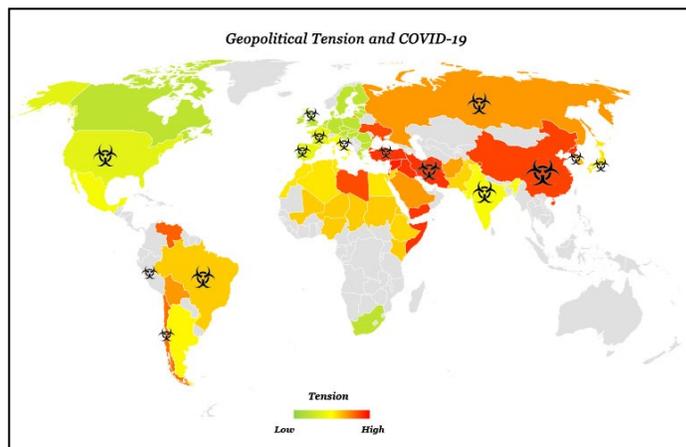


Around the World with Academy Securities

China takes the spotlight this week as we analyze geopolitical risks across the globe. The developments in China and the potential shifts in our relationship with **China will impact businesses and markets.**

Before moving to China and the rest of the world, we need to address the domestic protests. **Academy Securities emphatically stands against any type of racial injustice.** While the administration has options that include invoking the Insurrection Act, we do not believe that it will do so unless the situation is not contained by the local police and National Guard. This is something our geopolitical team is watching closely, particularly General Marks, who was the senior intelligence officer on the ground during the 1992 LA Riots. We will keep you informed as the situation develops. The importance of this issue and how it could affect D.C. in terms of its response and focus on rebuilding the economy and recovering from the COVID pandemic is something our macro strategy team addressed in [Shifting Gears](#).



As the geopolitical team addresses, the friction between China and the U.S. (ranging from COVID to Hong Kong to 5G technology) is increasing. There is a risk that we escalate with China before our economy has healed from the COVID shutdowns and the protests. While our macro team continues to believe that we will ultimately start rebuilding a manufacturing base, one that can make us more self-sufficient on the medical supply side, the timing of that shift is going to be crucial. We touch on Taiwan, but as we increase friction with China, that could become another area of serious contention – with possibly more implications for businesses and the global economy.

We also highlight the delay of the **G7 meeting** from a geopolitical standpoint and analyze the developments in **the Middle East, North Africa, and Venezuela.**

Front and Center – China and Hong Kong Update

Since we reported on the matter in our May 22nd [SITREP](#), the controversial national security law directed at Hong Kong was passed (as expected) by the National People’s Congress in China. Designed by China to outlaw “treason, secession, sedition, and subversion”, it is clearly the furthest reaching legislation ever directed at Hong Kong. Since transitioning to Chinese rule in 1997, the handover from the UK established rule based on “one country, two systems” and special privileges (now being taken away by the U.S.) were provided to Hong Kong as a result. However, in the aftermath of the 2019 extradition law demonstrations and capitalizing on the world’s attention on COVID, China has taken dramatically aggressive steps to not only stop the protests in Hong Kong once and for all, but also to exert its power and influence throughout the region. With the June 4th Tiananmen Square vigil taking place in Hong Kong despite police banning the gatherings this year, the situation will continue to get more complicated.



These actions have not gone unnoticed and we reported in our previous [ATW](#) in mid-April about U.S. plans to direct additional funding to the Indo-Pacific Command to deploy technology to defend against next generation Chinese long-range missile capability. Additionally, as we reported in our mid-May [ATW](#), the U.S. has supported its allies including Malaysia, Australia, and Indonesia after Chinese threats. We are also seeing countries in the region form

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their own security arrangements. For example, India and Australia just signed a mutual logistics support agreement to use each other's bases. The U.S. will continue its freedom of navigation patrols in the South China Sea to reinforce its support for its allies. We expect tensions to escalate as the U.S. responds to Chinese actions.

"This is truly a big deal for the administration to take on a much harder line with China. The tension between the two countries has certainly increased during the Trump administration. China's actions against the protesters in Hong Kong and President Trump's reaction are increasing those tensions to new levels.

President Xi and the Communist Party have watched the protests in Hong Kong go on for well over a year. It was only after the emergence of COVID-19 that things quieted down with the protesters. Xi knows coming out of the COVID-19 pandemic that the protesters will be back on the streets. He and the Chinese Communist Party have determined that they are not about to let this go on any longer.

Xi is now stepping in through the Chinese National People's Congress to dictate to the Hong Kong government through new laws regarding how they are going to deal with the protests. He is issuing these laws based on stopping subversion, terrorism, secession, and foreign interference. This now takes a broadened approach to the laws that govern Hong Kong and puts them in line with the rest of China. The Chinese government can step in and do just about anything it wants to individuals that disagree with the Communist Party. This will give them near total control, which they have not had before in Hong Kong.

It was appropriate that Secretary Pompeo said that Hong Kong has now lost its agreed to autonomy which was agreed to by the Chinese government and has to be treated differently. This will mean that the relationship that Hong Kong has had with the United States will be different and in line with how the U.S. deals with China itself. Hong Kong was seen as a democracy and not a communist state with respect to their businesses and banking along with visas and travel.

*More importantly, the White House just released its comprehensive strategy on China and it reads much more along the lines of competition and confronting China for its bad behavior. This whole of government approach must work with our allies to confront President Xi as he's taking advantage of the impact of COVID-19 across much of the region. The strategy moves the U.S. much more towards confrontation and is a far different approach than the one taken by previous administrations. The U.S. has to show its allies that we are willing to cooperate with China when practical, but are also much more willing to confront China if they are not willing to operate in accordance with global norms." **General Robert Walsh***

*"China will certainly continue to work for a one China result, and the combination of COVID and a sympathetic Hong Kong leader opens the door for China to make progress towards their goal. I do not see POTUS allowing that to happen without some level of push back and I certainly agree that he needs to avoid adversely impacting the trade deal. Most POTUS decisions for the next 5 months will be driven by the up-coming elections (tough on some things, but trying to not over play his hand). The good news is that Taiwan is stronger and more capable than it was three years ago, and China knows it. Thus, China's one China policy still has a way to go, and I do not see Hong Kong citizens taking a knee any time soon. Bottom line is China will make some new inroads, but local resistance will remain strong." **General Mastin Robeson***

"Hong Kong's autonomy, guaranteed until 2047, was stripped away last week. We should not be surprised by the CCP's actions and further violations by Beijing are inevitable if Washington fails to act aggressively. The Chinese communist state (and for that matter any autocratic state like Russia and Venezuela) is immune to criticism of its policies and supporting actions. The State is almighty, without blemish, and pure in its motives, right? At least that's the steady diet fed to China's 1.5 billion people. However, the leaders within the ruling body are fair game. We should figuratively but publicly tear them apart with a strengthened diplomatic and informational campaign that uncovers the vulnerabilities and hypocrisies of the individual members of the National People's Congress. If members' personal financial lives are exposed as violating CCP mandates, minimally, some members will be forced out. Hopefully, infighting and paranoia will result. Omerta will be abandoned as members fight to remain unsullied.

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*This is not Cold War spy stuff; this is legitimate exposure of criminal activity that even communists who write the rules will find intolerable.” **General Spider Marks***

President Duterte of the Philippines Reverses the Decision to Terminate its Agreement with the U.S.

On June 3rd it was announced that the Philippines is now walking back its threat to abandon its military agreement with the U.S. According to the country’s foreign secretary, the decision was made to keep the agreement in place due to “political and other developments in the region.” We believe that this action was a direct result of recent Chinese military activity. With the Philippines’ strategic location bordering the South China Sea, the importance of this agreement to both the U.S. and the Philippines cannot be understated. Just a few months ago, Duterte was moving closer to China, but that appears to be changing with this most recent announcement.

*“Philippine President Roderigo Duterte has thus far not been a friend to the U.S. since taking office. Though the Philippine military continues to be a staunch supporter of the U.S. and its relations with the U.S. military remain superb, Duterte has gone out of his way to sideline the U.S. in Philippine affairs. He has also at times appeared to cozy up to China even with all of their predatory actions taking place off the Philippine coast in the South China Sea. It was a surprise to many that he is no longer seeking to terminate the military pact with the U.S. that has been in place for many years. Duterte’s decision seems to be centered on the heightened tensions caused by China in the South China Sea. This reverses a decision Duterte made back in February to withdraw from the pact with the U.S. effective in August. The U.S. needs to take advantage of this diplomatically. The Philippines could become a key ally in the region for the U.S. in its attempts to coerce China into acting in accordance with world norms.” **General Robert Walsh***

*“It was expected that the Philippines would not terminate the Visiting Forces Agreement (VFA) as it is not in their best self-interest. China is a threat to their homeland with its South China Sea activities and the U.S. has a long-standing military alliance with the Philippines. VFA is extended to June 2022, which is also an election year and when Duterte’s constitutionally-mandated single term as President ends.” **General KK Chinn***

U.S. Decision to Delay the G7 Meeting

This week, it was announced that it would be too difficult to hold an in-person G7 economic summit at the end of June. Initially, the rationale was COVID concerns, but delaying the meeting could potentially lead to an expansion of the group. President Trump believes that the current G7 membership (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) does not accurately represent the state of the world today. However, we believe the real reason is that the president would like to include additional member nations (Russia, Australia, South Korea, and India) to act as a counterweight to China. Our Head of Geopolitical Strategy, General Marks, has been recommending changes to the G7 for over two years now and has suggested that India, Russia, (and even China) should be added (POTUS must be reading our ATWs!). Additionally, he has recommended that the UN Security Council should also expand to include India. As China is a strategic competitor, the U.S. will continue to look for ways to include other nations in its approach to dealing with the rising threat.

*“President Trump’s delay of the G7 summit so he can invite other countries seems to be an attempt to gain allies that are also frustrated with China’s coronavirus pandemic actions. The delay is a setback for President Trump who was hoping to demonstrate the U.S.’s return to normal after the pandemic. The coronavirus pandemic and relations with China are expected to be topics. China is not expected to be one of President Trump’s invitees. President Trump also said that he was interested in inviting Russia to the summit. This would be a remarkable move with the summit delayed until September and the November presidential election only two months away. Australia is also expected to be invited and they have closely partnered with the U.S. on taking a tougher stand on China.” **General Robert Walsh***

“POTUS certainly wants a better coalition against aggressors like China, but I believe he is most interested in finding ways to create an economic bridge during COVID and beyond. COVID likely offers him a new opportunity for

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*solidifying more favorable trade terms and partnership. This is especially useful going into the last months of the election season.” **General Mastin Robeson***

Developments in the Middle East and North Africa

Russia Increases its Presence in Libya

As discussed in our most recent [podcast](#), the Turkish backed GNA is continuing to make additional progress in pushing the LNA, which is led by General Haftar, out of Tripoli. However, it appears that Russia is increasing its support of the LNA as it does not want to lose its seat at the table in determining Libya’s political future. Of note also is the fact that the U.S. is considering sending an Army Security Force Assistance Brigade to Tunisia due to the increase in Russian involvement in neighboring Libya.



“The deployment of Russian Mig-29 fighter aircraft into Libya was most likely flown by Russian mercenary pilots to support Russia’s Wagner Group on the ground, which in turn is supporting Khalifa Haftar, who heads the Libyan National Army (LNA). It is just another example of Putin’s “grey zone” operations that he has been conducting across the globe. What we are seeing play out in Libya uses the same template he used in Ukraine and in Syria. Strategically, he is gaining a foothold in Libya in what could be a long-term security threat on NATO’s southern flank by expanding Russian influence in Africa. Both the U.S. State Department and the U.S. Africa Command said Russia’s continued support of Haftar is adding to the destabilization of Libya.

There is also a connection between Putin’s actions in Libya and the recent support of the LNA by Syria’s President Bashar al-Assad. Russia flew the aircraft through Syria on the way to Libya and is expected to use the aircraft the same way they used them in Syria. It is also interesting that Russia is supporting the LNA and Turkey is supporting the GNA. Turkey and Russia are the same players that operated against each other in Syria as well.

*With elections nearing, there seems to be little chance that the U.S. will deploy any forces into Libya to counteract the Russian influence. President Trump is expected to keep U.S. forces out of any foreign wars with the November elections looming.” **General Robert Walsh***

Syria Update

For several years, Israel has targeted Iranian militia and Lebanese Hezbollah forces operating in Syria. Those same forces routinely conduct operations in Israel and against U.S. forces in Iraq. Russia, which backs President Assad, has just sent a second delivery of MiG-29 jets to Syria. Russia also just conducted its first airstrike in the Idlib region in three months, where there have been several violations of the March truce with Turkey. Lots of moving pieces and opportunities for miscalculation, but Assad seems to be well-positioned as long as Russia continues to support the regime.

*“Russia, Iran, and Syria have a long history of cooperation and support. It makes perfect sense that both Russia and Iran are involved in Syria and it is unlikely either will pull out until Assad has solidified his authority. Assad’s lack of reaction to Israeli attacks is more about not wanting to elicit a U.S. or European counter reaction. At present, Assad is in as good of a position as he could hope for (U.S. intervention abated, Europe withdrawn, Russia and Iran engaged). Assad will only inflame his situation by attacking Israel.” **General Mastin Robeson***

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Venezuela

Iran has said it is ready to continue shipping fuel to Venezuela at the request of the government. While we do not believe the U.S. will start interdicting these ships, the U.S. will continue to apply pressure in different ways to enforce sanctions on both nations and push for an eventual change of control in Venezuela.



“Even with the increased naval presence in the Caribbean for counter drug operations, we do not expect the U.S. operations to expand into interdicting the Iranian gasoline shipments to Venezuela. The U.S. already let one of the five tankers pass through to Venezuela and it could be viewed as going against a humanitarian mission due to the severe fuel shortage in Venezuela. Maduro is in desperate need of gasoline to keep the country running with the imposed sanctions on PDVSA, the state-run oil company. The oil industry has been crippled in Venezuela as a result of the sanctions and underinvestment. Venezuela has now turned to Iran where both countries are under heavy sanctions by the U.S. Meanwhile the U.S. and Secretary of State Pompeo continue to apply pressure not only on Iran and Venezuela, but also on other foreign governments and companies that could be attempting to skirt the sanctions and assist the tankers carrying gasoline to Venezuela.” **General Robert Walsh**

“I do not see a major conflict come out of this. Insurance companies raising their rates for such shipments is a great way for non-confrontational influence. I see this remaining status quo for now. No one wants this to become a major conflict, nor is there sufficient benefit to U.S. interests to escalate now.” **General Mastin Robeson**

“Concur with Mastin’s comments. The U.S. has no interest in making policy more difficult in the region since there is not a global competition in Latin America like we see in the Pacific. We need to continue to strengthen relationships in the region as most countries are sympathetic to the U.S. because of shared values, histories, democratic practices, economic, and cultural relationships. Our partner nations in the region prefer no involvement or association with Venezuela lest they be blamed for the Venezuelan challenges created by Maduro.” **General KK Chinn**

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