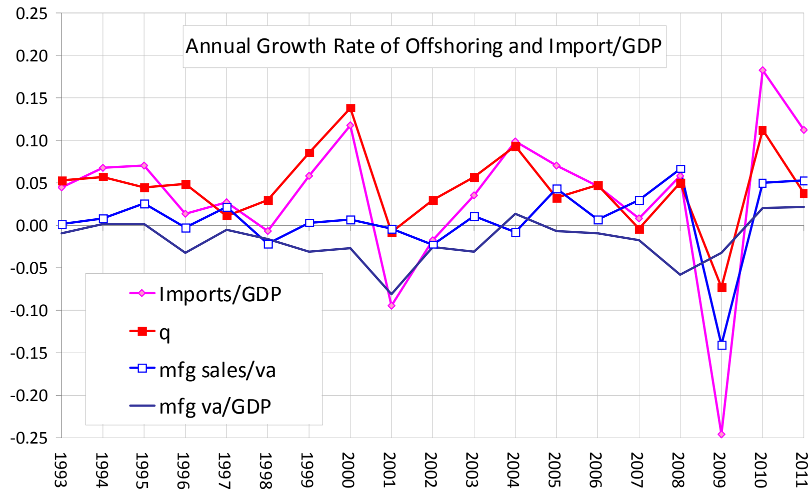

Figure 9. Annual growth rates of offshoring, imports/GDP, manufacturing sales to value-added and share of manufacturing in GDP

We have already noted the findings of Kashyap, Lamont and Stein (1994) and Amiti and Weinstein (2009), who (in different contexts) have pointed to the pivotal role of the banking sector in determining the credit conditions for trade finance. Adrian, Colla and Shin (2011) investigate the nature of the financial frictions that operated in the recent crisis, where the banking sector behavior is described in more detail. Here, we will focus on adapting some key features of the banking sector into our model of offshoring and production chains.

The banking sector is special in several respects, compared to the non-financial corporate sector. In textbook discussions of corporate financing decisions, the set of positive net present value (NPV) projects is often taken as being exogenously given, with the implication that the size of the balance sheet is fixed. Leverage increases by substituting equity for debt, such as through an equity buy-back financed by a debt issue, as depicted by the left hand panel in Figure 10.

However, the left hand panel in Figure 10 turns out not to be a good