

firms. They also use survey data that suggests channels via which exposure to foreign trade can increase productivity: exporters are more likely to use foreign technologies and engage in collaborative R&D with foreign firms; and information flows regarding foreign technologies increase after firms begin exporting. They also find that the productivity-enhancing effect of exporting is greater for younger firms, and for those that are domestically controlled: this is consistent with a learning effect.

These results do not, however, provide an argument for export promotion. Referring to Figure 1 again, the expected profits of a firm once it becomes an exporter include anticipated future increases in productivity. If these benefits are internalized by the firm, then private decisions weighing expected gains against sunk costs of entering export markets should yield efficient outcomes. It is possible that firms may not anticipate the future increases in productivity that result from exporting. However, it is difficult to see how governments should be able to anticipate these outcomes any better than the private sector. Dynamic gains from exporting do not constitute a market-failure-based argument for export promotion. Such an argument would require that the gains not be fully internalized by firms, and for this to occur, we need externalities. The most likely form of externalities in this context would be information spillovers across firms; this will be considered in the next section.

Information problems

The acquisition of information is a major sunk cost associated with entering foreign markets. As discussed earlier, there are many different informational requirements—information about market opportunities, how to access distribution networks, how to find suitable suppliers, how to deal with local governments and rules and regulations, and others. Such knowledge can be costly to acquire, but once obtained, it may be easily disseminated, either via word of mouth, written reports, via employees who leave and move to other firms, or simply via demonstration effects—firms can learn from each other simply by watching