Diplomacy as a service to the financial centre

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Predictability as a public good

The first service that diplomacy renders to the financial centre is predictability. A client who places assets in Singapore makes a bet on the jurisdiction over a horizon of ten or twenty years. The bet is safer if the state has avoided wars, sudden ruptures with neighbours and arbitrary changes of alignment. Singapore's record since 1965 meets these conditions. Its foreign policy has shifted in emphasis over six decades while keeping its direction. Even in the crisis years of 1997 and 2008, its relations with its neighbours and with the great powers remained stable.

Predictability also reduces political risk premiums. Investors and lenders price the risk that a jurisdiction will freeze assets for political reasons, impose capital controls or become entangled in a conflict. Singapore's consistency on the application of international law, including its readiness to impose sanctions only on a stated basis, gives clients a clear picture of when their assets might be affected. Clients may dislike some of the rules, yet they can foresee how the rules will be applied.

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Market access for financial services

Trade agreements open markets for financial services as well as for goods. The agreement with the United States, the agreement with the European Union and the regional agreements contain chapters on financial services that govern the establishment of foreign banks, insurers and asset managers, the cross-border supply of certain services and the transparency of regulation.[1] These commitments protect Singapore's institutions when they expand abroad. They also bind Singapore to non-discriminatory treatment of foreign institutions in its own market, which reinforces the openness described in Chapter D.IV.

Within ASEAN, the integration of financial markets has advanced more slowly than trade in goods. Agreements on banking integration, capital market cooperation and payment connectivity have nonetheless created channels through which Singapore's banks and payment firms operate across the region.[2] The cross-border connections of real-time payment systems between Singapore and several ASEAN partners are examples of financial integration that rests on diplomatic agreement between central banks. Chapter F.V describes the regional institutions involved.

Regulatory and tax cooperation

Modern financial regulation is an international activity. MAS concludes memoranda of understanding with foreign supervisors, cooperates in the supervision of cross-border groups and takes part in the standard-setting bodies in Basel, Paris and Madrid. The diplomatic standing of the state supports this work, since foreign supervisors are more willing to recognise the regulation of a jurisdiction they trust. Recognition in turn gives Singapore-based institutions easier access to foreign markets and spares their clients duplicate procedures.

Tax diplomacy follows the same logic. The network of treaties with around 100 jurisdictions, mentioned above, protects investors against double taxation. Singapore's participation in the international standards on the exchange of tax information has removed the reproach of tax haven status that weighed on several centres in the early 2000s (see Chapter E.II). For a wealth management centre, the

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label matters. Institutional investors, family offices and banks in Europe and America avoid jurisdictions that appear on lists of non-cooperative countries. Diplomacy that keeps Singapore off such lists is therefore a direct service to the centre.

Sanctions policy as part of reputation

Sanctions policy is the most delicate area. A financial centre that ignores international sanctions becomes a channel for evasion and risks losing access to the dollar system. A centre that adopts every sanction proposed by every partner loses the confidence of clients from countries outside the Western camp. Singapore has drawn its line at United Nations sanctions, which it applies as a matter of law, and at autonomous measures taken in exceptional cases on a stated basis. The measures against Russia in 2022 were such a case.

This policy places a particular burden on financial institutions. They must apply Singapore's measures and respect the sanctions of the United States, the European Union and the United Kingdom wherever their own business, currency or staff falls under those regimes. The diplomatic consistency of the state does not relieve them of that task. It does give them a clear framework within which to explain to clients why certain transactions are refused. Chapter H.IV sets out the details.

Hosting, convening and the brand of the city

Diplomacy also shapes the brand of the city. International institutions with regional offices in Singapore, the conferences and summits it hosts, and the international courts and arbitration institutions that sit in the city all contribute to an image of a neutral meeting place. Chapter F.V describes the institutions, while Chapters F.II and F.III describe the dispute resolution services. The Singapore Convention on Mediation, which bears the city's name, is the clearest example of a diplomatic initiative that reinforces the legal services of the financial centre.

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The brand has a commercial value that is difficult to measure. A family from Jakarta, Shanghai or Mumbai that chooses a jurisdiction for its holding structure, its trust or its family office compares stability, legal certainty and reputation. In each of these dimensions, the foreign policy of the state plays a part. The Hong Kong protests of 2019 and the consequent shift of some wealth management activity to Singapore, examined in Chapter I.V, show how quickly the perceived political stability of a centre can affect the flow of assets.

Notes

1. On the financial services chapters of Singapore's free trade agreements, in particular Chapter 10 of the US–Singapore FTA and Chapter 8 of the EU–Singapore FTA, see the texts published by the Ministry of Trade and Industry and the European Commission. ↩
2. ASEAN Banking Integration Framework (endorsed 2014), work of the ASEAN Capital Markets Forum and the ASEAN regional payment connectivity initiative (2022). ↩

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