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Price transmission and market integration of selected maize and rice markets in Vietnam

Master thesis

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Abstract

In recent years prices of major agricultural commodities were subject to vast fluctuations on the world markets. The global causes for this volatility have been discussed in many studies. However it is domestic prices on which production and consumption decisions are based. Thus to understand the effects of international price fluctuations on the welfare of households one has to study the transmission of world market prices to the relevant national markets. As there are many specific policies involved in the trade of agricultural commodities these implications can only be studied on the national level.

This thesis analyzes the price transmission in the rice and maize markets of Vietnam and their cointegration into the world market. Maize and rice have each been found to be the crops with the highest importance for rural households in distinct regions of Vietnam.

Price transmission was analyzed econometrically for selected domestic and international markets with the help of a Vector Error Correction Model. In addition the marketing chain of the selected commodities was studied and the relevant policies were analyzed.

It was found that 20 years after Vietnam's economical transformation, maize production and marketing today have become much liberalized and highly competitive. The econometric analysis showed that prices fully transmitted from the world market to the rural level. However proof for cointegration with the world market was not always found, as domestic maize prices featured a distinct seasonal pattern.

The analysis of the rice market yielded that domestic production and trade are largely deregulated as well. However price transmission between the world market and the domestic market is hindered to some extent, as the export of rice is strongly controlled by the government. Yet no proof was found against the cointegration of the majority of domestic markets with the world market, showing that Vietnam as the second largest rice exporter in the world is not completely unaffected by price fluctuations in the world market.