Neighbourhood as opportunity and risk

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Hinterland, market and source of clients

Indonesia and Malaysia are home to some of the largest and fastest-growing middle classes in Asia. For Singapore, they are hinterland, market and source of clients at once. They supply the deals that Singapore banks finance, the companies that list on SGX or raise private capital in Singapore, the commodities that Singapore traders handle and the wealth that Singapore managers invest. Their growth explains much of the success of Singapore as a regional headquarters, which Chapter I.I examines. The neighbours depend on Singapore in turn for capital, services and access to world markets, although they increasingly try to build their own financial centres, from Jakarta to Kuala Lumpur and the zones in Johor and the Riau Islands.

This mutual dependence has a political dimension. Each success of Singapore in attracting regional wealth can be presented in Jakarta or Kuala Lumpur as a loss to the national economy. Singapore's governments have therefore cultivated the relationships carefully, through annual Leaders' Retreats, joint ministerial committees and cooperation projects such as the zones described above. The financial centre benefits from this diplomacy without being able to replace it.

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Policy risk: capital controls and currency restrictions

The neighbours' economic policies can affect Singapore directly. The clearest example came during the Asian financial crisis. On 1 September 1998 Malaysia imposed capital controls, fixed the ringgit and required offshore ringgit to be repatriated.[1] The controls also froze trading in Malaysian shares on Singapore's over-the-counter market, the Central Limit Order Book. Shares worth about US$4.47 billion, held by some 172,000 investors, most of them Singaporeans, were frozen indefinitely.[2] The investors recovered access to their shares only in stages over the following years.[3] The episode taught Singapore investors that a legal claim on assets in a neighbouring country is only as secure as the neighbour's policy.

Currency policy has remained a source of friction. In November 2016 Bank Negara Malaysia acted against offshore trading in non-deliverable ringgit forwards, much of which took place in Singapore, and required banks in Malaysia to confirm that they did not participate in that market.[4] Indonesia also restricts the offshore use of the rupiah. For Singapore banks, such measures limit the products they can offer in the currencies of their largest neighbours and require careful monitoring of each change.

Financial crime and the neighbours

Proximity also brings exposure to the neighbours' corruption and financial crime. The 1MDB affair, in which funds misappropriated from a Malaysian state investment company passed through Singapore banks, led in 2016 to the closure of two banks in Singapore and to penalties against several others.[5] Chapter E.VI examines the case. Indonesian corruption cases have repeatedly involved assets or persons in Singapore, a problem the extradition treaty of 2022 was negotiated to address. Politically exposed persons from both countries are among the most important high-risk clients of Singapore banks. The rules on customer due diligence, suspicious transaction reports and enhanced due diligence, described in Chapter H.III, apply with particular force to them.

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The risks run in both directions. Malaysian and Indonesian authorities increasingly seek information, freezing orders and the return of assets from Singapore through mutual legal assistance. Singapore's willingness to respond quickly and to return assets to the victims of crime is a test of its credibility as a clean financial centre. Chapter H.V describes the instruments of cross-border cooperation.

Environmental risk: the haze

A more unusual risk comes through the air. The burning of forests and peatland in Sumatra and Kalimantan, often to clear land for plantations, has repeatedly covered Singapore in haze. On 21 June 2013 the three-hour Pollutant Standards Index reached a record 401, far above the previous high of 226 set during the haze of 1997. Singapore reacted with the Transboundary Haze Pollution Act 2014, which commenced on 25 September 2014. It allows proceedings against companies inside or outside Singapore whose conduct causes or contributes to haze pollution in Singapore. In 2015 the National Environment Agency served legal notices on six Indonesian companies.[6] Since September 2026 the haze has returned with the Indonesian fires of that year.

For the financial centre, the haze is more than a health problem. Singapore banks finance plantation companies, some of which belong to Singapore-listed groups with estates in the affected regions. Lending to companies linked to illegal burning exposes banks to legal, reputational and climate risks, which the guidelines on environmental risk management and the sustainable finance framework of MAS address. Chapter K.II describes these rules. The haze therefore links the neighbourhood to the sustainability agenda of the financial centre.

Checklist for practitioners

- Establish the tax status of every Indonesian and Malaysian client in the home country, including participation in the amnesty of 2016–2017, the disclosure programme of 2022 or the Malaysian programmes of 2018–2019 and 2023–2024, and keep the documents on file.

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- Assume that account information is reported to Jakarta and Kuala Lumpur every year under the Common Reporting Standard, and design structures that remain defensible once fully disclosed.
- Review holding structures for Indonesian investments against the principal purpose test of the revised tax treaty of 2020 and against Indonesian rules on controlled foreign companies.
- Screen clients and counterparties for political exposure in both countries, and assume that the extradition treaty of 2022 and mutual legal assistance make Singapore an unsuitable refuge for proceeds of crime.
- For investments in Johor or the Riau Islands, check the incentive conditions, application deadlines and the authority competent for each zone, and plan for changes of policy.
- Consider currency and capital-flow restrictions in ringgit and rupiah, including the experience of 1998, before promising liquidity in those currencies.
- For lending to plantation, mining and energy companies in the neighbouring countries, assess fire, deforestation and haze risks as part of environmental due diligence.

Notes

1. Malaysian exchange control measures of 1 September 1998, including the peg of the ringgit at RM 3.80 to the US dollar, a twelve-month holding period for portfolio capital and the repatriation of offshore ringgit; see Bank Negara Malaysia, *Annual Report 1998*, and Chapter D.III of this book. ↩
2. Wikipedia, "Bursa Malaysia" (accessed November 2026): Bursa Malaysia "fully suspended the trading of CLOB (Central Limit Order Book) counters, indefinitely freezing approximately US$4.47 billion worth of shares and affecting 172,000 investors, most of them Singaporeans" (citing *Asia Times*, 2 September 2000). ↩

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3. On the release of the frozen CLOB shares in stages from 2000 onwards, see *Asia Times*, "Chapter 5: Investment in Malaysia", 2 September 2000, and the announcements of Bursa Malaysia and SGX of 2000–2002. ↩

4. On Bank Negara Malaysia's measures of November 2016 against the offshore non-deliverable forward market in ringgit and the related declarations required of onshore banks, see Bank Negara Malaysia, statements of November and December 2016. ↩

5. Monetary Authority of Singapore, media release "MAS directs BSI Bank to shut down in Singapore", 24 May 2016 (mas.gov.sg): notice of intention to withdraw BSI Bank's status as a merchant bank, penalties of S$13.3 million for 41 breaches of MAS Notice 1014, six persons referred to the Public Prosecutor; MAS, media release "MAS directs Falcon Bank to cease operations in Singapore", 11 October 2016: withdrawal of the merchant bank status of Falcon Private Bank Ltd, Singapore Branch, penalties of S$4.3 million, and penalties of S$1 million on DBS and S$1.3 million on UBS for breaches of MAS Notice 626. ↩

6. Wikipedia, "Indonesia–Singapore relations" (accessed November 2026): in June 2013 haze from slash-and-burn land clearing in Indonesia reached Singapore; Wikipedia, "2013 Southeast Asian haze" (accessed November 2026): three-hour PSI of 401 at 12 noon on 21 June 2013, a record above the previous high of 226 in 1997; Wikipedia, "Indonesia–Singapore relations": since September 2026 Singapore has again suffered haze from the 2026 Indonesian wildfires; Wikipedia, "Transboundary Haze Pollution Act 2014" (accessed November 2026): enacted on 5 August 2014, commenced on 25 September 2014; directed against "firms or entities in or outside Singapore" whose activities contribute to transboundary haze; in 2015 the National Environment Agency issued legal notices to six Indonesian businesses. ↩

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