

# Is Mexico the Next Silicon Valley?

By Adam Popescu | The Washington Post | May 14, 2016

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Behind them sits a bustling co-working space with 850 tech workers and dozens of startups building apps, tweaking online experiences, pumping out design. The vibe feels much like Silicon Valley. But they're nowhere near Northern California. They're hundreds of miles south, in Guadalajara, Mexico's "Digital Creative City," the capital of the state of Jalisco, where government subsidies and affordable talent attract foreign tech giants.

Many places claim to be the next Silicon something. New York as Silicon Alley, Los Angeles as Silicon Beach. None faces the same south-of-the-border scrutiny. Yet, there is a burgeoning scene in these agave-lined hills.

Around \$120 million has been invested in nearly 300 Guadalajara startups since 2014, much of it coming from venture capital in the United States. With several thousand startups and blue-chip giants, too, Jalisco annually exports \$21 billion in tech products and services, according to the state's innovation ministry. Multinationals such as IBM, Oracle, Intel, HP, Dell and Gameloft have satellite offices. Jalisco has 12 universities, including the prestigious Tecnológico de Monterrey, creating an IT funnel of 85,000 graduates a year.

But Mexico is better known for other distinctions, which cast long shadows.

From 2007 to 2014, the drug war took 164,000 lives, more than all the civilians killed in Afghanistan and Iraq during that time. Forty mayors have been slain in eight years. Repeated escapes of cartel bosses such as El Chapo, corruption snaking to the highest government offices, violence and intimidation bore an atmosphere of impunity. An astonishing 99 percent of all crimes go unpunished, according to Insight Crime, a think tank that tracks law and justice in Latin America.

Stark figures from a nation of about 130 million - where much of this turmoil occurs in the neighboring states of Michoacan, Guerrero and Sinaloa, but not as visible in Jalisco, which locals, called Tapatios, are quick to note.

## 'Sense of opportunity'

Jalisco, known for mariachis, hot sauce and tequila, is comparatively tranquil. Most buchon, or less-violent crime, practiced here is invisible: money laundering, graft, extortion. And yet, tech is thriving - outsourcing is a \$12 billion a year industry, according to industry figures.

"Doing business here is almost like doing business in the U.S.," says Anurag Kumar, chief executive and co-founder of iTexico, an Austin, Tex., software development firm with 107 of its 121 employees in Guadalajara.

Kumar, an Indian emigre who landed in Pittsburgh in 1982 while at TCS, has worked with Mexican teams for five years, flying in twice a month from Texas. His company, which has received an entrepreneurship award from the Mexican government and was named one of Inc's fastest-growing companies in 2015, has more than 100 clients, including heavyweights such as McDonald's and IBM and partnerships with Appcelerator and Microsoft. At \$5 million a year in revenue, it's by no means an upstart - not a market leader, but a growing, midsize player with global customers.

Retention rates here rival those of Silicon Valley's, although deep-pocketed unicorns still have their pick. It's hard to compete with HP's and Oracle's pilfering talent. Yet Kumar and his partner, Abhijeet Pradhan, say they've kept talent thanks to Guillermo Ortega, a Mexican national and entrepreneur who runs operations as iTexico's third founder. Having a local has helped avoid pitfalls.

"Why isn't there more American awareness of Mexican IT?" Kumar says over dinner at Andares, an open-air shopping center with boutiques such as Burberry and Hermes. "You could be in California right now."

"Mexico's very complicated," Ortega says. "We're very active in the ecosystem to create and convert talent. This is what I work on every day: how we train, how we attract people, how we retain them."

Detroit's "Big Three" automakers manufacture here. So do Mercedes-Benz and BMW. Mexico is the world's leader in exporting flat-screen TVs. Local tech roots are deep. IBM and Motorola arrived in the 1960s to build semiconductors and silicon wafers.

Why? A well-educated workforce with salaries a third of their northern cousins, low kilowattage energy costs crucial for heavy industry, government subsidies for building and training. These plants were the first to produce silicon products outside of the Valley, so the "Silicon" moniker stuck. IT became a no-brainer. Over the years, hundreds of electronics firms followed.

"It's a question of promotion," Kumar says. He believes Mexico has ideal startup conditions: "Proximity to the U.S., NAFTA, IP protection, the ability to have people travel back and forth, the visa ease - you don't need H1s, you don't need N1s."

The North American Free Trade Agreement (NAFTA) promotes tariff-less commerce. It also allows Mexicans to obtain U.S. work visas (if they're sponsored by a U.S. company). Free trade has globalized the middle class, an estimated 40 percent of the population, creating a generation of educated, English-speaking, skilled workers. And NAFTA ensures U.S. companies here retain full copyright and patent protection.

"All the products made in Jalisco can be delivered anywhere in the U.S. in less than 24 hours," says Jalisco's governor, Aristoteles Sandoval. "We have a port two hours away; the time zone is almost the same."

This makes Mexico more cost-effective than even India, long touted as the place for IT outsourcing. Other intangibles: Tapatios speak English like Americans, not Brits, and are more culturally aligned than South Asians or Eastern Europeans.

"When you ask someone to design a car, the guys in India won't put the steering wheel in the same place," Kumar says. "When you have teams in Mexico, you don't have to explain the business concepts. They get it."

Still, Kumar often has a hard time pitching fellow Americans who distrust the idea of viable Mexican talent - and security. So he invites prospective and current clients to visit, coordinating one-on-ones with developers. What Kumar shows them isn't assembly-line production, but intellectual property workers: app creation, high-level engineering.

"I was totally blown away by the level of talent I saw," says Drew Anderson, vice president of engineering at xTV, an online TV service based in Redwood City, Calif.

Anderson, who traveled here for the first time in February, says working remotely with Mexicans is 20 percent cheaper than the same work would be stateside. "I'm sold on Guadalajara as an IT center," he says.

It's not just foreign companies finding success. Software engineering has existed for years here, but until the late 1990s, it was mostly manufacturing.

"The startup movement began in 2010," says Mak Gutiérrez, 35, who since late 2011 has hosted the local chapter of Hackers and Founders, a weekly meetup-cum-incubator run out of the hacker garage, sort of a clubhouse with high-speed Wi-Fi, 3D printers and maker space.

Gutiérrez says there was no venture funding until a firm called Mexican VC began investing small amounts - around \$20,000 (roughly Rs. 13.4 lakhs) a pop - in 2011. That fund was bought by 500 Startups. Alta Ventures and others opened accelerators and incubators, and expat VCs arrived.

"The median seed investment is now between \$80,000 (roughly Rs. 54 lakhs) and \$120,000 (roughly Rs. 80 lakhs)," he said.

What's that fueling? Sunu has built a sensor bracelet for the blind. VoxFeed, an advertising tech venture, raised nearly \$2 million (roughly Rs. 13 crores) in 2015. Espiral, a mobile wallet service that's a mix of Square and Stripe, is expanding rapidly with private and public clients. With half the country's population under age 27, more than 100 million mobile phones, and only 15 percent using credit cards, it's a potentially hugely lucrative play.

Two of the three founders of WePow, who invented scale video interviewing, are local. Now headquartered in San Francisco, with an engineering team in Guadalajara, WePow is a player in enterprise hiring, with clients including Adidas and Philip Morris. In February, Microsoft acquired Xamarin, a software and app firm whose co-founder is from nearby Mexico City (the amount was undisclosed but believed to be north of \$100 million).

Kueski, a micro-loan service, raised over \$10 million in a year, Gutiérrez said.

"There's a growing sense of opportunity," he said. "We've seen the snowball effect start. Before, founders were trying to fix problems for Mexico, not worldwide problems. I was really hesitant to where this was going. This new batch of entrepreneurs have been changing what we expect. There's at least 10 startups that I think in the next three to six months are going to raise significant rounds."

Then going off-script, Alfaro admits it's tough going in a nation where "the political system is designed so that nothing changes." There's tremendous unemployment here, he says, much worse than what's officially reported, which can make recruitment easy for cartels. Graduates being courted by Google don't pick up a gun - but most young people aren't on that fast track. And it's those who most need hope, he says.

These two Mexicos are in one place on a tour of Intel's 220,000-square-foot campus, a \$220 million mother ship on 25 acres built with state support, atop a hill that overlooks a shanty town on a dirt road with derelict structures and barking dogs.

On the hilltop, Intel's general manager, Jesus Palomino, shows off "Intel's only research lab in Latin America. Twenty five patents made here in 12 months."

Palomino came to Guadalajara 26 years ago from the city of Puebla, leading a joint project between IBM and the Mexican government to set up a PC design center. He says that partnership helped lay the groundwork for the ecosystem that has emerged.

The Intel facility has 1,500 employees, 200 contractors and 100 students. Forty percent are post-graduates focusing on wearables, IOT, chips, electromagnetics and acoustics, all part of the development cycle of phones, tablets, servers, desktops and laptops. The campus has a gym, yoga, internships, strict sign-in procedures - and a military-style checkpoint about a half-mile down the road.

There's never been a security breach here, "and I hope that stays the same," Palomino says, with a nervous laugh. He says there's no armed security because "our weapon is technology. We've been working here for 15 years and never had an issue. Still, we have contingency plans and emergency response teams - depending on what happens we have a protocol to follow."

That includes not just narco violence, but natural disasters and energy loss, Palomino says before showing lab after lab with men and women in white coats huddled over circuit boards.

As he sees it: "This is where the future is being built."

Perception is important, and it takes many small steps to move the needle.

"I've seen this movie before, I know how it ends," iTexico's Kumar says. "I saw it in Delhi, in Bangalore. There's no reason there can't be larger companies in Mexico. Mexico has advantages we haven't found anywhere else. You don't get the feeling of optimism in India that you find here. I see it in Mexico. I really do."

Investigating Mexico ? We Can Help You With

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