# Hong Kong affects back end of Australian wealth management

Of imminent concern is the cyber integrity of the financial infrastructure upon which almost every Australian-domiciled investor relies.

**Stirling Larkin**Columnist
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Turmoil in Hong Kong affects not only those with direct southern Chinese exposures but many other Australian investment communities who have back office, custodial and transactional accounts directly or indirectly stored on servers physically hubbed in the city.

Regional, international and even Australian-domiciled but regionally transactional financial conglomerates remain unofficially heavily engaged and interdependent with Hong Kong, as well as Singapore, for Australian clients. Examples include international custody accounts for trading, exchange traded funds, foreign exchange, fund managers, private banks, prime broking and insurance services, all of which use financial intermediaries that depend on server, cloud and technology infrastructure hosted near Australia.

Protesters wave a flag reading 'Liberate Hong Kong, the Revolution of Our Times' during a march on Sunday. *AP*

With the threat of cyber warfare with the People's Republic of China on the rise and now accepted as a clear and present danger, all Australian investment communities should take pause and question how the current agitation affects us at face value but also by association.

Australia, and in particular Sydney, has had a long and closely intertwined relationship with Hong Kong, stemming back to our 1850s gold rush and continuing until the 1997 handover, when many emigrated to continue their democratic liberties in either Sydney or Vancouver.

But behind the scenes, Australian financial conglomerates after the deregulatory 1980s engaged regional infrastructure providers to a far greater extent. Today the way we engage across the world (ie, using PayPal for online payments or trading European or North American stocks or bonds via multinational trading providers such as Bloomberg, Refinitiv, Interactive Brokers and others) involves back-office and intermediary technology infrastructure that physically sits in border warehouses (with China proper) along the southern Chinese periphery.

Complicating this further was the announcement last Tuesday that only the standing committee of China's National People's Congress, and not Hong Kong's courts, has the authority to rule on the constitutionality of Hong Kong legislation. After the US Senate passed its Hong Kong Human Rights and Democracy Act last week, there are questions over whether a cyber threat affects Australia and what recourse, remedy or even transparency do Australian investors, regulators and government representatives have to repair, mitigate and defend Australian interests.

## Interest rates matter

Further, given Australia's S&P/ASX 200 and Australian dollar interdependence with China and our mercantile status across the Asia-Pacific, Hong Kong's US dollar-pegged exchange rate system and stock values' sensitivity to Australian, US and Chinese interest rates (expressed daily via Hibor) matter to domestically focused Australian investors dependent on regional stability (ie, low volatility).

During the 1997 Asian bubble the HIBOR rate soared, affecting Australian interest rates. But today HIBOR movements are more stable, during a time when the US Federal Reserve has moved from shrinking its balance sheet and raising interest rates to expanding its balance sheet and cutting rates. US rates matter to Hong Kong given its pegged US dollar exchange rate.

After the recent Chinese Politburo plenary session, it became apparent that if China is to succeed in the long term as an economic hegemon, it must have its own credible financial hub, acknowledging that neither Shanghai nor Shenzhen satisfy this requirement.

Moves to de-risk Hong Kong from the Politburo's perspective were taken in 2017, when the grandiose Guangdong-Hong Kong-Macau (GHM) initiative was announced – a hope of becoming the next San Francisco Bay for the "new China".

## Eroding liberties

Albeit an interesting blueprint for the nation's city cluster development and a transition to more successful companies in the homeland, regional integration and multi-core development plans across the 11 GHM cities failed throughout 2018 and this year, culminating in the tumult recently witnessed at Hong Kong Polytechnic University.

China has taken a sheet out of the former Soviet subterfuge handbook, implementing what was popularised in the BBC Television classic *Yes, Prime Minister* as "salami tactics". Salami tactics, also known as the salami-slice strategy or salami attacks, is a divide and conquer process of threats and alliances used to overcome opposition whereby aggressors influence and eventually dominate a landscape, piece by piece.

In Hong Kong, the dismantling is emanating from within, with the intended gradual subversion eroding liberties, not dissimilar to that prosecuted against Tibet and Xinjiang.

One need only watch the flow of mainlanders emigrating into Hong Kong. If this continues unabated, in the coming decade the demographic make-up of Hong Kong will become completely re-engineered towards a Han Chinese quorum.

Sino Salami subterfuge is also being seen in Australia with Chinese PLA naval frigates circling our Western Coast, permanent military bases being built in Vanuatu, phony emergency port visits in Sydney and no doubt more shenanigans to come.

But of imminent concern is the cyber integrity of the financial infrastructure upon which almost every Australian-domiciled reader of this paper today relies. We are closely allied to Hong Kong both in solidarity but also chips and bytes.

*Australian Standfirst (www.australianstandfirst.com).*

**Stirling Larkin** writes on global investing and ultra high net worth wealth. He is chief investment officer of investment manager Australian Standfirst.