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NIE 54/59-62
11 July 1962

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NATIONAL INTELLIGENCE ESTIMATE

NUMBER 54/59-62

Prospects For The Proposed Malaysian Federation

Supplement
by
SNIE 54/1
8/2

DEPARTMENT OF STATE
PROCESSED BY THE CENTRAL INTELLIGENCE AGENCY
X FOR RELEASE TO THE NATIONAL ARCHIVES
DATE 10-28-83 BY SP-7 JRS/AS
CPC/HRP/10/10/83

Submitted by the
DIRECTOR OF CENTRAL INTELLIGENCE

Concurred in by the
UNITED STATES INTELLIGENCE BOARD

As indicated overleaf
11 JULY 1962

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PROSPECTS FOR THE PROPOSED MALAYSIAN FEDERATION

THE PROBLEM

To estimate the prospects for achievement of the proposed Federation of Malaysia¹ and for its political and economic viability.

CONCLUSIONS

A. The Federation of Malaysia will probably be formally established within a year; agreement on general principles may be announced as early as 31 August 1962. The chief threat to achievement of the merger comes from the pro-Communist Barisan Socialis Party (BSP) of Singapore which is seeking an opportunity to upset the precariously situated Singapore Government and to halt further progress toward federation. (*Paras. 5-8*)

B. The projected merger is essentially the incorporation into Malaya of the four other territories. Although these areas will retain a considerable degree of local autonomy, the central Federation government in Kuala Lumpur will assume control of internal security, foreign policy, and defense. Tunku Abdul Rahman's moderately conservative and

¹The proposed Federation of Malaysia is to be made up of (a) the Federation of Malaya, which became independent in 1957; (b) Singapore, which was granted partial self-government in 1959; and (c) the three British dependencies on the island of Borneo: the Protectorate of Brunei and the Crown Colonies of Sarawak and North Borneo.

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pro-Western coalition, known as the Alliance, will probably dominate the government of the new Federation in its early years. The new state will have the benefit of the proven stability of the governmental and economic structure of Malaya, and the support and protection of Britain, Australia, and New Zealand. (*Paras. 4, 9-10, 16, 20*)

C. The chief threats to the new Federation will be communal antagonisms, easily aroused because of the ethnic diversity found in each of the component states, and the opposition of Communists and other radical elements. The leftists will probably find additional support within the Chinese communities, in Singapore and elsewhere, which are resentful of the political discrimination in favor of the Malays as announced in the proposals for the new Federation. Similar resentments may emerge among the non-Malay indigenous peoples of the Borneo territories. The future of Malaysia will be largely influenced by whether the Tunku continues successfully to control these various frictions. It will also depend in large measure on the economic progress of the new Federation and its component territories. (*Paras. 10-15, 17-19*)

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DISCUSSION

I. INTRODUCTION

1. The concept of a federation of British Commonwealth territories in southeast Asia has been discussed ever since the end of World War II. However, until recently, the British were reluctant to commit the politically unsophisticated Borneo dependencies to such a federation; and the Malayan leadership feared that merger with Singapore, where Chinese outnumber Malays² by more than 5 to 1, would threaten the carefully designed structure of Malay-Muslim political dominance in Malaya itself.³ Moreover, the conservative Malayan leaders regarded Singapore as a hotbed of communism which must remain iso-

²The term Malay is customarily used to designate the indigenous inhabitants of the Malay Peninsula, who speak the Malay language and profess the Islamic faith; the term Malayan is used to designate a citizen of the Federation of Malaya.

³See Table 1: Ethnic Composition of the Proposed Federation of Malaysia, 1960.

lated lest it add to their own internal security problem.

2. Paradoxically, it was the rapid growth of leftist influence in Singapore after achieving limited self-government in 1959 that was most influential in bringing Malayan Prime Minister Tunku Abdul Rahman to accept the merger concept. By the spring of 1961, the moderate Singapore Government of Prime Minister Lee Kuan Yew, confronted with leftist pressures and public apathy, appeared to be crumbling. New elections would probably have brought to power a pro-Communist regime. Lee urged the Tunku to accept merger as the only feasible way to prevent the emergence of a Communist-oriented state on the doorstep of Malaya. Lee was also hopeful that the general popularity in Singapore of the economic aspects of union with Malaya would help sustain his weakened government until merger could be accomplished, when the stringent internal security laws of Malaya could be used to control his leftist opponents.

TABLE 1
ETHNIC COMPOSITION OF THE PROPOSED FEDERATION OF MALAYSIA, 1960

Area (sq. mi.)	50,599	244	47,071	2,226	29,387	129,507
Ethnic Group	Malaya ^a	Singapore ^a	Sarawak	Brunei	North Borneo	TOTAL
Malay	3,459,000	227,300	129,300	47,013	...	3,862,613
Chinese	2,579,000	1,230,700	229,154	21,759	104,855	4,165,468
Non-Malay Indigenous	...	...	377,952	12,233	309,833	700,018 ^b
Indian	790,000	137,800	...	...	...	927,800
Other	84,000	38,300	8,123	2,864	39,640	172,927 ^c
TOTAL	6,912,000	1,634,100	744,529	83,869	454,328	9,828,826
Percent of total	70.3	16.7	7.6	.8	4.6	100.0%

^a Estimated; otherwise census figure.

^b Of whom an estimated 150,000 are Muslim.

^c Of whom an estimated 35,000 are Muslim.

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3. The Tunku's willingness to risk linking Malaya with Singapore was conditioned upon British agreement to include the Borneo dependencies, whose predominantly non-Chinese population would serve to offset the Chinese preponderance in Singapore. By this time, the British were themselves alarmed at the growing threat to their Singapore bases, and desirous of forestalling the review of Singapore's status which was scheduled for mid-1963. The British had also become increasingly doubtful of the long-term political and economic viability of the Borneo dependencies. Hence, London was attracted by the proposal to merge all these problem areas into a federal state based on the relatively conservative and smoothly functioning governmental structure provided by Malaya.

4. In short, the Federation proposal is a contrived political maneuver, essentially defensive in nature, and designed for the primary purpose of checking the Communist threat in Singapore while protecting the preferred political position of the Malays throughout the area. It amounts, in effect, to a merging of Singapore and the three Borneo territories into the existing Federation of Malaya.

II. PROSPECTS FOR ACHIEVEMENT OF FEDERATION

5. Progress toward federation has been comparatively rapid. Lee and the Tunku have agreed that Singapore will join the proposed union, retaining a high degree of autonomy. Their plans have been endorsed by the Malayan Parliament and, despite vigorous opposition, by the Singapore Legislative Assembly. The UK and Malaya have agreed that the former will be permitted to use the Singapore bases "to assist in the defense of Malaysia, for Commonwealth defense, and for the preservation of peace in southeast Asia."

Unofficial representatives of the Borneo territories have joined with delegates from Malaya and Singapore to work toward federation. A joint Malaya-UK commission (the Cobbold Commission) has examined the merger proposals and popular views concerning merger in North Borneo and Sarawak, and will shortly issue its report. This report will almost certainly endorse the principle of merger, but will probably make no specific recommendations concerning implementation.

6. The Federation of Malaysia will probably be formally established within a year; agreement on general principles may be announced as early as 31 August 1962. The transfer of administrative authority over the Borneo territories may, however, have to be accomplished in stages. The controlling sources of authority in the area—the Tunku, Lee, and the British—are clearly determined to realize the merger as soon as possible. In Malaya, the Tunku's firm grip on governmental machinery will probably continue to override opposition from the left and the extreme right until merger is achieved. As for the Borneo territories, despite some misgivings on the part of local British administrators, London will almost certainly press forward with federation. The Sultan of Brunei has already been converted to the merger idea. Latent popular opposition in all three Borneo territories may come into the open after the publication of the Cobbold report, but the pace of the drive toward federation has been so swift that the opposition will probably not significantly affect the outcome.

7. In these circumstances, the most troublesome opposition will come from the leftists of Singapore, led by the influential and energetic Barisan Socialis Party (BSP) and its allies in local industrial unions and Chinese schools. The BSP seeks to weaken the slim

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parliamentary support of Lee's People's Action Party (PAP), bring down the government, and open the way for a legal takeover either alone or in coalition with other antimerger factions. So far Lee has succeeded in thwarting these efforts.

8. However, in late 1961 Lee promised that before federation was actually achieved a referendum would be held. The referendum issue could trigger such a series of strikes and disorders as to require the intervention of Commonwealth troops. This in turn could cause postponement of the merger and, perhaps, the ouster of Lee. In an effort to forestall such incidents, Lee and the Tunku have been urging the British to agree to the preventive arrest of selected BSP leaders before the referendum. Lee's position is precarious, all the alternatives open to him involve considerable risk, and the success of his efforts is by no means assured. On balance, however, we believe that he will manage to bring Singapore into the larger Federation.

III. PROSPECTS FOR THE FEDERATION OF MALAYSIA

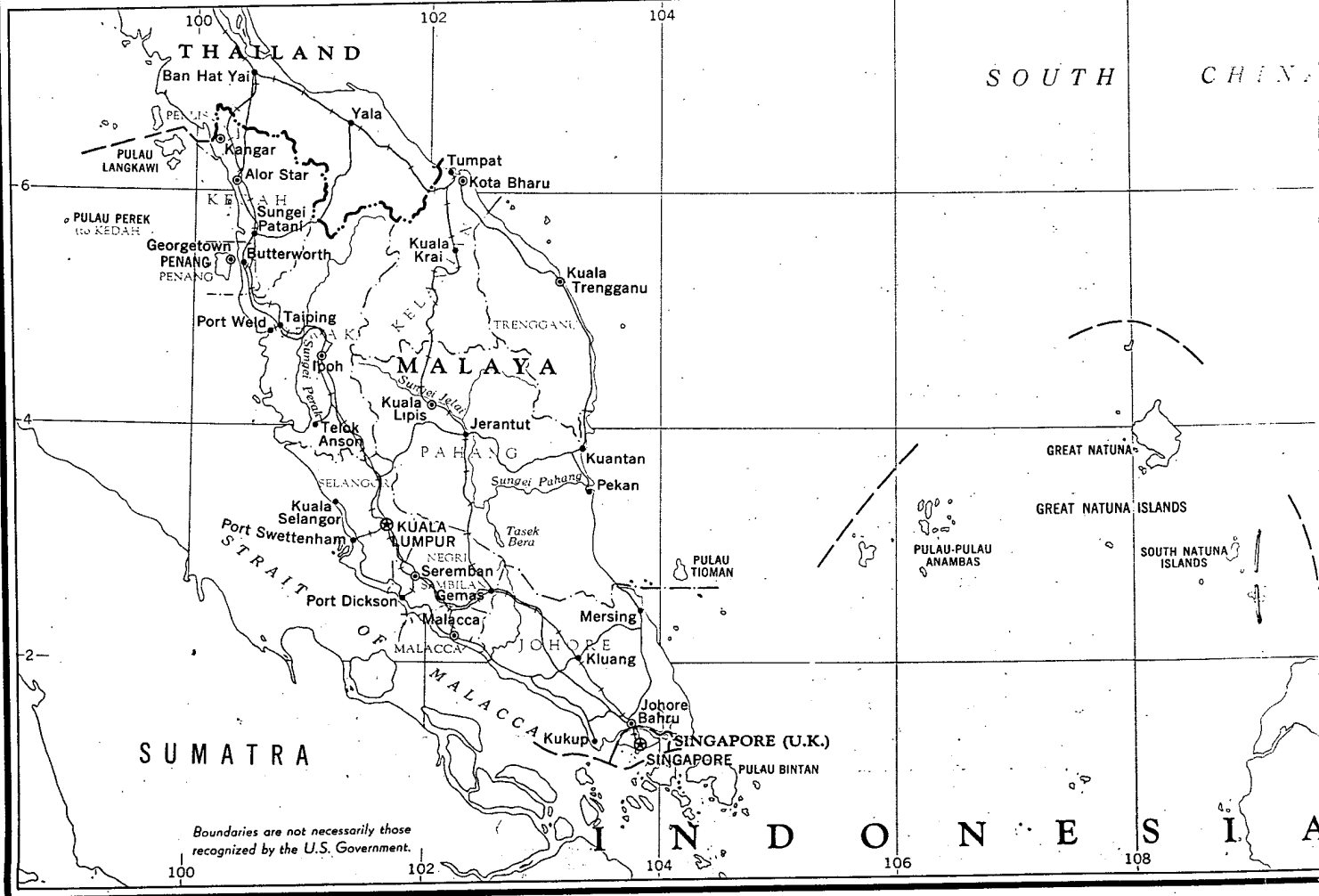
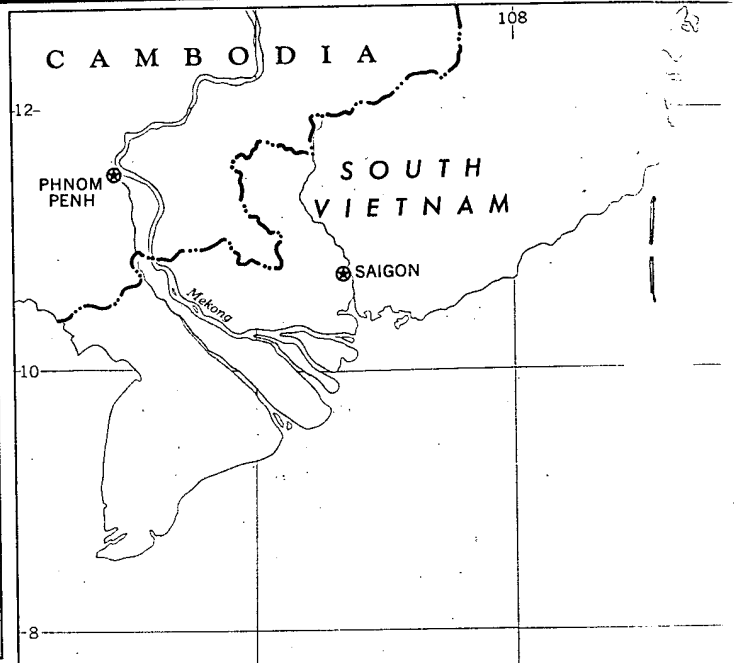
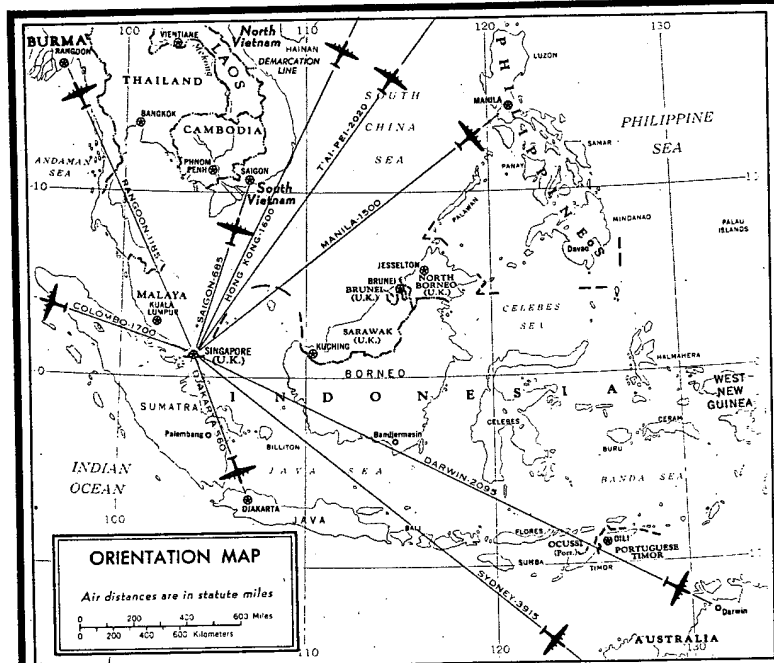
A. Political

9. Despite concessions to local autonomy (especially in the case of Singapore), the federal administration will have undisputed control of internal security, foreign policy, and defense. The political supremacy of the Malay-Muslim peoples over the Chinese will be preserved. Top leadership will almost certainly be in the hands of Tunku Abdul Rahman, although important secondary positions will go to Chinese in sympathy with his foreign and domestic policies. For several years at least, the Tunku will be the dominant figure in the new state.

10. The Tunku has been notably successful as Prime Minister of Malaya due to his political astuteness, his skill in compromise, and his moderate approach to racial problems. Since independence in 1957, the Government of Malaya has been in the hands of a coalition, known as the Alliance, within which the Tunku's own Malay Party (UMNO) has worked in remarkable harmony with the Malay Chinese Association (MCA) and a lesser Indian party. The future of Malaysia will be largely influenced by whether the Tunku continues successfully to control inter-racial frictions. These frictions, together with regional separatist tendencies and political radicalism, will pose the chief political problems for the new state.

11. *Regional Separatism.* For Singapore, merger holds potential economic benefits of some importance. Under British rule it was the entrepot for the whole peninsula—a position which was impaired when Malaya emerged as an independent state and began to establish rival facilities of its own. Singapore's interest in checking this trend will tend to reduce separatist sentiments, at least at the start. There will be resentment of the citizenship and franchise regulations, civil service quotas, and language and education requirements that discriminate against the Chinese in favor of the Malays, but the opposition is more likely to agitate for an improved position within the Federation than for secession from it.

12. The Borneo territories will have been whirled into the Federation too rapidly to examine its implications thoroughly or to protest effectively. Nevertheless, many of Borneo's non-Malays fear that a new imperialism, far less beneficial to them, is being substituted for British administration. Pagan and Christian tribal groups will find themselves a tiny minority in a central government dominated



by Muslim-Malays. Unless immigration from Malaya and Singapore is restricted in some fashion, it could bring competition with which the Borneo natives would be unable to cope. Nevertheless, once part of an independent federation, few in Borneo are likely to seek a return to British colonial rule, and membership in the new Federation does give them more protection from external dangers than they would have if they were wholly on their own.

13. *Interracial Frictions.* More important than the doubts of the Borneo natives will be the attitudes of the Chinese population throughout the new Federation. The Chinese community is the largest single ethnic group, and it has superior economic strength and is by and large more enterprising and better educated than the Malays. In their haste to achieve merger, the Tunku and Lee have been less careful than they might to avoid estranging Chinese opinions. As a result, in Malaya the Chinese component of the governing coalition is continuing to lose strength to less cooperative and more radical Chinese parties, thus increasing communal frictions and placing strains on the Alliance. In the new Federation, the Tunku clearly intends to preserve political primacy for the Malays. It will take all his skill and persuasiveness to accomplish this without weakening the bases of interracial understanding to a point where fear of Malay domination outweighs mistrust of political radicalism.

14. *Radicalism.* A major potential political threat to the new Federation's government will center on the strength of the Communists and other extremist groups. In Singapore, the BSP has a substantial capability for organizing strikes and demonstrations by labor and Chinese student groups, though for some time it has avoided these tactics. After merger, the BSP will probably seek to avoid being branded as a Communist Party and ac-

cordingly outlawed under the rigid Malayan security regulations. If this effort is successful, or even if the BSP itself is outlawed, there is a good chance that the moderate Singapore Government will be defeated by a more radical party in the next elections, now due to be held sometime before mid-1964. Such a radical party in Singapore would probably provide the rallying point for leftist strength throughout Malaysia.

15. In Malaya, the Communist Party is outlawed and its leadership largely in hiding or in exile, but the party retains some potential to assist legal leftist groups. The Tunku's own party, the UMNO, has derived much of its strength from its identification with emergent Malay nationalism. This has enabled it to reconcile within its structure diverse Malay elements, ranging from ultraconservative, orthodox Moslems to radical nationalistic youth groups. Since independence, leftist extremists and even some moderate socialists have become alienated by the Tunku's essentially conservative and pro-Western policies. His coalition will probably hold a majority of the seats in the new Federation parliament, but its vigor and cohesiveness have somewhat diminished, and it will confront more opposition than it has in the past, though this opposition is likely itself to be somewhat disunited. In these circumstances, the loss of the Tunku's vigorous leadership through death or incapacity would be a serious blow to the Alliance.

16. Despite the artificial nature of the new Federation and the hazards which it confronts, it will start life with some advantages. First of all, it is organized around the core of Malaya—a state only five years old, but proven politically and economically viable, reasonably prosperous, and well-led. For at least some time, separatist forces in Borneo and Singapore are not likely to emerge in any very effective fashion. The UK, Australia,

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and New Zealand are all committed to the success of the new Federation, and it will enjoy their strong political and economic support, as well as the protection of Commonwealth forces based within its borders. It can also count upon a continuing US interest in its territorial integrity and economic well-being. The success or failure of the Federation will depend in large measure on its economic progress and that of its component territories.

B. Economic

17. Malaysia has been conceived primarily for political rather than economic reasons; only Singapore can see the economic benefits of merger as an important motivation for membership. As the leading entrepreneurs throughout the region, the Chinese will be the recipients of substantial economic advantages, and this may temper their distress over Malay political dominance. Singapore, stronghold of the Chinese community, stands to gain because its status as the entrepot for the area could be reinforced, and creation of a single Malaysian market would offer greater scope for its industrial investment program.

18. The Borneo territories are relatively indifferent to the economic benefits of federation and even see some disadvantages. Each already has currency links with Malaya and the use of Singapore's trading facilities, as well as established sources of Commonwealth economic aid. They feel that Malaya possesses neither the capital nor the managerial resources to provide them much development assistance, and there is concern that the demands of Malaya's own current development plan will lead to neglect of Borneo's needs. Additionally, there is apprehension lest the tariff union of the Malaysian territories hinder the development of local manufacturing industries.

19. The Malaysian state will have a strong economic base—an efficient rubber-growing industry, large resources of tin, iron ore, petroleum, and timber, one of the great ports of the world, and a competent civil service. Over the short term, therefore, its economic prospects are good. However, in the longer run, the country will face serious problems. The economy is heavily dependent upon only two export commodities, rubber and tin, and the former is especially vulnerable to fluctuations in world markets. A sustained drop in the price of natural rubber or failure to remain competitive with synthetic rubber would seriously affect the government's ability to carry out the development programs upon which its popular support may largely depend. The problem of Malaysia will be to strengthen its economy by diversification of its agricultural export crops and stepped up efforts to exploit untapped mineral and forest resources, as well as increasing local production of foodstuffs (particularly rice) and basic consumer goods.

C. International

20. With the Tunku in charge, Malaysia's Government will almost certainly remain basically pro-Western. It will avoid affiliation with SEATO, but the Tunku has already agreed to Commonwealth use of existing military bases under conditions which implicitly permit SEATO purposes to be served. He has volunteered and provided active support to the South Vietnamese against the Viet Cong, and has allowed Commonwealth combat aircraft based in Malaya to deploy into Thailand with only a detour via Singapore to mask the enterprise.

21. Neutralist tendencies, long evident among opposition parties in Malaya as well as among the bulk of Singapore's Chinese, are likely to increase. Opposition to the station-

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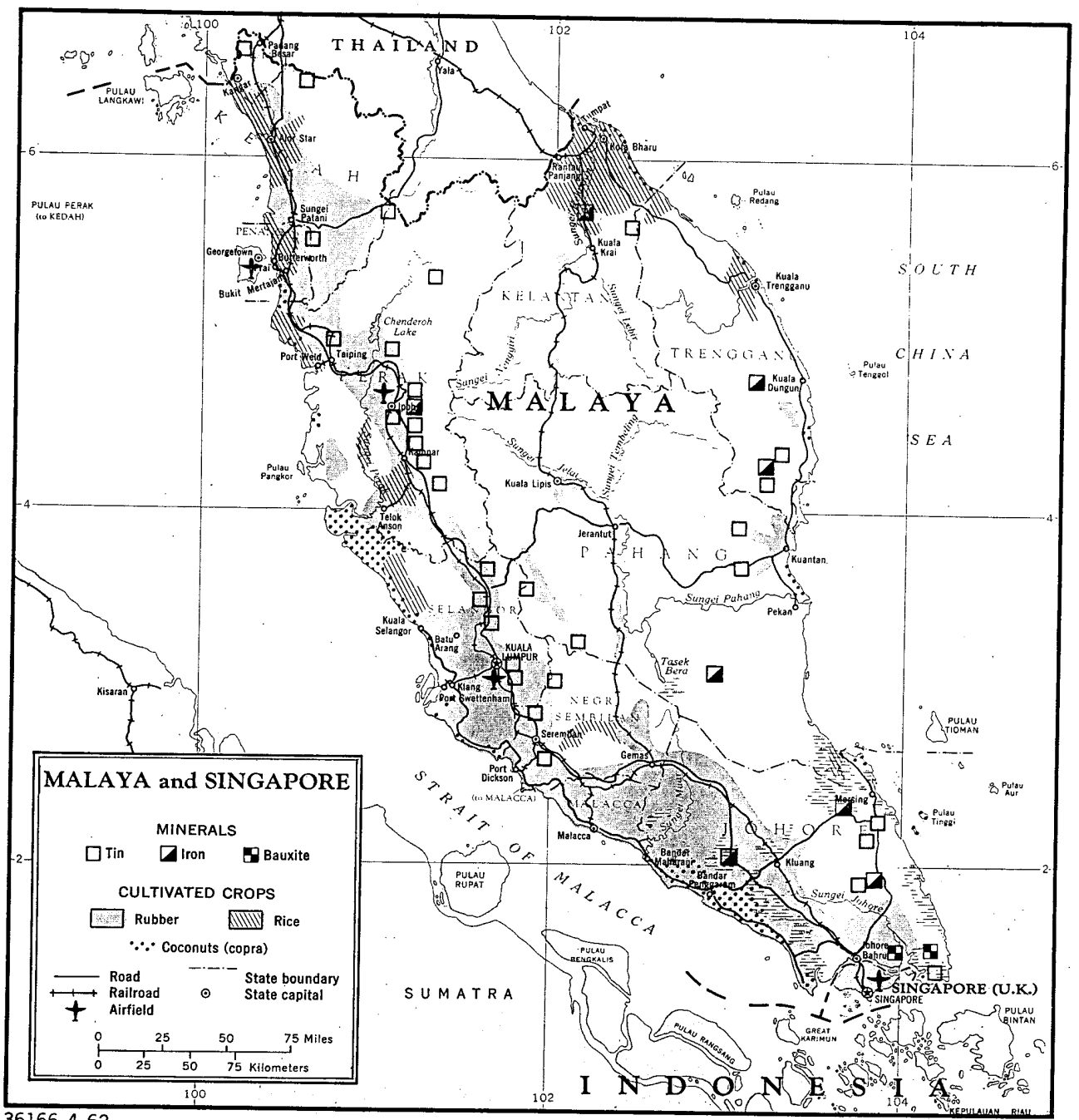
ing of Commonwealth troops in Malaysia can also be expected to grow. The practical effect of these pressures could well be to limit the usefulness of the bases. However, it is unlikely that the complete severance of Commonwealth military and economic ties would be advocated, even by neutralists, in the next several years.

22. Malaysia will have close economic and cultural ties with neighboring Thailand and the Philippines, continuing Malaya's role as a member of the Association of Southeast Asia (ASA). The recent Philippine claim to sovereignty over North Borneo could prove troublesome if carried far enough to arouse public opinion on either side.

23. Malaysia will probably maintain cool, though correct, relationships with neighboring Indonesia so long as Sukarno remains in

power. As an Asian leader, the Tunku has sought to avoid identification with "colonial" forces by according token moral support to Sukarno's West New Guinea campaign and has even permitted the recruitment of volunteers from Malaya. In the event of full-scale warfare between Indonesia and The Netherlands, it is well understood that any UK assistance to the Dutch could not be funneled through Singapore. The Tunku is aware that his generally pro-West position and his militant anticommunism have alienated Sukarno's left-wing supporters in Djakarta. Should they gain in influence, Indonesia could become the operational base for dissidents plotting against the Malaysian state. Eventually, it is possible that Indonesian nationalists may agitate for the annexation of the Borneo territories.

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