

pursue these motivations here, except to note that they may provide additional arguments for export promotion over and above the purely economic-based case I focus on below.

The other argument that is sometimes made specifically for export promotion that I will not pursue here is the income distribution motive<sup>3</sup>. If an export promotion program is not operated on a cost recovery basis, it is a form of export subsidy. Domestic firms and individuals working for firms that benefit from the program will reap benefits from the subsidy. Those not in the affected sector are less likely to reap benefits, and may incur costs (such as higher taxes to finance the program). Hence export promotion programs can affect income distribution by raising income of targeted groups at the expense of others.

There are precedents for using export subsidies to affect income distribution—the agricultural sector is perhaps the best known example. Moreover, issues of income distribution are important when thinking about regional development—an export promotion program might be part of a strategy to stimulate economic development in a particular region of a country. However, this motivation will not be pursued here for several reasons. First, export subsidies are an inefficient way to raise income or employment<sup>4</sup>. Export subsidies allow firms to offer their products to foreigners at lower costs than otherwise; hence such a policy ends up subsidizing foreigners. In addition, export subsidies encourage firms to alter their production in order to benefit from subsidies rather than to respond to market signals and produce what they are most efficient at doing. There are better ways to alleviate poverty and promote regional development than favouring firms that export over those that do not. Finally, much of the effort in recent rounds of trade negotiations has been aimed at reducing or eliminating the use of export subsidies that exist for reasons of income distribution. The use of

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<sup>3</sup> The income distribution issue also comes up in the context of promoting domestic investment abroad; however, there the concern is often that outgoing foreign direct investment may result in job loss in the domestic economy.

<sup>4</sup> See Panagariya (2000) for the standard case against export subsidies.