

'Off Silicon Valleying' gathers pace but Mecca to remain lodestone of new ideas!

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**THE** ChatGPT-ish generative artificial intelligence may have brought in 'iPhone moment' to stocks or may be feeding frenzy in the tech-dom as the biggest innovation since internet or smartphone but all the major 'agents of innovation' in the technology industry worldwide have turned numb and ashen-faced! The aggravating economic headwinds have put tonnes of cold water on the Dunkirk spirit of not only the Venture capital (VC) industry and tech companies but also IT nerds. High interest rates, inflation and recession have spawned perkcession, salary-cuts and frequent lay-offs even by the companies headquartered in the Silicon Valley, the **mecca** 

of tech world. If one goes by the Nasdaq composite index, all tech titans have lost about one-third of their values between November 2021 and December-end of 2022 and tech billionaires about 20% of their riches. Leading tech czars - Meta, IBM, Amazon, Microsoft, Netflix, Apple and many more, have nonchalantly been announcing lay-offs since the second half of 2022. Such a trend may gather more 'fire' in 2023 when the US economy is predicted to officially plunge into recession particularly after the hike announced by the Fed last week!

So far as the VC-dom goes, it is snoozing at cash mounds of over USD 340 billion.

The VCs had mopped up about USD 140 bn in 2021 and a record USD 160 bn in 2022 from the markets in the US but the rising interest rates have nudged them to put the dough in deep-freeze as part of their de-risking strategy. The trigger-happy private equity and venture capitalists who used to scoop up start-ups based on their inflated valuations, have turned tantalisingly coy as they will now have to take massive haircuts in most transactions done in the past. In 2022, global venture capital investments nosedived by 32% to USD 483 bn as compared to 2021. Data further reveals that the private equity-VC investments had peaked to a new apogee of USD 65 bn across 1360 deals in India in 2021. This nosedived to USD 46 bn across 1261 deals in 2022. Going by the sombre global economic outlook, 2023 may further record a new low despite India being the fastest growing economy!

The scenario is not much different in other countries like the UK and the EU. Africa has traditionally been a shallow bucket for VCs and this bucket may almost dry up in 2023! China is one exception where local governments put in their own eggs and invite private equity players to put their eggs in different baskets which are tailor-made to promote start-ups as per China's national security paradigm. Mr Xi Jingping's favourite artificial intelligence bucket, for obvious reasons, gets jaw-dropping doles and the Chinese startups are indeed doing well - as many as 315 Unicorns thus far. They have also developed Advance AI without advance chips and recently came up with a <a href="ChatGPT-like AI tool but given the new policy-addled rules to comply with social and national security priorities and also the party-lines,">ChatGPT-like AI tool but given the new policy-addled rules to comply with social and national security priorities and also the party-lines, their innovations may be robbed of the oomph elements! Secondly, unlike the startups in other countries, the Chinese tech companies cut limited corners outside China for various reasons, including geopolitical tussling.

Let's go back to Silicon Valley which empowered the US economy to retain its share in the global GDP to 25% since 1990. Though the US had outsourced most of its factory activities to China post-1990 and China has also grown in economic heft since then, but thanks to innovations by the technology companies in the Silicon Valley, the US economy even today accounts for 25% of the global GDP. China has obviously grown at the cost of EU and Britain whose shares have shrunk in the past three decades.

Very much like Florence in the European Renaissance, America's technology capital, Silicon Valley, has always relished an overwhelming influence on the global economy, stock markets and culture. A small sliver of land running from San Jose to San Franscisco is the birth place of the world's top companies like Meta, Google, Apple, Tesla, Netflix, Uber and Airbnb. Data reveals that its 'mini-GDP' is larger than Saudi Arabia. Ever since Bill Hewlett and David Packard set up shop in a garage in 1939, it has become akin for innovation. *Aha!* An ideal lab for Schumpeterian destruction and re-creation!

But, it seems that Silicon Valley's zenith is passé - loss of secret sauce!! For the first time in 2022, more techies left the county of San Fransciso than arrived. Some scattered surveys yield that close to 50% techies plan to desert the Bay Area in the next few years. Most start-ups have begun 'Off Silicon Valleying'. Even investors have begun to put a major chunk of their funds in start-ups outside the Valley. And the key reasons are - steep rise in cost of living; horrifying inequality; rampant use of drugs and ubiquitous presence of strewn syringes, chock-a-block traffic, full of homeless people, and tight margins in new technologies like synthetic biology and quantum computing than internet

services. OECD latest report notes that taxes on labour were up in 2022 as rising nominal wages elbowed workers into higher tax brackets and neutered their eligibility for tax credits and cash benefits. Deserting techies also find the Valley not immigrants-friendly - perilously close to a monoculture of white male nerds! True, firms founded by women bagged barely 2% of the fund invested by VCs in 2022. Since capital is now available to electrifying sparks everywhere, innovation now stands widely diffused. So, Silicon Valley's loss is the gain for Miami, Los Angeles, Phoenix, Pittsburgh, Boston and Seattle which is the headquarter of Microsoft and Amazon. Other cities outside America have also gained like London, Singapore, Jerusalem, Bangalore and others. A large number of immigrant-techies have also moved to Toronto and Vancouver.

Silicon Valley has lost its attraction for new start-ups also owing to the prevailing culture of rampant poaching of talented employees, preferably engineers.

Such a culture does not exist in Seattle which attracts droves of start-ups. Post-pandemic, the work culture has undergone a pivotal shift. A large number of employees now want to work remotely and also across time zones. A sizeable number of tech companies have also switched to a new method of maintaining lean workforce in the Valley and the major chunk working from cheaper cities. They communicate through telegram and use Zoom for meetings. Undoubtedly, Silicon Valley's gap with close competitors is narrowing but despite all the follies, the Valley would remain the **mecca** of bright ideas for new innovations. It continues to have all the enviable trappings required to retain its **numero uno** 

rank - robust networks of eggheads, the culture of risk-taking, inspiring universities, history of patronising start-ups and the presence of deep-pocket investors. OpenAI which has created flutters and fireworks across the world with ChatGPT is also from the Valley. However, the ground reality is that technology has disrupted all the sectors in the global economy and it is now disrupting its own tech hubs!

So far as India goes, its local 'Silicon Valley' is thriving because of the presence of many stellar factors which govern the original Silicon Valley in the US. Bengaluru has the enviable eco-system to promote start-ups; the presence of good universities to supply talent; many successful start-ups turning into angel investors besides the global 'fat guys' pumping funds into promising ideas and nourishing local government policies. Here is a chance for the Central Government to clone the success model of Bangalore and replicate it in many corners of India which is known for oversupply of engineers and other techies. What is required to be done is to take a leaf from the Chinese model - let the Centre and the State moot customised seed funds for promoting start-ups in India's priority areas such as AI in defence; smart manufacturing; renewable energy, biotechnology, semiconductors, climate change; space and healthcare. Of course, a good number of start-ups would fail but the 'fail-fast' approach is the new *mantra* to come up with a new innovation or technology which may be scaled up at the global level. Most of Unicorns India has produced thus far, are happy raking up moolah in the domestic market whereas what India needs today is an innovation which may capture the global market like the Silicon Valley tech *mughals* 

! Alas! India wakes up beyond offering tax sops and tiny freebies and let the swelling new generations to bootstrap the nation to a new high! The nicest thing about technology is - It does not believe in God-knows-what! It delivers and delivers like a *tsunami* if harnessed properly! Yee-haw!