Kurt A. Hafner

Economic Integration and Technology Diffusion

A Theoretical and Empirical Analysis
of How Countries Gain and Lose

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Preface

Economic integration of regions and countries is a fascinating topic. I first became aware of it during my stay in Mexico as part of an undergraduate exchange program in 1995-1996. The North American Free Trade Agreement (NAFTA) came barely into effect by the beginning of 1994 Mexico once again struggled with an economic and political crisis. Beside the usual currency devaluation, the Mexican economy passed through an adjustment process of substantial industrial restructuring. Special trade agreements and geographical proximity shifted industries from Mexico City towards the border. For the USA, the economic impact ranged from relocation of industrial activity to outsourcing of low labor cost intensive production to Mexico. Hence, the development of the twin cities on both sides of the US-Mexican border (San Diego-Tijuana; El Paso-Ciudad Juarez) with a high share of Mexican labor-intensive manufacturing (*maquiladora* industry) was one of NAFTA's remarkable outcomes.

I started wondering about the economic forces driving integration of neighbor countries/regions and their impact on domestic economies and daily life. Today we see an ongoing enlargement process in the EU to incorporate Central and Eastern European countries. The US-administration recently signed a free trade agreement with Central American countries and the Dominican Republic making it the second largest US-Export market in Latin America. Asian countries, especially China, push more and more towards free trade and compete for market shares and input factors globally. Economic integration is a big issue nowadays. It deserves sound theoretical and empirical studies to confront people's fears and hopes.

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The empirical analysis of the dissertation was partly written at the New York University (NYU)/ New York and Centro de Investigación y Docencia Económicas (CIDE)/ Mexico City. I would like to thank Jonathan Eaton and David Mayer-Foulkes, who offered me the opportunity to work and share ideas with them as a visiting research fellow during summer 2005. The stimulating environment at NYU and CIDE with any kind of support gave me a second home for my research activities. I also wish to thank Cermeño Bazán Rodolfo at the CIDE for the discussions and helpful comments in various occasions. Financial support from the Deutsche Forschungsgemeinschaft as well as the Deutscher Akademischer Austauschdienst is gratefully acknowledged.

Thanks also to Gerhard Rübel and Carsten Eckel for organizing the annual Göttinger Workshop of International Economics providing a fruitful research platform especially for young economists. My thanks go to Jörn Kleinert with whom I always shared and discussed ideas about the New Economic Geography. Gathering and obtaining reliable data is one of the most challenging jobs to do, if one sidesteps from theory and looks at the real world. I therefore would like to thank the UBS in Zürich as well as the Deutsches Patent- und Markenamt in München for providing me international earning statistics and detailed patent data respectively.

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Bamberg, October 2005 Kurt A. Hafner

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