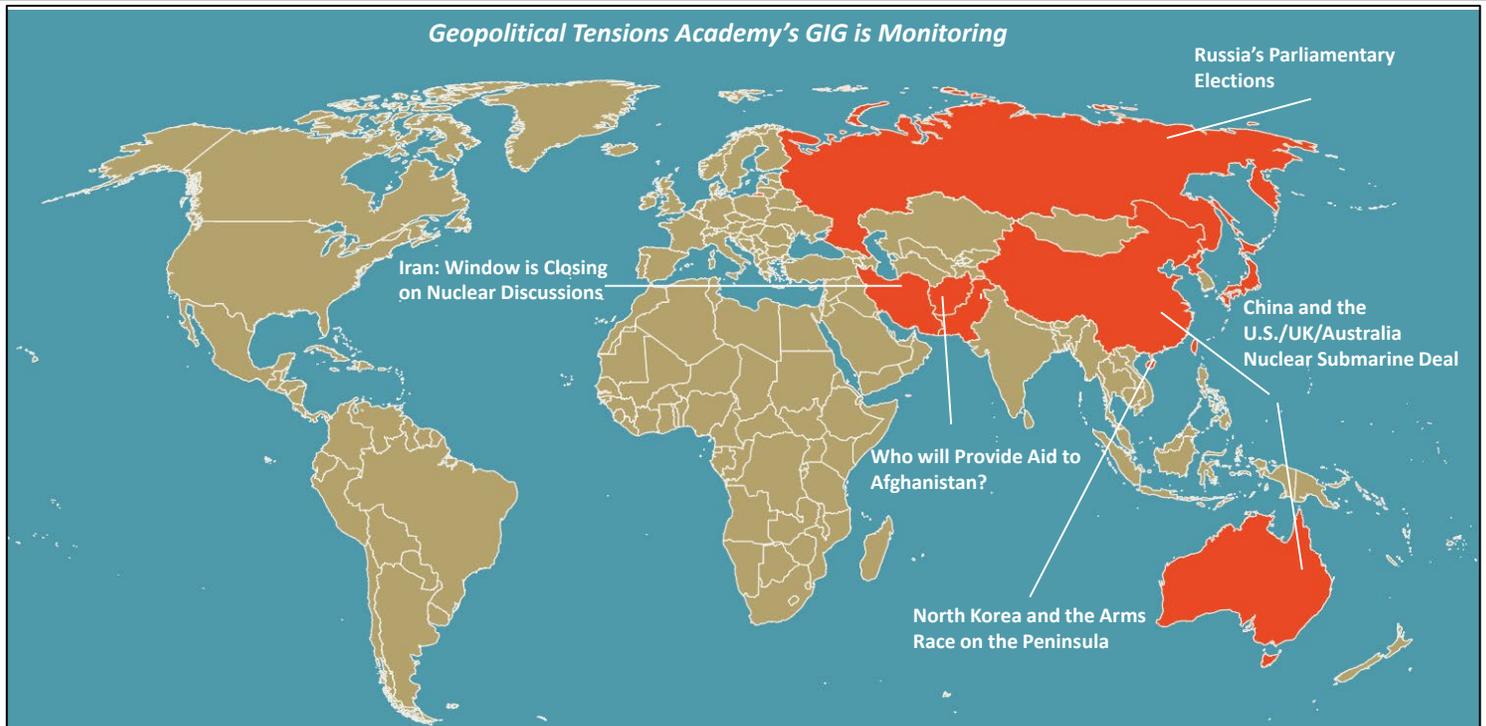


Around the World with Academy Securities



In this month's edition of *Around the World with Academy Securities*, our [Geopolitical Intelligence Group](#) (GIG) focuses on providing their perspective on the following tensions that we are monitoring:

1. Who Will Provide Aid to Afghanistan?
2. China and the U.S./UK/Australia Nuclear Submarine Deal
3. North Korea and the Arms Race on the Peninsula
4. Russia's Parliamentary Elections
5. Iran: Window is Closing on the Nuclear Discussions

We begin with an update on the situation in Afghanistan as a follow up to our coverage of the withdrawal of U.S./NATO forces after 20 years of conflict. As anticipated, the situation on the ground is dire for millions of Afghans under the new rule of the Taliban. We review the recent meeting among the neighboring countries, including Russia, China, and Pakistan and the announcement that they all expect the U.S. to continue to provide aid to the country. We then examine the U.S./UK/Australia nuclear submarine deal (and China's reaction) which came shortly before the first in person meeting of the leaders of the Quad (U.S., Australia, India, and Japan) on September 24 at the White House. In addition, we address North Korea and how the unintended consequences of the nuclear submarine deal with Australia could lead to an accelerated arms race on the Korean Peninsula. We revisit Russia and the recent parliamentary elections (including the fraud accusations), which resulted in yet another victory for Vladimir Putin's party. Finally, we review the Iranian nuclear discussions, which have yet to be resumed, and address the fact that as Iran gets closer to a nuclear breakout, the window to re-start talks is closing rapidly. In our next ATW, we will revisit Turkey (our NATO ally) and the fact that they have expressed an interest in buying additional S-400 missile systems from Russia, which could trigger new sanctions from the U.S.

Please reach out to your Academy coverage officer with any questions and we would be more than happy to engage.

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Front and Center: Who Will Provide Aid to Afghanistan?

As a follow up to our last [ATW](#) where we addressed the situation in Afghanistan as the U.S./NATO completed its withdrawal, the problems for the country continue. Of note, on September 17 at the summit of the Shanghai Cooperation Organization, Russia, China, Pakistan (and others in the region) called on the West (and the U.S. in particular) to lead the aid and reconstruction funding in Afghanistan. Putin said that “The main part of the expenses related to Afghanistan's post-conflict rebuilding should be borne by the United States and NATO countries who are directly responsible for the grave consequences of their prolonged presence in the country.” Without specifically naming the U.S., China's President Xi tried to highlight the same request. Imran Khan, the PM of Pakistan, a country that already has over a million Afghan refugees in the country, also noted that he wanted to “prevent a humanitarian crisis and an economic meltdown.” He also said that “We must remember that the previous government depended heavily on foreign aid and its removal could lead to economic collapse.” Of note, the World Food Programme has warned that more than 14 million Afghans risk starvation and the government will likely be forced to return to illicit drugs and arms sales if aid is not continued.



As neighboring countries call on the U.S./NATO to continue to provide aid to Afghanistan (and unfreeze financial assets), these nations also highlighted that the current Taliban government was not reflective of all the different ethnic groups in the country. This is interesting because it appears that as neighboring countries are worried about a potential economic and humanitarian disaster on their border, Pakistan indicated that it would like the Taliban to implement an “inclusive political structure”, clearly seeing this as a path to peace and stability in the country. However, one other concept that needs to be addressed is how to deal with the ISIS-K threat in the country. On September 19, an ISIS-K bombing in Jalalabad killed 35 Taliban militia and there is a clear rift between the two groups. How the U.S. will monitor ISIS-K from outside the country will be a problem which leads to the question, will the U.S. employ the Taliban to help fight ISIS-K?

*“Unless there is a credible and sustainable opposition to the Taliban that more openly aligns with U.S. diplomatic interests, the U.S. has two choices: figure out how to work with the Taliban or walk away. In very practical terms, both are defensible. In his UN speech, President Biden focused on his global priorities: shared effort internationally with allies and partners, the continuing threat of terrorism, climate change, the pandemic, emerging technological threats, and advancing peace and security. Clearly, Afghanistan remains a mess and is a magnet for jihadis in its vast ungoverned space. The U.S. will need allies and friends to stay meaningfully engaged. Unfortunately, but realistically, the Taliban and the U.S. share a hatred of ISIS-K that causes both to find common ground. This may be the new face of Biden's “relentless diplomacy” that he describes in his global initiatives. The U.S. may have to find friends in strange places. As former SecDef Jim Mattis reminded our Congress, “If you don't fund the State Department, you better start buying me more bullets.” **General Spider Marks***

“The question in front of the Biden administration is should they recognize the Taliban controlled government as legitimate? Realpolitik says that they should forget any kind of alliance with the hardline extremist Taliban in taking on ISIS-K. The real threat to the U.S. is still the ideology and jihadists in al-Qaeda. The Taliban and al-Qaeda maintain a close affinity. There must be a constant and steady warning from the U.S. and the world community to the Taliban that they will again pay a heavy price if terrorism comes from Afghanistan.

Where U.S. strategy and policy heads remains a question. The U.S. recently said that they would supply the people of Afghanistan with \$64M in aid through the State Department and USAID. The plan is to provide the funding through non-governmental organizations and the UN. The challenge is keeping the funds from getting into the hands of the Taliban while they are in complete control. The greater U.S. objective should be keeping the lid on terrorism

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coming out of Afghanistan (whatever the source). This should come from the constant threat of drone and air strikes. Squeezing the Taliban through sanctioning those who do business with the Taliban's controlled state banks is another viable option. It's far too early to provide carrots to the ruthless terrorists that harbored al-Qaeda." **General Robert Walsh**

"If we are a nation that values human rights, freedom, and democratic values then I would be very surprised to see the U.S. work with the Taliban against ISIS-K. We are fully capable of acting unilaterally or multilaterally with other partners and allies. We have had to cooperate up to this point because of the U.S. citizens still in Afghanistan, but as that number decreases, expect our strategy to shift as human rights violations and lack of freedom of choice reporting on the Taliban ramps up. We don't have relationships with the Taliban and as such not sure how we could trust them." **General KK Chinn**

China and the U.S./UK/Australia Nuclear Submarine Deal

On September 20, the Japanese Defense minister Nobuo Kishi said that China is "attempting to use its power to unilaterally change the status quo in the East and South China Seas" and that Europe needs to take a stand and speak out against what he sees as "China's rapidly improving operational capability." This comes on the heels of the announcement that the U.S./UK will provide Australia with technology to build conventionally armed nuclear submarines (over the last 60 years, the U.S. has only shared this kind of technology with one other country – the UK). The fallout from this announcement (and the breaking of a \$66bn Australian agreement with France for 12 diesel submarines) will likely reverberate as France feels like it has been betrayed and this could damage its relationship with NATO. Recently, Europe and NATO (see June 2021 [ATW](#)) have both been more vocal about calling out China's activities in the region. However, the major economies in Europe are highly reliant on China for trade (Germany in particular). While these countries signed off on the statement coming out of the NATO Summit in June of this year that said China's ambitions and behavior "present systemic challenges to the rules-based international order", it remains to be seen if they will provide additional naval forces to deploy to the South China Sea and reinforce the stronger language. However, many of these countries are wary of China and do not want to be involved in another Cold War or disrupt current trade relations.



While the EU will continue to be pushed to speak out regarding the risks associated with a rising China, on September 24, President Biden hosted Prime Ministers Narendra Modi of India, Scott Morrison of Australia, and Yoshihide Suga of Japan at the White House for the first in-person Quad Summit. The Quad is seen as a democratic counterweight to China's influence in the region and according to the White House, is critical to "deepening our ties and advancing practical cooperation on Covid-19, the climate crisis, technology, cyberspace, and a free and open Indo-Pacific." All these issues center upon China and the more support the U.S. has in the region to address them, the better. It also highlights the importance of Australia in this alliance, which has been dealing with significant internal unrest and demonstrations lately (i.e., in Melbourne, where 200 people were arrested) in response to Covid-19 lockdowns.

China is currently dealing with the Evergrande situation and while we do not believe the possible defaults will impact the broader global capital markets in the medium to long-term, the more immediate effect could be that China goes further down the path of [recentralizing and delinking](#), i.e. where the Communist Party recentralizes control and delinks from the "global influences" that stand in the way of their long-term objectives. This will make it harder to engage with China on many of the issues listed above.

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*“Japan is right to sound the alarm about China’s continued adventurism and provocations. Absent from President Biden’s speech at the UN was the mention of China. The list of his global priorities in every case is simply a derivative of Washington’s relationship with Beijing. Climate change is impossible without China. New cyber threats originate from China. Human rights are routinely violated by China. COVID-19 possibly originated from China. As Antonio Guterres, the UN Secretary General declared, we are facing the “greatest cascade of crises in our lifetime.” Collectively, the community of nations has no chance to arrest the cascade without China’s buy in and support. We need to acknowledge the elephant in the room. The submarine deal between the U.S., Australia, and the UK is a good step. The Quad +1 (the UK) is an alignment with real heft. While the French disagreed immediately, they will benefit strategically.” **General Spider Marks***

“Japan’s Defense Minister, Nobuo Kishi, rightfully spoke out on China’s aggression and expansionist actions in the Senkaku Islands in the East China Sea and asked European countries to step up to the China challenge. Japan also sees China’s increased aggression towards Taiwan as closely linked to Japan’s fate in the Senkaku Islands. The China threat and its aggression is both military and economic and is aligning like-minded nations against China. The newly formed AUKUS partnership between Australia, the UK, and the U.S. is not only a nuclear submarine agreement, but also promises defense technology and intelligence sharing to counter China. Additionally, the Quad countries that met last week are not only focused on China’s military aggression and expansionism, but also on its economic aggression and are dedicated to securing supply chains dependent on China that were shaken during the pandemic.

*China will walk a fine and principled line with Evergrande: make them feel the pain to rein in property developers that have become too powerful while not allowing Evergrande to fail and potentially affect China’s economy and the Chinese Communist Party. Xi Jinping and the CCP have already reined in other Chinese capitalists such as big tech players Alibaba, Tencent, and Didi that got too big and powerful and could threaten the CCP’s power and legitimacy. Evergrande is another opportunity to strengthen the CCP.” **General Robert Walsh***

*“In AUG 2016, Japan’s PM Abe announced his vision for a “Free and Open Indo-Pacific (FOIP)” because China was rewriting the existing regional order, utilizing gray zone tactics in the South and East China Seas, and expanding its influence in the Indian Ocean. The challenges at the time were resource constraints, building a regional consensus on FOIP, and coordination with the U.S. and other regional powers. Fast forward to 2021, looks like most nations are now on board and understand the China challenge. It is up to these nations now to choose wisely. Do they choose their biggest trading partner (China) or their primary security partner (the U.S.)? We need to continue alliance building (bilateral treaties, Quad, NATO, etc.), pursue new partnerships with rising powers like India and Vietnam, and initiate a region-wide economic pact incorporating Asia’s principal economies (but excluding China).” **General KK Chinn***

North Korea and the Arms Race on the Peninsula

On September 12, North Korea announced that it had conducted a test of a new long-range cruise missile, which was its first weapons test in six months. While this test was not a violation of UN Security Council Resolutions which are focused on the testing of ballistic missiles, on September 15, North Korea then conducted a ballistic missile test which is in violation of UN Security Council Resolutions. Of note, on the same day, South Korea also successfully tested a submarine launched ballistic missile, which re-affirms that the arms race on the peninsula continues to accelerate. In addition, the South also announced that it had conducted tests of short-range ballistic missiles that carry payloads powerful enough to penetrate the North’s bunkers where they store their nuclear weapons. While the North has not conducted a long-range intercontinental ballistic missile or nuclear test since 2017, the possibility exists that these tests could once again resume. All of this comes at a time when Kim’s sister said (on September 24) that North Korea was open to resuming “constructive” discussions with the South.



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Tensions have continued to simmer as the 2018 and 2019 meetings between then U.S. President Trump and Kim did not lead to an agreement regarding sanctions or the North's nuclear/ballistic missile programs. These tensions were not eased by the recent announcement by the U.S./UK to supply at least eight nuclear submarines to Australia. North Korea immediately condemned the plan and an unidentified spokesperson said that it could spark a "chain reaction of arms races". While it is not a surprise that the North took the opportunity to speak out against the announcement, the risk of further escalation on the peninsula could be an unintended consequence of the U.S./UK/Australia submarine deal that is meant to try to address the "deteriorating strategic environment in the Indo-Pacific" (as Australian Prime Minister Scott Morrison put it) and the speed of Chinese military technology advancement.

In addition to the unintended consequence of an accelerated arms race on the peninsula (and possibly the region), as referenced above, China's role in all of this is also part of the equation. A new long-range ballistic missile or nuclear test could bring China back into the picture quickly, but how much pressure they would be willing to put on the North (like they did by restricting oil sales in 2013/2014 after a nuclear test) is yet to be seen, especially considering moves the U.S./Quad/NATO are making to call out Chinese behavior in the region. That being said, the economic crisis in North Korea brought on by Covid-19 and the closure of the border with China (coupled with the food shortages, see June 2021 [ATW](#)) might give the U.S. an opportunity to engage with aid/vaccines directly, which could supersede China's historical level of influence and provide an opportunity to reengage in a more meaningful dialogue.

"A slimmer Kim does not alter the balance (pun intended) in north Asia. The U.S. is not going to embark on any change to its policy of remaining a regional power until North Korea's behavior becomes less bellicose, less threatening, and more open. The ball is in Kim's court to fundamentally change his regime's Juche ideology of self-reliance. The only way Kim has chosen to engage internationally is through threats to use his increasingly capable arsenal of missiles, nukes, and now an emerging cruise missile capability. I'm at a loss to recommend another way to deal with Pyongyang. It's either carrots like President Trump's charm offensive without result or sticks through continued strength of the 70-year alliance and regionally deployed U.S. military forces." **General Spider Marks**

"Last week Kim Jong-un continued his campaign to pressure the U.S. into sanctions relief imposed on the Hermit Kingdom by not responding to offers to negotiate with the U.S. and South Korea and launching ballistic missiles, violating UN Security Council Resolutions. Kim continues nuclear weapons production and now has come full circle with his ballistic missile launches after ceasing both before his talks with former President Trump stalled. Kim is also using the recent agreement by the U.S. and the UK to support Australia in developing nuclear powered submarines as a reason to continue nuclear weapons production and claim that the U.S. is the nuclear weapons aggressor in the region. Neither side seems willing to concede to the other's demands while North Korea's military strength grows at the expense of the North Korean people (and the humanitarian crisis they are under)." **General Robert Walsh**

"China and North Korea will not do anything of significance prior to the upcoming Winter Olympics, but after the Olympics they'll have plenty of time to do something because the next big event is 2049." **General KK Chinn**

Russia's Parliamentary Elections

Over the weekend of September 18-19, Russian President Vladimir Putin's party (United Russia) won a majority in the parliamentary elections, despite accusations of election fraud. It is worth noting that Putin's more outspoken critics were not allowed to run in the election. While Putin's party will control 2/3 of the 450-seat parliament, the results did show that they lost a few points compared to the 2016 election (i.e., down to ~50% vs 54% of the vote in 2016). While the treatment of Navalny and the ailing economy likely played a role in the party losing some ground, the platform of strength demonstrated by Putin "standing up" to the U.S./NATO has continued to overcome a



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deteriorating standard of living and high youth unemployment. The question is how much longer will the strategy of leading with national pride continue to overshadow the fact that a high % of educated Russians under the age of 35 are unemployed and have little faith in the government? Putin clearly has control, but eventually, domestic issues will have to come to the forefront and start to drive change.

Iran: Window is Closing on the Nuclear Discussions

At his UN speech last week, President Biden re-affirmed that “The United States remains committed to preventing Iran from gaining a nuclear weapon. We are working with the P5+1 to engage Iran diplomatically and seek a return to the JCPOA.” However, Iranian President Raisi’s videotaped response hit right back and said, “From the Capitol to Kabul, one clear message was sent to the world: the U.S.’ hegemonic system has no credibility, whether inside or outside the country.” His tone was noticeably harsher than that of his predecessor, President Rouhani. In addition, on September 15, Iran announced that it would replace Abbas Araghchi, who played an important role in the 2015 JCPOA negotiations, with Ali Bagheri, who is a protégé of Iran’s new President Raisi. This is a concerning development because Bagheri was a critic of the previous administration in Iran and has been outspoken in his disdain for the fact that the previous nuclear agreement allowed IAEA personnel to access and inspect “sensitive” Iranian facilities and was too strict in its limitations on Iran’s nuclear program.



While there was some positive news during the week of September 20 that IAEA inspectors would be allowed back into Iranian nuclear facilities (they had been barred since June 2021), the IAEA did note that some of its equipment had been tampered with. While Iran’s Foreign Ministry recently said that it expects the nuclear talks to resume soon, the next round has yet to be scheduled and time is running out. As we reported in our previous [ATW](#), Iran is getting closer to a breakout and has enriched a larger stockpile of uranium to more than 60% (less than the ~90% required for a weapon, but trending quickly in that direction). Iran believes that U.S. leverage has decreased, and they have clearly been emboldened by the U.S. withdrawal from Afghanistan. While the U.S. does have tools at its disposal to drive Iran back to the negotiating table (i.e., sanctions on oil sales to China), the window is closing, and this situation could quickly become a full-blown crisis in the coming months.

*“The limiting factors on an Iranian nuclear breakout are Israeli patience and Saudi guarantees of U.S. action to prevent it. If Iran gets close to developing nukes, Israel will attack the sites involved in the development with or without U.S. approval or knowledge. Similarly, Saudi Arabia will demand that Washington deny Tehran a nuclear capability by any means possible. There are a ton of options in that kit bag and further IAEA inspections are significant but not sufficient.” **General Spider Marks***

*“We can expect tougher negotiations for the U.S. and its European partners with Iran’s new hardline government if a new round of nuclear negotiations begins next month. Time is on Iran’s side as it continues to enrich and stockpile uranium and reduce the time needed to achieve a breakout and build a bomb. Iran’s leaders are emboldened having withstood both the Trump administration’s “maximum pressure campaign” and the pandemic. President Biden’s willingness to get back to negotiations aids Iran while his talk of adding additional regional compliance issues makes little sense to Iran’s hardliners. All sides realize that time is fading for a return to the original deal and leverage is on Iran’s side if talks are renewed. The U.S. must be prepared for the worst with expectations that Israel will take their own action through military strikes.” **General Robert Walsh***

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