I will sometimes focus on exporting, but similar arguments will apply to investment[2].

To focus the discussion, we must be clear on the objectives for government policy in this area. Although governments have many policy objectives, three seem potentially most relevant to export and investment promotion policy: (1) correcting market failures; (2) meeting "non-economic" foreign policy objectives; and (3) dealing with income distribution concerns. My focus will be on market failures and most of the rest of this paper will be concerned with that motivation. However, I will first briefly discuss the other two motivations.

By the non-economic foreign policy motive, I mean that governments may have reasons for wanting to increase commercial ties with some countries for reasons beyond purely economic benefits. There may be political and national security benefits from building up a trading and investment relationship—the integration of economies via international trade and investment may increase interdependence, foster personal and cultural ties, and reduce the likelihood of conflict. These sorts of political concerns, for example, were part of the motivation for creating a customs union in Europe after the Second World War. Moreover, the ties built between countries via trade and investment may also be useful in facilitating cooperation between countries on other issues, such as global environmental concerns. Finally, a trading and investment relationship may also be part of a development strategy and be either a substitute or complement for direct foreign aid. Hence there may be cases where governments in high income countries want to promote trade and investment with less developed countries. I will not

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[2] The focus in this paper is on the rationale for governments to help their own firms engage in foreign markets. I will not discuss the issue of attracting investment by foreign firms to one's own country. Although some of the arguments discussed here will apply, the issues there are quite different, since governments have open to them a much more comprehensive range of instruments (such as tax incentives, domestic regulatory measures, and so on) to attract foreign investment. There is a literature on whether countries should try to promote foreign investment in their own country. A useful recent review is Hanson (2001).