working capital, given the imperfect pledgability of accounts receivable and inventories as collateral against loans.

The important role of fixed capital (of plant and machinery) in the production process is well recognized by economists. Perhaps less attention has been devoted to the importance of working capital in the production process. A lesson we should draw is that working capital is just as important as fixed capital. Working capital is the glue that binds the constituent firms, and holds the production process together.

However, the resources needed for working capital are huge. Consider the receivables to sales ratio. The outstanding stock of accounts receivable relative to annual sales for our sample of Japanese manufacturing firms is around 25%, suggesting an implied delay in payment of invoices of approximately three months. If the production chain were to start from scratch, firms would need to find resources to pay workers and replace depreciating capital equipment during this three month period. For developed countries, the resources needed for working capital have been accumulated over many decades, and indeed centuries. Developing countries lack the accumulated equity capital that they can draw on. However, the experience of Korea suggests that there are possible development strategies for dealing with the shortage of working capital.

## 5.1 Case of Korea

Korea's experience is instructive. At the beginning of its period of rapid growth in the 1960s, Korea ranked among the poorest of developing countries, with a rudimentary manufacturing sector. In making the transition from basic manufactured goods into increasingly sophisticated goods - migrating up the value chain from shoes to computer chips - the demands on working