PRICE TRANSMISSION OF VIETNAM’S ROBUSTA COFFEE

A thesis presented in partial fulfilment of the requirements for the degree of

Master of AgriCommerce

at Massey University, Palmerston North
New Zealand

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2017
Abstract

Coffee is important to Vietnam’s economy in terms of export earnings and employment. As Vietnam carried out market reforms over the last three decades, its coffee sector has become increasingly market-driven and exposed to the fluctuations of the global market. The transmission of changes in global Robusta coffee prices to domestic farmgate prices is put under focus in this research as the knowledge of this will have important policy and welfare implications.

This research uses both linear and threshold vector error correction models to analyse price transmission as the cointegration-based approach recognises the nonstationarity of price series. The data used are daily export and farmgate prices of Robusta coffee, measured in USD per tonne, from June 1st, 2011 to December 31st, 2015. Export prices were collected in Ho Chi Minh city, the export hub for Vietnam, and farmgate prices in the largest coffee producing province, Dak Lak.

The primary result of this research is that of a symmetric price transmission between export and farm levels for Vietnam’s Robusta coffee. The two apparent asymmetries detected are considered minimal as the speed of daily adjustment is too high. In the linear model, export prices react faster to negative deviations from the long run equilibrium than to positive deviations. In the threshold model, farmgate prices respond faster to decreases than increases in export prices when the long run deviation exceeds a certain threshold. The research also confirms the importance of transaction costs and other price frictions that were mostly ignored in prior analyses for coffee. Most importantly, the finding of symmetric price transmission contradicts previous studies which found asymmetric price transmission for Robusta coffee in Vietnam and other producers in Africa. This dissimilarity may be attributable to characteristic differences of Vietnam’s coffee sector, the use of high frequency data, and to the different time periods under investigation.

JEL Codes: C32, Q11, Q13, Q17

Keywords: asymmetric price transmission, Robusta coffee, Vietnam
Acknowledgements

I would like to thank those who have been with me along this challenging journey.

Firstly, I am much obliged to my supervisors: Dr. Shamim Shakur and Dr. Sue Cassells who have guided me through to the completion of my thesis. Dr. Shamim gave me constructive comments and ideas. Dr. Sue provided me with detailed feedback and greatly improved my thesis since its initial stage.

Secondly, I am grateful to Professor Panos Fousekis for inspiring me to this research topic and offering me valuable materials.

Thirdly, I would like to express my appreciation to Mr. Jamie and other ISSO staff members for assisting and offering me research resources. I sincerely acknowledge my former colleague Mr. Phuc for providing me with data and useful reports. My thank is also extended to Mrs. Iona and Mrs. Fong Mee for helping me get this research completed.

Fourthly, I am indebted to New Zealand Ministry of Foreign Affairs and Trade, which awarded me the NZAid scholarship to study at Massey University. Without this scholarship, my journey would have not begun.

Lastly I would like to thank my family and friends for the support and encouragement along the way.
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## List of Acronyms

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>APT</td>
<td>Asymmetric Price Transmission</td>
</tr>
<tr>
<td>BIC</td>
<td>Bayesian Information Criterion</td>
</tr>
<tr>
<td>FAS</td>
<td>Foreign Agricultural Service</td>
</tr>
<tr>
<td>GSO</td>
<td>General Statistics Office Of Vietnam</td>
</tr>
<tr>
<td>ICA</td>
<td>International Coffee Agreement</td>
</tr>
<tr>
<td>ICO</td>
<td>International Coffee Organization</td>
</tr>
<tr>
<td>ITC</td>
<td>International Trade Centre</td>
</tr>
<tr>
<td>MARD</td>
<td>Ministry of Agriculture and Rural Development of Vietnam</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares</td>
</tr>
<tr>
<td>SUR</td>
<td>Seemingly Unrelated Regression</td>
</tr>
<tr>
<td>TVECM</td>
<td>Threshold Vector Error Correction Model</td>
</tr>
<tr>
<td>USDA</td>
<td>United States Department of Agriculture</td>
</tr>
<tr>
<td>VCCB</td>
<td>Vietnam Coffee Coordinating Board</td>
</tr>
<tr>
<td>VECM</td>
<td>Vector Error Correction Model</td>
</tr>
<tr>
<td>VICOFA</td>
<td>Vietnam Coffee and Cocoa Association</td>
</tr>
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