

Strategy for Economic Promotion at Consulates: Ecosystems and Empowerment

Estrategia de promoción económica en los consulados: ecosistemas y empoderamiento

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Abstract:

This article proposes that Mexican consulates in the United States harness innovation, technology, entrepreneurship and trade for the purposes of economic promotion. Based on the author's personal experience in Silicon Valley and with Mexican communities, there are two aspects to this task, the first of which consists of supporting startups through corporations, accelerators and higher education institutions that form part of an ecosystem, and the second, working with Mexican communities that view entrepreneurship and international trade as an alternative livelihood.

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Resumen:

El artículo propone labores de promoción económica en consulados de México en Estados Unidos a partir de la innovación, la tecnología, el emprendimiento y el comercio. Labores que se desarrollan en dos vertientes: la primera mediante el impulso de *startups* a través de corporaciones, aceleradoras e instituciones de educación superior que forman parte de un ecosistema, y la segunda, a partir del trabajo con la comunidad mexicana que busca en el emprendimiento y el comercio internacional una opción de vida. Ello a partir de la experiencia personal del autor en el Valle del Silicio y con las comunidades mexicanas.

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Key Words:

Innovation, technology, startup, ecosystem, entrepreneurship, commerce.

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Palabras clave:

Innovación, tecnología, *startup*, ecosistema, emprendimiento, comercio.

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Given the uncertainty associated with prospects of reduced economic growth in the next few years,¹ Mexico's foreign representations need to broach economic promotion more creatively, especially consulates in the United States. This creativity should include things like design thinking, technology, entrepreneurship, startups, marketing, mutual funds, foreign trade, training and clean energies, among other aspects.

In recent years, some consuls have made an effort to be more creative when it comes to economic promotion, more out of personal initiative than as the result of an institutional policy, reason why I believe institutional changes aimed at putting international economic promotion efforts mainly in the hands of the Secretariat of Foreign Affairs (SRE) are an opportunity to come up with proposals that incorporate the aforementioned aspects and the personal experience of consulate staff who have been involved in such efforts.

My hypothesis is that an institutional policy aimed at empowering and shoring up small Mexican entrepreneurs in the areas of trade and technology will produce more tangible results than one focused on attracting investment by large corporations. Large corporations do not, in fact, need the support of consulates—they already operate in Mexico without their assistance and generally only go through consulates when they require visas for their executives and technical staff.

¹ Russell Investments, *Global Market Outlook-Q4 Update: The Art of the No-Deal*, Seattle, Russell Investments, 2019, 2.

In this article, I describe ways in which consulates can contribute to economic promotion activities in both the technology and more traditional sectors of the economy, reason why I have divided the text into two sections. The first describes the tasks a consular office would have to undertake as regards: empowering innovation systems, promoting Mexican startups, and working with corporations, accelerators and higher education institutions that make up an ecosystem, among other responsibilities. In this case, our reference framework is the ecosystem of Silicon Valley, where the corporate headquarters of most of the world's leading tech companies are located.

And the second concerns the empowerment of communities with a view to promoting entrepreneurship in Mexico's more vulnerable sectors, like agriculture, services, construction, among others. On the one hand, the goal is to put these communities on the path to financial independence and on the other, promote exports by small and mid-size Mexican companies that are not part of the value chains of large multinationals, in such a way that the benefits are reaped on both sides of the border, especially in communities that have not or that have only marginally participated in Mexico-U.S. bilateral trade processes.

The Development of Startups in the Silicon Valley Ecosystem

Before I begin describing the various activities related to the technology sector, we need to define exactly what a startup is. The term is often used as if it were a more newfangled way of referring to a small business and perhaps it is just that. However, generally speaking, I find the definition given by Eduardo Morelos, director of Startup Fintech Mexico, more fitting. According to Morelos, a "startup is a great company at its earliest stage. Unlike a small or mid-size company, a startup is based on a business model that is quickly and easily scalable using digital technologies".² In other words, a *startup* is a small company whose distinguishing feature is that it makes use of technology in its production methods and services.

² Ricardo Dorantes, "Qué es una *startup*", in *Entrepreneur*, August 22, 2018, at <https://www.entrepreneur.com/article/304376> (Consulted on: October 7, 2019).

Others, like Jesús Flores from the Hackers and Founders accelerator, are of the opinion that startups are ideas that change a system or paradigm, and for an idea to be successful, it needs to solve a problem.³ For example, Uber changed the taxi service paradigm worldwide and solved the problem of growing demand for urban transportation services. Likewise, Airbnb changed the accommodation system and solved the problem of hotel room shortages during high season. These startups singlehandedly reduced the price of transportation and accommodation services, respectively.

Every year, thousands of startups are born, but by the same token, thousands die. Only a handful make it and mature to become “unicorns”, *i.e.* companies valued at over US\$1 billion. The most well-known examples of these types of global businesses include Facebook, Google, PayPal, Dropbox, Lyft, Uber and Airbnb, which we have already mentioned. In Latin America, the Mexican startups Softtek and KIO Networks are deserving of mention, as are Rappi of Colombia and Mercado Libre of Argentina.

So why is it that so many startups fail to grow or at least consolidate their operations? The answer is far from simple because a great many factors come into play. These range from a lack of financing and technical know-how to the inability to extrapolate technological solutions *urbi et orbi*, weak ties with corporations and failure to attract prospective investors. It takes a lot more than a good idea for a startup to be successful: its financial and legal viability need to be studied, including the length of time it will take to develop the idea before it can be implemented, among other factors.

In Mexico, when a startup cannot find a way to reach its full potential, it will usually try its luck at a technology hub like Silicon Valley. In other words, if it has the financial resources, it will migrate to a business development center to which world-class tech companies gravitate. Otherwise, it is very difficult for these companies to survive, because in Mexico, technology multinationals tend to seek solutions from their head offices, which are mostly located in Silicon Valley. Our foreign representations need to grasp this reality and try to come up with ways of helping startups grow and consolidate in the world's various technology hubs.

³ Interview with Jesús Flores, Investor Relations Manager at the Hackers and Founders accelerator, San José, California, August 15, 2019.



In this context, I believe consulates in the United States should be familiar with the *modus operandi* for the development of startups, and key local actors at hubs, such as corporations, incubators, accelerators, higher education technology institutions and investors, among others. They also need to keep open lines of communication with these key actors nationwide so they are aware of the needs of startups and can draw up a working plan to support them based on this information.

Such a plan should establish: networks with the innovation or economic development heads of Mexico's state governments, so as to keep abreast of their ecosystems' needs; networks with local accelerators, with a view to expanding networks with corporations and investors; contact with local higher education institutions linked to the ecosystem, so as to promote better qualified human capital in Mexico; ties with tech companies to get better insight into the most common problems these face and develop solutions, and put them into contact with state governments to promote investment in Mexico.

Jalisco is a good example of a state that has designed activities to link its government with an ecosystem. For several years now, this state has been implementing a policy of sending delegations to Silicon Valley to promote new investments or expand existing ones, broaden its human capital base and keep up with the latest technological breakthroughs and training models developed by corporations and higher education institutions in the San Francisco Bay Area.

During its most recent mission to Silicon Valley in March 2019, a delegation representing the state government of Jalisco visited Oracle. Here, qualified personnel explained that the company was eager to broaden its human capital base, but that it needed better infrastructure if it was to invest more in Zapopan. Consequently, Governor Enrique Alfaro and members of his cabinet participating in the delegation decided to support a sciences, mathematics and English program to prepare secondary school students interested in studying engineering and joining Oracle's workforce at some point in the future. Also present was the Mayor of Zapopan, Pablo Lemus, who supported Governor Alfaro's decision to build the infrastructure Oracle needs in order to invest more in the state.

With regard to the promotion of startups, the Jalisco delegation established contact with accelerators like Plug and Play and Hackers and Founders, and agreed to send the latter startups with growth and acceleration potential via internships. This will give the state insider knowledge of the problems these corporations face and, in turn, forge ties that could enable it to capitalize on business and financing opportunities, something that would be virtually impossible to do from Mexico.

Aguascalientes is another example of a state government that has forged ties with a view to building human capital. In May 2019, a delegation headed by Aguascalientes Investment Undersecretary Eduardo Infante met with Gregory O'Brien, rector of the International Technological University (ITU), to discuss mechanisms for technical and educational cooperation. In light of the degree to which higher education systems linked to the ecosystems of tech companies complement one another, they decided to explore opportunities for the exchange of professors and students, and assistance for robotics, technology and artificial intelligence programs, among others. In the event this collaboration transpires, it will inevitably lead to the emergence of startups from Aguascalientes, given that the ITU also has a startup incubator and the human capital to man any research and development project necessary.

That said, it should be remembered that the economic promotion activities carried out by consulates depend largely on public relations, because there is no budget allocated specifically to these. And even in cases where consulates contribute to the consolidation of successful Mexican startups, these would still end up at tech hubs where they have better growth prospects.

This would give Mexico's image a boost by showcasing homegrown talent, but it would have no tangible impact on the domestic economy and transfers of technology to Mexico would be negligible, unless the startup sources its talent in Mexico and has an overseas representation office. So, to ensure a positive economic impact in Mexico, we would have to promote not just the *modus operandi* of hubs like Silicon Valley, but encourage the setting up of technology hubs in Mexico for the creation and development of startups that sell their services and solutions to corporations located abroad, in this case, in Silicon Valley. This is guaranteed to generate foreign-currency revenues for Mexico, not to mention creating more jobs and fostering transfers of technology.

For example, let's assume a Mexican software engineering company begins operating in the county of Santa Clara, California, home to the corporate headquarters of most of the world's leading tech companies. Said Mexican software company renders services that solve the problems of large tech multinationals and that are cheaper than those offered by the competition. Services quoted in dollars at local prices. Said software company in turn subcontracts another software engineering company in Mexico that charges for its services in Mexican pesos, which translates into cost savings. And since payment comes from the Mexican company located in Santa Clara, there will necessarily be a transfer of dollars from the United States to Mexico to pay for the services rendered by the subcontracted Mexican company to the first one. In reality, what is happening here is that Mexico is exporting software engineering services to the United States.

At this point, you might be asking yourself why large U.S. corporations do not just hire the services of Mexican companies located at Mexican tech hubs directly. The reason U.S. corporations prefer to hire these services locally is related to legal issues, because it is simpler for them to enforce international guarantees in local courts than to embark on legal procedures outside the United States.

Finally, as a complementary activity in support of the development of startups, consulates should make sure they are informed of technology debates, round tables and relevant forums in their districts. Often these events shed light on future trends in specific sectors of the economy, and the ideas needed to solve certain problems and their possible incorporation into production processes and services.

Promoting Entrepreneurship and Mexican Products

A second approach is community empowerment, which, in this case, is aimed at promoting entrepreneurial projects among Mexicans living in the United States and then promoting Mexican exports by matchmaking micro Mexican companies on both sides of the border, *i.e.* by connecting Mexican companies seeking to position a specific product on the U.S. market with Mexican companies in the United States that require that same product.

This would enable many Mexicans to establish their own sources of employment, which is especially important in sectors like services, agriculture and construction, where technology is inevitably going to replace a lot of labor in the United States, particularly in states like California, where these sectors are making increasing use of robots and artificial intelligence to automate their processes.

For purposes of this paper, we will be focusing on California,⁴ a vanguard state that is home to the largest community of Mexicans in the United States (4.1 million born in Mexico)⁵ and that is the world's fifth-largest economy (valued at US\$3 billion).⁶ California also happens to be home to the main driver of today's economy (Silicon Valley), sends the most remittances to Mexico (US\$9.76 billion a year)⁷ and benefits more than any other U.S. state from NAFTA (over 575,000 jobs).⁸

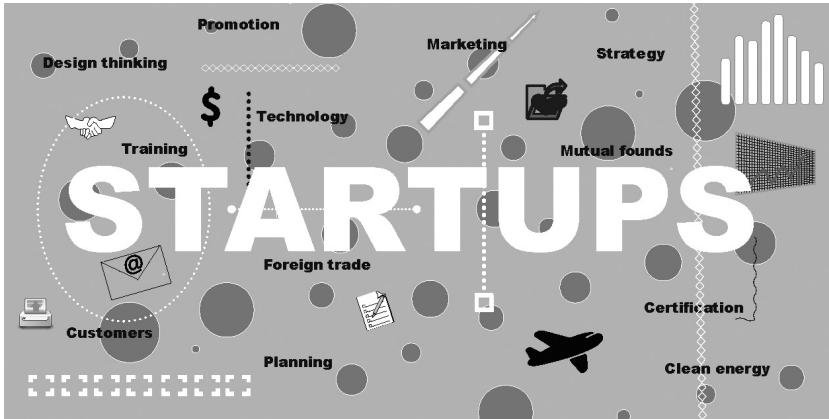
⁴ Most of my time with the Mexican Foreign Service has been spent in California, at three different consulates. Here I have engaged in various economic promotion activities with the Mexican community residing in the district where the General Mexican Consulate in San José is located. Given my personal experience, I would like to share some of my more positive outcomes, first, in the area of entrepreneurship and, later, in promoting Mexican exports, because I think this would be more valuable to the decision-making process than drawing up a theoretical strategy that, on occasion, does not take into account variables and unknowns that only come to light during the implementation phase.

⁵ Migration Policy Institute. <https://www.migrationpolicy.org/>

⁶ "Special Report: California and Texas, A Tale of Two States", in *The Economist*, June 22, 2019.

⁷ Banco de México. <http://www.banxico.org.mx/>

⁸ Martin Armstrong, "The States Benefiting the Most from NAFTA", in Statista, November 1, 2017, at <https://www.statista.com/chart/11655/the-states-benefiting-the-most-from-nafta/> (consulted on: October 4, 2019).



Before devising a work plan to encourage entrepreneurship among the Mexican community, we first had to determine the profile of Mexicans living in the vicinity of the General Consulate in San José, given that good management starts with good statistical quality control.⁹ In drawing up this profile, we used the databases of the Consular Management System (SIAC) to make a statistical analysis of the Mexican population living in the counties that comprise this district, i.e. Santa Clara, San Benito, Santa Cruz and Monterrey. According to our analysis, almost 80% of Mexicans living in said district had completed only secondary education or had left school earlier than this. As a result of these poor levels of education, most of the Mexicans in question were employed in the service, construction and agriculture sectors, meaning their entrepreneurial opportunities in the technology sector were either scant or non-existent. This led us to conclude that we would have to find alternatives for this segment of the population.

As many academic experts in migration have pointed out, Mexicans who migrate to the United States are natural-born entrepreneurs, having left everything behind to start a new life. The first step, then, to encouraging them to make their status as entrepreneurs official was training and education.

⁹ Mohamed Zairi, "The TQM Legacy-Gurus' Contributions and Theoretical Impact", in *The TQM Journal*, vol. 25, no. 6, 2013, 668.

But implementing quality projects requires studying the ideas of the most renowned intellectuals in the field, like Japan's Kaoru Ishikawa, who states that quality begins and ends with education.¹⁰ Subsequently, our first action was to equip a room at the Consulate with the bare minimum needed to hold training sessions and give presentations. Our second move was to seek out the support of external partners, many of whom came completely voluntarily to the Consulate and shared their knowledge with Mexican communities looking to start a business. Thanks to the generosity of these external advisors, which ranged from chambers of commerce to people with business consulting experience in operations, design thinking and marketing, we were able to get the project off the ground without a budget.

We then requested the support of the city authorities to advise us on aspects such as licenses, permits and procedures for starting a business. Once again, we met with a very positive response and officials have come to the General Consulate in San José to give talks to the local Mexican community.

This, in turn, has prompted other organizations to join efforts to train our communities, like Yacanex Posadas, linked to the School of Business at the Santa Clara University, that very generously offered to give a basic business course at the Consulate over several Saturdays, making it possible for people lacking higher education to achieve their goal of starting their own business in a country that was not their own.

Training has been the bedrock of our efforts to promote entrepreneurship, because people who complete a business course want to get out there and put what they have learned into practice. They leave motivated and eager to put their project into motion or find ways of doing things better if they already have a business.

At a later phase in entrepreneurial projects such as these or perhaps as an alternative, we seek to promote the importation of Mexican products that are not part of the value chains of large U.S. corporations, like foodstuffs, textiles, footwear, among others, as this will enable Mexicans doing

¹⁰ Kaoru Ishikawa, quoted in Andrei Octavian Paraschivescu, "Japanese Quality Science and Culture" in *Economy Transdisciplinary Cognition*, vol. 16, no. 1, 2013, 46.

business in the United States to sell their products in industrial quantities, even though they are not industrialists. Conversely, traditional businesses like restaurants and beauty salons will perhaps contribute less to the Mexican economy and may possibly report slower growth compared to the large-scale marketing of Mexican products.

Parallel to training Mexican communities in the United States in entrepreneurship so as to promote the exports of micro Mexican companies, we also need to train them in logistics and foreign trade, in how to obtain international certification for foods and beverages, and in tax, insurance and financial procedures, among other aspects, as this will make them more confident about bringing products from Mexico to the United States, especially ones from states with weaker ties to NAFTA, like those in southern Mexico. A workshop on Mexican exports could be part of the solution when it comes to encouraging Mexican entrepreneurs in the vicinity of the Consulate in San José to import Mexican products.

But this training strategy alone is not enough. The Ministry of the Economy (SE) and the economic development ministries of Mexico's state governments need to create programs to assist micro companies interested in exporting. Ideally, these institutions should have training programs in place and offer legal advice and financing so micro Mexican companies can tap into a potential market of over 4 million Mexican consumers in the state of California alone and more than 11 million throughout the United States.¹¹

By the same token, the Secretariat of Foreign Affairs (SRE) and the SE need to come up with a plan to match small Mexican producers with small Mexican buyers in the United States, particularly in the state of California. This will perhaps involve working with the Mexican communities in this state and encouraging them to sell products that can be traced from the point of manufacture to the final consumer, for example distribution centers or small convenience stores. The more distribution channels there are offering Mexican products in California, the easier it will be to foster a culture of solidarity and encourage Mexicans in the United States to buy Mexican products.

¹¹ Jynnah Radford, "Key Findings about U.S. Immigrants", in Pew Research Center, June 17, 2019, at <https://www.pewresearch.org/fact-tank/2019/06/17/key-findings-about-u-s-immigrants/> (consulted on: October 4, 2019).

As a complementary measure, the SRE and the SE need to facilitate participation in trade shows by co-ops and small businesses that want to sell their products in the state of California, especially cities like Los Angeles, San Francisco, San Diego, Fresno, Anaheim, Sacramento and San José, among others.

By taking part in events such as these, Mexican producers can reach not only Mexican communities in the United States, but other minority groups like communities from different parts of Asia. Trade fairs are also an excellent means for these producers to identify their competitors and learn about innovations in their sector, among other relevant matters related to the promotion of their products.

Conclusions

It is going to take more than new guidelines to shore up economic promotion efforts. Circumstances permitting, consulates need to be given the appropriate means to undertake entrepreneurial, innovation, training, promotional and other such activities. Otherwise, our participation in fairs, forums and training programs will be undermined.

By the same token, the SRE and the SE need to reconcile their viewpoints. The former is more familiar with the characteristics of the Mexican community in the United States, which comprises a potential market of 11 million consumers with substantial purchasing power, while the latter has more in-depth knowledge of the procedures for opening and consolidating businesses in Mexico.

Furthermore, international economic promotion efforts cannot be conducted in isolation from the ecosystems of Mexico's state governments. More so than the federal government, these are the entities that are best positioned to promote their startups and technology hubs. Likewise, inter-institutional cooperation among federal agencies and the various levels of government is a prerequisite to drawing up state economic promotion policies via consulates.

Finally, for all this to materialize, our institutions need to adopt a culture of quality focused on economic promotion. A culture that seeks customer satisfaction, *i.e.* the satisfaction of Mexicans residing overseas, because at the end of the day, these are the people consulates are there to serve.