export promotion policies for such purposes is contrary to the spirit, and in most cases the rules, of trade agreements. Hence, for all of these reasons, it would be unwise to base the case for export promotion purely on income distribution or regional development motivations.

I will instead start from the premise that a case for active export promotion policy intervention needs to be based on the existence of market failures. By a market failure, I mean cases where free markets fail to generate an outcome that is efficient. Market failures typically arise when there are externalities (so that individual agents do not bear the full social costs or receive the full benefits of their activities), incomplete markets (for example, it may not be possible to buy insurance against some contingencies); or market power (where agents are able to exert some monopoly or monopsony power). Market failures can also arise from government policy failures. For example, certain types of economic activity in some markets may require regulatory approval and the process may not be transparent or may be subject to corruption.

Adopting a market failure approach means that the objective of an export and investment promotion policy is not to promote engagement in foreign markets per se. Rather, the objective is to help overcome market failures so that export and investment activity moves to the level that would be achieved if markets were efficient. While in practice this objective may be difficult to achieve, the key point is that with this approach exports are not to be promoted for their own sake, but rather promotion would be limited to cases where an increase in exports would be the most efficient use of the economy's resources, and therefore would lead to a higher real level of well-being.

There are three sources of potential market failure suggested by the work reviewed in previous sections: externalities arising from various types of information and reputational spillovers; incomplete markets (mostly arising from information issues that affect contracting); and market power. These will be explored in what follows. However, even if we identify market failures, it will not automatically follow that the government should act. Firms can adapt to market failures in various ways,