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# FACTBOX-Key political risks to watch in Singapore

By Nopporn Wong-Anan

Thu Jul 1, 2010 2:55am EDT

### GLOBAL MARKETS

July 1 (Reuters) - Singapore, ranked as the safest place in Southeast Asia to do business by France-based global credit insurer Coface, is roaring back from its worst recession and is heading to a double-digit economic growth in 2010.

Private economists expect the city-state's gross domestic product to grow during the April-June period by more than 10 percent from a year earlier, after an annual rise of 15.5 percent during the January-March period.

The central bank, concerned about inflationary pressure, revalued the currency SGD= in April by moving up the currency band and switched to a policy of modest and gradual appreciation.

Following is a summary of key Singapore risks to watch:

### \* SECURITY

Militants have long had Singapore in their sights -- a Jemaah Islamiah (JI) plot for multiple attacks was uncovered in 2001. Security and policing are far ahead of neighbouring states, but the escape of al Qaeda-linked militant Mas Selamat Kastari from prison was a lapse that showed security is not infallible.

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Some commentators in Singapore have expressed concern over how easily two foreign graffiti artists broke into a tightly guarded train depot near Changi Airport and left a hole in the fence that went unnoticed for days in May. One of them was caught and sentenced in June to three strokes of the cane and five months in jail for trespass and vandalism. [ID:nSGE65H0BO]

The port and shipping lane in the Malacca Strait remain two key potential targets, and an attack on them could cause global disruption. In March the navy issued a warning of possible militant attacks on oil tankers. But while such an attack could deal a blow to the export-dependent economy and its reputation as a safe haven, the overall risks remain low.

What to watch:

-- Assessments of strength and tactics of Jemaah Islamiah and its offshoots. Most analysts believe the main JI movement has abandoned attacks on civilian targets, while a violent splinter group was badly weakened after the death of its leader Noordin Mohammad Top. If this changes, the threat could rise.

-- Markets would not suffer prolonged losses from any militant attack unless it signalled the threat level would remain significantly higher. Because of the port's importance to Singapore's economy, the impact of a major attack on the facility would be more serious for markets. [ID:nSP545301]

#### \* TRANSPARENCY AND FINANCIAL SECRECY

Singapore is widely rated as one of the world's least corrupt countries, but has been criticised for lack of transparency in some areas, such as press freedom and secrecy in the financial industry. Following pressure from the G20, the country amended its tax law last October to help fight cross-

border tax evasion. In November it was taken off the OECD "grey list" of nations not implementing international disclosure standards. [ID:nSIN33972]

Given the importance of Singapore's sovereign wealth funds to its economy, some analysts also want to see greater transparency in their financial statements.

What to watch:

-- Impact of changes to banking secrecy laws. Analysts say Singapore's move towards greater transparency in the financial industry is unlikely to impact its status as a key banking hub -- other countries with strict secrecy laws such as Switzerland have been moving in the same direction. There have been no signs yet that rich businessmen from the region, particularly Indonesia, are pulling long-parked funds out of Singapore due to the new disclosure rules. If Singapore strikes deals with countries like Indonesia, Malaysia, Thailand or Taiwan, that would worry banks and clients, but the short-run prospects of this are small. Overall, the impact on fund flows from greater transparency is expected to be positive for Singapore for now. [ID:nSP436002]

#### \* RELATIONS WITH NEIGHBOURS

Singapore-bashing is a sure-fire way to win political capital in many regional countries. Relations with Indonesia, Malaysia and Thailand in particular are often thorny, and are further complicated by Singapore's heavy investment in regional economies and its reliance on neighbours for some key resources. As the debacle over the purchase of Thailand's Shin Corp showed, careful management of relations with neighbours is necessary not just for Singapore's security but also for its economic prosperity.

With Singapore's sovereign wealth funds and government-linked companies also increasingly exposed to India and China, the city-state's economy has become vulnerable to policy risks in those countries too.

What to watch:

-- Any signs of a fresh flare-up in tension with Singapore's unruly neighbours.

-- Economic, political or regulatory upheavals in India or China that could have an impact on Singapore's SWFs.

\* RACE, RELIGION AND MIGRANTS ð Singapore saw deadly race riots in the 1950s and 1960s. While considerable progress has been made in achieving racial harmony, some tensions remain. Prime Minister Lee Hsien Loong said in a speech marking national day last year that religious and racial tensions were the biggest potential social faultlines.

The issue is complicated by demographic issues -- the majority Chinese population is growing at a lower rate than minority Malays and Indians, and the government has made repeated efforts to encourage citizens to have more children. Labour shortages mean the country has to rely on immigrant workers for many jobs. But the recession last year and cultural differences have made many local Singaporeans wary of migrants.

In its country risk report, Coface identifies "latent social tensions in a context of increasing inequality and growing durable unemployment among the least skilled" as one of four weaknesses Singapore faces.

What to watch:

-- Any sharp rise of racial tensions or unrest. This is considered unlikely, although there is a chance that rising religious tensions in neighbouring Malaysia could spill over.

-- Addressing a growing public discontent on migrant workers, the government unveiled new measures in February to increase levies on unskilled and semi-skilled migrant workers, making it more costly for employers to hire foreigners.