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GEOPOLITICAL RISK OBSERVATORY

Latin America

Luiss Report

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GRO Overview: Latin America

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

While generally stable, Latin America maintains core internal and external threats that could alter security and stability and hinder business operations. The most acute risks in Latin America stem from the erosion of governability, especially due to the expansion of organized crime and persistently low trust in political institutions, interacting with economic stressors and intensifying political polarization. These domestic vulnerabilities are increasingly "geopoliticized" by global rivalries and supply-chain realignment, raising the probability that localized instability (e.g., port insecurity, corruption scandals, contested reforms) produces outsized international effects.

Two external developments have recently reshaped the environment acting on these vulnerabilities. First, a sharper US hemispheric posture with the January 2026 intervention in Venezuela, in line with the November 2025 National Security Strategy's Monroe "corollary." Second, the 2026 Iran war and associated oil-price shock, which cuts both ways for the region: boosting energy exporters' terms of trade while transmitting slower global growth and a stronger dollar to net importers.

Historical and Geopolitical Context

Latin America's modern risk landscape reflects long-running patterns: periodic cycles of reform and backlash, strong presidentialism with recurring executive-legislative conflict, and uneven institutional consolidation that leaves governance vulnerable to corruption and capture. Over the past decade, the region's security challenge has evolved from traditional cartel violence toward more complex "multi-crime" ecosystems that penetrate politics and economic activity, weakening rule enforcement and widening "no-go" spaces that undermine state authority. In Colombia, non-state actors also take the form of paramilitary forces that challenge governmental authority.

Humanitarian criticalities are spread across the region, with Haiti remaining in critical condition after multiple disruptions, both natural and political. International humanitarian attempts to improve the situation all seem to have failed. Humanitarian crises and economic and political instability have also

fueled migration towards the USA, often prompting Washington to engage with restrictive policies. Any instability in the region could heighten these trends.

In parallel, electoral competition has often amplified polarization and shortened policy horizons, complicating long-term infrastructure, fiscal, and security reforms; this dynamic becomes sharper around election cycles and can create abrupt regulatory shifts and legitimacy crises when trust is already low. Election cycles in the first half of 2026 have tended to shift many national administrations toward the right, even as polarization and fragmentation persist. While many countries retain formal democratic mechanisms, the core concern is functionality: governments' ability to deliver basic public goods (security, justice, predictability) amid rising criminal violence and public skepticism.

Historically, the area has had a close relationship with the USA, which has maintained strong control and influence over the region. Today, this influence is partially contested by China, although the USA is showing renewed assertiveness. The Trump administration is bringing new assertiveness to the region, as exemplified by the intervention in Venezuela and the capture of President Maduro in January 2026. That event has been followed by a contested, externally-supervised transition whose outcome remains open, sustaining risks of instability, migration pressure, and spillover to neighbouring states, an ongoing source of regional uncertainty rather than a settled turning point.

Global implications

Latin America can transmit shocks globally through strategic trade arteries, critical minerals, and geopolitical alignment choices under major-power competition. Potential disruptions to the Panama Canal could become a global logistics problem. The canal is best understood as a structural, recurring vulnerability rather than a single crisis: the acute 2023–24 drought has eased and water capacity has been restored, yet transit volumes remain below pre-drought norms and the waterway stays exposed to recurring, climate-driven water stress (e.g., El Niño cycles).

The region's standing as a significant non-OPEC, chokepoint-free oil and gas supplier has gained strategic salience amid the 2026 Middle East conflict and oil-price volatility. The effect is asymmetric: energy exporters see improved terms of trade and investment interest, while the same shock transmits slower global growth, tighter financing, and a stronger dollar to net importers, so the regional impact depends heavily on each economy's energy balance.

The region's mineral endowment illustrates a deeper paradox. Latin America holds an outsized share of strategic minerals (i.e. the lithium triangle and a large share of global copper), yet captures limited value because processing and the value chain sit abroad. Resource wealth therefore does not readily convert into strategic autonomy; it tends only to shift which external power the region depends on. Geologically rich, the region remains strategically dependent, and large exporters of critical materials are increasingly exposed to great-power competition as they try to balance economic development against rising geopolitical tensions. China has increased its presence in the region through investments, prompting an American response favoring "friendshoring."

Great-power rivalry increasingly turns the region into contested ground for investment, technology, infrastructure, and security partnerships, forcing many governments into a difficult balancing act where alignment decisions can trigger economic retaliation or reduced access to markets and financing. That balancing act, however, is constrained by the partial reach of the alternatives the region has leaned on: when external pressure becomes material, Russia, China, and the EU have shown limited reach or willingness to counterbalance – Russia stretched by Ukraine, China's presence in some states confined largely to commercial and intelligence ties, and the EU internally divided. Regional responses accordingly diverge, from active alignment to merely declaratory positions. Meanwhile, interstate disputes such as Venezuela–Guyana tensions around Essequibo create structural, if at times dormant, escalation risk with potential external involvement, especially where energy resources, legal proceedings, and military signaling intersect.

Regional organizations like MERCOSUR promote integration of the Latin American economies. The agreement with the European Union has now been signed and its trade provisions provisionally applied, while full ratification remains pending and politically contested within the EU, notably on agriculture. The USA's presence and relations with the region remain a factor, especially as the administration chooses more assertive strategies to fight drug cartels and oppose adversary governments. At the same time, the Venezuelan and Cuban governments have sought increasing support from opposing powers such as Russia and China. The region is also subject to new US tariffs, with potential disruptions to its trade. The arrest of Maduro reinforces US interests in the region and challenges Chinese and Russian influence; while the consequences are not yet clear, regional disruptions are to be expected, especially if a power transition does not happen smoothly in Venezuela. Countries such as Cuba, Colombia, and Mexico have been directly pressured by Washington at different levels within the broader framework of the fight against drug trafficking. Intra-regional frictions are also emerging, with tariffs being imposed by Mexico on various global partners.

Practical implications for businesses and interests

The principal operating risks for private actors are security costs and continuity risk: organized crime and high criminality can increase insurance, guard-force requirements, cargo-theft exposure, and staff duty-of-care burdens, while also elevating corruption and extortion risks in permitting, procurement, and logistics. Political risk is increasingly expressed through regulatory volatility and institutional fragility; low trust and polarization can weaken governments' capacity to sustain reforms, raising the probability of abrupt policy shifts, enforcement selectivity, or delayed approvals. Supply-chain and infrastructure risk is no longer peripheral: climate impacts can disrupt hydropower, water availability, and transport corridors, while canal constraints can force expensive routing adjustments and longer lead times that hit inventory strategy and contract performance. For investors, the opportunity set (nearshoring, energy-transition minerals, logistics, renewables) is real, but is tightly conditioned on governance quality, local security dynamics, and the ability to manage geopolitical exposure tied to U.S.–China competition.

What to monitor

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

- Trajectories of organized-crime influence (port/transport control, illegal mining expansion, cartel fragmentation, prison governance) and associated homicide/extortion trends.
- Institutional trust and legitimacy indicators, including executive–judicial tensions and signals of institutional co-optation or weakening of checks and balances.
- Election cycles and polarization markers (major reform pushbacks, contested-result narratives, sustained protest waves, executive–legislative deadlock).
- U.S. policy posture toward the region (sanctions, tariffs, security cooperation, migration enforcement) and second-order effects on Mexico/Central America/Caribbean corridors.
- Venezuela's transition trajectory and its regional spillover.
- Energy-price shocks and supply realignment: global oil and gas volatility and the region's evolving role as a chokepoint-free supplier.
- Regional alignment signals: how governments position between Washington and alternative poles (Russia, China, the EU), and the demonstrated reach of those alternatives.
- U.S.–China competition spillovers (port/infrastructure deals, technology restrictions, financing shifts, strategic-asset scrutiny).
- Panama Canal operating constraints and water-stress signals (transit caps, draft limits, queue times) as leading indicators for global shipping disruption.

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