“Comparative Advantage, Competition, and Firm Heterogeneity”

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Abstract: This paper examines how firm heterogeneity shapes comparative advantage. Drawing on matched customs and firm-level data from China, we find that export participation, exported product scope and product mix, and firm mix within industries vary systematically with firms' labour intensity. This is rationalized by a model in which firms from industries of comparative disadvantage face tougher competition in the export market. The competitive effect induces reallocation within and across firms and generates endogenous Ricardian comparative advantage, which dampens ex ante comparative advantage. Using sufficient statistics to measure and decompose comparative advantage, we find that the dampening mechanism is quantitatively important in shaping comparative advantage for a calibrated Chinese economy.