

Spatial Integration of Rice Markets in Vietnam

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ABSTRACT

The study analyzes the extent, pattern, and degree of the spatial integration of rice markets in Vietnam, as well as the dynamic relationship of the rice export prices of Vietnam and Thailand. The extent of market integration is determined by identifying locations that are linked by trade and whose prices share the same long-run relationship. The method of estimating the permanent component is applied to examine the importance of markets in shaping the long-run rice price. The pattern and degree of integration are assessed by testing for the existence of the law of one price (LOP) and ascertaining the speed of adjustment toward long-run equilibrium, using various tests in the cointegrated system. Results show that only nine of 34 rice markets are integrated into a common rice market. However, prices are transmitted well among the integrated rice markets. The supply of rice appears to be the most important factor shaping the long-run behavior of its price levels in Vietnam. No single market is found to be the price leader. The prices of rice exported by Vietnam and Thailand are cointegrated and conform to LOP. The removal of the export quota plays an insignificant role in determining the relationship of rice prices in the two countries. The study suggests improving the extent of domestic rice market integration by focusing on the development of roads, communication and other market-related infrastructure, and instituting food policy reforms in the supply regions, while directly targeting the poor and mountainous areas. To improve the export price and become more active in the world rice market, Vietnam should (1) adopt modern postharvest technologies and develop better rice varieties, (2) develop an integrated rice marketing chain from farmers to exporters, (3) enhance the capacity to undertake rice market analysis and forecast, (4) encourage rice-exporting enterprises to follow certain rules to avoid cut-throat competition, and (5) establish a system of rice standards and create a trade mark for Vietnamese rice.