

General David Petraeus: China looms as biggest threat to investors as geopolitical threats rise

The world has radically shifted from one of benign globalisation to one where geopolitical risk dominates, according to KKR partner and former director of the CIA, General David Petraeus.

“Globalisation was on the march – economics largely determined or influenced geopolitics,” said General Petraeus, who, prior to his CIA role, commanded the surge in Iraq and coalition forces in Afghanistan.

“Now history is back if you will – geopolitics is back with a vengeance.”

He described a wide range of geopolitical threats and challenges, which he characterised as a series of spinning plates to be kept balanced, as being greater in number than at any time since the Cold War and possibly going back to World War II. However, the rise of China as a global superpower and its increasingly fraught relationship with the US and other western countries lies at the heart of the shift.

“If you were to ask which of these ‘spinning plates’ keeps me awake at night, beyond just the ability to manage all these, it’s China all the time. That’s the relationship that matters and that’s the one we have to ensure that there’s a floor, there’s guardrails, there’s communication and all the rest of this – and that is being worked very, very hard by all of our countries.”

Communication between the US and China has improved since last November’s [meeting between President Biden and President Xi](#), but a relationship characterised by ‘severe competition’ can’t be allowed to fall into ‘actual confrontation’.

Chinese forces recently injured [Filipino navy personnel](#) and damaged their military boats in a clash in the disputed South China Sea. General Petraeus warned that such incidents could quickly escalate.

“The US and Philippines have a mutual defence pact – that means that we (the US) have to come to their rescue,” he said. “The hope is that this will concentrate the mind among these entities that are out there doing this – although within 24 hours they actually boarded a Philippines ship in the South China Sea – this is the kind of stuff that can get out of hand and we’re very worried about that.”

How geopolitics increasingly shapes specific KKR investments

KKR still has a strong presence in China but rising tensions with western countries is curtailing its investment opportunities. Even investments in car parks are now barred to foreign investors, partly because of their strong security and scanning technology.

“Every week more companies are added to our so called ‘entities list’, in which you cannot invest, and it’s usually because they are in sensitive technologies or dual-use technologies where you have both military and commercial applications.”

In his role at KKR, General Petraeus helps assess geopolitical risk before the company makes an investment, which has led to vetoing about seven deals over his 11 years at the investment house. There are currently four countries in sub-Saharan Africa that could deliver sizeable deals where KKR will not invest: Nigeria, South Africa, Ethiopia, and Kenya.

“Each of those has seen a deterioration in its governance, in bureaucracy, in security – even the macro situations – sometimes corruption as well.”

General Petraeus also helps identify countries where KKR should be invested.

“We put together a team of global macro and ESG and some others, and we’ll go out and literally, if we have a conviction about a country, meet all the stakeholders in that country... and come back and give advice to the co-CEOs of the firm.”

This led to a number of investments in the Philippines about seven years ago at a time when other global investors were scared off by then President Duterte's regime and controversial war on drugs.

It also led to KKR's investment in the world's largest rose growing business, [Afriflora, based in Ethiopia in 2014](#). KKR then sold its stake to London-based [Sun European Partners](#) in 2017.

"We built it from about somewhere between eight and nine thousand Ethiopians to over 12,000 by the time we exited, but we got out before the civil war started... since the civil war started, that's not an investment destination."

It can be easy to get caught up in the optimism of equity markets, yet it is imperative to fully assess and understand the risks your portfolio is exposed to. To quote General Petraeus, "you have to deal with the world the way it is, not the way you'd like it to be". Utilise stress testing and scenario analysis to gain insight into portfolio weaknesses and assess if mitigating the risks is appropriate. While black swan events don't follow a script, having a potential play book for shocks to major risk factors will allow for more timely decision-making.

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