

The Three Globalizations

Episode 17 | Everything is Everything

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Transcript

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Abstract

The concept of progress itself may be a dangerous fairy tale. While technology and GDP generally advance, societies can regress in fundamental ways, making social progress far more fragile than we assume. This insight frames a deeper exploration of how human cooperation across borders has evolved through three distinct phases of globalization.

The first globalization (pre-1914) represented near-perfect freedom—people moved without passports, capital flowed to where returns were highest, and states barely interfered with voluntary transactions. This paradise ended with World War I and nationalism, leading to decades of restricted freedoms. The second globalization (1982-2016) restored much of this freedom through technology and policy liberalization, but remained largely unconditional—welcoming all participants regardless of their domestic behavior. The third globalization, emerging since 2016, introduces a new conditional framework: economic integration remains robust, but only among countries that meet basic standards of international conduct.

This evolution reveals globalization not as a simple binary of “on“ or “off,“ but as a sophisticated system where 85% of world GDP continues deepening integration while excluding actors who violate fundamental norms—a response that prioritizes economic tools over military ones when dealing with rogue behavior.

Supplementary Resources

- **Dawn of the third globalisation?** by Ajay Shah (Article, *Business Standard*) [4]
- **An Indian view on dollar domination** by Ajay Shah (Article, *Business Standard*) [5]
- **When world leaders thought you shouldn’t need passports or visas** by Speranta Dumitru (Article, *The Conversation*) [1]
- **Resilience to Trump tariffs** by Ajay Shah (Article, *Business Standard*) [8]

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- **The Three Globalizations** by Ajay Shah and Amit Varma (Podcast, Episode 17 of *Everything is Everything*) [9]
- **Implications of US tariffs** by Ajay Shah (Article, *Business Standard*) [6]
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[00:00:00] **Ajay Shah:** I feel many of us are brought up on an unstated belief in the word progress. We assume the world's going to get better.

[00:00:10] **Ajay Shah:** The technology is going to get better. Generally, GDP will increase. But beyond that, I feel we should be very cautious. Things can go terribly wrong.

[00:00:18] **Ajay Shah:** Many, many countries have gone terribly wrong. So I feel it is better to tell children a fairy tale where their technology will get better, but it could well be that their state gets worse.

[00:00:32] **Ajay Shah:** So, you know, the progress of a society is something far more complex and should not be taken for granted. So it's a very iffy thing. It's something to aspire for, we should dream of it, but we should not count on it.

Introduction: Friendship and Evolution

[00:00:59] **Amit Varma:** Welcome to Everything is Everything. I'm Amit, this is my good friend Ajay. And Ajay, I want to ask you a question. Just before we started, I asked you, "You know, where's that Buddha from?" And you said your good friend Vijay Kelkar gifted it to you.

[00:01:11] **Amit Varma:** And I want to ask you a question I've asked many people on The Seen and the Unseen and I've thought about a bit, which is a question about friendship. Right? You have referred at various times to friends like Vijay Kelkar who are much older than you, friends like Ayush Patnaik who are much younger than you.

[00:01:25] **Amit Varma:** And it seems that you are both extremely generous to your friends, which of course I've experienced, but you're also intentional about friendship in a certain way, that you know, you go out of your way to look after your friends, to kind of nurture a friendship.

- [00:01:38] **Amit Varma:** And most of us, we sort of drift through life, letting things happen to us, taking things for granted, taking friends for granted, often not really thinking about stuff, not being mindful, and you know, falling for that main character syndrome, where you're like the main character in a play and everybody else is a prop for your amusement or for your distraction or whatever.
- [00:01:57] **Amit Varma:** And I struggle with this because that is actually my default mode where I am just immersed in myself, and I have to keep reminding myself that no, be intentional about this or that or whatever. So I want to ask you about friendship.
- [00:02:10] **Amit Varma:** You know, how do you think about it? How has that concept evolved for you? How have friendships evolved for you?
- [00:02:15] **Ajay Shah:** It has evolved greatly.
- [00:02:17] **Ajay Shah:** First I just want to say that I have one huge edge over you that I'm older than you. Okay, so these are things that just one figures out. It takes time. Okay, we have to be curious and skeptical and not self-obsessed and then these things come.
- [00:02:35] **Ajay Shah:** And I just, I've understood deeply that actually the engagements with our few people are what is make and break on the scale of a life.
- [00:02:47] **Ajay Shah:** And so over the years, I've just understood these things are very important and I prioritize them and take effort on it.
- [00:02:56] **Ajay Shah:** Nicholas Dunbar has this concept called Dunbar's number. He—it's—he's famous as having observed that we are wired for about 150 human relationships, which correlates nicely with the size of a typical hunter-gatherer band.
- [00:03:12] **Ajay Shah:** He also has these subclassifications of 5, 15, 50 and 150. So we have roughly speaking the mental and emotional capacity to have about five people deeply close, then about 15 people, then about 50 and then about 150.
- [00:03:31] **Ajay Shah:** And I feel that we should all, you know, try hard to make it work.

- [00:03:37] **Ajay Shah:** Another little thought in that space is that no man walks in the same friendship twice. So sometimes it is a place and a time, a state of mind which just clicks and it won't recur into the future.
- [00:03:57] **Ajay Shah:** And now that I'm all grown up, I think that's okay. So, you know, if there was a finite window of time where everything clicked, well, that's great. Count it with much gratitude.
- [00:04:07] **Ajay Shah:** And it can change and it's not that you're a bad person or they are a bad person. It is just that the state of mind and the intellectual development and the emotional capacity evolves through the years.
- [00:04:20] **Ajay Shah:** So age is just a number. I mean for me age is the least important thing. It's about the person. I mean I know old people who are petty like children who are self-centered and power hungry and I know very young people who have learned to start letting go.
- [00:04:36] **Ajay Shah:** So I think age is a very silly number to focus on and some of the best friendships cut across the age differences.
- [00:04:46] **Amit Varma:** And along with, you know, the Dunbar number of 150 people, there's also perhaps a cat number of 10 cats or whatever the number might be, and we have a cat meowing in the background right now. So I would like to urge our gentle readers that we are not being ungentle with, you know, creatures of any sort, human or otherwise.
- [00:05:04] **Amit Varma:** Cats mew, that's what they do. And I'm actually going to hijack this episode a little bit because our first chapter was going to jump into, you know, the first globalization. We were going to talk about three globalizations, but Dunbar's number reminded me of something and I'm going to talk about that instead.

Chapter 1: The Expanding Circle

- [00:05:25] **Amit Varma:** So, uh, the concept that, uh, sort of, uh, you know, I remember and I've spoken about quite often and that came to me from Dunbar's number—and Dunbar's number was of course proposed as a higher bar that more than 150 people is hard for us. We evolved that way in hunter gatherer tribes.
- [00:05:40] **Amit Varma:** And there is a beautiful concept I love called the expanding circle. Circa 1897, W. E. H. Lecky wrote a book called *The History of European Morals*, right? And in that book he came up with the concept of the expanding circle.
- [00:05:52] **Amit Varma:** And here was his concept. He said that around us, we begin, like in human history, we begin with a circle of people to whom we extend our moral consideration. Everybody else is an other. They might as well be animals.
- [00:06:06] **Amit Varma:** Right, we don't care about them. And initially, this circle is our family, right? And then it expands to family and friends. It might expand to the tribe. Then as you have agricultural societies or whatever, and tribes come together, it might expand to more than that.
- [00:06:20] **Amit Varma:** And then it might expand to your nation, and then it might expand beyond that. And Lecky's point in 1897 was that it is an ever-expanding circle through human history.
- [00:06:30] **Amit Varma:** That it begins with your family, your tribe, whatever, and soon more and more people, you know, begin to be people that you consider worthy of your moral consideration. And when you look at many of the horrors inflicted over history, the horror of slavery, for example.
- [00:06:45] **Amit Varma:** And you know, today you sit and wonder that how could you do this to another human being? But the simple answer is that the circle of the people at that time hadn't expanded beyond their own kind or beyond their own skin color or whatever.
- [00:06:57] **Amit Varma:** You might argue that at one point, the circle of people hadn't even expanded to women perhaps, who were looked upon as instrumental or etc., etc. And Peter Singer makes a great argument that actually, I think it's in his book *Animal Liberation*, I forget which book, but he makes this argument that this expanding circle should expand beyond humans and it should go to animals.

- [00:07:19] **Amit Varma:** Which is why, which is his fervent case for animal rights and for vegetarianism and so on and so forth. Though as you and I could well argue that today, you know, eating a plate of upma kills many, many, many more animals than eating a chicken, because the chicken there was one chicken involved and, you know, but leaving all of that aside, I love the concept.
- [00:07:40] **Amit Varma:** I love the concept that just as, you know, Jefferson could keep slaves and feel that it was morally okay to do so, and we look back on him and say, 'Oh, he kept slaves,' 200 years later, people could look back on us and say that, 'Oh, they ate animals.'
- [00:07:53] **Amit Varma:** And I think that's going to happen once we get to that stage where we have the luxury of doing so. But I'm also reminded that the expanding circle doesn't always stay expanded and in some cases might even contract.
- [00:08:07] **Amit Varma:** And I worry that in the last few years where there is so much nationalism and there is so much virulence about various aspects of identity, that our circles are shrinking and not expanding, and that worries me greatly.
- [00:08:21] **Ajay Shah:** I want to say two things. One is that I feel many of us are brought up on an unstated belief in the word progress. We assume the world's going to get better.
- [00:08:34] **Ajay Shah:** The technology is going to get better. Generally, GDP will increase. But beyond that, I feel we should be very cautious. Things can go terribly wrong. Many, many countries have gone terribly wrong. So I feel it is better to tell children a fairy tale where their technology will get better, but it could well be that their state gets worse.
- [00:08:56] **Ajay Shah:** So, you know, the progress of a society is something far more complex and should not be taken for granted. So it's a very iffy thing. It's something to aspire for, we should dream of it, but we should not count on it.
- [00:09:08] **Ajay Shah:** The second thing I want to say is that I've actually been struck by the emergence of people like Mahavir and concepts like Jainism in India, because in that primitive society, it makes no functional sense at all. You're short of protein, you should be grabbing every scrap of protein that you can get.

[00:09:28] **Ajay Shah:** Okay, it is no golden age. So contrary to some claims that are made about some mythical past where the—where the streets were filled with cheese, right? Is that “but there are no cats in America and the streets are filled with cheese.” This is the kind of fable that the mice in Russia are told in a in a movie.

[00:09:49] **Ajay Shah:** So there was no mythical lost age where there was plenty and there was prosperity. And in that world, some people developed very advanced concepts and philosophies and I really admire those people and I think that it tells me about something in the Indian society where there are remarkable intellectual and philosophical capabilities.

[00:10:12] **Amit Varma:** And it also tells me that there is perhaps long before the world can come together, long before globalization, there is a kind of globalization happening in this conceptual expanding circle. So, you know, let’s get down to the topic of our episode, the three globalizations.

Chapter 2: What is Globalization?

[00:10:35] **Ajay Shah:** So I want to talk about the three globalizations. First let’s just take the word globalization apart. All of us are a little jaded with the overuse of the word globalization. By the time a word graduates into the airport books, you know, it surely stops making much sense.

[00:10:55] **Ajay Shah:** So I want to think carefully about what that word means and where it comes from. So globalization refers to a state where human beings have deep engagement with people across the border of the country. Okay, so the Westphalian state came along, but there can be deep engagements by people across borders.

[00:11:18] **Ajay Shah:** So even though there is a Westphalian state, it doesn’t necessarily shape and circumscribe what human beings do. And globalization can take place in many dimensions. It can take place in a world of ideas. Ideas can flow freely across countries without getting into narrow sectarian conceptions of my idea and their idea or that is a foreign idea.

- [00:11:41] **Ajay Shah:** Ideas should be free, ideas should travel the whole world. Then globalization can take place in the movement of people, that in some ideal world, the state does not control the people and the people are able to move freely and it is a measure of globalization, the extent to which people are able to move freely and the extent to which people do move.
- [00:12:02] **Ajay Shah:** Then the third dimension is cross-border movement of goods, the fourth dimension is cross-border movement of services, the fifth dimension is cross-border movement of capital. Okay, so all these things can move across the border based on voluntary transactions by people, but the question is that do states interfere with that?
- [00:12:22] **Ajay Shah:** So first, I just want to say clearly that the term globalization refers to the extent to which these five things are not being shaped by a national border. Now we come to what causes all these kinds of globalizations. There are basically two stories at work. One story is the government.
- [00:12:39] **Ajay Shah:** So when the modern nation state emerged, it took it upon itself to control its people and the freedoms started being lopped away. So the freedom to move ideas from one country to another is often contested by states which would like to push a particular propaganda narrative that is convenient for the state.
- [00:13:03] **Ajay Shah:** The state is always—the simple definition of the state is the community that achieves and maintains a monopoly of physical violence in a given territory. That’s—the state is a game of how to coerce the society.
- [00:13:16] **Ajay Shah:** So the state may find it efficient to push certain kinds of ideology. There will be an official ideology, there will be some official religion, and then the state may try to proscribe other ideologies, other religions, other kinds of knowledge from coming into the country. You have banned books, you can have banned ideas and so on.
- [00:13:33] **Ajay Shah:** Then states can interfere with the movement of people. So very early on, states got into the game of giving every individual a number and putting up a checkpoint at the border saying you can leave, you cannot leave, you can come in, you cannot come in.

- [00:13:47] **Ajay Shah:** So states got into the game of controlling the movement of their own people, and this only started at the time of the First World War. The third piece of idea is the movement of goods. Once again, the simple, natural state is where you may phone a friend in Mozambique and say, 'Hey dude, can I buy some ball bearings from you?' And he says, 'Sure,' and he ships over the ball bearings.
- [00:14:11] **Ajay Shah:** But then the state comes in the middle and says, 'No, I will not allow the movement of ball bearings, or you have to report all that movement of ball bearings to me, or you have to pay customs duties to me.'
- [00:14:21] **Amit Varma:** So imagine you have two friends. One of them is in Mozambique and he has ball bearings he wants to sell you. And another one is in Pune and he also has ball bearings he wants to sell you. And you're sitting in Mumbai, right?
- [00:14:32] **Amit Varma:** Why, and this is a question, why is it so much harder for the friend in Mozambique, apart from the physical distance, to send you those ball bearings? Right? And that's my question at a philosophical level. Why should it be hard?
- [00:14:43] **Ajay Shah:** Yeah. And the last dimension is capital. Capital can move freely across the border, but the state interferes. It says, 'I know better. I will prevent this kind of capital from moving across the border,' or 'only equity capital can move, but debt capital cannot move,' or sometimes the other way around.
- [00:14:58] **Ajay Shah:** Or there are actual capital controls in India where poultry farms and nanotechnology can engage in foreign borrowing, but others cannot. Okay, so there is this intricate government control of capital. So these are the five...
- [00:15:10] **Amit Varma:** If you're a really small chicken, you have the best of both worlds, poultry farms and nanotechnology.
- [00:15:14] **Ajay Shah:** A nano chicken. Yeah. So these are ways in which the state interferes in the natural freedoms of people to do things as they like.

[00:15:24] Ajay Shah: The other dimension is technology. The emergence of computer technology, the emergence of transportation technology has made a world of a difference. Realistically in the olden days, you could not move ball bearings from Mozambique to India. But now the cost of container ships, the cost of air freight, all these things have become cheap.

[00:15:41] Ajay Shah: And I already touched upon how services exports has been made possible by telecom. Okay, so this is the big picture of globalization where globalization is defined as the concept of freely doing large volumes of cross-border activity. It is shaped by governments that may seek to interfere with the natural freedoms of people or the freedoms of natural persons, and it is shaped by technology.

[00:16:07] Ajay Shah: That as the technology gets better, you're able to do more things spanning distance. It's about the death of distance. Okay, so these are the basics of the facts around globalization.

Chapter 3: The First Globalization

[00:16:23] Ajay Shah: Okay, and from this perspective, I want to describe a period in world history that is called the first globalization. We had touched upon this in the context of the Indian journey. There was an episode around the story of India, the economic history of India, where the first globalization figures in an important way.

[00:16:41] Ajay Shah: But that basic story is this, that the emergence of steamships and the Suez Canal and the telegraph was a revolution for the extent of globalization. Because now people across the United States and the UK and India started moving messages and money and transporting cotton and cotton cloth and so on.

[00:17:04] Ajay Shah: This kind of first rise of trade took place, and that was the first globalization. It's important to remember that in the first globalization, nation states were not in the game. They were not doing anything. The people were free. So the people were free to travel without passports and visas, capital was free to move, goods were moving, services were moving in a very limited way, but a service provider could move.

- [00:17:28] **Ajay Shah:** You could be a lawyer and go to London and practice, okay, those kinds of things. So it was a world of extreme freedom for the people. The states were not in the game. It was really technology constrained. So the limitations were of the steamships and the planes or the lack of planes and so on.
- [00:17:44] **Ajay Shah:** So the first globalization is a bit of a paradise in terms of free people exercising their rights and doing whatever they want.
- [00:17:53] **Amit Varma:** The constraint is mobility and technology which hasn't gotten to where we—where it is today.
- [00:17:57] **Ajay Shah:** So there was a very interesting and important feature in the first globalization, which is called capital moving downhill. The richest place in the world at that time, the financial center of the whole world was London. Okay, now when you go to other countries of the world, the United States, Argentina, India, these are poor countries where the rates of return on capital were very high.
- [00:18:19] **Ajay Shah:** So there was no great value in building one more factory or one more road in the UK. The UK was an advanced economy. But the marginal product, the return on equity, the rates of return from building infrastructure and building factories in the US or in Venezuela, sorry, or Argentina or Venezuela or India was substantially high.
- [00:18:40] **Ajay Shah:** And in the first globalization, capital actually moved downhill, that the projects all over the world went to London to raise money, and then that money went to India, went to Argentina, went to the United States for doing productive investment. And that was again the best of all worlds, that you got cheap capital at the advanced economies where there was so much capital already in use in the economy that the marginal returns of one more unit of capital being used there was relatively low.
- [00:19:07] **Ajay Shah:** Whereas when you went into developing countries like the United States, there there were very big gains by putting one rupee of capital, and so the marginal product was higher. So this was a nice feature of the first globalization.

- [00:19:19] **Ajay Shah:** There is a beautiful quotation by John Maynard Keynes where he describes the life that was prevalent in the early 20th century where you could be living in a city and getting goods from all over the world delivered to your doorstep. It was a world of participating in activities all over the world without restriction. So that was the first globalization.
- [00:19:42] **Amit Varma:** And this quote would be around 1911, 1912, I assume.
- [00:19:45] **Ajay Shah:** I think it was 1912.
- [00:19:48] **Ajay Shah:** All this went to hell with the First World War and the Russian Revolution. So the rise of nationalism really destroyed the first globalization.
- [00:19:58] **Ajay Shah:** At the time of the First World War, passports came about. At the time of the First World War, the British brought about a naval blockade of Germany and to a significant extent, the cross-border movement of goods was adversely affected.
- [00:20:13] **Ajay Shah:** To some extent, German submarines were shooting at cargo ships and that made transportation and insurance more expensive. So all hell broke loose at the time of the first globalization.
- [00:20:28] **Ajay Shah:** But I also want to tell amazing stories of that period. Have you heard of Polson butter?
- [00:20:33] **Amit Varma:** No.
- [00:20:35] **Ajay Shah:** Okay, you're clearly showing your age. People of my age, we know Polson butter.
- [00:20:40] **Ajay Shah:** Polson was a British company that was built in India, that grew up and became very successful in India because at the time of the First World War, the British army wanted to buy vast amounts of butter. And Polson built the first milk supply chain from Gujarat to make butter and send it by train to Bombay and from where it was sent up to the UK.
- [00:21:08] **Ajay Shah:** So Gujarat was producing milk a hundred years ago that was being delivered as Polson butter into the British war effort. So these were the kinds of things that happened out of the first globalization.

- [00:21:20] **Amit Varma:** I want to take a break here. I have to take a break here. This is a story every time it comes into my head, I have to tell it to someone, otherwise my brain will explode. Okay, circa 1980s, right, there is a department in the Tamil Nadu government called CCA. And this department applies for a rise in its budget, saying for a long time its budget has remained stagnant.
- [00:21:40] **Amit Varma:** So some enterprising bureaucrat decides to find out what is this CCA and what do they do? Right? And then they go back in time, and this is happening in the '80s and they go back in time, and they discover that something terrible happened in the Second World War. I mean many terrible things happened in the Second World War.
- [00:21:55] **Amit Varma:** But one of them was that Winston Churchill, who was a fan of cigars, suddenly could not get his favorite cigars from Cuba because the supply lines were cut, right? So his second favorite cigars, and this is a matter of great pride to us Indians, that the second best cigars in the world after Cuba were from this place in Tamil Nadu.
- [00:22:12] **Amit Varma:** And because I cannot pronounce the name, I won't offend my Tamil friends, but it was a town in Tamil Nadu which had the second best cigars in the world. So a supply was set up because India's at that time still part of the British Empire, a supply was set up and in whatever the British government there was called at the time, a department was set up which would supply cigars to Winston Churchill from Tamil Nadu.
- [00:22:36] **Amit Varma:** And that department was called CCA, Churchill Cigar Assistant, right? And World War II ended, Winston Churchill died, India gained independence, not in that order, a whole bunch of shit happens, and all the way to the 1980s, that government department still exists called the CCA, and the person in it has the audacity to say we need more budgets.
- [00:22:56] **Amit Varma:** So this is one of the great stories. I think I got it from a book by Bibek Debroy, to you know, give credit where it is due. And it's a fantastic story and there you go, global supply chains. I'm sorry, continue. Now I had to get this out of the way.
- [00:23:08] **Ajay Shah:** Okay, every time you tell one fun unrelated story, do I get the license to do likewise?

- [00:23:14] **Amit Varma:** Kindly, let's...
- [00:23:14] **Ajay Shah:** Because I'm bubbling with a large supply of nonsense stories.
- [00:23:18] **Amit Varma:** Kindly tell.
- [00:23:19] **Ajay Shah:** Okay, I want to continue on Polson. Okay, so after the Second World War, Polson turned around and started serving the Indian market, sorry, after the First World War, Polson turned around and was serving the Indian market and they were a dominant butter producer all the way into the 60s and the early 70s.
- [00:23:34] **Ajay Shah:** As a child, I have eaten Polson butter. Okay, so I have actually seen boxes of Polson butter being sold in India. Now, then came Amul.
- [00:23:43] **Ajay Shah:** So the great man, Kurien, the cooperative movement in Gujarat with a great deal of technical and financial support, I believe from the economic development aid agency of Denmark, okay, started putting new machines, new process designs into building the milk supply chain in Gujarat around Amul.
- [00:24:08] **Ajay Shah:** They first made beautiful high-quality milk, they sent it, sorry, butter and sent it down refrigerated vans to Bombay for sale. Okay, so good Danish technology, every step of the way, chilling plants, all the good stuff. And the Bombay consumers said, 'Uh-uh, this doesn't work. We hate this butter.'
- [00:24:28] **Ajay Shah:** Okay, so people loved Polson butter and they hated the first batches of Amul butter. And then there was a careful exploration of what was going on. And the answer is that in those years, refrigeration on the train was no good. So on the way from Gujarat to Bombay, the Polson butter would become a little rancid.
- [00:24:48] **Ajay Shah:** And the tastes of the Bombay consumer had become programmed to expect butter to taste a little rancid. So when the first clean, perfect Amul butter made with Danish machines and good refrigeration first landed in Bombay, the Bombay consumer said, 'This is bland, dull butter. It doesn't have the punch of butter.'

[00:25:09] **Ajay Shah:** And so Amul butter first sold in Bombay was a complete flop.

[00:25:13] **Amit Varma:** Because it was too good.

[00:25:14] **Ajay Shah:** Because it was too good. And then the scientists came to the rescue. They figured out the exact chemicals that are formed when butter goes rancid, and then those chemicals were artificially introduced into Amul butter.

[00:25:25] **Ajay Shah:** And I do not know whether they persist to this day, but this is how Amul butter took off in Bombay and that's how they drove Polson bankrupt and Polson went out of business.

[00:25:35] **Amit Varma:** They made it rancid deliberately and I have a counter story to your story. Let's see where that takes us, which is that when the iPod was first introduced, right, it had a random feature that it would just play songs at random. And some people began to complain that "boss, mere favorite artist ka bar bar ata rehta hai." It is surely not a coincidence, it should be random, but I got six Bruce Springsteens in a row, that cannot be random.

[00:25:56] **Ajay Shah:** But that's because people don't understand randomness.

[00:25:57] **Amit Varma:** Correct. And the thing is, you know, the law of truly large numbers, given a long enough number of iterations, any unlikely thing will happen, including six Bruce Springsteen songs in a row. So how Apple dealt with this complaint was by introducing an algorithm which made it non-random, which got in the way of the randomness and made sure that if something was appearing non-random, it would just be changed, right, to so to make it appear random and not actually random.

[00:26:22] **Amit Varma:** So what a mind-blowing story.

[00:26:25] **Ajay Shah:** Okay, one last story before I get back to second globalization.

[00:26:27] **Amit Varma:** Yes.

[00:26:28] **Ajay Shah:** Yes, sir, go for it.

[00:26:29] **Amit Varma:** Okay, so a run is when a coin generates heads, heads, heads in a row.

- [00:26:34] **Ajay Shah:** Okay, a run in a stock is when the price goes up, up, up three days in a row, up, up, up, up four days in a row and so on. In statistics, there is a term that is called the runs test which looks at the ratios of the various runs, the relative proportions of how often various runs happen to test for randomness.
- [00:26:55] **Ajay Shah:** So you look at the number of times a stock goes up for one day in a row, two days in a row, dot dot dot, goes down for one day in a row, two days in a row, three days in a row, dot dot dot. And by taking in all this data, the runs test is able to tell you, is this randomness or is it something non-random?
- [00:27:13] **Ajay Shah:** So if somebody had taken the original Steve Jobs iPod and taken data for the occurrences of the songs and fed it to the runs test, then he would have gotten an objective statement, 'Apple, you are lying, this is not randomness.'
- [00:27:26] **Amit Varma:** This is not randomness. We have to do an episode on poker, which will come out shortly, but while I wrote a poker column for the Economic Times, I think I had written it for more than a year, you know, one of them had the headline, 'Unlikely is Inevitable', where I was talking about just this, that the most incredible unlikely things happened.
- [00:27:44] **Amit Varma:** You know, you get into a hand 80% favorite, you lose five hands like that in a row, and you say, 'Arey, it's rigged.' But the point is, given a large enough sample size, those bad runs will happen. They are sort of inevitable.
- [00:27:55] **Ajay Shah:** Okay, back to globalization.
- [00:27:56] **Amit Varma:** Back to globalization.
- [00:27:57] **Ajay Shah:** Sorry, dear reader, we just can't resist doing this Antakshari.
- [00:28:02] **Amit Varma:** So, you should do Antakshari as in I'll tell a story, you'll take the last syllable of that, and then you'll tell a story. How's that?
- [00:28:09] **Ajay Shah:** Done.

- [00:28:10] **Amit Varma:** That's easy for I mean, we should actually do that someday, one whole episode should be that. Gentle reader, kindly don't unsubscribe right now. And if you haven't subscribed already, kindly subscribe and like, this is the time. Ha, carry on.
- [00:28:21] **Ajay Shah:** Okay, so all hell broke loose with the First World War. There were interruptions in goods trade, there were interruptions in the movements of people. Shortly after that, Germany collapsed into the Nazi party. Nazi is German for nationalist socialist. So when Hitler wanted to go after the Jews, he brought about the first capital controls in the world.
- [00:28:43] **Ajay Shah:** So now for the first time, people had limitations on moving their money across the border. This had never happened before in world history. And the state of international trade and everything was in deep trouble till 1945.
- [00:28:58] **Ajay Shah:** Okay, now in 1945, after the Second World War, there was a new international organizations architecture that was built, comprising the GATT, the General Agreement on Tariffs and Trade, and the World Bank and the IMF.
- [00:29:15] **Ajay Shah:** And this was architected by John Maynard Keynes and Harry Dexter White. Uh, you have mentioned C. D. Deshmukh. He was part of those negotiations in those days.
- [00:29:29] **Amit Varma:** Chintaman bhai.
- [00:29:31] **Ajay Shah:** Who by the way, Keynes once wanted Chintaman Deshmukh as first managing director of the IMF, but the Americans got in the way and said, 'What Indian fellow, what are you talking?'
- [00:29:41] **Ajay Shah:** Now in that, Keynes made a trade. He chose a design. Okay, right now I don't want to comment on the sanity of the design he chose. He chose a game where countries would more or less keep the exchange rates fixed.
- [00:29:54] **Ajay Shah:** Okay, he felt that during the Great Depression, floating exchange rates had worked poorly. So he said that in order to promote trade, we should remove the fluctuations of the exchange rates and remove the incentives for governments to manipulate their own exchange rates. That was his view on how to stabilize the behavior of governments and create conditions for free trade.

- [00:30:14] **Ajay Shah:** So that there'll be more and more trade because the currency is not on your mind. That you're guaranteed a number for the exchange rate between the Great Britain pound and the US dollar, and you just focus on your business and figure out how to do more and more import and export.
- [00:30:29] **Ajay Shah:** And Keynes intuitively knew a result which many years later was actually a Nobel prize winning result. Okay, so there is a result that came much later, and I don't want to make this too geeky, but right now I just want to say that there is a fact that Keynes intuitively understood back in 1945.
- [00:30:48] **Ajay Shah:** He was such a great man. He intuitively knew these things. He knew that you can't manage the exchange rate and have an open capital account. Okay, he knew it instinctively. It was formalized much later. The intuition was formalized much later and it generated one Nobel Prize and it's a fundamental building block of modern macroeconomics, but Keynes got the intuition.
- [00:31:10] **Ajay Shah:** So the trade that Keynes and Harry Dexter White made was that we'll have fixed exchange rates, but we will coerce the people, we will shut off the natural freedoms of the people to move capital across the border. So that was the design of the post-Second World War period.
- [00:31:27] **Ajay Shah:** And so, globalization after the Second World War was much more muted. The movement of people was screwed up, the movement of capital was screwed up. Goods trade resumed back to 1913 conditions. The ships were better, air freight came. Okay, so this was the recovery of international trade and globalization after the Second World War.
- [00:31:48] **Ajay Shah:** And it started growing nicely and gradually many things started getting better. But there is an astonishing fact that all of us should remember that many metrics, most notably the trade GDP ratio, only got back to 1913 levels in 1982. Can you imagine that?
- [00:32:05] **Ajay Shah:** The world only got back to the globalization of 1913 in 1982. And in 1982, it was a bit of a pale shadow because for many countries, capital account mobility was gone. There were capital controls. And because the movement of people was less good than 1913.

[00:32:23] **Ajay Shah:** So in a very fundamental way, we lost freedom from 1913 to 1982, or maybe even a bit beyond. Okay, so that is the long dark chapter where nation states ruled the world, and nation states said, 'I will control your freedom'. And they interfered in the freedoms of natural persons.

Chapter 4: The Second Globalization

[00:32:49] **Ajay Shah:** And so we got to the great second globalization. Many things went right. The container ships came about, there were a revolution in generating a good decline in the cost of transportation by sea. The wide body airlines got better, the wide body aircraft got better, and the cost of transportation by air went down.

[00:33:11] **Ajay Shah:** The computers and telecom got started. So we started doing services trade activities all over the world. There was a, the beginning of the breakdown of the system of John Maynard Keynes. So countries started abandoning their fixed exchange rates, got to a floating, a market determined exchange rate, and then side by side with that, the capital controls started coming out.

[00:33:36] **Ajay Shah:** So we got to movement of capital. We got to a great restoration of the freedoms of the people within Europe in the form of the European Union where visa-free travel began, where you could just get into a bus and move from one city to another across national borders.

[00:33:54] **Ajay Shah:** It was a restoration of the natural freedoms of the people that prevailed before the First World War. So there was something spectacular that happened and it started getting to big numbers in the post-82 period. As I said, we only got back to the numbers of 1913 in certain metrics by 1982.

[00:34:13] **Ajay Shah:** And of course, this had very valuable impacts on human welfare, on prosperity. And I could say this in a couple of ways. One fancy way is to play the world of David Ricardo and trade theory that cross-border trade always increases welfare.

- [00:34:32] **Ajay Shah:** And it doesn't have to be that you are good at one thing and I am bad at, sorry, you are good at one thing and I'm good at another thing and we do trade, but rather there has got to be a difference in the ratio between how much better you are as compared to me in two different things.
- [00:34:49] **Ajay Shah:** So, under almost all real world conditions, Ricardian trade theory showed us how trade works better.
- [00:34:55] **Amit Varma:** I want to simplify it for our listeners. This is of course called comparative advantage, and here's the idea. I am a better podcaster than you. I am also a better economist than you. However, I do the podcasting and I let you do the economics because, hey, I can't spend all my time doing economics. So yeah, comparative, I'm kidding, obviously, he's better at both obviously, but yeah.
- [00:35:15] **Ajay Shah:** Gains from trade. Then I will also say this in a different way. I'll go from first principles of public economics. What is the idea? The idea is that freedom works, freedom works well, except when there's a market failure. In which case you need to generally classify it into one of the four categories of market failure and think it through clearly.
- [00:35:37] **Ajay Shah:** Is there asymmetric information? Is there an externality? Is there a public good? Okay, like that, you need to be clear that you've got a market failure in your hands and then maybe a state intervention is justifiable. Now it's so clear when a private voluntary transaction is taking place to buy ball bearings from Mozambique, there is no market failure.
- [00:35:56] **Ajay Shah:** So when a state intervenes in that, it is harming and not helping.
- [00:36:00] **Amit Varma:** And in our—in our episode on, I think in our episode on Bastiat and Hayek, we pointed out that every tariff like that, like if the government says I want to protect your friend in Pune, so I will put a tariff on ball bearing imports from Mozambique. What you're actually doing is you're redistributing wealth from the poor to the rich, from the poor consumers at large to the rich interest groups, which is saying tariff dalo block them.

- [00:36:21] **Ajay Shah:** Or I want to use public economics reasoning that when the state intervenes in the absence of a market failure, it has an adverse impact on welfare, it has an adverse impact on GDP. So if you think of world GDP and the state is doing all these interference where there is no market failure, the state is harming world GDP.
- [00:36:43] **Ajay Shah:** And in the second globalization, one by one when the state got out of all those interventions, global GDP blossomed.
- [00:36:49] **Amit Varma:** And I think about this like, you know, along the axis of consent and coercion, right? All all voluntary trade, you know, it's a voluntary actions of two people. You and I trade, we are both better off. That is, you know, mutual consent. Consent wins, GDP grows.
- [00:37:05] **Amit Varma:** But if there is coercion by the state, not letting you and me trade, the benefits that both of you could have had because it's a positive sum game, they don't happen. So coercion always takes you into a vicious cycle. You know, cooperation and consent can bring you out of that vicious cycle.
- [00:37:19] **Amit Varma:** And I love the way you've defined freedom through this episode by pointing out that freedom is a natural state where, you know, adults are engaging with each other through voluntary trade and it is states that get in the way and are the enemies of freedom.
- [00:37:33] **Ajay Shah:** So that was the second globalization. It was a revolution, it was a miracle, it was something beautiful. The scale at which technologies of transportation enabled the movement of people, the movement of bits was unprecedented and it created great prosperity all over the world.
- [00:37:49] **Ajay Shah:** Countries benefited enormously. India has been a gigantic beneficiary. The entire software revolution, the services export revolution was made possible through globalization. So India's progress is very much linked to plugging into this world of globalization. So that's the second globalization.

Chapter 5: The Third Globalization

[00:38:15] **Amit Varma:** So you know, in the literature before, I've come across the first globalization, the second globalization. However, the third globalization is a term coined by you. So explain to me what you mean by this.

[00:38:25] **Ajay Shah:** In the recent years, many odd things have happened, many strange things have happened. So first I just want to catalog them, then I want to describe a mainstream view of them, then I want to be a little more precise, and then man is the highest animal, man does the classifying, man does the naming.

[00:38:43] **Amit Varma:** Humans.

[00:38:44] **Ajay Shah:** Humans. Okay. Humans do the naming. Over the last few years, we've seen a very remarkable set of developments. Here are examples. Uh, the—there was a Chinese organization which tried to buy certain businesses in the United States and the United States government cited national security concerns and blocked that transaction.

[00:39:06] **Ajay Shah:** So that is a non-globalization world where national security considerations got in the way. Dubai Ports World wanted to buy a port in America, and the United States government interfered with that transaction. Then we've had remarkable sanctions that have been imposed. There was a whole field that is called economic statecraft.

[00:39:30] **Ajay Shah:** Okay, which is about these kinds of using state power to interfere with the working of the economy. Economic statecraft has done remarkable things such as, step one, blocking the sale of certain kinds of CPUs and GPUs to China. Okay, so there is a red, a clear bright line number.

[00:39:49] **Ajay Shah:** I seem to remember 600 megabits a second of data transfer in and out of a GPU is the max that is allowed for sale to China. If a GPU can move more data than that, then it cannot be sold into China. Okay, this is a completely new development where United States export control says, we will not allow the sale of these kinds of powerful chips to China.

- [00:40:15] **Ajay Shah:** A little before that, something even more remarkable happened. One of the great companies in the world is called ASML. ASML is a Dutch company and they are the world leader in making the machines that make the CPUs. Okay, so they are the first people who figured out how to get to 5 nanometers, 3 nanometer processes.
- [00:40:35] **Ajay Shah:** Just to make sure that your mind is blown, a 2 nanometer process is a track 2 nanometers wide on a computer chip, and 2 nanometers happens to be the thickness of 10 atoms of silicon. So we are counting individual atoms of silicon when we say 2 nanometers. Okay, that's the craziness of what's happening there.
- [00:40:57] **Ajay Shah:** ASML makes these machines and these machines are considered the most complex technology in the whole world today.
- [00:41:06] **Amit Varma:** I have a question for you. When these atoms brush up against each other and that results in a sort of a sensual kind of organic sound, what is it called?
- [00:41:15] **Ajay Shah:** I don't know.
- [00:41:16] **Amit Varma:** ASMR by ASML. Sorry, kindly continue.
- [00:41:21] **Ajay Shah:** So ASML is a Dutch company that makes these machines. I think they go for about 150 to 200 million dollars a pop, each machine. And they make about 200 of them every year. So they're an artisanal shop that makes, you know, about one such machine every day. Of course, there's a long process that leads to shipping one machine every day.
- [00:41:44] **Ajay Shah:** And each of these machines costs some \$150 million, \$200 million. I think I have some numbers wrong, not one a day, one a week or something. This is a Dutch company. Some years ago, the United States and the European governments got together and told ASML, we will not allow you to sell this machine to Chinese buyers. Wow.
- [00:42:05] **Ajay Shah:** Okay, that is a new place. Normally, in the early years, China, India could buy any machine from abroad and there was never a restriction on buying these machines. So these are new kinds of restrictions that have come up.

- [00:42:17] **Amit Varma:** So this is the American government telling a Dutch businessman...
- [00:42:19] **Ajay Shah:** collaborating with European governments, everybody is aligned around the same idea.
- [00:42:23] **Amit Varma:** American and European governments are telling a Dutch businessman, don't sell this machine to a Chinese person.
- [00:42:27] **Ajay Shah:** Coercing the Dutch businessman saying even though you have a private voluntary transaction, somebody in China is willing to pay you good money for that machine, but we coerce you, we will prevent you from selling. Okay, that's a remarkable and new development. Okay, American export controls don't stop there.
- [00:42:43] **Ajay Shah:** If a certain chip can't be sold by an American seller to a Chinese buyer, American export controls cut deeply. Now you can't indirectly be involved in the production of that chip in any way. So, any associated companies cannot do business with Chinese buyers.
- [00:43:03] **Ajay Shah:** So there's a very sweeping rubric around who cannot do those transactions. I mean, of course, if you're an Indian company and you sell that chip to a Chinese buyer and United States intelligence finds out, you'll come under American sanctions, which means that the key persons of that company are potentially going to get arrested when they fly into America.
- [00:43:23] **Amit Varma:** What jurisdiction, what what jurisdiction.
- [00:43:25] **Ajay Shah:** American jurisdiction. They're saying if you want to travel to America, then we will arrest you. You can do whatever you like. Wow. Okay, this is an amazing world of export control that has sprung up. First, I just want to describe it, then I want to dig into more about what is going on. First, I just want to describe these kinds of trade restrictions are actually happening.

- [00:43:47] **Ajay Shah:** This was the first part of the journey of worrying about the Chinese emergence into high-tech. And as we discussed in the China episode, Xi Jinping's nationalism and hostility to the West was sufficiently strong and that the advanced economies of the world got together and said, no, we're not going to do business with you.
- [00:44:10] **Ajay Shah:** So earlier, globalization was handed to China on a platter. Globalization was handed to India on a platter, but all the things I'm describing show the world was not willing to allow that to go on. Okay, it gets worse. Then came the Russia war. After Russia invaded Ukraine, another wave of hair raising elements of economic statecraft began.
- [00:44:34] **Ajay Shah:** The advanced economies created rules whereby they grabbed the foreign exchange reserves belonging to the Russian Central Bank. So there was about \$600 billion of capital belonging to the balance sheet of the Russian Central Bank, which was sitting all over the advanced economies because, you know, there is no other place to keep money.
- [00:44:57] **Ajay Shah:** And they grabbed this money when the war started. They said, we will not hesitate in using every economic lever. Then, of course, sale of all kinds of military materials or complicated integrated circuits, etc, to Russia was blocked. Chinese companies were threatened that if you sell military grade materials to Russia, then we will bring sanctions against you.
- [00:45:25] **Ajay Shah:** And there have been a couple of Chinese companies that have come on the sanctions list. So, a whole array of instruments have come into play in economic statecraft. Similarly, there is a global payment system that is called Swift. All the transactions of the world happen on Swift and many Russian entities were cut off from participating in Swift.
- [00:45:46] **Ajay Shah:** Okay, so all these kinds of restrictions have come in. It's a whole new world. It has never happened before. The logic on the part of the advanced economies was that it is morally superior to do economic restrictions rather than spill blood. Okay, so their logic is we want to do everything we can to make sure that Russia will lose in Ukraine.

- [00:46:10] **Ajay Shah:** There are two ways to do it. One way to approach it is to say all the economic engagement will continue, all the globalization is fine, but we will use guns and soldiers to fight in Ukraine, which means fundamentally that more people die, or choke Russia using economic statecraft, and you get the same objective done while fewer people die.
- [00:46:33] **Ajay Shah:** And they argued that morally it is superior to use economic tools rather than using bullets. Okay, this is the kind of logic that was done. So, these are all the developments that have happened in the recent period. Um, I also want to describe a few more things. Many countries, most notably the United States have started putting public money into their own countries to foster certain kinds of high-tech, which they're always entitled to.
- [00:46:59] **Ajay Shah:** Any country is entitled to use public money to foster R&D, but they have some interesting limitations. Okay, the text of the limitation is just outright remarkable. It says that any company that gets money from the United States subsidy program for doing advanced semiconductor research, cannot build any new facilities in China.
- [00:47:20] **Ajay Shah:** Just imagine if you're going to get a public subsidy in America, you may have some old established activities in China, but we forbid you that a clause you're signing on to is that if you take public money for innovation expenditures in America, if you're getting a subsidy to do R&D from the exchequer, it comes to the condition that now you will not build a new factory in China.
- [00:47:43] **Ajay Shah:** Okay, these kinds of restrictions have emerged and they are a whole new game. Okay, so I just wanted to describe these array of levers, things that were considered unimaginable in the second globalization have started happening. Okay, and it's no longer trivial stuff like a ban on imports or customs tariffs or a capital control.
- [00:48:03] **Ajay Shah:** This is the way the old world used to work. This is not the way the new world works.
- [00:48:07] **Amit Varma:** I'd kind of call it an anti-globalization, but you're saying it's a kind of globalization which you're.

- [00:48:11] **Ajay Shah:** I'm going to go further into that. Right now I just wanted to describe it. And precisely as you say, there's a whole variety of people who have been writing, this proves that globalization is dead. Okay, people are ready to say, globalization, RIP. It is over, it is gone, and now we are in some strange world, nationalism rules supreme, governments are back on top.
- [00:48:31] **Ajay Shah:** This is one interpretation that has been widely noted, and I've thought a lot about it, and I don't think so. Okay, so let's go under the skin of what is being done and let's think more about what is going on. What the advanced economies of the world, so people loosely use the word the West, but you know, Japan is an Asian country.
- [00:48:54] **Ajay Shah:** Taiwan is an Asian country, South Korea is an Asian country. So, I think it's the club of the advanced economies of the world that add up to 65, 70% of world GDP. These countries see eye to eye and they are collaborating in all these matters. What the advanced economies of the world are saying is that we look back into history, we gave globalization on a platter to everybody in the second globalization.
- [00:49:17] **Ajay Shah:** Whether you were Russia or China or India, we never ask questions about your behavior on any other respect. We just said, 'Come unconditionally, integrate into the world of globalization. It's going to be good for everybody.' We felt confident that as you become rich, you will inevitably stop beating your wife. Okay, so there was this confidence that, yeah, there will be various stupid things now and then, but by and large, the arc of history goes in only one direction.
- [00:49:43] **Ajay Shah:** Today, people are in a mood to wake up and say, 'No, we're no longer that sure that it doesn't go only in one direction.' They've watched how Deng Xiaoping's China and all the hope that China would actually mature into a capable liberal democracy have been dashed, and China has become more authoritarian than it ever was.
- [00:50:04] **Ajay Shah:** They have watched how Gorbachev's Russia has turned into Putin's Russia. So there are no guarantees on these things and then it can turn into explicit violence. Russia has invaded Ukraine. Xi Jinping regularly does saber rattling trying to promise that he will invade Taiwan. Okay, there's no telling.

- [00:50:20] **Ajay Shah:** China has regularly done military damage on the Indian border. So, you know, when a country is in that kind of militaristic, nationalistic place. And what is more, as we have discussed in the previous episode, when the working of the Chinese economy and the Chinese society is in trouble, starting a war is a good distraction.
- [00:50:41] **Ajay Shah:** Okay, it has been done through world history. One of the reasons Putin invaded Ukraine was because the entire Putin project around the Russian economy had come to a stall. The economy was not moving, the economy was not growing. The young men were becoming angry, they were unemployed.
- [00:50:58] **Ajay Shah:** What better way to overcome these problems than by starting a war, then you get to talk nationalism, militarism, rally everybody around the flag. The moment you say soldier, soldier, you know, everybody falls in line and says, oh yes, we support my country. I will always stand with my country.
- [00:51:16] **Ajay Shah:** I remember one good friend of ours who said something remarkable to me and I hope he will not be offended because I am disagreeing with him remotely when I did not instantly have the wit to disagree with him on the spot. He was describing some scholar working for a western think tank in Moscow.
- [00:51:37] **Ajay Shah:** And when the war started, he resigned from the western think tank because he wanted to stand by his country. And I just wanted to say that there is always a difference between a country and a state. There are two different things. Standing by your country is not standing by the state. The state is capable of doing many things and there is no need to conflate the two. They're two different problems.
- [00:51:58] **Amit Varma:** The people who best illustrated this was that whole cohort of Russian chess players who right after the invasion came out with a letter against Vladimir Putin opposing the war. And to in my mind all of them stood up for their country. Correct. Right? And many of them have now, they're playing for other countries because you can't enter Russia anymore. But that is bravery and that is patriotism.

- [00:52:18] **Ajay Shah:** Yep. So all these things have happened and it could easily get worse. The possibility of China invading Taiwan is not over, it could happen. Uh, China, the Chinese government, the Chinese state. So again, you know, I want to never mix up the Chinese people and the Chinese state.
- [00:52:37] **Ajay Shah:** The Chinese people are wonderful. I have absolutely nothing against them. The Chinese state has done crazy levels of saber rattling, military exercises, blood curdling promises. They say that if Taiwan declares independence, then we will invade. I'm like, excuse me, this is a free country, they can do whatever they like.
- [00:52:53] **Ajay Shah:** So, in the eyes of the advanced economies, these are now turning into rogue states. And as with Iran and North Korea, the idea that is being evolved is that there will be a world of globalization between countries where certain minimum standards of fair play and behavior are satisfied.
- [00:53:15] **Ajay Shah:** And when a country invades a neighbor, as Russia did to Ukraine, then the level of economic difficulties that will come upon that country can be pretty unlimited. This toolkit has been assembled and this toolkit has been used against Russia and China. That doesn't mean that globalization is dead.
- [00:53:35] **Ajay Shah:** For everybody else globalization is great. If you're Japan, globalization is great. If you are Dubai, globalization is great. Everything is working. If you're India, globalization is great. There have been absolutely no limitations against Indian participation in the world compared to five years ago on movement of people, movement of goods, movement of services, movement of capital, everything is working fine.
- [00:53:59] **Ajay Shah:** So it's not true that globalization is dead. Globalization is alive and well, it is in fact deepening. Year after year, the basic forces that drove globalization, which is that double thank you moment, the transaction between two people across the border where you are thrilled and I am thrilled that hey, we got a deal, and both of us are better from the deal, that is intact.

- [00:54:18] **Ajay Shah:** The improvements in technology whereby we are able to move bits and people and goods more frictionlessly than ever before, that is alive and well. We are getting better and better at doing all that. The immense rise of what is called other business services on the Indian balance of payments that took place after COVID is testimony to that.
- [00:54:39] **Ajay Shah:** COVID was a moment for every global corporation to understand that it actually works if my people are at home and never show up to work. But then the logic logical next step is to say, 'Hey, then why don't I hire somebody in India?' I'm better off hiring somebody in India. Why would I pay a New York salary to a person when a guy in India has identical capability?
- [00:54:59] **Ajay Shah:** This is a whole new phase in globalization. And that is alive and well and that is going strong. So I have a simple terminology around this. I want to call this the third globalization. Okay, so there was a first globalization where everything was free. Then there was one long nightmare that went to 82.
- [00:55:17] **Ajay Shah:** From 1982 to about 2016-17, there was a great resumption of globalization, which was pretty unconditional. China was told, you're welcome in this club, no matter who you are. Vladimir Putin kept murdering people in London, but you're welcome to globalization. Okay? Now comes the third globalization where a certain kind of amity has been made a pre-condition.
- [00:55:39] **Ajay Shah:** You can't be a rogue state. That rogue states are not welcome. Everybody else is in a club. And that club is doing more globalization than ever before. So it's not true that globalization is dead, but the perimeter has shrunk. So only about 85% of world GDP is now doing globalization, but 85% of world GDP is pretty much everything.
- [00:56:03] **Ajay Shah:** And about 15% of world GDP is sitting in countries who are being proscribed in various ways. Some people are very angry about all these developments and they resent the power of the advanced economies to interfere with central bank deposits, to interfere with Swift, to interfere with the ability to buy a machine from ASML.

- [00:56:27] **Ajay Shah:** Okay, all these things are seen with great resentment. And an angry emotional response is that, no, hell with you, we will now build something new through which we will be able to do our own globalization beyond the reach of the economic statecraft of the advanced economies.
- [00:56:50] **Ajay Shah:** And maybe we should do a full episode on this one day, but I just want to say this is not realistically possible. There is no coalition of countries that can build a currency that will rival the dollar and the euro. There is no coalition of countries that can meaningfully build a pathway to exchange rates and foreign exchange reserves that does not involve a dominant role for the dollar and the euro.
- [00:57:15] **Ajay Shah:** There is no meaningful pathway to building a payment system of any materiality that is disconnected from the dollar and the euro. So my candidate assessment is that you need to make up your mind about whether you want to get angry about this or not. Okay, I don't particularly get angry. I'm an Indian patriot.
- [00:57:35] **Ajay Shah:** Our journey is to make India a great country. There are rules of the game, don't invade your neighbor. I think, you know, we in India are unlikely to want to conquer Bangladesh. Okay, so I think that there's a certain participation in rules of the game. India is a status quo power. India is not China where they seek to overthrow the global order and Russia seeks to invade Ukraine and China seeks to invade Taiwan.
- [00:57:59] **Ajay Shah:** That's not what India is doing anyway. So I'm not fussed about the handcuffs that are being put upon every country as part of the third globalization. For the rest, the third globalization is an open invitation to participate in globalization and India is doing it every day. So there may be some kind of rhetoric by some people, but for all practical purposes, this is the life India is leading every day.
- [00:58:20] **Ajay Shah:** And I will borrow a piece of advice from the great man, Deng Xiaoping, which is bide your time. Okay, for 100 years, our journey is to become an advanced economy and a democracy. Then one can rethink the world at that future date. I expect 100 years from now, India will be a great country, like Japan, like Taiwan, like South Korea.

[00:58:39] **Ajay Shah:** We will have full amity and collaboration with the advanced economies of the world because we will be an advanced economy ourselves.

Chapter 6: Bravo, Babysitters!

[00:58:51] **Amit Varma:** So, you've spoken about economics, you've spoken about geopolitics. I will introduce a third angle, babysitters.

[00:58:58] **Ajay Shah:** Ask me how.

[00:58:59] **Amit Varma:** Baby sitters?

[00:59:00] **Ajay Shah:** Yeah.

[00:59:01] **Amit Varma:** On December 10th, 2005, there was an excellent column in the Financial Times by Tim Harford called, 'My trade deficit with my babysitter', right? And the column made a beautiful point. And I'll tell you why I'm doing this. I'm getting to a question for you and sort of a little bit of a lament as well.

[00:59:18] **Amit Varma:** But Harford's point was that people who talk about trade deficits don't know their arm from their elbow, right? He's saying that, look at the relationship between me and my babysitter. I pay her all the time. I buy her services all the time. She buys nothing from me. It is completely one-sided.

[00:59:34] **Amit Varma:** If you think of us, you know, as if we were countries, you would say, 'Oh, there's a trade deficit, there is a problem.' But actually, it's two individuals transacting to mutual benefit and it doesn't really matter. And that is why, you know, a fiscal deficit, now that's a problem. A trade deficit is not a problem, especially in a bilateral sense.

[00:59:52] **Amit Varma:** If you say, 'Oh, India has a trade deficit with China, we buy more from them than they buy from us.' I'm like, number one, that's fantastic and number two, that is not the truth. It's not India buying from China. It is Indians, individuals, buying from Chinese individuals or companies to the mutual benefit of both of them.

- [01:00:08] **Amit Varma:** Every trade leaves both of them better off and therefore by extension, it leaves India better off, it leaves China better off. So you will see this political rhetoric from both sides that, oh, trade deficits are a bad thing and we need to do something about them. And my argument is no, trade, you know, trade deficits isn't even something that we should consider.
- [01:00:27] **Amit Varma:** Individuals are transacting, it doesn't matter which way the balance goes. And the reason I mentioned this is that the conceptual mistake people who complain about trade deficits make is that they're thinking in terms of nations and abstracting it to the level of nations and not thinking at the level of individuals.
- [01:00:43] **Amit Varma:** And even here, when I think about globalizations, like you pointed out, the second globalization was individuals transacting with each other and nation states getting in the way. And what I see happening here in the third globalization, which you've, you know, laid out so eloquently, is that it is nation states, you know, thinking about their own interests.
- [01:01:01] **Amit Varma:** Now, at one level, if I'm thinking from the unit of a nation state, I can say, yeah, Russia bad, China kind of bad, America's got to do what it's got to do, etc., etc. Everything is justified. On the other hand, I am looking at the Russian people who are suffering because of this.
- [01:01:17] **Amit Varma:** I am looking at the Chinese people who are suffering because of this. And it's fine if 85% of the world can take part, but the 15% who can't take part, I don't see that 15% as rogue nations. I think of them as unfortunate people who happen to be in countries which have rogue regimes and they are getting punished for this.
- [01:01:36] **Amit Varma:** And I feel disquiet about that because I think the average Russian patriot who loves his country, who is not fond of what Putin is doing, is also not being able to get his McDonald's burger, which is perhaps a bad example because you could argue the McDonald's burger is not great for you.
- [01:01:51] **Amit Varma:** But you know what I mean, right? And that is a one aspect of this that makes me feel like it is a step backwards from the second globalization.

[01:01:59] **Ajay Shah:** There's no question about that, but I just want to clarify. By no feat of imagination has there been any large impact on Chinese trade. We're only discussing a few specialized things. We're discussing military equipment.

Chapter 7: Recommendations

[01:02:10] **Ajay Shah:** As I said, GPUs and AI chips made about three years ago are fully fine. It is just today's latest state-of-the-art, amazing AI chips that can't be sold to Chinese buyers.

[01:02:24] **Amit Varma:** Why should the Chinese gamer not have access to the latest GPU and the latest?

[01:02:28] **Ajay Shah:** These are way beyond anything a gamer will want. These are things to develop LLMs and image processing for satellite imagery and so on.

[01:02:35] **Amit Varma:** So I could be an AI researcher in China and want these, you know?

[01:02:37] **Ajay Shah:** Exactly. If you're an AI researcher in China, this is a catastrophe. Your entire career is destroyed because you will not be at the edge of what is possible. As I said, the proponents of this kind of economic statecraft will argue that it is better to do this ugliness than killing people when a war comes.

[01:02:56] **Ajay Shah:** That Xi Jinping was well on his way to launch an invasion to Taiwan. Okay? Partly what the world has shown when Putin invaded Ukraine is designed for an audience of one that is Xi Jinping, that don't you dare invade Taiwan, don't you dare do really bad things with India to a point where you will provoke more countries of the world.

[01:03:18] **Ajay Shah:** Okay? So this is just great. And the trade-off, your moral calculus is between the deaths of soldiers and civilians versus the career destruction for an AI researcher in China. Okay? And there's no question that that's a bad thing.

- [01:03:33] **Ajay Shah:** Surrounding what you described as the voluntary transactions of individuals, it's what you say is precisely correct. It is individuals, it is firms that do trade, not countries that do trade. So in a 100 billion dollars of trade are 100 million double thank you moments.
- [01:03:50] **Ajay Shah:** There are people on both sides who are delighted. Okay? The importer is saying to his girlfriend, "I got such a great deal, we are buying these dirt cheap things from China." And the Chinese exporter is telling her boyfriend, "I got a great deal from India. We are selling stuff that is so expensive to somebody in India." Okay? There's this double thank you moment.
- [01:04:09] **Amit Varma:** At least everyone has a good romantic life in your stories. Carry on.
- [01:04:13] **Ajay Shah:** Yeah. Uh I just want to go two steps further on trade deficits. There's a little bit of economics geekery I would love to please sell to everybody. When you say trade deficits, please, please, please, do goods and services. Okay? So in the standard data for many countries, bracket India, the trade deficit is counted only on goods.
- [01:04:33] **Ajay Shah:** Realistically, there is no difference between goods and services. Okay? You sell a widget, you sell a potato, you sell a haircut, I don't care. You're selling something. So should only count the trade balance that is computed across goods and services put together. Okay? And that there is an accounting identity that that is equal the deficit on the current account, called the current account deficit.
- [01:04:55] **Ajay Shah:** It's an accounting identity because if you watch the cash box, I have a shortfall there. It has to be made up by capital inflow. So there's an accounting identity. If capital is coming in the country, I'm running a trade deficit. And if I'm running a trade deficit, capital is coming in the country and capital is coming in the country to support investment in the country.
- [01:05:13] **Ajay Shah:** When investment is more than savings in the country, capital is coming into the country. So my dream for a high growth configuration in India is from the first globalization, capital should flow downhill. There is infinite capital in advanced economies earning horrible rates of return.

- [01:05:31] **Ajay Shah:** So we should be bringing in 10, 20% of Indian GDP every year to do investment in India and get high GDP growth. So when anybody complains about the current account deficit, I just fundamentally don't understand it.
- [01:05:46] **Amit Varma:** Anyone who has watched, I think it was episode nine of Everything is Everything about how I reverse my type two diabetes, will know that no matter how happy I feel at your words, I will not say aapke muh mein ghee shakkar. I will say aapke muh mein ghee. Ghee indeed is a superfood. Avoid shakkar. It is poison.
- [01:06:01] **Ajay Shah:** Yes.
- [01:06:07] **Ajay Shah:** Amit, give us recommendations today.
- [01:06:09] **Amit Varma:** So, I'll give you a recommendation and globalization themed because after all that is what we are talking about. And the first book I want to recommend is right here. And I will actually pick up a physical book. I want you to note, instead of, you know, looking at my Kindle or looking at my notes. This is a great book called Public Opinion by Walter Lippmann, published, I think, circa published decades ago, a century ago, at least a century ago, right?
- [01:06:32] **Amit Varma:** And I want to read out something from the first chapter, which is like a classic first chapter, and it's called The world outside and the pictures in our heads, right? That's the title again, The world outside and the pictures in our heads. And he writes, "There is an island in the ocean where in 1914, a few Englishmen, Frenchmen and Germans lived.
- [01:06:49] **Amit Varma:** No cable reaches that island and the British mail steamer comes but once in 60 days. In September, it had not yet come, and the islanders were still talking about the latest newspaper, which told about the approaching trial of Madame Caillaux for the shooting of Gaston Calmette. It was, therefore, with more than usual eagerness that the whole colony assembled at the quay on a day in mid-September to hear from the captain what the verdict had been.

- [01:07:12] **Amit Varma:** They learned that for over six weeks now, those of them who were English and those of them who were French had been fighting on behalf of the sanctity of treaties against those of them who were German. For six strange weeks, they acted as if they were friends, when in fact they were enemies.“ Right? So it’s a passage of time. They are at war and they don’t know that they are at war for six weeks and are behaving normally.
- [01:07:35] **Amit Varma:** And when the First World War ends, exactly the same thing happens that they don’t know that the war is, you know, they’re still fighting while the war is actually over and everybody’s shaking hands and the leaders are all posing for pictures and the war is, but they are still fighting and they are still killing each other.
- [01:07:50] **Amit Varma:** And so this is Public Opinion by Walter Lippman is a great book if you want to understand the media, the way the media manipulates us, what we should watch out for, and it’s published more than a 100 years ago and is incredibly precient. Like, no technological change invalidates any of this book. So it’s a masterpiece, got to read it.
- [01:08:08] **Amit Varma:** And that fact about the First World War also reminds me of a Japanese soldier called Hiru Onoda. Have you heard of Hiru Onoda? So Hiru Onoda was a Japanese soldier who at one point in the Second World War, I think circa 1944, landed up in this island in the Philippines where his orders were defend until the death, right?
- [01:08:30] **Amit Varma:** And here’s what happened. No one told him the war was over. He was alone on this island. He had to defend it to his death. He followed orders because that is what a good soldier must do. And 29 years later, he discovered the war was over. For 29 years, he was on this island in the Philippines every day defending the borders and trying to stop intruders. And obviously it was an isolated island.
- [01:08:52] **Amit Varma:** And that brings me to my second recommendation. The reason I thought of Hiru Onoda when, you know, I read out that story about the First World War is that I first heard of Hiru Onoda in this awesome podcast episode called Supernova in the East, part one by Dan Carlin. And it’s from Dan Carlin’s great podcast, Hardcore History, perhaps the greatest podcast of all time.

- [01:09:12] **Amit Varma:** And that's my recommendation, not just the podcast Hardcore History as a whole, but there is a series there called Blueprint for Armageddon. And this is about World War I. And it's six episodes of about 5 hours each. Right? So about 30 hours of content, 25, 30 hours of content. I've forgotten exactly what, exactly how long it is.
- [01:09:30] **Amit Varma:** And it is just one guy talking. It's Dan Carlin talking and he's practically thinking aloud and he doesn't read off a script or something. He's just got themes he wants to talk about and he talks about them and there are no sound effects except the opening packaging right at the start, but there are no sound effects at all.
- [01:09:45] **Amit Varma:** It's just him talking, talking in a conversational way, not in a broadcasty way. And I of course listen at double speed and that normalizes for me. But I remember I had gone out running, this was back in the days I used to run enthusiastically and I had gone out running one day and I started listening to this and I finished my one hour workout routine.
- [01:10:04] **Amit Varma:** And then I couldn't go back up to my apartment. I was standing beneath and I was just listening, listening. Another day I went out running and it started raining and I stayed outside. And that was the day he was speaking about a bunch of soldiers who died in a particular battle. And the night before they died, all of them sent letters to their wives or girlfriends, and they didn't know they were going to die.
- [01:10:23] **Amit Varma:** They just knew they were going to battle. And they all wrote letters to their wives and girlfriends. And he read out these letters and I was weeping in the rain. And it is so powerful. And I think listening to hardcore history, listening to blueprint for Armageddon really, you know, drove home to me the power of audio and the power of storytelling.
- [01:10:41] **Amit Varma:** That you don't need anything special. You just need a story and you just need to talk about it. And there's nothing beyond that. And that is primal. You know, that was our first entertainment. We had no music back in the day, no television, no web series, no binge watching, nothing. We had stories we could tell each other.

- [01:10:57] **Amit Varma:** Audio is the most powerful medium in the world. And, you know, listening to Hardcore History, listening to Blueprint for Armageddon, not only taught me many lessons about the about the World War, about the Great War as it were, World War I, but also taught me lessons about humanity, about resilience, about character, about tragedy, about the folly of nation states.
- [01:11:16] **Amit Varma:** But it also taught me a lesson about the power of audio. And I think that since we are doing a video podcast, that's a great note to end on.
- [01:11:24] **Ajay Shah:** I have a story that is slightly similar, which I was reminded of. Uh, there's a book, Seizing the Enigma. Uh, we'll put the information in the show notes. I was standing in Strand Book Stall in Bombay, and at random, I bumped into the book. So, I like, opened it.
- [01:11:42] **Ajay Shah:** I started reading the first one or two pages. I said, okay, this works. So, I bought the book. Then I was leaving Strand Book Stall and I was supposed to go back to Bombay, uh sorry, go back to Bandra, and this was in rush hour. So, you know, the sooner you left, the sooner you would reach home. You would beat the...
- [01:11:58] **Amit Varma:** Strand is at the tip of South Bombay. Yeah.
- [01:11:59] **Ajay Shah:** You would beat the rush hour. But the first two pages that I had read had just left me in a transfixed position. So I stepped out of the bookshop and I sort of wandered aimlessly for a little bit of time. Then I gave up and I said, I can't do this any other way.
- [01:12:20] **Ajay Shah:** So I just found a local Irani shop and I sat there till 9:00 p.m. and I read the whole book. I just couldn't do anything else. It was just the first two pages caught me so badly, I couldn't do anything else. The only one life I could imagine at that moment was to drop everything and sit in a Irani shop and finish the book.
- [01:12:39] **Amit Varma:** This is the life to live.
- [01:12:41] **Ajay Shah:** This is the good life.

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