

Hanel find that greater resource commitment to innovative activity is associated with larger sales of innovative products and that firms with greater sales of innovative products are more productive. They note that, while a large proportion of Canadian firms describe themselves as innovators, the resource commitment to innovation is often quite small—they observe that a large percentage of firms reporting R&D activity and claiming R&D tax credits spend less than \$100,000 per year, which is below the critical mass of human and complementary resources needed for successful commercialization of innovative products. Their overall results support the drawing of a causal link from Canada's lagging R&D performance to its lagging productivity performance.

The Effectiveness of Trade Promotion Programs

Given the complex inter-relationships between exporting, productivity and innovation, the importance of minimizing the hurdles that Canadian firms face in accessing foreign markets is made clear. Apart from trade negotiations aimed at reciprocal lowering of barriers to trade, the public policy tool bearing most directly on reducing barriers to exports is export promotion.

Since their introduction in 1919 in Finland, export promotion agencies have become a common part of the trade policy tool kit—a 2005 World Bank survey received responses from 88 such agencies (Lederman et al., 2010). In theory, public sector export promotion services address market failures arising from information spillovers and asymmetries and other market imperfections. If, for example, firms cannot fully capture the benefits of investments they make in acquiring knowledge of how to export a particular product to a given market because other firms costlessly follow their example, there will under-investment in acquiring such information and a resulting market failure in the form of under-exporting (Copeland, 2008). In this context, export promotion services would be welfare enhancing. However, over and above the question of whether or not public sector export promotion services improve welfare there is the question of whether or not they are effective. Two papers on