Merger with Malaysia in 1963

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From the Tunku's proposal to the referendum of 1962

The decisive impulse came from Kuala Lumpur when, on 27 May 1961, the Malayan Prime Minister, Tunku Abdul Rahman, publicly proposed a closer association of Malaya, Singapore and the British Borneo territories.[1] The Tunku had previously resisted merger with Singapore, whose large Chinese population would have upset the communal balance of the Federation. Including the Borneo territories offset that concern. The prospect of a left-wing government in an independent Singapore worried him more than a Chinese-majority state inside a federation controlled from Kuala Lumpur.

The proposal split the PAP, whose left wing opposed merger on the proposed terms and broke away to form the Barisan Sosialis. The government had to win public approval for merger against a strong opposition. It did so through a referendum held on 1 September 1962, which offered three forms of merger without a choice against merger as such. Option A gave Singapore autonomy in labour, education and other agreed matters and 15 seats in the federal House of Representatives.[2]

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The result shows how such figures depend on their denominator. Option A received 397,626 votes, which was 95.82 per cent of the valid votes but about 71 per cent of all votes cast. Because the Barisan Sosialis had urged its supporters to cast blank votes, 144,077 ballots, or 25.66 per cent of the total, were left blank. Having anticipated the tactic, the government had framed the rules of the referendum so that blank ballots counted towards the leading option, in effect Option A.[3]

Operation Coldstore and the Malaysia Agreement

Before merger could take place, the security question had to be settled. On 2 February 1963 the Singapore government, supported by the federal and British governments, carried out Operation Coldstore, in which 113 left-wing leaders were detained, among them Lim Chin Siong of the Barisan Sosialis.[4] The operation remains contested in Singapore's historiography. For the purposes of this book it is enough to record that it removed the main organised opposition to merger before the new federation came into being.

The terms of merger were settled in London, where the Malaysia Agreement was signed on 9 July 1963 by the United Kingdom, the Federation of Malaya, North Borneo, Sarawak and Singapore. Lee later described the final night of negotiation: the signing began at a quarter to twelve on 8 July and ended at about ten past midnight on 9 July, because the Tunku regarded 8 July as an auspicious day.[5]

Singapore declared its independence from Britain on 31 August 1963, two weeks before the new federation came into being. Malaysia was formed on 16 September 1963. In the Singapore state election of 21 September 1963, held only nine days after nomination day, the PAP won 37 of 51 seats with 46.93 per cent of the vote, while the Barisan Sosialis won 13 seats with 33.24 per cent.[6]

The financial bargain

The financial terms of merger had occupied, in Lee's words, two weeks of negotiation that "tested our nerves". They were laid down in Annex J of the Malaysia Agreement, an agreement between the governments of Malaya and

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Singapore on the common market and financial arrangements. The core of the bargain was an exchange. Singapore received a Malaysian common market written into the federal constitution and paid in return a share of its national tax revenue, in place of an annual lump sum, as a contribution to federal services.[7]

The share was fixed at 40 per cent of national taxes. Lee told the Assembly that this corresponded to 37 per cent of total revenue. In another passage of the same speech he said that Singapore would keep 72 to 73 per cent of its revenue, a figure he did not reconcile with the first. On Singapore's own calculation the cost of federal services was only 34.3 per cent of national taxes. Singapore accepted the higher figure as a concession for the constitutional guarantee of the common market, subject to a review after 31 December 1964.[8] Later accounts often speak loosely of 40 per cent of Singapore's revenue. The distinction between national taxes and total revenue matters, because Singapore's state revenue also included items outside the federal tax base.

The Borneo territories received a development loan. The British and Malayan side had first proposed a loan of $150 million free of interest for ten years, which Lee calculated as equivalent to a gift of $80 million. The final settlement provided for $100 million free of interest for five years, with labour for the financed projects to come from Singapore. Secondary accounts give a total loan of M$150 million, of which a portion was interest-free, and they diverge on the exact terms.[9]

The common market was to be built gradually. Lee described the timetable to the Assembly: five years of complete free port status while Singapore industrialised product by product, followed by seven years of gradual harmonisation, "12 years in all". Tariffs were to be harmonised by a federal Tariff Advisory Board, whose constitution could not be altered without Singapore's concurrence. The chambers of commerce welcomed the arrangement, since it preserved the free port for the entrepôt trade during the transition.[10]

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Two years of friction

The common market never took shape. Malayan business interests feared that Singapore's lower costs and free port status would draw industry away from the peninsula. Federal authorities were reluctant to grant pioneer status to Singapore projects and accepted only two of 69 applications submitted by the EDB.[11] Pioneer status carried tax holidays, so the refusals struck directly at the industrial strategy that merger was meant to serve.

External pressure compounded the internal disputes. Indonesia under Sukarno opposed the formation of Malaysia and on 21 September 1963 severed its diplomatic and commercial ties with Malaysia and Singapore. Singapore's trade with Indonesia fell by almost 24 per cent in 1964, while bombs exploded in the city eighteen times in that year alone.[12] The bombing of MacDonald House on Orchard Road on 10 March 1965 killed three people and injured at least 33. For a port whose entrepôt trade with the archipelago had been one of its oldest sources of income, as Chapter IV of Part A showed, Confrontation was an economic blow.[13]

Fiscal conflict followed. Since Confrontation burdened the federal budget, the federal Minister of Finance, Tan Siew Sin, proposed in November 1964 new taxes to close a deficit of M$543 million. When the PAP criticised them, he threatened to raise Singapore's contribution from 40 to 60 per cent of its revenue. The new taxes included a payroll tax and a turnover tax, which the Singapore government opposed "strenuously". On 12 December 1964 Malaysia also announced that it would issue its own currency within two years to replace the Malayan dollar, which raised the question of who would control the reserves that backed Singapore's money.[14]

Banking became a political issue as well. The federal government ordered the Singapore branch of the Bank of China to close on grounds of subversive activities. The branch survived only because Singapore left the federation before the order took effect.[15] On the day of separation Lee indicated that his government would let the Bank of China continue "on the old terms", staffed by Singapore citizens and confined to trade. The episode foreshadowed a principle that Chapter II of Part I develops: Singapore would bank with every country prepared to trade, as long as banking did not become a channel for subversion.[16]

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The deepest conflict was communal. The PAP contested nine seats in the federal election of 1964 and won one, which the leaders of UMNO regarded as a breach of the understanding on which merger rested. Race riots broke out on 21 July 1964 and again on 2 September 1964. They cost 23 and 13 lives respectively, injured several hundred people and were followed by islandwide curfews. The economic damage of the riots was less visible than their human cost, but they cast doubt on the stability that investors expected from the enlarged federation.[17]

Notes

1. Wikipedia, "Self-governance of Singapore" (accessed November 2026): on 27 May 1961 Tunku Abdul Rahman "mooted the idea of Malaysia". ↩
2. Wikipedia, "1962 Singaporean integration referendum" (accessed November 2026): referendum of 1 September 1962; Option A provided for merger with autonomy in labour, education and other agreed matters, automatic Malaysian citizenship for Singapore citizens and 15 seats in the Dewan Rakyat. ↩
3. Wikipedia, "1962 Singaporean integration referendum" (accessed November 2026): Option A 397,626 votes (95.82 per cent of valid votes); blank votes 144,077 (25.66 per cent of total); total votes cast 561,559; registered voters 619,867; Wikipedia, "Self-governance of Singapore" (accessed November 2026): Option A received 70 per cent of the votes, with 26 per cent left blank. Wikipedia, "1962 Singaporean integration referendum" (accessed November 2026): the Barisan Sosialis urged supporters to cast blank votes, which the PAP had anticipated; under the referendum rules blank votes would count towards the option with the most votes, which the article equates with Option A. ↩
4. Wikipedia, "Singapore in Malaysia" (accessed November 2026): Operation Coldstore on 2 February 1963, with 113 left-wing leaders detained; Wikipedia, "1963 Singaporean general election" (accessed November 2026): detention of Barisan Sosialis leaders including Lim Chin Siong with the support of the federal and British governments. ↩

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5. Wikipedia, “Malaysia Agreement” (accessed November 2026): signed on 9 July 1963 in London by the Federation of Malaya, North Borneo, Sarawak, Singapore and the United Kingdom; effective 16 September 1963. Lee Kuan Yew, speech of 30 July 1963 (see above), p. 20: “the Tunku believed that 8th July was a lucky day by the stars”; “the signing began at quarter to twelve on the 8th of July. I think it ended about 12.10 in the morning of the 9th of July.” ↩

6. Wikipedia, “Singapore in Malaysia” (accessed November 2026): independence from the United Kingdom declared on 31 August 1963; Wikipedia, “Self-governance of Singapore” (accessed November 2026): declaration of 31 August 1963 with Yusof bin Ishak as head of state. Wikipedia, “1963 Singaporean general election” (accessed November 2026): election of 21 September 1963; PAP 37 of 51 seats with 46.93 per cent, Barisan Sosialis 13 seats with 33.24 per cent; Assembly dissolved on 3 September 1963, nomination day 12 September 1963, polling nine days later. ↩

7. Wikipedia, “Malaysia Agreement” (accessed November 2026): Annex J, “Agreement between the Governments of the Federation of Malaya and Singapore on common and financial arrangements”; Lee Kuan Yew, speech of 30 July 1963, p. 23: “the financial terms which for two weeks really occupied so much of our time and tested our nerves”. Lee Kuan Yew, speech of 30 July 1963, p. 2: the London agreement of 9 July 1963 gave Singapore “a Malaysian Common Market written into the Constitution in return for a percentage of Singapore’s revenue of national taxes instead of an annual lump sum as contribution for Federal services in Singapore”. ↩

8. Lee Kuan Yew, speech of 30 July 1963, pp. 22–23 and 53: “We are giving 37 per cent of our total revenue, or 40 per cent of national taxes”; “We are going to keep 72 to 73 per cent of our revenue”; “34.3 per cent of national taxes or 23 per cent of total revenue”; “We have agreed to 40 per cent … because … Common Market was agreed to be in the Constitution”; review after 31 December 1964. ↩

9. Lee Kuan Yew, speech of 30 July 1963, pp. 29–30: the British and the Federation “suggested … a free loan of $150-million, free of interest for 10

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years", which Lee calculated as "$80-million"; final settlement "$100-million, five years free of interest, labour from Singapore". Wikipedia, "Singapore in Malaysia" (accessed November 2026): a M$150 million fifteen-year loan for Borneo development, with the interest-free portion described differently in the main text (two-thirds for five years) and in a note (M$100 million); Singapore to supply 50 per cent of the labour. ↩

10. Lee Kuan Yew, speech of 30 July 1963, p. 27: "Five years of complete free port status while we industrialise product by product. For the next seven years, we gradually harmonise … In other words, we have 12 years in all." Lee Kuan Yew, speech of 30 July 1963, p. 45: "Common market and Tariff Board … The Constitution of this Tariff Board and rules cannot be altered without our concurrence"; Wikipedia, "Singapore in Malaysia" (accessed November 2026): duties "harmonised by Malaysia's Tariff Advisory Board" under Annex J. ↩

11. Wikipedia, "Singapore in Malaysia" (accessed November 2026): Malaya feared Singapore's lower labour costs and free port status would draw industry away; only "two of 69 EDB applications" for pioneer status were accepted. ↩

12. Alvin Tan, "Konfrontasi: Singapore's Experience of an Undeclared War", *BiblioAsia*, vol. 19, issue 4, January–March 2024: on 21 September 1963 Indonesia retaliated by "severing its diplomatic and commercial ties with Malaysia and Singapore"; Singapore's trade with Indonesia "plunged by almost 24 percent in 1964"; "In 1964 alone, 18 explosions swept through Singapore". ↩

13. Wikipedia, "MacDonald House bombing" (accessed November 2026): bombing of 10 March 1965; two women killed instantly and a driver who died on 12 March; "injuring at least 33 others". Wikipedia, "Singapore in Malaysia" (accessed November 2026), gives two killed and 33 injured, counting only the immediate deaths. ↩

14. Wikipedia, "Singapore in Malaysia" (accessed November 2026): Tan Siew Sin's "controversial tax proposals" of November 1964 to address the budget deficit of M$543 million caused by Konfrontasi; "Tan threatened to increase Singapore's revenue contribution to the Central Government from 40 to 60

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per cent", a threat renewed in July 1965. Lee Kuan Yew, transcript of press conference at Broadcasting House, Singapore, 9 August 1965, National Archives of Singapore, lky19650809b.pdf, p. 5: "the payroll and the turnover taxes were imposed by the then Central Government of Malaysia in December, in the last Budget. And we opposed it strenuously." GIC, *Bold Vision*, chapter 2, "Second Separation" (boldvision.gic.com.sg, accessed November 2026): on 12 December 1964 Malaysia announced that it would issue its own currency "to replace the Malayan dollar in two years". ↩

15. "China: The Two-Headed Bank", *Time*, 22 October 1965: "Malaysia last year ordered the Chinese Communists to close their Singapore branch because of subversive activities"; "the branch was saved only when Singapore withdrew from the Malaysian Federation". ↩

16. Lee Kuan Yew, press conference of 9 August 1965, transcript, p. 6: "I think we will allow the Bank of China to continue. But, on the old terms", "using their Singapore staff, of Singapore citizens, who are known not to be security risks: no objection to trade"; p. 9: "China wants to trade with us, I mean we let the Bank of China go on." ↩

17. Wikipedia, "Singapore in Malaysia" (accessed November 2026): the PAP contested nine seats in the 1964 federal election and won one. Wikipedia, "1964 race riots in Singapore" (accessed November 2026): riots of 21 July 1964 (23 dead, 454 injured, curfew 21 July to 2 August) and 2 September 1964 (13 dead, 106 injured, curfew 4 to 11 September). ↩

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