

ECONOMIC ANALYSIS ON INTER-DISTRICT INTEGRATION OF RICE MARKETS IN SRI LANKA

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Inter-regional rice trade is of great importance to the economy in Sri Lanka, because any change occurs in a rice market in terms of price formation and distribution can alter the status of household food security. Amongst the 27 agricultural districts identified in Sri Lanka, there are only a few characterized by a "surplus" annual production of rice (e.g. Ampara, Anuradhapura, Kurunegala, Polonnaruwa,), whilst many others become "deficit" districts (e.g. Colombo, Kandy, Nuwara-Eliya). The purpose of this analysis was, therefore, to examine empirically the "degree of integration" amongst these markets, where two trading markets are considered "integrated" if price changes occur in one market lead to an identical price response in the other market.

The monthly retail prices of rice from January 1991 to December 1996 published by the Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI) for these seven geographically dispersed districts were used for analysis. The theoretical models presented by Ravallion (1985) and Timer (1987) was used to develop the empirical model, in which Colombo was taken as the focal point of price formation. The results suggest that most of these rice markets, irrespective of average distance between markets, are highly correlated with each other in terms of price determination both in the short and long run perspective. The Kandy and Nuwara-Eliya markets respectively possess the highest and the lowest level of integration with the Colombo main market. This indicates the importance of disseminating updated market information throughout the country so that traders in remote markets cannot set the prices of essential commodities arbitrarily.

Key words: Market integration, Price formation, Ravallion model, Rice markets in Sri Lanka

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