

or MNE-based exporting activity in their regional industry by other firms. They find that exporting success is positively correlated with proximity to MNEs, but is not affected by the overall local concentration of exporters. They interpret their results as evidence that there are information spillovers from MNEs, but not from other (domestic) exporters. Clerides et al. (1998), on the other hand, find that there are spillovers across exporters in Colombia—the probability of becoming an exporter is positively affected by presence of other exporters in the local industry. Greenaway and Kneller (2003) use UK plant-level data and also find that the probability of exporting is positively affected by the local concentration of other exporting firms. Bernard and Jensen (2004), however, find no evidence of information spillovers in their study of the exporting behaviour of US firms. More empirical work on information spillovers is needed, since the existence and importance of such externalities is an important precondition for a market-failure-based argument for government export promotion.

Rodrik (2004) has a number of suggestions for how to structure industrial policy when market exploration issues are relevant. Some of these ideas are relevant for the design of an export or investment promotion policy. Promotion policy that is designed as a response to market exploration externalities should be targeted towards firms that are trying something new; that is, it should be aimed at helping firms that are attempting to break into new foreign markets (new either in terms of location or product line) that have not already been tapped by other domestic firms. This is because the motivation for policy intervention here is that firms learn from each other via spillover effects. Once it is clear how to succeed in certain markets, there are diminishing returns from experimentation. Again, the objective is not to subsidize exporting per se, because there is little if any evidence that exports per se generate externalities. Rather, the objective is to try to compensate for under-investment by the private sector due to the externality that arises from information spillovers.

A major concern with this type of policy is whether it amounts to the government picking winners. In the framework of Rodrik et al., it is not so much that the government needs to