

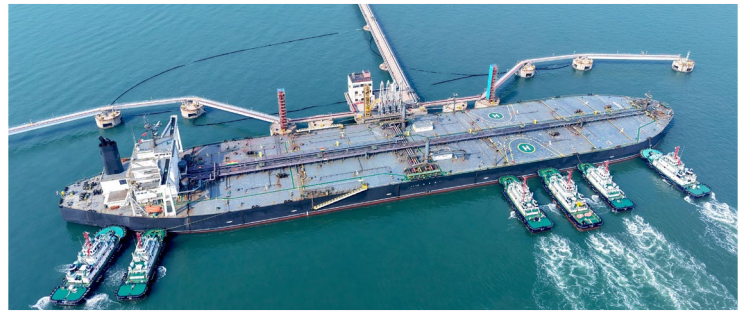
2025

# Second Quarter Forecast Update

- Russia/Ukraine Conflict
- Middle East
- Indo-Pacific
- Other Hotspots
- Connectivity Themes







Left: A Ukrainian soldier prepares to fire at a shooting range. Top right: Palestinians flee with their belongings in Gaza. Bottom right: An oil tanker is maneuvered to a receiving terminal in Qingdao, China. (Getty Images)

## Introduction

The second quarter of 2025 will be headlined by the reverberations of U.S. policy shifts initiated by President Donald Trump’s administration in the first quarter, primarily related to global trade issues and its changing posture to hotspots around the world. The Russia-Ukraine conflict could witness a breakthrough agreement, though tensions between various actors are likely to persist and present obstacles to a full implementation of any deal. The Middle East is likely to vacillate between military escalation and diplomatic de-escalation in several theaters, while hybrid escalation is likely to feature prominently in the Indo-Pacific. The United States could experience economic and political destabilization, while Europe likely will reassess its security architecture internally and its broader relationship with Washington. This will all occur in the backdrop of a more restrictive global trade environment as technological advances and shifts in energy and climate policies add further dynamism.

### Key dates/events:

- **April 1** – EU tariff exemptions on U.S. goods removed
- **April 1** – OPEC+ planned oil production increase
- **April 2** – U.S. reciprocal tariffs go into effect
- **April 10** – Argentina’s largest union set to hold strike against austerity measures
- **April 13** – Further EU tariffs against U.S. go into effect
- **April 28** – Snap parliamentary elections in Canada
- **May 1** – May Day, potential for labor-related protests
- **May 9** – Victory Day in Russia
- **May 12** – Philippines general elections
- **May 17** – License for last operational nuclear reactor in Taiwan expires
- **June 15-17** – G7 Leaders’ Summit in Canada
- **June** – Potential summit between Trump and Chinese President Xi Jinping
- **June 11-12** – AI Summit London
- **June 24-25** – NATO summit in the Netherlands

# Global Hotspots

## Russia/Ukraine Conflict

### Scenario probability



Percentages are calculated using The New Lines Institute's forecasting methodology.

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### Overview



- The Russia-Ukraine conflict enters the second quarter trending toward the diplomatic de-escalation scenario, with direct negotiations over a ceasefire or broader peace agreement taking place between the U.S. and Russia, as well as among the U.S., Ukraine, and Europeans. The U.S. has floated the prospect of easing sanctions and increasing Russian energy flows to Europe through the resumption of Nord Stream 2 if negotiations make substantial progress.
- There is also a moderate risk of hybrid escalation, as the U.S. has threatened sanctions and other forms of trade restrictions against Russia if it is not cooperative regarding the ceasefire/peace negotiations. The EU is likely to continue supporting the use of frozen Russian assets to fund Ukraine.
- There is low risk for military escalation, as Russia makes gradual advances in eastern Ukraine and aims to retake the remaining areas of its own Kursk region held by Ukrainian forces. The Europeans have been revisiting their own broader security posture in light of diplomatic developments.

### Forecast Scenarios

#### Military escalation scenario

- **Low probability:** The conventional phase of the war is likely to diminish over the quarter.
- The active military phase of the conflict is likely to slow as the diplomatic phase picks up, with growing potential for Russia and Ukraine to accept the terms of a ceasefire deal.
- There will still be military activity along the front lines of the conflict, but major offensive operations will be reduced.

### *Hybrid escalation scenario*

- **Moderate probability:** There likely will be an increase in economic restrictions, physical and cyber attacks on critical and energy infrastructure and government systems by both Russia and Ukraine, intelligence operations against leading officials, and proxy conflicts in Africa.
- Sanctions by the U.S. against Russia could be eased in a limited fashion, while the EU is likely to maintain sanctions against Russia through the rest of the year. The U.S. could intensify sanctions if Russia stalls or undermines a ceasefire deal.
- Ukraine is likely to receive disbursements of billions of dollars in frozen Russian assets.

### *Diplomatic de-escalation scenario*

- **High probability:** The U.S. is set to advance diplomatic negotiations with Russia, as well as with Ukraine and the EU.
- The Trump administration will push for a freeze of the conflict along the current battle lines, while the Europeans will seek to support Ukraine's efforts to get security guarantees from the U.S.
- A peace summit could take place, this time with the participation of officials from Russia and potential mediation by nonaligned states such as India, Türkiye, or the Gulf states.

# Middle East

## Scenario probability



Percentages are calculated using The New Lines Institute's forecasting methodology.

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## Overview



- The Middle East enters the second quarter trending toward military escalation. Phase II Gaza ceasefire negotiations collapsed in mid-March when the Israel Defense Forces resumed offensive operations in Gaza, and Israel continues to occupy territory and conduct air campaigns in Lebanon and Syria while expanding its operations in the West Bank.
- There is also a moderate risk of hybrid escalation as Iran and Russia pursue closer economic, energy and defense ties. Russia is also arming Yemeni al-Houthi rebels with sophisticated anti-ship weaponry and will likely exploit newfound leverage with Iran's proxy network to create strategic dilemmas for the United States.
- Chances of diplomatic de-escalation between the U.S. and Iran are moderate, as Trump has reached out to Iranian Supreme Leader Ali Khamenei threatening military action if Iran does not agree to negotiate directly with the U.S. over its nuclear program, and Russia has offered support for direct talks between the two. Chances of significant diplomatic de-escalation in Gaza and the West Bank are low, given the resumption of Israeli offensive operations in Gaza and lingering questions about the postwar governance of the territory.

## Forecast Scenarios

### Military escalation scenario

- **High probability:** Israel is likely to sustain the conventional phase of war in Gaza.
- Israel is likely to capitalize on Trump's willingness to support a sustained Israeli war effort and the permanent displacement of Palestinians from Gaza.
- Israel will likely continue the incremental expansion of its campaign and territorial grabs in the West Bank, as well as maintain territorial occupations in Lebanon and Syria. Limited Israeli operations against Iran, with potential support from the U.S., cannot be ruled out.

### Hybrid escalation scenario

- **Moderate probability:** Trump has resumed his previous administration’s “maximum pressure” campaign, and the EU has increased its sanctions against Iran.
- Global shipping in the Red Sea remains highly vulnerable to Houthi aggression and a possible escalation of U.S.-Iranian tensions in the Strait of Hormuz.

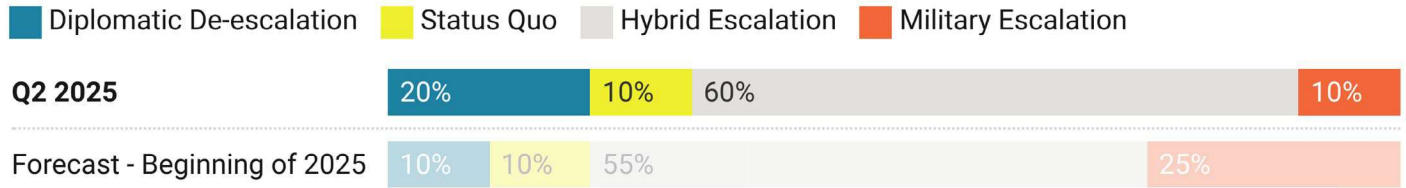
### ***Diplomatic de-escalation scenario***

- **Low probability:** Support from Washington for the resumption of offensive operations in Gaza, proposed policies for the displacement of the Gazan population, and increasingly aggressive rhetoric and policies from Trump against Iran and its proxies will disincentivize Israel to pursue de-escalation through diplomatic means.
- Diplomatic efforts over Phase II of the Gaza ceasefire are likely to falter given the unresolved questions over the postwar governance of Gaza and the strong likelihood that Israel will capitalize on Trump’s upending of traditional U.S. policy toward the Israeli-Palestinian conflict.



# Indo-Pacific

## Scenario probability chart



Percentages are calculated using The New Lines Institute's forecasting methodology.

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## Overview



- The Indo-Pacific enters the second quarter trending toward hybrid escalation, as trade escalations between the U.S. and China have risen due to reciprocal tariff impositions started by the Trump administration's stated intention to curb fentanyl flows. The administration has said it wants to secure a trade deal with Beijing, but it is likely that trade escalations will continue given Trump's current preoccupation with other hotspots and the lack of signaling for meaningful de-escalation from both sides.
- There are also signs of diplomatic de-escalation. In select areas, Indo-Pacific allies have understood the need for strong concessions to the U.S. to signal to Trump their intent to reduce the U.S. trade deficit and to increase their own defense spending. This was most clearly manifested by Taiwan's decision to invest heavily in the U.S. semiconductor and liquefied natural gas industries and to raise its own defense spending. South Korea and Japan are likely to make similar announcements regarding investments in the U.S., but they may also seek further engagement with China on certain economic issues to diversify.
- Military escalation indicators have been a minority in the first quarter, with key events including North Korean ballistic missile tests and Chinese military drills near Australia and in the South China Sea and Taiwan Strait.

## Forecast Scenarios

### Military escalation scenario

- **Low probability:** China's consistent military activities around Taiwan and repeated skirmishes in the South China Sea with the Philippines, as well as tensions on the Korean Peninsula, will likely be the main signposts for military escalation.
- Tensions on the Korean Peninsula are likely to escalate, as North Korea is likely to ramp up ballistic missile tests and expand its military capabilities with support from Russia.
- The U.S. will likely continue its military involvement and presence in the region, notably through joint military exercises, and is unlikely to significantly reduce its troop presence given its ambitions to put pressure on China.
- Chinese drills will likely intensify in May during the Philippine election cycle.

### *Hybrid escalation scenario*

- **High probability:** The trade and technology escalations that ramped up in the first quarter will likely continue in the second.
- The Trump administration has been less aggressive in trade restrictions toward China in the first quarter than promised during the election campaign. It is likely that as Washington's attention moves away from Europe, following a potential ceasefire in Ukraine, it will announce new tariffs or economic sanctions against China.
- Despite lobbying and negotiations, Washington will likely impose targeted sanctions against some of its Indo-Pacific allies if they are not able to make significant moves to reduce their trade deficit with the U.S.
- China will likely continue its cyber espionage and disruption campaigns against the U.S. and its allies.
- Beijing may also make a point of signaling continued good relations with Moscow even if the latter de-escalates with Washington.

### *Diplomatic de-escalation scenario*

- **Medium probability:** Indo-Pacific nations will likely attempt to de-escalate with both China and the United States.
- Taiwan announced major new investments in the U.S. in the first quarter and will likely have to continue through the second quarter to keep the Trump administration's favor. Japan and South Korea likely will attempt similar overtures, given their reliance on trade with the U.S.
- Trump may take initial steps toward a deal with China, including high-level meetings and signaling a willingness to cooperate on issues such as North Korea, though that may only come after a period of more hybrid escalation.
- Japan, the Philippines, South Korea, and other Southeast Asian countries may continue to seek closer economic ties with China if they are unable to secure tariff exemptions from the U.S.





Photos: Getty Images

## Other Hotspots

### United States

#### Overview



- Upon coming into office, Trump immediately put his ambitions to reform the federal government into action, mainly through the bulk signing of executive orders. This included abolishing the U.S. Agency for International Aid and cutting funds for non-governmental international aid agencies. Agencies including the U.S. Agency for Global Media and the Minority Business Development Agency have also been targeted by executive orders, while the Department of Education and the Department of Veterans Affairs were among those whose staffing was substantially cut.
- These cuts in funding and staffing were part of plans laid out by tech billionaire Elon Musk, who heads the Department of Government Efficiency, to cut government spending costs. Initial data has, however, revealed that so far, these cuts have not led to a spending decrease. Musk's role remains controversial, with polls showing his popularity decreasing amid friction between his team and Trump's Cabinet.
- The Trump administration further targeted Diversity, Equity, Inclusion, and Accessibility initiatives and has limited some media outlets' access to the White House press pool. It has adopted a tough stance on trade, with the imposition of targeted tariffs against Canada and Mexico, and global tariffs on steel and aluminum, all while allocating military resources to the southern border. It further placed priority on the deportation of illegal migrants, and while the numbers of deported people initially appeared lower than deportations during previous administrations, instances of deportation without due process were recorded and are currently under judicial review.

#### Forecast Scenarios

##### *Political destabilization*

- Depending on the scope of future cuts and initiatives by the Department of Government Efficiency, Trump may limit Musk's powers in response to negative backlash from his Cabinet and the public.
- Cuts to government spending and staffing may lead to a decrease in consumption that negatively affects the U.S. economy. Affected public agencies may face a decrease in productivity if messaging from the government remains unclear.

- State authorities and courts will likely increase public opposition to the administration's policies, mainly through court challenges and orders. Should the administration choose to ignore court orders, the country would face a constitutional crisis, potentially with increased protests. So far, the Trump administration has complied with most court orders, suggesting it would not be inclined to press the issue if it causes too much backlash.
- The Democratic Party will continue to struggle in coordinating a unified opposition given its minority in Congress and internal policy disagreements, such as during the government budget vote in March

### ***Economic destabilization***

- As the U.S. imposes more tariffs – and other countries respond in kind – it is likely that the U.S. will see a period of stagnation followed by an inflationary period affected both by uncertainty in the stock market and reciprocal tariffs.
- In an extreme scenario, the U.S. could face a recession; in March, the S&P 500 reached its lowest level since September 2024. However, data from the National Bureau of Economic Research points to a steady economy, despite major layoffs from the Trump administration. Nevertheless, there is growing unease about the effects that increased tariffs may have on U.S. consumption, which may negatively impact the overall economy if it falls further.

# Europe

## Overview



- The EU faces growing competition on economic and diplomatic fronts worldwide. In response to U.S. tariffs, the EU announced retaliatory tariffs totaling 26 billion euros starting April 1, with a second wave to come April 13.
- European Commission President Ursula Von der Leyen announced the ReArm Europe plan, intended to mobilize up to 800 billion euros for defense spending over four years, including the possibility of increasing military aid to Ukraine. France publicly considered expanding its nuclear umbrella to guarantee protection for other European states.
- In reaction to U.S. statements calling for NATO countries to increase their spending on the bloc to 5% of GDP, defense spending has become a central topic for deliberation in France, Spain, Lithuania, Germany, and other countries.
- German Chancellor Friedrich Merz enacted an increase in German defense spending of 500 billion euros over 12 years by removing borrowing limits.
- The Weimar Triangle, consisting of Germany, Poland, and France, has been rebranded as Weimar+ and now includes the U.K., Italy, Spain, and European Commission.

## Forecast Scenarios

### *Security stabilization*

- The response to U.S. tariffs could foster a greater sense of unity among member states.
- Increased defense spending through ReArm Europe will increase the EU's military capabilities and reaffirm the bloc's support for Ukraine.
- Increased defense spending could boost Germany's economy and encourage similar decisions by fellow states or the EU Parliament.
- Less EU reliance on the U.S. could lead to stronger regional alliances or cooperation with powers such as China.

### *Economic/political destabilization*

- Increased spending may spark disagreements among member states about spending priorities and EU commitments. Increased spending and borrowing could have a negative impact on EU markets and euro valuation.
- A significant shift in defense policy will likely cause upheaval among EU member states. Hungarian Prime Minister Viktor Orbán has begun pushing against these policies. Discussions of a French nuclear umbrella could antagonize Russia and its allies.
- Differing approaches by EU member states toward China in light of deteriorating transatlantic trade could jeopardize the EU's projection of unity.

# Sudan

## Overview



- The war in Sudan enters the second quarter trending strongly toward military and hybrid escalation, as outside powers continue to exploit the instability created by the Sudanese Armed Forces and the Rapid Support Forces, contributing to the further deterioration of a catastrophic humanitarian situation.
- International NGOs assisting with humanitarian operations both in Sudan and with Sudanese refugees in neighboring countries are likely to face increasing challenges to aid implementation.

## Forecast Scenarios

### *Hybrid escalation*

- A significant risk of increased regional instability, particularly to Ethiopia and South Sudan, will further threaten the ability of international NGOs to operate effectively.
- Sudan will likely see a significant increase in hybrid conflict due to foreign intervention. Outside powers, primarily Russia, Iran, Türkiye, and the UAE, continue to influence the conflict to advance their own economic and regional security interests.

### *Diplomatic de-escalation*

- There is a low chance of achieving de-escalation through diplomatic efforts, as the Rapid Support Forces formally announced a transitional constitution in March 2025, increasing the likelihood of further fracturing.





Photos: Getty Images

## Connectivity Themes

The New Lines Institute's 2025 Annual Forecast analyzed global developments from the previous year across broad connectivity themes including trade, technology, and energy/climate and extrapolated that analysis into forecasts for the coming year. The following section assesses those forecasts in light of events in the first quarter to determine whether they are on or off track and gives updates for developing trends in the second quarter.

### Trade

#### Assessment of Annual Forecast



##### *Trade restrictions and tariffs*

- The Trump administration is likely to increase tariffs on a number of countries and blocs in 2025, including China, Mexico, Canada, the EU, Russia, and BRICS. **On track**
- It will use such tariffs – or at least the threat – as leverage to drive negotiations and address economic and security priorities, including the outflow of domestic manufacturing jobs, the dollar as a global reserve currency, immigration, and illicit drug flows. **On track**
- The level of tariff implementation will likely be less than what Trump has initially proposed (ranging from 10% on all countries to 100% against BRICS countries) in most cases. **Mixed**

##### *U.S./China trade war*

- The trade dispute between the U.S. and China is likely to escalate in 2025, in terms of both tariffs and export controls on select goods. **On track**
- The global semiconductor supply chain will be particularly affected, as the U.S. will restrict technology and advanced component exports to China, while China will retaliate by banning critical mineral exports to the U.S. and partner countries such as Japan and the Netherlands. **On track**

- In the short term, the U.S. will likely deepen its critical minerals trade with South Korea, Southeast Asian nations, European countries, and Central Asian states. **On track**
- The U.S. will seek trade and investment concessions from China in areas like increased imports and the manufacturing location of electric vehicles, solar panels, and wind turbines. **On track**

### ***Emerging trade and shipping routes***

- The diplomatic de-escalation of the Azerbaijan-Armenia conflict will create new trade opportunities in the Caucasus and Trans-Caspian region. **On track**
- Melting sea ice in the Arctic will increase economic and military competition as the region becomes more navigable. As ice rapidly melts, an estimated three new major shipping routes, all over 4,000 nautical miles, will emerge in the Northern Sea Route and Northwest Passage in 2025. **On track**

## **Q2 Update**

- The Trump administration is set to enact reciprocal tariffs on a global basis on April 2 in its bid to broaden the scope of tariffs.
- Countries that are most heavily impacted by tariffs, particularly China, Canada, and EU states, will increase their retaliation against the U.S., both via tariffs and by other means such as diversifying trade away from the United States.
- The steel and aluminum sectors will be particularly impacted by U.S. tariffs and counter-restrictions.

# **Technology**

## **Assessment of Annual Forecast**



- The use of generative AI will continue to grow throughout 2025 in business decisions/ processes as new iterations continue to develop. Microsoft, OpenAI, and Anthropic will continue to be U.S. leaders in this domain. Rival Chinese AI leaders will likely continue to be Alibaba, DeepSeek, 01.AI, and Zhipu AI. **On track**
- The Trump administration is set to deviate from the Biden administration's approach to AI regulation. It is likely that Trump will attempt to revoke aspects of Biden's executive order on the "Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence," which aimed to create a coordinated, multiagency approach to regulating AI development, if he deems them not in line with his vision for government tech regulation. Several bills addressing AI regulation in the congressional pipeline may face obstacles throughout the year if the administration favors a more innovation-heavy focus on AI as it did during its first term. **On track**
- The European Union's first set of regulations under its AI Act will enter into force in February 2025, prohibiting "unacceptable" AI systems. The U.K. may seek closer cooperation with the EU on AI regulation and may have to conform to some of the EU's regulations given the market overlap. Both the EU and U.K. may seek openings for cooperation with China over tech policy, though EU members with restrictions on Chinese infrastructure such as Huawei systems are likely to keep them in place. The U.S. is unlikely to cooperate with China on technology and AI, and it will likely restrict technological trade and cooperation with China even further. **Mixed**

- There is appetite for further integration of AI into military systems, notably in the U.S., which will likely incorporate AI into military procedures and operations, as well as further the production and acquisition of autonomous aerial vehicles and autonomous weapons systems. China is likely to do the same, without cooperation from the U.S., exemplified by China's absence from September's "REALM" summit on the use of AI in the military. **On track**
- Funding is likely to increase for the development of quantum computing, with multiple governments and regions (U.S., China, EU) having shown interest in its integration in common computing processes. As such, 2025 will see developments in funding arrangements for the integration of quantum computing in military systems, for instance in the AUKUS partnership, which recently advocated for the integration of Japan's technological expertise in its second pillar. Additionally, recent high-level cyberattacks in the U.S. will incentivize a renewed push for developing and incorporating post-quantum cryptology in government and commercial encryption processes to bolster security against threat actors. **U.S.: Unclear; China: On track**
- Trump has appointed David Sacks as his AI and cryptocurrency czar along with a number of pro-crypto government candidates, with the aim of avoiding the hindrance of cryptocurrency development and adoption. The Trump administration is likely to push for an increase in cryptocurrency regulations, aiming to "legitimize" cryptocurrency's use. In the short term, this stance will likely manifest in the appointment of aligned officials in relevant government agencies, such as the Securities and Exchanges Commission, and will likely push for less regulation in Congress. **On track**

## Q2 Update

- The revisionary period set in motion during the first quarter by the U.S. federal government will likely end, after which the Office of Management and Budget and the Assistant to the President for Science and Technology will be among those charged with implementing personnel and policy changes aimed at "[sustaining and enhancing] America's global AI dominance."
- In terms of military application of AI, the U.S. defense budget is currently operating on funds allocated during the 2024 fiscal year, so it is unlikely to experience substantial changes from what was already allocated.
- Both Chinese and U.S. companies are likely to release updated and improved generational AI models this quarter. As such, Beijing may capitalize on the momentum of its newly established tech fund and continue to incentivize competition between private enterprises to enhance competitiveness with the United States. However, Beijing's "whole of nation" approach may stifle competitiveness among China's provinces in favor of tighter central government control.
- Taiwan will likely continue to increase its investment in the U.S. semiconductor industry, with likely further announcements of direct investment or joint ventures with U.S. companies such as Nvidia or Intel. Depending on its success, companies from South Korea and Japan may make similar moves.
- Trump recently signed an executive order establishing a strategic bitcoin reserve, as well as a digital asset stockpile. This is likely to increase the amount of bitcoin the U.S. government owns and is in line with the administration's policies on legitimizing cryptocurrencies. This is likely to produce further digital market uncertainty for users of cryptocurrencies, potentially leading to backlash against the administration.

# Energy/Climate

## Assessment of Annual Forecast

### Energy Transition



- Inadequate funding of climate change mitigation and adaptation measures for poorer nations and the energy policies of the incoming U.S. presidential administration will likely slow, but not stop, the global transition to carbon-free energy. **On track**
- Renewable energy capacity will continue to expand at a rapid pace, but balancing the variable output of wind and solar resources will prove an increasing headache for electric grid managers. Grid infrastructure upgrades and increasing energy storage likely will fall short of efficiently integrating renewables into existing networks in the short term. **On track**
- The unfavorable economics of some transitional energy technologies such as green hydrogen, offshore wind, and photovoltaic panel production will likely prompt some investors to back away from those sectors. **On track**
- The rapid pace of AI adoption will prompt big tech companies to increase efforts to secure sufficient electricity to power energy-intensive data centers, including deals for nuclear generation. **On track**

### Emerging Energy Technologies



- Emissions are likely to continue to rise because the world's energy use has outpaced efficiency advancements. Governments will push for more renewable energy and efficient systems to offset emissions. These innovative digital technologies will be used to meet these challenges and advance the decarbonization of the energy sector: Data-driven distributed grid management, AI-powered energy forecasting, predictive maintenance, and digital twins for the optimization of energy systems. **On track**
- As global energy demand rises and environmental concerns grow, improved and innovative solar energy technologies will be adopted and developed. These new and innovative solar technologies will help to address the limitations of current solar technologies such as low electrical efficiency and space constraints. Advanced solar technologies include perovskite and tandem solar cells, floating, bifacial solar PV, and agrivoltaics. **On track**
- Due to the global push for renewable energy, wind energy will see substantial investment and development. Advanced wind energy technologies with higher efficiency will make wind projects promising. New technologies include floating wind turbines, AI-powered predictive maintenance, modular wind systems, and innovative offshore wind energy. **On track**
- The adoption of green hydrogen is projected to rise significantly for both developed and emerging economies. In developing countries, investment in green hydrogen supply chains is hindered by high capital costs and limited renewable energy development. Challenges include high initial production costs, storage, and transportation. Emerging green hydrogen technologies include advanced electrolyzers, power-to-X technologies, and advanced hydrogen storage technologies. **Unclear**



# Fossil Fuels and Energy Security

## Oil



- Oil and natural gas markets are expected to remain volatile in 2025, influenced by fluctuating demand, supply chain disruptions, and OPEC+ strategies to stabilize prices. OPEC+ is projected to maintain its current production caps of 5.86 million barrels per day to prevent oversupply, keeping Brent crude prices within a range of \$73 to \$76 per barrel. However, any rapid increase in output could destabilize the market and trigger sharp price declines. **Mixed**
- Oil consumption growth in China will continue to slow as it shifts toward cleaner energy solutions. **On track**

## Natural Gas



- The natural gas market is expected to tighten in 2025, with rising demand from Asia and Europe outpacing supply expansions. This imbalance is projected to drive prices higher, with Henry Hub natural gas prices estimated to average \$2.90/MMBtu fueled by the growth of U.S. LNG exports. **On track**
- Despite policy shifts more favorable to the fossil fuel industry, investment in U.S. oil and gas development could lag because of profitability concerns. U.S. LNG production will ramp up as new export terminals move forward after the incoming Trump White House lifts the Biden administration's moratorium on permits. **On track**

# Energy and Geopolitics

The world's energy landscape in 2025 will continue to be shaped by ongoing conflicts that disrupt markets and trade flow as tensions spark competition for vital energy resources. Simultaneously, leading economies in the renewable energy transition, including Western nations and China, will accelerate investments in clean energy technologies to reduce dependence on unpredictable fossil fuel markets, redefining the global energy landscape.



- **Russia-Ukraine Conflict:** Diplomatic efforts will lessen the disruption of energy trade between Russia, Ukraine and the West, though the EU will maintain diversification of energy supplies from Russia. **On track**
- **Middle East:** Persistent unrest in the region will heighten risks at critical energy chokepoints, including the Strait of Hormuz and the Red Sea, potentially escalating risks to global energy markets. **On track**
- **China-Taiwan:** Rising tensions could disrupt global trade routes and energy supplies across the Asia-Pacific. Taiwan's planned nuclear energy phaseout in 2025 will further complicate its energy security, leaving it more vulnerable amid geopolitical uncertainties. **On track**
- **Arctic Competition:** A strategic rivalry over Arctic resources will intensify as melting sea ice opens new trade and energy exploration opportunities. The growing Russia-China rapprochement will add a new dimension, with both collaborating to expand Arctic energy projects and secure access to key resources, challenging Western interests. **On track**

## Q2 Update




- Oil price volatility will likely persist, exacerbated by global trade and tariff disputes and escalating tensions in the Middle East.

- The removal or easing of energy sanctions on Russia, linked to a potential agreement over the Ukraine conflict, could significantly increase the flow of Russian energy, leading to major shifts in global oil/natural gas supply and pricing.
- If Taiwan proceeds with its plan to phase out nuclear energy by May, the country's energy mix will shift, increasing pressure on the government to secure alternative sources.
- Newly imposed sanctions on Iran, as well as potential U.S. interdiction of Iranian vessels, could affect the security of energy shipments in the Strait of Hormuz and could prompt Iran to retaliate by disrupting shipments through the strait.
- More efforts likely will be made to develop efficient and low-cost energy storage technologies. Blue hydrogen will continue to dominate the market. Green hydrogen will face major challenges in the U.S. due to the Trump administration's reduced support for clean energy, but the Middle East, India, China, and South America may increase investments into the technology. This is mainly due to the low cost of solar and wind power, government incentives, and emerging and affordable electrolyzers from Chinese manufacturers. Europe may also boost hydrogen projects for energy security and independence from Russian natural gas.
- AI data centers are likely to face substantial problems that might impair their efficiency, sustainability, and operational effectiveness. The second quarter will see more ideas, technology, and sustainability to solve these problems including increasingly efficient servers, smart cooling technologies, efficient data management, and clean energy systems such as nuclear and renewables.
- U.S.-China trade tensions may affect their critical minerals trade, which in turn may affect the development of new and emerging technologies for the energy sector, among others.
- Oil production from Venezuela and Iran may decrease due to US sanctions and tariff threats, lowering global oil stocks and exerting upward pressure on prices. Oil prices may climb.
- High natural gas usage in cold weather in January and February will reduce natural gas storage. This may increase the price of natural gas.

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