$$\begin{aligned}\Pi &= (\bar{n}+bs)^{\alpha} zL - wzL - rzK \\ &= (\bar{n}+bs)^{\alpha} zL - wzL\left(1+\frac{r\left(\bar{n}+s+1\right)}{2}\right) \end{aligned} \tag{26}$$

where z is the proportion of the world workforce employed by firm. The firm maximizes profit by choosing s. Since the firms' profits are driven down to zero, the share z will not play any meaningful role in our model. The first-order condition for s yields

$$\bar{n}+bs = \frac{1}{w^{\frac{1}{1-\alpha}}}\left(\frac{2b\alpha}{r}\right)^{\frac{1}{1-\alpha}} \tag{27}$$

and the zero profit condition is

$$\begin{aligned}(\bar{n}+bs)^{\alpha} &= w\left(1+\frac{r\left(\bar{n}+s+1\right)}{2}\right) \\ &= w\left(1+\frac{r}{2}(1+\bar{n})+\frac{r}{2}s\right) \end{aligned} \tag{28}$$

From (27) and (28) we can solve the model in closed form. The extent of off–shoring is

$$s = \frac{\alpha}{1-b\alpha}\left(1+\bar{n}\left(1-\frac{1}{b}\right)+\frac{2}{r}\right)-\frac{\bar{n}}{b} \tag{29}$$

The wage rate is

$$w = 2\frac{b\alpha}{r}\left(\frac{1-b\alpha}{2+r\left(1+\bar{n}(1-\frac{1}{b})\right)}\right)^{1-\alpha} \tag{30}$$

Note that both s and w are decreasing in the borrowing cost r. Thus, the extent of offshoring depends on financial conditions, where a tightening of credit will reduce offshoring and result in a concomitant reduction in trade volume. The reduction is trade volume will be higher for more elaborate production processes with a greater vertical specialization. The empirical evidence in Bems, Johnson and Yi (2011) is consistent with such a prediction.

Finally, since total financing K is given by $(\bar{n}+s+1)\,wL/2$ it is increasing in s and w. Therefore, the global demand for credit is decreasing in the borrowing cost r.