Geopolitical Summit West Highlights

There were four main themes discussed on the geopolitical front:

- No obvious endgame for **Russia and Ukraine**.
- Things will get worse with **China** before they get better. It is impossible in this setting to talk about China without talking about **Taiwan**, but that was only part of why we see the relationship deteriorating.
- **AI, cyber, and semiconductors** were discussed individually and collectively on many fronts (with particular attention paid at the national security level).
- There are **more threats and risks than we've collectively seen** at any time in years, if not decades.

The Summit used Chatham House rules, so there will be no direct attribution. We are particularly sensitive about our clients who actively engaged in the robust discussions during the formal panels and throughout the conference.

Rachel Washburn moderated the panel from our Geopolitical Intelligence Group:

- Major General James (Spider) Marks (Army).
- Brigadier General Leslie Beavers (Air Force).
- Rear Admiral Danelle Barrett (Navy).
- Lieutenant General Vincent Stewart (Marine Corps).
- Major General Mastin Robeson (Marine Corps).

Each of the topics discussed has the potential to impact markets, the economy, and corporate decision making (both in the near and long-term).

Russia and Ukraine

There seems to be no obvious end in sight.

- **Putin "needs" a victory** and although he may re-shape what constitutes a victory over time, it could be difficult. Right now, he might be able to claim that he "De-Nazified" Ukraine, but that is about it.
- In a "**war of attrition**" Russia has more soldiers and a high degree of willingness to use them.
- Ukraine's goal is to remove Russia from all areas of Ukraine, including those areas that have been contested (at least) since 2014. **Zelensky may undergo the "Churchill" treatment** meaning that even though his leadership was crucial to the war effort, he might not be asked to serve during the peace effort.
- **On the weapon's front**, the West is likely to continue with the "no, no, no, maybe, yes" policy of reluctantly agreeing to supply higher quality arms to Ukraine. There was disagreement over whether China will sell weapons to Russia (mostly over a belief that they want to maintain strong economic ties with the United States). I am firmly in the camp that they will sell Russia weapons sooner rather than later. I was (thankfully) not alone in that camp and at least one member of the GIG went through China's 12-point peace plan and analyzed how self-serving it was.
- The refugee problems facing Europe were discussed. This doesn't get highlighted enough over

here as it is one area where the U.S. doesn't face the same test as our European allies. For many of the refugees, it has been over a year and even if peace was achieved tomorrow, many have little to return to.

Parts of Western Europe have the most incentive to see peace and while other countries (including the U.S. and China) may also encourage it, the combatants are showing little interest in ending hostilities.

- We will know within the next month or so if **Russia's latest offensive** works or fizzles out.
- **The prospect of a "peace rally"** seems unlikely as of now.
- China selling weapons to Russia would cause commodity prices to spike (prolonging the war) and should cause risk assets to fall, not only on inflation concerns but on the realization that "**Frankly my dear, I don't give a damn**" is China's attitude towards the United States. Bonds likely sell-off initially on inflation concerns and the risk that China sells their Treasury holdings, but after that reaction, they are probably a buy.

China / U.S. Relations

Consensus was that our relationship with China is likely to remain strained. It is highly apropos that just this morning Qin Gang (China's Foreign Minister) warned about the tensions between the two countries.

- **There is ground for working together**. That is clear, but that seems to rely on some assumptions that may not pass muster:
    - **High tech and chips are a national security issue**. The U.S. will not back down on this highly sensitive area. It will impact not only government spending, but also corporate behavior. Working together means you need to believe that China can segregate tough restrictions from our overall dealings (seems optimistic).
    - **China needs us to purchase their goods**. China will overlook issues to sell us goods (which might be the case currently), but they seem to be developing other markets to sell into as they pay for their insatiable demand for commodities.
    - **"Discussions" about the origination of COVID** aren't likely going to help the relationship.
    - **NATO providing weapons to Ukraine (while threatening China if they sell to Russia)** seems logical from our perspective. However, China's 12-point plan gives them some air cover and weapons were sold to both sides during the "proxy wars" between the U.S. and the Soviet Union in the Middle East (and elsewhere).
    - **China does need food.** That is one area where our perceived strength at the bargaining table is real (i.e. I think many of our other positions are stronger in our own minds than they are in the mind of Xi).
    - **You need to believe that sanctions work.** If the threat to China for any "misbehavior" is sanctions, then you have to believe that they work. With the exception of high tech/semiconductors, there is little evidence that sanctions have brought any of our heavily sanctioned foes (Russia, Iran) to their knees.

Any case for a better relationship seems to rely heavily on American exceptionalism, which may well win in the end, but this isn't how China sees it today.

Taiwan

Taiwan is part of the China discussion, the chip discussion, and even part of the Russia/Ukraine discussion.

- The **botched Russian invasion** of Ukraine has made China hesitant to attack.
- The **strength of Taiwan's defenses (i.e., defense in depth)** and our efforts to further improve them (both with hardware and tactics) give China more reasons to hesitate.
- Regarding the **chip industry,** TSMC is building foundries offshore and the U.S. is building new foundries here at home. Europe is not far behind and China is also working intensely to improve their domestic capabilities. All of these factors will have an influence on Taiwan.
- The only thing "conclusive" in any **war game** is that it will be costly to all sides involved.
- China will attempt to influence local policies. Unlike the Soviet Union, China is skilled at pulling all levers of power in the **D.I.M.E framework** (Diplomatic, Information, Military, and Economic). One thing that came up repeatedly was **the U.S. ability to compete on the "information" side of geopolitics**. More on this later.

Not a single member of the GIG who attended is complacent about the risks to Taiwan, and while it doesn't seem like a "this year event", it does seem likely to be something that Xi is focused on within the next 5 years. This puts all parties in between a rock and a hard place, but it currently seems more like a situation to keep your eye on rather than one to keep you up at night (at least not tonight).

AI, Cyber, and Semiconductors

We cover much of this in World War v3.1.

> *"D.C. is bipartisan on their concerns with China as it relates to national security. That extends beyond any "traditional" military view of national security and includes technology, chips, data, machine learning, artificial intelligence, and beyond."*

That theme is so important we've highlighted it yet again here, but if you take one thing away about our dealings with China, it should be how concerned D.C. is (on a bipartisan level) with the wholistic definition of national security. I cannot re-iterate that often enough (it pervades all my thoughts on China) because it pertains to economics and markets.

- "**The cloud is just a bunch of servers in a room**". The conversation was about **data, cyber, machine learning, and artificial intelligence,** but this particular comment got my attention.
  - Maybe it was a reminder that at the most basic level, this is first and foremost about **keeping your data safe.**
  - **We spend millions of hours as a nation on TikTok, have no idea what data is going where, but we were up in arms over a balloon?** Again, just another way to think about the issue of data collection.
- As our Summit was winding down, the **National Cybersecurity Strategy** was published.
  - The government is developing and improving upon how they think about data, cyber, machine learning, and AI at every level of government – military and civilian.

- There will be rules/guidelines that will be mandated for companies.
- There will be costs and opportunities when adapting to this heightened level of government awareness and action.

- **Cheap versus expensive**. **Cyber-attacks are "cheap."** The defender has to win all of the time and the attacker only needs to win once. Cyber-defense is shifting not just from stopping infiltration, but to catching/mitigating it once it is in. But that wasn't the only time the concept of "cheap" came up. **Drones versus aircraft carriers?** Can thousands or tens of thousands of cheap drones destroy a multi-billion-dollar vessel? How quickly can they be made? Can we run out of "smart" ammunition before destroying the enemy? **Balloons versus satellites** (ok, that one is a bit tongue in cheek), but this all relates to questions regarding budgets.
  - The military thinks in terms of "platforms" (which are impressive and incredibly capable), but is that the right direction? Collectively we can recognize the danger of a vessel or vehicle, but does the site of a computer scare us? Probably not, but maybe it should.
- **Disinformation**. The U.S. prides itself on telling the truth and not spreading false narratives or misinformation. But as Mark Twain said, "A lie can travel around the world and back again while the truth is lacing up its boots". It is difficult to combat a lie if it is out there first. **The more information the enemy has about us, the better they can craft narratives to disrupt us.** Are we fighting the global information war with one hand tied behind our back?
- **There was a discussion over automation**. Do we have "time" to let a human respond to a hypersonic missile attack? Possibly not. Have we made human intervention mandatory in some instances to protect us from a potential mistake that takes innocent lives? Definitely. How to resolve that paradox is not going to be easy, but it is increasingly important to our defense.
- **Space**. Barely even came up, but only because we ran out of time and could have kept the discussion going for hours.

A lot to think about. Some difficult concepts. I for one will be trying to use ChatGPT to help me. On a "lighter note" I did see a tweet where someone asked ChatGPT to write headlines about AI in the style of the Onion. Most were mediocre at best, but one that made me smile was "**AI becomes self-aware and immediately regrets it.**"

There is hope but the problems and battles of the future are shaping up differently than in the past (despite Russia/Ukraine looking a lot like World War I trench warfare) and understanding that and learning the tools and players is where the opportunity is.

VUCA

After our Geopolitical Summit East in the fall of 2022, we published VUCA Squared. Sometimes you worry about being alarmist (or at least I do). Sometimes you look back at a headline like that (VUCA stands for **Volatility, Uncertainty, Complexity and Ambiguity**) and regret it because it fizzled out. If anything, I strongly believe that uncertainty has been shaping geopolitics and the global economy/markets and will continue to do so. My only question is if this section should be titled VUCA Cubed or VUCA Factorial?

- **Mexico**. In the past month or so the discussion surrounding Mexico has shifted. Clearly there is an ongoing "battle" between the government and the cartels. But suddenly (or maybe like anything else, it was gradual and is just finally getting traction) **concern about Mexico as "ungoverned" space is increasing.** This shifts the conversation about our southern border from a question of immigration to a question of national security. Is this "ungoverned" space being used by our enemies to infiltrate our country? Anything from fentanyl to ISIS terrorists may be entering our country. It is fascinating to think of it in that light, especially as **we need Mexico as a major player in our revamped supply chain.**

  - Could Mexico devolve internally to a point that it isn't a good base of operations for companies to build things? Could it really be a dangerous pipeline into America for enemies preparing to hurt us? My thought (not from the GIG) is that this could also be politically motivated to get action on the border where the traditional arguments for a more secure border have been relatively ineffective.
  - In any case, Mexico bears scrutiny and if it does get treated more like an "ungoverned" space, it could be very disruptive to supply chains (at least initially). Over time, "Business Follows the Flag" could come into play, creating a better environment for companies of all nationalities to do business in Mexico. A less corrupt and more fair playing field could be what Mexico needs. It would definitely help companies with their supply chains if it becomes policy.

- **Iran, Israel, Saudi Arabia** and the region in general. As Iran heads towards "weapons grade" enrichment, the threat to Israel and the Saudis increases. How does this "intractable" problem resolve itself? A regular topic in Around the World with Academy Securities that deserves more scrutiny.
- **North Korea.** Always out there and should not be ignored.
- **Turkey.** What are Turkey's allegiances? Where is it headed? What does it want? Religious or secular? East or West? Nothing jumped out as "obvious" in terms of being a market event, but Turkey is straddling so many fences that it will likely have to choose sides. A few years ago, it seemed as though it had made a decision – secular and NATO. But that is far from clear today and Turkey's direction can change a lot of existing arrangements in the region.
- **India.** Not "geopolitical" in a bad way, but still a country that is underdiscussed, though it came up earlier in conversations and more often than at previous Summits (which I think is encouraging).
- **The rise of autocrats.** Are autocrats gaining power? Are "nationalistic" rather than "global" candidates winning elections? Is the age of globalization here? Deglobalization has been a theme here for years and (unfortunately) more are coming to that conclusion.

A little "potpourri" of the problems facing the world, any one of which could surprise us.

Creativity, Ingenuity, and Freedom Have a Way of Winning

Not everything was "bad" or even "negative" at the Summit and the one takeaway that each of the GIG members offered in his or her own way was that freedom has prevailed. Encouraging creativity and ingenuity while creating an equal playing field has triumphed over other systems time and again.

We cannot take it for granted or do it without taking the external threats seriously, but we can do it.

So, look for innovation, meritocracy, and freedom to win – which is where the real opportunities for individuals, companies, and nations exist!

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