

Function Summary

Managing Business Risk & the New Threats to Australia's Security *Professor Paul Dibb & Mr Jeff Schubert*

Summary of Professor Dibb's Presentation

Managers of business risk in Australia face unprecedented challenges from the threats posed by the new geopolitical risks.

Great uncertainty is flowing, and will continue to flow from global terrorism, the war with Iraq, and the danger of a major conflict in the future involving North Korea.

The 11 September terrorist attacks have changed the way the US looks at much of the world. It is now angry, humiliated and fearful.

These risks must be factored into the risk assessments of major financial institutions and those involved in international trade.

The Australian business community is not accustomed to assessing geopolitical risks of this magnitude.

The decade of the 1990s was a golden era for the Australian economy and business. In the era we are now in, there are no rules to the game. Terrorists don't recognise no-go areas, and the US is also reducing its no-go areas as a result of 11 September.

Terrorism has become a major security preoccupation for Western countries. It is not a transitory phenomenon and it is likely to last for years. The terrorists are Islamic extremists and their target of hatred is the West. Their indiscriminate attitude to acts of mass terror separates them from previous terrorist groups, such as the IRA or Baader-Meinhof.

There can be little doubt that people such as Osama bin Laden and the al-Qaeda group would dearly love to use a weapon of mass destruction against the US or some other Western target.

The 1991 Gulf War was short and decisive. There was an immediately beneficial impact on stockmarket prices and business confidence. However, it is far from clear that the current war will produce as decisive and clear an outcome.

Moreover, the postwar reconstruction phase is likely to be prolonged and expensive. Reconstruction costs alone could be as much as \$US100 billion, which excludes the \$US25 billion annual cost of occupation and peacekeeping using up to 100,000 foreign troops. Markets will regard such developments as negative, not least because of their consequences for the rapidly growing US budget deficit.

Once the Iraq conflict subsides, the US will turn its attention to North Korea. The North Korean leaders understand this and are accelerating their nuclear weapons program in the hope that it will save it from the fate of Saddam Hussein.

Pyongyang's military brinkmanship could have profound implications for nuclear proliferation and geopolitical stability in north-east Asia.

It is likely that in the immediate aftermath of a successful US war against Iraq the financial markets will turn their attention to the prospect of a prolonged crisis over North Korea. A war on



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the Korean peninsula would wreak enormous damage to key north-east Asian economies, even if nuclear weapons were not used.

In addition, there is now the risk of a permanent rift in the NATO alliance between the US on the one hand and France and Germany on the other. And it is also clear that Russia and China are uneasy with what they see as US unilateralism.

There will be some impact on, if not reversal, on the trend to open-ended globalisation. State power and national-security are now back in command.

There will be a tendency of governments to spend more on defence and counter-terrorism.

The bottom line is that geopolitical uncertainties promise to remain a major cause of market uncertainty for many years.

Jeff Schubert