

by American firms. His results are mixed—the presence of the biggest law firm in his sample is associated with more such activity, but the presence of the other big 5 firms is associated with less activity.

In summary, both theory and evidence suggest that private sector intermediaries can help firms deal with some of the information problems associated with attempting to enter new markets. Does this leave any role for governments to supplement the activities of private sector responses to the relevant information problems?

In many ways, it is premature to give an answer to this question. As noted above, there is very little evidence on the activities of intermediaries and middlemen and how effective they are in facilitating export to and investment in foreign markets. The theoretical literature is also still quite underdeveloped. The literature suggests that intermediaries can improve welfare by facilitating increased trade and investment, but that they will not achieve first best outcomes. Issues of how to choose among many intermediaries, and contracting problems when there is uncertainty about whether the intermediary can be trusted, have not been addressed by the literature. There will be both adverse selection and moral hazard problems in the market for intermediaries. There may also be issues of market power: because of information economies of scale, big intermediaries may have an advantage—they will have larger networks and will also have more to lose if their reputations are damaged. And the market for intermediaries may in some cases be quite thin [see Emran and Shipi (2002)]. Intermediaries will not exist unless there is a large enough demand for their services to cover their fixed costs, but that demand will not arise unless there has been a flow of exporters and investors into the new market. These are all issues that await future research.

These theoretical possibilities (which have not yet been fully studied) suggest that there will be imperfections in the market for intermediation. Moreover, this is consistent with Rauch's (2001) contention that the evidence that social and business networks enhance trade is evidence that intermediaries