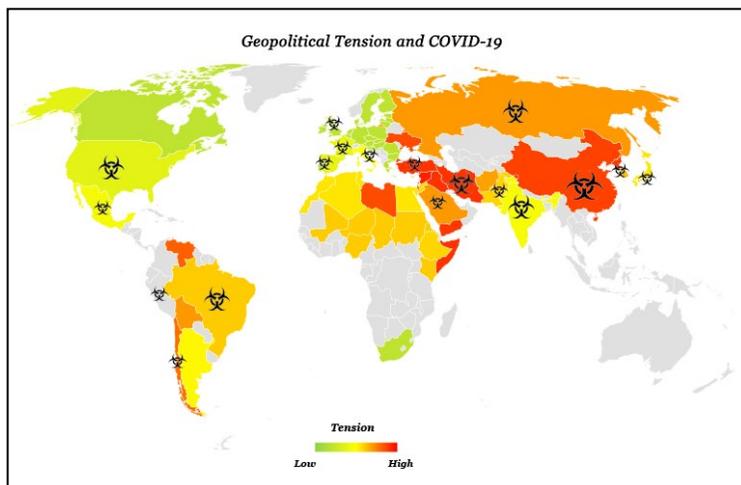


Around the World with Academy Securities

Before we dive into the Around the World analysis, one thing to keep in mind as we move forward into the rest of the year is how much the world (including the U.S.) has endured over the past several months. **As the U.S. deals with COVID, inequality, and other issues, one has to remember that global competitors (China and Russia) are going to try to capitalize on any perceived weakness.** The U.S. must stay close to its partners, because in times of crisis, the U.S. must be able to rely on them just like they rely on the U.S. Academy’s Geopolitical Intelligence Group (“GIG”) will continue to **monitor global events through the lens of how the U.S. sees the world AND how the rest of the world views the U.S.** and the importance of its leadership.



China remains the key focus of our Around the World analysis as it impacts the economy and markets most directly. The Chinese government and national media have been urging investors to buy stocks. That has helped the Shanghai Shenzhen CSI 300 Index to surge almost 20% since June 29th. That surge has helped support stock markets globally and needs to be watched closely. The Yuan has rallied significantly during that timeframe and is approaching 7 again, an impressive rally. China’s economic strength as it continues to reopen is in contrast to recent struggles domestically where many states have halted further ‘phases’ of reopening or have started to reinstate some rules that had been lifted. The economic friction with China is likely to escalate as “Made in America” becomes an election issue and more ESG investors are scrutinizing supply chains – both for overall business risk, but also for the perceived risk of producing products under operating conditions that would not be tolerated domestically.

While we do not focus on it in this issue, the rise in COVID cases in Mexico and South America and other regions across the globe is a cause for concern and could be very disruptive for our economy – especially if Mexico is hit hard. We touch on issues in MENA and South America, but want to reiterate that it will become increasingly difficult to separate our domestic issues from international issues as our global competitors take advantage of our situation.

Front and Center – China

As we reported in our previous [ATW](#), tensions between China and the U.S. (and its regional allies) continue to grow. Those tensions increased over the 4th of July weekend when the U.S sent two aircraft carrier strike groups, the USS Ronald Reagan and the USS Nimitz, into the South China Sea. This is the largest show of force in the region since 2017. As General Walsh from our Geopolitical Intelligence Group said last weekend, this is meant to reassure our allies in the region that we stand with them. As China continues to take a more aggressive posture, our allies will look to us for leadership. Also, with the upcoming Chinese exercises in August focused on the Pratas islands, the U.S. Naval presence in the region is even more important.



“The current U.S. Navy dual aircraft carrier operations in the South China Sea are meant to assure allies and partners in the region that the U.S. military is here to stay and also to dissuade the Chinese military from their ongoing aggressive actions in the region. In May, U.S. Chief of Naval Operations Admiral Michael Gilday announced that the

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United States Navy had six carriers at sea. Three of these carriers were operating in the Pacific Ocean sending a strong message to China in response to China's criticism of the U.S. Navy's handling of the coronavirus onboard the USS Roosevelt. The operations are intended to demonstrate the U.S. Navy's high state of readiness and the resilience of its forces in the region.

The dual carrier operations, consisting of the USS Nimitz and USS Reagan, are yet another indicator of the National Security Strategy's shift in focus to the Pacific region to deter China. This is the second time within two months that the U.S. Navy has operated multiple aircraft carriers in the Western Pacific. The last time we saw this type of activity was in 2017 when three carriers were deployed during the nuclear tensions with North Korea.

*Not only are the U.S. aircraft carrier operations a response to China's anti-U.S. pandemic messaging and aimed at assuring allies and partners, they are also in response to increased Chinese Navy operations near the hotly contested Paracel and Spratly Islands. Some of the activity is occurring near China's controversial man-made islands. U.S. Navy leadership highlighted the fact that China is now operating combat aircraft out of one of the man-made islands, Fiery Cross Reef, a location that China said earlier would be solely used for humanitarian missions. All of these actions are ratcheting up tensions in the increasing competition between the U.S. and China. The potential for military missteps is increasing as both sides take on more aggressive approaches to the competition." **General Robert Walsh***

*"China will continue to take advantage of countries distracted by COVID-19 by continuing to disrupt the rules-based global order, run disinformation campaigns, and use economic coercion to strengthen their influence, global status, and position. There is always a threat of a miscalculation by China in the South China Sea, but they are masters at pushing the envelope until the international community condemns their actions, at which time they will pull back slightly and establish a new normal. This is most evident with their militarization of the region." **General KK Chinn***

As tensions continue to build in the South China Sea, China has moved forward with its new national security law in Hong Kong. On July 1, the 23rd anniversary of the day the British turned over Hong Kong rule to China, protesters were met with heavy security and the first arrests under the new law were made. Chief Executive Carrie Lam said that this new law would be "crucial to ending the chaos and violence that has occurred over the past few months", but the reality is that it has changed Hong Kong forever.

*"Asia has always been the region for "military showdowns" between the U.S. alliance and China. In the past, albeit rarely, the Chinese Navy has participated alongside the U.S. in its annual WESTPAC series of exercises, but there is zero chance that this will happen again anytime soon. Our current national security strategy has no room for cooperation or conciliation with China. It's all about competition. The U.S. must define what shape that competition will take. We always confront military strength with military strength...and win. Current military confrontations are no exception. However, the U.S. should flip the narrative and compete primarily economically. China will lose in Hong Kong with its latest national security law. The effects of the imposition of this law will be permanent and irreversible. Cash flow into Beijing will dry up as money migrates to London, Singapore, or New York City. The Chinese regional military competition with the U.S. is simply a head fake designed to take our eyes off the ball: China's economic fragility. We should get out of their way and let the inevitable economic decline occur." **General Spider Marks***

"All eyes have been on the situation in Hong Kong over the last year to see how Beijing and the Chinese Communist Party would react to the ongoing protests. The CCP's true colors came out earlier last year after China staged troops on the border with Hong Kong to threaten Hong Kongers into submission. Only the coronavirus pandemic quieted the protesters and delayed Beijing's crackdown. However, the CCP is using the coronavirus pandemic to implement its new national security law that moves Hong Kong further away from the "One Country, Two Systems" that was agreed to by the British in 1997. It gives Hong Kong's authorities, acting under Beijing's heavy hand, the ability to crack down on secession, subversion, terrorism, and foreign collusion.

Even more significant is how the Hong Kong authorities will use the new law to suppress the pro-democracy leadership and their political activities prior to the upcoming September legislative council elections where the pro-democracy movement hopes to reduce Beijing's influence. The pro-democracy movement gained greater support

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*over the last year as Hong Kongers began to see Beijing's true intentions. Expect the Trump administration to issue a response to ease U.S. domestic pressure while limiting its reaction to not jeopardize phase one of the trade deal prior to the November elections." **General Robert Walsh***

*"China will continue to push their nationalism narrative with Hong Kong until the international community steps in, which appears to be unlikely as everyone is too distracted with COVID-19 along with their internal concerns of not angering their #1 trade partner. The Hong Kong the world knew (and mostly loved) is gone. The new security law will make each day an exciting new adventure for those who oppose it. May we live in interesting times is coming to fruition with the global chaos and disorder ongoing." **General KK Chinn***

Middle East and North Africa Updates

Fire at Iran's Natanz Nuclear Facility

On July 2, a fire broke out at Natanz, a key Iranian nuclear facility. The fire damaged a centrifuge assembly workshop. While the machinery that was damaged will likely be replaced in a matter of months, the cause of the fire is still unknown. While the Iranians have not come forward with any direct evidence, some think it may be the result of a cyber-attack. The U.S. has made it clear that an Iranian nuclear device would be unacceptable. Efforts to roll back the nuclear program via cyber-attack would not be a new concept, as it was reported in 2010 that the U.S. and Israel used Stuxnet, a cyber weapon, to destroy a significant number of Iranian centrifuges used to enrich uranium.



"The fire at Iran's critical and highly secret nuclear centrifuge production facility at Natanz along with an explosion on June 26 at the Khojir missile facility seem to be much more than a coincidence. The incidents could be insider sabotage or they could be acts by the U.S. or Israel to slow down Iran's attempts to gain nuclear weapons. We can expect further incidents like these if Iran continues to try to develop a nuclear device.

*Iranian officials said that they suspect the fire was the result of a cyber-attack and have placed the blame on Israel and the U.S. Israeli Prime Minister Benjamin Netanyahu said that the government of Israel would not comment on the incident. The U.S. has also yet to comment. It was Natanz that was targeted in 2010 with Stuxnet, a malware that disrupted and destroyed centrifuges. It was widely reported that the cyber-attack was attributed to U.S. and Israeli intelligence to slow Iran's rogue nuclear program. It will be difficult for Iran to retaliate without clear evidence of who conducted the attacks and at this time they don't have it." **General Robert Walsh***

"Unknown" Foreign Aircraft Attack a GNA held Airbase in Libya

On July 5, planes from an unknown foreign air force conducted an overnight raid against an air base in western Libya. This airbase was recaptured by the GNA back in May with the help of Turkish forces. Of note, Turkey has made it clear that they intend to build two permanent bases in Libya, one of which is Al-Watiya, the base that was recently attacked. With Russian aircraft in country and Egypt warning Turkey and the GNA that any attempt to take Sirte (controlled by the LNA), which contains some of Libya's largest oil fields, will result in a conflict, the situation on the ground is reaching a boiling point. However, as we discussed in our [SITREP](#), there will have to be a political solution to the conflict in Libya and both Russia and Turkey are jockeying for position to take the lead role.

Report of Bounties on U.S. Service Members in Afghanistan

On June 26, it was reported that a Russian military intelligence unit offered to pay bounties to militants to kill U.S. troops in Afghanistan. While incredibly concerning and the facts are still coming out, what is clear is that the Russians want the U.S. out of Afghanistan.

"Russian and Taliban cooperation to challenge U.S. efforts in Afghanistan is not surprising. However, media

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attention about when or if POTUS was briefed on this matter seems to be more titillating than the shape of U.S. strategy vis-à-vis Russia. Look, Putin just got a 16-year extension in office. He is not fading away and he is a “known known” and the best of all quandaries for U.S. decision makers. There is little that should surprise us about Putin. He has copied our Cold War strategy of containment and validated our analysis of the “instinctive Russian sense of insecurity.” Putin is pushing back on U.S. actions wherever they threaten Russian interests: Crimea, Ukraine, the Baltics, northern Germany with Nord Stream 2, and the Arctic. Putin is not our friend. Threats against our troops should be met with every power America has. Like every other political initiative (remember, the military is politics by another name), the results must be discrete and measurable. The U.S. can compete and cooperate at the same time and this is one of those times. The U.S. should hammer Russia (economic sanctions or through cyber ops...the U.S. has never shot at the Russians or Soviets directly in anger) for targeting our soldiers. As we know, Russians are highly sensitive to the logic of force.” **General Spider Marks**

“It is difficult to determine what Putin’s motives could be for such an operation. Some think that Putin intends to cause mischief wherever the U.S. operates overseas while others believe that he is seeking retribution for Russian mercenaries that were killed in Syria by U.S. forces in 2018. On the other hand, it is easy to see how Putin enjoys the U.S. being bogged down in Afghanistan and diverting its attention away from areas of Russian interest. So why would he want to attack U.S. forces? It would be an extremely high-risk operation that Putin should expect to be leaked based on past history with the Taliban and the fact that it would result in a strong retaliation by the U.S. It’s hard to imagine that Putin would take on such an operation unless he was reasonably assured that Russia’s role would not be unveiled, which is hard to believe. This would be a much more serious action than the poisoning of a former Russian military officer and double agent in the UK. Determining the source of the money uncovered and its purpose will be difficult. The official silence by the U.S. is expected to continue until the facts are revealed.” **General Robert Walsh**

South America Update: Venezuela

In a lawsuit filed on July 1, the U.S. is attempting to seize 1.1mm barrels of gasoline being carried to Venezuela on four Liberian flagged vessels from Iran. While it may only be feasible to seize the cargo if the vessels pass through U.S. territorial waters, the lawsuit and warrant may encourage other nations to cooperate. The rationale for this action is the fact that fuel sales from Iran to Venezuela directly benefit the IRGC and the Iranian long-range missile and nuclear programs.



“Venezuela has learned well from Cuba on how to operate and exist just below the strategic escalation level – we have been waiting for Cuba to implode for over 61 years. It is a very tough situation when Russia, China, Iran, and Cuba are providing support. In this case, with Iran providing gasoline, it is always difficult to navigate authorities for intercepting vessels in international waters. This situation is tough as we need to comply with the laws of international waters as outlined in the United Nations Convention on the Law of the Sea (UNCLOS).” **General KK Chinn**

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