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Q&A

THE AGE OF CHOKEPOINTS: IN CONVERSATION WITH EDWARD FISHMAN

Kathryn Leaf
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Edward Fishman, author of "Chokepoints" and a former US government official who worked on sanctions policy, joined Pantheon's CEO Kathryn Leaf on stage at our Annual Investor Meeting for a wide-ranging conversation on the new age of economic warfare, the implications of the closing of the Strait of Hormuz, what lies ahead for the dollar as the currency of choice for global payments, and what it all means for investors.

Kathryn Leaf

I can't think of a more important topic for our investors in today's uncertain global backdrop than geopolitics. What's the core narrative of your book Chokepoints, and why is it important for private markets investors?

Edward Fishman: We're living in an age of economic warfare, in which sanctions, export controls, tariffs, and industrial policy have become the primary way that great powers compete with one another.

Every single US president in the 21st century, from George W. Bush, to Barack Obama, to Donald Trump's first term, to Joe Biden, to Trump's second term, has imposed sanctions at roughly twice the rate of their predecessor. And that trend has gone global: data from the International Monetary Fund shows that over the last seven years, trade restrictions at a global level have tripled.

There's a simple reason for this: the global economy was designed for the benign geopolitical environment of the 1990s. After living with a bloc-based global economy throughout the Cold War, we then embraced supply chains at a global level and a financial system based on a single currency. But what we're living in today is a period of intensifying geopolitical competition. That creates a mismatch: a global economic system designed for a world with very little geopolitical competition, and a geopolitical arena that's increasingly in conflict. That, I think, is what's driving this exponential rise of sanctions, export controls, and tariffs.

KL **The US has used sanctions as a chokepoint. You talk about how it provides leverage but can also backfire, can you expand on that?**

EF: Sanctions, export controls, and tariffs are often deployed as discrete responses to specific problems. For example, there have been tariffs on China because of the deindustrialization they've inflicted on other countries, sanctions on Iran to confront the nuclear program, and sanctions on Russia to stop Putin's imperialism in Europe. But because this has proliferated so much, it's become a macro factor. It's started to reshape the global economy itself.

One of the phenomena we see with chokepoints is that once countries weaponize a chokepoint, whether it's the dollar, rare earths, or this year the Strait of Hormuz it incentivizes everybody else to insulate themselves.

You see it in real time. The weaponization of the dollar against Iran and Russia in the early 2010s is what inspired China to create the Cross-Border Interbank Payment System (CIPS), their central bank digital currency (e-CNY), and now mBridge, their platform for clearing cross-border payments with digital currencies. They saw their vulnerability to the dollar and invested in alternatives.

China's rare-earth embargo has meant that in the US we've poured tens of billions of dollars into domestic rare-earth companies, everything from mines to startups trying to build alternatives to neodymium magnets. The world is trying to break that chokepoint.

In the Gulf, in the coming five to ten years we'll see massive infrastructure investment to double or triple pipeline capacity that circumvents the Strait of Hormuz, and there'll be more investment in oil storage facilities close to markets around Asia.

So these two factors, the proliferation of economic warfare and the scramble for economic security to insulate ourselves from chokepoints, are the parallel processes reshaping the global economy to fit this era of geopolitical competition.

KL **The dollar is still the world's reserve currency, but is that at risk?**

EF: The dollar is still the most important chokepoint in the global economy. China has been trying since 2014 to get its payments off the dollar system and it is surprising how dependent it still is on the dollar. China is the world's biggest trading power by far for around two-thirds of the world, and a country everyone depends on for goods should be able to say that they must be paid in Renminbi. Ten years ago, they settled about 15% of their trade in Renminbi and the rest in dollars; today it's 30% Renminbi. So, it's impressive that they doubled it in ten years, but the majority of their trade is still reliant on dollars.

There's clearly an incentive for the rest of the world to try to break the dollar's hold on the global economy. My own instinct is that payments is the process that's going to fall first and there'll be a more multipolar currency order for payments in the next five to ten years. The question then becomes, what does that mean for investments? Right now, somewhere between 75 and 80% of global equity market capitalization is the US. Will that change if businesses around the world don't have to hold as much dollar liquidity just to process payments day to day? Some economic theory suggests yes, that the currency of global payments is the one that has ripple effects into savings and prices, but we'll see.

KL **You mentioned infrastructure, and there's already a massive energy infrastructure build-out underway, driven by security concerns and surging power demand from AI. Where should we be looking for the most compelling investment opportunities, and where will those trends be most durable?**

EF: Clearly there's an opportunity building out data centers. On energy too, there are a few easy macro bets emerging from the Strait of Hormuz crisis: one, you're going to see more pipelines circumventing the strait, two, more oil storage facilities closer to end markets, and three, clean energy investment. The most secure way to power your economy is to source your energy domestically, from the sun, the wind, batteries. This is going to be a significant growth area.

One of the more interesting data points I've seen recently is on China's exports of batteries, EVs, and solar panels. From February of this year to March, all of those doubled month on month, because the whole world now realises it needs to import as many solar panels, battery cells, and electric vehicles as it can. This was something we were seeing back in January before the Strait of Hormuz closed, as industrialized economies became a little wary of overdependence on China for energy. But there's likely to be significantly more clean energy investment and build-out all over the world, especially in developing economies, in the coming years.

KL **Our infrastructure investment team are already seeing the importance of energy security feed through in an increasing focus on renewables and their ability to generate power locally, reliably, and without depending on external players. Looking to what else is still to come: has the US overused its economic chokepoints, or is there still substantial untapped leverage?**

EF: The bigger issue isn't so much overuse, but misuse. Economic sanctions can create a sense of risk in the minds of US allies. There are already discussions about a digital euro as a way to have financial sovereignty for the European Union, while others are looking at the infrastructure for sovereign clouds as countries want to localize their data so it isn't controlled by others.

I'm a big believer that we should not be using sanctions and economic warfare against our friends. If you give the rest of the democratic, industrialized world reason to doubt their reliance on the US financial system and the US tech stack, that's a huge problem for the US. You really need legislative guardrails. These already exist in certain sectors – the US cannot sanction food, medicine, medical devices, or informational materials without congressional support – and I think there should be similar laws with respect to US allies.

KL **One last question on behalf of our investors: what should people be looking out for over the next 12 to 18 months?**

EF: The US figured out how to weaponize economic chokepoints, through the dollar and financial sanctions, and that same logic was then applied to semiconductors with export controls and with rare earths in China. That was an innovation the US had, but what happens when other countries start emulating it? Freedom of the seas is a core element underpinning the entire global economic system, something the US has guaranteed since the end of World War II. If the Iranians successfully control the Strait and monetize it to the tune of tens of billions of dollars a year, it's going to be hard for other countries sitting astride other chokepoints to resist. So that's number one to watch: is it something everyone emulates? If you put yourself in the shoes of a government official and think about what that tax revenue could do for education and healthcare, in some ways it's almost a dereliction of duty not to think about it, especially if that norm no longer exists.

Number two, we need to watch the dollar. There's a huge amount of complacency in the US; we think it's safe. And that's true from an investment side, but the problem is what's happening in payments. Do the Chinese successfully go from 30% of their trade settled in Renminbi to 70% or 100%? Do you get an oil market with a petro-yuan that competes with the petrodollar? If we're there, I do worry about what that means for the dollar, for interest rates, and for equity valuations in the United States.

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