

are capable of producing a variety of goods and are successful in selling these goods in the domestic market. But there is uncertainty about how to sell in foreign markets. The way to resolve this uncertainty is to try different ways of dealing with foreign markets—one could try to sell different products, or try to enter different markets, or try different strategies (teaming up with a foreign partner, looking for distributors, setting up a subsidiary, etc.). Some will succeed; many will not. Each success or failure will convey information to other firms. Hence the benefits of exploring different ways of approaching foreign markets will not be fully captured by those firms doing the exploration. This will result in insufficient investment in learning about how to succeed in foreign markets. This is another example of a market failure. This will affect overall trade and investment volumes, and also the pattern of trade and investment—a country will tend to enter foreign markets more in those industries where success was achieved (perhaps by chance), and will also export more in sectors where there are organized markets and the exploration issue is not so important.

There is some evidence on the presence of information spillovers. Some case studies provide examples where information spillovers have been very important for export success—the role of an agreement between the Daewoo Corporation of South Korea and the Desh Garment Company in Bangladesh in acting as a catalyst for the development of Bangladesh's export-oriented garment industry is a well-known example [see Rock (2001)]. The evidence from large samples of data on the existence of such spillovers is, however, mixed⁵. Some studies [such as Clerides et al. (1998) and Greenaway and Kneller (2003)] find evidence that spillovers from other exporters exist, while others such as Bernard and Jensen (2004) do not. Aitken et al. (1997) find that there exist spillovers from foreign multinationals (MNEs) to domestic exporters, but not from general export activity. Aitken et al. (1997) use panel data from Mexican manufacturing plants for the period 1986-1990 and investigate whether the probability that a firm exports is affected by the local concentration of either total

⁵ See Greenaway and Kneller (2007), pp. F142-F144 for a brief review.