

# China's milk crisis: another disaster unleashed by the capitalist market

## Unregulated dairy industry

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The contamination of Chinese milk products with the toxic industrial chemical melamine is rapidly becoming a major national and international scandal. Already, some 53,000 infants have become sick in China after being fed on the adulterated products. At least 12,892 have been hospitalised, many with kidney stones, according to the health ministry on Sunday.

Tragically, four babies have died of kidney failure after being fed with infant formula made by the Sanlu Group, China's largest milk powder company. Sanlu is partly owned by the New Zealand dairy giant, Fonterra, with a majority shareholding by the Shijiazhuang city government.

Melamine was apparently added by the middlemen collecting milk from dairy farmers in order to boost the protein level so that manufacturers would buy the product. It is now clear that Sanlu had been aware of the problem since December 2007 but did nothing. The first known death took place in May 1. Fonterra representatives apparently found out about the contamination in early August and informed local officials who issued no recall of the company's products. Amid rising concerns, the New Zealand government finally raised the issue directly with Beijing on September 8.

Confronting mounting public anger, the Chinese government has been desperate to deflect responsibility. Last Monday, Li Changjiang, the head of the General Administration of Quality Supervision, Inspection and Quarantine since 2001, resigned. At the same time, the State Council—the country's cabinet—ordered an investigation and issued a statement blaming Sanlu, saying it “did not inform the government and did not take proper measures, therefore making the situation worse”.

In reality, the crisis is another manifestation of the utter incapacity of the unfettered market relations fostered by the Chinese regime to ensure the basic necessities of life for ordinary working people—in this case, safe food for their children. The overriding priority of private companies and state corporations, in collusion with Communist Party officials at all levels, is to maximise profits regardless of the impact on the lives and health of the majority of the population.

The number of babies and children affected is likely to be much higher than 53,000. Concerned parents are still queuing up at hospitals throughout China to have their children examined. Moreover, the product recalls, which now extend well beyond the

Sanlu Group, will have a heavy impact on millions of families who have been left without an alternative to infant formula. Working mothers are being forced to rush home to breast feed their babies. The BBC showed Hong Kong stores packed with well-off Chinese shoppers who had crossed the border to buy imported milk products.

The products of 22 companies have been subjected to recall, including three leading brands—Mengniu Dairy Group, Yili Industrial Group and Bright Dairy—that account for 60 percent of the market. Melamine contamination has also been found in liquid milk, yogurt and ice cream. The health scare has spread to Hong Kong and a number of Asian countries, where candy and instant coffee made with Chinese milk products have been found to contain melamine.

Even well-known global brands are now in doubt. Hong Kong's Centre for Food Safety found that the Dairy Farm Pure Milk produced by Switzerland-based Nestlé contained melamine, albeit at low levels. Nestlé defended the milk's sale, saying it was not intended for children but for adult consumers. Other infant formula manufacturers such as US-based Mead Johnson have said they use imported, not local, milk in their plants in China. These brands are too expensive for most Chinese families.

Melamine is a white crystalline powder generally used in making plastics and tanning leather. Last year, the US issued a major recall of pet foods after a melamine-tainted ingredient from China killed thousands of dogs and cats in America. A series of safety scandals involving Chinese-made goods led to the conviction and execution of the former chief of the State Food and Drug Administration, Zheng Xiaoyu, on a charge of taking bribes to approve fake drugs that killed dozens of people.

It is now obvious that the scapegoating of Zheng did nothing to address the underlying problems. Yet the Chinese regime is employing the same political methods to try to defuse anger over the latest scandal. At least 18 people, mainly milk farmers, have been arrested. Sanlu Group chairman Tian Wenhua has been forced to step down. Several local officials in Shijiazhuang, where Sanlu is based, including the city's Communist Party secretary, have been sacked.

These steps are unlikely to pacify angry parents, however. A man queuing at the Sanlu offices in Shijiazhuang city to get a reimbursement for the medical costs of having his child examined

told the Associated Press: “If such a big company is having a problem, then I really don’t know who to trust.”

Zhou Zhijun from Hunan province told Reuters that she took her sick daughter to hospitals at least three times between June and August before doctors diagnosed a kidney stone. The bill was huge by Chinese standards—20,000 yuan (\$US2,900)—but no one would pay it for her. “Also what if there are complications and problems later? Who will pay for that?” she asked.

The milk crisis has been accompanied by a wave of black humour circulating on the Internet, according to *South China Morning Post*. One blogger listed the dangers of daily life: “Get up early, clean your teeth with carcinogenic toothpaste, and drink a glass of expired milk with excess levels of iodine and contaminated with melamine.” Another told a joke about a man who goes a store to buy bread, but discovers there is no expiry date on the package. “Don’t worry, let me write one for you,” the shopkeeper says.

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The failure to enforce basic food standards is a direct result of the “market reform” championed by the Chinese regime for the past 30 years. It is not the first scandal involving milk products in China. In 2004, 13 babies died of malnutrition after being fed fake infant formulas that had no nutritional value. The infant formula industry is booming, however, with its revenue rising from \$US1.4 billion in 2003 to \$3.1 billion last year. The revenue from other dairy products doubled to \$17.9 billion in the same period. Foreign investors and banks have rushed into the lucrative sector, fueling its expansion and generating pressure for high returns.

Milk has not been part of the traditional Chinese diet. The dairy industry expanded along with the proletarianisation of the population. Many women are now working, often for long hours and under harsh conditions, making breast feeding impossible—even though hospitals have strongly advised mothers to do so. Many young mothers send their babies back to their rural home towns, where their impoverished parents feed the infants with cheap milk powder.

The *Financial Times* wrote on September 17 that most big companies in China have state-of-the art, automated dairy farms. However, such farms produce only a tiny fraction of the milk required. “The model farms seem to exist mostly for the benefits of foreign investors, including private equity funds and big banks such as Morgan Stanley and BNP Paribas, who have bought into some of the country’s largest dairy companies and helped them list on stock markets in Shanghai, Hong Kong and New York,” the newspaper noted.

Many small farmers rushed to produce milk as a new source of income. In 2006, China produced 32.2 million tonnes of milk—up from 8.6 million tonnes in 2000. The rapid growth in capacity soon outpaced demand and led small farmers to cut corners to survive. A number of firms contracted dairy farmers, giving the companies greater control over quality. However, many firms refused to do

so, in order to avoid having to pay farmers when demand slumped. Others bought their milk from dealers who aggregated milk from a number of farms, making the quality even more dubious. These dealers simply sold to whoever offered the highest price, while paying as little as possible to suppliers.

Fang Yan, a National Development and Reform Commission official, told Reuters: “The blind expansion in the dairy industry has resulted in ignorance about quality and also the use of melamine.” He said poorly-educated peasants used the same methods in raising dairy cows as they had previously used for cattle, resulting in milk with low-protein content. “When they sold the low-protein milk to dairy plants, they were rejected and as a result some added melamine to the milk,” he said.

Dairy farmers have already been hard hit by food scandals and an uncertain market. Now, many have been forced to dump their milk and sell their cows. In Shijiazhuang, farmers who used to supply Sanlu sought new buyers, only to find that the other major dairy corporations also have been hit by the scandal.

Farmers in Yangjiazhai village in Hubei province told the Associated Press that no one wanted their milk anymore. “It is the small farmers like us who helped make Sanlu the big company that it is. But now if Sanlu falls, who will help us?” one asked. Another farmer said he paid \$30 a day to feed his 12 cows, but had not sold any milk in five days. “I’m preparing to sell my cows. I can’t get by like this and who knows how long this will go on,” he said.

Sanlu was one of 2,152 companies granted a three-year exemption from inspection, on the grounds that its quality control was supposed to be so good that regulation was not needed. Chinese bureaucrats used the same “free market” arguments for self-regulation as their counterparts in the US and other countries: if consumers find one product unacceptable, they can always buy a rival brand. The latest dairy product crisis makes clear the devastating consequences for consumers and small producers of letting the market and the drive for profit rule, with the inevitable human cost, including the health of the next generation.



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