

## **Armington Meets Melitz: Introducing Firm Heterogeneity and Export Mode in Trade-A Case Study of Pakistan**

Topic: International Trade (1)

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Standard computable general equilibrium models underestimate trade effects from trade liberalization because they neglect the trade measurement along with its extensive margin. This research incorporates firm heterogeneity models with fixed export costs within GTAP while calibrating results with GTAP 10a database information. This study examines the consequences of ending EU, USA, and China tariffs for Pakistani exports by concentrating on three industries and three regions. The analysis shows that free trade systems increase exports while maximizing social welfare by revealing productivity effects and showing scale advantages along with a variety of selection benefits as well as fixed export costs. This research shows that studies of monopolistic competition models relative to perfect competition models expose significant welfare increases due to trade liberalization. Results indicate nations need to implement strategic trade policies focused on productivity growth alongside organizational adaptation to access the best possible outcomes from worldwide trade options.