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## **Markets and development**

**Haruhiko Kuroda**

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## KEYNOTE ADDRESS

# Markets and development

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### Abstract



This Keynote Address gives a high-level overview of the issues of social and economic development facing the region. Markets have played a significant role in advancing economic and social development in developing Asia, in terms of structural transformation as economies move from agrarian and small scale economies. Structure and forms of markets also have evolved. Asia's agriculture and food systems revolution is one of the most illustrative examples. Moving ahead, a continuing strategic concern is about making markets work in the public policy interest of inclusive and sustainable growth.

I am honoured to join you for the 2011 Crawford Fund Annual Parliamentary Conference. Sir John Crawford is remembered as one of the great Australians who had clear vision and deep passion for the Asia and Pacific region. His pioneering contributions to development, including his service as the first chairperson of the technical advisory committee of the Consultative Group on International Agricultural Research (CGIAR), are among his lasting legacies.

His legacy lives on in the untiring endeavours of Australia to be a good international citizen. The Asian Development Bank (ADB) values Australia's consistent and strong contributions as a major shareholder and as a pro-active development partner in Asia and the Pacific.

The theme of this conference is relevant for ADB. I am pleased to know that Professor Thomas Reardon will discuss in some detail the supermarket revolution and how food supply chains can be a major force in bringing about food security.

To set the context, my remarks today focus on the broader topic of 'markets and development' — or more aptly, markets for development. I will emphasise the need to make markets work better for inclusive and sustainable development. I will also share what we in ADB are doing in this area.

### **Markets for development: Asia's experience and policy perspectives**

#### **Asia's past performance in growth and development**

In recent decades, Asia has made remarkable progress. The region as a whole achieved a growth rate of 7% in the 1990s and around 8.5% in the 2000s, and recovered swiftly from the 2008–09 global economic recession. This sustained, rapid growth has transformed Asia from an economic backwater to a global hub

of economic dynamism. And Asia has also made significant strides in poverty reduction, halving the incidence of poverty from 1990.

However, we must not lose sight of the huge challenges that still lie ahead. Despite its remarkable progress, the Asia and Pacific region remains home to the majority of the world's poor. Furthermore, the benefits of growth have not been equally shared, and disparities between the rich and poor are growing. The great challenge for Asia today is not only to maintain rapid growth, but also to steer growth towards a path that is more socially inclusive and environmentally sustainable.

### **Economic growth and markets**

As we know, economies do not grow smoothly and evenly. Structural change is a prominent feature of dynamic economic growth with traditional industries disappearing and new industries emerging. In the process, capital and labour move rapidly from sector to sector, and across borders. Such has been the case in many Asian countries.

Functioning markets with significant private sector participation support this process of structural change. Markets transmit timely information about changing demands and new business opportunities at home and abroad. Competition helps ensure appropriate pricing and the efficient allocation of resources, goods and services. Supported by open trade policies, economies can gain access to the global market. Development of trade and logistics infrastructure facilitates efficient physical movement of goods and services.

With the support of functioning markets, many Asian economies have indeed successfully managed the economic structural transformation from predominantly agrarian and subsistence economies to industrial and open economies. They have moved up from low productivity, low-skilled and low value-added industries to high productivity, skills-intensive and high value-added industries.

Let me share a few examples. For generations, poor farmers in the hills of southern Laos struggled to make living on subsistence farming, with little access to markets. In early 2000, however, the Government of Laos, with ADB support, implemented a Smallholder Development Project. This project aimed to improve rural livelihoods and develop market access through new all-weather roads and telecommunication services — and it has done just that. Since 2006, farmers have expanded their crops to organic cabbages and high-quality coffee. The cabbages are shipped to markets in Thailand, and the coffee is exported to Japan. As a result, an estimated 40,000 households have seen their incomes rise. Improved roads now connect farmers to newly-built markets on the Thai–Lao border, where traders buy produce in bulk. And farmers can now negotiate with faraway buyers through the wonders of text messaging.

Thailand's experience also shows the important role markets play in supporting agricultural and rural industrial development. As Thailand expanded its marketed agricultural surplus by exporting fresh and processed fruits and vegetables, farm cash incomes rose, which in turn provided the capital to fund rural industries. Thailand's poverty incidence declined from 38% in 1990 to less than 10% in 2006.

### **Role of public policies to improve market functions**

Given the fundamental importance of markets in supporting structural change and economic growth, what policy actions can governments take to ensure that markets function efficiently and effectively? Let me mention just a few, based on past experiences in the region.

First, policies are needed to encourage competition and to remove the barriers to both entry and exit of firms. This will facilitate the process of creative destruction. For small and medium firms — which are dynamic drivers of growth — a major barrier is the lack of finance with which to access export markets.

Second are policies that enable sufficient flow of information to minimise market transaction costs. During the food price hike in 2007–08, countries with large rice deficits panicked and bid up the price of rice because of the lack of transparent information on the rice trade. At the same time, rice-exporting countries banned exports to protect their domestic consumers.

Third are policies to ensure predictable returns on assets. Ownership of assets provides assurance of the returns on an owner's investments and protection against expropriation. This is critical for generating the incentives needed for market participants to invest and make the best use of resources.

Finally, as commercialisation of agriculture and the transformation of Asian economies continue, governments must also work to facilitate the integration of small-scale farmers into the broader markets. In this regard, we are seeing the emergence of innovative institutions and policies, often in partnership with the private sector and civil society. Some examples are the use of contract farming in the Greater Mekong Subregion, the development of farmer organisations and marketing hubs, organisation of the supply chain for high-value exports, and the use of modern communication technology to efficiently disseminate market information more widely.

Beyond these fundamental policy actions, there are other areas to which policy makers should pay attention for effective market functioning. This would include pro-active public investment in public goods, addressing market failures, and protecting the poor. The provision of safety nets, in particular, has become indispensable for maintaining public confidence and support for market-led outcomes, especially during financial crises and food price surges.

Innovative safety net measures have emerged that combine the support of the public and private sectors, civil society, and the international development community. These include conditional cash transfer schemes that provide food for work or food and cash for the continued education of children, especially girls, and mobile banking.

At the regional level, the ASEAN+3 countries are now expanding the regional reserve system to assist the rice-deficit member countries, especially in times of natural and economic calamities.

Public intervention is also needed to create incentives for environmental management, and to encourage the sustainable use of resources. For instance,

allowing the conversion of marginal lands into forest lands would make sense, because this contributes to carbon sequestration, watershed protection, and biodiversity conservation.

### **ADB's operations to make markets work better**

As a key development partner in Asia, ADB believes that the region has a bright future — that this can indeed, as many have prophesied, become 'the Asian Century'. For this to happen, however, the region needs to overcome some daunting challenges, including narrowing the growing divide between those who are benefiting from growth and those being left behind. Asia must aspire to more equitable and sustainable growth. Its larger footprint in the global economy brings new challenges, new responsibilities, and new obligations. Asia's growth strategy needs to be adjusted accordingly with regard to national actions, regional cooperation, and collective actions on the global agenda. Otherwise, Asia will fail to fully realise its potential for sustainable and inclusive growth.

It is particularly crucial to reach populations who remain excluded from the benefits of markets. As growth continues they may become increasingly difficult to reach, and disparities could widen within and between Asian economies.

For many countries in the Asia and Pacific, market access is limited. Where markets exist, often they do not function properly. A critical task is to identify opportunities and alternatives to develop and improve market access for the underserved, and to address market failures.

To help meet these challenges, ADB invests in infrastructure; the environment, including climate change; regional cooperation and integration; financial sector development; and education. We aim to maintain a good balance among these various areas to help markets realise their full potential for sustainable growth.

ADB also contributes to the aid-for-trade program in partnership with the World Trade Organization. This program seeks to develop and strengthen the capacity of low-income countries to effectively engage in international trade, which is crucial for raising incomes.

In view of emerging trends in market development, such as the supermarket revolution, ADB provides major support to build robust Asian food supply systems through infrastructure development. These investments help improve the productivity, connectivity, and resilience of food markets. Key infrastructure assistance includes irrigation and water resource management, roads, rail transport, information technology, renewable energy, climate proofing of infrastructure, and adaptation and mitigation measures. To complement these efforts, we work to foster south-south cooperation through subregional cooperation and integration. Through all of these, we are working to foster greater prosperity, and stability for Asia and for the world.

### **Conclusion**

In closing, I believe that the recent profound transformation of the global food retail system can be understood as the latest manifestation of long-term structural transformation. What this structural transformation means for food

security, agriculture development, and inclusive and sustainable growth is not yet well understood.

This conference provides unique opportunities to discuss such pressing and complex development issues. I wish you very productive and rich discussions during the next two days.

Dr Haruhiko Kuroda is the President of the Asian Development Bank (ADB) and the Chairperson of ADB's Board of Directors. He was elected President by ADB's Board of Governors in November 2004 and was re-elected in November 2006 for a new five-year term. Before joining ADB, Dr Kuroda was Special Adviser to the Cabinet of Japanese Prime Minister Junichiro Koizumi and a professor at the Graduate School of Economics at Hitotsubashi University in Tokyo. In a career spanning nearly four decades, Dr Kuroda has represented Japan's Ministry of Finance at a number of international monetary conferences as Vice Minister of Finance for International Affairs.