

good bottle of wine from a given country encourages consumers to try more varieties from that country; and a few unpleasant choices from another country can discourage them from trying samples from different producers in that country. Moreover, wine is relatively expensive, there is a lot to choose from, and quality can only be detected by consuming the product—one has to open the bottle to determine the taste. Hence information has a large effect on demand.

Industry associations can address these issues to some extent—wineries can pool their resources to market their products, organize trade shows, and engage in other collective marketing activities. But because of the spillover effect in reputations, there is a free rider problem—those that do not contribute may still gain something from an enhanced national reputation for quality or style developed by other firms. Hence industry associations may not be able to fully address the spillover problem; thus potentially leaving a role for governments to help out in export promotion.

Education and medical services are other possible examples where the national reputation for the quality of the services provided can affect international demand. National governments play a role already in setting standards or certifying quality; and hence, if the quality level is not well known to foreigners, there are likely to be spillover effects across those institutions which successfully export their services in these fields.

Finally, tourism is an industry where there are clearly spillover effects affecting foreign demand. Tourists consume a bundle of goods and services provided by a variety of suppliers, so there are spillover effects across firms when seeking to attract foreign tourists. If a hotel is successful in luring a tourist to a particular destination, that tourist will consume food, entertainment and a variety of other goods and services from a variety of firms in that location. Hence the benefits of attracting a tourist to a destination are shared by many firms. Consequently, the private sector is likely to under-invest in tourism promotion. This can lead to an argument for government-sponsored tourism promotion campaigns.