Small-State Diplomacy: ASEAN and Strategic Balance

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A financial centre lives on the confidence of people who will never visit it. They entrust their savings, their companies and their disputes to a jurisdiction because they expect it to remain stable, solvent and open for decades. For a city-state of some six million inhabitants without a hinterland, that expectation cannot rest on size or military power. It rests in large part on the conduct of its foreign policy. Singapore has had to secure its survival as a sovereign state, keep markets open for its trade and capital and stay on good terms with every major power, all at the same time. The way it has done so is a central chapter in the history of the financial centre, although it rarely appears in the statistics of assets under management.

This chapter examines the foreign policy of a small state and its effect on the financial centre. It begins with the founding of the Association of Southeast Asian Nations in 1967, two years after Singapore's unwanted independence, and follows the organisation from a forum for reconciliation to an economic community. It then sets out the doctrine of small-state realism that has guided Singapore's diplomacy since Lee Kuan Yew and S. Rajaratnam. Further sections deal with the network of trade agreements through which Singapore made economic diplomacy a craft, with the limits of the neutrality that outsiders often attribute to it and with the services

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that diplomacy renders to banks, asset managers, traders and their clients. The chapter closes with practical consequences, a checklist and a comparison with Switzerland, Geneva and Hong Kong.

The comparison with Geneva runs through the whole of this part. The volume on *Genève, place financière internationale* showed that Swiss neutrality, recognised by the powers in 1815, was the first condition of Geneva's international vocation. It also showed that the image of neutrality and law which international Geneva projects reflects on the city's banks.[1] Singapore has no such status in international law and has never claimed one. Its equivalent asset is a reputation for consistency: a small state that says what it will do, does what it says and applies the same rules to friends and rivals. How that reputation was built, and where its limits lie, is the subject of the following pages.

Essentials

Singapore became independent on 9 August 1965 and joined the United Nations six weeks later. Two years on, its foreign minister Rajaratnam signed the Bangkok Declaration that founded ASEAN, an organisation that grew into an economic community of eleven states with a combined population of some 680 million. Singapore's diplomacy follows a doctrine of small-state realism: it accepts that power shapes international relations, invests in deterrence and relies on international law, multilateral institutions and a dense web of partnerships to offset its lack of size. Trade agreements, beginning with bilateral deals in 2001 to 2004 and continuing with the CPTPP, RCEP and the first digital economy agreements, turned economic diplomacy into a source of market access for the city's firms. Singapore describes its policy as one of consistency on principles, as its sanctions against Russia in March 2022 showed. For the financial centre, this diplomacy supplies predictability, market access, tax and regulatory cooperation and the reputation of a trustworthy host, all of which clients price into their choice of jurisdiction.

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Notes

1. Ressos, *Genève, place financière internationale*, Part F, chapter I, sections "Neutralité suisse et vocation genevoise" (Swiss neutrality, recognised by the powers in 1815, as "la condition première de la vocation internationale de Genève") and "Ce que la vocation internationale a apporté à la place" (the city's image of neutrality, impartiality and law "rejaillit sur ses banques"). ↩

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