Strategic rivalry and the financial centre

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A centre built on an open order

The modern financial centre was built on assumptions that held for half a century. Trade would grow faster than output, multilateral rules would restrain the strong, and capital would flow to wherever it found the best combination of return, safety and legal certainty. Singapore's strategy rested on these assumptions. The Asian dollar market of 1968, described in Chapter C.IV, the liberalisation after 1998 and the wealth management strategy of the 2000s all presupposed that money could move freely between Singapore and the rest of the world. The city's dense network of free trade agreements, examined in Chapter F.IV, extended the same logic to goods and services.

Each of these assumptions is now in question. The United States and China treat their economic relationship as a field of strategic competition. Both have built legal instruments that allow them to restrict trade, technology and capital on grounds of national security. The International Monetary Fund devoted a chapter of its *Global Financial Stability Report* of April 2023 to this development. It warned that fragmentation could affect "cross-border allocation of capital, international payment

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systems, and asset prices", with higher funding costs for banks and less credit for the private sector.[1] For a financial centre whose business is the cross-border allocation of capital, such warnings describe the core of its activity.

Two partners, two kinds of dependence

Singapore's relationship with each power has a different structure. The United States is the guarantor of the regional security order and a principal source of investment and technology. Under an arrangement first concluded in 1990, American forces use Singapore's air and naval facilities. The two governments renewed it in September 2019 for a further fifteen years, until 2035.[2] The economic relationship is close as well. In 2025 the United States exported goods worth US$41.6 billion to Singapore and imported goods worth US$38.2 billion, which gave it a goods surplus of US$3.4 billion. Its surplus in services, at US$29.5 billion, was far larger.[3]

The relationship with China rests on trade, regional economic integration and, increasingly, private wealth. Singapore established diplomatic relations with the People's Republic only on 3 October 1990, after Indonesia had agreed in August of that year to restore its own ties with Beijing.[4] Commerce between the two countries was by then long established. The government-to-government projects in Suzhou and Tianjin later made Singapore a partner in China's development. Chapter I.II describes this relationship in detail. For present purposes it is enough to note its asymmetry. Singapore's security links run to Washington, while much of its commercial future lies in a region whose largest economy is China.

Singapore's leaders have repeatedly said that they will not choose between the two. Prime Minister Lee Hsien Loong set out the argument in an essay in *Foreign Affairs* in 2020, which warned that confrontation between the powers would endanger the prosperity of the whole region.[5] He was equally clear about the limits of closeness. On 1 April 2022 he stated that "Singapore is not an ally of the U.S."[6] The formula describes a partner that cooperates with the United States on security without joining an alliance directed against China.

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Finance as an instrument of power

The decisive change for financial centres came in February 2022. After the Russian invasion of Ukraine, the Western powers blocked Russia's central bank from about US$300 billion of foreign-exchange reserves held abroad.[7] The step showed that reserves held in Western currencies and Western institutions could be immobilised by political decision. Central banks, sovereign funds and private investors across the world drew their own conclusions. Some diversified into gold, others reconsidered where they kept their assets and in which currencies they settled their trade.

China had prepared for this possibility before 2022. Its Cross-Border Interbank Payment System was established in 2015 as an alternative to the Western messaging and clearing networks.[8] Beijing also built a legal answer to foreign sanctions. The Anti-Foreign Sanctions Law, passed by the Standing Committee of the National People's Congress on 10 June 2021 and in force from that day, authorises countermeasures such as visa bans, asset freezes and restrictions on business in China against those who implement foreign sanctions.[9]

The effect on Singapore is subtle but real. Its banks hold large positions in dollars and clear them through New York. Its wealth managers serve Chinese families who now ask whether assets held in Singapore are safe from the political risks they associate with the West. Its regulators must ensure that the city remains trusted by American correspondent banks while it remains attractive to Chinese capital. Each of these relationships is commercially rational. The rivalry between the powers makes them harder to hold together.

The tariff shock of 2025

The second shock was commercial. On 2 April 2025 the United States announced a universal tariff of 10 per cent on imports, with higher "reciprocal" rates for dozens of trading partners. Singapore received the baseline rate although it has a free trade agreement with the United States that has been in force since 1 January 2004, and although it imports more goods from the United States than it exports there.[10] Prime Minister Lawrence Wong responded first in a recorded video on 4 April

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2025, in which he said that the world was entering "a new phase – one that is more arbitrary, protectionist, and dangerous".[11] In a ministerial statement to Parliament on 8 April 2025 he added that the American tariffs "are not actions one does to a friend".[12]

The statement went beyond the immediate damage. Wong described the tariffs as "a fundamental rejection of World Trade Organization (WTO) rules" and a "complete repudiation of the MFN principle", the rule that a country treats all trading partners alike. His conclusion for small states was blunt: "the major powers will dictate the terms, and we risk being marginalised and sidelined."[13] Singapore declined to retaliate. It responded with support for affected firms, with negotiation and with a renewed effort to build trade agreements with other partners.

The legal basis of the tariffs then collapsed. On 20 February 2026 the Supreme Court of the United States held, by six votes to three, that the tariffs imposed under the International Emergency Economic Powers Act were unlawful. The administration replaced them with a global tariff of 10 per cent under section 122 of the Trade Act of 1974, which took effect in late February 2026 for a maximum of 150 days. In May 2026 the Court of International Trade held that tariff unlawful as well, a ruling that is under appeal.[14] Sectoral tariffs under section 232 of the Trade Expansion Act of 1962 remain. They include a tariff of 100 per cent on branded or patented pharmaceuticals, announced for 1 October 2025 and partly in force, with exemptions for companies building plants in the United States, and a tariff of 25 per cent on a narrow range of advanced chips from January 2026.[15] Both sectors matter to Singapore, which hosts large pharmaceutical and semiconductor plants.

For the financial centre the instability itself carries the main lesson. Legal rules that firms and banks had treated as fixed, such as the terms of a free trade agreement, proved subject to unilateral change and then to litigation of uncertain outcome. Trade finance, project finance and the valuation of companies with exposure to American markets all became harder to price. The demand for advice on tariff exposure, supply-chain restructuring and contract clauses grew accordingly.

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Political stability as a selling point

Against this background, Singapore's own stability has become more valuable. The transfer of the premiership from Lee Hsien Loong to Lawrence Wong took place on 15 May 2024 without disruption.[16] In the general election of May 2025, the governing People's Action Party won 65.57 per cent of the vote and 87 of 97 seats.[17] Investors who look for a place to hold assets during a period of rivalry read such results as signs of policy continuity.

The state has also equipped itself against attempts by foreign powers to use Singapore as a theatre for their rivalry. The Foreign Interference (Countermeasures) Act was passed by Parliament on 4 October 2021 and came into force on 7 July 2022. Its stated purpose is to "protect the public interest by counteracting acts of foreign interference".[18] The law addresses politics and public communication. For the financial centre it signals that the government will defend its room for manoeuvre against pressure from any direction.

Notes

1. International Monetary Fund, *Global Financial Stability Report*, April 2023, chapter 3, “Geopolitics and Financial Fragmentation: Implications for Macro-Financial Stability” (imf.org, summary page, accessed November 2026): fragmentation “could affect cross-border allocation of capital, international payment systems, and asset prices”, with “higher banks’ funding costs”, “reduced bank profitability” and “lower provision of credit to the private sector”. ↩
2. Ministry of Defence of Singapore, news release of 24 September 2019 (mindef.gov.sg, accessed November 2026): the amendment signed by Prime Minister Lee Hsien Loong and President Donald Trump “renews the 1990 MOU by extending it for another 15 years”; Wikipedia, “Singapore–United States relations” (accessed November 2026): on 23 September 2019 (New York time) the two countries renewed the defence pact allowing United States forces to use Singapore’s air and naval bases, extended by fifteen years to 2035;

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rotational deployment of littoral combat ships to Changi Naval Base under the Strategic Framework Agreement. ↩

3. Office of the United States Trade Representative, "Singapore" (ustr.gov, accessed November 2026): United States goods exports to Singapore of US$41.6 billion and imports of US$38.2 billion in 2025, goods trade surplus of US$3.4 billion; services exports of US$47.9 billion, services imports of US$18.4 billion and a services surplus of US$29.5 billion in 2025. ↩
4. Wikipedia, "China–Singapore relations" (accessed November 2026): diplomatic relations established on 3 October 1990; Singapore preferred its neighbours, "particularly Indonesia", to normalise relations with the PRC first; Indonesia and the PRC announced on 8 August 1990 their decision to establish ties. The article's further statement that Singapore was the last Southeast Asian state to recognise the PRC is not adopted here, because Brunei established relations with Beijing only in 1991. ↩
5. Lee Hsien Loong, "The Endangered Asian Century: America, China, and the Perils of Confrontation", *Foreign Affairs*, vol. 99, no. 4, July/August 2020 (published online 4 June 2020). ↩
6. Wikipedia, "Singapore–United States relations" (accessed November 2026): on 1 April 2022 Prime Minister Lee Hsien Loong stated that "Singapore is not an ally of the U.S." ↩
7. Wikipedia, "International sanctions during the Russian invasion of Ukraine" (accessed November 2026): on 28 February 2022 Russia's central bank was blocked from about US$300 billion of foreign-exchange reserves held abroad. ↩
8. Wikipedia, "Internationalization of the renminbi" (accessed November 2026): "The China International Payments System was established in 2015 as an alternative to SWIFT." ↩
9. Wikipedia, "Anti-Foreign Sanctions Law" (accessed November 2026): passed by the NPC Standing Committee on 10 June 2021 and effective on that date; the law authorises "denial or cancellation of visas, asset freezes", restrictions

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on business activities in China and bans on transactions with Chinese entities. ↩

10. Wikipedia, "Singapore–United States relations" (accessed November 2026): Singapore–United States Free Trade Agreement signed on 6 May 2003, in force on 1 January 2004; April 2025, a 10 per cent universal tariff on goods entering the United States which applied to Singapore. ↩
11. "Singapore must be clear-eyed about dangers ahead; the risks are real, stakes are high, says PM Wong", *The Star* (Straits Times/Asia News Network), 4 April 2025: five-minute video shared on the Prime Minister's social media accounts; "The world is entering a new phase – one that is more arbitrary, protectionist, and dangerous". ↩
12. "PM Wong's video on tariffs goes viral", *Mothership*, April 2025: in his ministerial statement in Parliament on 8 April 2025 Wong said that the baseline tariffs of 10 per cent "are not actions one does to a friend"; the video message is dated 4 April 2025. ↩
13. "Singapore PM outlines three implications US tariffs have on global trading system", *The Star*, 9 April 2025, reporting the statement in Parliament of 8 April 2025: "a complete repudiation of the Most Favoured Nation (MFN) principle"; "Small countries have limited bargaining power in one-on-one bilateral negotiations, so the major powers will dictate the terms, and we risk being marginalised and sidelined"; "Global implications of US tariffs", *Mothership*, April 2025: the tariffs were "a fundamental rejection of World Trade Organization (WTO) rules" and "a complete repudiation of the MFN principle"; "So the major powers will dictate the terms, and we risk being marginalised and sidelined"; "Once trade barriers go up, they tend to stay up"; Singapore would not retaliate. ↩
14. Wikipedia, "Tariffs in the second Trump administration" (accessed November 2026): *Learning Resources, Inc. v. Trump*, decided 6–3 on 20 February 2026, holding the IEEPA tariffs illegal; replacement global tariff of 10 per cent under section 122 of the Trade Act of 1974 for 150 days, until 24 July 2026; NBC News, 24 February 2026, "Trump's global tariff takes effect at 10%, despite

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announcement of 15%"; the Court of International Trade ruled the section 122 tariff illegal, a ruling under appeal, citing *Politico*, 7 May 2026, "Trade court rules Trump's replacement tariffs illegal". The article's summary table gives 20 February 2026 as the effective date and 20 July 2026 as the date of expiry, while its text gives 24 July 2026. ↩

15. Wikipedia, "Tariffs in the second Trump administration" (accessed November 2026): 100 per cent tariff on branded or patented drugs announced for 1 October 2025, listed in the summary table as "Partially in effect", with exemptions for companies building plants in the United States and caps of 15 per cent under negotiated deals; 25 per cent tariffs on a narrow range of advanced chips from January 2026, with exemptions for chips for data centres, research and consumer uses. ↩
16. Wikipedia, "Lee Hsien Loong" (accessed November 2026): "The handover ultimately occurred on 15 May 2024"; Lawrence Wong succeeded him as Prime Minister on that date. ↩
17. Wikipedia, "Lawrence Wong" (accessed November 2026): in the 2025 general election the PAP retained its supermajority with 65.57 per cent of the vote and 87 of 97 seats. ↩
18. Wikipedia, "Foreign Interference (Countermeasures) Act 2021" (accessed November 2026): passed on 4 October 2021, in force on 7 July 2022; the Act aims to "protect the public interest by counteracting acts of foreign interference". ↩

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