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RISKS TO WATCH SINGAPORE

Singapore, ranked as Southeast Asia's safest place to do business by France-based global credit insurer Coface, is set to be the world's fastest growing economy this year as it rebounds spectacularly from the financial crisis. The government upgraded its forecasts in November and now expects 15 percent growth in 2010 from a previous estimate of 13-15 percent.

RACE, RELIGION AND MIGRANTS

Singapore saw deadly race riots in the 1950s and 1960s. While considerable progress has been made in achieving racial harmony, some tensions remain. The government has repeatedly tried to cool mounting social discontent over foreign workers and immigrants. After calling religious and racial tensions Singapore's biggest potential social faultlines last year, Prime Minister Lee Hsien Loong said in a speech marking national day this year that foreign workers and immigrants were a "hot topic." The issue is complicated by demographic factors -- 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. But in July, on the day the government announced better-than-expected economic growth for the first half, Prime Minister Lee said Singapore would need 100,000 extra foreign workers to deal with rising labour costs and falling labour supply. At the August national day rally, he cut the number back to 80,000.

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. In July, a 20-year-old Malay Singaporean conscript was served with a two-year detention order without trial due to evidence he had become "deeply radicalised" by Islamic extremists through Internet sites supporting armed jihad. The arrest raised concerns about the potential infiltration of militants into Singapore's armed forces, prompting the government to assure the public it had measures in place to deal with the issue.



A model lies on a bed in the infinity pool of the SkyPark that tops the Marina Bay Sands hotel towers in Singapore June 24, 2010. REUTERS/Vivek Prakash

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.

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.

RISK DATA

Sovereign foreign currency:	
S&P	AAA (stable)
Moody's	Aaa (positive)
World Governance Indicators:	
Voice & Accountability	34.1
Political Stability	90.1
Govt Effectiveness	100.0
Regulatory Quality	100.0
Rule of Law	92.5
Control of Corruption	99.0
IHS Global Insight	
Country risk	1.40
Sovereign	AAA (stable)
Economist Intelligence Unit	
Sovereign risk	A
Political risk	AA
Country risk	A

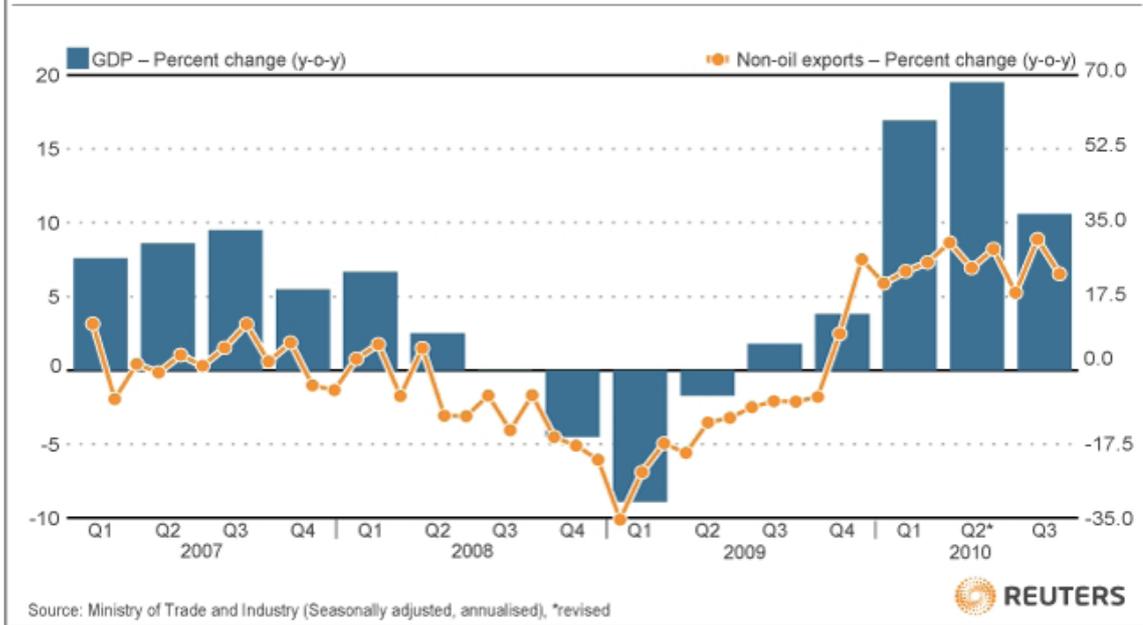
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Singapore Q3 GDP



Reuters graphic/Catherine Trevethan,

18/11/10

TRANSPARENCY AND FINANCIAL SECURECY

Singapore is considered one of the world's least corrupt countries, but has been criticised for lack of 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. 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.

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 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.

KEY DATES

- January 31, 2011**
Monthly statistical bulletin for January
- February 7, 2011**
Official foreign reserves for January
- February 28, 2011**
Monthly statistical bulletin for February
- February 2012**
Deadline for next general election to be held

RISK DATA

JLT Group	
Strikes, riots & civil unrest	1
Terrorism	1
War & civil war	1
Economic risk	2
Currency risk	1
Sovereign risk	1
Expropriation	1
Contract repudiation risk	1
Legal & regulatory risk	2
Coface	
Country rating	A1
Business climate	A1
Transparency International	
Corruption Perceptions Index	
Score	9.2
Rank (of 180)	3
World Bank Doing Business	
Rank (of 183)	1
WEF Global Competitiveness	
Score	5.48
Rank (of 133)	3
Reporters Sans Frontières	
World Press Freedom Index	
Score	47.50
Rank (of 175)	136

