

Abstract: Why does the fraction of firms that export vary with countries' comparative advantage? To address this question, I develop a general-equilibrium Ricardian model of North-South trade in which both institutional quality and firm heterogeneity play a key role in determining international trade flows. Because of contractual frictions that vary across countries and sectors, North with better institutions produces relatively more in a sector where production is more institutionally dependent. In addition, institution-induced comparative advantage makes it relatively easier for Northern heterogeneous firms to incur export costs in a more contract-dependent sector, thereby leading to a higher exporters' percentage.