reducing information costs. They use the number of web hosts in a country as a measure of Internet usage in a country and find that Internet usage is positively associated with exports from a country. Causality is, however, difficult to disentangle because Internet usage is endogenous and influenced by openness to trade. Clarke and Wallstein (2006) use indicators of the regulatory framework in a country to instrument for Internet usage and find that increases in Internet usage in developing countries are associated with increased exports to developed countries. They do not find similar results for exports from developed countries but note that there is little variation across developed countries in Internet access by manufacturing firms in the year they consider (2001). More work still needs to be done to identify causality, but these studies are not inconsistent with the hypothesis that Internet access is affecting trade costs.

On the other hand, there is abundant evidence that trade costs are still significant despite the improvements in information and communication technology. Buch (2005) in her study of international banking finds little or no evidence that the effect of distance on the foreign asset volume of banks decreased during the period 1983-99. Disdier and Head (2008) in a meta-analysis of over 1,400 estimates of distance effects find that the effect of distance on trade flows has been surprisingly persistent over time. Hence while new technologies may have mitigated some trade costs, substantial trade frictions still remain.

Is there a market failure?

As the above review indicates, the recent literature has uncovered several interesting stylized facts about trade costs. First there is evidence suggesting that something over and above standard trade restrictions and transport costs inhibits trade:

- there are measured "border effects" in terms of inhibited trade even when transport costs and measurable trade barriers are controlled for;
- there are sunk costs for firms that enter new export markets;
- many firms do not export, and those that do tend to be more productive.