



Market Integration –

An Explorative Analysis of Price Patterns and Transport Costs

By

Magnus Andersson

A Dissertation Submitted in Partial Fulfillment of the Requirements
for the Degree of Doctor of Philosophy
Faculty of Commerce and Accountancy
Thammasat University

2009

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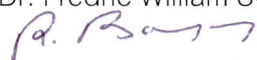
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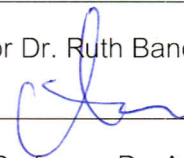
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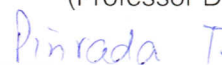
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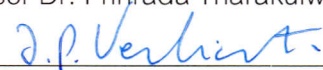
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Abstract

This dissertation provides an alternative perspective on the process of market integration by focusing on market integration within a nation's borders. The dissertation intends to go beyond traditional integration theory and examine various alternative approaches to market integration by using Lao PDR as an empirical example for assessing these alternative approaches empirically in a developing country.

The main objective is to find determinants for the spatial differences in prices between locations and quantify the importance of different variables influencing the final price of the studied homogenous retail product, one bottle of locally produced Beer Lao. The conceptual and theoretical framework used seeks to identify key actors and stakeholders at different geographical levels. The theoretical framework highlights transport costs as a major barrier to integration within the domestic economy. However, the empirical research intends to go beyond this view and introduce other factors

influencing the degree of market integration. Thus, an explorative quantitative research approach based on a theoretical model is applied to study the national market for domestic freight services and the spatial price pattern of a homogenous retail product. The empirical analysis is divided into three levels; a) an analysis of the determinants for domestic freight rates; b) an analysis focusing on identifying the major determinants of the spatial price patterns of one bottle of Beer Lao; and c) an analysis incorporating Lao PDR's geographical location neighboring China.

The empirical findings in the first part confirm that the national road system linking the major provincial centers with Vientiane have been rather successfully upgraded which is in line with the Lao government's strategy to create a land-link between the country's neighbors. The empirical model analyzing the determinants for freight rates between Vientiane and the provincial center show a rather harmonized freight rate structure. However, the findings also indicate that the market for freight services for destinations in the provinces and smaller districts are divided between operators active on different administrative levels. Thus, this division hinders effective transfers of goods and decreases the levels of competition on the market for freight. A regression analysis was conducted to test a set of variables influence on freight rates. The results indicate that road quality and elevation complements distance as main determinants of freight rates on the national market. Moreover, competition was a third factor which was identified as a determinant of freight rates between Vientiane and the provincial centers.

The second part of the empirical analysis focus on the spatial patterns of the retail price of one bottle of Beer Lao. The rationale behind using a domestically manufactured retail product as studied object is that production of this product is not only dependent on the local context where it is consumed. Focusing on a homogenous manufactured retail product manufactured at one single location allows us to abstract from many of these local determinants and concentrate on the impact of transactions costs and market conditions of the studied context. By finding the determinants of the retail price of Beer

Lao it is possible to provide an understanding of why margins in retailing differs between villages. Drawing upon the descriptive analysis, it is possible to identify five principal elements of the market integration based on the analysis of retail prices for beer. These include (1) type of village i.e. rural or urban, (2) access to road, (3) size of the market (number of households in the village, (4) and access to a daily market. The results from the regression models suggest similar results with transport giving a positive impact on the retail price providing higher prices on beer while variables related to market characteristics such as market size and access to a daily market have a negative impact on retail price. The amount of agricultural land in the village was used as a proxy for economic size of the local economy and showed a positive effect on the retail price and can be interpreted as traders in a wealthy village sets the prices to reflect what their customers are willing to pay.

The last part of the dissertation introduces a different geographical and administrative level of analysis by using Lao PDR's geographical location bordering China as factor influencing the degree of domestic market integration in Lao PDR. Trade with China has contributed significantly to the economic development of Lao PDR, but the Chinese influence has looked different in different parts of the country, thus illustrating the geographical patterns of integration with China. The results highlights the fragmented and unevenly distributed growth of expenditure in Lao PDR.