might be hundreds more crossing the country by rail or jet, and you have thousands more crossing the ocean" [Friedman (2005, p. 174)]

Rather than being a buffer stock, inventories reflect the choice of the length of the supply chain, and will be highly sensitive to the factors that affect that choice. We will see below that financial conditions will be chief among them. During periods when financing is easily obtained, we would expect firms to lengthen their production chains to reap the benefits of globalization. However, an abrupt tightening of credit will exert disruptions to the operation of the global supply chain and lead to a drop in offshoring activity and trading volumes.[1] In the aftermath of the crisis, the rolling back of offshoring ("onshoring" or "reshoring") has become a staple offering of management consultancies, who have emphasized the virtues of shorter supply chains.[2]

The contractionary effect of financing constraints during the recent crisis have been documented by Chor and Manova (2009) and Manova (2012), who document how fluctuations in financing needs are associated closely with changes in trading volume, and by Amiti and Weinstein (2011) who use micro-level data from Japan to show that banks with tighter financing constraints impose greater dampening effect on exports of firms reliant on those banks. These findings are corroborated in studies of the terms of trade finance. Using firm-level trade finance data, Antras and Foley (2011) show that cash-in-advance becomes more prevalent during the crisis, and that existing customers reliant on outside financing reduce their orders more

[1]The *Financial Times* headline "Crisis and climate force supply chain shift" on 9 August 2009 neatly summarizes the consolidation of globally extended supply chains. On July 15, it carried a similar article with the title "Reaggregating the supply chain".

[2]See Boston Consulting Group (2011) and Accenture (2011). According to the Accenture report, "[c]ompanies are beginning to realize that having offshored much of their manufacturing and supply operations away from their demand locations, they hurt their ability to meet their customers' expectations across a wide spectrum of areas, such as being able to rapidly meet increasing customer desires for unique products, continuing to maintain rapid delivery/response times, as well as maintaining low inventories and competitive total costs."