analysis—information spillovers (or externalities), and problems related to asymmetries of information. The market creates incentives for firms to respond to the problems in various ways—industry associations attempt to internalize the free rider problem arising from information spillovers; intermediaries and middlemen help firms deal with firm-specific information problems; and firms adapt their organizational forms to reflect the informational environment in which they operate. However, theory suggests that these responses go only part way towards resolving the underlying market failures, and there is some limited evidence consistent with this view. This suggests that there is a market-failure based case for some government activity in the area of export and investment assistance and promotion. The types of activity that may help address market failures will be discussed. Finally, I briefly review the small empirical literature on the effectiveness of existing export promotion programs.

Evidence on trade costs

A large literature attempts to measure trade costs [see Anderson and van Wincoop (2004) for a recent survey, and Curtis and Chen (2003) for a focus on Canada]. Much of the early work used aggregate data and attempted to measure the "border effect"—that is, the extra costs of trading across an international border in comparison with the costs of trading within a country [McCallum (1995) is the seminal paper]. Recently, a great deal of work using firm level data has looked at the microeconomics of trading; this has helped to build up a picture of the variations in engagement with international markets across firms [see Bernard and Jensen (1995) for early work, and Greenaway and Kneller (2007) for a recent survey]. Some work has attempted to determine the sources of, and measure, different types of trading costs, although this work is still in its early days.

Firm level data reveal that there is a great deal of heterogeneity across firms in how engaged they are in international trade. A number of papers have found that many firms do not export. For example Bernard and Jensen (1995, 1999) find that