ENY CAHYANINGSIH. Spatial and Vertical Market Integration of Rice in Indonesia. Under direction of RITA NURMALINA and AGUS MAULANA

The goal of this research is to analyze spatial integration of rice markets in several markets in the provincial capital of Indonesia, the vertical integration of the rice market between the domestic market and abroad, the response of a market price of rice if there is a shock in other markets, variations in the market price changes of rice, and its implications for price stabilization policies. Methods of analysis used in this study are Vector Error Correction Model, impulse response and variance decomposition.

The result of spatial integration indicates that the reference markets rice trade in Indonesia are the market in Medan, Semarang, Pontianak, Surabaya and Jakarta. In vertical integration, changes in the price of rice in Vietnam will cause price changes in Indonesia and Thailand, although in a relatively small scale. Based on the analysis of the impulse response and variance decomposition found that Indonesian rice market is a little bit isolated from the two countries.

Policy implication of this study is the first, to stabilize the price of rice in Indonesia the priorities of government intervention should be focused to stabilization the price of rice in Medan, Semarang, Pontianak, Surabaya and Jakarta. Because price stabilization in the region could be transmitted to other regions. Second, although rice prices abroad are not so influential in the domestic rice price increases and the Indonesian rice market is a little bit isolated from Thailand and Vietnam, the rice import controls still need to be done to protect the income of farmers especially considering the price of domestic rice higher than the price of rice outside country.

Keywords: spatial integration, vertical integration, price stabilization policies, vector error correction model, impulse response, variance decomposition