

what their rivals do. This suggests that information spillovers exist. A firm investing in the acquisition of information will not reap the full benefits from the investment if other firms benefit from the knowledge without having to bear the cost of acquiring it. Information is not a private good in such cases, and hence there will be market failures—there will be underinvestment in the acquisition of the relevant information, which would lead to an unwillingness for marginal firms to invest in some of the sunk costs associated with entering foreign markets. Hence information spillovers could form the basis of a market failure that results in less engagement in foreign markets than is socially efficient.

The other key aspect of informational issues arises from asymmetries of information—the domestic firm and its potential customers, clients or suppliers all have private information about their product quality, work effort, costs, etc. For example, adverse selection problems arise if the domestic firm has difficulty in distinguishing between different quality levels when searching for suppliers, partners, or consultants in the foreign market. Another adverse selection problem arises when foreigners do not know the quality of products that domestic firms are trying to export to them. Moral hazard problems arise when it is difficult to observe the effort or care and attention that suppliers put into tasks that a potential exporting or investing firm has contracted with them to do. Informational asymmetries can lead to market failures; however, institutions (such as intermediaries) do develop in response to these types of problems, so we must consider the extent to which governments can improve on private sector and institutional responses already in place.

It is useful to organize our discussion around four different types of information: (1) general information, such as that regarding potential market opportunities or how to do business in the host market, that would be useful to many firms within an industry; (2) information which accumulates via experimentation and experience—such as learning which products or marketing strategies will work in new markets; (3) information which is very firm-specific, such as finding a good local partner or supplier for a specific firm, or dealing with a firm-specific