# IBM-MEXICO MICROCOMPUTER INVESTMENT NEGOTIATIONS

On September 30, 1984, Ralph A. Pfeiffer, Jr., chairman and CEO of IBM World Trade Americas/ Far East, was considering his company's manufacturing options in Latin America. Two and a half months earlier, on July 19, he had received word that the Mexican government had rejected IBM's proposal to set up a 100%-owned microcomputer manufacturing facility near Guadalajara. The company had spent more than a year preparing the proposal. In the wake of the rejection, Pfeiffer and his colleagues were assessing alternative strategies, including investing in sites such as Argentina.

The proposal, which IBM first presented to the government in March, 1984, contained a number of offers. These included: 1) US$6.6 million expansion of IBM's existing typewriter and minicomputer plant; 2) local production of 603,000 IBM Personal Computers (PCS) over 5 years by a wholly-owned operation; 3) exporting 88-89% of production for estimated revenues of US$528 million over 5 years; 4) local content ratios increasing from 35% to 50% over the first four years; and 5) employment of 80 Mexican nationals in the operation, plus an estimated 800 ancillary jobs created in supplier industries.

Commerce Secretary Hector Hernandez, chairman of Mexico's National Commission on Foreign Investment (hereafter “CNIE,” its Spanish acronym), was one of several officials who had evaluated the proposal. Hernandez was concerned about the country's economy and interested in attracting foreign investors; he had leaned toward supporting the proposal. But some of his colleagues had argued strongly against it. In their view, IBM was not a typical US-based multinational corporation. This was "Big Blue," a nickname that referred not only to IBM's trademark colors, but also to its dominance of the industry worldwide. These officials argued that Big Blue would be difficult to control and exploit for its potential contribution to Mexico's economic objectives. In their view, the national computer industry was progressing satisfactorily without IBM expanding its role. Debate had been lively and continued into September.

Behind the positions of the CNIE and IBM lay several broad interests for each party. IBM was caught in the middle of an industry shakeout. Management had set clear strategies for the 1980s which included seeking out new market opportunities. Mexico had potential as a significant market for domestic sales of local production since demand was high and imports were discouraged. Mexico also represented a potential bridgehead to the rest of Latin America. At the same time, the Mexican government sought to reduce reliance on petroleum assets and to diversify into high technology industries. The country was still suffering hangover symptoms from its 1982-83 economic crisis, foreign debt of US$93 billion, capital flight, high inflation and a disgruntled, strike-prone workforce.

Could the two parties still reach an agreement? IBM representatives had prepared their proposals carefully and were frustrated by Mexico's response. Differences of opinion existed among government officials, although those opposed to the deal appeared to have carried the day. Might they be persuaded to change their views? What terms would enable the CNIE to approve an IBM investment?

*[Note to Reader: The next sections provide historical profiles of IBM, the Mexican government, and the worldwide computer industry. Subsequent details of IBM strategy in the 1980s, the Mexican computer industry, and foreign direct investment in Mexico are followed by an account of IBM-Mexico negotiations to date. The final sections cover government decision-making in Mexico, US-Mexico relations, the Latin American Integration Association, and IBM's experience in India.]*