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## **Macroeconomic Situation and Outlook**

mid the political shocks caused by the previous administration, the worldwide retrenchment of the high technology sector, and the spill-over effects of the September 11 terrorist attack in the United States, the Philippine economy managed to post a decent growth rate. Gross domestic product (GDP) in real terms grew by 3.2 percent in 2001 compared to its 4.4 percent gain a year ago (BSP, 2002). The main catalysts of growth were the structural reform measures designed to enhance productivity and market competition, such as the Agriculture and Fisheries Modernization Act (AFMA); the liberalization of retail trade, telecommunication, and utilities; and the favorable weather conditions.

The agriculture and service sectors were the major sources of growth. Agriculture, fishery, and forestry rose 3.7 percent in 2001 from 3.4 percent in 2000. While the services sector grew a robust 4.4 percent, the industry sector was hit hard by the retreat of the high technology sector and grew a mere 1.3 percent, the least among the three sectors. Weakened growth in the electricity, gas and water sectors also contributed to the slowdown.

The government's forecast of real GDP growth in 2002 is 4.0 to 4.5 percent. This is contingent, however, on several factors- sustained macroeconomic stability, expansion in local investments due to better business confidence, and robust performance of the US, Japan and Eurozone economies. NEDA (2002) projects the agricultural sector to grow at 2.7 to 3.7 percent in 2002. Industry sector, on the other hand, is projected to grow at 3.3 to 3.7 percent while the service sector is forecasted to expand by 5.0 to 5.5 percent.

## Food Prices and Consumption

The Bangko Sentral ng Pilipinas (BSP) Report on Inflation (2002) reveals that inflation environment in 2001 has been mostly subdued due to favorable supply-side trends and moderate growth in domestic liquidity and aggregate demand. While external demand was reported to have weakened due to the ongoing global slowdown, domestic demand took up the slack, driven by consumption and investments. Monetary policy has brought current and prospective inflation in line with the targets and has appropriately eased interest rates as the economy slowed. The inflation rate for 2001 has remained single-digit with an average of 6.1 percent, higher than the 4.4 percent average in 2000 but at the low end of the Philippine government's inflation target of 6 to 7 percent for the entire year.

Inflation of the food, beverages and tobacco cluster averaged 4.1 percent in 2001, giving cushion to the 8.5 percent surge by the non-food inflation. Trade liberalization as well as good domestic production has prevented food prices from shooting up. The year experienced favorable weather conditions that contributed to the ample food supply. Reductions in the prices of domestic oil products beginning in the

third quarter also contributed to lower inflation.

While inflation rate (3.3%) has been tame over the first quarter of 2002 because of the favorable food supply, broad currency stability and restrained demand, the policy making body of the BSP believes that there are downside risks to the inflation outlook heading toward 2003 (Buenaventura as cited in Philippine Daily Inquirer, April 12, 2002). As pointed out, the risks stem from the adverse impact on food prices of the anticipated dry spell, the increasing world oil prices and the possible power rate adjustments in the country. Also, signs of a US-led global economic turnaround and the strengthening demand in the domestic market point to rising demand-side price pressures.

Inflation target for 2002 is estimated to in the neighborhood of 5 to 6 percent. BSP (2002) based this target on expectations of favorable supply-side influences on prices, notably decelerating international oil prices, a broadly stable exchange rate, and stable food prices. Moreover, it was pointed out that the relative absence of significant supply-side cost pressures, along with the generally soft labor market, also limits the scope for sizable nominal wage adjustments going forward. Expected to be restrained likewise are the demand-pull inflationary pressures given the presence of weak external demand, excess capacity and moderating liquidity growth.

## Agricultural Production and Trade

**AGRICULTURE SECTOR PERFORMANCE.** Based on the Department of Agriculture's report (2002), the 3.7 percent growth in agriculture in 2001 was made possible by the growth in all sub-sectors of agriculture. Crop production, which accounted for 53 percent of total agricultural output, grew by 2.58 percent in 2001. Increases in yield and area harvested were noticeable during the year. Factors that contributed to these increases were the favorable weather, use of high yielding varieties, proper and timely fertilizer application and use of certified seeds through the DA/NFA assistance package program. For some agricultural commodities, the encouraging prices and demand pushed the total area harvested upward.

The livestock sector, which accounted for 13.19 percent of the total agricultural production, grew by 2.87 percent during the period. While the hog industry registered a 4.40 percent growth, the poultry subsector expanded by 7.8 percent. Dairy production was up by 5.78 percent as a result of increase in animal stocks for dairy and the government support to cooperative enterprise.

Production in the fishery subsector, which accounted for 19.43 percent of the total agricultural output, was 6.05 percent higher in 2001. The absence of destructive calamities and robust aquaculture performance explain most of the growth. The year witnessed the aggressive drive and support from the Bureau of Fisheries and Aquatic Resources (BFAR), which spin off higher propensity to venture into fish culture. The rehabilitation of fish sanctuaries, which brought out abundant catch of sardines, slipmouth, mackerels, roundscads and

tuna was the major reason for the 2.49 percent growth in municipal fishery production.

**EXPORTS AND IMPORTS.** Exports suffered a major setback in 2001 as it contracted by 5.2 percent after a strong 17.7 percent showing in 2000. The poor export performance was primarily due to the decreased demand for personal computers, chips and information technology (IT)-related equipment worldwide, and the slowdown in the growth of garments and machinery and transport equipment exports. Weak export posture reflected the slowdown in the US and Japanese economies.

With the US as the top trading partner of the country, the Philippine export growth in 2002 and beyond will largely depend on whether or not the September 11, 2001 attack has the potential to delay the recovery of the U.S. economy. The resiliency of American and Japanese consumers would keep demand high and could minimize any adverse impact on the export prospects of the Philippines.

A zero growth was projected by NEDA for the export sector this year. However, the export sector set a 10 percent growth target following trends since January. There was a steady slight improvement in exports that could be due to the incipient global economic recovery. A 22.4 percent increase over April 2001's exports was observed in the same month this year. Embodied in the export development plan for the years 2002-2004, a new export development plan would be implemented for 2002 to 2004 to help the export sector achieve its targets. The plan involves a product strategy that would revolve around industry clustering. This is expected to fine tune the efficiency of every industry's supply chain flow by linking together interrelated enterprises including their suppliers and buyers (Manila Bulletin, June 2002).

#### Food Processing and Manufacturing

Gross value added in food manufacturing grew at 3.2 percent in 2001, a modest increase from 1.9 percent growth rate in its previous year. This is a fairly good performance, considering the slowing down in growth rate of total gross value added in manufacturing, from 5.6 percent in 2000 to only 2.9 percent in 2001 (National Accounts of the Philippines, 2002). The sustained consumer spending has allowed the food manufacture's share of about 36 percent to total manufacturing output in 2001. Food maintained its growth despite decelerated growths of expenditures on beverages; textile and footwear; fuel, light and water; household furniture and fixtures; and paper and paper products. Increases in growth rate were observed in leather and leather products; chemiacal Personal consumption expenditures almost replicated its 2000 growth of 3.5 percent (National Accounts of the Philippines, 2002).

An improvement in the food manufacturing sector's performance could be expected with the economic recovery led by US, sound monetary policies and the government's commitment to policies enhancing the industry sector's competitiveness. These policies include price stability, strengthening of the banking system, continued deregulation of industries, privatization of government enterprises and liberalization of foreign trade and investments. The entire manufacturing sector is expected to get a boost from recovery of export demand and investor confidence (NEDA 2001 Full Year Economic Review – 2002 Growth Projections, 2002). However, facing the local food manufacturing industry is the purchased power cost adjustment of the National Power Corporation, where universal charge payment is extended to residential, commercial and industrial users (Manila Bulletin, 26 May 2002).

# **Food Safety**

Food safety has received increasing attention in the Philippines due to a number of factors. First, a respectable proportion of the food establishments are of the small and medium scale, where strict implementation of food safety regulations is wanting. Second, poverty remains a major factor to reckon with, and consequently results to low literacy on food safety, especially in the rural areas. Third, consumers enjoy wider choices and lower prices under a more liberalized trade regime but are usually not so knowledgeable on the production, storage and handling processes of the available commodities. Fourth, the changing lifestyle of many Filipinos has forced them to rely on cooked food. Office work has taken so much time away from household chores, thus creating high demand for fast-food centers and even mobile canteens where food safety is questionable on several counts. Unfortunately, the absence of nationwide epidemiologic surveillance data makes it difficult to come up with concrete generalizations on the extent of food-borne illnesses due to food handling mismanagement.

The issue of food safety can also be traced to the growing of genetically modified (GM) crops. Many scientists, consumers and environmental groups raise questions on the safety of GMOs as food, aside from the likelihood of impoverishing local farmers and the potential degrading effect on the environment. Regulatory mechanisms for biosafety aspects at the research and development level in the Philippines have been recently established. However, regulatory mechanisms for commercialization and food safety aspects still have to be developed.

It has become incumbent on the Philippine government and the entrepreneurs alike to ensure that the public's concerns on food security and safety are acknowledged and responded to. The policy framework and implementing guidelines for food safety and hygiene in the country are in place. Government agencies involved in the food safety system in the Philippines include the Department of Agriculture (DA), Department of Health (DOH), Department of Trade and Industry (DTI), Department of Science and Technology (DOST), and Department of Interior and Local Government (DILG). While DA is responsible for monitoring and regulating the safety and quality of fresh, primary- and secondary-processed agricultural and fishery products, the DOH takes care of the highly processed foods. The DTI and the DOST both provide assistance, the former to local producers, exporters, importers and consumers of foods, and the latter in conducting researches for the improvement of food processing technologies. The DILG, on the other hand, is responsible for food safety implementation in local government units (LGUs).

Under the DA, the National Meat Inspection Commission (NMIC) is responsible for supervising abbatoirs' and meat establishments' operations, and inspecting meat hygiene. The Fertilizer and Pesticide Authority (FPA) is responsible for controlling the importation, manufacture, formulation, distribution, sale, transport, storage, labeling, use and disposal of pesticides and fertilizers. For public safety relative to the potential hazards of pesticide residues on food, the FPA has the mandate to establish a system of maximum residue levels (MRLs) applicable for both domestic and imported raw agricultural commodities. The Bureau of Plant Industry (BPI), on the other hand, monitors the pesticide residues on crops. The Codex Maximum Residue Limits (MRL) is the standard for the pesticide residue limit (Rola, 1989). BPI also issues the phytosanitary certificate for exports of fresh fruits and vegetables, seeds, nuts and spices.

The Bureau of Food and Drug Administration (BFAD) oversees the control of the manufacture and sale of processed foods, where the major concerns are adulteration and mislabeling of food products. The BFAD conducts laboratory analysis of processed products specifically in terms of formulation, food additives, contaminants, and other microbiological characteristics. To further assure consumers' safety and promote local products' competitiveness, the Agriculture and Fisheries Modernization Act (AFMA) provided for the creation of the Bureau of Agriculture and Fisheries Product Standards (BAFPS), for the implementation of product standards' use in the production, processing, distribution and marketing of agricultural and fishery products.

Food safety programs for all the stages of production and consumption have become a top agenda, particularly among commercial farms and food establishments. Many companies are now moving towards progressive total quality management systems that include the modern Hazard Analysis Critical Control Points (HACCP), Good Manufacturing Practices (GMP), Good Agricultural Practices (GAP) and other health/hygiene control and quality-related practices. HACCP, in particular, is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution and consumption of the finished product (The National Advisory Committee on Microbiological Criteria for Foods, 1997). It is designed for use in all segments of the food industry from growing, harvesting, processing, manufacturing, distributing, and merchandising to preparing food for consumption, that is, from "farm to fork".

Unfortunately, the nationwide adoption of health/hygiene control and quality-related practices such as HACCP has been slow, given resistance from the local food industry, which views the guidelines as too restrictive and costly (Layese, 2002). More progress, especially among small and less modern farms, is needed to effectively control the occasional occurrence of human health contaminants such as *Salmonella, Camphylobacter* and *E. coli*. Ocular observations would suggest that good hygiene and sanitation as required by law is usually not maintained especially in small business establishments. For example, government-controlled abbatoirs, which usually cater to the animals of small backyard raisers, are poorly run by local government units or LGUs and often do not meet the sanitation standards. Concerns about food borne diseases occasionally have arisen with outbreaks of diseases like the foot-and-mouth disease (FMD) and bovine spongiform encephalopathy (BSE) or "mad cow disease" that scare consumers. Although there are no reported cases of such disease infections among humans in the country, economic impacts could be seen on local producers' losses and decreases in trade/consumption of the products concerned (Imperial and Javier 1995).

At the consumption level especially among the more affluent and educated individuals, there is a growing consciousness on foodborne contamination from production, post-production and food handling malpractices. Producers and consumers are of the belief that the outbreak of *salmonellosis* in poultry products may come from contaminated feeds, misuse of veterinary medicine and poor farm management. In addition, poultry products can be contaminated during processing due to insect infestation, improperly sanitized equipment and inappropriate storage practices. *Salmonella* can thrive in many foods because of its simple nutritional requirements and ability to grow under aerobic and anaerobic conditions.

In principle, all food establishments are required to obtain a license to operate, which is renewable every year. When food establishments are found to be operating contrary to the guidelines set forth in the Good Manufacturing Practices (GMP), their operations suspended, and their license is either suspended or revoked. Food handlers are required to obtain a health certificate before they are employed.

The Local Government Code of 1991 provided greater autonomy to municipal and provincial governments as it transferred a big part of the functions of national government to the LGUs. Food hygiene control is administered at the national, regional and local (provincial/municipal) levels. However, LGUs were not equipped and trained to enforce the regulations. Therefore, the implementation of food safety policies must be addressed alongside capacity building challenges, especially of low-income LGUs.

Monitoring and evaluation (M&E) plays a central role in managing complex food safety concerns. Effective M&E systems can provide transparency among cooperating countries on the progress and results of public and private interventions in the various sectors of the economy. While the Pacific Economic Cooperation Council (PECC) may play a key role in starting such a system, the collection of M&E data should be internalized and initiated by participating countries. To facilitate the role of M&E, regular data collection on bio-security and bio-safety should include, among others: existing farm practices following a vertically integrated production system; feed and food processing facilities and practices; standards such as water availability and quality, temperature, storage and transport; wholesale and retail (restaurants and institutional food services) food protection programs; and household and office food handling and storage practices. In other words, PECC may consider providing the M&E framework and, ultimately the network, for institutional collaboration in the region towards a cost-effective and sustainable food safety program.

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