Comment on “Comparative Advantage and Heterogeneous Firms,” Bernard, Redding and Schott

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The theory is based on three building blocks.

1. **Two-country, two-factor, two-sector model with monopolistic competition.**

   Helpman and Krugman (1985)

2. **Heterogeneous firms with entry and exit.**
3. **Fixed and variable trade costs**

   Bernard, Eaton, Jensen, and Kortum (2003), Melitz (2003)

The structure of the paper

Section 2 and 3: Free Trade

Heckscher-Ohlin + Heterogeneous firms

There are no surprising results. This is because the distribution of firms is independent of the trade equilibrium.

Section 4 and 5: Costly Trade

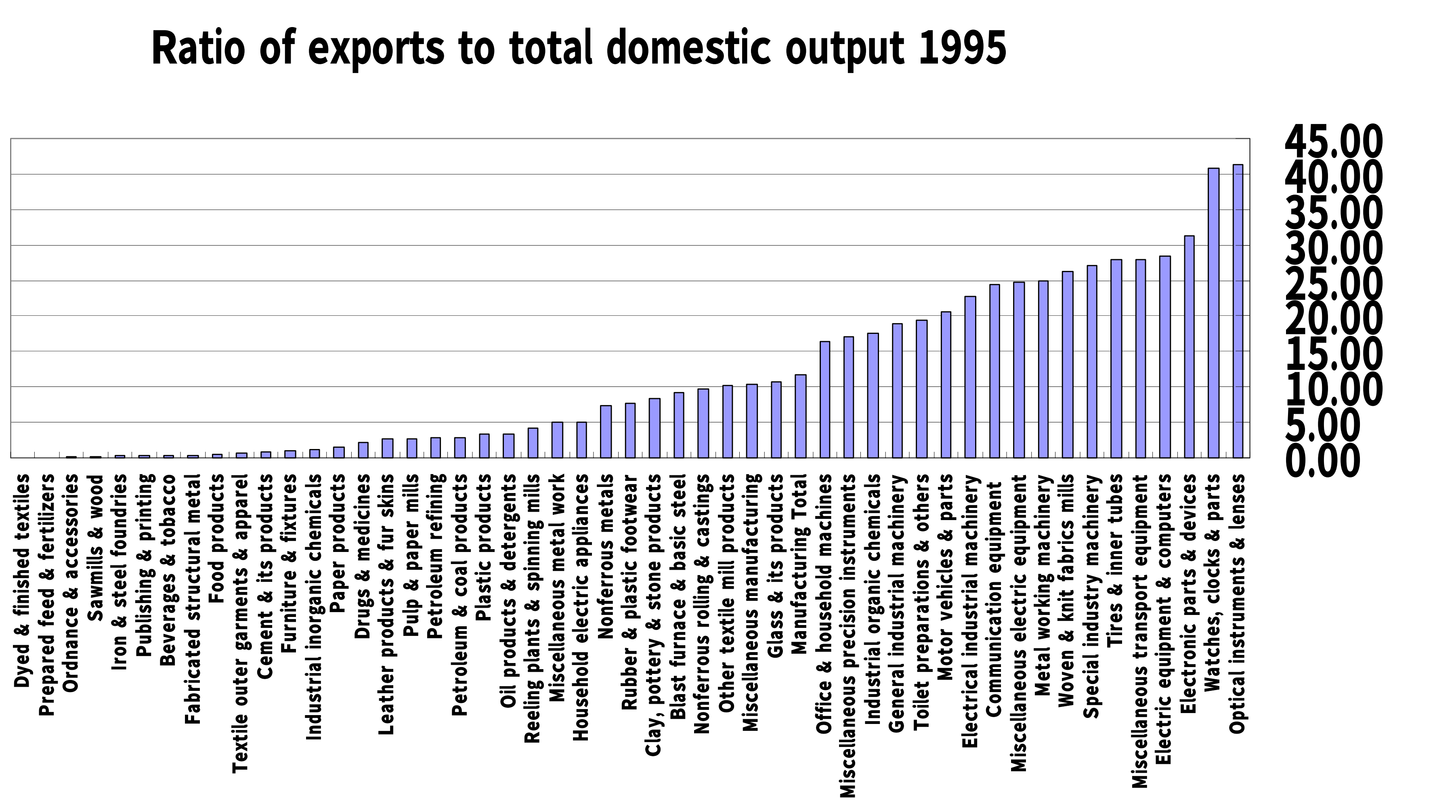
Distribution of firms depends on trade equilibrium.

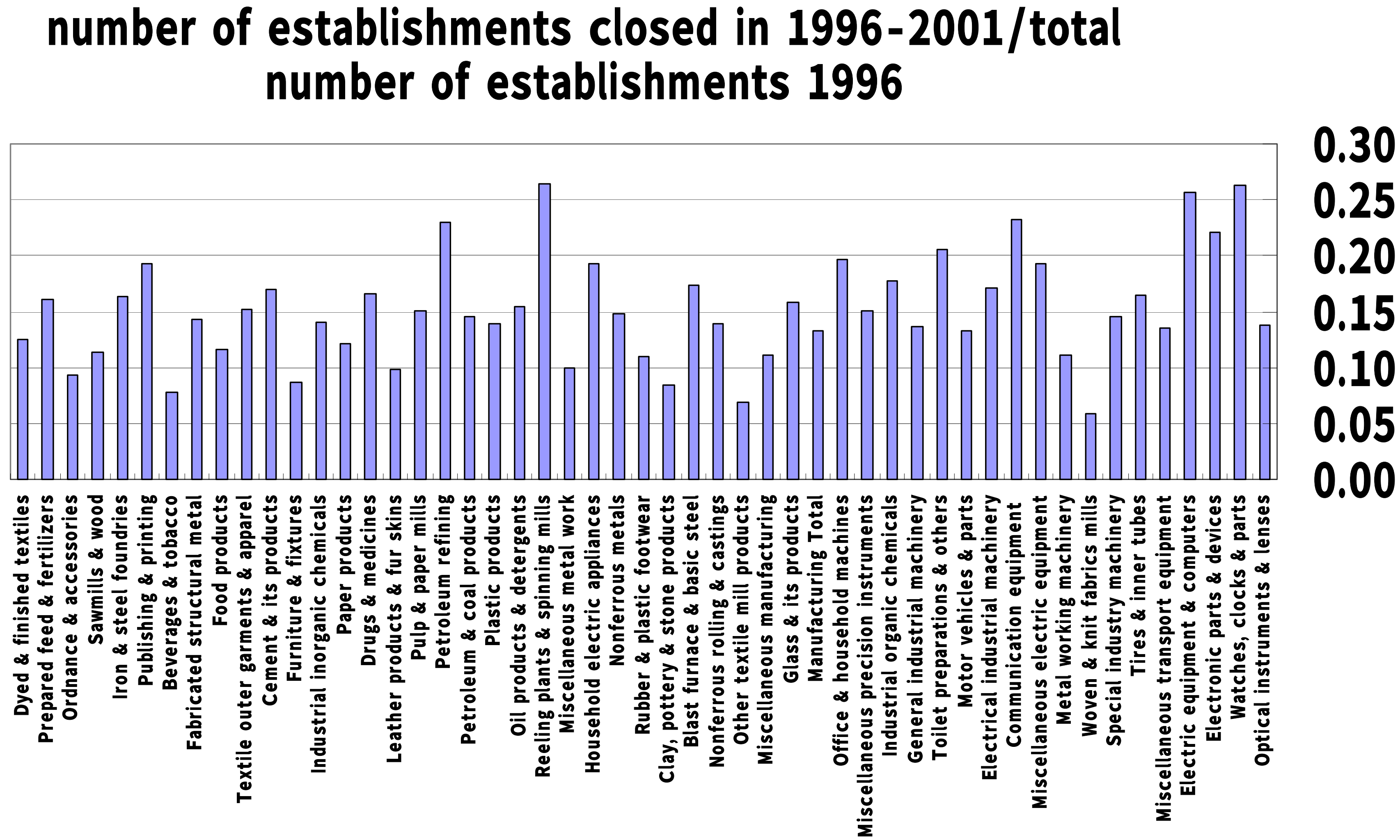
Main Results

- As the economy moves from autarky to costly trade, high-productivity firms start to export and some low-productivity firms exit the industry.
- This mechanism is more pronounced in industries in which a country possesses a comparative-advantage and magnifies the comparative advantage.
- Industries with a comparative-advantage experience greater entry and exit and greater labor turnover.

Comment 1

- **Developed countries are already relatively open.**
- **What are the testable implications of the model for such countries?**
- **In the model, the exit rate in a steady state is exogenously given. It changes only in transition.**
- **It seems that new firms need to start production in order to know their productivity level. (In many countries both the exit rate and the growth rate of younger firms are higher than those of older firms.)**
- **If we can assume this, the entry and exit rates will be higher in industries with a comparative advantage even a in steady state.**


Ratio of exports to total domestic output 1995
45.00
40.00
35.00
30.00
25.00
20.00
15.00
10.00
5.00
0.00
Dyed & finished textiles
Prepared feed & fertilizers
Ordnance & accessories
Sawmills & wood
Iron & steel foundries
Publishing & printing
Beverages & tobacco
Fabricated structural metal
Food products
Textile outer garments & apparel
Cement & its products
Furniture & fixtures
Industrial inorganic chemicals
Paper products
Drugs & medicines
Leather products & fur skins
Pulp & paper mills
Petroleum refining
Petroleum & coal products
Plastic products
Oil products & detergents
Reeling plants & spinning mills
Miscellaneous metal work
Household electric appliances
Nonferrous metals
Rubber & plastic footwear
Clay, pottery & stone products
Blast furnace & basic steel
Nonferrous rolling & castings
Other textile mill products
Miscellaneous manufacturing
Glass & its products
Manufacturing Total
Office & household machines
Miscellaneous precision instruments
Industrial organic chemicals
General industrial machinery
Toilet preparations & others
Motor vehicles & parts
Electrical industrial machinery
Communication equipment
Miscellaneous electric equipment
Metal working machinery
Woven & knit fabrics mills
Special industry machinery
Tires & inner tubes
Miscellaneous transport equipment
Electric equipment & computers
Electronic parts & devices
Watches, clocks & parts
Optical instruments & lenses


number of establishments closed in 1996-2001/total
number of establishments 1996
0.30
0.25
0.20
0.15
0.10
0.05
0.00
Dyed & finished textiles
Prepared feed & fertilizers
Ordnance & accessories
Sawmills & wood
Iron & steel foundries
Publishing & printing
Beverages & tobacco
Fabricated structural metal
Food products
Textile outer garments & apparel
Cement & its products
Furniture & fixtures
Industrial inorganic chemicals
Paper products
Drugs & medicines
Leather products & fur skins
Pulp & paper mills
Petroleum refining
Petroleum & coal products
Plastic products
Oil products & detergents
Reeling plants & spinning mills
Miscellaneous metal work
Household electric appliances
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Other textile mill products
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Industrial organic chemicals
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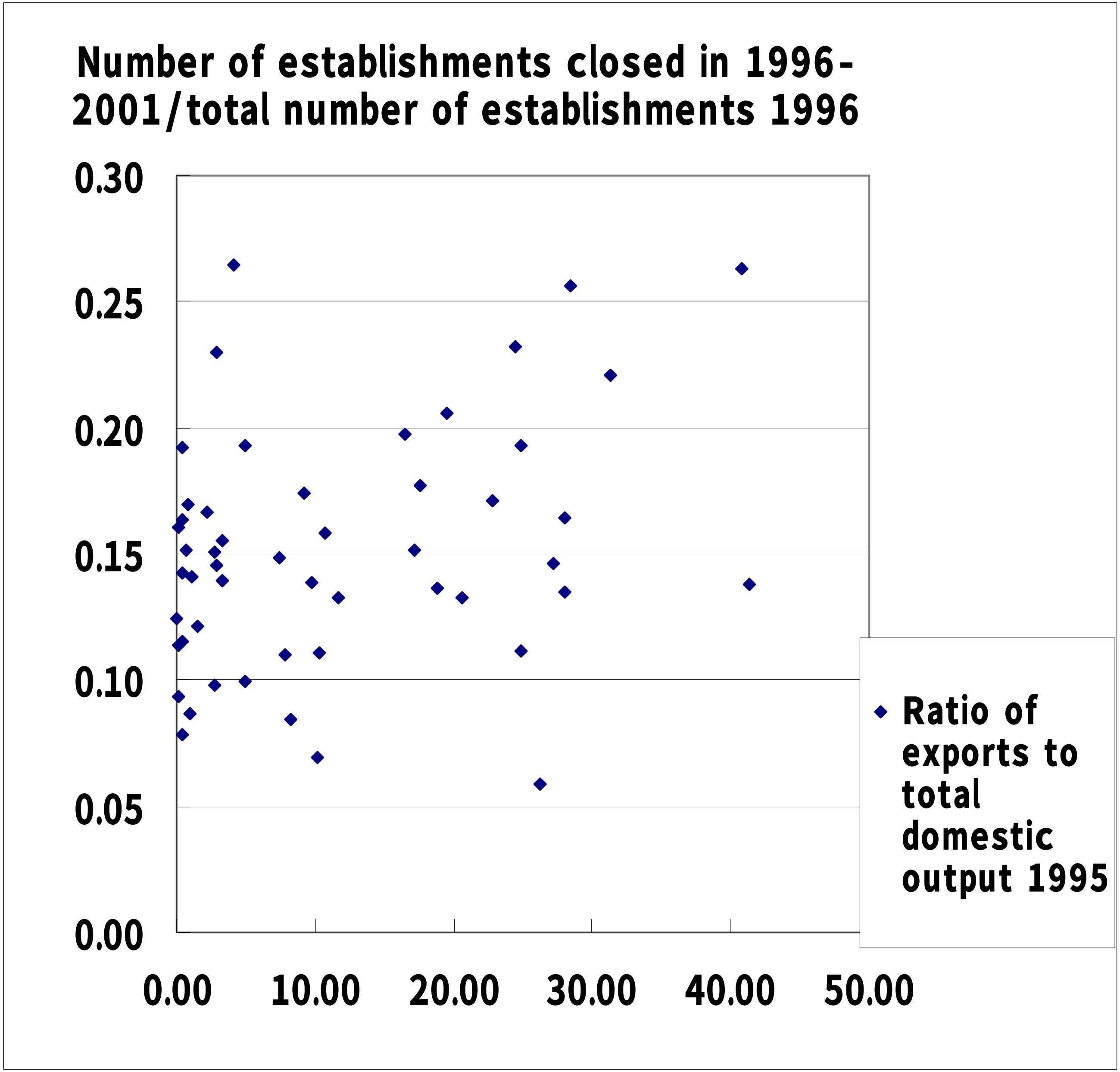
Motor vehicles & parts
Electrical industrial machinery
Communication equipment
Miscellaneous electric equipment
Metal working machinery
Woven & knit fabrics mills
Special industry machinery
Tires & inner tubes
Miscellaneous transport equipment
Electric equipment & computers
Electronic parts & devices
Watches, clocks & parts
Optical instruments & lenses


Number of establishments closed in 1996-2001/total number of establishments 1996
0.30
0.25
0.20
0.15
0.10
0.05
0.00
0.00
10.00
20.00
30.00
40.00
50.00
Ratio of exports to total domestic output 1995

$\rho=0.31$

Comment 2. FDI

- **In developed countries, the highest productive firms seem to conduct FDI. And in developing countries, most advanced technologies seem to be introduced by foreign-owned affiliates.**
- **Can we bring in FDI into the model? How would this affect the conclusions?**