



Research Center  
Strategic Change  
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GEOPOLITICAL RISK OBSERVATORY

# The Indo-Pacific

**An overview**

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## GRO Overview: The Indo-Pacific Region

GRO Overviews are neither extensive analysis nor news updates. Instead, they offer a general perspective over areas and issues, trying to provide a series of factors and variables that organizations should monitor to anticipate risks. For in depth analysis or day to day updates you should contact the observatory at [strategicchange@luiss.it](mailto:strategicchange@luiss.it)

### Summary

The Indo-Pacific region stands at the epicenter of twenty-first century geopolitical risk, acting as both an engine of global commerce and a stage for growing political fragmentation and strategic competition. The area's vital maritime chokepoints and sheer economic scale draw in world powers, but unresolved **territorial disputes**, intensifying **U.S.-China rivalry**, and non-traditional threats like climate change amplify its volatility. Risks range from flashpoint confrontations to economic decoupling and hybrid conflicts, making regional stability a linchpin for global order.

### Historical and Geopolitical Context

Historically, the Indo-Pacific's strategic importance stems from its role as a crossroads for global trade, energy flows, and interaction among civilizations. Since the late 2010s, however, it has become the primary theater of **great power competition**, most notably between the United States and China. While the region hosts a **fragmented mesh of multilateral frameworks** (such as ASEAN-led forums, the Quad, and AUKUS), the absence of crisis management protocols and the proliferation of overlapping security arrangements heighten the **risk of escalation**.

U.S.-China rivalry has expanded beyond military concerns to include trade, investment, technology, and infrastructure, with both sides hardening alliances and partnerships across the Indo-Pacific. Other regional powers, such as India, Japan, and Australia, **balance** their interests between competing blocs, while smaller states face pressure to **align or hedge**. Smaller countries can often have crucial role in regional and global dynamics as exemplified by Myanmar for its capacities in Rare Earths largely exploited by China. The region is also marked by unresolved disputes in the **South China Sea**, cross-Strait tensions over **Taiwan**, and the

longstanding nuclear standoff on the **Korean peninsula**. China's tightening economic and strategic cooperation with Russia further complicates the balance of power, as does India's rising role as an intermediary between East and West.

## **Global Implications**

Instability in the Indo-Pacific has far-reaching global repercussions. With **60% of global GDP** and most of the world seaborne trade transiting the region, any major disruption, such as a military incident in the Taiwan Strait or widespread escalation in the South China Sea, could send shockwaves through global supply chains, particularly in energy, semiconductors, and critical minerals. Especially exposed to escalation risks are crucial sectors such as that of Rare Earths or Semiconductor.

A major confrontation could **fragment global trade and financial systems**, driving the emergence of parallel economic ecosystems and fueling decoupling trends in technology standards, data governance, and resource access. The region's vulnerabilities to **hybrid threats**, such as cyberattacks and the weaponization of critical infrastructure, further elevate the possibility of systemic shocks. Global actors may also face the challenge of managing alliances in an increasingly multipolar and contested order, with traditional governance structures at risk of being sidelined.

## **Practical Implications for Businesses and Interests**

For businesses, the Indo-Pacific's complexity translates into both opportunity and heightened risk. **Rapid economic growth**, ongoing infrastructure development, and trade liberalization (e.g., through new FTAs) open lucrative prospects especially in sectors like energy, advanced manufacturing, and digital infrastructure. Yet, all actors must account for **political instability, war risk, shifting regulatory environments, and potential disruptions to supply chains**.

European and Italian firms, for instance, can leverage trade agreements and partnerships for market expansion, but must adopt robust risk **management strategies**, diversify operations, and invest in resilience. Sectoral partnerships (such as joint ventures in energy and technology), government-backed financial instruments, and alliances with like-minded firms can help mitigate exposure to geopolitical shocks, while ongoing diplomatic engagement provides vital insurance against sudden policy shifts or market closure.

## **What to monitor**

Factors that might lead to considerable changes in the current situation include:

- USA-China relations: The evolving rivalry between the United States and China should be closely tracked. This includes diplomatic stances, trade restrictions, and military posturing such as joint exercises or new basing agreements. Significant shifts could create ripple effects across global politics and supply chains.
- Korean Peninsula Security: Tracking North Korea's missile and nuclear activities, its security cooperation with Russia, and changes in South Korea's defense posture is essential, as provocations or arms transfers could trigger military responses or sanctions cycles. Renewed instability could pull in regional actors, affect Northeast Asian trade routes, and heighten uncertainty in energy and finance sectors worldwide.
- Regional alignments: Shifts in smaller power alignment can signal major shift in major power competition. Internal and foreign policies of crucial countries, such as Myanmar for the rare earths should be carefully monitored.
- Climate change and natural disasters: earthquakes, extreme weather events, resource competition (including fisheries and freshwater), and adaptation measures in vulnerable areas, These stressors can intensify food insecurity, migration, and cross-border disputes, while also shaping global regulatory responses and insurance markets.