in aggregate. Figure 2 merely shows that manufacturing firms tend to be net lenders. Second, there appears to be a positive relationship between accounts receivable and payable. That is, firms that lend more to other firms are also those that *borrow* more from other firms. As we will see shortly, these patterns are reproduced in other countries too, but there are also important differences.

Even this cursory brush with the empirical evidence suggests that there is much to be explained. Our task in this paper is to formulate an analytical framework that can address how finance and industrial structure are interrelated. We address the following questions.

- Why do some firms simultaneously borrow more *and* lend more?
- Why are most (manufacturing) firms net lenders?
- What accounts for the difference across countries in the pattern of receivables and payables?
- What are the implications for the role of finance in industrial development?

In addressing these questions, our focus will be on the financial counterparts of the production relationships between firms as suppliers and customers in the production chain. A firm's accounts receivable is a claim against customer firms in the production chain; i.e. the downstream firms. Equivalently, the downstream firm's accounts *payable* is a liability backed by its assets, including its own accounts receivable against firms yet further down the production chain. In this way, accounts receivable and payable generate a chain of interlocking claims and obligations that bind the interests of the firms within the production chain. The fact that accounts receivable