Graduating to Globalisation

Episode 48 | Everything is Everything

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Transcript

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Abstract

India's path to becoming an advanced economy runs through one critical transformation: the emergence of high-productivity firms that compete globally. While conventional thinking focuses on exports as the primary mode of international engagement, this represents just one facet of a more comprehensive process called firm internationalization (I18N).

The conversation explores six interconnected modes of internationalization—importing inputs, exporting goods, accessing foreign capital, hiring foreign workers, using foreign technology, and establishing foreign operations—and why they must work together to drive firm productivity. The discussion traces how these modes create virtuous cycles: firms competing in export markets avoid the toxic political economy of domestic competition, where companies use state power to harm rivals rather than improve productivity. Meanwhile, access to global inputs, capital, and talent at competitive prices becomes essential for competing effectively in international markets.

This framework redefines development economics, shifting focus from poverty programs and redistribution to understanding the conditions that enable sophisticated firms to emerge and scale globally.

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Introduction: Why Firms?

[00:00:16] Amit Varma: Welcome to this episode of Everything is Everything. And I want to say that this is, don't just think of it as one episode. A Friday has come, an episode has happened. I think of this episode as part of a larger continuing body of work. In fact, even for The Seen and the Unseen, I often say that each conversation of mine is part of this larger conversation. I'll visit the same theme many times, look at it in different ways, and, you know, there'll be commonalities that will come up. You can see my thinking evolve. It's all part of the discourse. And similarly, you know, this episode is part of a larger body of work that without really intending to, we are kind of building through Everything is Everything.

[00:00:51] Amit Varma: Now, our first episode, which was purely about firms, was episode 22—you know, three firms that really surprised and shocked us in the way that they changed. But for me, we did two episodes on firms after that that are really significant for me.

[00:01:04] Amit Varma: Episode 34 about the evolution of family firms and episode 37 about how you move from imperial to adaptive firms. Don't get scared by those adjectives. It's about how firms have evolved in India over the last 30 years and how they should continue evolving given the diverse nature of this country.

[00:01:22] Amit Varma: And these episodes are important to me, not just because the subject is interesting, but because there is novel and original thought going into this where we are not just synthesizing stuff that is already in textbooks. Ajay has studied these subjects for many, many years, and a lot of what he has spoken about in those two episodes and in this one is actually, and you'll be too modest to say this, but actually in my mind, it's novel thinking. It is a kind of scholarship that should be commonplace in our best universities, but unfortunately, in my view, a lot of mundane random stuff is studied there. And you need this kind of thinking that is both big picture thinking and also looking at the granular details of what this country is and the nature of firms and taking that story forward.

[00:02:00] Amit Varma: So, I want to commit you with a question, Ajay, to start with. Tell me about your interest in firms. When did it happen? Because you're technically an economist, you're studying the economy. You know, you've had so many subjects that you're really passionate about. Why firms? And a larger sort of meta question: when you begin to explore a subject, is it that at first you can't see the wood for the trees and your vision is just on the trunk of a tree, and at some point you begin to zoom out and see the entire forest and get a better picture? How do you think about stuff? How do you learn stuff?

[00:02:38] Ajay Shah: The grand questions about India are those surrounding the growth. Okay, that can India emerge as an advanced economy with high levels of per capita GDP, with high levels of freedom, with the people blossoming into truth and beauty. There is no bigger project than that. Um, ostensibly the field of development economics is supposed to be interested in that, but you know, I over the years I've just become more and more skeptical that the field of development has got lost into the interests of philanthropy and aid and got stuck in poverty and redistribution and lost the plot.

[00:03:19] Ajay Shah: The field of development economics has surprisingly little to say about the great development experiences of the world, which are the four countries of Taiwan, South Korea, Israel, Chile, who were traditionally poor locations in 1945, who are OECD countries today.

[00:03:43] Ajay Shah: In effect, meaning the OECD has not accepted Taiwan as a member, but for all practical purposes, Taiwan is a first class advanced economy. And I somehow had the good fortune of not being concerned about the mainstream of development economics and always going after these questions from first principles.

[00:04:04] Ajay Shah: From first principles, this logic becomes extremely clear, and that is how firms bubble into view. From first principles, an advanced economy is a country where there is high productivity. Okay, because finally all countries have the labor, but the puzzle is you want the labor to do more per working hour.

[00:04:25] Ajay Shah: And that takes place inside firms. Meaning, yes, there are lone heroes like you who work alone, but by and large, most GDP in a country is produced in firms. So, a firm is a coalition of sources of capital and managers and governance and technology and a bunch of contracts surrounding the firm, and it is all supposed to come together to achieve high productivity.

[00:04:51] Ajay Shah: So, the journey of development is the journey of the emergence of high productivity firms. Okay? So roughly speaking, if a quarter of the Indian population was producing at the productivity of first world countries, we are done. That's the Indian developmental journey. Okay? And there are many, many very ambitious things contained in that one sentence.

[00:05:14] Ajay Shah: For example, only a third of the Indian working age population is working today. Two thirds are not. So there are many, many gotchas. But this sentence is factually true that if a quarter of the Indian population was in firms playing at global frontiers of productivity, we are done. Then India is an advanced economy.

[00:05:36] Ajay Shah: And so that's a good framing of understanding the Indian development journey. The Indian development journey is about the emergence of a mass of firms that will suck in the labor to a sufficiently large magnitude. Numbers count. You want to get millions of people into high productivity firms.

[00:05:54] Ajay Shah: And those high productivity firms should be very high productivity, they should get better and better, and they should ultimately reach to the global frontier of value added per worker. And that is the essence of the development journey. And I find it to be a great organizing principle, and in a way, you have read the book *Kelkar and Shah*.

[00:06:14] Ajay Shah: Everything we think about public policy is about asking the question, how do we create conditions where the wonderful people of India—the entrepreneurs, the managers, the financiers, the engineers, the workers, the creative people—will all come together into sophisticated firms. So everything public policy can be understood as creating the conditions for this to happen.

[00:06:41] Ajay Shah: So getting to high productivity firms is the necessary and sufficient condition of becoming an advanced economy. And just to help gentle readers to see some of the contrast. If you're Saudi Arabia or you are Qatar, you've got the high income, but actually you don't have the high productivity firms.

[00:07:00] Ajay Shah: You know, so you're pulling gas out of the ground or, you know, Saudi Aramco is pulling gas out of the ground and selling it to the world. You get a ton of money, but you actually don't get the knowledge. Actually building those firms is a human story. It's a human story of capability, of non-coercive human relations where people will talk to each other, people will persuade each other, people will enter into contracts with each other.

[00:07:22] Ajay Shah: There'll be creativity, there'll be creative destruction. It's an entire human complex of high productivity firms that I see as development, not some bounty where some gas is found. That you don't actually change the people, you don't change the society. Capitalism is an ennobling force in the way it brings together people into voluntary contracts and double thank you moments in a way that is immune to racism, that is immune to all kinds of prejudice.

[00:07:50] Ajay Shah: Okay, George Stigler taught us a long time ago that the capitalist who discriminates against a chosen minority is actually harming herself. Successful firms are those that are meritocratic, they care about getting shit done. And so there is a wonderful progressive social character to great firms and to a country that is the crucible where great firms are created.

[00:08:15] Amit Varma: Beautifully spoken. You spoke of the human story and I'm going to tell you a human story, but before that a couple of things. One point that you also made is that this can set off a virtuous cycle because when a firm is competing in the international market, it automatically gets better, firms around it get better. You know, you adopt best practices firstly and then evolve your own since you're really competing with the world.

[00:08:36] Amit Varma: And it's a beautiful virtuous cycle the moment you actually manage to set it off. And the second point I want to make is that I had a great episode recently with Lant Pritchett. We spoke a lot about development economics in that and you and I, you have promised me because I really want to do this, where we do an episode of Everything is Everything where we talk about everything that is wrong with development economics. It's much needed for the world because a lot of fine brains kind of get into that for the right reasons, with the right intentions, and they get completely wasted.

[00:09:05] Amit Varma: My third story is a story that my good friend Vaishnav told me earlier this morning at breakfast. And the story involves his school, and the story involves a school boy who goes to the fifth floor of his building on a particular festival day—might have been Diwali, I forget. Goes to the fifth floor of his building and he does a very interesting thing.

[00:09:25] Amit Varma: He has with him some mechanism, some kind of chain he's made, which have firecrackers at the end of it, and he's figured out this cunning way which Vaishnav described very well, but I kind of forget the exact details by which you can set off a delayed firecracker after 20 minutes and you can time each firecracker. So using that chain or that string or whatever, he, you know, does this operation from the fifth floor where there is a firecracker dangling in the fourth floor toilet, a firecracker dangling in the third floor toilet, second floor, first floor, right?

[00:09:54] Amit Varma: And then at one point, they are timed in such a way that the fourth floor firecracker goes off. All the teachers run up to the fourth floor. When they are there, the third floor goes off. They all run to the third floor. When they are there, the second floor goes off, they all run there. Now, this is a remarkable story for me because the first thought that came to my mind when Vaishnav told me the story is that these are the future of our country.

[00:10:15] Amit Varma: This is innovation. This is, you know, you're taking the initiative, you're doing something funky, you're doing it in creative ways. Maybe it's school so you're doing firecrackers, but when you get the opportunity out in the economy, you can do amazing things. I did an episode of The Seen and the Unseen on Bihar with Mohit Satyanand and Kumar Anand and they spoke about the incredibly innovative things that are happening there like an entire bridge has been stolen from Bihar.

[00:10:39] Amit Varma: You know, think of the innovation. People just stole a bridge. One day there was a bridge, it wasn't there. Only in Bihar. Only in Bihar. And the bridge was stolen after what? It was stolen after a particular river was stolen. There was a particular patch which water ran through and they kind of stole that as well. It's insane stories and a lot of the big scams, these telemarketer scams and all that are actually conducted out of a couple of towns in Bihar.

[00:11:02] Amit Varma: And on the one hand, it's a bad thing, but on the other hand, it's a good thing. And the good part is in the potential. This is a potential our country has. We can compete with anybody in the world, right? We have the imagination, we have the sheer manpower. I mean, just a sample size of innovative people is greater than anywhere else in the world. And so I buy your point and it is not a point of economics, it is not a point about companies.

[00:11:24] Amit Varma: It is a poignant point about humanity that as a country we are constraining ourselves.

[00:11:30] Ajay Shah: And so the story is how to channel that energy and bring it together into these institutions that are called firms. Okay? And a firm is a raft of capital, labor, governance, technology, management, contracts. So outside of the firm is a bunch of contracts with external parties.

[00:11:49] Ajay Shah: And so that object should be put under examination both from a practical point of view and a research point of view. In a practical point of view, we should be saying, what is the magic of ASML? What is the magic of TSMC? What is the magic of Sony? How do we build these firms? What makes this raft of human relationships, legal contracts, capabilities, all come together and then these are just things to admire.

[00:12:13] Ajay Shah: They work so well. They have very high levels of productivity. And as researchers, we should wonder what is going right, what is going wrong? Why does the Indian environment not create high quality firms? How can the Indian environment change to support the creation of high quality firms? And that takes us to the kind of discourse we're going to do today.

Chapter 1:What is I18N?

[00:12:39] Amit Varma: So, you know, the title of our episode is Graduating to Globalization, which is a title of one of your papers. It's a term coined by you. And we've been speaking constantly when, you know, you've been sort of giving me notes for this to understand the subject. You've been speaking about firm I18N. Right? So explain what is I18N and then explain what is the next further question.

[00:13:02] Ajay Shah: There was a dark age when all computer science was conducted in English, and the Roman keyboard has fits into 127 characters, and that is called ASCII. It's American Standard for Communication and Information Interchange, something like that. Okay. And then you had to do internationalization.

[00:13:24] Ajay Shah: You had to accommodate all the other languages of the world. Your editor couldn't just say that I work for English. I have to work for Korean and Japanese and so on. So the computer scientists were very lazy in typing. So they shortened the word internationalization into I18N. It is I followed by some 18 letters followed by N.

[00:13:48] Ajay Shah: So that's I18N. And firm internationalization is the broad idea that a firm becomes deeply connected into the globe. Okay, and it can take place in many, many ways and we will discuss that. But the key idea, the key claim is that internationalization is good for firm productivity and we grow better firms by emphasizing internationalization.

Chapter 2: Modes of I18N

[00:14:23] Ajay Shah: Now, this internationalization can happen in many ways. They're called modes of internationalization. Okay? So a firm can use imported inputs. Okay now think, we are in a full world of consent, no government coercion. By default there are local inputs that are readily available that are often cheaper.

[00:14:42] Ajay Shah: So to use imported inputs is often an effort and is often something costly. And so when you drill into it, what you will start seeing is that highly specialized kinds of technology and services and arrangements become the imported inputs. Nobody is wantonly going into an imported input because it's a pain.

[00:15:05] Ajay Shah: So, you know, you can even have a local dealer who will stock a Sony Alpha, which is fine, but it is still an imported input. And so the first mode of internationalization is imported raw materials, imported machines, imported technology. Okay, all this is a kind of internationalization.

[00:15:24] Ajay Shah: Then of course, there is exporting. A firm exports goods and services. That is another kind of internationalization. But it doesn't end there. Then a firm can get foreign capital. So it can be foreign equity capital which runs on a spectrum from low levels which are called portfolio investments to high levels that are called FDI where in the limit, some foreign firm owns 100% of an Indian organization.

[00:15:48] Ajay Shah: That's 100% FDI. Okay? So you've brought foreign ownership into the picture. Then there's foreign debt that you could be borrowing from abroad. Okay? There can be foreign employees. So once again, like it's very easy and comfortable for an Indian firm to hire people locally, you hire from your friends and family.

[00:16:06] Ajay Shah: And yet many times many Indian firms are taking the effort of hiring a foreigner. And this is interesting and important. The foreigners bring specialized knowledge, they bring specialized skills. Sometimes they have relationships that can unlock a market for the Indian firm. So there are many reasons why an Indian firm might like to hire foreign workers.

[00:16:28] Ajay Shah: Of course, at the back of it, we must retain our connection to the notions of meritocracy and bringing in the best people at every imaginable role. I remember Sundar Pichai once said that it will be a great day for India when a Bangladeshi immigrant becomes the CEO of Infosys. Okay, just as he an Indian immigrant into the United States has become the CEO of Google.

[00:16:55] Ajay Shah: And we in India are very insular. We are not ready for this. We will culturally resent a foreigner being the CEO of, you know, the well loved Indian companies like Infosys and TCS, but it is logically sound. You should hire without regard to nationality. That is a loyalty to building the firm. I want to build the firm. It's a high productivity firm, it's got to do well, and then we will do what it takes to make the firm good.

[00:17:23] Amit Varma: This is a lovely point and actually now thinking aloud, it strikes me that the fact that so many American companies have Indian CEOs speaks to the greatness of America, not India.

[00:17:33] Ajay Shah: Absolutely. It is remarkable that today Satya Nadella at Microsoft and Sundar Pichai at Google and a bunch of others at the top ranks of the American firms, they, you know, are people from of Indian origin, and in the United States, they've been accepted, there is no difficulty, there is no friction. It's just it's an ordinary everyday appointment process. Nobody starts shouting anti-foreigner.

[00:17:59] Amit Varma: And other modes of internationalization would also be outward outbound FDI, I'm guessing.

[00:18:06] Ajay Shah: Yes. And foreign technology, using foreign tech.

[00:18:09] Ajay Shah: Yes. Uh so when I said FDI, I emphasized an inbound notion that IBM will build a facility in India. But imagine when an Indian company will go abroad and build a factory there, build a company there. That's also a glorious thing and hundreds of Indian companies are now doing this. That is actually the subject of the paper titled graduating to globalization.

Chapter 3: The Wonders of Exporting

[00:18:41] Amit Varma: So here's my next question. When people think of globalization and, you know, companies playing in the global market, they often think of exports. And what you've laid out actually is a bunch of other modes of internationalization as well. So how does one think of exports vis-a-vis the others?

[00:18:56] Ajay Shah: Practical people love exports. Uh you think, hey, I got a foreign customer. And you think of it as an addition that, you know, left to myself, I would have sold 100, and instead I'm selling 200 because a foreigner walked in my door and gave me an order. So exporting is well loved. Uh to some extent, there's just a simple fallacy of composition going on here.

[00:19:16] Ajay Shah: What is good for one company doesn't actually scale to the rest of the economy. So what happens is a lot of firms start exporting, it will always push the exchange rate. Okay? When a country succeeds in exporting, the exchange rate moves, it appreciates. And then many imported goods will become cheaper in the country. And then foreign imports will kill off many Indian producers.

[00:19:37] Ajay Shah: So, it is to some extent a zero sum game that one man's export comes at the expense of harming other people's imports. Okay? And that's not a bad thing because we should reorient ourselves. The game is not to get revenues out of exports. The important point is exporting is passing a market test.

[00:19:56] Ajay Shah: You get to high productivity firms. So, exporting is it is truly great to export because this is the way in which we build high productivity firms, and it is proof that if my firm is able to export, then I am world class. That is the way to think about the joy of exporting. Um somewhere in this I want to add one more dimension to this.

[00:20:19] Ajay Shah: when a firm operates purely domestically, it may often encounter limitations in market size. So, exporting is good for some firms because it enlarges the potential market. So then it takes you further into a journey of economies of scale. So that's one more reason why exporting is linked to productivity. So, the highest productivity firms tend to become bigger.

[00:20:42] Ajay Shah: And the biggest firms tend to reap economies of scale and they become high productivity. So there is this deep connection between firm size and productivity. But when you pass the market test. If you are Coal India, you're a local monopoly, then firm size means nothing for productivity. Once you are a globalized firm, sheer size counts.

[00:21:02] Ajay Shah: If you're so big, it must mean that you're good. So, you know, there is a direct connection between productivity and size. So that's one more dimension in which exports helps. But this is not in the crude way that a business person thinks. Business people are thinking one firm at a time, and at a systemic level, we are thinking a country at a time. And some economists have a phrase for this, they call it a Dutch disease.

[00:21:25] Ajay Shah: That when the Indian companies learn to export software, that pushed the rupee, that damaged Indian manufacturing exports. And yeah, that's part of life. So, this is Ricardian trade theory working out. You will specialize. The each country will do certain things. And success in doing some things contains hardship for low productivity firms for doing the things that the country is not so good at doing and you'll end up importing that.

[00:21:48] Ajay Shah: And that's okay. That there will be no large divergence between imports and exports. The divergence between imports and exports is not a meaningful number. It's just the capital import of the country, which are small numbers. So, exports can be a very big number, imports can be a very big number, and they move together. So that's not the way to think about exports that, oh, we will make money exporting.

[00:22:10] Ajay Shah: The reason why exporting is important is it's a journey to productivity. And it's also a way of solving political economy problems domestically. And this goes back to Jagdish Bhagwati, TN Srinivasan and Krueger. Okay, the political economy of a domestic business is fundamentally fraught with tension. If I'm a domestic firm, you're a domestic firm.

[00:22:32] Ajay Shah: Then you and I are in a competitive game of getting state power to screw the other. Okay? I will try to get policy changes that will harm you. We will both collaborate on policy changes that will be anti-foreigner. I'll keep the foreigner out. I'll do anti-protectionism. Sorry, I will do protectionism. I will do nationalism. I will come up with every reason why the foreigner cannot be allowed to operate here because then, you know, you and I are the beneficiaries.

[00:22:57] Ajay Shah: But it doesn't end there. Then I will go cosy up to the government and inflict an income tax raid on you. Okay? So domestic politics is just very ugly. Firm to firm competition plays out into the state. And in an underdeveloped country, in a developing country, the state is not very good. So the state is available for business to send an income tax raid or a regulatory change or a regulatory order.

[00:23:21] Ajay Shah: And through that competitive dynamics plays out. And that's just toxic. So domestic companies and the path to success in being a domestic company and the kind of things that domestic companies do are just very dangerous and it is not a gradient leading up to productivity. It can often be that the worst guys win and the actions of the worst guys reinforce the toxicity of the state in a developing country.

[00:23:50] Ajay Shah: All these problems are pushed off the table when you say exporting. There is nothing that Infosys can do to try to lobby with the Indian government to get more exports into Germany. Okay, Infosys and the Indian state have no way to win in selling to Germany other than productivity. Like, shut up and do your goddamn job better. And that is just such a great set of incentives that the entire passion, the entire energy of Infosys, of TCS, of the great exporting engineering firms of India is about how do I do my work better?

[00:24:25] Ajay Shah: How do I build a better ball bearing? How do I increase my productivity? How do I cut costs? How do I get the best machines? How do I upgrade my workforce? All good impulses. All positive impulses. So even in a bad country, the pressure of exporting brings out better behavior from the firms. The firms will do less by way of going to SEBI and RBI and Enforcement Directorate and income tax and, you know, doing ugly things to each other, or lobbying for a favor that benefits me and always and always blocking the foreigner.

[00:24:55] Ajay Shah: Okay? So nationalism is the language of domestic firms. When you are a global firm, you don't do nationalism. When you are a global firm, in fact, you want cheap foreign inputs. So the whole logic of an exporting firm changes. And that is why exporting is so precious. So exporting is precious because exporting firms create that productivity.

[00:25:17] Ajay Shah: If you are a purely domestic firm, what pressure do you have? Competing in export markets forces you to become more productive and that is the core development journey. But equally side by side with that, at an early stage of development, we are a developing country and we have all these problems. We have a SEBI, we have an RBI, we have an enforcement directorate, we have an income tax, we have a government that is available to put out one more regulation, one more law that will favor one firm or the other and will always be available to be anti-foreigner.

[00:25:45] Ajay Shah: So you can get to a very toxic political economy. This is the journey of Indian failure in the 60s and 70s. And it was drawing on those insights that Jagdish Bhagwati, T. N. Srinivasan and Krueger and a whole bunch of others understood that exporting brings out a different political economy. Lant Pritchett always pushes the story of the South Korean chaebols.

[00:26:08] Ajay Shah: Okay, like in a way you could say this is crony capitalism, but the beauty was there was a political bargain between eight or 10 big business houses in Korea, where the government said, we will help create conditions where you will export. So the entire language became, how do we export? And there is nothing the government of Korea can do to make the American market more accessible or somehow better for the Korean manufacturer.

[00:26:36] Ajay Shah: They can't screw an American company, protectionism doesn't help, etc. So suddenly, the entire channel of public policy goes in the correct direction. You go into prosocial, pro-productivity, sensible activities because your purpose is exporting. So these are all the ways in which exporting is magic and I'm trying to show the deep connection that at the heart of development strategy is exporting.

[00:27:02] Ajay Shah: And exporting is a great way to rise out of being a developing country. Okay, like potentially you can be a purely domestic economy and you can learn high productivity, but the political economy is very difficult. In a purely domestic environment, you will get all this toxicity of firms hurling the state at each other. The state will always be dragged into one conflict after another, all regulation is social conflict and political conflict acted out in turning into one regulation after another and it loses all meaning.

[00:27:29] Ajay Shah: Whereas exporting is a healthy way to focus. In all this, I just want to say there is one truly toxic way in which a country can produce fake exports, which is by directly subsidizing exporters. And this comes in two ways. One is in explicitly giving money to exporters, and the other is in distorting the exchange rate. So, you can always make an inefficient firm export by sufficiently distorting the exchange rate.

[00:27:56] Ajay Shah: So if USDINR right now is at 80 rupees a dollar, just imagine it's 100 rupees a dollar. Suddenly Indian goods are cheaper in world markets. So there are two toxic things that a government can do which will get you fake exports, that you get the motions of exporting without the actual content. The content is productivity. You're supposed to become high quality firms.

[00:28:18] Ajay Shah: When a government doles out a subsidy, which is like PLI, or a government doles out a indirect subsidy by distorting the exchange rate, then you've mixed up means and ends. You on paper, you've got your exporting, but you didn't actually get what it was all about. What it was all about was high quality firms, not the billion dollars of exports.

[00:28:38] Amit Varma: Beautifully put. This is turning out to be another masterclass. I'll get my recommendation for the episode over with right here. You mentioned Bhagwati. Bhagwati has his great book called In Defense of Globalization. So, magnificent book everyone should kind of read that. The other point that struck me while you were speaking is a point that Ram Guha once made to me in one of the six episodes I've done with him, I forget which one.

[00:29:00] Amit Varma: Where he spoke about the difference between nationalism and patriotism. Patriotism is just loving your country. You and I, I think I can speak on your behalf, we are patriots. We love the country. Nationalism is this particular toxic, exclusionary, chest thumping, macho sort of way of looking at the world which is terrible. And a lot of the toxic role of the state in this context comes from that kind of nationalism where a domestic country may say that block imports, put tariffs, protect me from competition.

[00:29:28] Amit Varma: I want to continue to be mediocre. Or an exporting firm may say that, hey, I too want to be mediocre, but I also want to export, give me subsidies or manipulate the exchange rate. And I think what a true patriot will say is that no, that we have it in us to be as good as, you know, anyone in the world. Let us compete, we will get better and we will show you what we can do. And, you know, that is an important distinction to me.

[00:29:50] Ajay Shah: But there is an interesting difference between the 60s and the 70s and some of the things that we're seeing today. In the 60s and 70s, it was not a toxic nationalism. There were actually deluded economists who thought that import substitution was a good thing. Okay? So it was just analytical failure.

[00:30:06] Ajay Shah: And you know, I think by and large that has been purged from professional economists today. Now you have other kinds of compulsions and remember, the firms are always standing ready saying, "Yay, give me protectionism. I'm so happy."

[00:30:19] Amit Varma: Import substitution was indeed a disaster, poor thinking and it is back. So, you know, what are we to do, the more things change, etc, etc.

Chapter 4: Everything is Everything in I18N

[00:30:36] Amit Varma: So, you know, Ajay from whatever I've been hearing so far, one particular thing that I like and one particular thing that I like in your thinking in general is that you won't speak of things in isolation.

[00:30:45] Amit Varma: You'll see the bigger picture around it. No man is an island, no mode of internationalism, internationalization, I18N, is an island either. Right? Everything feeds into it.

[00:30:56] Amit Varma: Sure exports are incredibly important but these other modes are also important. We need a holistic picture. So give me a sense of why. How do the other modes of I18N feed into exports and how how do they all form that virtuous cycle?

[00:31:11] Ajay Shah: So, many policy economists have tried to view these modes of internationalization as distinct and almost like a menu of choice. Do I want this? Do I not want this? Okay? He loves me, he loves me not. That's the way they've tried to look at the modes of internationalization.

[00:31:28] Ajay Shah: The modern understanding of firms and firm internationalization says no, that is absolutely a wrong way to think about it. Let's go piece by piece. Step one, it is a beautiful and interesting, remarkable fact that production in the modern economy never happens in one country.

[00:31:46] Ajay Shah: Uh, a full 50% of global trade happens within firms. So, firms are the key institution around which trade takes place. So, firms look at the whole world as a list of opportunities where can I produce? And firms don't care about lines on borders.

[00:32:04] Ajay Shah: Okay, a wise firm, a smart firm, a sensible firm, will not care about lines on borders. A wise firm will say, where can I produce cheapest?

[00:32:13] Amit Varma: Lines on maps you mean. Lines on maps are borders.

[00:32:15] Ajay Shah: Okay. Lines on maps. Okay. What a firm will do is they will ask the question, what are the efficient ways to get production done with an eye to lowest cost and also to diversification?

[00:32:27] Ajay Shah: So, firms are sensitive that there can be a geopolitical risk, there can be a a political crisis in a country. So for example, China was on a certain journey with Xi Jinping which just disabled the ability of a lot of global firms to operate there.

[00:32:43] Ajay Shah: And then these firms kicked themselves saying, oh we are under diversified, we are too exposed to China. And they've all run around in trying to increase their activities in countries other than China. Sadly, not much has happened in terms of Indian gains out of this process.

[00:32:58] Ajay Shah: Firms plan their production activity all over the world. So there will be an engine that is made in Brazil and then it is transported to Madras, and there the car is assembled and then the car is sold in America. This is how modern firms operate.

[00:33:13] Ajay Shah: So the first point to understand is that all modern firms, or large complex important modern firms are multinationals. They are not single country firms and their very production process is spread across countries.

[00:33:25] Ajay Shah: And international trade is not across the boundary of the firm is within the boundary of the firm to the tune of about 50%. So that just shows you how big it is. That if you want to harness exporting, you have to be deep inside the world of the MNCs.

[00:33:40] Ajay Shah: And that means you have to be fully all in on FDI. You can't say I have a problem with multinational companies. Okay, George Fernandes was obsessively irritated about multinational corporations operating in India.

[00:33:53] Ajay Shah: Our understanding of trade theory today tells us very clearly that you want to be a successful exporting company, you have to have multinationals on both sides. So Indian firms building operations worldwide, global firms building operations in India and just remove all the frictions.

[00:34:09] Ajay Shah: Don't torment complex multinational firms as the Indian state does with income tax and complexities about rules of origin and a whole bunch of policy impediments interfere with the working of multinationals in India.

[00:34:23] Ajay Shah: And there I've already showed you how there's a deep connection between a mode of internationalization which is FDI in and out versus exporting. You can't take your pick. You can't say I like exporting, I don't like multinationals. No, if you like exporting, you like multinationals. These are one of a piece.

[00:34:43] Ajay Shah: Okay? Let's go further. Pause to think about the economics of a steel factory. In a steel factory, we consume pig iron or iron ore and coal and we make steel. So, you know, a primitive conception of the firm is that my input price is something I pay for coal.

[00:35:02] Ajay Shah: I will import high quality anthracite from Australia. I won't make do with the bad coal that we get from Bihar, international trade. Okay, I want the best inputs and I will use iron ore which comes from Orissa and Goa and other parts of India.

[00:35:17] Ajay Shah: And I'll put them into a machine. I want the world's best machines, imported capital goods, and I will make steel. Okay? This is an engineering conception of a steel factory. Okay, but a business view, an economics view will say that the most important input in making steel is the elephant in the room you have not acknowledged thus far, and that is capital.

[00:35:38] Ajay Shah: So if you count the capital cost per ton of steel, it's actually a higher cost than all the others. The components of iron ore and coal and labor are all smaller than the overall price paid to capital.

[00:35:54] Ajay Shah: So Mr. Capital is the most important input provider to make a profitable steel mill. And then you get to the simple calculation that if I want a steel factory in India to be competitive, then I have to match the price of capital experienced by the world's best steel factories in Korea or Japan or America.

[00:36:16] Ajay Shah: And so then that's where you open up to foreign capital. I need foreign equity capital, I need foreign debt capital. And we will not explain deeply here but you I just want you to take my word for it that foreign capital is cheaper, foreign debt capital is cheaper, foreign equity capital is cheaper.

[00:36:34] Ajay Shah: Partly because India is a poor country, partly because India has a bad financial system. But bottom line, it is superior for most Indian firms to import capital. So you want to be productive, then you want to get the cheapest inputs.

[00:36:47] Ajay Shah: It is as silly to interfere with internationalized capital access as it is silly to interfere with internationalized coal access. Okay? We should be loyal to the exporting success of the firm, to the productivity of the firm. The firm must buy the cheapest inputs.

[00:37:04] Ajay Shah: Then don't have any ego problems. Don't bring any other considerations. They are all extraneous considerations. The only consideration is I want to win. I want to make steel in India. I want to be the lowest cost steel producer in the whole world, so that I can put 100 million tons of steel capacity in India and export to the whole world and destroy the ability of a South Korean steel factory.

[00:37:23] Ajay Shah: Okay, that's the game. That's how you have to play. And then you can't say that no, no, no, on capital, that's a mode of internationalization that I don't like and I will not accept. Okay and similarly foreign labor, like look, we're going to build this great steel company.

[00:37:36] Ajay Shah: And if there are individuals who are really very competent, we should hire them. Like the consideration of the nationality of the job applicant should be deleted in the HR database at the point of application. We should look at all the resumes that come in and we should be purely meritocratic that it is as wrong to not hire Muslims or not hire Dalits as it is to not hire South Koreans.

[00:37:58] Ajay Shah: We should just be completely neutral. I want a certain package of skills to be in my firm. I will pick good people who are available at a low price to get that job done. And then what has nationality got to do with it? Sometimes nationality can be a positive gain that if I want to sell into South Korea, maybe I want to hire some Koreans because they have the requisite human network.

[00:38:18] Ajay Shah: So for certain job designations, you will have a description where you will say I want 10 years experience of having lived in South Korea, of speaking Korean and selling into the Korean market. Now that guy could be a Tamilian, he could be a South Korean and once again, we should be blind to their nationality. We should just hire the cool people.

[00:38:36] Ajay Shah: So bottom line is all these modes of internationalization are connected and they feed into each other. There's a human story that is inside it. It is about human relationships. Finally, firms are a raft of people. And as the team goes out to the world to sell, then they meet the people who say, you know what, we know how to bring equity capital for you.

[00:39:00] Ajay Shah: And then their foreign shareholders and their foreign board of directors will say, you know what, we can help you make the connections to do FDI into Brazil. So all kinds of internationalization are interconnected. You get more foreign workers and then suddenly those foreign workers are saying, you know what, we can buy this imported raw material from my country.

[00:39:18] Ajay Shah: I know a very low cost vendor and we'll import from there, we'll get a price reduction. So that way we should think about firm internationalization as a larger phenomenon that is the core of the emergence of the journey of the flowering of the capability of a firm, but it involves all these modes and all these modes feed into each other.

[00:39:38] Ajay Shah: On any of the six dimensions you push forward in one dimension, it will end up helping the other dimensions.

[00:39:45] Amit Varma: And I love how economics feeds into society that in a truly competitive marketplace, it is costly to discriminate, and therefore you are much less likely to discriminate, but in a truly competitive marketplace.

[00:39:56] Ajay Shah: And, you know, but exporting is that truly competitive market. So the beauty of exporting is you have your back against the wall. It is war every day. You cannot be complacent.

[00:40:05] Ajay Shah: In a domestic market, you can rig the game by using government. So the arrogance of being a firm that engages in all kinds of bad practices is more within a domestic firm.

[00:40:15] Amit Varma: Exactly, that's a great point. And what I also like is you know, the point I was making dear reader at the start of this episode that don't think of every episode as one isolated thing. Longer stories are being constructed. One of those longer stories is in all these characters in your head.

[00:40:28] Amit Varma: In a previous episode, dear gentle reader, you met Mr. Gas. Today you have met Mr. Capital. You know, someone somewhere is solving a mountain. So, you know, we are getting a sense of your interior landscape through this journey.

Chapter 5: I Am a Policy Person

[00:40:51] Amit Varma: So Ajay, I'm going to get a little bit into role playing here, right? And I'm going to ask you questions which are framed thus, I am an X, what do I do? You know, given all the knowledge that you've just given. And the first of those is I'm a policy person. What do I do?

[00:41:05] Ajay Shah: A policy person should understand the centrality of firm internationalization as a means to firm productivity which is the heart and soul of India's development journey. So the words Indian development strategy, the words Indian growth strategy are not about poverty or education or health or all those things.

[00:41:27] Ajay Shah: Everything in the Indian society leads to firm productivity.

[00:41:31] Amit Varma: And the others are then taken care of if you sort solve this.

[00:41:34] Ajay Shah: Or they can be an input into this. So, you know, you do better on education, it can help you because the firms will be able to hire better people. But it's a means to an end and that story is firm productivity. Firm productivity is the touchstone.

[00:41:46] Ajay Shah: That we are here to make firm productivity and recognizing the limitations of an early stage republic. Okay, we are a young country. Many of our institutions don't work well. We should fundamentally understand the toxicity of the competitive landscape of domestic firms.

[00:42:00] Ajay Shah: That domestic firms will try to get ahead in ways that harm each other by using state power. Okay, so one domestic firm will get a regulation done that harms the other. That is the nature of domestic political economy. Exporting is a higher place.

[00:42:15] Ajay Shah: Exporting is a higher ground where those kinds of bad things don't happen and exporting is a healthy thing. But the firms will always come and ask for subsidies. The firm will come and say give me PLI, give me free land. Oh electricity is so expensive in India, how can I compete?

[00:42:31] Ajay Shah: Okay, these will be the noises made by the firms. And I feel that the way we should think about it is every production location in the world has a mix of some costs that are cheap, some costs that are expensive. If you want to produce in Brazil, the labor cost is higher than India.

[00:42:48] Ajay Shah: Okay, you want to produce in Germany, the electricity cost is lower than India. There'll be many trade offs and the policy maker should smile at the firm and say you choose where you will produce, what you will produce. Meaning yeah, we should solve electricity policy in India.

[00:43:01] Ajay Shah: Okay, you and I have done a lot of thinking and talking about electricity policy, but we are not holding our breath. It's a 25 year journey to fix electricity policy in India. In the short term, it's not going to change, but that doesn't justify a subsidy. Okay, the firm should be told, this is where we are.

[00:43:17] Ajay Shah: Now you figure out how to produce either you should exit, like don't be in this business. Like you shouldn't produce electricity intensive things in India because like electricity is a bad input cost in India. If you're going to have a factory with 20 workers and 20 megawatt hours of electricity consumed every day, then you're probably not competitive in India.

[00:43:38] Ajay Shah: Then you want to be in Germany where you get cheap electricity, okay, because if you have only 20 workers, there is no Indian edge. So the firm should think that this is my landscape. Now here I am. And if you have the fire in the belly, you become a successful firm, which is you figure out how to spread production all across the world.

[00:43:56] Ajay Shah: And you don't like electricity prices in India, go somewhere else. You don't like land prices in India, go somewhere else. There is no, nobody's going to give you a subsidy. Don't ask for a distorted exchange rate. So we should just kick the firms out of the room when they want a subsidy.

[00:44:10] Ajay Shah: Okay, that is the first block of things that policy makers need to do, that keep your eye on exports, but the firms have to fight it out, the firms have to become productive. Okay, then there is a whole toxic Indian government approach which is hostile to the outside world.

[00:44:26] Ajay Shah: There is just something deep inside the minds of Indian civil servants and policy makers and that has become even more accentuated under conditions of populism where foreign engagement is a bad thing. A foreign bank account is a bad thing.

[00:44:41] Ajay Shah: Travel abroad is a bad thing, having a subsidiary abroad is a bad thing, operating in a tax haven is a bad thing. And you know, having a Swiss bank account is a bad thing, organizing your business activities through Dubai is a bad thing. There's just a fundamentally anti-internationalization stance spread all across the Indian state.

[00:45:02] Ajay Shah: So, whether it is SEBI or RBI or ED or Ministry of Company Affairs or income tax or GST, this whole landscape is rich with an anti-foreign, anti-internationalization approach. To the point where many many normal individuals and smaller firms will just say, look, let's be careful.

[00:45:24] Ajay Shah: Let's not do things abroad because then we have to deal with this compliance nightmare that these people will come after us. And that is part of how you get the largest firms in India that are richly international and many others who just say like chodho yaar this is too much trouble.

[00:45:39] Ajay Shah: And this is a policy failure. This is the Indian state harming India's journey. This is the Indian state interfering with the emergence of India. And this needs to change. It is a very important priority for policy makers that all these pieces, the enforcement directorate, the income tax need to grow up and understand the modern world.

[00:45:57] Ajay Shah: They need to understand that 100% cross border activity is the essence of firm productivity, is the essence of an advanced economy. Okay, if you fly to London, within 10 minutes, you will get a bank account opened. You suffer the misery of a foreigner coming to India trying to open a bank account.

[00:46:18] Amit Varma: And what strikes me about everything you just said is that it involves a state just getting out of the way and not doing things, rather than actually doing something. You don't need to do anything. You know, we are innovative, we are creative, we are entrepreneurial, we'll take care of shit if you get out of our way.

[00:46:33] Ajay Shah: And then there are long run journeys that you know, can you do better on education, great. Can you do better on health, great. Can you do better on electricity policy, great. But those are all 25 year journeys, they'll gradually play out. In the short term, they won't move the needle. But there is enough opportunity and enough energy and enough hunger in India to actually generate tremendous progress without waiting to fix all those things.

[00:46:56] Ajay Shah: Okay, look at TCS and Infosys and the other heroes of the Indian software industry, they didn't wait for the government of India to build engineering colleges where 1 million people will learn how to do programming every year. They just went and solved their own problems.

[00:47:09] Ajay Shah: That is the can-do attitude which is there in India and which is required to get ahead. So, waiting for the Indian state to fix electricity is not going to happen.

Chapter 6: I Am a Manager or Investor

[00:47:27] Amit Varma: So two more questions in that format coming together at you. I am a manager, what should I do? I am an investor, what should I do?

[00:47:35] Ajay Shah: As a manager, as an investor, as a board of directors, the strategic idea is do more firm internationalization. Okay, so in a way, every firm should look deep inside itself. Is my skill fixing the Indian system or is my skill of being a competent firm?

[00:47:52] Ajay Shah: If you're a competent firm, look outside. Then you don't have to figure out how to operate in the Indian regulatory legal landscape. Just keep far away from the Indian state and compete abroad. Which is in a way the playbook of the Indian software industry, of the Indian services export industry, just minimum interfaces with the Indian state.

[00:48:10] Ajay Shah: Don't go visit Indian government offices asking for this favor and that favor. And the thing is even if you think you are clean, your competitors will hurl the Indian state at you. So, it is better to focus on export markets. And so, every firm needs to kind of think to itself, am I more domestically focused? Am I more internationally focused?

[00:48:31] Ajay Shah: So that's the first strategic picture that being internationally focused is a good thing. You are de-risked from India. There will be ups and downs in India, but the world market is infinite. You can just keep on growing for 25 years by emphasizing the world market. So it's a very important strategic idea that just push into the international market.

[00:48:47] Ajay Shah: If the thing you know how to do is actually run a business, then the world is the best market. The next set of things is I think of this as a way of overcoming asymmetric information and principal agent problems. Principal agent problems. You're a board of directors, okay, you want to kick the management team, you want to kick the CEO and get them to do work.

[00:49:08] Ajay Shah: For that, you get to complex questions and how do you define performance and how do you get at productivity? And the answer is as a board of directors, as a shareholder, you should always demand internationalization. Give me more internationalization.

[00:49:22] Ajay Shah: Show me what percentage of your revenues are exports. Show me growth in exports. Then you're proving your productivity. You know, everything else can be ups and downs. See in a domestic market, you're more vulnerable to the Indian economy. The global market is infinite. Your opportunity for growth in the world market is infinite.

[00:49:38] Ajay Shah: So, all the modes of internationalization, managers and sorry, board of directors and investors should use metrics around all the modes of internationalization, knowing that they are all interconnected, that show me exports growth. Show me a bigger exports to sales ratio.

[00:49:56] Ajay Shah: Show me your FDI. Show me that a bigger fraction of your balance sheet is abroad and the sales generated outside may or may not directly be counted as export, but really it's your revenue. Then show me success in accessing global equity markets and debt markets and you internationalize your capital stock, get me cheaper capital.

[00:50:16] Ajay Shah: That will feed into your competitive success. Show me more foreign workers, you should have more and more foreign workers and you should hire in a meritocratic way. It's like if you didn't distort your hiring, you would get women, you would get Muslims. Okay, so like that. If you didn't distort your hiring, you'd have more foreign workers. Show me how many foreign workers you have.

[00:50:35] Ajay Shah: Okay, like that. Show me imported inputs. If you're not, if you're only buying things in a convenient domestic way, maybe you haven't thought hard enough. Whereas there are highly specialized technical inputs that are imported. So these are all metrics through which a principal agent problem can be addressed that owners and board of directors can put pressure on the management team because these are the things that will pay off in the long term.

[00:51:00] Ajay Shah: If you pray for a quarter to quarter profit, you won't go after productivity in a deeper way. There are all kinds of things that can generate some gains on a horizon of some one or two quarters or on the horizon of the employment contract of the CEO. Whereas these are deeper changes. If you have to push and grow exports, how many different countries are you operating in?

[00:51:18] Ajay Shah: Those kinds of metrics are very hard to fake and they are deeply connected to firm productivity. So that is in solving the principal agent problem. In solving the asymmetric information problem as an investor, same issues. How do you know how to export?

[00:51:31] Ajay Shah: So basically think of the Indian equity landscape as firms that play in the Indian market, firms that play in the overseas market. The firms that play in the overseas market, you're fundamentally safer. You passed a market test. You know how to sell in an advanced economy. There is no market in the world more competitive than the European Union or the UK or America.

[00:51:52] Ajay Shah: Okay, prove it. Show me that you are able to go sell in those countries. Then I know you're a high productivity firm. You know, so you've ruled out the damage that afflicts many Indian firms that actually it's hollow inside, the firm doesn't know how to do its work. It works pretty poorly. It produces badly.

[00:52:08] Ajay Shah: So from an investor's point of view, that's a great metric. Okay, you want to put equity capital into a firm, you want to put debt capital into a firm, just apply this simple metric. Are you an exporting firm? Exporting firms are better. Domestic firms, we'll have to see.

[00:52:21] Ajay Shah: That have you won fair and square or have you won by using state power or some other messy things. You'd have to think more, whereas buying internationalized firms is an easier way to get closer to the capabilities of the firm.

[00:52:38] Amit Varma: A term I learned a long time ago and I hope I'm using it correctly by thinking out loud here is fast and frugal heuristics, that when a problem is too too complicated, you find one or two fast and frugal heuristics to figure it out. And I'm just thinking that whether I am in a board of directors or whether I am a potential investor, you know, and I want to know if your firm is on an upward trajectory, if it's in the right direction, if it is enhancing its productivity.

[00:53:04] Amit Varma: And my fast and frugal heuristic for this is a level of internationalization, because as you said, if you're competing in the global market, that is all I need to know. You're clearly doing everything right. You know, whereas if you're in a domestic market, it's so complicated that I really have no idea. Then I need to dig much further, but if you're succeeding in the EU, for example, then I know that man, you've got a lot of shit figured out and you're going in the right direction.

[00:53:25] Ajay Shah: Right. Today in the morning our friend Nitin Pai triggered off a conversation between all of us on these kinds of questions and he had this interesting classification where the IT firms of India are broken up into three categories by him. Okay? The first of them is the old software services firms, the TCS Wipro.

[00:53:44] Ajay Shah: The second is the software as a service firms who are 100% exports, product companies, a software as a service product companies, 100% exports. And then there are domestic firms. And applying this conversation into that, you're fundamentally safe and optimistic about the first two categories.

[00:54:02] Ajay Shah: That like, hey, you're passing the market test. You have an infinite market. There is no limit to how far you can grow. And yeah, it's going to be a struggle. You will have to compete with the best. But if the firm is already up and running, doing this exporting, getting growth, then everything is good.

[00:54:17] Ajay Shah: Whereas the domestically oriented firms, okay, you don't know, is it that they've blocked a foreign firm from operating? Okay, so for example, in the payments journey of India, PayPal was blocked from operating in India and now you have a UPI monopoly. So is UPI actually good? Or did you do it through protectionism? Who knows?

[00:54:36] Ajay Shah: Okay. Similarly, a lot of the Indian systems and regulations, whether it is a SEBI regulation or an RBI regulation or a UIDAI or a UPI, I mean, there's a whole quirky Indian landscape into which there will be a more peculiar Indian solution which some people will build, but then that won't go to the European Union, it won't go to the UK because they don't do all these things.

[00:54:58] Ajay Shah: I mean, they won't have these kinds of SEBI regulations, RBI regulations, a government monopoly authentication system, a government monopoly payment systems. So a firm that is too deeply embedded in this landscape may not be able to figure out a UK landscape. So then it becomes a higher cognitive jump to become a player in the globe.

[00:55:17] Ajay Shah: So, in a very perverse way, the peculiarities of the domestic Indian environment are harming domestic firms because you can become successful as a domestic firm. Even if you don't cheat and get a SEBI regulation to support yourself, it's just that the nature of the business model and the technology that you build is particular, and then it's harder to take it to another country.

[00:55:40] Ajay Shah: So it's a very subtle problem where policy makers are creating dwarves, that the Indian environment is just so unusual, it is so unique. The web of regulations and the other aspects of the government monopolies in India is then putting firms into a straight jacket where you learn deeply about how to operate in India.

[00:56:01] Ajay Shah: But then your systems and software are useless in Bangladesh or in Japan or in America and then you become just an Indian firm, then your upside is lower, you're more exposed to the Indian economy.

Chapter 7: I Am a Researcher

[00:56:22] Amit Varma: So, my last question in that format, Ajay, is this, little, you know, the format, I'm an X, what do I... I'm a podcaster, what do I do? I'm kidding. Don't look at me like that. That's not my question. I'm a podcaster. I will podcast. I am a researcher. What do I do?

[00:56:36] Ajay Shah: And this goes to the heart of development economics. So, if you think development economics is about poverty programs and redistribution, then you know, you're basically at the wrong end of the puzzle and you are increasingly irrelevant to India's journey.

[00:56:53] Ajay Shah: So, our plea to the researcher will be that you need to get your head aligned on the foundations of what is the basics. The basics is an advanced economy is one where there are high productivity firms, and given the toxic political economy of domestic firms, the best way to get to high productivity firms is firm internationalization.

[00:57:14] Ajay Shah: And then suddenly there is a whole landscape to study. Okay, so we need all these papers. I've alluded to hundreds of subjects about productivity of domestic firms, productivity of internationalized firms, domestic political economy about sustained profitable performance of low productivity firms who are able to lock up one market after another.

[00:57:37] Ajay Shah: The political economy of how you get a government law or a government regulation or a ED raid upon your rivals and how domestic firm dynamics in India works. And then on the other side, firm internationalization. What are the causes and consequences of firm internationalization? So for example, I already alluded to an idea that each of the multiple modes of internationalization feeds into and reinforces the other.

[00:58:03] Ajay Shah: So can we understand these things? And then consequences that do you get to that high productivity? Do you get to that growth? Do you get to that de-risking from the Indian business cycles and growth episodes? You get like a sustained long-term story. Is it good for investors?

[00:58:17] Ajay Shah: Okay, so there's just like dozens of questions in this landscape which calls for research that I claim is the heart and soul of Indian growth strategy of development economics as opposed to what many researchers are doing, which are you know, frankly less interesting questions.

[00:58:34] Ajay Shah: And this is also an area where there are no randomized control trials and I proudly take interest in this area and work in it because I shall not allow my mind to be blinkered around one microscope. The point of being a researcher is to study important phenomena and make progress on figuring them out and you don't have to be a RCT Nazi in order to figure out these things.

Chapter 8: Ajay's Recco

[00:59:05] Amit Varma: So, Ajay, first of all I want to say that everything you said about RCTs, I couldn't agree with you more. Lat and I discuss this a lot in the episode, the kind of ridiculously trivial and often obvious questions that RCT solve with no with very little impact on the real world are, you know, ludicrous. Like, do treated malaria nets help you know, do treated mosquito nets help, you know, prevent malaria and stuff like that.

[00:59:28] Amit Varma: I mean, I won't be surprised if there's an RCT somewhere that do people perceive a yellow shirt to be brighter than a black shirt? That's the kind of rubbish they're doing. So, if you are a researcher, if you care about this, if you have pride in your problem solving ability, don't waste your life and your intellect doing shit like this. Do real work that helps real people.

[00:59:48] Amit Varma: Now, I'm going to with that little rant out of the way. Ask you for recommendations. What are your? I've given my recommendation for the week. What are yours?

[00:59:53] Ajay Shah: I'd like to recommend a bunch of research papers. Many of them are from my co-authors and myself; many of them are by other people. This is a great field; the field is opening up. So, I'll make a reading list of research papers—not a book, but many, many papers. We'll have a group of papers which is a kit of readings on firm internationalization, sometimes for other countries, sometimes for India.

[01:00:16] Amit Varma: Yeah, they're there. They're there. I just saw them. So they're in the show notes, gentle listener, they're in the show notes. So please check them out.

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