

THE END OF MALAYSIA-SINGAPORE AIRLINES (MSA) AND THE BIRTH OF MALAYSIAN AIRLINE SYSTEM (MAS), A NEW DAWN OF MALAYSIA'S SELF CONTROLLED NATIONAL AIRLINE

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Abstract

Malaysia and Singapore cooperated for 25 years to develop Malayan Airways, the major airline of both countries. Starting out as a private commercial entity in 1947, it evolved into a semi-governmental entity when the Federation of Malaya and the British colony of Singapore stepped in to become major shareholders in 1957.¹The airline effectively became known as the national airline of the two states/colonies as an outcome of the move. Its name and ownership changed several times, with the governments of Malaysia and Singapore acquiring major shareholdings, deeming effective control over the airline. In 1963, it was known as Malaysian Airways, and in 1966, it was renamed Malaysia-Singapore Airlines. The company's financial condition improved over time. Divergent interests, however, began to emerge, causing the major shareholders to clash. Growing frictions between the Malaysian and Singaporean governments prompted the company rethink its business strategies. Following that, it was unanimously agreed that MSA be dissolved and that both countries would have their own successor airlines – Malaysian Airline System (MAS) and Singapore Airlines (SIA). In this context, the article will trace in what ways the break-up of Malaysia-Singapore Airlines moulded the new airline's strategy, challenges, and focus in its early years of formation to emerge as a prominent airline in the region.

Keywords: Malaysian Airline System Berhad, Malaysia-Singapore Airlines, Malayan Airways, Malaysian Airways, Aviation History

Introduction

Using a historical qualitative method, this article investigates issues surrounding the break-up of MSA and formation of MAS in the 1970s, which involved high-level government involvements in all negotiations and internal discussions. As such, most diplomatic cables, letters, and discussions took place behind closed doors, warranting the files to be classified for the period of 30 years. Archival documents from the Arkib Negara Malaysia, as well as archives in the United Kingdom and Australia were acquired for a descriptive analysis. The purpose of this article is to explore the major reasons for the cessation of MSA, a 25-year partnership between the governments of Malaysia and Singapore that represented a monumental milestone for both countries. This article adds to, or possibly opens up, the historiography of Malaysian aviation history, which has yet to acquire the interest and attention it deserves. As a first step, this article broadly contextualizes it in terms of Malaysia-Singapore's aviation bilateral relations in the context of MSA and MAS's business history, examining its strategy in the face of immediate challenges following the dissolution of MSA in order to establish itself as Malaysia's sovereign airline.

Malaysia-Singapore Airlines began operations in 1966. It was initially known as Malayan Airways Limited (MAL), and was owned by a group of British companies, including Straits Steamship Company, Ocean Steamship Company, and Imperial Airways. The company was registered in 1937, but due to limited commercial viability and the outbreak of World War II, it unable to get started on time.² On 2 April 1947, the company received a new lease on life when it commenced operations from its hub at Kallang Airport in Singapore. Using its double-engine, five-seater Airspeed Consul, MAL conducted scheduled three weekly services to different ports of call, including Kuala Lumpur, Ipoh, and Penang. During the same year, operations were expanded to Batavia, Medan, Bangkok, Saigon, and Palembang.

Over time, its fleet variants grew in response to rising travel demand, as well as the introduction of newer and more sophisticated plane types such as the DC-4 Skymaster, Lockheed Super Constellation, Bristol Britannia, and Comet IV, before settling primarily on Fokker and Boeing jets. Due to the need to diversify in other businesses, the two investors – Straits Steamship and Ocean Steamship – gave up a major percentage of their shares in the company in 1957.³ On the other hand, the company had also completed a 10-year franchise agreement with the governments of Singapore, and Federation of Malaya and Borneo. Following this, the British Overseas Airways Corporation and Qantas Airways acquired large stakes in the company. Other major stakeholders included the governments of Singapore, Federation of Malaya and North Borneo, which emerged as minor shareholders as a first step towards Malayanization of the company.⁴

Fast forward to 1963, when Singapore, Malaya, Sabah, and Sarawak merged to form Malaysia, the airline's name was changed to Malaysian Airways Limited. As a result of this, Borneo Airways Limited was also merged into MAL. This did not last long, as Singapore was expelled from Malaysia just two years later.⁵ In 1966, the company was renamed as Malaysia-Singapore Airlines, and it was known as the flag carrier for both Malaysia and Singapore. Both Malaysian and Singaporean governments would effectively become the company's largest shareholders, with 42.79% each. The remaining shares were distributed to Brunei government, BOAC, Qantas, the Straits Steamship, and the Ocean Steamship Company.⁶ For six years as MSA, the company was well managed and produced consistently excellent financial results. However, disagreements between the two shareholders about how the company should be managed began to arise. Malaysia, as a newly independent state, was thought to be in need of developing communications between its Peninsular and East Coast territories. Singapore, on the other hand, being a city-state, saw no need for such services and would instead focus on its profitability and international expansion.

It was deemed necessary for both countries to consider the airline's future. Later, in January 1971, it was decided unanimously that MSA would be dissolved and that both countries would establish their own successor airlines. As a result, Malaysian Airline System (MAS) and Singapore Airlines (SIA) were born. Both succeeding airlines would forge their own paths in aviation beginning on 1 October 1972, with Malaysia focusing on rural and regional markets and Singapore on international expansion.

Troubled Waters between Malaysia and Singapore over MSA Contention

Table 1: MSA's Financial Position 1966-1971

Year	1966/1967	1967/1968	1968/1969	1969/1970	1970/1971
Operating Revenue (in \$ 000)	68,087	90,949	124,017	174,154	225,472
Operating Expenditure (\$ 000)	68,093	88,675	114,551	154,711	183,014
Profit (loss) before tax (in \$ 000)	-6	2,274	9,466	19,443	42,458
Unit cost (\$/tonne-km)	0.9	0.79	0.63	0.63	0.61
Yield (\$/tonne-km)	1.59	1.53	1.42	1.38	1.35
Break-even load factor (in %)	57	52	44	46	45

Source: MSA Annual Report

Table 2: MSA's Financial Position 1966-1971

Year	1966/1967	1967/1968	1968/1969	1969/1970	1970/1971
Passengers carried (in 000)	712	824	1,005	1,264	1,556
Passengers carried (in 000 passenger-km)	399,005	541,618	766,981	1,049,179	1,402,505
Passenger Load Factor (%)	63	62	59	62	65
Goods Carried (in 000 tonne-km)	3,067	4,852	9,601	15,756	19,174
Mail Carried (in 000 tonne-km)	962	1,507	1,878	2,453	3,009
Load Carried (in 000 tonne-km)	37,741	52,798	78,935	112,598	148,989
Load Factor (overall, in %)	59	56	53	52	55

Source: MSA Annual Report

MSA had a noteworthy financial performance record for the first six years of its establishment. In the fiscal year 1966, despite having lost \$6 million, it recouped its losses from the 1967/1968 fiscal year by earning \$2.2 million in profit, followed by \$9.4 million the following year, and this continued to grow towards the final year of its operation, which was \$42.4 million. Besides that, as its services expanded throughout Asia, Australia and Europe, its network size grew from 38,051 kilometers in fiscal 1966/1967 to 68,005km in fiscal 1970/1971. The number of passengers transported rose as well, from 712,000 in 1966/1967 fiscal to 1,556,000 in 1970/1971. The figures corresponded to MSA's strong supply and good demand, which translated to a sustained profitability. Since its formation in 1963, with profits of \$3.6 million on its first year, the company never registered losses.⁷ Coupled with a favourable industry uptrend and the recognition of Singapore as a transportation hub connecting the United Kingdom and the Far East, this helped MSA in achieving remarkable growth and profitability for long-term performance. As mentioned earlier, the growth in its network Nevertheless, disagreements about its management began to emerge. Malaysia and Singapore appeared to have significant differences in various circumstances.

Competition for Routes

Route provision can be political or commercial in nature, depending on the company's objectives. Being headquartered in Singapore, it naturally followed that the island state would serve as their primary hub. Having established itself as an important hub in the Far East, it has also become essential for its main route to originate here. However, since the airline's operations were jointly owned by Malaysia, Kuala Lumpur became an increasingly important port of call for MSA, particularly given Malaysia's needs in connecting the Peninsular and East Malaysia (Sabah and Sarawak). One of the classic Malaysia-Singapore disputes cases involved the routes. Malaysia did not challenge Singapore's dominance of international routes. However, it was the opposite when it came to domestic route operations. Firstly, the lack of direct connections between Peninsular Malaysia and Sabah and Sarawak urged the Malaysian government to complain about the inconvenience of a stop-over in Singapore. This was referred to as dog-leg routing.

Second, the Singapore government had to deal with the operations of domestic destinations, which were deemed unprofitable. According to Keith Hamilton, the company's then-Managing Director, Alor Setar, Kuala Terengganu, and Kuantan were among the unprofitable routes.⁸ Malaysia asserted that retaining the routes was necessary to meet the country's objectives of improving the network between cities. Furthermore, the need for an air network was seen as critical, as road communications in newly independent Malaysia were still in their infancy. It was heavily reliant on Route 1 in Peninsular Malaysia, which was constructed by the British colonial occupation. After all, Hamilton also stated that—contrary to popular belief—routes connecting the Peninsular with Sabah and Sarawak were profitable.⁹

The above has clearly demonstrated the clash of objectives between Malaysia and Singapore. The island-state was convinced that MSA should be operated in the most cost-effective manner possible. This was proven by the company's consistent profitability. Malaysia, on the other hand, believed that while this was true, the MSA should also 'sacrifice' its handsome returns to less profitable routes. In an exchange of views between the two governments, as evidenced by a letter between Lee Kuan Yew and Tan Sri Ghazali Shafie, Singapore argued that any subsidy should be borne by the Malaysian government rather than the Company in order to fulfill its state objectives.¹⁰ Singapore, a nation known for being very clear in their objectives, remained steadfast in its refusal to allow MSA to enter domestic markets.

In airline operations, having an efficient, well-planned engineering base is critical to ensure all aircraft in operation are airworthy, in line with the strict regulations by the Department of Civil Aviation in place. In this respect, MSA inherited solid engineering facilities and expertise from its former owners, Malayan Airways. Its well-equipped maintenance facility was capable of handling the maintenance of a wide range of modern jet aircrafts, including the Boeing 737 and 707, as well as traditional turboprop aircrafts such as the Fokker 27 and Britten-Norman BN5. However, the Malaysian government believed that, in addition to the Causeway engineering base, there should also be one in Kuala Lumpur. Singapore retaliated by stating that such a move would not be economically feasible because establishing a duplicate facility in both Singapore and Malaysia would incur additional costs for the company. For instance, having an engineering workshop or hangar for servicing Boeing 707 in both Singapore and Kuala Lumpur would lead to an additional cost to MSA, as the airline does not operate such fleet from Kuala Lumpur, as it only flies out from Singapore.

However, after much deliberation, the Singapore government agreed to give MSA authorization to establish an aircraft maintenance base in Subang, specifically for the Fokker 27 fleet. From here, Malaysia would have to subsidise the cost of construction and ensure that the maintenance costs were not higher than those in Singapore.¹¹

Malaysian Government, on the other hand, believed that as a bi-annual airline, the engineering base should be established in its capital, Kuala Lumpur. Malaysia's foundation would be such that the company would encourage Malaysians to pursue careers in aircraft engineering profession.¹² Meanwhile, Singapore took a different approach, adhering to its principle of operating the company on an economically sound basis. This principle would be violated by having a duplicate engineering facility in both Malaysia and Singapore. However, in the spirit of goodwill, Singapore agreed to give MSA permission to establish an aircraft maintenance base in Subang, Selangor, specializing in the maintenance of the Fokker 27 fleet. However, according to Singapore, the construction of MSA's base would have to be borne by Malaysia.¹³

Both arguments, however, were well-argued from both perspectives. While job creation would improve the country's human resource utilisation and expertise, the commercial basis of a company should not be overlooked. Singapore was correct; any move to establish a new engineering base should be carried out by Malaysians, as the republic did not see the need for a duplicate facility to maintain their aircraft. Nonetheless, Lee Kuan Yew, Singapore's Prime Minister who was directly involved in the negotiations with Malaysia, was willing to bend in this matter to allow MSA to fulfill Malaysia's desire to build the facility in Subang. This is seen as an attempt to reduce the tension that developed between the two countries as a result of other diplomatic issues. Lee Kuan Yew also believed that any arbitrary position taken by both countries should be unitarily beneficial. Kuan Yew is quoted in the letter as saying:

Whatever the ultimate result, whether we carry on as before, or carry on under altered agreements, it should be done with a minimum of fuss, and the maximum of "give and take".

Human Resources

In aviation, human resources play an integral role across the whole ecosystem in each airline organization. For instance, an airline would require a high-performing staff across the organization to fulfill its commitment of giving the best services to its revenue passengers. This is done through giving encouragement to them through maintaining the best working environment and effective training. Besides that, with the ever changing landscape of the industry, the staff needs to be future proof though adapting efficiently. In doing so, delays can be avoided and in turn would save the company from losses. Since the aviation industry as a whole is time and funds sensitive, a good human resources team would help to maintain well-motivated and competent talents in addressing the evolving needs of aviation industry.¹⁴ Thus, in order to fulfil its objectives, the company would only hire qualified and skilled staff. However, in MSA's case, its human resource was unique in that it was based in both Malaysia and Singapore and was owned equally by the two governments. Having said that, nationalistic aspirations were infiltrating the company's recruitment.

During the company's early development in 1966, the MSA Agreement stipulated that the company should be able to deploy its employees in all areas of employment, regardless of citizenship. However, the agreement no longer worked to either country's in handling the company's operation, particularly in the area of human resource. This was because the company's needs evolved quickly over the years. It has been reported in the *New Straits Times* that Malaysians were facing difficulty finding work with MSA, particularly in higher technical and executive positions.¹⁵ Recognizing this, the Malaysian Minister of Foreign Affairs, Tan Sri Muhammad Ghazali Shafie, raised the issue directly with Lee Kuan Yew. According to Kuan Yew, any job paying more than \$750 per month would be open to competition among Malaysian and Singaporean nationals, while any job paying less than that would require the issuance of a work permit. Furthermore, those earning this much would have access to the republic's social and medical services such as public housing and education. This was the reason Singapore was unwilling to generously award non-Singaporeans.¹⁶

As a gesture of goodwill, Singapore had agreed to meet Malaysia's request by lowering the minimum requirements for prospective applicants. Among the changes was a 50-50 quota for Malaysians and Singaporeans to join as cabin crew. However, Malaysian applicants must have a minimum of a Higher School Certificate. If neither Malaysians nor Singaporeans were able to fill up the quota, the recruitment would be expanded beyond the two countries until the positions were filled.¹⁷ In a response letter to Tan Sri Ghazali Shafie, Kuan Yew stated the following pertaining Malaysian work permits:

As for work permits, the Agreement between the two Governments was signed in May, 1966, after the implementation of work permits in Singapore in February, 1966. Malaysian officials had full cognizance of this when the Agreement was signed, i.e., that all categories earning above \$750 a month be open to competition to nationals of both countries, but that those below \$750 per month be subject to work permits.

For the lower grade jobs, the issue of work permits and the assumption of responsibilities for schooling, medical services, housing and all other social services for the work permit holder is not one Singapore can view with enthusiasm.

I am prepared, however, to consider modifying this and accept future recruiting from Malaysia and Singapore on a 50-50 basis for air hostesses and all those categories of jobs which will require H.S.C. qualifications and above. But standards of qualifications must be maintained, and if either side cannot fill their quota, then recruitment to take place from anywhere available, either Malaysia, Singapore or elsewhere. I had pointed out that, although at present there are more Singaporeans than Malaysians in Singapore based staff, most of the Singaporeans had been Malaysians who were recruited from Malaya and had taken Singapore citizenship under the laws then prevailing, i.e. registration after residence of two years. It is neither morally nor economically possible for us to ignore this point.¹⁸

It can be seen that while practicality is the way to proceed in MSA's management, Lee Kuan Yew had, in this case, agreed to Malaysia's request to maintain the cordial relations between both countries. It was a minor issue, but maintaining healthy relations was important due to a larger issue confronting the region, namely the withdrawal of British troops from Southeast Asia.

While the majority of MSA's employees were Singaporeans, a significant number of them were originally Malaysians who obtained Singaporean citizenship after residing in the republic for two years. Despite this fact being presented by Singapore, they were still accommodating to Malaysia's contention.

MSA Exit – The End of Malaysia – Singapore Airlines

Due to irreconcilable differences between the two countries as stated earlier in this article, the governments of Malaysia and Singapore decided that their partnership in MSA was best resolved by splitting the company into two separate entities. Both countries would manage their own national airlines without any competing priorities jeopardizing their operations. As a result, on 25 January 1971, MSA announced its unanimous decision to split, and that both Malaysia and Singapore would have their own successor airline to chart their course in their respective countries. After evaluating its assets and dividing them between the two countries, this exercise was expected to take at least two years.¹⁹

On 3 April 1971 a company called Malaysia Airlines Limited was established in Malaysia. This was done to facilitate the formation of the new Malaysian national carrier, and to transfer the assets that MSA would inherit. The operation would not begin until October 1972. However, steps were taken to launch the company, including the acquisition of aircraft, the hiring of personnel, and the creation of a business strategy. Meanwhile, on 28 January 1972, Singapore established a new company called Mercury Singapore Airlines Limited, which was renamed Singapore Airlines Limited on 30 June of the year.²⁰ Since the company would be the successor to MSA and based in Singapore, it would effectively inherit all operational matters left by MSA, including the fleets. Despite this, a substantial sum of money was paid to Malaysia in lieu of all the company's accounting balances.

Lack of Experience in Running an Airline

In 1971, the formation of Malaysia Airlines Berhad and Singapore Airlines Limited signaled the beginning of a new era in Malaysia and Singapore's aviation industries. While Singapore's National Airlines took precedence over MSA's, the same cannot be said for MAS, where was a new player with little experience. Moreover, Kuala Lumpur lacked the infrastructure required by a modern airline. Subang Airport, for instance, only had a small hangar that could accommodate the maintenance of Fokker Friendship aircraft. Kuala Lumpur also lacked the adequate facilities to support the needs of a modern airline. Its Subang Airport facility was reduced to a small hangar capable of housing Fokker Friendship aircraft maintenance.

Strategies In Getting MAS Set Up

Since the newly established Malaysian Airline System would necessitate the organisational setup of an airline, several strategies had to be implemented. This was to lay a solid foundation for the company's long-term viability.

Advise from Qantas

Malaysia lacked both direct access and the necessary expertise to operate its own airline. Thus, the Foreign Ministry of Malaysia was tasked with evaluating potential advisors. After much deliberation, Qantas Airways Limited was appointed as an advisor in matter pertaining to technical, administrative, and operation matters.²¹ To keep the company on track with Malaysia's ambitions, its management would be led by a Malaysian, Encik Saw Huat Lye of the Malaysian Transport Ministry.

The Malaysian government chose the Australian national airline following a rigorous assessment by the Ministry of Foreign Affairs; Air India, Phillipine Air Lines, and Lufthansa were the other options. However, owing to commercial interest, technical expertise, and the pressing need to establish the airline, Tun Abdul Razak Hussein, the second Prime Minister of Malaysia, selected Qantas as its consultant to form MAS; Tun Dr Ismail Abdul Rahman, Deputy Prime Minister, agreed.²² The airline had been in operation since 1920 and had connected Australia to many parts of the world, including Europe, America, and Africa.²³ Its 51 years of aviation experience would appear to have persuaded the Malaysian government to appoint them as an adviser to MAS.

Mr. Keith Hamilton, who had previously served as the Managing Director of MSA, led the Qantas team. The team had been tasked with carrying out operational duties. Meanwhile, in the area of engineering, Qantas ran an apprentice programme in Sydney. The flight operations department would chart the operational matters where suitable fleets and routes would be determined. Furthermore, the available slots were negotiated, as was the training of pilots and cabin crew.²⁴ These were critical components of the Malaysian Airline System, which required a solid foundation to ensure smooth operation once operations began in 1972.

In developing the newly-minted national carrier, MAS and Qantas formed a strong partnership. The enthusiasm was reflected in Australia's lucrative Kangaroo route, with Malaysia sitting in the middle between Australia and England. Since no passenger aircraft could fly non-stop between these two countries, regional stops became necessary for refueling and picking up passengers. In addition to that, until the rise of MSA as a regional carrier, these two countries had highly advantageous flying rights over the country, which affected their market share over time.

Besides that, it is worth noting that the arrangement to seek assistance from Qantas reflects Malaysia's desire to bypass Singapore without accentuating negative episodes from their previous six-year relationship. Singapore Airlines itself would have been a formidable adviser because, in addition to sharing the same roots, the airline had a solid ground in all matters that MAS lacked, including managerial, operational, and administrative matters. It is clear that Malaysia would not want to handle its operations without any administrative, technical, or engineering assistance from Singapore.²⁵

Focus on Regional Business

The primary focus of the national carrier would be on the regional market, as well as the Rural Air Service, which would serve the remote areas of Sabah and Sarawak. Keith Hamilton of Qantas Airways, who was instrumental in the formation of MAS, concluded that Malaysia possessed a geographical advantage at the time, describing it as a “gold mine”, as there was an astronomical growth on the Kuala Lumpur-Singapore-Kuala Lumpur route. This would allow Malaysia to thrive in domestic and regional short-haul operations.²⁶ Having said that, neighbouring countries such as Singapore, Indonesia, Thailand, and Vietnam would be ideal money-making routes for the Malaysian Airline System.

The Rural Air Service (RAS) was one of the regional elements. While Malaysia required it for its communications outreach, Singapore was of the opinion that it was economically unfeasible for the company’s sustainability. Thus, by having their own airline, the country would be free to chart its own course in terms of route planning. Operating an underserved route would be uneconomical. However, Malaysia needed to serve these routes in order to meet its socioeconomic needs. The communications network in Malaysia’s rural areas was poorly maintained, necessitating immediate attention from the government through MAS to have it resolved.

As it became clear that the operations would not generate any profit returns for the company, a balancing act would be required to ensure its long-term viability. This would be accomplished by cross-subsidising profits from profitable routes. As Hamilton predicted, regional operations were the primary source of profit for the company. The company’s financial performance was excellent in its first 10 years of operation, with 9 years of operating without financial losses. Even before the company began operations, its 1971/72 financial performance was M\$926,932 in profit. A year later, 1972/73 financial year recorded a handsome return of M\$4 million on top of 52% load factor against the company's 648,000,000 seat per kilometre.

Table 3: Passengers Carried on Domestic vs International Flights (in '000).

Year	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982
International	288	845	1,004	1,043	1,109	1,207	1,257	1,548	1,717	1,899
Domestic	433	1,057	1,249	1,341	1,400	1,444	1,586	1,932	2,434	2,039

Source: Malaysian Airline System Annual Report 1982 / 1983

Despite operating the Rural Air Service, the company could still be profitable through cross subsidy, thereby realizing the government’s objective of having an efficient and profitable airline company, as well as improving communications between Malaysian states.

Table 4: Load Factor / Demand (in km/ready seat in millions)

Year	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982
Passenger Load Factor	52%	57%	59%	62%	64%	68%	69%	69	68%	70%
Available Seat Kilometres (000)	647,992	1,690	2,391	2,742	2,793	3,207	3,578	4,435	6,171	6,844
Passengers Carried (000)	721	1,902	2,253	2,384	2,509	2,651	2,843	3,480	4,151	4,838
Passengers Carried (000 passenger km)	377,776	961087	1,418,352	1,696,269	1,869,214	2,170,665	2,459,516	3,061,890	4,206,004	4,810,862
Seat KM Growth		161	42	15	7	9	12	24	39	11
Growth per Kilometre (+/- in %)		154	48	20	10	16	13	24	37	14

Source: *Malaysian Airline System Berhad Annual Report 1982/1983.*

With RAS operations stabilised and other regional routes in place, the company saw an opportunity to tap into the Kangaroo Route. For many years, the market was dominated by British Airways. This was proven by the sole existence of BOAC or Imperial Airways, which had been connecting the Far East to Great Britain since December 1933. It remained unchallenged until MSA entered the market in 1971, when the airline launched the Singapore-London Heathrow route beginning in June 1971. In 1970, the application for landing rights was met with opposition from the British government. Lee Kuan Yew had to go slow in handling British Airways flights in Singapore, with the help of his Communication Ministry and Devan C.V. Nair. This prompted an exchange between the British High Commissioner in Singapore and Kuan Yew, in which the latter requested that the British government be reasonable with their request. Later, MSA was able to operate one of the world's most profitable trunk routes— London - Singapore-Sydney.²⁷

In 1972, MAS partnered with British Overseas Air Charter Limited (a charter unit of British Overseas Airways Corporation) to seize the opportunity to run low-fare charter services from Kuala Lumpur to London. This service operated on a twice-weekly basis. This operation provided MAS with invaluable exposure into the industry's needs as well as the airline's actual operations prior to the arrival of its own pre-operational period.²⁸ In terms of income, MAS had benefited significantly from the acquisition of operational skills and industry know-how as a result of this partnership. In the fiscal year 1971/1972, the partnership earned a total of M\$ 926,932.00 before MAS could even begin its own operations.

With the delivery of its first Boeing 707 aircraft in 1973, the Kangaroo Route took another step closer to realization. The following year, in July 1974, London went online, followed by Sydney in October. Furthermore, Malaysia's location provided a geographical advantage in Southeast Asia, allowing it to connect the East and West in the shortest time possible. Following London, MAS launched additional initiatives to expand to more Australian destinations, launching Melbourne and Perth in 1975 and 1976, respectively.

Collaboration with Tourism Development Corporation (TDC)

Tourism, in addition to trade, commerce, and other ancillaries, played a significant part in becoming MAS's source of revenue. It formed a partnership with the TDC, a division of the Ministry of Culture, Youth and Sports. MAS had participated in a joint venture with National Corporation, also known as Perbadanan Nasional Berhad or PERNAS, as well as TDC under this scheme by holding a 33% stake in an advertising company called PTM Sendirian Berhad. PTM-Thompson Advertising, a Malaysian franchise of the well-known J. Walter Thompson of the United States of America, was a subsidiary of the company.²⁹

This joint-venture provided MAS an expert's touch in advertising the airline to a wider range of audiences, both domestic and international. Despite the fact that the company only had MAS' account for two years, from 1975 to 1977, it was able to boost the number of passengers traveling with the airline. For example, in the 1976/77 fiscal year, the number of passengers carried increased by 5.3% over the previous year to 2,509,000 passengers.³⁰ Aside from that, a small committee known as the Joint Committee were headed by Encik Baharuddin Musa, then-Director General of TDC, and Encik Saw Huat Lye, General Manager of MAS. Smaller committees were formed to spearhead the promotion and advertising efforts. This would be the driving force behind the main committee.³¹ Furthermore, the collaboration of the two organizations saw MAS, along with TDC, move on the basis of joint sponsors, in which the costs were divided 50/50. For instance, if TDC officers were to travel to another country for promotional purposes, the committee would cover all expenses.³² In this partnership, both organisations would pool their resources to penetrate Malaysia's potential tourism markets.³³ MAS's statistical data on inbound MAS passengers into Malaysia would be shared with TDC. In exchange, TDC would assist in the distribution of Malaysian promotional literature to MAS passengers. In a nutshell, the two organizations were inextricably linked in order to promote Malaysia and increase the number of passengers traveling with MAS on its flights throughout Malaysia and other countries.³⁴

MAS Success Story

MAS began as a company with few resources in 1972. The company essentially started by inheriting a portion of MSA's workforce, with far lesser resources and expertise inherited by SIA from MSA. However, its first 10 years were marked by consistent success, beginning with a profitable first year of operations and extending with consecutive records. However, it was not until its 10th year that it recorded a slight loss of M\$39 million due to a variety of factors such as rising costs, strengthening US Dollars, and an inconsistent yield pace.³⁵ The company also rigorously trained its operational manpower –pilots, cabin crew, and engineers – to enable its expansion from Southeast Asia to Europe and Australia towards the end of its 10th year of operations.

Table 5: Revenue from Passenger (except Charter) for International and Domestic Flights (in millions)

Year	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982
International	16,530	97,654	158,484	184,049	213,353	240,867	271,026	336,748	497,295	579,081
Domestic	34,106	43,657	57,872	61,459	68,788	80,104	86,749	107,641	139,543	173,050

Table 6: MAS' Financial Standing from 1972 – 1982

Year	1972-1973	1973-1974	1974-1975	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981	1981-1982
Revenue (M\$)	61,359,291	170,061,080	264,742,458	316,700,913	359,195,379	418,062,872	481,522,215	581,527,091	825,734,313	995,967,465
Expenditure	57,338,740	156,686,765	259,203,810	313,305,033	357,975,042	400,305,540	438,867,016	562,917,352	817,959,042	1,033,581,605
Profit (loss) after currency exchange		-1,041,489	2,440,265	-2,722,076	-114,006	724,814	409,162	1,348,112	1,028,686	-2,795,485
Taxes	500	196,891	388,661	644,258	517,917	623,974	433,589	2,537,092	1,703,834	1,533,767
Profit After Tax	4,020,051	12,135,935	9,590,252	29,546	588,414	21,336,023	28,242,933	16,072,647	6,071,437	-39,147,907
Profit (Loss) in Percentage (yield)	6.60%	7.10%	3.60%	0%	0.20%	5.10%	5.90%	2.80%	0.70%	-3.93%
Income from Shareholder's Funds	5.82%	14.94%	10.56%	0.03%	0.64%	18.35%	19.41%	9.95%	3.62%	0.00%

Source: *Malaysian Airline System Berhad Annual Reports, 1972-1982*

When MAS commenced in 1972, the figures were somewhat humbling. There were only 721,000 passengers flown against 377,776,000 kilometres flown. This equates to 52 percent of the load factor.³⁶ Nevertheless, this was a strong start for a new company amid a turbulent aviation industry. The figures increased to 4,838,000 at the end of its 10th fiscal year, a staggering figure to end the decade.³⁷

Human resources had also seen an improvement across the company. Starting with only 3,286 employees, half of whom were recruited from Malaysia-Singapore Airlines. It increased to 10,248 at the end of the 10 year-period, bringing in \$97,186 in productivity to the company. This was the result of the company's continuous expansion service expansion. The company's first fiscal year, 1972/73, saw revenue of M\$61,359,291 and a post-tax profit of M\$4,020,051. At the end of its 10th year of operation, in fiscal year 1981/82, revenue was nearly a billion ringgit, at M\$995,967,465. However, the post-tax figures were unsatisfactory, as it lost M\$39,147,907 due to a variety of factors at the time.

Meanwhile, in the 10 years since its inception, its network grew significantly. When it first began, it only flew to Malaysian destinations, with a focus on Rural Air Services in remote areas of Sabah and Sarawak. It also flew to Bangkok, Singapore, Jakarta, Medan, Hong Kong, and Bandar Seri Begawan. Within years of operations, it gradually expanded their routes, tapping into the potentials of serving a regional hub of Kuala Lumpur. In 1973, it began expanding to Taipei, followed by London, Sydney, Tokyo, and Madras, as well as Manila in 1974. As soon as the fleet requirement was met, it expanded to Continental Europe, beginning with Frankfurt in 1977, followed by Amsterdam in 1980, and Paris in 1982.

In order to meet its expansion needs, the airline procured state-of-the-art fleet members. As of 31 March 1982, it had a total of 39 aircraft in both narrow and wide body variants. Two Boeing 747s and three DC-10-30s were deployed for long-distance flights connecting Europe and Australia through the Kangaroo Route. Meanwhile, short-haul routes were served by a combination of narrow-body such as several Boeing 737s, Britten Norman BN-2s, Twin Otters, Fokker 27s, and the new Airbus A300B. The company's quest for a balanced operation – in fulfilling national aspirations as well as sustained profitability – resulted in a harmonious deployment of aircraft types.

Conclusion

The points discussed above show that the Singapore-Malaysia contention over the MSA could not be reconciled. Both countries had tangential priorities for how an airline would operate. Malaysia believed that MSA's operations should reflect the country's national aspirations of improving transportation in remote areas. Meanwhile, Singapore believed that as an airline, it should be run in the most cost-effective manner possible. Any moves to cross-subsidise the operations should be supported by the Malaysian government and should not jeopardise the company's profits. Singapore was not immediately prepared for this business model.

It was a strategically wise move that Malaysia opted to cease the partnership and establish its own national airline. Indeed, given the country's geographical position as a "gold mine" of regional market, it could strike a balance in fulfilling two aspirations. First and foremost, the government's objective of improving communications. Although this would have required significant financial investment, profits from lucrative regional routes subsidized this, and on top of that could financially sustain the company for many years. Socioeconomic achievements were secured in only 10 years of operations.

For example, its rural operations continued to be prioritised in remote areas of Sabah and Sarawak with the increase in the number of aerodromes served by the airline from 17 in 1972 to 25 by 1980. Aside from that, the agreement reached with Lembaga Urusan Tabung Haji (LUTH) facilitated a smooth passage for Haj pilgrims from Malaysia to Saudi Arabia during the holy season.³⁸In comparison to the company's early days, when it carried a total of 1,902,000 passengers in the 1972/73 fiscal year, it was able to carry 5,018,000 passengers at the end of the 1982/1983 fiscal year.³⁹

The dissolution of MSA, followed by the formation of MAS, added another chapter to Malaysia's aviation history. The company's main activities and hub had always been centred in Singapore since its inception in 1947. Its main headquarters handled staff, plane maintenance, and administration, while Malaysia became its secondary hub for domestic operations. That was no longer the case as of 1972, as the new MAS no longer relied on the 'mercy' of the city state to run their affairs. Indeed, Malaysians had a lot of catching up to do because they had no prior experience running their own airline. However, with the assistance of Qantas Airways Limited in getting the basics right, this was successfully weathered.

Overall, the formation of MAS demonstrates Malaysia's ability to start an airline from scratch in the shortest amount of time. The airline began operations in October 1972, just 18 months after the announcement in January 1971. Within that short time, it successfully overcame numerous obstacles from a lack of expertise to acquiring enough talent and machines to get everything in order.

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Notes

¹ *New Straits Times*, 5 October 1957.

² Joanna Hwang Soo Tan & Alvin Chua, *Singapore Airlines*, https://eresources.nlb.gov.sg/infopedia/articles/SIP_1705_2010-08-10.html [accessed on 16 September 2021].

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⁴ *The Straits Times*, 12 August 1957.

⁵ Singapore was made to leave Malaysia following an irreconcilable political differences in just less than two years of union. Despite this, Singapore remained being the epicentre of company's operations, with Malaysian representatives on its board of directors. For further reference on why Singapore was expelled from Malaya, please refer: Nik Anuar Nik Mahmud, *Duri Dalam Daging, Singapura dalam Malaysia*, Kuala Lumpur, Persatuan Sejarah, Malaysia, 2001.

⁶ Roy Allen & Bradley R. Rubinstein, *Sia: Take-off to Success*, Singapore, Singapore Airlines Ltd, 1990, p. 18.

⁷ *The Straits Times*, 9 October 1967.

⁸ Allan Eastman, M.S.A – Diplomatic note between Keith Hamilton and Allan Eastman on feasibility of routes in MSA and proposal to split the operations into two. 6 September 1968, A1838/3006/10/4/2 (17). This is a series of diplomatic exchanges between Australian High Commissions of Malaysia and Singapore to Department of Foreign Affairs, specifically on the topic regarding the Malaysia-Singapore crisis pertaining MSA.

⁹ *Ibid.*

¹⁰ *Ibid.*, p. 70.

¹¹ *Ibid.*, p. 72.

¹² *Ibid.*, p. 75.

¹³ *Ibid.*, p. 72.

¹⁴ No Author, Importance of HR and their Roles in Aviation Industry <https://www.elysiumhr.com/2022/importance-of-hr-and-their-roles-in-aviation-industry/> [accessed on 27 February 2023].

¹⁵ *The Straits Times*, 5 September 1968.

¹⁶ Allan Eastman, M.S.A – Reply letter from Lee Kuan Yew to Ghazali Shafie. 6 September 1968, A1838/3006/10/4/2 (72).

¹⁷ *Ibid.*, p. 71.

¹⁸ *Ibid.*

¹⁹ *The Straits Times*, 26 January 1971.

²⁰ No Author, *Singapore Airlines is Incorporated*. <http://eresources.nlb.gov.sg/history/events/64aa59aa-7a46-4bd5-a543-e259ffb97666> [accessed on 3 July 2022].

²¹Qantas Airways was personally selected by Tun Abdul Razak to help establish MAS, and this was endorsed by his deputy, Tun Dr Ismail. This was shortlisted against other airlines like Lufthansa, Air India, and Philippine Airlines. This was due to the vast experience of airline operations since 1921, and its familiarity on the region. Its key people, Keith Hamilton was with MSA and has analyzed that Malaysia sits on a “gold mine” in regional travel at that time. However, its advise would only be limited to technical and lower management areas, with Malaysians filling the crucial roles.

²² Unknown author, Malaysia-Singapore Airlines - Inward Cablegram, relating to discussion on why Qantas was selected as consultant to the new Malaysian Airline, 8 February 1971, A1838/3006/10/4/2 (146).

²³No Author, *The Qantas Story*.<https://www.qantas.com/travel/airlines/history/global/en> [accessed on 10 July 2018].

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²⁵Ibid.

²⁶Ibid.

²⁷Lee Kuan Yew, *Memoirs of Lee Kuan Yew: From Third World to First*, Singapore: Marshall Cavendish Editions, 2012, p. 229

²⁸*Malaysian Airline System Annual Report 1972/73*, p. 18.

²⁹ Michael H. Anderson., *Madison Avenue in Asia: Politics and Transnational Advertising*. Rutherford: Fairleigh Dickinson University Press, 1984, p. 236.

³⁰*Malaysian Airline System Annual Report 1972/73, 1973*, p. 18.

³¹Interview with Dato' Abdullah Jonid, former Director-General of Tourism Development Corporation (TDC), 8 November 2014.

³²Ibid.

³³Ibid.

³⁴Ibid.

³⁵*Berita MAS - A Special Edition 1971 - 1991, (Special Edition)*

³⁶*Malaysian Airline System Annual Report 1982/83*, p. 32.

³⁷Ibid

³⁸*The Fourth Malaysia Plan, 1981-1985*, Kuala Lumpur, Government of Malaysia, 1986, p.211.

³⁹*Malaysian Airline System Annual Report 1982/1983*, Kuala Lumpur.

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