bases in Singapore, was way more important compared to selling the lands at market value. Through his statement, Britain realised the importance for the British bases to remain in Singapore for the sake of their interests in the region, particularly in the matter of defence. Nonetheless, Singapore continued to urge Britain to hand over the British-owned lands because this issue might be used by the Socialist Front to strengthen its position.

Lee wanted the British to hand over 14 acres of land to be used by the War Department as a shooting field, even though hundreds of acres of land were handed over by the British to the authority of Singapore prior to this. Lee then continued to urge the British to hand over another 1/10 of land that they owned with the reason that if the British did not do so, it would that

he himself had failed to carry out the trust and will of the citizens of Singapore. On the other hand, the British hoped that with the lands that they owned and held in Singapore, it would help to guarantee British's properties on the island, including their defence equipment and military quarters in Woodlands, telecommunication station in Jurong, military wireless presenter station in Chip Bee, Holland Road and few other locations.

By law, lands owned by the U.K Services should be returned to Singapore as the land owner after the separation, as understood by Singapore. Nevertheless, the British still made an attempt to maintain the status of the land so that the ownership of these lands would not be transferred to Singapore. To solve this problem, a discussion was held between the representatives of the Commonwealth (CRO) and Singapore's authority. During the negotiation, Singapore informed Cook from the Colonies Office that the Property Tax Ordinance would be implemented to impose tax on the military services and also property tax as high as 100%.

In the above discussion, it is clear see that the land issue had become a very important one to Singapore. With its small size and limited lands, Singapore needed lands owned by the British Company on that island to be returned to the Singaporean authority in order to carry out various development projects on that island. Therefore, it is obvious that Singapore was willing to do whatever it took to re-acquire these British-owned lands, either through legislation process or by force. In order

to enable the British to maintain its status land owner and to prevent Singapore from re-acquire these lands, however, the British had used multiple tricks. For instance, they had stopped Singapore from implementing the suggested Property Tax Ordinance using the immunity policy of the Crown before Malaysia Day, even though they were aware of the fact that property tax collection should remain under the rights and responsibility of Singapore.<sup>22</sup>

British also tried to explain the confusion related to this particular issue before Singapore joined the Federation of Malaysia on 31<sup>st</sup> August, 1963. During the negotiation of the 1957 Agreement with Malaya, Singapore was given semi-independence status instead of the colonial status. However, the island was technically still under the British auspices. Thus, its constitution was enshrined with the Government of U.K, which was one of the characteristics of a protectorate state where a draft of 'Services' Lands Board Ordinance 1959 was outlined in the constitution itself. The ordinance gave SLB rights to own, hold and release lands in Singapore. According to the ordinance, there were two categories of lands. The first category referred to the land purchased by Singapore itself without using the U.K's funds, while the second category referred to Singapore Crown Land which was owned by the U.K Services without any charge as long as it could be owned. Hence, the lands of the British army, air force and navy that were located outside of the British Naval Base fell under the first category.

Under the amendments of the constitution, all the lands including those belonging to the Crown in Singapore that fell into the second category still remained unchanged, but the first category which was subjected to 999 years lease should be submitted to the SLB. After the government of Malaysia took over these lands, the SLB was given only 30 years lease. According to the basic principle of this matter, when the land was no longer needed, the British forces should hand back not only the lands to Singapore, but also the facilities or the buildings that had been constructed including the construction cost if the government of Singapore needed the land back to be developed. If the land was not needed by the Government of Singapore, it would then be sold in the open market and payment would be made to SLB as a corporate body that legally represented the British Government in Singapore.

Therefore, on Malaysia Day, based on the Defence Treaty between U.K and the Federation of Malaya signed in 1957, Services Lands Board Ordinance had the rights over matters related to properties in Singapore. On Malaysia Day, Singapore merged with the Malayan Federation on 31<sup>st</sup> August 1963 under the 1963 Malaysia Act. It is clearly stated under Section 79 that all lands in Singapore would be put under the power and jurisdiction of the Federal Land Commission (without any charges) immediately after Malaysia Day. The Federal Government, on behalf of Singapore, then agreed to lease the lands to SLB on terms and conditions that were fixed

by the government. Through the agreement, the Federal Land Commission officially replaced SLB and took over the lands owned by that particular body.

The Federal Government also agreed to lease lands to the U.K representative in Singapore for defence purposes for a period not more than 30 years. In the meantime, the status of lands owned by the Crown remained unchanged, unless the Federal Government (on behalf of Singapore) leased these lands in accordance to sections 75 and 76. On 9<sup>th</sup> July 1963, a treaty was signed between the Government of Malaysia and the Government of U.K. In that treaty, all the lands owned by Land Services were explained and described in Annex F, which was derived from Article VI dated 9<sup>th</sup> July 1963 between the Government of U.K, the Federation of Malaya, North Borneo, Sarawak and Singapore. The preamble of Annex F stated that the 1957 Defence Treaty between U.K. and Malaya was actually referring to the lands and buildings owned by SLB. This showed that the Ministry of Defence in U.K still wanted to retain their land ownership in Singapore.

To manage this issue, the British tried its best to address the issue wisely and carefully since they had been facing a wise politician like Lee. The British also realised that Lee had a firm stand about law and would always think of the political advantages in any negotiation. Thus, the British made an attempt to make amendments in legislation. This indicated that the British had tried to amend Annex G so that Lee would not have absolute power to determine the status quo

in the matter of land holdings in Singapore. The new version of Annex G could be seen as a step taken by the British to ensure Britain's interests in Singapore. The British government would prevent Singapore to make any reference regarding land holdings in the future in the process of reacquiring the British-owned lands by referring to MDA 1957 Article IV. According to Article IV, the Federation of Malaya was permitted by the Government of U.K to 'own, maintain and use the bases and all the facilities in the Federation in accordance to Annex 2 and Annex 4. Meanwhile, Annex IV stated that the policy of the Malayan Federation did not allow any foreign country or Commonwealth to own any land in the Federation except for diplomatic purposes. Therefore, if the Government of U.K wanted to own a land in the Federation, the authority of the Federation of Malaya would pass a law and register it in the name of Public Trust that held the trust for the U.K Services.

According to the 1963 Malaysia Act concerning the rights on lands in Singapore, Section 79 clearly stated that 'the Federal Land Commission will replace SLB'. This showed that the freehold rights still remained in the hand of Singapore even though it had merged with the Malayan Federation to form the Federation of Malaysia. Hence, it could be said that the 999 years lease is not void with the 1963 Malaysia Act and lease could still be given to the British forces for a period of 30 years based on the Treaty of 1957.

This matter nonetheless raised doubts in Lee regarding the status of lands owned by SLB that were still held by the British

Government. As a result, Lee urged SLB to return its 12 acres land to Singapore because it is very useful for development and has a high value. However, the Lands Directorate Far East in Singapore stressed that SLB was still a legal and valid body in the republic. He also tried to highlight the fact that the 999 years lease to SLB as the legal owner of these lands was acknowledged by Singapore before SLB was replaced by the Federal Land Commission of Malaysia which then decided to give 30 years lease to the U.K Services Lands Board in accordance with the 1963 Malaysia Act, section 79.<sup>23</sup> Therefore, any property transaction in Malaysia would be carried out under the U.K Services Land Board, including the lands in Singapore after it became a part of Malaysia. This matter was opposed by the SLB, which referred to two original terms and conditions about land ownership in Singapore prior to Malaysia Day. They even wanted to bring the matter to court to maintain the 999 years lease. Their claim, however, was denied by Singapore which had its own interests on those lands due to the limited land areas and a dense population. Hence, lands can be considered as productive assets to Singapore. In addition, these lands could also be used as agriculture area, shipyard and even a ship repairing centre because the area was suitable for building large ships. Recognizing the importance of these lands, Lee wanted all the lands to be maintained under the jurisdiction of Singapore, as stated in paragraph 2 of Annex G, so that any development project in the future could be planned.

It seemed that the British had their own hidden agenda before the concept of federation or merger was established, i.e. to ensure protection of their interests in Singapore. Therefore, Lee was suspicious about the question to what extent the concept of federation could benefit Singapore without sacrificing its sovereignty. This is because Kuala Lumpur sees the merger scheme from a different perspective. In particular, Kuala Lumpur sees the merger scheme in the context of political survival of the Malay people and Malay supremacy. For Malaysia, the Federal Government does not only have a direct authority over all member states in the federation, but also has a full control over the citizens and lands under the authority of the government.

In the early stage, the merger was seen as not favourable for the Federal Government. Kuala Lumpur did not see the merger as a benefit to the country but would indeed create an imbalance racial composition for the newly born federation. Tunku was fully aware that the merger would reduce the trust of the Malay people and UMNO towards him. Therefore, he wanted to include Sabah and Sarawak in the federation for their importance in ensuring the political survival of the Malays even though his idea did not make sense because the people in Borneo are from different ethnic groups. Eventually, Kuala Lumpur decided to follow the British's original scheme to include Malaya, Singapore, Sabah and Sarawak into the federation, as proposed by Tunku. For Kuala Lumpur, the formation of the Federation of Malaysia would act as the

core of the Malay politics and responsible for internal security, international relations as well as defence, whereas Singapore would have the same status and role like the other member states of Malaysia in the federation. However, Singapore would be given power in the field of education and labour, along with other autonomies, but its role was limited. Therefore, Lee's action in equalizing his position with the Prime Minister certainly did not make sense since the heads of the other states in the Federation of Malaysia like Sabah, Sarawak, Penang and Malacca only held the title of Chief Minister.

On the contrary to Kuala Lumpur, Lee foresaw that this merger scheme would bring benefits to Singapore in terms of economic survival and also territorial integrity. As compared to 11 other member states of the Federation, Singapore relatively had greater autonomy in terms of political autonomy. This could be seen from the fact that Singapore had the rights to handle some of their own matters, such as education and labours, as well as other autonomies.<sup>24</sup> More importantly, the merger also provided Singapore with a status as a nation, and it was then eligible to maintain that status in the international arena. Furthermore, by joining the Federation of Malaysia, Singapore would gain access to the international financial reserves and could now be accepted as a member of IBRD or IMF in order to implement the Domestic Development Plan. In addition, with the new status, Singapore would be qualified to conduct relations with any countries in the

world according to the international law as a part of the Federation of Malaysia, and could therefore expand its diplomatic relations with other countries since it is qualified to be a legal member of IBRD and IMF. To achieve these, Lee openly claimed that 'the merger will increase economic development and standard of living of the people of Singapore'.<sup>25</sup> The economic development factor enabled PAP to gain wide support from the people against the Socialist Front. Therefore, in the effort to promote industrial development, facilities such as ports, transportation, communication, mobility, business, and efficient financial rules would certainly contribute to the base of the national development. That was the reason why the British had always tried to convince Singapore that independence would be achieved through the merger between Singapore and the Malayan Federation. This was because Singapore's entry into the Federation would enable Singapore to achieve independence automatically. As an independent entity, Singapore would gain a broader administration power as compared to its previous status and would therefore be respected and recognized internationally.

The Socialist Front did not agree with the merger if the internal security of Singapore was to be controlled by the Federal Government. This was due to Tunku's statement that he would take stern actions against the threat of communism and the left wings. Thus, Lee tried to get financial assistance from the British Government to establish the Second Infantry Battalion Regiment in Singapore. According

to Lee, the establishment of a security force was needed before the day of the merger to avoid any undesired event.<sup>26</sup> Lee hoped that the Federal Government of Malaysia would be able to ensure Singapore's security from the threat of the Socialist Front which also threatened the interests of the Federal Government.<sup>27</sup> In the opinion of the Socialist Front, the merger would only bring benefits and political gains to PAP. They claimed the merger plan was a creation of the West in order to contain the communist threat. However, the claim was denied by the British saying that it was not a block that would go against China and Indonesia.<sup>28</sup> Even though PAP successfully outshined the opposition in the 1959 election, its overall power was yet to be enough.

Through the merger, Singapore hoped to gain a greater autonomy and strengthen Lee's political influence and position to face the challenges from the Socialist Front. Hence, it is clear that Lee had tried his best to convince the Federal Government that the communist threat in Singapore<sup>29</sup> would also threaten the politics in Malaya. If this happened, the communist threat had the potential to change the economic structure and also the political system of both the regions involved. This led to the arrest of a number of leaders from the Socialist Front in February 1963 before the merger which directly reduced the influence from the left wing. Then, Tunku told the public that Malaya had successfully eliminated the communist threat, but he was still worried about the increasing communist influences in Singapore, Sabah, Sarawak

and Brunei. Tunku also mentioned that the same pattern of communist exploitation was taking place in those areas. On the other hand, in order to gain the Malays' support for PAP, Lee stressed that the idea of democratic socialism of PAP was not a communist ideology as understood by most people. In addition, to attract the attention of the leaders in Malaya, Lee promised to improve the living standard of the Malays equally with the non-Malays. It was clear that Lee was being very careful about taking care of the feelings of the Malays as well as the Federal Government before the merger, and he was seen to be willing to accept a few of the terms and conditions of the merger.

Among these terms and conditions were, Singapore had to be prepared to accept only 15 seats in the Federal Parliament in return to achieve a greater autonomy, while the state of Borneo will get 40 seats in the Parliament even though the population in Sabah and Sarawak was only 1.5 million as compared to 1.7 million for Singapore alone. Secondly, Singapore must be prepared to put the power over matters such as defence, foreign affairs and domestic affairs under the British control. Thirdly, Singapore had agreed to provide the ration of 60:40 of its income for the development in Borneo. This means that according to the terms of the merger, Singapore had to surrender 40% of its total income for federal services and to provide S\$50 million of loan for the period of 15-20 years to develop Borneo.<sup>30</sup>

The Federal Government explained that the reason why such a huge fund was needed for Borneo's development was because

wealthy states held the responsibility to assist poorer states. This showed that Singapore was no longer confident about the establishment of a Common Market as stated in the documents submitted by Tunku to Lee.<sup>31</sup> It is important to note that the failure to establish a Common Market as wanted by Singapore was the main reason why Singapore chose to separate itself from the Federation of Malaysia.

### **SINGAPORE'S SEPARATION FROM MALAYSIA**

After its separation from Malaysia, Singapore still hoped to conduct a close and smooth relation with its neighbouring countries in the international arena. Tunku had also ensured the Prime Minister of Britain, Harold Wilson, that the separation of Singapore would not change the relationship between Singapore and Malaysia<sup>32</sup> even though the separation had impacted upon the economy of both countries. News about the separation had actually offered some moral and economic benefits to Indonesia. After the separation, Lee recognized the importance of the Singapore-Malaysia relationships. According to Lee, the growth and prosperity of Malaysia were crucial for the survival of Singapore and vice-versa.<sup>33</sup> In reality, however, in reality, Lee did not show any commitment towards his statement after the separation, such as in the matter of defence. This could be seen when Lee refused to conduct any form of defence cooperation with Malaysia in the era of confrontation.<sup>34</sup> Lee's action was totally against the spirit of friendship

although the confrontation was not yet over. Besides, other defence agreements (such as maintaining Malaysian battalion in Singapore after the separation) had created suspicion in Lee even though the exercise of military exchange was agreed by both countries.<sup>35</sup> Tun Razak then explained that rapid military exchanges would affect the capability of the Singaporean authority to act efficiently.

Therefore, the Malaysian forces still remained in the base in Woodlands when Singapore's forces that were serving in the border of Borneo were sent back to Singapore. The Treaty of 9<sup>th</sup> August 1965 gave rights to Malaysia to assist in Singapore's external defence, while Singapore would provide the facilities needed for Malaysia's external defence. There was also a secret agreement between the two countries whereby Singapore could ask for the assistance of the Malaysian Military Forces for its internal security,<sup>36</sup> but Singapore was not confident that the Malaysian Military Forces could perform their duty effectively.

According to this agreement, Malaysia would continue to deploy its troops in Singapore, while Singapore provided one of its battalion in Borneo to assist Malaysia against the confrontation launched by Indonesia. Both countries also agreed that when the Singaporean battalion in Borneo return to Singapore, the Malaysia Forces will withdraw its troops from Singapore and hand over the military barracks for the Singaporean battalion. However, Malaysia's decision to maintain its troops in Woodlands

was questioned by Singapore. When the Singaporean battalion returned to Singapore, a racial riot occurred on 1<sup>st</sup> February 1966 due to the government's failure to deal with the Chinese and Malays recruits in the military forces of Singapore. When the British Secretary of Defence, Dennis Healey visited Singapore on 4<sup>th</sup> February, Lee told Healey that he was unable to maintain the law and security in Singapore. Lee continued by asking Healey whether or not the British Forces could be deployed in Singapore to ensure the security of the republic. Sadly, Britain was unable to meet Lee's requirement. Lee feared of the risk of racial riot if the peacekeeping task was given to Malaysia. Lee was not confident that the Malaysian Forces would be able to carry out their duty effectively because there was a possibility that the Malaysian Forces would sympathise the Malays. For Lee, the presence of the British Force would defuse the situation.<sup>37</sup> Furthermore, Lee was also worried that Malaysia would use its strength as the *Fifth Column* to overthrow him. On 4<sup>th</sup> February, Malaysia announced that it would not withdraw its troops from Singapore in accordance with the terms in the Separation Treaty. Based on that statement, Singapore was concerned about its security, especially after the racial riot that erupted on the 1<sup>st</sup> February 1966 because it was not confident with the ability of the Malaysian Forces. Due to this prejudice, the economic cooperation and defence agreement between Singapore and Malaysia found a dead end.<sup>38</sup> Thus, the withdrawal of that British Forces starting July 1967 brought economic and

political implications<sup>39</sup> even though there was a security guarantee. This meant that the British would assist Malaysia including Sabah, Sarawak and Singapore<sup>40</sup> in terms of their defence. Even so, Singapore would still have to think about the problem of regional security after the withdrawal of the British troops from the region.

In terms of economy, the withdrawal of the British troops could be seen as a loss of economic source for the citizens of Singapore. Thus, Singapore hoped that its relations with Indonesia could be recovered<sup>41</sup> since it had economic interests in that country. Nevertheless, Singapore's attempt to gain recognition from Indonesia invited condemnation from Malaysia. Singapore's rationale behind its decision was that if Malaysia stopped its rubber export to Singapore, the country would then have to secure and revive its rubber supply from Indonesia which had been cut off since the confrontation.<sup>42</sup>

In fact, Singapore was actually under the pressure of Indonesia which forbade the American troops from using Singapore's bases. In addition, the Government of Singapore also faced pressure from the Chinese merchants in Singapore. Since Singapore's separation with Malaysia, the merchants in Singapore had expressed their concerns about the drop in the price of pepper by hoping that the Singapore's relation with Indonesia would eventually restore the price. Thus, the economic conditions in Singapore were uncertain since August 1965. This was caused by the tendency of the Singaporean businessmen

and merchants who had transferred about S\$1 million from their bank account in Singapore to Hong Kong. Moreover, the shipping companies in Singapore also started to sell their cargoes to countries with stable currencies and opened their accounts in Hong Kong or Japan.<sup>43</sup> Meanwhile, the Australian Government also tried to persuade Malaysia to be sympathetic about the economic problems of Singapore<sup>44</sup> and to stop its military action to block Singapore from trading activities.

Therefore, it was clear that Singapore had no other choice but to continue its trading activities with Indonesia. Tunku warned Singapore that Malaysia would attack Indonesian ships if Singapore insisted to continue its relation with Indonesia. According to Tunku, the Royal Malaysian Navy had the right to do so under the Defence Treaty. According to Head, however, Malaysia's action to enter the Singaporean waters was not legal and would therefore have implications on Britain. Due to the pressure from Indonesia, Lee issued an order that directed the British forces to leave their bases within 24 hours. This was because as long as Singapore allowed the British forces to stay on the island, Indonesia would have reason to continue its confrontation against Malaysia. Nevertheless, Singapore's action was contrary to its own wish for the presence of the British forces in Singapore for economic and security reasons.

In Tunku's opinion, Indonesia's decision to recognize Singapore was wrong and inappropriate since the confrontation was yet to come to an end. Thus, Tunku

condemned Indonesia for continuing its confrontation against Malaysia at that time. Meanwhile, Tun Razak had also warned Singapore that Malaysia would strongly oppose any move taken by Singapore that intended to restore its trading relations with Indonesia. According to Malaysia, Indonesia-Singapore relations would enable the Indonesian merchants to enter the territory of Singapore freely. This was apparently not something that Malaysia had wanted because of the confrontation and Indonesian entry into Singapore could actually threaten the security of Malaysia. Britain, New Zealand and Australia were worried that Malaysia might take offensive steps towards Singapore.<sup>45</sup> For Malaysia, Indonesia's recognition for Singapore should be simultaneous with its recognition to the Federation of Malaysia.<sup>46</sup> On the other hand, Indonesia claimed that Malaysia's protest had made the confrontation even more difficult to end.<sup>47</sup> Dr. Toh was also concerned about Singapore's safety if Malaysia decided to make an alliance with Indonesia or been tamed by Indonesia<sup>48</sup> or led to the establishment of an archipelago alliance<sup>49</sup> through the negotiation.

Toh's statement was based on the statement of the Foreign Minister of Indonesia, Adam Malik, about his guarantee of the security level in the region that was not so convincing in the opinion of Singapore. Prior to this, Adam Malik and the Foreign Minister of Malaysia, Ghazali Shafie, had held a meeting in Bangkok to tackle the issue of confrontation in Borneo. Adam Malik had told Tunku that he would

never ever support a confrontation towards Sabah and Sarawak. In fact, he wished to see both Sabah and Sarawak to stay with the Federation of Malaysia because he was afraid that Malaysia would fall in the hand of the Chinese.<sup>50</sup> This was because of the fact that the population of Chinese in Malaysia which was higher than the natives. His statement had created fear among the Chinese in Malaysia about their status and position in the country.

In a meeting with the British Foreign Secretary in Bangkok, Michael Stewart, Adam Malik expressed his intention to restore Indonesia's relations with its neighbouring countries. Indonesia was worried about the country's economic condition as well as the communist influence in the country.<sup>51</sup> According to the Secretary of State of the United States of America, Dean Rusk, if Indonesia followed the right path and direction, countries in the region would be united as before since some efforts were already taken place in the area with the establishment of Maphilindo and ASA. For this reason, Indonesia decided to restore its relation with Singapore and trading relations with other nations in the region that had been stopped during the confrontation.

## **SINGAPORE'S RELATION WITH INDONESIA**

The Singapore-Indonesia relation was established based on the trading relations between the two ever since the British colonial era and the time of the Dutch dominance. Apart from getting its raw material supply from Malaysia, Singapore

also acquired its alternative raw material supply from the merchants who commuted from Riau and Sumatera to Singapore. Although the trading value for both Indonesia and Singapore had increased, the dark market activities through the Straits of Melaka and the Straits of Singapore continued to occur. For this reason, the Consulate of Indonesia issued a list of merchants who were involved in the dark market activities and accused Singapore of abetting in such activities.<sup>52</sup> Sumatera's long-term trading relations with Singapore were stopped due to the political development in Indonesia. The State Attorney of Indonesia, Suprpto, said that 1/3 of Indonesia's annual rubber production worth Rs2 million (£65,000)<sup>53</sup> was smuggled from Indonesia to Singapore and Malaya. This smuggling activity resulted in a huge loss of income and foreign exchange for Indonesia.

In addition, the communist influence in Indonesia also posed a threat to the political condition in Singapore. Lee informed Maudling that the Communist Party of Indonesia (PKI) would soon dominate Indonesia because the party had strengthened its position<sup>54</sup> as the largest communist party in Southeast Asia and the third largest in the world. PKI claimed that it had around 2 million members. There was a tendency of Indonesia to opt for communism due to Sukarno's relation with CCP, whereby CCP had supported Sukarno in his efforts to deal with rebellions in Padang, West Sumatera and Sukarno's tendency to side PKI.<sup>55</sup> Lee was worried that this communist influence would bring

political and economic implications to Singapore because it would definitely encourage the left wings to spread their influence in Singapore.

The increasing communist influence under PKI had brought concerns from the U.S and Australia<sup>56</sup> because it had the potential to threaten their interests in Indonesia.<sup>57</sup> Thus, both the U.S and Australia started to urge Britain to maintain its troops and bases in Singapore since U.S was still facing problems in Vietnam at that moment. Australia hoped that the British bases in Singapore would act as the front defence for the country. Hence, the British decided to maintain its military bases in Singapore if Indonesia did not end its confrontation towards Malaysia. Tunku also welcomed the U.S presence in the region so that there would not be a power vacuum to be filled by the communists. Lee was relieved about the British's decision to maintain its military bases in Singapore because this would certainly provide jobs and source income to Singaporeans, especially in the service sector.

However, when Singapore attempted to re-establish its trading relations with Indonesia through barter trade, Lee changed his mind by asking the British forces to leave their base in Singapore. This was because Indonesia had expressed its intention to continue its confrontation policy against the Western neo-colonialism policy if the foreign troops continued to show their presence in the region.<sup>58</sup>

Lee's existence during the era of turbulent in the region had actually saved

the West. In fact, Lee had always wanted to build Singapore based on the image of the West and wanted Singapore to be the Western ally. This was influenced by his background as a Chinese Diaspora. According to Lee, the Southeast Asia region needed support from the West for development, business opportunity and to ensure the survival of the Chinese Diaspora in Singapore. Therefore, Lee had tried to save his political career and also the Western interests in Singapore. The emergence of China as a new power in the international system was seen as a new threat and challenge to the Western powers. Thus, in this case, Singapore's location had become very important to the West.

Furthermore, Singapore was also concerned about the Indonesia-Malaysia rivalry which was caused by the issues pertaining to the formation of the Federation of Malaysia. Due to this reason, Indonesia had deployed its troops in Riau Islands near to Singapore. Singapore was afraid that Indonesia might take the same move as what it once did to West Irian.<sup>59</sup> Hence, a merger between Singapore and the Malayan Federation was seen as a safe way to avoid Indonesia's offensive move when President Sukarno launched a subversive campaign and boycott the economy of Malaysia in 1963. As a result, all trades between Indonesia and Malaysia were cut off by November and this surely had a negative impact on Singapore as a free port.<sup>60</sup> In addition, the trading relation between Indonesia and Singapore was also cut off. All these while, exporters and importers of rubber were concentrated in Singapore.

Due to Indonesia-Malaysia rivalry, however, the port of Pontianak in West Kalimantan to Labuhanbilik in North Sumatera was no longer operating as a transit port for the exporters as usual. As a result, the profit gain by these rubber exporters had dramatically dropped due to the rise in cost. The whole entrepot sector also suffered from this situation whereby the economy of Singapore dropped about 0.5% in 1963 and 24% in 1964.

However, the confrontation had more negative effects on Indonesia as compared to Singapore, especially to those Indonesian military officers who were involved in the trading activities. Indonesian Foreign Minister, Adam Malik, then explained that these officers did not get any income since the trading activities had ceased since August 1964.<sup>61</sup> The Indonesian military officers involved then urged Indonesia to restore its relations with Singapore because the smuggling activities had affected their source of income.<sup>62</sup> Adam Malik also said that the trade with Singapore was crucial for Indonesia but Foreign Minister of Malaysia, Ghazali Shafie, still strongly held his stand since the confrontation launched by Indonesia was yet to be ended.<sup>63</sup> Based on the report from Jakarta to the State Foreign Office, Indonesia's 'recognition' on Singapore would not weaken the confrontation policy launched by Indonesia, but would indeed accelerate their victory.<sup>64</sup> Therefore, Lee's decision to allow the Indonesian Mission to Singapore had further angered Tunku.<sup>65</sup>

Following these developments, Lee urged the Chinese in Singapore to reduce their Chinese sentiment. Furthermore, the transfer of ruling power in Indonesia to anti-communist Suharto and the open opposition by the Muslim population could have negatively affected the Chinese in Singapore in particular, and the Southeast Asian region in general. In addition, Britain and the United State of America were both pro-Suharto. This could be seen when Britain took a softer approach in advising Suharto to implement the policy of good neighbour for the benefit of the region.

## CONCLUSION

In order to handle and overcome both internal and regional issues, leaders of Singapore had placed priority to the issues which would restraint the national development of the country. Thus, since 1961-1964, the Government of Singapore has paid attention to certain aspects such as development and foreign relations to ensure the economic growth of Singapore for the coming decades. Since Singapore's separation from Malaysia, its pursuit of national development has shown an encouraging progress. Problems and issues involving bilateral relations were handled wisely and Lee has always urged Singaporeans to focus on their efforts to develop the country. This is an important message to the people of Singapore to bring development and growth to the country.

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