for particular products in particular markets. Hence there is a need for interaction between government service providers and the private sector in the design and evolution of policy. As Rodrik (2004) notes, this can be a delicate balancing act. The government needs information from the private sector to be useful and so consultation and interaction with the private sector is important for success; but the system has to be set up in a way that those implementing policy act in the public interest (that is dealing with information externalities), rather than implementing policies that simply raise rents for targeted firms.

Notice that these services could involve both general information and firm-specific services. The spillover argument in this context calls for policies which help firms enter new markets; in its starkest form it calls for a firm-specific subsidy, as noted above. With subsidies ruled out, approaches to addressing spillover-related externalities would thus focus on provision of firm-specific information. Firm-specific information issues will be discussed in more detail in the next section—one of the issues that governments need to consider is whether their export and investment promotion activity might crowd out private sector intermediaries who also provide such services.

Firm-specific information issues

The third type of information problem that leads to sunk costs of engaging foreign markets arises from the fact that firms will have informational needs specific to their circumstances. There is a variety of such needs: firms may need to find distributors in the foreign market or to be matched up with foreign suppliers or partners; they may need to deal with regulatory issues that are specific to their firm; and they may need to learn about aspects of the foreign market specific to their product or their firm. Because these types of information needs are more firm-specific than those discussed above, the information spillover problem is less compelling. On the other hand, asymmetric information problems are likely to be pervasive, leading to potential problems with adverse selection and moral hazard. Moreover, there are search costs (such as in looking for the right supplier or dis-