

## *Which Way is Forward?*

2025 Q1 Overview

A brief reflection on what drove the 1Q25 news cycle.

### To Kill a ... Globally Integrated Supply Network?

If you're reading this, I can safely assume you're likely overly familiar with tariffs by now. Donald Trump's latest tariff regime kicked off earlier this year, initially targeting Canada and Mexico, only to see some threats amended, withdrawn, or delayed. The news cycle then pivoted to Russia and Ukraine's continued standoff, before another wave of tariffs took effect on April 2<sup>nd</sup>, sending stock markets into a tailspin. The reported figures, based on what's being taken as questionable economics and/or maths, looked far worse than expected, rattling investors and bringing up overall uncertainty and volatility.

Humming along in the background though, the AI arms race continued to gather steam. With week after week bringing faster models and newer features, it's difficult to keep track of who's ahead. Recent weeks saw "Ghibli-style" caricatures flooding Twitter (now X, which Elon recently sold to xAI- also owned by Elon, but that's a story for another time) before Sam A. imposed tighter usage limits. Running these colossal AI models requires expensive, specialized chips and robust infrastructure that only a few players can afford. Or so we thought. Then along came Deepseek in January with its R1 model, dropping a bombshell that raised doubts about the supposed need for top-tier chips. Either that or Chinese firms found their way around limited accessibility to the latest chips. It's a reminder that trade restrictions can backfire: forcing one party to innovate or bypass barriers in unexpected ways.

All of this raises the question of whether these new tariffs will truly reshape global supply chains in a sustainable way. They're already facing multiple court

challenges, and it's unclear who will really benefit once all is said and done. China had previously been routing its manufacturing through countries like Vietnam, but with the U.S. now putting up broader trade barriers, that strategy may not work as well. On the American side, it's no secret that the U.S. dominates global finance and military spending more than it does trade; its partners could still learn to adapt or pivot elsewhere. Hopefully DJ has a grand strategy. For now, consumers face higher prices and fewer choices - any promised onshoring of factories won't happen overnight.

Across the Atlantic, Europe is grappling with its own security dilemmas, and several EU countries have upped their defense spending by a point or two of GDP. Whether that proves sufficient is anyone's guess; there's no

consensus on how big the budget should be to address both ongoing and potential conflicts. Meanwhile, Taiwan faces an interesting puzzle. If it offshores too much semiconductor manufacturing capacity to the US to avoid tariffs (sorry), it risks losing its unique leverage that incentivizes the US to protect them from a prying China.

All told, these developments show that the world is speeding ahead at a breakneck pace, fueled by AI breakthroughs, shifting alliances, and unpredictable policy moves. Here's to hoping someone, somewhere who actually knows what they're doing has a roadmap and a plan for what's to come as we make our way through the year. ■



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