average expected quality of products from the domestic country. On the other hand, Bagwell and Staiger (1989) have a model with adverse selection (firms cannot choose their quality) and show that an export subsidy can allow the high quality producers to enter in cases where they are unable to do so in the free market outcome. They show that this can improve welfare.

Despite the Bagwell/Staiger result, the case for using export promotion policies when reputations are firm-specific is weak. One could expand the models to allow firms to find creative ways to signal their product quality. This might not always lead to efficient outcomes, but since the results are sensitive to model structure, the informational requirements for the government to figure out when and where to intervene would be high. Moreover, once we move away from national reputation issues to firm-specific reputations, there is not really anything special about trade. New domestic firms would have similar problems signalling product quality to domestic customers, and so it is not clear that policies targeting export markets are called for in the absence of spillovers.

Indeed, Shy (2000) turns the argument on its head by suggesting that a firm may choose to export to improve its domestic reputation—domestic consumers may not believe the product is of high quality unless they see that foreigners are willing to buy it. In his model, it is possible for there to be excessive investment in exporting. Export promotion can therefore reduce welfare.

Spillover effects are therefore crucial to the argument for export promotion when product reputation is at issue. Is there any evidence to suggest that such spillovers might exist? Wojick (2001) estimates a model of US demand for Japanese cars and finds evidence of both a learning effect and spillover effects of consumer learning across manufacturers. This provides some empirical support for Mayer's argument. Another piece of evidence comes from Rodrik (1988) who notes that the benefits of such policies would vary with the level of concentration in the industry. Rodrik compared Korea and Taiwan and argued that Korea's more concentrated industrial structure allowed its firms to internalize the initial investment in reputation (by selling at lower prices to induce foreign consumption and learning) much