part of successful entry into a foreign market for many types of products and services, it will in the short run raise sunk costs, and hence the information issues that arise at the point where a firm is considering beginning the export or investment process may well be amplified. All of the issues concerning asymmetries of information, regulatory uncertainty, and intermediaries apply just as much to foreign investment and choosing foreign partners as they do to exporting. Moreover, there is a wide range of factors that affect the choice to serve foreign markets via export, contractual relationships, or direct foreign investment[6]. Access to foreign information networks is only one of these many factors so such an option will not be cost effective to all firms that are in the early stages of accessing foreign markets.

Intermediaries

If information relevant to facilitating trade or investment across borders is costly, then the market will create incentives for specialized firms or agents to acquire the relevant information and sell their services to firms engaging in trade or investment across borders. That is, there exist middlemen or intermediaries that facilitate trades, match up buyers and sellers, help firms to set up foreign affiliates, and provide some quality control services. Examples of such intermediaries include wholesalers, large retailers, brokers, trading companies, and consultants. Intermediaries also perform these services for trade and investment within countries; one of the issues here is whether there is any reason to suspect that intermediaries are less effective in facilitating cross border activity than they are in dealing with trade and investment inside a country.

The theoretical literature has focussed on two main explanations for the existence of intermediaries relevant for our purposes here [see Spulber (1996)]. The first is matching buyers and sellers. By acquiring specialized knowledge of both sides of

[6] There is an extensive recent literature on the way in which information and contracting problems determine the structure of firms operating in an open economy. Spencer (2005) has a good survey.