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GEOPOLITICAL RISK OBSERVATORY

Southeast Asia

An overview
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GRO Overview: Southeast Asia

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

Summary

Southeast Asia lies at the heart of the Indo-Pacific and has become a primary arena for U.S.–China strategic competition across military, economic, technological, and influence dimensions, with the South China Sea as the central flashpoint. At the same time, several states in the region are undergoing democratic regression, experiencing internal conflicts, and relying on weak institutions, which constrains ASEAN's capacity to manage crises and increases the risk that domestic instability spills across borders. Because a large share of global maritime trade and energy shipments transits the South China Sea and the Strait of Malacca, any serious disruption in Southeast Asia would have immediate and potentially severe consequences for global supply chains, energy security, and trade costs.

Historical and Geopolitical Context

The modern geopolitical profile of Southeast Asia has been shaped by overlapping layers of colonial rule, Cold War alignments and conflicts, and contested processes of post-independence nation-building, which left behind unresolved borders, ethnic cleavages, and a strong emphasis on sovereignty and non-interference. ASEAN, founded in 1967 as a mechanism to foster regional dialogue and economic cooperation, has helped reduce overt interstate conflict but remains consensus-based and only weakly supranational, limiting its ability to intervene effectively in internal crises such as the post-coup conflict in Myanmar. Since the 1990s, rapid export-oriented industrialization and integration into global value chains have increased Southeast Asia's economic weight while deepening its dependence on external markets, capital, and security partnerships with major powers.

Within this setting, the South China Sea disputes have become a defining strategic issue, as China's expansive "nine-dash line" claims, large-scale island-building, and militarization of features have clashed with the legal claims and maritime rights of Vietnam, the Philippines, Malaysia, and others, prompting regular confrontations at sea and freedom-of-navigation operations by the United States and its allies. In 2025 confrontations between coastguards of China and the Philippines have seen an increase both in quantity and severity increasing risk of accidental escalation.

Internal political trajectories have also generated structural risk: Myanmar's 2021 coup and subsequent civil war, repeated military and constitutional interventions in Thailand, and creeping authoritarianism in states such as Cambodia reflect a broader pattern of democratic backsliding and fragile civil–military balances. ASEAN itself has grown more divided over how to handle these issues, with some members closely aligned with or economically dependent on China and others increasingly leaning on the United States and its partners for security, weakening collective crisis-management capacity. Myanmar itself, that maintains profound internal instability remains of high interest for China's Rare Earth strategy.

Global implications

Southeast Asia functions as a core node in global trade and energy flows, with the Strait of Malacca and adjacent sea lanes handling a substantial share of maritime commerce and a large proportion of Middle Eastern oil and liquefied natural gas destined for East Asia, making it arguably the world's most critical trade chokepoint by volume. A military confrontation, blockade, or even a prolonged stand-off in the South China Sea or Malacca Strait would likely force shipping to divert through longer Indonesian routes, tying up vessel capacity, driving up freight and insurance costs, and triggering volatility or spikes in global energy and commodity prices. The strait is also increasingly subject to piracy, adding an additional factor to the uncertainty of the passage.

The intensifying U.S.–China rivalry embeds regional disputes within a broader systemic contest over technology, supply chains, and norms, so incidents at sea or in the air now carry a higher risk of escalation and of prompting global market reactions or alliance readjustments. China's acute dependence on the Malacca route for energy imports, often described domestically as the "Malacca dilemma," has encouraged efforts to diversify routes and build redundancy through pipelines, alternative corridors, and the Belt and Road Initiative, which in turn justifies a greater Chinese naval and paramilitary presence in surrounding waters. Prolonged state fragility and rights abuses, particularly in Myanmar but also in other fragile contexts, increase the likelihood of sustained refugee flows, transnational crime, and ungoverned or poorly governed spaces that can host armed or criminal groups, with direct humanitarian and security implications for neighboring states and external partners.

Practical implications for businesses and interests

For businesses and investors, these geopolitical dynamics translate into a tightly interlinked risk environment where maritime disruptions, regulatory shifts, and domestic political shocks can rapidly affect production, logistics, financing, and long-term asset values. Firms reliant on just-in-time maritime supply chains that cross the South China Sea and the Strait of Malacca—such as manufacturers, energy and commodity traders, and logistics providers—are particularly exposed to delays, re-routing, and cost spikes arising from naval incidents, gray-zone coercion, or temporary blockages.

Regulatory and sanctions risk is rising as well: further deterioration in Myanmar's crisis or sharper U.S.–China confrontation could produce new layers of sanctions, export controls, investment screening, and "de-risking" measures that affect regional entities, infrastructure projects, and dual-use sectors such as advanced electronics and telecommunications. Domestic political volatility in specific countries, including coups, contentious elections, protests, and abrupt policy shifts, raises the likelihood of sudden changes to investment rules, taxation, land use, or environmental standards, as well as physical security risks to personnel and facilities. At the same time, re-shoring and "China-plus-one" strategies adopted by Western and Japanese firms have channeled new manufacturing and infrastructure investment into Southeast Asia, which creates opportunities but also concentrates exposure in a region embedded in contested maritime spaces and subject to external strategic pressure.

What to monitor

To effectively navigate this complex environment, the following indicators should be continuously monitored for signs of escalation or change:

- Frequency, intensity, and character of incidents in the South China Sea, including confrontations between Chinese and Southeast Asian vessels, use of water cannons or ramming, and any direct clashes or close calls involving U.S. or allied naval and air assets.
- Adjustments in U.S. and Chinese regional postures, such as new basing or access agreements, expanded exercises, deployments of advanced systems, or major changes in trade, tariff, export-control, and sanctions policy that explicitly reference Southeast Asian states or infrastructure.
- Signals of ASEAN cohesion or fragmentation, observable in summit communiqués, voting patterns, crisis responses (for example on Myanmar or South China Sea incidents), and the degree to which member states align or diverge on core security and economic issues.
- Domestic political trajectories in key states—including elections, coups, constitutional revisions, civil–military confrontations, and large-scale protests—in Indonesia, Thailand, Myanmar, the Philippines, Malaysia, Vietnam, and Cambodia, with emphasis on institutional resilience and democratic backsliding.
- The security and resilience of maritime chokepoints and critical infrastructure, measured through trends in piracy, terrorism threats, naval build-ups, infrastructure accidents or sabotage, and the development of alternative routes or redundancy measures that could either mitigate or shift chokepoint risk over time.

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