

# Risk management in the event of war

For globally-minded high-net-worth investors, macroeconomic themes can unwind at glacial speeds. But when the ice wall starts to crack, those speeds can snap turn to breakneck.

[Stirling Larkin](#) Columnist

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When it comes to Sino-Western relations, Australia has swung between prosperity and improvidence ever since Gough Whitlam's 1971 state visit where Australia led the vanguard of Western nations welcoming Maoist China back into the global community.

But almost 50 years on, that vanguard status comes with liabilities being felt across the Australian industrial sector, residential and corporate real estate and our dollar. An area of even greater concern is our sovereign rights and aegis under the 1951 ANZUS Treaty, an agreement between Australia, New Zealand and the United States to protect the security of the Pacific basin.

For globally-minded ultra-high-net-worth investors, global macroeconomic themes can unwind at glacial speeds. But when the ice wall starts to crack, those speeds can snap from glacial to breakneck.

Two such themes – [China's moves on Taiwan](#) and [opportunities in defence](#) – were discussed in this column earlier this year.

Why ultra-wealthy investors care about such themes and potential stepchanges is that unless presciently identified well ahead of time, when such seismic events unwind it is difficult to defend investment portfolios, real assets and liquid currency reserves transnationally.

One such global theme that has leapfrogged from theoretical to increasingly likely is that of a "hot" military conflict with the People's Republic of China (PRC).

This is not a new area of concern but one increasingly becoming material to every active investment or risk management decision taken by those stewarding private wealth decisions domestically and globally.

## The realpolitik of confronting a 'hot' war

If one is to give credence to realpolitik – a way of looking at the world practically rather than morally or ideologically – the apex issue in the Pacific is that of thermonuclear deterrences, which is a nuanced way of saying Australia, Japan and South Korea need thermonuclear trident defence apparatus.

For Australian ultra-wealthy investors, such politicking involves their existing commercial relations with the PRC as well as their broader global investment exposures, as an escalation in the nuclear armaments build-up in our part of the Pacific will obviously bring with it geopolitical, financial and mercantile pressures from our largest trading partner.

It is a thinly veiled secret that Canberra and Tokyo have readied nuclear trident programmes. But if greenlit, the immediate concern is that because [our cyber security](#) is so deeply compromised within the [Five Eyes network](#) by China, Australia or Japan may be immediately interlocked by a cyber-attack emanating from the north.

Leading US think tank RAND Corporation postulates in a seminal paper (War with China, Thinking Through the Unthinkable) that if a hot war begins, it would be regional and conventional, except in the two domains China has any comparable edge – in space (against satellites) and cyberspace (against computer systems).

## **Australia: caught between two behemoths**

RAND also speculates that each side's increasingly far-flung disposition of forces and growing ability to track and attack opposing forces could turn much of the Western Pacific into a "war zone", with grave economic consequences. If dire enough, the stakes could be so vital that protagonists would run the risk of devastating nuclear retaliation by using nuclear weapons first, though China would not attack the US homeland, except via cyberspace.

In any of those breakneck developments, for Australia – sitting between the geopolitical behemoths of the US and China – there could be immediate, and also yet unforeseeable, dire economic and financial consequences that would whiplash markets and fungible assets immediately.

### **[PM, China agree relationship needs some work](#)**

The Australian dollar – known as a "hot currency" because of its status as the fifth-most actively traded currency in the world due to our Asia-Pacific mercantile status and standing – could be decimated by visible and clandestine Sino state actors ranging from the People's Bank of China, Chinese sovereign wealth funds, state-owned enterprises and other actors within literally nanoseconds. The dollar could be hammered down to single-digit exchange rates in such an affront.

In the realm of cyber, Australian society en masse could be shut down, quite literally within minutes, which would have obvious civil and economic repercussions.

## **The thermonuclear trident defence**

According to published analysis by Stephan Fruhling, associate professor strategic and defence studies at ANU, "Australia is more vulnerable than most to thermonuclear attack" and as Australia's situation changes, so too do questions on how best to defend ourselves.

Former deputy secretaries of defence, Hugh White, Paul Dibb and Richard Brabin-Smith, have all raised the spectre of a thermonuclear trident defence deterrent in recent times and such suggestions have begun to increase in the public forum.

This column has flagged the real possibility of a [direct military reoccupation of Taiwan by the PRC](#) before the "roaring 2020's", as well as the [ASX-aligned defence projects](#) amassing onshore in Australia and within our close neighbours.

It is beyond doubt Australia needs a thermonuclear trident defence deterrent. But before hotter heads prevail, it also becomes timely for all to pause and contemplate the explosive consequences economically and financially in countermeasures levied from the north.

*Stirling Larkin is chief investment officer of Australian Standfirst  
([www.australianstandfirst.com](http://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.

