

Causality between White Pepper and Black Pepper: Evidence from Six Markets in Sarawak

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Abstract

The study of various spatial price relationships is indeed crucial and has been greatly sought after. Likewise, this study is rather a debatable topic these days especially towards the pricing activity and competitiveness within the pepper industry. Evidence from six markets within Sarawak had found that a long run relationship between the pepper markets does actually exist. And using the MWALD test though, findings revealed that the white pepper prices do Granger cause the black pepper prices in all divisions. However, there is no indication of causality that runs from the black pepper towards the white pepper. In other words, white pepper does affect the black pepper, but not the other way around. Due to the integration within the pepper industry, thus, excess profit making opportunity will not be made beneficial as the pepper markets are efficient.

Keywords: Pepper markets, Granger Causality, Spatial Price, Sarawak.

JEL Classification: Q00, Q13, C32.

1. Introduction

Sarawak is the largest pepper producer in Malaysia whereby 95 per cent of total pepper production is grown within Sarawak while the remaining 5 per cent is being produced by the other states in Malaysia. Basically, Malaysia is the sixth largest world pepper producer with the annual production of about 20,000t in 2005. The first five are Vietnam, India, Indonesia, Brazil and China. In terms of exports, Malaysia ranks fifth with an annual export volume amounting to 18,000tonne ([International Pepper Community- IPC, 2006](#)).

Due to this, the pepper being produced in Malaysia is known as Sarawak pepper ([Liew et al., 2003](#)). Sarawak pepper is well-known for its consistency and reliable quality in the

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