2025

A YEAR THAT WILL SHAPE THE FUTURE

67TH TREND/FORECASTING REPORT

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THE DILENSCHNEIDER GROUP, INC.
www.dilenschneider.com

249 Long Neck Point Road
Darien, CT 06820
(917 579 3395)
Robert Dilenschneider:
rld@dgi-nyc.com

Gables Columbus Center
50 Minorca Avenue, 1014
Coral Gables, FL 33134-4565
(786 536 7074)
Jonathan Dedmon:
jdedmon@dgi-miami.com

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INTRODUCTION

Please accept our 67th Trend Report. We began issuing this report 33 years ago when, as best we could tell, there was only one organization – an accounting firm – advancing a similar document. Today, there are at least 24 organizations issuing “reports” and “insights.” So as a service to you, we have kept this as succinct as possible.

Our usual practice is to issue this Trend Report in late January. But because of significant changes in the world, we have held it until May.

Practically speaking, there is only one Trend that really matters as we distribute this Report – President Trump's new tariff policies. There's no need to summarize what the effects have been so far, since no story is more widely covered and relentlessly analyzed that this one. And it is impossible for anyone to predict at this point what the lasting results will be nationally and internationally — there are too many possibilities and countless complications. The only certainly is that the world is a very changed place now and will continue changing for the foreseeable future. We will have more to say in the next Report when it should be possible to offer some perspective.

But while it's true that tariffs overshadow all other news, there are plenty of other developments around the world that have major ramifications. This Report contains our analysis of several that hold particular significance.

CHINA: AMBITIOUS ON MANY FRONTS

China has set an economic growth target of around 5% for 2025, demonstrating confidence despite the global trade turmoil. However, Beijing faces significant economic challenges, including a downturn triggered by the collapse of its crucial real estate sector, deteriorating local government finances and declining domestic spending.

These issues have led to increased youth unemployment and a dramatic outflow of foreign direct investment, prompting the government to consider additional stimulus measures to stabilize the economy.

In technology, China's rapid advancements, particularly through companies like DeepSeek, are narrowing the gap with the United States. This progress has raised concerns in the U.S., with warnings about potential security risks and the need for policy responses to maintain technological leadership. Additionally, escalating U.S.-China tensions risk hindering scientific collaboration, potentially setting global scientific progress back by decades.

Meanwhile, China's increased military presence in the South China Sea and assertive actions toward Taiwan have heightened regional security concerns. The G7 foreign ministers have responded with a strong statement, omitting the usual reference to the "one China" policy and condemning China's coercive actions. This shift reflects growing apprehension about China's military ambitions and their implications for regional stability.

China also continues to strengthen its alliances with rogue nations like Russia and Iran. This trilateral cooperation increases China's ability to counter U.S. influence and reshape the geopolitical landscape.

Implications for Business:

While China's assertiveness and strategic initiatives bolster its global influence, they also contribute to heightened geopolitical tensions and economic uncertainties. The nation's trajectory in 2025 suggests a complex interplay of aggressive ambitions and cooperative policies with unpredictable outcomes.

TERRORISM: STILL A MAJOR THREAT

Terrorism remains a persistent and evolving threat, shaped by geopolitical instability, technological advancements and ideological shifts. While the frequency of large-scale attacks has declined, smaller, decentralized cells have expanded their operations, targeting critical infrastructure, public spaces and digital networks.

The rise of AI has accelerated the recruitment process, allowing terrorist organizations to bypass traditional surveillance and law enforcement measures. Lone-wolf attacks, often inspired by online propaganda rather than direct organizational ties, have become more difficult to predict and prevent.

Of particular concern is the Islamic State which continues to employ sophisticated social media strategies to spread its extremist ideology and inspire acts of violence. Despite territorial losses, ISIS's adept use of platforms like Telegram and Rocket.Chat has enabled it to maintain a significant online presence. Recent incidents, such as the New Year's Day attack in New Orleans by Shamsud-Din Jabbar, a former U.S. Army veteran who pledged allegiance to ISIS, highlight the group's capacity to motivate lone-wolf actors.

Implications for Business:

Terrorism is likely to become more decentralized, technologically sophisticated and ideologically fragmented, and the potential for AI-generated cyber attacks introduces a disturbing new risk. Governments will need to adopt a more proactive approach, leveraging big data analytics and international intelligence sharing to disrupt threats before they materialize. Without these adaptive and innovative countermeasures, the risk of a major, high-impact terrorist attack—potentially in an unconventional form—remains a distinct possibility.

CONFLICTS THAT CAN SHAKE REGIONS

Multiple flashpoints continue to shape global security, trade and diplomacy. The following conflicts stand out because of their potential to escalate and impact regional and even global stability.

The Russia-Ukraine War: Despite President Trump's often expressed determination to bring the fighting to a halt, Vladimir Putin remains unmoved. The key question, therefore, is whether Trump will be motivated by Putin's intransigence to resume U.S. support for Ukraine or continue to pull away, giving Russia a large military advantage. One point of leverage Trump has is that the Russian economy is now in deep trouble because of the war, with what is already hyper-inflation threatening to get even worse.

The Middle East: Despite international pressure, the Gaza conflict has intensified following Israeli military actions in response to Hamas attacks. Ceasefire negotiations have stalled. Meanwhile, Israel continues its on-again, off-again military incursions in Lebanon and Syria while tensions with Iran threaten to open yet another battle front.

U.S.-Iran Nuclear Tensions: Efforts to revive the Iran nuclear deal have apparently failed, with Iran continuing to enrich uranium at an alarming rate. The U.S. has toughened sanctions, but Iran, backed by China and Russia, still resists the pressure. Military tensions in the Persian Gulf between Iranian forces and U.S. naval assets have increased, raising fears of an accidental incident.

Sudan remains mired in a brutal civil war, with little international intervention. The humanitarian crisis is worsening, and refugee flows are increasing into neighboring countries.

Haiti is descending further into chaos, with heavily armed gangs controlling much of the capital of Port-au-Prince. The government is struggling to maintain its authority, and international interventions have been ineffective. The collapse of governance threatens regional stability, as Haitian migration increases, impacting the U.S. and neighboring Caribbean nations.

Myanmar's brutal military junta continues to face resistance from armed ethnic groups and pro-democracy militias. International sanctions have had limited impact, in part because China and Russia support the regime. The conflict is leading to regional instability, affecting Thailand and India. The human suffering that resulted from the major earthquake that recently struck Myanmar has been worsened by the military's reluctance to allow International aid into the country.

Implications for Business:

2025 will be a year of sustained geopolitical tensions. The Russia-Ukraine war will continue to drain Western resources, while Middle Eastern conflicts may continue or even escalate. Instability in Sudan, Haiti and Myanmar will contribute to regional humanitarian crises. The accumulation of unresolved crises increases the danger of global political and economic instability.

JAPAN: A TIME OF TRANSITION

Japan’s recent transition to a high-inflation economy marks a significant shift from its historically low-inflation, even deflationary, economic model. For decades, Japan struggled with stagnant wage growth, aging demographics and sluggish consumer demand. However, post-pandemic recovery has accelerated an economic expansion, fueled by increased government spending, supply chain realignments and rising corporate investment.

Inflation, once considered a distant concern, has now become a central economic issue as companies raise wages to retain a shrinking workforce. The Bank of Japan has responded cautiously, signaling a departure from its ultra-loose monetary policies, but the long-term effects remain uncertain.

A major driver of Japan’s economic evolution is its shrinking population, which has been declining at a rate of approximately 0.5% per year. This is reshaping the labor market, forcing companies to embrace automation, robotics and artificial intelligence at an unprecedented scale. These business investments in labor-saving technologies are making Japan a global leader in industrial automation and AI-driven productivity solutions.

While this technological shift helps maintain industrial output, it also raises concerns about labor market imbalances, economic inequality and social stability. The government has attempted to offset population decline with targeted immigration policies, but Japan’s historically tight restrictions on foreign labor limit the effectiveness.

Implications for Business:

Japan’s economic trajectory has significant implications for the U.S. and the global economy. As one of the world’s largest economies and a crucial trading partner, Japan plays a pivotal role in key industries such as semiconductors, automobiles and advanced manufacturing. The U.S. relies on Japan for critical technology and supply chain stability, especially because of the rising tensions with China. And Japan is a key defense ally in the eastern Pacific. If its economy falters because of the demographic decline and/or inflationary pressures, it could disrupt global supply chains, impact trade balances and weaken regional alliances.

AGING POPULATIONS: A POWER SHIFT IN THE MAKING

The aging population trend in 2025 will place strains on several countries around the world, including China, Japan and much of Europe, as they face shrinking workforces and rising pension costs. All this is likely to trigger fierce debates about whether to liberalize immigration policies to counter the shrinking labor supply.

Technological solutions, such as robotics and AI caregiving, will come into greater use, but their uneven distribution could widen gaps between rich and poor nations. Resource battles over healthcare and eldercare funding may spark tensions within blocs like the EU, while nations with youthful demographics, like India, gain leverage in global affairs.

In fact, there may eventually be a shift in geopolitical power centers. For instance, by 2050, Africa will have a much larger workforce than any other continent. If those workers are productively employed, populous countries like Nigeria could command much larger roles in the world's economy, challenging the aging Western and East Asian powers. In essence, demography will redistribute the cards on the global table. The question is whether this happens smoothly or creates widespread turmoil.

Implications for Business:

The interplay of demographics and geopolitics suggests a transformative decade ahead. Nations that have a youthful workforce are the ones to keep an eye on.

CRYPTOCURRENCY: THE NEW X FACTOR

The proliferation of cryptocurrencies has significantly reshaped global wealth distribution — and even geopolitical dynamics. In 2024, the number of global cryptocurrency owners grew over 30% year-over-year, surpassing 560 million. This surge in digital asset ownership has prompted varied reactions from major economies, with each response influencing the financial landscape in distinct ways.

United States: Embracing Digital Assets
President Trump has taken strong a pro-cryptocurrency stance. That includes the establishment of a strategic cryptocurrency reserve, starting with an estimated $17 billion in Bitcoin obtained through legal seizures. Trump wants to make America the global leader in cryptocurrency, with plans to acquire additional Bitcoin without, he says, burdening taxpayers. Such policies have attracted institutional investors, contributing to Bitcoin's price surpassing at one point the $100,000 mark, although the turmoil caused by the new tariff regime brought it down from that high point.

European Union: Regulatory Caution
In contrast, the European Union has imposed stringent regulations on cryptocurrencies through the Markets in Crypto-Assets Regulation (MiCAR), which went into effect December 30. MiCAR extends bank-like rules to stablecoins and cryptocurrencies, rules that are aimed at maintaining financial stability and establishing consumer protections. The European Central Bank has expressed concerns that the U.S.'s pro-crypto policies could compromise the euro zone's monetary sovereignty and financial stability.

Russian Strategic Maneuvers
Russia has shifted away from its restrictive stance on cryptocurrencies, with the central bank proposing that wealthy individuals be allowed to invest in crypto assets. It's seen as a strategy to evade Western sanctions and integrate digital assets into Russia's financial system. However, experts doubt that cryptocurrencies can be used on a large enough scale to bypass sanctions, citing insufficient market liquidity.

China: State Control
China has intensified its crackdown on private cryptocurrencies, reinforcing its 2017 ban and mandating banks to monitor risky activities. But at the same time, China is strongly promoting its state-backed digital yuan, aiming to modernize payments and expand global currency influence.

Implications for Business:

The diverse approaches to cryptocurrency are reshaping global wealth trends. While the Trump administration embraces digital assets in the belief it will bolster America's financial leadership, the EU's cautious stance reflects concerns over financial stability. Russia's maneuvers to mitigate sanctions and China's promotion of a state-controlled digital currency further illustrate how digital assets are shaking up the financial status quo.

THE GIG ECONOMY

The gig economy, characterized by short-term, flexible jobs often facilitated by digital platforms, is expected to expand in 2025 as flexible work arrangements become a cornerstone of global labor markets.

Many countries, particularly developing nations, are seeing rapid growth in gig work, a trend that will create both more opportunities for economic development and greater challenges in managing decentralized workforces. This growth may lead to competition to attract gig platforms and gig workers, along with increased efforts to harmonize regulations internationally to ensure fair treatment and protect worker rights.

The international competition to attract gig platforms could lead to new economic alliances, with countries forming partnerships to share best practices and attract foreign investment. Conversely, regulatory divergence might result in trade disputes or economic decoupling, particularly between regions with starkly different labor policies, such as the EU and U.S. The outcome will likely depend on how countries balance national interests with the need for global cooperation.

Implications for Business:

While the gig economy offers significant opportunities for economic growth and labor market flexibility, its geopolitical implications are complex and multifaceted. The future could see a new era of international collaboration to establish fair norms, or it might lead to increased competition and regulatory fragmentation, influencing global economic and diplomatic relations in unpredictable ways.

SHIPBUILDING: AN URGENT NEED

The U.S. Government Accountability Office said this in a report last month on the state of shipbuilding in America:

"Despite nearly doubling its shipbuilding budget over the last 2 decades, the U.S. Navy hasn't increased its number of ships. The Navy and Department of Defense . . . have invested billions of dollars to support the shipbuilding industrial base. But even with this investment, the industry has not been able to meet the Navy's goals—jeopardizing the Navy's ability to protect the U.S. from growing maritime threats and competition."

The problem, the GAO said, is that shipbuilders face two great challenges:

- Some shipyards lack the physical space needed to complete the volume of work the Navy wants in the time it wants. Some shipyards also have aging infrastructure that can delay efforts.

- Shipbuilders don't have enough workers to meet the Navy's demands. These companies struggle to recruit and retain staff, especially those with the skills needed to do the work.

These serious problems have not gone unnoticed. Secretary of Transportation Sean Duffy, during a visit to the Navy Yard in Philadelphia late last month, spoke about it, saying, "In 2022, America produced five vessels — China produced 1,800. We have to build ships again in America."

The defense budget – which may top $1 trillion – that Congress is now debating is expected to make shipbuilding one of its top priorities. This is major news on several fronts, not only in terms of national defense, but also the Trump administration's determination to create manufacturing jobs on a massive scale.

But several clouds hang over the effort. As the GAO report pointed out, existing shipyards are cramped and aging, and skilled workers are in short supply. Dealing with these fundamental problems – expanding and modernizing existing yard, finding suitable locations for new ones, creating a vastly larger trained workforce – will take time, a lot of time, and hundreds of billions.

Still, it's vitally important to get started on expanding America's ship building capacity now. As Oliver Wendell Holmes Sr. once pointed out, it's not the stand you take that matters as much as the direction you take. And we can be sure the Chinese are not going to stand still.

Implications for Business:

If Congress is able and willing to make the necessary investment in growing the nation's shipbuilding capacity, the business impact will be far-reaching. The demand for suppliers will mushroom, production will increase in all kinds of factories around the nation, tens of thousands of skilled workers will be trained – the list goes on and on. Advanced technology, especially AI, will be an enormous part of the expansion process. Meeting the Navy and the Coast Guard's future needs could prove to be a great boost for the nation's economy for decades to come.

CONCLUSION

The trends starting to shape America in 2025 reflect a complex interplay of domestic and international factors. As the nation navigates a rapidly changing geopolitical landscape, the choices made by global leaders today will determine whether the future is defined by collaboration or confrontation. The ongoing challenges of economic protectionism, regional conflicts and the resurgence of nationalism will require strategic foresight and adaptability to ensure stability and growth in the coming decade.

CLOSING QUOTE

We cannot solve our problems with the same thinking we used to create them.

— Albert Einstein