

Distribution of annualized discount rates (% of total)								
	< 12%	12– 18%	18– 24%	24– 30%	30– 36%	36– 42%	> 42%	average annualized discount rate (%)
1995	4.0	13.1	46.6	30.3	5.5	0.5	0	24.3
1996	0.4	17.5	42.5	32.8	6.1	0.3	0.4	25.3
1997	5.1	3.5	16.4	26.4	25.8	7.9	14.9	34.5
1998	10.7	26.7	18.0	20.9	21.1	1.4	1.2	24.5
1999	20.9	3.7	33.0	24.0	17.6	0.8	0	23.3

Source: Kookmin Bank, Survey of SMEs' Financial Standing, 1995 -1999.

The financial crisis of 1997 exposed the fragility of the financial system built on contingent liability, and policy has since aimed at replacing promissory notes with conventional financing methods. However, the Korean experience is instructive in how financial innovation can overcome the shortage of working capital. In this respect, there are important lessons for other developing countries in their policies toward their own financial development.

## 6 Concluding Remarks

We have argued for the importance of the interactions between corporate finance and industrial structure. The common thread linking these two notions is the importance of working capital.

Blanchard and Kremer's (1997) concept of disorganization can be understood in terms of our framework as the case where a complex production economy makes a sudden transition from one that is under central direction to a decentralized network of firms. The transition takes place without the benefit of large interlocking balance sheets. The result is a breakdown of incentives, undermining the complex production chain.

Our framework also sheds light on a puzzle raised in the trade credit