

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 distance and logistics costs on spatial market integration in the Philippines*

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Abstract

Are domestic markets for food staples well integrated across space within a country? This is a question of economic importance, because the extent to which spatial market integration holds in the absence of international barriers to trade allows us to assess how efficiently rice is redistributed from deficit to surplus areas. We first 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

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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.

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