

lier. In this argument, firms learn from the experience of others in attempting to engage foreign markets. If other governments help more of their own firms enter export markets, then this increases the information base—domestic firms can learn from the experience of their foreign rivals as they experiment with new markets. Given that the information flow is increased by foreign subsidization of experimentation, it is possible that the marginal benefit of domestic subsidization could fall. For example, the fact that a Korean firm discovered the benefits of Bangladesh as a source of textile exports provided information that benefited other exporters in Bangladesh and importers throughout the world.

On the other hand, there may be first mover advantages. If those firms that enter new markets early obtain long-run informational and networking advantages simply by virtue of being early, then foreign subsidization could increase the case for domestic subsidization. Pan, Li, and Tse (1999) study the effects of early entry by foreign firms into China and find that early entrants have higher market shares and profits.

In the case of information spillovers affecting foreign consumer demand for the products and services of domestic exporters or investors (such as the wine or tourism examples discussed above), then export promotion can be thought of as a form of advertising. If other foreign governments market their countries' products more aggressively, this could shift demand away from one's own exporters. The optimal response would then follow from the advertising and marketing literature—more aggressive advertising by one's rivals may require an increase in one's own export promotion to maintain the stock of knowledge capital among foreign consumers. However, this only applies to cases where there are spillovers in reputation about product quality. If firms have their own reputations and there are no reputational spillovers across producers from the same country, then firms can internalize the effect of foreign export promotion on their demand and respond efficiently on their own.

If there are market failures in the market for intermediaries and other countries are providing firm-specific information and other targeted help in entering foreign markets, then the optimal