working capital can be freed up without loosening the "glue" that binds the production chain together. Accounts receivable have greatest value when held by a firm *within* the production chain, than by an outside owner.

The outline of our paper is as follows. In the next section, we present a theoretical framework for the role of interlocking claims and obligations within a production chain. In sections 3 and 4, we present cross-country empirical evidence on the way that corporate balance sheets mirror industrial structure. In section 5, we address the financing of working capital, and possible financial innovations that can meet the challenge. In this connection, we discuss the experience of Korea and the financial instruments known as transferable promissory notes. We attempt to give some rationale for the evidence on the special nature of Korean firms' balance sheets. Both the rapid industrialization of Korea, and also the virulence of its financial crisis of 1997 cannot be understood without recognizing the unique financial structure of Korean firms. There are important lessons for other developing countries.

2 Model

We present an analysis of a linear hierarchical industrial structure where firms are arranged into a single chain. Suppose there is a new opportunity for a group of firms to produce a final good for sale.

There is one firm, labelled as firm 0, that sells the final output. The other firms produce intermediate inputs that are necessary in the production of the final good. Firm $i+1$ supplies its output to firm i. In addition to firm 0, there are N upstream firms.