The Structure of Bilateral Commodity Trade:
The Role of Extensive Margins in Revealed Comparative Advantage

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Abstract:

This paper examines the cross-country and cross-industry variations in the extensive margins of heterogeneous-firm model (Melitz, 2003). We estimate extensive margins from the first stage regression of Helpman, Melitz, and Rubinstein (2008) and compare them with revealed comparative advantage index from Balassa (1965). By using the bilateral trade data of 144 differentiated products from 127 countries during the period of 2005-2008, we estimate the firm-level productivity-range (extensive margin) for each exporter-importer pairs for each product (firm) in each year. We also develop the product- and country-specific measures of revealed comparative advantage for each year. We find that there are positive relationships between the logs of extensive margins and those of revealed comparative advantages across products within a country and across countries within a product. Our results indicate that it is relatively easier for firms in comparative advantage sectors to access foreign markets. The "neo-classical" wisdom of comparative advantage is (still) an important element of the recent heterogeneous model of trade.