

Why does at least \$535,000 worth of rice get
wasted in the Philippines every day, when this
could have been used to feed 4.3 million hungry
people in its rice deficit areas?: Revisiting the
role of transport costs on spatial market
integration in the Philippines

Michal Fabinger*and Olivia Quek†

April 8, 2016

Are the prices of food staples well arbitrated across different geographical markets within a country? This is a question of economic importance, because the extent to which spatial arbitrage holds in the absence of international barriers to trade allows us to assess how well price signals are transmitted from deficit to surplus areas. We examine whether arbitrage is efficient amongst Philippine rice markets. Analyzing the wholesale price of rice in each province over an extended time span, we observe significant and persistent price gaps, even between neighboring provinces where one has a surplus over the other. One possible explanation to this seeming puzzle - which has been highlighted by the existing literature - is information asymmetry. In contrast with the literature, we do not find empirical support for imperfect information playing a significant role in explaining the price gaps. We build a model of rice trade in the Philippines that seems to capture the features of the observed trade flows well even though it assumes perfect information. Our results indicate that trade costs inclusive of logistics costs play a large role and are significantly higher than what sea freight tariff schedules would suggest.

*Graduate School of Economics, The University of Tokyo, Hongo 7-3-1, Bunkyo-ku, Tokyo, 113-0033, Japan

†Graduate School of Arts and Sciences, The University of Tokyo, 3-8-1 Komaba, Meguro-ku, Tokyo, 153-8902, Japan