



**CHINA: THE BIG EXPORTER; ITS DARK SIDE;
THE CASE OF FAKE FOOD**

BY

MR. PHONGPAN SOMABHA

**A THESIS SUBMITTED IN PARTIALFULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF MASTER OF
POLITICAL SCIENCE IN INTERNATIONAL RELATIONS
FACULTY OF POLITICAL SCIENCE
THAMMASAT UNIVERSITY
ACADEMIC YEAR 2014
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THESIS

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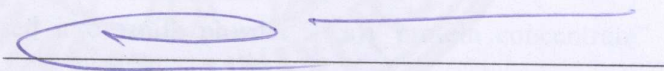
CHINA, THE BIG EXPORTER: ITS DARK SIDE; THE CASE OF FAKE FOOD

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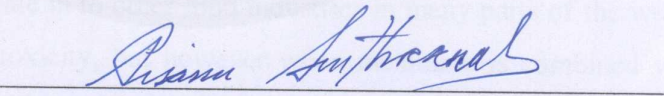
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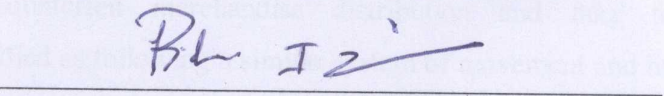
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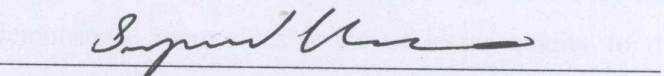
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ABSTRACT

China has long been considered as a turf for counterfeiting industry. Fake goods that are produced in China are sold throughout the entire world because the prices of the items purchased are incredibly low. That dominance has piloted China into a similar (product) based industry. An industry I shall term the fake food industry that undermining health and induce sickness to the consumers. The food market itself reaps a higher than normal marketability due to overpopulation and world food scarcity. The price of food goes up but still people demand for cheaper food. Melamine has been disguised into “milk powder”, “soy protein concentrate” and “gluten” (wheat flour) as a form of cheap ingredient for China’s food industry. It can also easily relocate or infiltrate in to other food industries in many parts of the world. Melamine alone is of low toxicity, but however when melamine is combined with cyanuric acid leads to crystal formation and subsequent kidney toxicity.

Instances of counterfeit merchandise distribution and fake food distribution have been identified as following a similar system of movement and have been recognized as having the same country of origin. The big difference is consumers who buy counterfeit goods are mostly aware that these products are faked due to the fact that they demonstrate themselves to be of lesser quality to their legitimate product and price comparatives. In the case of fake food, the distinction is more effectively hidden and unclear to the public at large. Consumers are simply unaware of the hazards associated with these products. This study also unearths

(2)

exactly why an individual country like China cannot ensure the food safety standard and content quality of its food products.

Keywords: Chinese Economic Boom, Globalization, Counterfeit Industry, Fake Food



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CHAPTER 1

INTRODUCTION

Food is the source of biological energy .We used to prepare food from scratch for our breakfast, lunch and dinner. We never had to worry about the purity of food because it was so authentic (organic) and safe to consume. The idea of what is considered to be ‘normal food’ has been utterly subverted thanks to the introduction of large scale food production.

As the post Industrial Revolution era moved population growth away from a rural dwelling society, new standards of living arose. Large scale production of all things gave us a sense of materialism. It created not just products for ‘a new improved society’ but with it came a new scale with which to mark and carry our progress. Over consumption occurs in today’s society due to the connection between the perceived positive outcomes of productivity in trade combined with the reasoning that we must continue consuming to stabilize our highly industrialized economies. This over consumption habit eventually gave rise to Free Trade and Globalization. As the modern world embraces Free Trade dependency we now see a large variety of foods available on supermarket shelves, already cooked and ready to serve.

Regrettably, much of this food that we are eating nowadays isn’t safe to eat, as reflected in this statement:

“We are constantly being told certain components of our food and what and how much we are eating are jeopardizing our health....as are controversies over food additives, its role of diet in children’s hyperactivity and in heart disease and cancer...”¹

This study is about food and food component production in China, and the factors involved with the modifications and adulterations we see when we examine what this thesis deems ‘Fake Foods’. Specifically, it targets and exposes the contamination of melamine into our foods. What is more, the results of these continued processes and how they have since had a tremendous impact on the World

¹ Howard R. Roberts, *Food Safety* (New York: Wiley, 1981).

Food Safety Standard. This 'Fake Food' being produced in China has accounted for a number of scandals across the globe.

In the year 2007, the New York Times reported on Chinese commercial behaviour.

“This is a country (China), after all, where lax regulation and a weak legal system have allowed unscrupulous entrepreneurs to blend industrial fluids into alcoholic beverages, to sell fake baby formula and to form counterfeiting factories that pump out everything from fake car parts to copycat cigarettes.”

Since the occasion of the largest pet food recall in U.S. history (2007), other similarly designed fake food products which are exported from China have risen to the attention of the World Health Organization. The consequences of these events brought about a new resolution of World Food Safety Standards in 2010 at the World Health Assembly meeting. i.e. Precedent: “Recalling resolution WHA55.16 on the global public health response to natural occurrence, accidental release or *deliberate use of biological and chemical agents* or radio-nuclear material that affect health, which noted that such agents can be disseminated through food- and water-supply chains”²

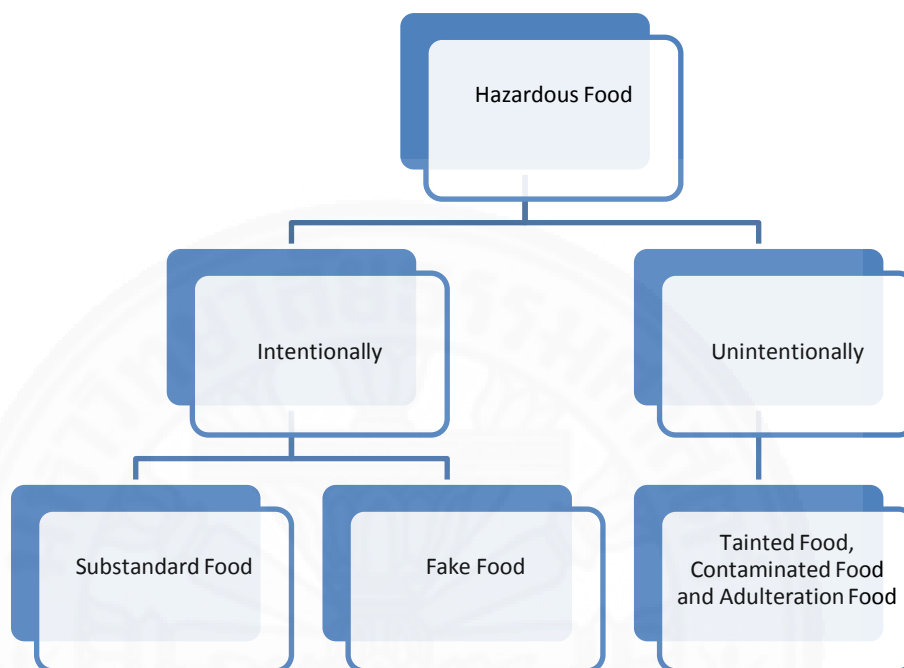
In 2010 and not in the least unsettling case; there was a news report of a China export of smuggled fake rice that contained melamine to consumers in Vietnam. In addition to the grave danger to the local food market in Vietnam at that time, people who live in adjacent areas in Southeast Asia may not have ever known whether they had any chance of consuming the contaminated food from China themselves once or perhaps many times. Such is the danger when irresponsibility meets large scale distribution in the world food market.

Here are some explanations about fake food and their related terms

- Hazardous food
- Fake Food
- Tainted food, contaminated food and adulterated food
- Substandard food

² “WHA63.3 Advancing Food Safety Initiatives,” World Health Organization, Western Pacific Region, accessed August 9, 2012, http://www.wpro.who.int/foodsafety/documents/docs/WHA63_3.pdf?ua=1.

Figure 1.1
Hazardous Food



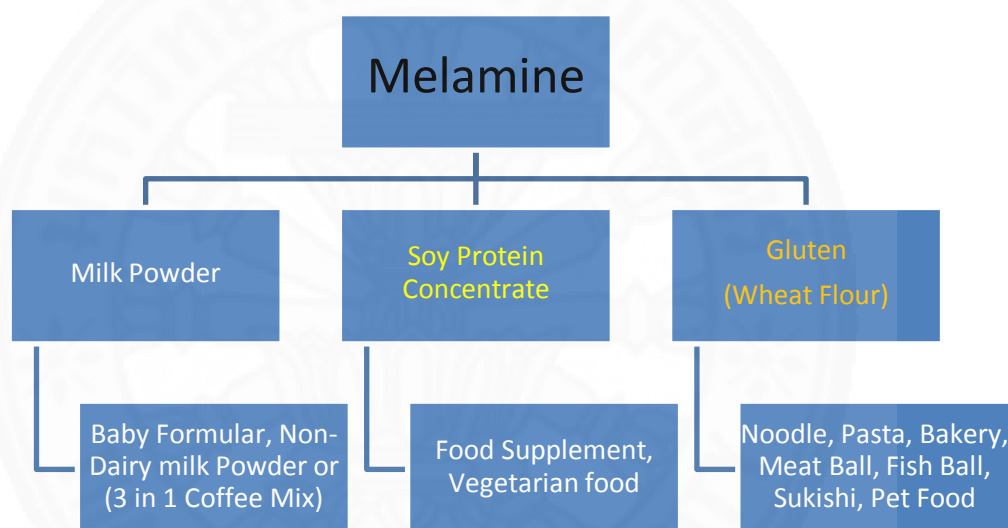
Fake Food is the combination of eatable stuffs and uneatable stuffs. Industrial chemicals are used to make a product look fresh and ‘ideally’ presentable to market. Substandard Food is a low quality food that is intentionally added as a filler or ingredient in order to fake the indication of food quality for sale. Tainted Food, Contaminated Food and Adulterated Food are foods that are unintentionally exposed to living organisms such as fungi or bacteria or non-living organism such as chemical substance that induces sickness to the human body. Hazardous Food is a term referring to all of the fake food explanations above.

There are many kinds and forms of “melamine added food” existing in the market as a form of “ready food” and also in the form of ingredients for making a variety of foods which are fillers for mixing with food and sale as food items. (These are examples of where Fillers have been found in known foods, milk powder, soy protein concentrate and gluten or wheat flour products.)

Melamine is a by-product of coal production in the north-western part of China. Melamine has been disguised as “milk powder”, “soy protein concentrate” and “gluten”³ (wheat flour). It is a cheap form of ingredient used in China’s food industry. China has become the world’s biggest exporter in terms of food and commodity. It therefore stands to reason that Melamine added fillers can be relocated from China to other parts of the world very effectively.

Figure 1.2

Melamine Transformed into Milk Powder, Soy Protein Concentrate and Gluten



Melamine is added to food in order to make foods greater in volume or appear high in protein value and has been prevalent in goods sold by the Chinese since the beginning of the 21st century. Melamine is a proven cause of kidney failure.⁴ Our bodies are subject to serious health risks whenever we consume something that our bodies aren’t naturally able to remove.

³ “โอกาสของผลิตภัณฑ์จากข้าว: อาหารปลอดโปรตีน gliadin และ glutenin (gluten free products)” [Opportunity of Rice Products: Protein free, gliadin and glutenin foods (gluten free products)], RYT9, June 4, 2010, <http://www.ryt9.com/s/expd/914082>.

⁴ “Melamine & Cyanuric Acid,” Google, accessed August 9, 2012, <https://sites.google.com/site/melaminecyanuricacid/>

To prove that the causality of fake foods from China is affecting international relations globally, I am using Globalization via different narratives to analyze the cyclical phenomena of Fake Food.

Globalization is a perceived path to greater prosperity and capability but also leads to consumerism. Consumerism, when coupled with overpopulation leads to the exploitation of resources, which can result in world food scarcity and higher (genuine) food prices. Thus, an imbalance of food supply and demand. This is where fake food emerges and is facilitated by the misuse of globalization's apparatus. This study examines the counterfeit industry when weighed against Free Trade economies, Consumerism, Globalization, Neoliberalism, Business perception and ethics, Corruption, Geopolitics and Social ideologies. Is China the world's leading producer of fake food or is this the global perception owing to a stratagem of anti-Rising China propaganda.

1.1 China Exports - Performance and Effects

1.1.1 Socio-Cultural and Regime

China is an enormous sized country with a huge population that has been ruled by a communist regime for nearly a century. The Politburo is a central nerve of the Communist Party. It has total power of deciding upon, installing and controlling policy in political, economic and socio-cultural matters within Chinese society. Politburo is the prime shaper of the direction of the Chinese economy. For example, initiating a state-run factory program for people to produce their own products for their community whilst withholding competition and controlling output within a designated special economic zone along the Chinese shorelines to stimulate a slow growth, long-term, economic trading pattern with outsiders.

We saw that in December 2001, China had officially entered the world community by becoming a member of the World Trade Organization. China has since become the fastest and strongest growing economic country in the world but before getting the title of "Economic super power" it had to normalize its ruling ideology of communism and the liberal ideology of democracy to achieve its prosperity.

Figure 1.3
Politburo Is the Central Nerve of the Chinese Communist Party⁵

Flow chart explaining how China is governed



The move from Feudalism to Semi-Socialism under Premier Mao Ze Tung's regime in preparation for Socialism was underpinned by a class system based on equality. This had the effect of making everyone in China equally poor as it was a closed economy with very little opportunity to trade.

The winds were rife with necessitating a further change and Deng Xiao Ping came into power. Soon after the Bamboo Curtain was re-opened, and the Chinese economy was slightly more open to outsiders. That was when a kind of neoliberalization emerged in the West around 1978-1979, thriving towards the East and China. "From most aspects of its diplomacy, the People's Republic of China was now more integrated, and more cooperative than it had been before. Yet there was a growing uneasiness about the implications of China's rise in power. Characterizations of Chinese diplomacy in the policy and scholarly worlds were less optimistic about China's commitments to regional and international norms."⁶ The communist ideology in China had transformed back to what China had been doing centuries earlier across the seven seas for trading purposes. The Silk Road route from China to

⁵ See Annex 1. Politburo

⁶ Alastair Iain Johnston, "Beijing's Security Behavior in the Asia-Pacific: Is China a Dissatisfied Power," in *Rethinking Security in East Asia: Identity, Power and Efficiency*, ed. J. J. Suh, Peter Katzenstein and Allen Carlson (Stanford, CA: Stanford University Press, 2004), 34.

Constantinople is a good depiction. The expansion of trade created some compromise of its Mercantilism ideology.

To understand the narrative of neoliberalism I use the description of Richard Reitan “In terms of how neoliberalism has been theorized (by economists Friedrich von Hayak and Milton Friedman, and by members of the Mont Pelerin Society); *its opposition to state planning, socialism and Keynesianism (the ideas of state-interventionism or state command over the economy); specific policies for liberalizing the economy and downsizing government; and its objectives* (meaning, to maximize productivity and profitability through the removal of obstacles of trade and consumption).”⁷ The bamboo walls of China were vanishing through its amended trading policy with the outside world. There is a Chinese proverb “to end poverty, build a road”. Infrastructure was fundamental to China’s economic reform from the late 1970s onwards.⁸ Premier Deng Xiao Ping decreed the initiative of big wave reforms in China, responding to the U.S. neo-liberalism pressure happening around the globe at that time.

In the past, China’s output was limited to the sole responsibility of providing food for its entire population (over a billion people). Just only to survive. But, soon after trade liberation schemes had engulfed China, Chinese’s food security policy has shifted to a money issue, from social security (society oriented) to household security (individualist). The Chinese people were struggling for an economic driver to perpetuate their daily lives. They had to be willing to work in a sweatshop factory or in low paying labour intensive jobs for food and money, yet everyone wanted to make their own fortune. Meaning, they would do whatever it took to reach merely the verge of prosperity stage. For example, “Prior to the economic reforms, the people of Fujian Province had been fairly homogeneous when it came to social class and spending capacity. But as the region became a center for manufacturing and trade (in 1984, the southern Fujianese city of Xiamen and 14 coastal cities were designated to Special Economic Zones), some actually did do

⁷ Richard Reitan, “Narratives of Equivalence, Neoliberalization in Contemporary Japan,” *Radical History Review*, 112 (2012): 43-64.

⁸ Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, 2nd ed. (New York: Penguin Books, 2012), 425.

better than others and suddenly those others were able to acquire material amenities, from refrigerators to televisions to automobiles. It became possible to distinguish those who had prospered in the new climate from those who had not.”⁹

It would be fair to say with some certainty that with such a lengthy period away from global trade and the timing of its new trade policies, joined with early success in the new outsider trade model, the motivations of the common man moved into acquisition mode at a sharp rate. When the agricultural and farming industries had shifted into the modernization era, China demonstrated a more superior ability to produce food and commodity, thus starting to fulfill both its social needs and its need to sell exports with all the surplus production to neighboring countries. This was occurring at an early period of developing individualist lifestyle. Life surely gets better.

When we look at global trade at this time, (1970 – 1985) China and in fact Asia as a whole shared a fairly similar path in terms of traction in trade and standard of living. No tight rules and regulation for customs existed. At that time, Chinese product did not meet the U.S. and European standard. But after the world economy had collapsed in the ensuing years, China jump started the economy in 1978-1979 and the substandard goods made in China were demanded by the low and the middle class in the west and the rest of the world. That was the initiative of wealth and prosperity for China whereby producing “Made in China Products” would supply the poor world population at the downturn of the world economy.

⁹ Nils Gilman, Jesse Goldhammer and Steven Weber, *Deviant Globalization: Black Market Economy in the 21st Century* (New York: Bloomsbury Academic, 2011), 31.

Table 1.1
China's Trade with the World, 2001-10 (\$ billion)¹⁰

Notes: *Calculated by USCBC. PRC exports reported on a free-on-board basis; imports on a cost, insurance, and freight basis.

Source: PRC National Bureau of Statistics

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7	1,201.6	1,577.9
% change*	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.5	-16.0	31.3
Imports	243.6	295.2	412.8	561.2	660.0	791.5	956.0	1,132.6	1,005.9	1,394.8
% change*	8.2	21.2	39.8	35.9	17.6	19.9	20.8	18.5	-11.2	38.7
Total	509.7	620.8	851.0	1,154.6	1,421.9	1,760.4	2,173.7	2,563.3	2,207.5	2,972.8
% change*	7.5	21.8	37.1	35.7	23.2	23.8	23.5	17.9	-13.9	34.7
Balance	22.6	30.4	25.5	32.1	102.0	177.5	261.8	298.1	195.7	183.1

The persevering of economic reform in China was rolled out in a meticulous manner that would create benefits for the next generation of Chinese. Here is a viewpoint as published in the “China Pictorial” magazine, volume 769. “In China, people born between 1990 and 2000 are dubbed “Post-90” generation. Unlike their seniors, these young people were raised in an environment with more freedom, opportunity, diversity and wealth, thanks to the accomplishments of the reform and

¹⁰ The US-China Business Council, accessed January 17, 2012, <https://www.uschina.org/statistics/tradetable.html>.

opening-up policy. Therefore, they are believed to hold a very different attitude towards life and work.”¹¹

1.1.2 The Export Performance

According to the U.S. Department of Commerce; The U.S. International Trade Commission reported that in the year 2001, China’s trade with the world via exporting goods and commodities went from \$266.1 billion into double digits of growth annually each year, year after year to a ceiling of \$1,577.9 billion in the year 2010. The growth rate in 2001 compared with the year 2010 is 6.8 and 31.3 percent respectively. In the year 2001 alone, China had exported goods and commodities to the U.S. for over \$102.3 billion and rose in export trade continuously until achieving a massive \$364.9 billion in the year 2010 or a 23.1 percent growth rate comparing the figures to the U.S.-China trade figures in the year 2000. (See Appendix E)

Interestingly, the US state department of that period officially concluded that China had made a “good faith approach” to meeting with WTO entry requirements. The Government Accounting Office recently reported that China had “shown considerable determination” to put in place the domestic legal infrastructure required by WTO, Colin Powell went on record as saying: “China is no longer an enemy of Capitalism”.¹²

To reassure export performance, China developed a maritime transportation capability sufficient to supply the world with its high capacity yields. China has built an enormous fleet of cargo-ships, sea-liners and oil-tanker vessels. They are larger than anything the U.S. has ever built. And with it, the most modern seaports, China are also amongst the world’s top forwarding nations. “China has especially strengthened the container transport system, concentrating on the construction of a group of deep-water container wharves at Dalian, Tianjin, Qingdao,

¹¹ Li Huipeng, “Generation’90 Comes of Age,” *China Pictorial*, 769 (July 2012), 56.

¹² Johnston, “Beijing’s Security Behavior,” 43.

Shanghai, Ningbo, Xiamen and Shenzhen, and thus laying the foundations for China's container hubs.”¹³

The oil consumption ratio compared to the rapid economic growth of China is a good indicator to evaluate China's export performance. In the year 2010, The PRC General Administration of Customs, China's Customs Statistics office showed the calculation of China imported Mineral fuel and oil was valued at 188.4 million dollars which was 52.1 percent compared to the year 2009. (in the Appendix E)

Table 1.2.
China's Top Exports, 2010 (\$ billion)¹⁴

*Calculated by USCBC

Source: PRC General Administration of Customs, *China's Customs Statistics*

HS#	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	388.8	29.1
84	Power generation equipment	309.8	31.4
61, 62	Apparel	121.1*	20.5*
72, 73	Iron and steel	68.1*	44.1*
90	Optics and medical equipment	52.1	34.0
94	Furniture	50.6	30.0
28, 29	Inorganic and organic chemicals	43.2*	34.9*
89	Ships and boats	40.3	42.1
87	Vehicles, excluding rail	38.4	37.5
64	Footwear	35.6	27.1

¹³ Chinese Government's official Web Portal, accessed September 19, 2012, http://english.gov.cn/2006-02/08/content_182525.htm.

¹⁴ The US-China Business Council.

Top Export Commodities from China in the year 2010 has been shown to have changed from the year 2009 somewhat. The export of electrical machinery and equipment has gone up 29.1 percent compared to the year 2009, power generation equipment has moved to 31.4 percent in exporting scale, Iron and steel exported was more than 44.1 percent compared to the year before, and the inorganic and organic chemicals lifted to 34.9 percent. The ship and boat industry also lifted its sale up to 42.1 percent.

In the year 2012 China became the top trade partner to the world. “China has surpassed the United States as a trading partner for much of the world, including U.S. allies such as South Korea and Australia, according to an Associated Press analysis of trade data. As recently as 2006, the U.S. was the larger trading partner for 127 countries, versus just 70 countries for China. By last year the two had clearly traded places: 124 countries for China, 76 countries for the U.S.”¹⁵

An example of the agricultural production that had driven the export performance of China in the year 2012 was in Xuwen. Xuwen is a city of western Guangdong Province in South China which has skyrocketed its yield and supply to the world market. “Xuwen pineapples perform well in the market due to their high quality. According to locals, the province annually produces more than 600,000 tons of pineapples, accounting for nearly a third of the nation’s total output. About 80 percent of local pineapples are exported to more than 40 countries in North America and Europe, with the rest supplying the domestic market. Such an achievement is enough to ensure local farmers lead a prosperous life.”¹⁶ However, the economies of scale and the law of diminishing returns play a role in agricultural production in China more and more each day. The Chinese farmers pump out agricultural products from their vast arable land to supply the local demand and their international markets. They used the economy of scale method to multiply the product’s volume. They turned a farm into a factory by installing machinery, labour forces, water and fertilizers in order to gain more profits as quickly as possible and they’ve done an impressive job

¹⁵ Godfree Roberts, “China Pass US as Top Trade Partner for Much of World: Changing Lives Globally,” *The 4th Media*, December 3, 2012, <http://www.4thmedia.org/2012/12/03/china-passes-us-as-top-trade-partner-for-much-of-world/>

¹⁶ Wang Xiaoyi, “Pineapple Sea,” *China Pictorial*, 769 (July 2012): 67.

so far. The yields are bountiful. But somewhere in the near future, their production will decrease in terms of volume and profits according to the law of diminishing returns that show over a certain period of time, the raw materials input into the farm production will not give out the same output as the earlier stage of production but rather decrease.

1.1.3 The Effects after China Became the World's Biggest Exporter

The big wave of economic transformation in Asia, especially in China, had started shaping its character and direction outwards from agriculture to commodities producer and international trader from about the mid-80s. "A defining characteristic of all the Asian tigers (South Korea, Taiwan, Singapore, Hong Kong, China, Malaysia, Thailand, Indonesia and Vietnam) has been their speed of transformation. In 1950 they were still overwhelmingly agrarian and had barely started the process of industrialization. Eighty-five percent of the population of China worked in agriculture, but today the figure is hovering around fifty percent. A similar story can be told in terms of the ratio of the countryside to the cities. The Chinese urban population represented 17 percent of the total population in 1975 and is projected to be 46 percent by 2015."¹⁷

In 1950, economists believed that it was impossible for a developing country to enter the elite club of the advanced nations and it seemed to be that way. In the 20th Century, China was almost bankrupt by the result of reparation payments. Premier Mao Ze Dung was restoring the country through a campaign of issued land re-distribution. The creation of large communes and peasant taxes marked a huge turnaround in China's fortune as a country and through the course of the 20th century, the open arms policy of Premier Deng Xiao Ping to the international business community made China economically airborne. This transition and resulted economic take off created the paradox of globalization.¹⁸ China became a successful economic country either by the paradox of globalization or by the brilliant state planning of the Chinese Communist Party. Inevitably, it would affected the world economy in such a

¹⁷ Jacques, *When China Rules the World*, 121.

¹⁸ *Ibid*, 119 and 113-114.

dramatic way that economists and scholars would have to re-draw their picture of the world economy. From the triumph of Western, market-led value into Asian market-led value, the so called “Tigers” of Asia enjoyed some of the highest growth rates in the international economy.¹⁹The consequences of globalization did not occur only in Asia but were shaping the new notion about the world economy. The integration of countries such as Brazil, Russia, India and China could also shift their role in the international economy.

“It is estimated that by 2032 the share of the global GDP of the so-called BRICs, namely Brazil, Russia, India and China, will exceed that of the G7, namely the US, Canada, the UK, Germany, France, Italy and Japan. And by 2027, if not rather earlier, it is projected that China will overtake the United States to become the world’s largest economy.”²⁰

A positive side effect of a booming Chinese economy is that, when their (equivalent) counterparts across the equator (Europe and the U.S.) are in the financial doldrums, the Chinese economy continues to keep the world markets and movement of goods viable.

“China will soon be home to half the world’s billionaires, The Chinese economy is booming at a blistering pace. It is driven largely by the Fudai: the superrich who call the superpower home. Many are only just in their forties. From building 30-storey towers in just 14 days, to amassing a luxury fleet of sports cars or a private jet - China's million millionaires and 600 billionaires are helping to change the country's landscape. And China's mad rush to urbanization is only helping these elites get richer and richer.”²¹

With China becoming the world’s top trader in 2012, it has also had tremendous effects on geo-politics “In the most abrupt global shift of its kind since World War II, the trend is changing the way people live and do business from Africa to Arizona, as farmers plant more soybeans to sell to China and students sign up to

¹⁹ John Baylis, Steve Smith and Patricia Owen (eds.), *The Globalization of World Politics: An Introduction to International Relations*, 4th ed. (New York: Oxford University Press, 2008), 11.

²⁰ Jacques, *When China Rules the World*, 163.

²¹ “The KaChing! Dynasty,” Aljazeera, April 10, 2012, <http://www.aljazeera.com/programmes/101east/2012/04/20124315114483530.html>

learn Mandarin. The findings show how fast China ascended to challenge America's century-old status as the globe's dominant trader, a change that is gradually translating into political influence."²²

China as a rising global power has become more obvious in the 21st century. The wholesaling ideology of the Chinese has created "China prices phenomenon". China's double digit growth rate fueled the growing appetite for the world's commodities which has positive and negative impacts on the world economy, firstly, it raises the price of commodities such as oil, secondly, it decreases the price of consumer products and thirdly, it has broadened market opportunity for everyone.²³

The two prominent reasons as to why China was transformed into the new global economic power are "*China prices phenomenon*" and "*Chinese's buying power by its massive demographic and as a world supplier*".

"The beginning of the twenty-first century marked the moment when China arrived in the global mind. Until then, for most of humanity, it has largely been a story of a faraway country of which people knew little about. Now within a little more than a decade, its influence has become real and tangible, no longer a set of statistics or the preserve of policy-makers, but now dramatically impacting popular consciousness around the world. Television programs and newspaper articles on China have become commonplace. There were two main drivers of this global moment of China-awareness. First, as China established itself as the workshop of the world, "made in China" goods began to flood global markets, from Wal-Mart in the United States to Jusco in Japan, almost overnight reducing the price of a growing range of consumer goods, creating the phenomenon known as "China prices". Not surprisingly this engendered a feel-good about China's rise, albeit tempered by the realization that many companies and jobs were migrating to China to take advantage of the much cheaper cost of manufacturing. Second, China's double digit growth rate fuelled a growing appetite (of the Chinese population) for the world's commodities, which has the opposite effect – inflation rather than deflationary – of big and persistent hikes in the prices of most commodities, of which oil was the most visible

²² Roberts, "China Pass US."

²³ Jacques, *When China Rules the World*, 409.

and dramatic. Unless you were a major commodities-producing nation, this induced a feel-concerned factor, a growing realization that there was a downside to China's rise. The impact was, thus, felt in different ways around the world: for commodity producers in Africa, Latin America and elsewhere, it primarily meant higher prices for their exports, thereby stimulating economic growth, combined with cheaper manufactured goods; for the west and in Japan it meant a large fall in the price of consumer products and clothing, then spiraling commodity prices; for East Asia it meant a vast new market for their products and low-priced "China goods" at home. Whatever the price effect, and for most of the world it has so far been beneficial, China's arrival on the world market ushered in a new kind of global awareness of China: it marked the foothills of China's emergence as a global power."²⁴

The world is a big market for Chinese products and China is a big market to the world at the same time. The thriving Chinese economy has impacted most commodities and products in the world market that enter and vie up against the price competitive China in the business world. First, the price of consumer products and clothing are getting lower globally to compete with the China Price phenomenon and Second, the world's commodity products are getting higher in value because of the buying power of China as the world supplier that inevitably need to import numerous amounts of raw materials from other countries in tandem with the higher demand from millions of the newly rich Chinese for finished products from aboard.

China as a super high speed growth economy country will soon overtake the world as the most dominant nations like the United State of America in a blink of an eye. China will not only become the world's economic leader through productivity but it will also dominate the world economically when China shifts its renminbi into the world major reserve currency as the US. Dollar currency will eventually become too unstable. In the contest of modernity, China will not become more western but contrarily, the world will absorb Chinese culture into their way of life.²⁵

Globalization empowered traders across the globe were able to shrink space and time through the most advanced apparatus, Information and Communication Technology (ICT) but the effects of lifting and loosening custom's rules and

²⁴ Jacques, *When China Rules the World*, 409.

²⁵ *Ibid.*, 631.

regulations made the illicit trade flourish. A news report from BBC reveals how China envelops the tainted food crisis. It has shown the effect of China's free trade in that "The speed of China's dynamic performance in the global export market has not been matched by the growth of a countrywide regulatory infrastructure."²⁶ The result as we know so far is the flourishing of counterfeit products, which has a tremendous effect on Chinese's trade with the world market. Market forces also play a crucial role in counterfeiting industries. Moises Naim, the editor of Foreign Policy magazine cautions, "These groups are motivated by large profits obtained by exploiting international price differentials (that effected the cost of production), and unsatisfied demand or the cost advantage produced by theft."

In retrospect, with its will, and its own unique conditions China has been lucky. It has become an Economic Super Power and has also formed a new ideology or model of how to govern such a vast country with such a large number of populace to achieving prosperity. China has used its people resources and all of its other natural resources such as land, iron ore and all sorts of minerals, especially, coal to supply its domestic demand and also for exporting to the world.

China has played and is playing a role as a giant global buyer in terms of having natural resources from all parts of the world to maintain its overarching goal as the major exporter in the world. A goal for China that became realistically foreseeable just a couple of decades ago. China has not only become a giant global buyer, but China has also played a vital role in mass scale investing. In the world of agriculture, China has invested in soy and grain plantations in Africa and elsewhere for the purpose of supplying its large scale of food industry that feeds China and abroad.

Given all of this, we must address the fact that with the explosive exporting performance seen in china, there is a darker parallel trade prospering and there are numerous direct and indirect, quite devious actions and effects associated with counterfeit merchandises arriving in markets via the 'shipping super highways' that are created by the globalization orders which are now home to China.

²⁶ Smith-Spark, Laura, "Chinese Product Scares Prompt US Fears," BBC news, July 10, 2007, <http://news.bbc.co.uk/2/hi/americas/6275758.stm>.

CHAPTER 2

LITERATURE REVIEW

2.1 Aspects from the Literature Review

“The Globalization of World Politics,” John Baylis, Steve Smith and Patricia Owens

These scholars reference the shocking attack that happened on the 9th of September 2001, or ‘9/11’, as an example of globalization. A worldwide phenomenon that strings together global consequences due to globalization.¹ I think this catastrophic incident and its commercial effects vividly show possible end results of the globalization era for commercial activity in a globalized society. The writers described globalization as a new world order that standardized states and non-state actors to follow the same and only set of ideology, or it is a description of today’s interconnected world, in other words, globalization is a phenomenon of this dynamic world.

In my opinion, globalization is an action that has a vast and fast impact on people, states and the world resources through the means of globalization’s apparatus.

Globalization’s apparatus is a super stage of the world infrastructures that any form of transportation, be it via road, boat, rail, air or even via cyber route are upgraded and interlinked in order to be able to transfer people commodity or information (culture, knowledge and technology) speedily and fluidly.

Politicians, elites and businessmen often use this set of ideology to complete their own purposes which often has vast and fast impact on people and the world resources. They occasionally use globalization as an excuse to normalize their invasion of trade with as yet ‘non-globalized’ countries. “...others see it as but the latest manifestation of the growth of Western Capitalism and modernization and some see it as representing a fundamental transformation of world politics...”²

¹ John Baylis, Steve Smith and Patricia Owen (eds.), *The Globalization of World Politics: An Introduction to International Relations*, 4th ed. (New York: Oxford University Press, 2008), 2.

² *Ibid.*, 3.

Either globalization is a world order issued by a group of elite states to harmonized free trade dependency or it is a phenomenon of the dynamic world described by theorists or a newest paradigm of the world's political economy. It depends on how you look at it. "Globalization, a notion that had barely been used before 1989, but has since come to be employed ever more regularly to define an apparently new system of international relations. Globalization, however, seems to mean different things to different theorists. Thus for one school it was assumed to be undermining borders and states – quite literally abolishing the Westphalian system. Others took a less cataclysmic view. Globalization, they agreed, was providing a different context within which international relations was now being played out. But it would be absurd to conclude that it was doing away with the state or destroying the underlying logic of anarchy."³

"Globalization has produced many winners and a large number of losers, but there would appear to be no escaping its competitive logic."⁴

**"The Condition of Post Modernity: The Origins of Cultural Change,"
David Harvey.**

Globalization has two faces. This is the perception I was left with after reading the book "*The Condition of Post Modernity: The Origins of Cultural Change*", which was written by David Harvey.

In my opinion, the misconception of the North in judging the people from the South that needed to improve "Human Development" was actually a facade of the Development Project and in fact a political intervention by the West. There were hidden agendas in play, behind the word "development". It was clearly an exploitation of human resources and natural resources by the West. Human Development is important for national development in many developing countries. However, the focus of the real application of the term 'human development' was mainly for serving the capitalism system, not for the individual's sustainable development and that of

³ Michael Cox, "From the Cold World to the War on Terror," in *The Globalization of World Politics: An Introduction to International Relations*, 4th ed., eds. John Baylis, Steve Smith and Patricia Owen (New York: Oxford University Press, 2008), 74.

⁴ *Ibid.*, 75.

developing countries. It was actually mandated by the Capitalism of the West which created Consumerism and then afterwards called this activity “Globalization”. That was the origin of cultural change. This history may reflect that developing countries were influenced by the West in a different way than China is. This is because China has its own ways of education and promotion of human development.

“Development Studies,” Jeffrey Haynes

Jeffrey Haynes viewed Globalization as a systematic political project similar to neoliberal antagonist, Professor David Harvey, as he described in the first paragraph of his preface in the book *“Development Studies”*. “Development first emerged as a subject area in the second half of the twentieth century. After the Second World War the scholars and practitioners sought to study the causes of poverty and underdevelopment in a more systematic and sustained way than had ever been planned previously. Now the substance of development studies - especially in relation to the developing world or the south – focuses mainly on poverty reduction and improving human development. This was/is an important dynamic. One that cannot be understated as the gap between rich and poor grows seemingly ever wider.”⁵

“Food Safety,” Howard R. Roberts

The book titled *“Food Safety”*, written by Howard R. Roberts explains the question that I have asked myself “Can we call melamine a food additive?” “Is it safe to consume?” Is its use the same as the controversial Monosodium Glutamate (MSG)? MSG was invented by the Japanese and the ongoing debate over its use still has no absolute winning argument, as to any direct side effects to our human health. Food Additives as a health issue has effected human society for ages.

From the Neanderthal era to the Homo-sapian era and into modern times. Toxicology studies show prehistoric Homo sapiens deduced that unknown plants and fruits were safe to eat if they were consumed without obvious harm to other animals consuming them....Actually, Neanderthal people, who were dependent on hunting, fishing and plant collecting for their food....used the earliest food additives in known

⁵ Jeffrey Haynes, *Development Studied* (Cambridge: Polity Press, 2008), vii.

record. They used salt and smoke and others were discovered and used later on when fermentation was discovered. It was then that the first sample breads, beers and wines came into being. Despite improvement in variety, taste and palatability, nutrition and food contamination problems existed....Spices were also among the first food additives used and were important not only to enhance the taste of foods, but also to disguise the taste of spoiled foods.

The concern of food safety in the 20th century was product to various legislations. The pure food and drug law of 1906 (of the US. Food law) reflected the simple belief of that time that food was either pure or adulterated....In 1958 Amendments (of the US. Food Law) not only gave the burden of demonstrating the safety of food additives to food producing industries, but it also installed features of its law that contribute to today's concern about food safety. For example the so-called Delaney Clause, which forbids the use of any food additive shown to induce cancer in human or animals.”⁶

“Conference of the Network of East Asian Think-Tanks,” Professor Pisanu Sunthraraks

Professor Sunthraks offers a factual synopsis regards to the fake food industry. Pointing towards the correlation between a burgeoning trade network and the unequaled rapid expansion in China's rise to power. He says Chinese migrations are the leading factor that fosters and escalates the distribution of fake food industries from China to the world, taking the stance that Transnational Criminology and Chinese syndicates have been playing their supportive roles (at 2nd Annual Conference of the Network of East Asian Think-Tanks,)“the Chinese connection with tentacles spread of all over the various regions of the world, thereby providing an extensive network for conducting movements of money, people and drugs, not to mention all types of contraband goods without too much difficulties.”⁷ The Chinese triads who are now rooted in all major cities around the world, function themselves as

⁶ Howard R. Roberts, *Food Safety* (New York: Wiley, 1981), Chapter 1.

⁷ Pisanu Sunthraraks, “Transnational Crime” (paper for presentation at 2nd Annual Conference of the Network of East Asian Think-Tanks, Bangkok, August 16-17, 2004).

a service provider, facilitate the Chinese counterfeiters and the outlaw businessman in order to avoid taxation and transferring the illicit merchandises, people and money in to the targeted countries. They use all kinds of globalization's facilities to accomplish the illegal tasks as if it was their own highway used for the underworld business.

“Deviant Globalization,” Nils Gilman, Jesse Golhammer and Steven Weber

Coined as “Deviant Globalization” the books’ authors state “what makes deviant globalization unique is its ability to satisfy demand for goods and services that are otherwise illegal or unavailable in the formal, licit economy. What created this economic opportunity? We did! When we codify and institutionalize our *moral outrage* at selling sex by making prostitution illegal, for example, we create a market opportunity for those who would kidnap women and smuggle them into sexual slavery. When we decided that methamphetamine is a danger to public health and prohibit it, we created opportunity for drug dealers who delight in the high profit margins as they fill their illicit orders. When we assemble lists of endangered species in an effort to protect global biodiversity, we create *a’ la carte* menus for daring global gastronomes and collectors. Every time a community or nation, acting on the basis of their good faith and clear moral values, decides to “just say no”, it creates opportunity for arbitrage. Deviant globalization is the ultimate arbitrage activity, growing at the intersection of ethical difference and regulatory inefficiency. Wherever there is a fundamental disagreement about what is right as well as a connection to the global market, deviant entrepreneurs are there to meet the unfulfilled demand.”⁸ It has in fact narrowed down others opportunities to make it a monopoly for the illicit merchandisers and corrupted officials. Gambling debt is a good example for this.

“Poorly Made in China,” Paul Midler

In this book, Paul Midler described the character of Chinese traders as gathering like magnets around the globe to pull together one marketplace. He explains

⁸ Nils Gilman, Jesse Goldhammer and Steven Weber, *Deviant Globalization: Black Market Economy in the 21th Century* (New York: Bloomsbury Academic, 2011), 3.

how China has become the biggest exporter in the world. “Chinese industrialists were nothing if not optimistic, and they gave out samples like so many messages in a bottle. Just as fate brought me to his doorstep who knew in whose hands this sample of his might wind up. Importers were coming to China in big numbers and one of the questions many were asking was: Why China? Why weren’t importers looking for other markets? The answer most often given was the low cost of labour but that was only the part of it; factory labour in other economies was actually cheaper. *Speed* and *convenience* were two other important areas where China performed particularly well. Chinese factories could take any product and move it quickly into production (“All we need is your sample”), and they showed an incredible willingness and enthusiasm for getting a relationship started. Many of those new importers streaming into China did not necessarily have prior experience in international trade. To do business in China required no special business license or certification. Manufacturing required no tests or qualifications, and traders were arriving—and often staying—on simple tourist visas that could be extended without difficulty. Barriers to entry were lowered, and the introduction of certain technology tools were helpful. Networked computers made it easier to find factories. Websites like Alibaba.com were providing a boost to factories that were previously unknown. Minimum order quantities were lowered, also, so that less volume was required in order to get a project started.”⁹ Paul Midler also sees that the other factors such as finding five star hotels that cost less in price than anyone expected, the lower cost of tooling and free assistance of production set up, and the red-carpet treatment and “they treat me like a king” courtship rituals of Chinese business all play roles in the incredibly fast growing Chinese industries.

“China’s New Creative Age,” Hewlett Johnson

“*China’s New Creative Age*” is a book written by Hewlett Johnson. This book described China in the time of its transitioning of power from feudalism to socialism in the mid 1950’s. The re-engineering of social structure in China at that time, made the proletarian class happy with the knowledge that they were at the border of prosperity. Everybody seems to have an opportunity to access social

⁹ Paul Midler, *Poorly Made in China* (New Jersey: John Wiley & Son, 2011), 20-22.

welfare, education, medication and would receive their yield from their pieces of land without giving it to the landlord as the system used to dictate. China was fully developing its social infrastructures in preparation for socialism. Nationalism in China at that time was fully disciplined among the mainland Chinese. Everyone admired and followed the social rules that were designed under Premier Moa Ze Dung who was seen as China's great leader.¹⁰ This book portrayed *China* in a similar advent of neoliberalism that rushed China into their period of industrialization (20th century). They were fighting the same war at the same time, the war to prosperity. Contrarily, the big different of the time of the East/West advents is that in China, orthodox socialism was not able to pave its ways to prosperity as promised. However, the new model of Chinese ideology born in the 21st Century ultimately shaped the new standard of living not only for the Chinese people in China but for the people of the world as consumers.

“When China Rules the World,” Martin Jacques

The book “*When China Rules the World*” written by Martin Jacques described China as an economic tycoon country that will overtake the world dominant nations like the United State of America in the blink of an eye. He sees that China will not only become the world's economic leader but it will also control the world when China transfers their renminbi into the world major reserve currency in place of the US. Dollars as a result of its instability. For the contest of modernity, he foresees that China will not actually become Western but on the other hand, the world will actually begin to absorb Chinese culture throughout their daily lives.

“There is a Chinese saying to end poverty, build a road”. Infrastructure was fundamental to China's economic reform from the late 1970s onwards. The above quote taken from “When China Rules the World” shows how the Chinese understand the benefits of their well-founded trading route and the interaction of trading. The Chinese put this infrastructure in place as a crucial objective in their national development project and they built it on a grand scale quickly, which was subsequently found to match all of the basic requirements of the World Trade

¹⁰ Hewlett Johnson, *China's New Creative Age* (London: Lawrence & Wishart, 1953).

Organization (WTO) to become a member of the acknowledged global trade apparatus. This book portrays the chronicle of China's transformation in terms of economy and regime up until the future prediction and soon to be fact that China will become the world's richest nation on Earth.

In part I: *The End of the Western World*, Author Martin Jacques writes about the rise of the West, China's embarrassment, then modernity contested which is the backdrop for the knowledge eventually acquired that shaped the new China in this the 21st century. In part II: he explained about the age of China and how China became an Economic Superpower. Socialism with Chinese principle became much clearer upon the disintegration of the Soviet Union in the years after 1989. The author explains that, the Chinese ruled its vast country by using the socialism regime influenced by Marxism, but with the Chinese ways of thinking, Socialism became different and it shaped socialist ideology into a Chinese version. It became socialism with Chinese principles that did in fact open its arms to policy in accordance with neo-liberalism ideology. "The approach of the Chinese leadership, following Deng's emergence as the paramount leader, has been built on caution and pragmatism, notwithstanding the obvious radicalism of the reform process. They shunned shock treatment and grand gestures. Although drawing on elements of neo-liberalism, they resist the Washington orthodoxy and instead pursued a very home-grown approach."¹¹ This set of ideologies that China has successfully developed, helps me to understand that China presents to the world a communist country that can manage its own problems indigenously with no intervention from the outside world, especially on the private property rights violation issues.

This book also shows that China is not only the new model of state that successfully governs its mass population but China will be a Rising Global Super Power, China will create what's called the Chinese World Order that will come after the world financial crisis arrives.

¹¹ Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, 2nd ed. (New York: Penguin Books, 2012), 179.

CHAPTER 3

RESEARCH METHODOLOGY

To study this subject and to do the research comprehensively it requires research into Globalization and related economic ideologies to explain the overarching consequences of fake foods and fake products trends. Ironically, China has positioned itself as a strong communist country that denied the colonial rule of democracy, but somehow invited the trade liberalization which we now know as Globalization which is perceived to be pioneered by the west. The Chinese seemed to foresee the good side of Globalization as some optimistic economists did. “Globalization is like gravity: there’s no point denying its existence. Our job is to defy gravity and build a plane that flies. Our responsibility is to secure the benefits of globalization for all, to turn despair into hope and poverty into opportunity.”¹

Economists would agree that Globalization was actually first born in the 1800s in the name of Capitalism. In the 1900s it was known as Liberalism and, of course in the mid 1900s economists called it Neoliberalism. The result of all of this financial, logistical, and transactional meshing predetermines the consumerism ideology that our technologically enriched modern world desires.

¹ C. K. Prahalad , “The World for Sale,” *Foreign Policy* (May/June 2007): 50.

Figure 3.1
The Origin of Globalization.



Globalization is either a new world order administered by a group of elite states to enable free trade interdependency or it is simply an upshot of the dynamic world described by theorists. It depends how an observer or observers look at it. “Globalization is a notion that had barely been applied before 1989, but the word has now come to be employed ever more regularly to define an apparently new system of international relations. Globalization seems to mean different things to different theorists. Thus for one school it was assumed to be undermining borders and states – quite literally abolishing the Westphalian system. Others took a less cataclysmic view. Globalization, they agreed, was providing a different context in how international relations was going to be played out. But it would be absurd to conclude that it was doing away with the state or destroying the underlying logic of anarchy. Some writers were even skeptical of whether Capitalism after all had always been a global system. Since the sixteenth century interdependence had been one of its more obvious

features. So why assume that there was very much new about the phenomenon simply because academics and publicists talked about it with greater frequency?”²

Globalization is merely not a democratic trade policy but in fact a political trade order. It's designed by developed countries and enforced on the developing world who would defend old economic ways to enact the laws that facilitate the transnational corporation's business that somehow loosen the rules and regulation or minimizing state's sovereignty. “Globalization has produced many winners and a large number of losers, but there would appear to be no escaping its competitive logic”³

Globalization argues that states and societies are increasingly being 'disciplined' to behave as if they were *private markets operating in a global territory*. (Free Trade seems to be fair for everyone.) But in fact, 'Disciplinary' forces affecting *states and societies* are attributed to *the global capital market, transnational corporations (TNCs), and structural adjustment policies of the International Monetary Fund (IMF) and World Bank*, which are all driven by neo-liberal economic ideology. (*Pacific Review* 10, 1, 1998)

3.1 Political and Sociological Ideology

3.1.1 Political and Sociological Ideology Background- Prosperity and Equality

From time to time, many scholars have viewed the Chinese's political ideology quite differently, “The Chinese are essentially individualist, Socialism and Communism can never thrive in China. China needed neither a class struggle against feudalism nor national struggle against imperialism. All she needed was a ‘compromise’, ‘friendship’ between the Chinese people and the imperialist power.”⁴ Hewlett Johnson, an English scholar argued about this statement in 1953 that the

² Michael Cox, “From the Cold World to the War on Terror,” in *The Globalization of World Politics: An Introduction to International Relations*, 4th ed., eds. John Baylis, Steve Smith and Patricia Owen (New York: Oxford University Press, 2008), 74.

³ Ibid.

⁴ Hewlett Johnson, *China's New Creative Age* (London: Lawrence & Wishart, 1953), 172.

statement above was not true and never been true. Hewlett viewed differently that “Peasant struggles have torn Chinese society for 2,000 years and anti-imperialist struggles have continued ever since the Opium War a century ago (with England). So long as 95 percent of the rural population occupied only 40 percent of the land there was bound to be class struggle, heroic class struggle, side by side with national struggle for national independence. *Class struggle has been the motive force for the development of Chinese society.*” Hewlett’s argument might be true for the nationalist aspect but for international trade dependency, China needs compromise and friendship to walk with the imperialist power in order to have a useful trade dialogue. The perspective from Hewlett towards China was interesting and undeniable at that time, because “class struggle” was in fact a motive force for the development of Chinese society, but what is happening in the 21st century has proven that the majority class in China has shifted the mind-set from socialist into individualist, no more national struggle for national independence. The Chinese’s foreign policy and practice towards the west in today’s modern world is more compromise though it is written in Chinese characters. The oriental style of trading is now China’s characteristic.

3.1.2 The Deviance of Communist Ideology

The prominent character of the Chinese is found in their talent for trading. The fastest way for the Chinese to get to the rim of prosperity is by doing business. But because of its demographic problem and limited resources, especially land that belonged in the hands of feudalist and bourgeois, it made it difficult for everyone in the lower class to have suitable living conditions. When millions of Chinese were introduced to communism ideology, the hope for overcoming their starvation and equality issues were welcomed by everyone. The Chinese people and communism seemed to get along well, nationalism was thriving.

But in 1979 the open arms policy of China to free trade showed how grave China’s need was to counteract its poverty. Limited resources and knowhow left China with no option. To get liquidity of investment from the west was an only answer for China at that time. Sovereignty and nationalism were no longer the first priority. Foreign factories and state-run factories were flourishing everywhere.

In 1992 the Austrian economist Ludwig Von Mises published a devastating critique of socialism, arguing that an economy without money, markets or prices would not allow rational economic calculation and therefore socialism was impossible or at least fatally inefficient.⁵ But the action behind the ideology of socialism in the hands of China had been well-ordered for decades and turned out to be a lottery winning ticket in the stakes for liberation of free trade and free markets in the 20th century. Because China has a comparative advantage in terms of cheaper of labor wage and striking speed of production.

Marx's Socialism had two significance outcomes for a big country like China. Firstly, it made everybody equally poor for a long time and when strict rules of management were issued in a land with limited natural resources and materials compared with its mass population it was a good thing for production in terms of the low labor wage proffered, compared with other countries; Secondly, socialism gave the view and value of prices of goods and commodities based upon the objective cost of production which means a further potential advantage competing in a world market.

The Chinese ruled its vast country using a socialism system clearly influenced by Marxism, but with the adages of Chinese thinking. Socialism had now become different and China has successfully shaped socialism ideology into a newer Chinese version. It became socialism with Chinese characters that has the open-arms policy in accordance with neo-liberalism ideology. "The approach of the Chinese leadership, following Deng's emergence as the supreme leader, has been built on caution and pragmatism, notwithstanding the obvious radicalism of the reform process. They shunned shock treatment and grand gestures. Although drawing on elements of neo-liberalism, they resist the Washington orthodoxy and instead pursued a very home-grown approach."⁶

When China can stand on its own, a sense of nationalism has come back but with a purpose. Protectionist Activities: State-Run Industry is a good example

⁵ Richard Reitan, "Narratives of Equivalence, Neoliberalization in Contemporary Japan," *Radical History Review*, 112 (2012): 43-64.

⁶ Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, 2nd ed. (New York: Penguin Books, 2012), 179.

which can aptly describe Chinese socialist characteristics. “China appears to use its communist philosophy as a stand in for not only politics but also economic nationalism. In other words, China engages in protectionist activities in order to give its weak homegrown companies and the largely mainland Chinese they employ, space to grow and build capacity without being outgunned by stronger foreign competitors from point zero.” Source: Aljazeera⁷ The deviance of communism in China can also be seen in its activities when communist authority collude with mafia, dubbed “Red-Black Collusion ”which is explained in Chapter 4.under the “Chinese Authority - Unscrupulous Producer - Rules Bender and Chinese Mafia” section.

Chinese manufacturers with close links in the government recruit purposefully when placing roles of subcontractors for Western, Japanese, Korean and Taiwanese enterprises and when China was preparing to climb the ladder of technology, they used methods of copying, buying and cajoling its own foreign partners. But in the long run, China will have the potential to develop its own high-level R&D ability in full capacity from this technology transfer knowledge.⁸

Here is another explanation that describes the Chinese characteristics of socialism. In China, the state was accepted as the guardian and embodiment of society. The state in various forms, *central government, provincial government and the local government* continues to play a crucial role in the economy, but in neglecting market reform, circumstances in the future would compel China to a huge economic reform. In the 1990s, at the time of the Asian financial crisis, *the grasping of the big, and letting goof the small strategy* was issued and implemented. State-owned enterprises were greatly reduced while the larger ones had been restructured, subsidized and often merged to create a state-owned conglomerate.⁹

The economic reform and state management in Chinese methodology was different from western countries. The Chinese government promoted and sorted to raise large amounts of private capital which can be risky for small local businesses moving outside their market. “The public offerings on the Shanghai Stock Exchange

⁷ Michael Lwin “The Rise of the Chinese Legal Dragon,” Aljazeera, April 6, 2012, <http://www.aljazeera.com/indept /opinion/2012/04/201242144540509844.html>.

⁸ Jacques, *When China Rules the World*, 213-215.

⁹ *Ibid.*, 228.

in the year 2007, were all by state enterprises and altogether they accounted for 85 per cent of the total capital raised. Some of the largest had foreign stakeholders and this, despite tension, has usually helped to improve their performance. Private investors owned up to a quarter of China's largest banks. China's state-owned firms can best be described as hybrids in that they combine the characteristics of both private and state enterprises. The leading state enterprises get help and assistance from their state benefactors, but also have sufficient independent oversight to manage them. Like private companies they can raise capital privately. This hybrid approach also works in reverse: some of the largest private companies, like the computer firm Lenovo and the telecommunications equipment maker Huawei, have been crucially helped by their close ties with the government, a relationship which to some extent mirrors the Japanese and Korean experience."¹⁰ As mentioned before about the Chinese state-owned enterprises and big private enterprises that have close ties with the government, they all have the access to gain benefits from what we call "open-door policy". This has fundamentally morphed the shape of socialism into an oriental form.

3.1.3 Business Perception and Morality

Systematic political projects that were designed and issued by Chinese elites (central government) and bourgeoisies (close relatives of the members of the central government of China who implement projects) has made a concentration of wealth in the country, resulting in a tremendous gap between the rich and the poor (similar to class struggle in Realist theory, core versus periphery). The poor want to be rich so they do whatever they can to get money and become richer. This brings the lower end of moral business standards to China and the unscrupulous end buyers abroad did not hesitate to add substandard material in their products or to put uneatable stuffs in their food for greater net volume.

Our 'fake goods' phenomenon can also be defined by the shifted understanding of value and price in the 1870's. The classical economic view proves that the value of goods are based on the objective costs of their production (Labour theory of value) though the neoclassical view is that the value is subject or perceived,

¹⁰ Jacques, *When China Rules the World*, 229.

that the individual agent (an individual or a firm) judges the utility or usefulness of certain goods or services.”¹¹ Chinese may swap the notion of prices and service back to the classical view where value and price is based on only the cost of production apart from the low of labor wage and let the world buyers do the marketing themselves by adding more margins on the price, based on their own judging of the utility or the usefulness of certain goods or services.

The perception of *price* and *value* based upon *the objective cost of production* without *the objective cost of marketing or margins* leads to a competitive price in the world market. Some economists proclaim a strong influence exists in trade activity in China by the Marxian tradition per Oskar Lange, Włodzimierz Brus, and Michal Kalecki who had attempted to integrate the insights of classical political economy, marginalism, and neoclassical economics. They believed that Marx communism lacked *a sophisticated theory of prices*, and neoclassical economics lacked *a theory of the social frameworks of economic activity*. Some other Marxists have also argued that on one level there is no conflict between marginalism¹² and Marxism: one could employ *a marginalist theory of supply and demand* within the context of the “big picture” understanding of the Marxist notion that capitalists exploit labor.¹³

“The marginalist explanation is as follows: *The total utility or satisfaction* of water exceeds that of diamonds. We would all rather do without diamonds than without water. But almost all of us would prefer to win a prize of a diamond as opposed to a bucket of water. To make this last choice, we ask ourselves not whether diamonds or water give us more satisfaction in total, but whether one more diamond gives greater *additional satisfaction* than one more bucket of water. For this *marginal utility* question, our answer will depend on how much of each we already have. Though the initial units of water we consume every month are of enormous value to

¹¹ Johanna Bockman, “The Long Road to 1989: Neoclassical Economic, Alternative Socialisms, and the Advent of Neoliberalism,” *Radical History Review*, 112 (Winter 2012): 9-42, doi: 10.1215/01636545-1416151.

¹² Steven E. Rhoads, “Marginalism,” *Library Economics Liberty*, accessed October 9, 2012, <http://www.econlib.org/library/Enc/Marginalism.html>.

¹³ Ian Steedman, *Socialism and Marginalism in Economics, 1870-1930* (New York: Routledge, 1995).

us, the last units are not. The utility of *additional (or marginal) units* continues to decrease as we consume more and more.”¹⁴ But for the socialist ideology in China, the price of food and commodity must be based on the cost of production only. Therefore the ‘working theory’ or ‘theory in action’ we are left with minus policy posturing is that the cost of production in China has made it possible for China to take the upper hand in world markets due to their cost of labor.

Capitalism lured most of the world population into what is coined consumerism, through Free Trade policy. The West are getting richer as well as the elites in the East but the game changed when China started the open door policy. When China and developing countries shifted their gears to the Free Trade policy, the unscrupulous entrepreneurs in China ran their business immorally. They cared less about private property rights and pollution. Things started getting out of hand, the counterfeit products from China thwarted much of the establishment. Subsequently, the west ran into business despondency.

Our history has repeated itself over and over again, the Japanese fought for the right to produce cheaper cars, radios, timepieces and other commodities in order to rebuild the country after World War II. The Japanese pursued their first same stage of industrial revolution as China did, which was through copying and undervaluing. Fortunately, this small size country evolved sectors quickly and shifted their industrial ideology into the stage of research and development. They no longer imitate products from the west and we see that “Made in Japan” products are reaching and surpassing the world standard. As for today, the South Korean phone producer, “Samsung” has lost the case for private property rights violation by using someone’s technology to produce a cheaper phone. The Koreans have been blockaded by the strong private property rights in the west.

Neoliberalism is another aspect whereby economists see Globalization from differing points of view. Reitan described neoliberalism in an article titled ‘Narrative of Equivalence’. “New ideological formations, however, do not emerge all at once and fully formed; rather, they present a history of intellectual and material struggle, of complex interaction with other ideological currents and of the fluidity that

¹⁴ Rhoads, “Marginalism.”

precludes any tracing of essences or ‘original’ forms.” David Harvey, explains that the discourse on neoliberalism in the United States had antecedent traces in the thought of economists Freidrich von Hayak and Milton Friedman, and in the Mont Pelerin Society (a marginal group at the time of its formation in 1947 committed to the defense of private property and competitive market).¹⁵

The sideshow of globalization as Gilman, Golhammer and Weber wrote about it, was called ‘Deviant Globalization’. It describes it as follows; “What makes deviant globalization unique is its ability to satisfy demand for goods and services that are otherwise illegal or unavailable in the formal, licit economy. What creates this economic opportunity? We do! When we codify and institutionalize our *moral outrage* at selling sex by making prostitution illegal, for example, we create a market opportunity for those who would kidnap women and smuggle them into sexual slavery. When we decided that methamphetamine is a danger to public health and prohibit it, we create opportunities for drug dealers who delight in the high profit margins as they fill their illicit orders. When we assemble lists of endangered species in an effort to protect global biodiversity, we create *a’ la carte* menus for daring global gastronomes and collectors. Every time a community or nation, acting on the basis of their good faith and clear moral values, decides to “just say no”, it creates opportunity for arbitrage. Deviant globalization is the ultimate arbitrage activity, growing at the intersection of ethical difference and regulatory inefficiency. Wherever there is a fundamental disagreement about what is right as well as a connection to the global market, deviant entrepreneurs are there to meet the unfulfilled demand.”¹⁶ This publication describes the different perceptions that law abiding citizens and outlaws possess and why they perform differently. This is the flip side of the decency that should occur in a fair market system where the place of value is not dictated upon by the cost of production alone. Without it globalization rears ominous methodologies and a severe lack of morality.

¹⁵ Reitan, “Narratives of Equivalence.”

¹⁶ Nils Gilman, Jesse Goldhammer and Steven Weber, *Deviant Globalization: Black Market Economy in the 21th Century* (New York: Bloomsbury Academic, 2011), 3.

CHAPTER 4

RESULTS

4.1 China as a Leading “Counterfeiter”

Illicit merchandises - Counterfeit products - Fake food

The Alchemist

Why is China so skilled in counterfeiting? Chinese production knowhow today is more considered as a spillover effect, which is a technology transfer that came along with Foreign Direct Investment (FDI) from the West in the 20th century. Also “the division of labor” methodology was pioneered by the Chinese long before “the assembly line” new knowledge from the western world’s eighteenth century’s mass production method enjoyed its success.¹ That knowhow combined with Chinese labor’s discipline regarding hard work has hurled China into the position of world’s strongest and fastest growing economy. China became a production base in the eyes of the world because of their cheap labor. Monkey see and monkey do, the unscrupulous Chinese businessmen (most of them had connections with Chinese officials or were officials themselves with anonymity) saw a loophole to get rich faster. By using western technology, they started to copycat foreign factories. They copied everything that the world has ever produced with substitute materials and, or chemical substances to produce substandard commodities and food.

Cheap commodities are the product of choice to everyone. No matter how rich or poor you are, you can’t ever turn your back on those cheap items. Discount-stores around the world are aware of that fact. Ikea, Fonterra, Burberry and other multi-brands out-source their production lines to the East. They know exactly what the consumer wants and where to get the supply from. China is a country of choice for them. But what they found is substandard merchandises.

Here is a chronological list of counterfeit products and fake food:

¹ John Merson, *The Genius That Was China: East and West in the Making of the Modern World* (Woodstock, New York: The Overlook Press, 1990).

- **Toothpaste**-tainted with chemical diethylene glycol and bacteria. “Diethylene glycol (DEG) is an organic compound with the formula $(\text{HOCH}_2\text{CH}_2)_2\text{O}$. It is a colorless, practically odorless, poisonous, and hygroscopic liquid with a sweetish taste. It is miscible in water, alcohol, ether, acetone, and ethylene glycol. DEG is a widely used solvent. Its use in adulterated consumer products has resulted in numerous epidemics of poisoning since the early 20th century.”²

- **Toys**-contain lead or pose choking hazard

- **Children’s jewelry**-contains lead

- **Ceramic heaters**- pose fire safety risk

- **Gluten**-Melamine is found in wheat gluten exports from China in the year 2007 for pet food. “Gluten is a protein composite found in foods processed from wheat and related grain species, including barley and rye. It gives elasticity to dough, helping it to rise and to keep its shape, and often giving the final product a chewy texture.”³

- **Plastic Seaweed** from China was reportedly found in provinces near the Thailand Border in the year 2009. A round-shaped pack of seaweed intentionally mixed with plastic-like substance found in the local market, with which you can only tell the difference after being cooked in boiling water.⁴

- **Fake rice**, in the year 2010 there was news about China selling fake rice that contained melamine to local people near Vietnam’s border. Fake rice is the combination of sweet reddish mixing with melamine to form the shape of a rice seed. Three bowls of fake rice are equivalent to the amount of melamine contained in a one plastic bag.

- **Counterfeit wine**, From Bordeaux to China. China imported about 67.9 million gallons of wine from European countries in 2012. The booming economy of China has boosted their desire for a luxurious drink, case in point, expensive French wine. That gave an opportunity for the illicit merchandise racket in China to

² “Diethylene Glycol,” Wikipedia, accessed October 26, 2013, http://en.wikipedia.org/wiki/Diethylene_glycol.

³ “Gluten,” Wikipedia, accessed October 26, 2013, <http://en.wikipedia.org/wiki/Gluten>.

⁴ Food Sanitation Division, August 21, 2009. http://www.foodsafety.bangkok.go.th/new2/read_article.php?cat_id=2&txt_id=407.

manufacture fake wine. Many expensive French wines such as Romanee Conti and Chateau Lafite Rothschild were faked and found to be selling in China.⁵ In the year 2012 the Chinese government seized 10,000 bottles of Chateau Lafite Rothschild in Wenzhou southeastern Zhejiang province, the cache was deemed to be worth 16million dollars if they were perceived to be authentic.⁶ The Chinese counterfeiters went on to import cheap wine in bulk from mass producing factories in European countries such as Spain, rebottled it and sold it as a premium wine.⁷ “In China, bottles have been presented to look like a well-known label, showing artwork and a familiar looking trademarked name, but the name and logo were altered slightly, so as to look like the original, yet it’s different enough not to be a counterfeit and yet, still fool consumers. The bottles are passed off as originals, because the purchasers were not familiar with the real label, and did not know what to look for. The inability to read French or English makes it even more difficult for some new, unsuspecting buyers.”⁸ “The word fake doesn’t apply to the product. It applies to perception. When a manufactured wine is deceptively dressed up to look like a high quality wine, people are faked out.”⁹

- **Counterfeit Medicine** is another issue that causes great harm to consumers’ health in many countries. “Counterfeit medicine is fake medicine. It may be contaminated or contain the wrong ingredient or no active ingredient. They could have the right active ingredient but at the wrong dose. Counterfeit drugs are illegal and may be harmful to your health. FDA (U.S. Food and Drug Administration) takes

⁵ Mark Byrnes, “A Fascinating Peek Inside China’s Booming Counterfeit Wine Market,” Citylab, June 10, 2013, <http://www.theatlanticcities.com/arts-and-lifestyle/2013/06/fascinating-peek-inside-chinas-booming-counterfeit-wine-market/5857/>.

⁶ P. Heinrich, “Lafite: China’s Fake Fine Wine Bust,” China Magazine, accessed October 26, 2013, <http://www.chainamag.com/1212/articles/counterfeit-chateau-lafite-china-s-fake-fine-wine-bust>.

⁷ Terril Yue Jones, “Amid China’s Boom, Fake Wines Proliferate,” *The New York Time*, June 9, 2013, <http://www.nytimes.com/2013/06/10/business/global/amid-chinas-boom-fake-wines-proliferate>.

⁸ “Massive Chinese Counterfeit Wine Ring Busted with 7,000 Fake Case,” *The Wine Cellar Insider*, accessed October 26, 2013, <http://www.thewinecellarinsider.com/2013/08/massive-chinese-wine-counterfeiting-ring-busted-7000-fake-cases/>.

⁹ Betty Kaufman, “Fake Wines in China Are an International Problem,” *Betty’s Wine Musings*, accessed October 26, 2013, <http://www.bettyswinemusings.com/fake-wines-in-china-are-an-international-problem>.

all reports of suspect counterfeits seriously and, in order to combat counterfeit medicines, works with other agencies and the private sector to help protect their nation's drug supply from the threat of counterfeits."¹⁰ China is on the top of the list of fake drug producers and these products are sold throughout many markets, especially in developing countries such as South Africa. Fake drugs have also spread to the West where the price of pharmaceutical medication is high. There are various kinds of fake drugs that can easily be found selling on the internet also. They are sold in both retail and wholesale businesses and the price is set incredibly low so that millions of desperate patients around the world can procure it.¹¹

4.1.1 Chinese Authority - Unscrupulous Producers - Rules Benders- Chinese Mafia

Goods and commodity smuggling was the never ending phenomena that occurred side by side with legitimate international trade. Black market trade boomed when Chinese people were smuggled into America during the 1970's. The outlaw service providers dubbed "snakeheads" were flourishing all along the Chinese economic shorelines. Chinese migrants and black market traders were handed a lot of money for their transportation and illegal immigration by these underworld agents.¹² The illicit merchandise businesses now grow through the generational, large scale effect of Chinese Diasporas. "These Chinese connections spread with tentacles all over the various regions of the world, thereby providing an extensive network for conducting movements of money, people and drugs, not to mention all types of contraband goods without too much difficulty."¹³

¹⁰ "Counterfeit Medicine," U.S. Food and Drug Administration, accessed October 26, 2013, <http://www.fda.gov/drugs/resourcesforyou/consumers/buyingusingmedicinesafely/counterfeitmedicine/default.htm>.

¹¹ Channel4.com, "Documentary on the Business of Counterfeits and Knock-Offs," YouTube Video, accessed October 26, 2013, http://www.youtube.com/watch?v=sV_bDXgeg7Q.

¹² Nils Gilman, Jesse Goldhammer and Steven Weber, *Deviant Globalization: Black Market Economy in the 21st Century* (New York: Bloomsbury Academic, 2011), 30

¹³ Pisanu Suntharak, "Transnational Crime" (paper for presentation at 2nd Annual Conference of the Network of East Asian Think-Tanks, Bangkok, August 16-17, 2004).

Gangsters and others in the underworld have been the rule benders and the unscrupulous producers hidden behind the strong image of the Chinese Communist Party. Gangs around China all have similar patterns as to how to generate money from their black market operations; the secret cooperation between government officials and unscrupulous producers under the gangster's supervision facilitated the counterfeit industry that thrived in every corner of China. The result is perpetuated activity that will undermine the Chinese Government's authority and may lead to the dominance of political power by the opposition as was the case in Chongqing Province where the gangs operated long before the Communist ideology came about.

This is a clear explanation of how the unscrupulous producers and corrupted officials who are bending the rules were cooperating in such a way that can easily facilitate and foster the illicit and counterfeit industries.

Central authority versus Local government "As is evident in Chongqing, however, China has another face. Although their central authority appears strong, at the local level public anger is boiling. Double-digit economic growth for much of this decade doesn't reveal just how corrupt and dysfunctional local government has become. The campaign against organized crime launched by Chongqing in June demonstrated just how prone China remains, after all these years of Communist rule, to the age-old scourge of *collusion between bureaucrats and gangland bosses*. For many Chinese, life is vastly more affluent now than it was when the Communists came to power. Decent health care and education are far easier to attain but confidence in local government is threadbare. *Corruption, some Chinese officials argue, is an inevitable by-product of rapid economic growth*. But the cumbersome structure of local government in China also helps it flourish. For centuries Chinese rulers have pondered how to extend power across such a vast country. In recent years many have debated whether part of the problem lies with there being too many tiers of government—China has five, compared with three in America. Some advocate cutting one or two layers. *This adds to a sense that, after 60 years of rule, the party is still unsure how best to govern.....*The crackdown has exposed how wealthy businessmen use their positions in local legislative and advisory bodies—people's congresses and political consultative committees, as they are known—to boost their prestige and gain access to officials. Some years ago China's entrepreneurial class was

far more politically marginalized. Only in this decade have its members even been allowed to join the Communist Party (See Annex XIII, Politburo). Chongqing is the biggest example to come to light of what is sometimes dubbed “*red-black*” (*i.e., communist-mafia*) collusion. There was a huge round-up in 2000 of gangsters in Shenyang in the north-east. That resulted in the execution of a former legislator and businessman and of a deputy mayor. The city's mayor, who was also implicated, is now serving a commuted death sentence.”¹⁴

4.1.2 State-Led, State-Run, State-Owned Enterprises and Corruption

“Mr. Jiang's downfall is important because of the position he held and party officials he is allied with Jiang Jiemin rose through the ranks of China's highly-profitable state-owned oil companies. Some believe he was netted by the anti-corruption campaign because of his previous position as the head of China's biggest oil giant, the China National Petroleum Corporation."This kind of state-owned enterprise makes a lot of money, so that's why the corruption campaign is looking into people there," said grassroots corruption investigator, Li Xinde."It's not just Jiang Jiemin who is under investigation. Several other oil executives have been arrested too."Of course, one cannot ignore that Mr Jiang is not just a business executive. He is also the most senior official to be placed under the shadow of Chinese President Xi Jinping's anti-corruption campaign .After repeated warnings that rampant corruption threatens to topple the Communist Party, Xi Jinping unleashed an anti-corruption campaign he promised would capture officials at all ranks of the party, both "tigers and flies". But so far, only one "tiger", former Chongqing Party Chief Bo Xilai, has faced trial. Xi Jinping cannot even claim credit for Bo Xilai's high-profile implosion, since his downfall started before Mr Xi assumed power. China's president was under great pressure to net a tiger, and Jiang Jiemin fit the description.”¹⁵

¹⁴ “The Red and the Black,” *The Economist*, October 1, 2009, http://www.economist.com/node/14539628?story_id=14539628.

¹⁵ Cella Hatton, “How Real Is China’s Anti-Corruption Campaign?,” BBC News, Beijing, September 4, 2013, <http://www.bbc.co.uk/news/world-asia-china-23945616>.

4.1.3 Global Village: Involves and Responses

Fake food has severely impacted world food security and it further obscures the world (genuine) food scarcity issue. It has so many parties involved in response to these illegal and immoral phenomena. World Trade Organization (WTO) – States – World Health Organization (WHO) – World Custom Organization (WCO) – International Police (Interpol) and international authentic producers are a few of the main parties concerned with the international counterfeit industry and our fake food issues.

“The Chinese authorities say they are making efforts to improve supervision of safety standards, but that it will take time for them to catch up with the west. American officials whose job it is to ensure the safety of imported products acknowledge there are problems but they are doing all they can to identify suspect goods.”¹⁶

Figure 4.1
Actors Concerning Fake Food and Fake Goods



World Food Safety Standards in 2010 at the World Health Assembly meeting, resulted in “Recalling resolution WHA55.16 on the global public health

¹⁶ Laura Smith-Spark, “Chinese Product Scares Prompt US Fears,” BBC news, July 10, 2007, <http://news.bbc.co.uk/2/hi/americas/6275758.stm>.

response to natural occurrence, accidental release or deliberate use of biological and chemical agents or radio-nuclear material that affects health, which noted that such agents can be disseminated through food- and water-supply chains”¹⁷ Not only for the food issues that has impact to the world the other counterfeit merchandises also evoked WTO, “Governments have attempted to protect intellectual property rights through various means, most notably the World Trade Organization’s Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Several other organizations such as the World Intellectual Property Organization, the World Custom Union and Interpol are also involved.”¹⁸

“World Customs organization: The following issues, identified through a process of scanning the international environment and drivers, have guided the preparation of the 2009/2010 - 2011/2012 Strategic Plan. The environment in which the WCO and its Members operate will continue to be defined by the core roles of Customs: (1) Revenue collection; (2) National security; (3) Community protection; (4) Trade facilitation; and (5) Collecting trade data. The following list includes many of the current challenges faced by Customs administrations around the world today.”¹⁹

Microsoft, Nestle, Cisco System and others senior chief executives from amongst the world’s biggest genuine item producing corporations set up a meeting in January of 2007 in Switzerland in an effort to combat the international counterfeit industry, most notably, counterfeit products from China.²⁰

World Trade Organization (WTO) Agreement on TRIPS:

Article 69

International Cooperation

“Members agree to cooperate with each other with a view to eliminating international trade in goods infringing intellectual property rights. For this purpose,

¹⁷ “WHA63.3 Advancing Food Safety Initiatives,” World Health Organization, Western Pacific Region, accessed August 9, 2012, http://www.wpro.who.int/foodsafety/documents/docs/WHA63_3.pdf?ua=1.

¹⁸ Moises Naim, “The Five Wars of Globalization,” *Foreign Policy*, November 3, 2009, <http://foreignpolicy.com/2009/11/03/five-wars-of-globalization/>.

¹⁹ World Customs Organization, <http://www.wcoomd.org/home.htm>.

²⁰ Channel4.com, “Documentary on the Business of counterfeits.”

they shall establish and notify contact points in their administrations and be ready to exchange information on trade in infringing goods. They shall, in particular, promote the exchange of information and cooperation between customs authorities with regard to trade in counterfeit trademark goods and pirated copyright goods.”²¹

The TRIPS Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization, and was signed in Marrakesh, Morocco on 15 April 1994.²² But unfortunately, China did not join the World Trade Organization (WTO) until the year 2001. The obligations that China has neglected since forever still did not oblige. In fact, as a member, all members of World Trade Organization (WTO) should do what was written and signed in the agreement. “It shall carry out such other responsibilities as assigned to it by the Members, and it shall, in particular, provide any assistance requested by them in the context of dispute settlement procedures.”²³

WCO Members Join together to Fight Imports of Substandard and Counterfeit Electrical Products: Brussels, 24 October 2011

Press Release

- Forty-three WCO Member Customs administrations joined in *an operational effort to fight imports of substandard and counterfeit electrical products* in “Operation Short Circuit” which began in July and concluded in September 2011.

- *Initiated by US Immigration and Customs Enforcement (ICE), the Operation was facilitated by the WCO CENcomm platform; a unique tool for Customs administrations to rapidly share information and intelligence spontaneously with their partners across the globe.*

- *Worldwide, 388 shipments were seized within the operational period, resulting in the seizure of the following substandard and/or counterfeit commodities: 4.760 boxes of holiday lights; 359 boxes of surge protectors; 3.736 boxes of extension*

²¹ “Part VII – Institutional Arrangements; Final Provision,” World Trade Organization, accessed September 16, 2014, http://www.wto.org/english/tratop_e/trips_e/t_agm8_e.htm.

²² “Agreement on Trade – Related Aspects of Intellectual Property Rights,” World Trade Organization, accessed September 16, 2014, http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm.

²³ “Part VII – Institutional Arrangements.”

cords; 791.936 individual batteries; 17.873 boxes of batteries; 41.621 power supplies; 34.050 power adaptors; and 115.231 chargers.

- Apart from seizures, Operation Short Circuit *generated important intelligence on companies involved in the production and trade* in such products, which in many cases are *dangerous to public health and safety* as insulation is too thin or batteries do not contain proper ventilation mechanisms that could cause them to explode.

- “Operation Short Circuit provided *an ideal opportunity for increased cooperation between Customs administrations and other national authorities in charge of consumer product safety,*” said Secretary General of the WCO, Kunio Mikuriya. “The fruits of this cooperation are reflected in the large number of seizures of dangerous products that could otherwise have ended up on the market,” Mikuriya added.

- The WCO Secretariat supports such international initiatives as *they clearly demonstrate the important role Customs plays in protecting consumers, in fighting organized crime structures involved in the production of dangerous counterfeit products, and in securing jobs in the legal trade.* (see Appendix D)

4.2 The Case of Fake Food:

Finding of Factors That Caused and Facilitated the Problems of Fake Food

Factors that caused the problems:

Factors that facilitated the causes:

The effects: On people- health, awareness-buy or beware, On China and on the World

Melamine is the most favorite chemical substance that the unscrupulous producers in China commonly use in the making of fake food and dairy products for the purposes of meat-liked texturing or binder and to fraud identification of protein. Melamine was found in many food fillers as a binder that is intentionally added in animal feed which goes directly into human food supply. “The U.S. Food and Drug Administration (FDA) detained vegetable proteins from China such as wheat gluten,

Rice gluten, rice protein, rice protein concentrate, soy protein and soy gluten in the year 2007.”²⁴

Dysfunctional use of melamine turns out to be a global nightmare issue when melamine has been disguised into so many food forms in the world market. Website www.healthychild.org, describes the situation of food uncertainty very well, “Melamine, a chemical used to make plastics, pesticides, fertilizers, and even commercial fish feed, has apparently been added to the milk products to falsely increase the apparent level of protein. Interestingly, melamine alone is of very low toxicity (comparable to table salt), but when it is combined with cyanuric acid, animal studies have suggested that kidney problems occur. Still, no one seems to be talking about the combo this time around other than the World Health Organization who has released a preliminary report offering safety guidelines for acceptable levels of the contaminants in food, but cautions that their assessment is preliminary and there is still more research needed.”²⁵

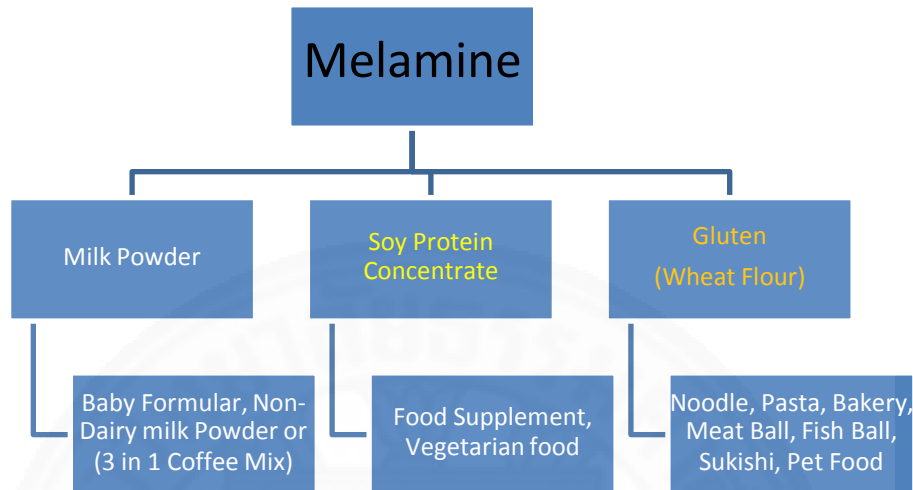
Melamine has been disguised into “milk powder”, “soy protein concentrate” and “gluten” (wheat flour) as a form of cheap ingredient for China’s food industry. It can also easily relocate or infiltrate in to other food industries in many parts of the world without any suspicions arising.

²⁴ “Import Alert 99-29,” U.S. Food and Drug Administration, accessed February 10, 2013, http://www.accessdata.fda.gov/cms_ia/importalert_267.html.

²⁵ Healthy Child Staff, “Toxic Chemical Melamine Found in Baby Formula,” Healthy Child Healthy World, accessed October 7, 2008, http://healthychild.org/blog/comments/melamine_in_formula_in_candy_in_kids_dishes/#ixzz24RZm7mGu.

Figure 4.2

Melamine Transformed Into Milk Powder, Soy Protein Concentrate and Gluten.



Milk Powder can be used in the food industry as an ingredient in a variety of dairy products such as mixed coffee (3-in-1), mixed tonic drink (3-in-1), chocolate bars, candy, cream and ice cream.

Soy Protein Concentrate can be used in the food industry as an ingredient of making imitated meat for Chinese vegetarian cookery and food supplement products related to soy bean.

In the bakery industry, wheat flour can be determined into 3 different categories which are cake flour, bread flour and all-purpose flour. Wheat Flour can be used in the food industry as an ingredient in bakery, noodles and in pastry.

Gluten is a protein composite of gliadin and glutenin which can be found in wheat, rye, barley and triticale (hybrid wheat of wheat and rye). Wheat flour is used in making pasta, crackers, cereal, baked breads, malt vinegar, soy sauce, breaded meats, flavorings, emulsifiers, beer, gin, whisky and gravy. Gluten has its significant character in thickening the texture of food, so it can also be used as a binding

ingredient in a variety of foods such as imitation crabmeat, concentrated soy sauce, herbal supplements and canned fish broth.²⁶

In the year 2007, the United States halted all imports of wheat gluten from China and also identified a Chinese company, Xuzhou Anying Biologic Technology Development Company: An agricultural products company in the coastal Jiangsu Province, as a supplier of wheat gluten to American pet food producers. But the company denied the accusation, “Maybe some company bought our product and exported it without our knowledge,” said Mr. Mao, the general manager of Xuzhou Anying. The Chinese government quickly arose to take some action. It said that wheat gluten which has been linked to a nationwide pet food recall in the United States had not been exported from China to the United States or Canada. Chem Nutra, a Las Vegas company that supplies pet food makers, said it imported 792 metric tons of wheat gluten from Xuzhou between Nov. 29 and March 8. The products were then shipped from its Kansas City warehouse to three pet food makers and one distributor of pet food ingredients in the United States and Canada. The wheat gluten ended up in several pet food companies, including Menu Foods of Ontario, Canada and Hill’s Pet Nutrition, a division of Colgate-Palmolive as well as private label pet foods.²⁷

The incidents of fake milk and fake dairy products also spawn on the international markets has had a tremendous effect on people and parents worldwide. “Since then, traces of melamine have been found in an increasing amount of products including milk shakes at a Chinese Restaurant in Austria, an infant milk formula manufactured in New Zealand, Nestle products in Taiwan, cookies in the UK, pretzels in Canada, and imported ‘tainted’ candy in Connecticut.”²⁸

The case of milk contaminated with melamine in the year 2008 that was intentionally produced and sold by Sanlu, the most trusted brand in China has become a ping pong accusation between New Zealand and China. Sanlu, in cooperation with a

²⁶ “โอกาสของผลิตภัณฑ์จากข้าว: อาหารปลอดโปรตีน gliadin และ glutenin (gluten free products)” [Opportunity of Rice Products: Protein free, gliadin and glutenin foods (gluten free products)], RYT9, June 4, 2010, <http://www.ryt9.com/s/expd/914082>.

²⁷ David Barboza, “China Says It Had Nothing to Do with Tainted Pet Foods,” *The New York Times*, April 6, 2007, http://www.nytimes.com/2007/04/06/business/worldbusiness/06petfood.html?_r=2&oref=login&.

²⁸ Healthy Child Staff, “Toxic Chemical Melamine.”

multinational company called Fonterra, was undermining the world food safety regulations. Fonterra company press release: "It was repeatedly made clear in phone calls to the Chinese company that sold milk formula fatally contaminated with melamine that the chemical should not be used, Fonterra's chief executive said today. Six babies died and hundreds of thousands of infants last year developed kidney disease after consuming contaminated milk formula produced by Sanlu, a company which was 43 percent owned by Fonterra. Former Sanlu chairwoman TianWenhua, 66, has claimed a Fonterra-appointed director gave her a document stating the European Union's permitted levels of the industrial chemical melamine were a maximum of 20mg to every kg of milk. Fonterra chief executive Andrew Ferrier confirmed to the Herald yesterday that Tian had been given a document by a Fonterra board member. However, he said Fonterra was "vividly clear" to Sanlu that the only acceptable level of melamine was zero. At a media conference today, Mr. Ferrier said the document given to Tian was a provisional statement from the European Union on melamine." (See Appendix B)

This is how fake food phenomena affect multinational corporations, "Fonterra says the Chinese milk contamination scandal would cost it at least \$139 million. When announcing the company's annual results, Fonterra allocated the full impact of the controversy onto its Chinese partner Sanlu, which has left at least four infants dead after consuming baby formula containing melamine. Fonterra chairman Henry van der Heyden said: "We are certainly not putting the financial consequences ahead of our primary priority of consumer safety. We are focusing all our efforts on what Fonterra can best do to work with the Chinese authorities and help get safe dairy products to Chinese consumers." The \$139 million estimate was made up of the cost of recalling products plus Fonterra's "anticipated loss of Sanlu brand value". Fonterra has poured nearly \$200 million into the joint venture since buying a 43 per cent stake in December 2005, but the investment has been gutted by last month's announcement that Sanlu has been selling poisonous infant formula for babies. This video is an edited Company Press release from Fonterra and published with permission granted to the New Zealand Herald." (See Appendix C) Though the criminals were convicted of producing and selling fake formula milk powder and they were executed in 2009, the melamine milk powders are still left somewhere in the market or disguised in some

other form of foods. The effect goes directly to Hong Kong, Malaysia and countries nearby China. The well-known “White Rabbit Candy”, Chocolate bars and other dairy products are still reported to contain melamine after the Sanlu incident.

The cause of producing fake milk by Sanlu that reported by BBC in September 2008 had cleared a lot of the doubtfulness that clouded the world for years, “First the poor farmers diluted milk with water in order to scale up their sale’s volume. But not for long, this cheap trick did not work well through the Fonterra’s manufacturing standard that came in for the condition of quality checking when Fonterra and Sanlu were merged in 2005. Sanlu, the Chinese producer still keep urging local farmers to sell more and more raw milk to supply the tremendous demand from local Chinese and outside. But on one condition, farmers had to sell it at a low price thus in-keeping with the price standard of wholesaling that China was known for. Less margin but higher volume in sales volume would net great profit. That is where melamine comes in. Melamine is a chemical substance that has a similar chemical composition to milk protein but it's uneatable. Chinese Farmers use this industrial grade chemical, which poses as a protein indication in diluted milk, they simply add melamine into their raw now diluted milk, fresh from their farm.” (see Appendix D and F)

4.2.1 The Journey of Melamine

Melamine is a byproduct of coal mining. China is on the top of the list in terms of coal consumption comparing to the world. The average amount of coal consumption by China over the below years’ is 1310,000,000 billion short tons per year.²⁹

²⁹ "Countries Compared by Energy > Coal > Consumption. International Statistics at NationMaster.com," Energy Information Administration, US Department of Energy, accessed February 10, 2013, <http://www.nationmaster.com/country-info/stats/Energy/Coal/Consumption>.

Table 4.1
Coal Production in China: Historical Data

Date	Amount	Rank
2001	1,381,000,000	#1
2000	1,299,000,000	#1
1999	1,280,000,000	#1
1998	1,250,000,000	#1
1997	1,372,820,000	#1
1996	1,397,000,000	#1
1995	1,360,730,000	#1
1994	1,239,902,000	#1
1993	1,149,745,000	#1
1992	1,116,369,000	#1
1991	1,087,406,000	#1
1990	1,079,883,000	#1

Source: Energy Statistics Database | United Nations Statistics Division³⁰

China is also the world's biggest producer in the coal-chemical industry. China's output is particularly dominant in the Shanxi province which is positioned in the north of China. The total amount of coal produced in China in the year 2005 was an astounding 2,204,729,000 tons.³¹

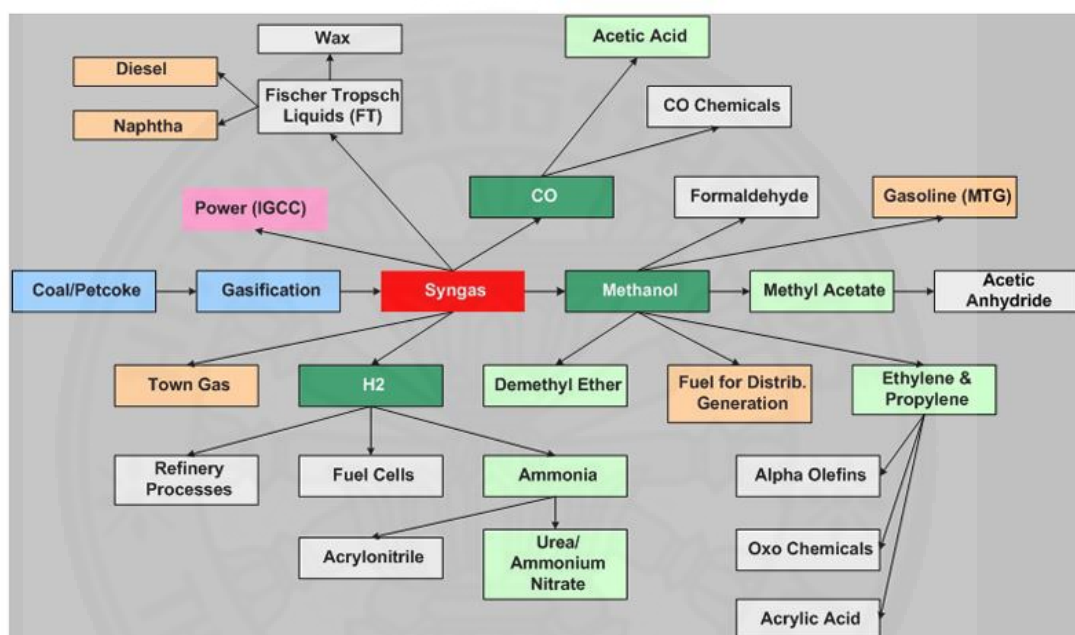
By using the gasification process, China can turn coal into industrial chemicals such as diesel, methanol, gasoline, acetic acid, ammonia nitrate and urea. Urea can be transformed into fertilizer and melamine. **Gasification** is a process that can turn coal into power, chemicals, hydrogen and transportation fuels, and can be

³⁰ "Energy Statistics," United Nations Statistics Division, accessed February 10, 2013, <http://unstats.un.org/unsd/energy/>.

³¹ Wang Ke, "Coal Mining City Seeks Change," China.org.cn, September 6, 2010, http://www.china.org.cn/business/2010-09/06/content_20871915.htm.

used to capture the carbon from the coal for sequestration or for enhanced oil recovery. The Gasification Systems Program is developing advanced technologies to reduce the cost and increase the efficiency of producing syngas.³²

Figure 4.3
Coal to Chemical Routes³³



This is where melamine originally came from and melamine is an industrial chemical. Huge amounts of melamine travel from the coal mine to hardware factories and some of them end up intentionally in the food factories around the world. They arrive via the same global trade route and trade apparatus as all other legitimate products in our globalized society.

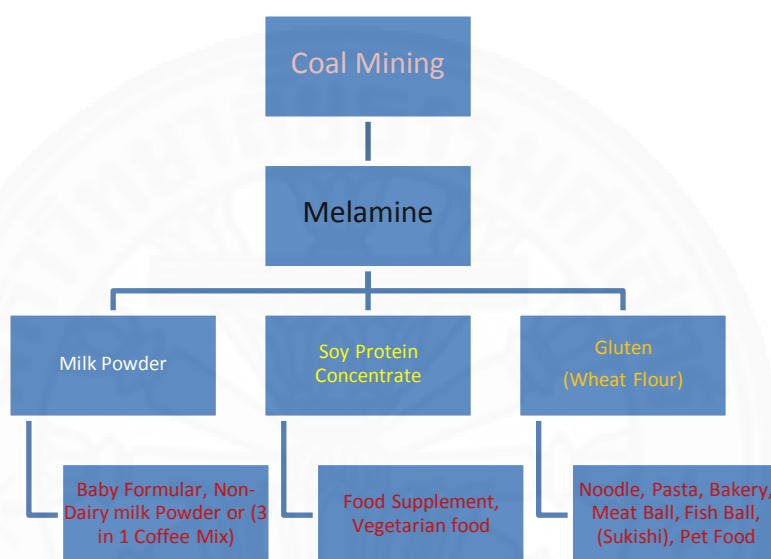
“Can we term melamine as a food additive?” “Is it safe to consume?” Is this just the same as how the controversial monosodium glutamate (MSG) was

³² “Coal Gasification Systems,” National Energy Technology Laboratory, accessed February 10, 2013, <http://www.netl.doe.gov/technologies/coalpower/gasification/index.html>.

³³ “Coal to Chemical Routes,” National Energy Technology Laboratory, accessed February 10, 2013, http://www.netl.doe.gov/technologies/coalpower/gasification/gasifipedia/images/6-5-1_1_Coal-to-chem-routes_lg.jpg.

considered before? MSG was invented by the Japanese and we still have no undisputed settlement as to the safety and end consequence of consuming MSG, whether it has side effects to our human health or not.

Figure 4.4
The Journey of Melamine from the Coalmine to the World Market



“Melamine (CAS No. 108-78-1) is used in the production of melamine resins, typically by reaction with formaldehyde. It has many industrial uses, including in the production of laminates, glues, adhesives, molding compounds, coatings and flame retardants. In the US, melamine is an indirect food additive for use only as a component of adhesives.”³⁴

“Cyanuric acid (CAS No 108-80-5) is a structural analogue of melamine. It may be found as an impurity of melamine. Cyanuric acid is an FDA-accepted component of feed-grade biuret, a ruminant feed additive. It is also found in swimming pool water as the dissociation product of dichloroisocyanurates used for water disinfection. Consumer exposure may be through swallowing swimming pool

³⁴ World Health Organization (WHO), *Melamine and Cyanuric Acid: Toxicity, Preliminary Risk Assessment and Guidance on Levels in Food* (World Health Organization, 25 September 2008), p.2.

water, through drinking water processed from surface water, and through fish which may accumulate this chemical (OECD 1999).

When used in drinking water for disinfection purposes, sodium dichloroisocyanurate is rapidly dechlorinated to cyanurate.³⁵

Melamine alone is of low toxicity, however experimental studies have shown that a combination with cyanuric acid leads to crystal formation and subsequent kidney toxicity. It is not known whether the cyanuric acid was also added deliberately or whether it was a by-product of the melamine preparation added.³⁶

However, very low levels of melamine may be present in food resulting from use of pesticides, industrial processing and in-home preparation (involving plastic packaging, food contact surfaces and tableware). The concentration of melamine in food is typically less than 1 mg/kg and does not pose a food safety risk. In Europe, the migration limit of melamine from plastics to food content is fixed at 30 mg/kg food.³⁷

4.2.2 Finding of Factors Which Caused and Facilitated the Problems Inherent with Fake Food Scandals

Counterfeit Products can be divided into two different categories. The first kind is counterfeit commodity and the second is counterfeit food.

Counterfeit commodity encompasses an array of economic aspects:

- Producers
- Consumers
- Labor wages and Employment rates

Counterfeit Food and Drugs have effects on human health such as:

- Fake Food can slowly sicken the health of the consumer
- Fake Drugs can instantly kill patients who ingest it without knowledge or they slowly sicken the health of the consumer the same as health

³⁵ WHO, *Melamine and Cyanuric Acid*, 2.

³⁶ *Ibid.*, 1.

³⁷ "Frequently Asked Questions," EUFIC, accessed February 10, 2013, <http://www.eufic.org/page/en/page/faq/faqid/what-is-melamine/>.

fraud and quackery, which are also undermining the world's pharmaceutical industry.³⁸

4.2.2.1 Factors that Caused the Problems

Overpopulation and consumerism causes the food scarcity and the higher food prices. The below points also clearly set out the factors that lead to fake food production in China.

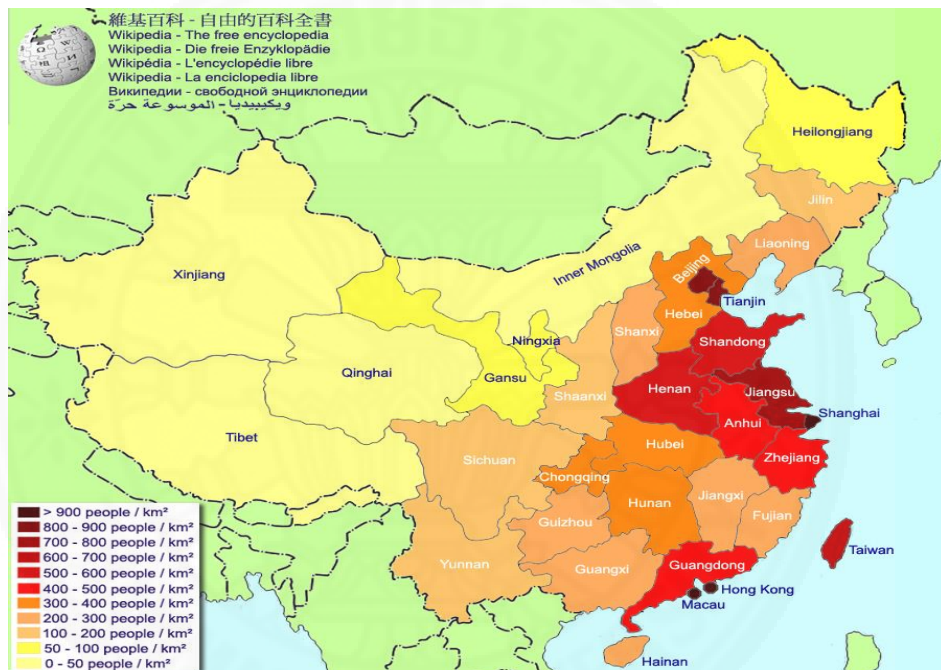
1. Over population in china, “the rapid growth rate per capita of disposable income in China, coupled with a continued migration of hundreds of millions of new consumers to urban areas, has created challenges for the Chinese crop and livestock sectors. Faced with an increase in demand for animal protein, a scarcity of land and a reduction in the agricultural labor force, China has responded by importing almost all of the soybeans needed to feed its domestic livestock industries.”³⁹ Demand and supply of food; The U.N. reported about China's food safety system in 2008 criticizing China for its lack of local resources to oversee its food industries.⁴⁰

³⁸ Channel4.com, “Documentary on the Business of counterfeits.”

³⁹ Dermot Hayes, “Prospect for U.S. – China Trade in Meat Product and Associated Investment Opportunities,” ChinaFile, July 2013, <http://www.chinafile.com/prospects-us-china-trade-meat-products-and-associated-investment-opportunities>.

⁴⁰ Al Jazeera English, “101 East-China Food Safety – Dec 11 – Part 1,” YouTube Video, 11:41, accessed October 16, 2012 http://www.youtube.com/watch?v=zL6_1Rk2zqs, last viewed 16/10/2012.

Figure 4.5
Density of Human Population in China
Urbanization reduced agricultural products.⁴¹



- Consumerism is widely spread by the effect of free trade liberalization. Consumerism's effect was initiated in the west to developing countries like an "all you can eat buffet" at supermarkets and in convenient stores. Industrial Revolution created abundant and cheap consumer products post-moderate shortage after the war. It would later lead to an over consumption habit. Chinese producers saw the opportunity of

⁴¹ "List of Chinese Administrative Division by Population Density," Wikipedia, accessed November 15, 2013, https://en.wikipedia.org/wiki/List_of_Chinese_administrative_divisions_by_population_density.

the over consumption phenomenon. They produced cheaper consumer products or substandard products to serve the need of the world market. Here is an explanation of how consumerism tricks the world population. “History of consumerism; consumerism is an economic theory which states that a progressively greater consumption is beneficial to the consumers. Since the 1800’s and the Industrial Revolution, the world has been consuming at a higher rate than ever before. The Revolution allowed products to be available in enormous quantities for the first time in history. Because of the decrease in cost known to bulk supply, products were basically made available to all. This unlimited access led to the era of Mass Consumption. It soon grew to be expected that people would have to have the latest model of the newest appliance. “Why have the old model? The new one was more efficient” This philosophy soon morphed into people buying newer models based on appearance rather than function, and consumption continued to grow. Since the 1950’s, people everywhere on the globe have consumed more goods than the combined total of people throughout history. There are five basic stages of the consumer cycle: extraction, production, distribution, consumption and disposal. This is the basis of material economy.”⁴²

3. Food scarcity and the law of diminishing returns in world food industries that caused fake food problems.
 - China food production chains; the Chinese government only focus on economic and technology in order to improve food

⁴² “History of American Consumerism,” American Consumerism and the Global Environment, accessed February 01, 2014, <http://www.mtholyoke.edu/~kelle20m/classweb/wp/page2.html>.

scale outputs but not on food safety standard that led to using too much pesticides and fertilizers by Chinese farmers.⁴³

- Chinese farmers were squeezed on the price of raw milk by their milk factories.⁴⁴
- The declining rate of moral standards in China, people eager to receive rapid returns caused a neglect and disregard of the people and good corporate governance.⁴⁵

4.2.2.2 Factors that Facilitated the Causes

1. A Cumbersome Government

(Slower in process, higher power intervention of the command chain)

2. Unscrupulous producers that act as a rules benders which cause the corruption i.e. Chinese courts reluctant to accept cases against Sanlu and other milk factories that prolonged the due process of the investigation. The delay of this process was directly affected by the intervention from the unscrupulous producer and the power of their government officials.

3. The exclusive supply for officials and special procurement to the national banquet is another clearly dubious result of facilitating counterfeit merchandise and fake food production.⁴⁶ “In a nation reeling from tainted-food scandals, organic products are mostly reserved for the rich and political elite only. Chinese government officials have exclusive suppliers, who do not advertise.”⁴⁷ “Just as China sends a manned spacecraft into orbit for its first docking mission, a news report about how Chinese astronauts depend on special food supply for nutrition and health has sparked widespread anger over the government’s failure to improve food

⁴³ Al Jazeera English, “101 East-China Food Safety.”

⁴⁴ Vaudine England, “Why China’s Milk Industry Went Sour,” BBC News, September 29, 2008, <http://news.bbc.co.uk/2/hi/asia-pacific/7635466.stm>.

⁴⁵ Al Jazeera English, “101 East-China Food Safety.”

⁴⁶ “The Exclusive Supply,” The 4th Media, November 22, 2011, <http://www.4thmedia.org/2011/11/22/the-exclusive-supply/>.

⁴⁷ Barbara Demick, “In China, What You Eat Tells Who You Are,” *Los Angeles Times*, September 16, 2011, <http://articles.latimes.com/2011/sep/16/world/la-fg-china-elite-farm-20110917>.

safety for the general public. Some even call on the authorities to apply the same stringent standards across the nation. According to the report, cows that produce milk for astronauts have to be screened over and over again. A couple of ‘high-spirited’ cows with ‘sleek, glossy hair’ are selected from dozens and raised separately. They will not be fed with any medication in the next month so that all drug residues in their bodies will be completely expelled during this withdrawal period. Then milk produced by these cows have to pass muster with the Quality control at the production base, the Launch Site Quarantine Inspection, and the Space Center Drug Inspection Administration to ensure its protein content, pH level meet standards before it can be passed onto the future space travelers. Pigs are raised in special pigsties where they can lie on the ground blanketed with sawdust basking in the sun and eat only corn and bran and nothing else. Even the corn bran they feed on are grown organically at the production base, and thereby pollution from pesticide residue can be tackled at its source.”⁴⁸

4. The outlaw business and the misuse of Trade Apparatus

Electronic Commerce (e-commerce) and the international trade routes which are roads, railways, maritime passages and airlines are the facilitated factors that helped the international counterfeit industry flourish. Electronic commerce is the most efficient and cost effective way of managing international business. E-Bay, Alibaba and the Chinese indigenous electronic commerce Taobao, are the most profitable online markets that were not foreseen much earlier in the world of business. The easy accession to the products and secured money transactions via the internet has been improved and advanced, so customers around the world can enjoy the convenience of shopping in an instant. Once the order is confirmed online and the purchase amount is transferred, the customer will receive delivery of their merchandise quickly and precisely. And sometimes, tax can be avoid too. Online shopping still has more than a few loopholes. Various cybercrimes occur right by the side of regular online activity. Counterfeit food and drugs are sold extensively on the internet, undermining consumer’s health day in and day out, not to mention all types

⁴⁸ Jing Gao, “Astronauts’ Special Food Supply Angers Chinese Netizens,” Ministry of Tofu, June 18, 2012, <http://www.ministryoftofu.com/2012/06/astronauts-special-food-supply-angers-chinese-netizens/>.

of counterfeit commodities that people are willing to buy, even though, they knew that it was faked and poor in quality. However, due to the price being incredibly low it empowers and makes possible a perceived change in one's financial status.

4.2.3 The Effects: Measurement from China and the World – Implementation, after Fake Food Scandals Occur

Melamine is disguised into two main food forms; *Filler*: milk powder, concentrate soy protein and wheat flour: *Gluten*. They are used in food industries across the world. The impact on food distrust in China and Southeast Asia is still occurring silently. For consumers, they are aware of the situation but meekly cross their fingers whilst counting on their government measure on food safety.

The European Food Safety Agency or EFSA has published a provisional statement and recommendation to apply a TDI of 0.5 mg per kg of body weight per day for the total of melamine and its referents (ammeline, ammelide, cyanuric acid).⁴⁹

The US FDA has published an interim safety/risk assessment on melamine and structural analogues which has established melamine's tolerable daily intake as (TDI) of 0.63 mg per kg of body weight per day.⁵⁰

The U.S. Food and Drug Administration has announced an action plan to counteract the melamine outbreak that was imported from China.

Import Alert # 99-29

Published Date: 06/03/2013

Type: DWPE

Import Alert Name:

"Detention without physical examination of all vegetable protein products from China for Animal or Human food use due to the presence of Melamine and/or Melamine analogs"

Reason for the Alert: In the preceding weeks, there was an outbreak of cat and dog deaths and illness associated with pet food manufactured with vegetable proteins contaminated with melamine and melamine related compounds. In response

⁴⁹ European Food Safety Authority, http://www.efsa.eu.int/EFSA/Statement/efsa_statement_melamine_en_rev1.pdf?ssbinary=true.

⁵⁰ "Interim Safety and Risk Assessment," US Food and Drug Administration, <http://www.cfsan.fda.gov/~dms/melamra.html>.

to this outbreak, the FDA conducted an aggressive and intensive investigation. Pet food manufacturers were obliged to recall dog and cat food and other suspect products and ingredients. This has been one of the largest pet food recalls in history, a recall that continues to expand. Thus far, 18 firms have recalled product, 17 Class I and 1 class II, covering over 5,300 product lines. As of April 26, 2007, the FDA had collected approximately 750 samples of wheat gluten and products made with wheat gluten and, of those tested thus far, 330 were positive for melamine and/or melamine related compounds. FDA had also collected approximately 85 samples of rice protein concentrate and products made with rice protein concentrate and, of those tested thus far, 27 were positive for melamine and/or melamine related compounds. The FDA's investigation traced all of the positive samples as having been imported from China.⁵¹ In the Year 2008, World Health Organization or WHO reacted to the Sanlu milk scandal by issuing 'The Melamine and Cyanuric acid: Toxicity, Preliminary Risk Assessment and Guidance on Levels in Food'.⁵² "This preliminary guidance is proposed as *a first pragmatic approach* until more data become available that allow a more detailed assessment. It has to be noted that currently there are large uncertainties involved in the assessment which preclude a more detailed guidance and emphasize the need for more data. WHO is presently *initiating action to develop a more thorough assessment through meetings of international scientists.*"(see Appendix H)

In January 2011, the U.S. government amended the Food Safety Modernization Act (FSMA). In Section 106, subsection (b) under this Act (in the subject of) international adulteration of food "Not later than 18 months after the date of enactment of the FDA Food Safety Modernization Act, the Secretary, in coordination with the Secretary of Homeland Security and in consultation with the Secretary of Agriculture, shall promulgate regulations to protect against the intentional adulteration of food subject to this Act." And also on subsection (c) of this Act "(c) Applicability.--Regulations promulgated under subsection (b) shall apply only to food for which there is a high risk of intentional contamination, as determined

⁵¹ "Import Alert 99-29."

⁵² World Health Organization, *Melamine and Cyanuric Acid: Toxicity, Preliminary Risk Assessment and Guidance on Levels in Food* (World Health Organization, 25 September 2008), p.2.

by the Secretary, in consultation with the Secretary of Homeland Security, under subsection (a), that could cause serious adverse health consequences or death to humans or animals and shall include those foods--”And on the subsection (d) "(d) Exception.--This section shall not apply to farms, except for those that produce milk.⁵³

BEIJING, Aug. 17 (Xinhua) -- China has established a complete law regime and technological guarantee system for food safety, said *a white paper on China's food safety* issued by the Information Office of the State Council on Friday afternoon. The white paper, first of its kind, said China now has a complete law regime providing a sound foundation and good environment for guaranteeing food safety, improving food quality and regulating food imports and exports. The specific laws include the Product Quality Law, Standardization Law, Metrology Law, Law on the Protection of Consumer Rights and Interests, Law on the Quality and Safety of Agricultural Products, Criminal Law, Food Hygiene Law, Law on Import and Export Commodity Inspection, Law on Animal and Plant Entry and Exit Quarantine, Frontier Health and Quarantine Law and Law on Animal Disease Prevention. There are also at least 13 specific administrative regulations and 10 departmental rules regarding food safety, according to the white paper. The paper denotes a food quality and safety standard system covering all categories, featuring a relatively rational structure and being fairly complete, has taken initial shape in China. The Standardization Administration administers the country's food standardization work, while relevant departments under the State Council are in charge of specific food standardization work in respective sectors. The paper said so far China has promulgated over 1,800 national standards concerning food safety, and over 2,900 standards for the food industry, among which 634 national standards are compulsory. To solve such problems as food safety standards overlapping each other and poorly organized, China has sorted out over 1,800 national standards, over 2,500 industrial standards, over 7,000 local standards and over 140,000 enterprise standards, repealing more than 530 national and industrial standards. Meanwhile, China has sped up the revision of over

⁵³ “Sec. 106. Protection Against International Adulteration,” U.S. Food and Drug Administration, accessed January 8, 2014. <http://www.fda.gov/food/guidanceregulation/fsma/ucm247548.htm#SEC106>.

2,460 national and industrial standards, issued over 200 new national standards, and worked out plans to enact 280 national standards. It has also worked hard to promote and enforce these standards, and urges food producing enterprises to strictly abide by them, said the paper.⁵⁴

However, the reaction from the severe corruption issues that occurred in the Chinese government at all levels, local and provincial, brought China's President, Xi Jinping to designate beyond the white paper. Vowing in his *campaign against corruption* in January 2013, The President vowed that no exceptions would be made in the corruption drive and no leniency granted, adding: "Power should be restricted by the cage of regulations."⁵⁵

Figure 4.6
Reaction from Japanese Producer



The occurrence of fake food and milk scandals from China are considered as a crime to humanity. Entire institutional sectors of commercial trade had an

⁵⁴ "White Paper: China Build Food Safety Law Regime, Technological Guarantee System," Xinhua, August 17, 2008, http://news.xinhuanet.com/english/2007-08/17/content_6553336.htm.

⁵⁵ "Xi Jinping Vows to Fight 'Tigers' and 'Flies' in Anti-Corruption Drive," *The Guardian*, January 22, 2013, <http://www.theguardian.com/world/2013/jan/22/xi-jinping-tigers-flies-corruption>, last viewed, 04/01/2014.

abhorrent reaction to the evidence of fake food and fake milk formula within the global community. They issued new measures and International Operations or Task Forces to cope with the international fake food outbreaks. It also forced the number 1 Japanese milk producer to counteract the happening of the Chinese fake milk scandal by initiating a campaign to elucidate its consumers around the world and supporting its credibility, noting especially that the Meiji brand is still strictly under the Japanese standard with no compromise in quality. This position was taken to counteract the fake milk formula incident, not only for the sake of maintaining Meiji the milk company's market share, but also as its board were concerning with its company credibility to provide safe products to their consumers around the world. This is one example as to the cause and effect of fake food incident. Such examples can seriously damage the international community.

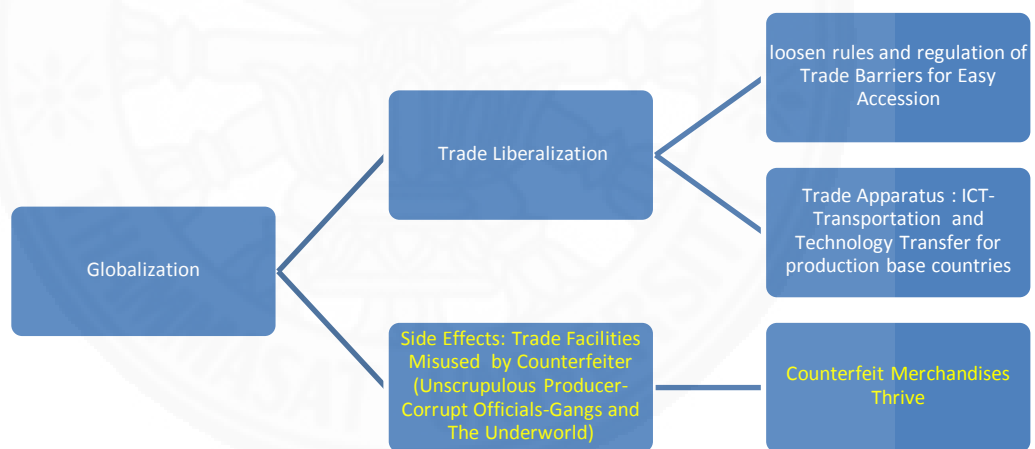
CHAPTER 5

CONCLUSIONS

What do we know about Globalization and Fake Food? International political economic activities are the driving forces that facilitate international trading apart from other infrastructure facilities which eventually pave the way to prosperity for the world population. The deviant of Globalization has caused international outlaw activities including the infiltration of fake food phenomena in the world market.

This is my version of understanding how counterfeit merchandises thrive.

Figure 5.1
Ramification of the Globalization.



The World Customs Organization explained that “Customs commercial fraud is not only subject to developing countries, but also has implications to the developed countries. Customs commercial fraud perpetrators are taking advantage of

every opportunity presented in the multi-modal transportation systems and trade patterns to execute a variety of schemes.”¹

My argument regarding the fake food trend lands upon; “Why has China kept on producing this dangerous food?”, “What is the cause?” and “Does the dark side of globalization have anything to with the issue?” According to what I have found, there are factors that cause the issue and factors that help spawn fake food to the world markets.

The cause of fake food is the need of consumers, they need food and commodity and they need it cheap, while the price of the authentic food in the world markets tending to get higher. The Chinese have the answer for the world population, “China’s comparative advantage lies primarily in low-end manufacturing, where it is able to exploit the huge supply of cheap unskilled labor and thereby produce at rock-bottom prices or Chinese prices as the new global benchmark became known as for the world market”.²

5.1 Ontology of Fake Food

1. The cause of fake food was enticed by the rapid demand of low price food and the inadequate supply of food.
2. Facilitated by the unscrupulous producers and the corrupted officials.
3. Fostered by the Underworld who benefited by using Globalization’s apparatus.

To understand fake food and the fake goods industry, we need to take a look at two different aspects, firstly on the perspective of globalization as a trade apparatus by the west. Secondly is through the political ideology and social backdrop of a communist country like China.

¹ “Enforcement and Compliance,” World Customs Organization, accessed April 25, 2013, http://www.wcoomd.org/en/topics/enforcement-and-compliance/activities-and-programmes/ep_commercial_fraud.aspx.

² Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order*, 2nd ed. (New York: Penguin Books, 2012), 213.

“Yet there is still no consensus on how to define globalization.” “We define globalization as the *cross-border integration of value-added economic activity*. This integration happens because the core ingredients of economic activity – goods, services, money, people and ideas, in no particular order – have become increasingly mobile across space, time, and political boundaries.”³

Globalization surely does give everyone a chance of prosperity but also leads to consumerism⁴ and that made the exploitation of resources worldwide rampant, resulting in world food scarcity and inflated prices. That’s when and where fake food emerges.

5.1.1 Sociological Aspect

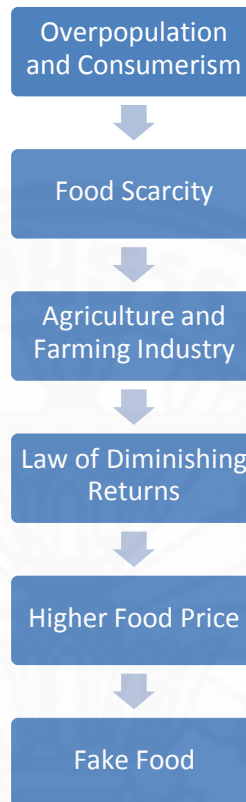
Why counterfeiting?

The answers might be high profit, a lack of raw materials in the region, food shortage, overpopulation or the side effect of globalization and loosened custom rules and regulations. Ergo, the spillover effect (technology transfer made technology knowhow in producing counterfeit goods including Fake Food) that led to the price war in the battle for market share.

³ Nils Gilman, Jesse Goldhammer and Steven Weber, *Deviant Globalization: Black Market Economy in the 21st Century* (New York: Bloomsbury Academic, 2011), 6.

⁴ “History of American Consumerism,” American Consumerism and the Global Environment, accessed February 01, 2014, <http://www.mtholyoke.edu/~kelle20m/classweb/wp/page2.html>.

Figure 5.2
Overpopulation Is Another Factor That Effected Food Security in China and the World.



Food scarcity made the price of authentic food higher. New technology enhanced the yields in agriculture and in the farming industry, but in the long run the law of diminishing return marked the price of food even higher. More productivity was equaled to that of more fertilizers and pesticides and the left over pesticide residue polluted soil, underground water and the rivers.

Unscrupulous Producers see a loophole that came after the food scarcity effect which is an opportunity to sell cheap food that led to a fake food industry when morality and business ethics would not prevail against the surety of absence and hunger.

Cut throat competition in the world food market versus a tremendous demand of food shaped a loophole for the unscrupulous producer to reduce their costs of production provided they completely forego any morality or business ethics.

To be fair with China, property rights also cause the higher price of commodities in the west, versus the non-ethic 'bred' items with little property rights that are produced in China. So, what exactly should be the world standard?

The conflict among global enterprises to be the 'Authentic King' and the price competition of the world market is so controversial. The high quality products such as Swiss-Made-Watches, the American Standard products and the Made in China Knockoffs are the choices that are on the world market. Can China create a new world standard? Certainly yes, by producing super high quality products and selling them at reasonable prices. China would then create a new world standard, and according to the law of wholesaling, less in margin per unit but high in sale volume equals higher profits to the producer.

5.1.2 A Scheme to Discredit China

Marketing strategy is so utterly crucial in terms of contest when we do business in today's business world. Price competitive for example; China beats all competitors around the globe with its price significance (Predatory Pricing) and their super speed of production. The only way to stop China from rising up to become the only World Power is to discredit products from China i.e. assemble and publish a list of beware products and property rights violations products from China. So far, China is still unscathed from any such attempt.

However, there are a lot of websites and pages on the internet that seem to suspect China sourced products, they monitor Chinese business activities concerning fake food and fake commodity. One such website is 'Ministry of Tofu'. It has a motto written on the front page "News and articles of China's justice, people's lives and mentality." This website pursues ideal health and justice for the Chinese community

and in so doing definitely undermines China's creditability when fake food and counterfeit scandals seem to be perpetuating.⁵

5.1.3 China – Food Safety Standard - Corruption

The cumbersome Government and rule benders are the cause of the corruption. Mr. Deng, an associate professor of sociology at the University of Massachusetts, Boston, said China's leaders were warned more than two decades ago that corruption threatened Communist rule. Since then the scale had vastly increased, while economic uncertainty and social concerns have given the party "a sense of urgency about the need to do something".⁶

The pervasive corruption in China is a crucial key that has facilitated the counterfeit industry. The corrupted officials who hold the power over state-run enterprises do not care much about private property rights or consumer safety standards. They produce and sell their products only for their own benefits. They do not care about the creditability of China. They do not have a moral meter for Chinese society. Everyone in China has shown the world that they are actually individualistic, not Communist in trait. From all levels of society, the Communist Party's officials or the commoners, they are struggle for their own fortunes and to get to the rim of prosperity.

Chinese gangsters play roles in this outlaw economy. According to the news report from The Economist Magazine, in the article "*China's other face - the red and the black*", which describes 'the gang's' interference with Chinese political culture "Mr. He⁷ writes that gangs are infiltrating government at ever-higher levels, even into the senior reaches of provincial governments and central ministries. An obvious difference between modern Gangsterism and its pre-revolutionary counterpart is that

⁵ Jing Gao, "Astronauts' Special Food Supply Angers Chinese Netizens," Ministry of Tofu, June 18, 2012, <http://www.ministryoftofu.com/2012/06/astronauts-special-food-supply-angers-chinese-netizens/>.

⁶ "Xi Jinping Vows to Fight 'Tigers' and 'Flies' in Anti-Corruption Drive," *The Gurdian*, January 22, 2013, <http://www.theguardian.com/world/2013/jan/22/xi-jinping-tigers-flies-corruption>, last viewed, 04/01/2014.

⁷ Mr.He Bingsong the author who wrote the book on organised crime, produced by a Police-Affiliated Publishing House in Beijing.

few gangs today are known by their names—unlike the famous Green Gang, a powerful force in pre-communist Shanghai, or Chongqing's Robed Brothers, who controlled the city's opium trade and gambling. China before 1949 was a chaotic mix of competing political, military and criminal forces. In the far more monolithic political culture of today, home-grown gangs usually prefer not to give themselves names to avoid provoking the party. Named groups with their headquarters in Hong Kong and Taiwan, however, such as the Sun Yee On triad and the United Bamboo gang, also operate in China. Throughout Chinese history, movements that have toppled dynasties have sometimes started as gangs and secret societies.”⁸

China's leader, President Xi Jinping is trying to clean up the cumbersome government of China into a free of corruption organism to ensure its own creditability to the world. “Xi's signature initiative so far has been what he has called a “*thorough cleanup*” of the party, with cadres told to “take baths” *to purify themselves of greed, extravagance, laziness and hedonism, to reconnect with the grass roots and to firmly adhere to Marxist ideology*. Xi's second, and related, campaign has been a wide-ranging attempt to battle corruption, to *bring down* both the “tigers” and the “flies” — the high-ranking and lower-level officials whose actions have undercut the party's popularity.”⁹

5.1.4 Melamine as a Food Additive

“Is it safe to consume?” Is this the same as the controversial Monosodium Glutamate (MSG) was before?

MSG was invented by the Japanese and we still have no undisputed settlement as to the safety and end consequence of consuming MSG, whether it has side effects to our human health or not. Although, “Chinese Restaurant Syndrome” happens when people consume high volumes of food that contain monosodium glutamate which can damage the nerve system in your eyes, reduce hemoglobin in

⁸ “The Red and the Black,” *The Economist*, October 1, 2009, http://www.economist.com/node/14539628?story_id=14539628.

⁹ Simon Denyer, “China's Leader, Xi Jinping, Consolidates Power with Crackdowns on Corruption, Internet,” *The Washington Post*, October 3, 2013, http://articles.washingtonpost.com/2013-10-01/world/42548964_1_zhang-lifan-xi-jinping-new-leader.

human blood and dysfunction of human skin.¹⁰ The fact is people are aware that MSG might have some side effects in the long run, though they don't take it too seriously, which is different from adding melamine in food, melamine is not food. It was made out of an inorganic substance used in the coal mining industry and people don't know that it is put in food at all. Tang is a fruit flavored drink invented in 1957 by the Americans. NASA used it to serve as food in the Gemini Mission Space Program. They conducted an eating experiment in orbit, should we call that fake food as well?¹¹

5.2 In Conclusion

In this 21st century, the world has seen a vast impact from the Chinese counterfeit industry. The Unscrupulous Producers, Crime Syndicates and Trafficking Organizations are the flip side of Multinational Corporations (MNCs). They are rooted in China and in many parts of the world.

The legitimate corporations whom had been booming in the early era of globalization, in the 20th century, are now struggling from the negative global effects, which caused the deviant of globalization so called "Counterfeit Industry".

The cause of fake food is the culmination of the higher of food demand, when cheap food is required and in having large excesses of melamine from the coal mines(in China). The Fake food phenomena is facilitated and fostered by the unscrupulous producers, the corrupted officials and the underworld that use the globalization apparatus which are electronic commerce (e-commerce) and established international trade routes; these are roads, railways, maritime passages, airlines and, of course international trade agreements that freer the flow of goods and commodities into the world market by using the same trade facilities and same customs regulations as the lawful merchandises do. To prevent melamine infiltration into the world food industry, *melamine should be listed as a precursor* for governments to monitor. Be it

¹⁰ “อันตรายของผงชูรส,” [Dangerous of Monosodium Glutamate], TruePlookpanya.com, May 27, 2012, http://www.trueplookpanya.com/new/cms_detail/general_knowledge/10246.

¹¹ “Tang (drink),” Wikipedia, accessed November 2, 2013, [http://en.wikipedia.org/wiki/Tang_\(drink\)](http://en.wikipedia.org/wiki/Tang_(drink)).

Melamine factories or the coal mines, i.e. where it is produced and where it goes after that. Make it easier to trace back the source of its origin. The flour factories in China and elsewhere in the world should be monitoring for any red flags in the case of any penetration of melamine into its stockpile because if the process of the disguise is successful, the chance of melamine detection is slim to none.

According to an interview with the chief of The National Food Institution of Thailand (NFI), current events show no signs of a fake food incident. This maybe because of the Chinese government's actions and/or that the world is taking more effective measures in its melamine-monitoring after the shocking incidents that occurred in the year 2007 and the year 2008. The Food Intelligence Center and NFI are carefully monitoring the situation to prevent fake food scandals that might occur again in the future.

In contrary, China's Price Phenomenon on commodity apart from and aside from fake foods has been paving the way for the world population to reach a utopian society where everyone has almost the same standard of living. No one needs to struggle to have a lot of money to buy food, commodity and luxury products like they used to do in the Capitalism era. A better price is great but China needs to monitor the fake food situation more seriously to sustain its own creditability in the world market.

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APPENDICES

APPENDIX A

HOW CHINA IS RULED: POLITBURO

Flow chart explaining how China is governed



Politburo

Every significant decision affecting China's 1.3bn people is first discussed and approved by a handful of men who sit on the party's political bureau (politburo), the nexus of all power in China.

The 24-member Politburo is elected by the party's central committee. But real power lies with its nine-member standing committee, which works as a kind of inner cabinet and groups together the country's most influential leaders.

How the standing committee operates is secret and unclear. But its meetings are thought to be regular and frequent, often characterized by blunt speaking and disagreement.

Senior leaders speak first and then sum up, giving their views extra weight. The emphasis is always on reaching a consensus, but if no consensus is reached, the majority holds sway.

Once a decision has been made, all members are bound by it. Although policy disagreements and factional fighting are widely believed to take place in private, it is extremely rare for these to break into the public domain.

When they do - as happened in 1989 when the leadership battled over how to deal with the Tiananmen protests - it is a sign of an all-out power struggle. New politburo

members are chosen only after rigorous discussion and investigation of their backgrounds, experience and views.

To reach the top, people need a strong record of achievement working for the party, to have the right patrons, to have dodged controversy, and to have avoided making powerful enemies.

Regional Power

Members of the standing committee also share out the posts of party general-secretary, premier, chairman of the National People's Congress, and head of the Central Discipline Inspection Commission.

The full politburo tends to include party secretaries from big municipalities like Beijing and Shanghai, and from important provinces like Guangdong.

Recently, the wealth generated by China's economic reforms has led some analysts to suggest the power of the center is waning.

It is pointed out that party secretaries of large provinces like Sichuan and Guangdong are in charge of populations bigger than most European countries, and that their tax revenues are vital to Beijing.

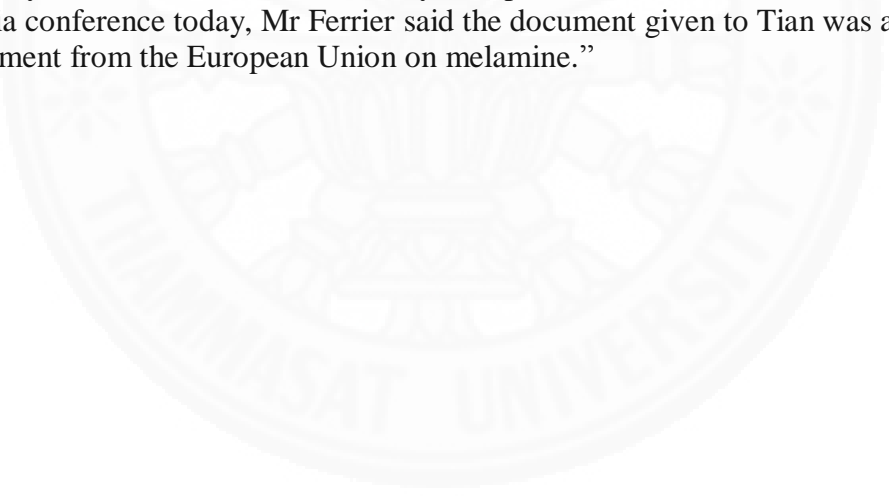
But it is difficult to see them getting free from Beijing's political grip so long as the country's political system remains so closed.¹

¹“How China Is Ruled: Politburo,” BBC News, October 8, 2012, <http://www.bbc.co.uk/news/world-asia-pacific-13904441>.

APPENDIX B
FONTERRA SANLU STATEMENT – MELAMINE
UNACCEPTABLE

Uploaded by nzheraldtv on Jan 27, 2009,
<http://www.youtube.com/watch?v=iaeAhCEStcc>

“It was repeatedly made clear in phone calls to the Chinese company that sold milk formula fatally contaminated with melamine that the chemical should not be used, Fonterra's chief executive said today. Six babies died and hundreds of thousands of infants last year developed kidney disease after consuming contaminated milk formula produced by Sanlu, a company which was 43 per cent owned by Fonterra. Former Sanlu chairwoman TianWenhua, 66, has claimed a Fonterra-appointed director gave her a document stating the European Union's permitted levels of the industrial chemical melamine were a maximum of 20mg to every kg of milk. Fonterra chief executive Andrew Ferrier confirmed to the Herald yesterday that Tian had been given a document by a Fonterra board member. However, he said Fonterra was "vividly clear" to Sanlu that the only acceptable level of melamine was zero. At a media conference today, Mr Ferrier said the document given to Tian was a provisional statement from the European Union on melamine.”



APPENDIX C
SAN LU MILK POWDER – FONTERRA SAY SORRY –
COMPANY VIDEO

Uploaded by nzheraldtv on Sep 23, 2008,
<http://www.youtube.com/watch?v=sim9x65AIqk>

“Fonterra says the Chinese milk contamination scandal will cost it at least \$139 million. Announcing the company's annual results today, Fonterra revealed the full impact on its Chinese partner San Lu of the controversy, which has left at least four infants dead after consuming baby formula containing melamine. Fonterra chairman Henry van der Heyden said: "We are certainly not putting the financial consequences ahead of our primary priority of consumer safety. We are focusing all our efforts on what Fonterra can best do to work with the Chinese authorities and help get safe dairy products to Chinese consumers." The \$139 million estimate is made up of the cost of recalling products plus Fonterra's "anticipated loss of San Lu brand value". Fonterra has poured nearly \$200 million into the joint venture since buying a 43 per cent stake in December 2005, but the investment has been gutted by last month's announcement that Sanlu has been selling poisonous infant formula for babies. This video is an edited Company Press release from Fonterra and published with permission granted to the New Zealand Herald”

APPENDIX D

CORE ROLES OF WCO AND ITS MEMBERS CONCERNING ISSUES OF PUBLIC HEALTH AND SAFETY

World Customs organization

The following issues, identified through a process of scanning the international environment and drivers, have guided the preparation of the 2009/2010 - 2011/2012 Strategic Plan. The environment in which the WCO and its Members operate will continue to be defined by the core roles of Customs: (1) Revenue collection; (2) National security; (3) Community protection; (4) Trade facilitation; and (5) Collecting trade data. The following list includes many of the current challenges faced by Customs administrations around the world today:

- The need for the Customs community to be responsive to the global financial crisis and join global efforts to sustain confidence in the trading system. It is important to avoid the introduction of new barriers to trade, or measures that will increase costs and generate additional delays at the border. The use of risk management is a key element in this connection;
- The adoption by the WCO Council of the policy document, “Customs in the 21st Century”, as the high-level strategic direction of the WCO Secretariat and WCO Members, which embodies a new strategic perspective and policies that will shape the role of Customs in the 21st Century;
- Continued investment by the private sector in modern manufacturing, information and supply chain management systems, supported by information and communication technologies, and a resultant increase in expectations for prompter and more cost-efficient and predictable border processing of goods and people;
- Heightened awareness of the external drivers that add complexity to the global trade landscape, including initiatives to further liberalize trade and more complex trade rules;
- Proliferation of regional trade agreements involving preferential rules of origin, resulting in a variety of rules of origin and procedures, which add costs to both governments and businesses;
- Greater awareness of the factors that increase the vulnerability of the international trade supply chain, including international terrorism, transnational organized crime, drug trafficking and revenue fraud, and the resultant increase in expectations for strengthened border control while ensuring continued improvements in trade facilitation, which also concerns issues of public health and safety as well as environmental issues;

- Heightened awareness of the adverse economic and social effects of the infringement of Intellectual Property Rights;
- More complex policy and procedural requirements associated with meeting international commitments and standards for efficient and effective border procedures, that enhance co-ordination and co-operation among border agencies;
- Increased awareness of the importance of Customs as a key vehicle for economic growth, social development and national security, and the resultant need for governments and donor organizations to invest in sustainable capacity building activities in Customs, supported by research-based strategy and professionalism;
- Increased awareness of the implementation of good governance and sound integrity within Customs services in co-operation with stakeholders, as a foundation for development policy and capacity building;
- Constraints on budget and human-resource allocation notwithstanding the increase in workload and government expectations; and
- Changes in organizational arrangements reflecting changes in government priorities.

WCO Members join together to fight imports of substandard and counterfeit electrical products: Brussels, 24 October 2011

Press Release

- Forty-three WCO Member Customs administrations joined in an operational effort to fight imports of substandard and counterfeit electrical products in “Operation Short Circuit” which began in July and concluded in September 2011.
- Initiated by US Immigration and Customs Enforcement (ICE), the Operation was facilitated by the WCO CENcomm platform; a unique tool for Customs administrations to rapidly share information and intelligence spontaneously with their partners across the globe.
- Worldwide, 388 shipments were seized within the operational period, resulting in the seizure of the following substandard and/or counterfeit commodities: 4.760 boxes of holiday lights; 359 boxes of surge protectors; 3.736 boxes of extension cords; 791.936 individual batteries; 17.873 boxes of batteries; 41.621 power supplies; 34.050 power adaptors; and 115.231 chargers.
- Apart from seizures, Operation Short Circuit generated important intelligence on companies involved in the production and trade in such products, which in many cases are dangerous to public health and safety as insulation is too thin or batteries do not contain proper ventilation mechanisms that could cause them to explode.

- “Operation Short Circuit provided an ideal opportunity for increased cooperation between Customs administrations and other national authorities in charge of consumer product safety,” said Secretary General of the WCO, Kuniomikuriya. “The fruits of this cooperation are reflected in the large number of seizures of dangerous products that could otherwise have ended up on the market,” Mikuriya added.
- The WCO Secretariat supports such international initiatives as they clearly demonstrate the important role Customs plays in protecting consumers, in fighting organized crime structures involved in the production of dangerous counterfeit products, and in securing jobs in the legal trade.

Drugs and Chemical Precursors

The Paris Pact

At the 22 May 2003 Paris Ministerial Conference on the Drug Routes from Central Asia to Europe, the United Nations Office on Drugs and Crime (UNODC) Executive Director, Antonio Maria Costa, proposed a new partnership among all countries and parties affected by opium originating from Afghanistan, with the participation and contributions of relevant international and regional organizations. The adoption of this partnership was then taken up by Mr. Dominique de Villepin, Minister for Foreign Affairs of France, in his concluding remarks. The “Paris Pact” idea and the need for stronger and well-coordinated programs against heroin trafficking from Afghanistan were subsequently raised during the G-8 Evian Summit and the 17th June 2003 Special Session of the Security Council on Afghanistan. Following informal consultations with affected countries and international organizations, the UNODC proposed “Paris Pact consultations”.

The Policy Consultative Group of the “Paris Pact” is composed of senior officials from governments from G8 countries, EU members or candidate countries, affected countries, and international organizations. It meets annually to consider proposals made by the Expert Roundtables. The Operational/Expert Level Roundtables comprise senior operational experts, technical experts from focus countries, law enforcement experts, drug enforcement strategy and interdiction specialists, potential bi-lateral assistance contributors, donors and international/regional organizations with an enforcement mandate (Europol, ICPO-Interpol and WCO).

The World Customs Organizations regularly attends both the Policy Consultative Group- and the Expert Roundtables-Meetings.

Project Prism

In June 2002, the International Narcotics Control Board (INCB) convened an international meeting on precursors for Amphetamine-Type Stimulants (ATS). The meeting was held at Washington D.C. in co-operation with the European Commission and the Government of the United States of America. It had been attended by representatives from 38 countries. The meeting launched Project Prism, an

international initiative focusing on the five major stimulant precursors (ephedrine and pseudoephedrine for methamphetamine, P-2-P for amphetamine, 3,4-MDP-2-P and safrole for Ecstasy) and on the equipment used in the illicit manufacture as well as the use of the Internet in diverting chemicals and equipment.

The project creates a network of competent national authorities in order to give Governments the capacity to address the ATS problem. It also conducts intensive backtracking operations which facilitate easy identification of the source of precursors and equipment and the method of diversion, techniques of smuggling, etc., even if the consignments moved across countries.

Under the auspices of the International Narcotics Control Board, Project PRISM consists of participating countries and the Task Force. The World Customs Organization is a constant member of the Project Prism Task Force and assists the Programme within the scope of its possibilities.

Project Cohesion

The Steering Committees of “Operation Purple” (monitoring the diversion of potassium permanganate) and “Operation Topaz” (monitoring the diversion of acetic anhydride) decided during a combined meeting, convened by the International Narcotics Control Board (INCB) in October 2005, to merge the operational activities of the two programmes. The meeting decided on a revised mechanism called “PROJECT COHESION”, a global initiative aimed at assisting countries in addressing the diversion of acetic anhydride, a precursor chemical illegally used to produce heroin, and potassium permanganate, a precursor chemical illegally used to produce cocaine. Project Cohesion provides a platform from which time-bound regional operations can be launched, investigations into seizures and stopped shipments can be coordinated and licit trade can be monitored.

The World Customs Organization is a member of the Project Cohesion Task Force.

WCO’s Work on Customs Commercial Fraud

Customs commercial fraud is not only subject to developing countries, but also has implications to the developed countries. Customs commercial fraud perpetrators are taking advantage of every opportunity presented in the multi-modal transportation systems and trade patterns to execute a variety of schemes.

Further, it is suspected that some aspects of Customs commercial fraud, in particular overvaluation, have been linked to money laundering. Such disguised illegal capital outflows could provide criminal groups with funds for other criminal acts such as arms purchases/sales, drug smuggling, etc. It remains a long-standing issue, especially because of its varied modalities and sophisticated nature.

In order to effectively prevent and detect commercial fraud, Customs needs to employ a strategic multi-faceted approach, including capacity building and international cooperation.

The WCO has provided Members with a platform to discuss the ways and means to combat commercial fraud. In order to provide members with best practices on this subject, the WCO has developed International Conventions and adopted several recommendations.

Furthermore, in response to requests from members to build their capacity to counter the problem of commercial fraud, the WCO produced a number of technical materials.

WCO's instruments and technical material could be categorized in:

I. Technical and training publications

II. Guidance in designing an effective Customs enforcement structure and implementing control measures

III. Bilateral and multilateral instruments for administrative assistance, including for a better exchange of information

IV. Commercial fraud section within the Customs Enforcement Network (CEN) for Members' intelligence and risk assessment applications

V. A Model of joint Customs operations as a new and valid instrument to combat Commercial Fraud

- **Creation of the Working Group on Commercial Fraud**

The Council at 105th/106th Sessions in June 2005 adopted a Members proposal to create a Working Group on Commercial Fraud. The Working Group is to:

(i) Undertake a study to ascertain the felt needs of Member States in the area of combating commercial fraud and their views on possible methods of international cooperation in tackling commercial fraud;

(ii) Study and highlight linkages between commercial fraud, money laundering, organized crime and terrorism;

(iii) Devise effective and acceptable means of international cooperation to combat commercial fraud;

(iv) Develop a dedicated international instrument for addressing the problem of commercial fraud, for approval of Member States.

The Working Group, consists of WCO Member administrations nominated by the respective Regional Vice Chairs, met in December 2005 and discussed a number of pertinent topics.

APPENDIX E

US-CHINA TRADE STATISTICS AND CHINA'S WORLD TRADE STATISTICS

Table 1: China's Trade with the United States, 2001-10 (\$ billion)¹²¹

Notes: *Calculated by USCBC. US exports reported on a free-alongside-ship basis; imports on a general customs-value basis.

Source: US Department of Commerce; US International Trade Commission (ITC)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
US exports	19.2	22.1	28.4	34.7	41.8	55.2	65.2	71.5	69.6	91.9
% change*	18.3	14.7	28.9	22.2	20.5	32.0	18.1	9.5	-2.6	32.1
US imports	102.3	125.2	152.4	196.7	243.5	287.8	321.5	337.8	296.4	364.9
% change*	2.2	22.4	21.7	29.1	23.8	18.2	11.7	5.1	-12.3	23.1
Total*	121.5	147.2	180.8	231.4	285.3	343.0	386.7	409.2	366.0	456.8
% change*	4.5	21.2	22.8	28.0	23.3	20.2	12.8	5.8	-10.6	24.8
US balance	-83.0	103.1	124.0	162.0	201.6	232.5	256.3	266.3	226.8	273.1

Table 2: Top US Exports to China, 2010 (\$ billion)

*Calculated by USCBC

Source: ITC

HS#	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	11.5	21.9
84	Power generation equipment	11.2	33.6
12	Oil seeds and oleaginous fruits	11.0	18.1
88	Aircraft and spacecraft	5.8	8.0
90	Optics and medical equipment	5.2	31.2
39	Plastics and articles thereof	4.8	10.5
87	Vehicles, excluding rail	4.5	134.4
28, 29	Inorganic and organic chemicals	4.5*	34.2*
47	Pulp and paperboard	3.0	22.0
74	Copper and articles thereof	2.9	62.0

¹²¹ The US-China Business Council, accessed January 17, 2012, <https://www.uschina.org/statistics/tradetable.html>.

Table 3: Top US Imports from China, 2010 (\$ billion)

*Calculated by USCBC

Source: ITC

HS#	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	90.8	24.5
84	Power generation equipment	82.7	32.5
61, 62	Apparel	28.8*	18.1*
95	Toys, games, and sports equipment	25.0	7.7
94	Furniture	20.0	24.5
64	Footwear and parts thereof	15.9	19.4
39	Plastics and articles thereof	9.6	20.1
72, 73	Iron and steel	8.4*	4.4*
42	Leather and travel goods	7.5	24.4
90	Optics and medical equipment	7.0	25.7

Table 4: China's Trade with the World, 2001-10 (\$ billion)

Notes: *Calculated by USCBC. PRC exports reported on a free-on-board basis; imports on a cost, insurance, and freight basis.

Source: PRC National Bureau of Statistics

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7	1,201.6	1,577.9
% change*	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.5	-16.0	31.3
Imports	243.6	295.2	412.8	561.2	660.0	791.5	956.0	1,132.6	1,005.9	1,394.8
% change*	8.2	21.2	39.8	35.9	17.6	19.9	20.8	18.5	-11.2	38.7
Total	509.7	620.8	851.0	1,154.6	1,421.9	1,760.4	2,173.7	2,563.3	2,207.5	2,972.8
% change*	7.5	21.8	37.1	35.7	23.2	23.8	23.5	17.9	-13.9	34.7
Balance	22.6	30.4	25.5	32.1	102.0	177.5	261.8	298.1	195.7	183.1

Table 5: China's Top Exports, 2010 (\$ billion)

*Calculated by USCBC
Source: PRC General Administration of Customs, *China's Customs Statistics*

HS#	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	388.8	29.1
84	Power generation equipment	309.8	31.4
61, 62	Apparel	121.1*	20.5*
72, 73	Iron and steel	68.1*	44.1*
90	Optics and medical equipment	52.1	34.0
94	Furniture	50.6	30.0
28, 29	Inorganic and organic chemicals	43.2*	34.9*
89	Ships and boats	40.3	42.1
87	Vehicles, excluding rail	38.4	37.5
64	Footwear	35.6	27.1

Table 6: China's Top Imports, 2010 (\$ billion)

*Calculated by USCBC
Source: PRC General Administration of Customs, *China's Customs Statistics*

HS#	Commodity description	Volume	% change over 2009
85	Electrical machinery and equipment	314.4	29.0
27	Mineral fuel and oil	188.7	52.1
84	Power generation equipment	172.3	39.4
26	Ores, slag and ash	108.6	54.9
90	Optics and medical equipment	89.8	34.1
39	Plastics and articles thereof	63.7	31.3
28, 29	Inorganic and organic chemicals	58.2*	37.2*
87	Vehicles, excluding rail	49.5	74.5
74	Copper and articles thereof	46.1	55.8
72, 73	Iron and steel	34.5*	-6.1*

Table 7: China's Top Trade Partners, 2010 (\$ billion)Source: PRC General Administration of Customs, *China's Customs Statistics*

Rank	Country/region	Volume	% change over 2009
1	United States	385.3	29.2
2	Japan	297.8	30.2
3	Hong Kong	230.6	31.8
4	South Korea	207.2	32.6
5	Taiwan	145.4	36.9
6	Germany	142.4	34.8
7	Australia	88.1	46.5
8	Malaysia	74.2	42.8
9	Brazil	62.5	47.5
10	India	61.8	42.4

Table 8: China's Top Export Destinations, 2010 (\$ billion)Source: PRC General Administration of Customs, *China's Customs Statistics*

Rank	Country/region	Volume	% change over 2009
1	United States	283.3	28.3
2	Hong Kong	218.3	31.3
3	Japan	121.1	23.7
4	South Korea	68.8	28.1
5	Germany	68.0	36.3
6	The Netherlands	49.7	35.5
7	India	40.9	38.0
8	United Kingdom	38.8	24.0
9	Singapore	32.3	7.6
10	Italy	31.1	53.8

Table 9: China's Top Import Suppliers, 2010 (\$ billion)

Source: PRC General Administration of Customs, *China's Customs Statistics*

Rank	Country/region	Volume	% change over 2009
1	Japan	176.7	35.0
2	South Korea	138.4	35.0
3	Taiwan	115.7	35.0
4	United States	102.0	31.7
5	Germany	74.3	33.4
6	Australia	60.9	54.1
7	Malaysia	50.4	55.9
8	Brazil	38.1	34.7
9	Thailand	33.2	33.3
10	Saudi Arabia	32.8	39.2

APPENDIX F

CHINA MILK SCANDAL TIMELINE

Timeline: China milk scandal; “Dangerously high levels of the industrial chemical melamine in powdered baby milk and other dairy products in China sparked worldwide safety concerns. The BBC looks at how the saga unfolded.

10 Sept: China reveals that 14 babies fell ill in Gansu province over the previous two months. All drank the same brand of milk powder. Cases start being reported around China.

12 Sept 2008: Sanlu Group admits that its milk powder was contaminated with the toxic chemical melamine.

13 Sept: Production halts at Sanlu Group. Nineteen people are arrested.

15 Sept: Beijing confirms two babies have died. Vice-president of the Sanlu Group apologizes to the public.

19 Sept: Melamine is found in ordinary milk from three well-known dairies. One of the firm’s involved - Mengniu dairy - recalls all its products.

22 Sept: Toll of ill babies rises to 53,000, and the death toll to at least four. The head of China's quality watchdog resigns, becoming the first national leader to step down because of the scandal.

23 Sept: Countries across Asia start either to test Chinese dairy products or to pull them from shops.

26 Sept: The EU bans Chinese baby food with milk traces. Sales of the popular sweet White Rabbit are halted after tests detect melamine.

29 Sept: Cadbury recalls products in Asia after tests find traces of melamine. Reports say 22 people have been arrested in Hebei province, suspected of introducing melamine into the supply chain.

15 Oct: Nearly 6,000 infants remain in hospital across China suffering kidney diseases. Six are in a serious condition.

21 Oct: About 1,500 raccoon dogs bred for their fur on a farm in China die of kidney failure after eating feed tainted with melamine.

23 Oct: Six more people are arrested in connection with the tainted milk scandal.

26 Oct: Hong Kong authorities discover eggs produced by Dalian Hanwei Group contain melamine. They are pulled off the shelves.

30 Oct: Two more egg brands from Shanxi and Hubei provinces are found to contain melamine.

31 Oct: State media admit that melamine is probably being routinely added to Chinese animal feed.

2 Nov: A Chinese official insists the egg scandal is an individual case and clamps down on illegal producers of feed.

14 Nov: The US issues a nationwide "import alert" for Chinese-made food products.

18 Nov: The Chinese government allows the US to station officials in three cities to help ensure the safety of Chinese exports.

23 Dec: Sanlu files for bankruptcy.

26 Dec: Six men become the first to go on trial in China in connection with the scandal. They are accused of making and selling melamine.

27 Dec: Dairy firms involved in the scandal are to compensate the nearly 300,000 people affected, according to state media.

31 Dec: The trial of four Sanlu company executives begins.

2 Jan 2009: 22 companies involved in the scandal apologize and ask for forgiveness in a New Year text message sent to millions of mobile phone users.

8 Jan: The death of a two-month-old boy after he consumed baby milk powder produced under new guidelines is investigated.

9 Jan: China says it has arrested 60 people in connection with the melamine scandal.

11 Jan: China says a total of 296,000 children had fallen ill from consuming milk products tainted with melamine.

16 Jan: Parents of the first baby who died accept a 200,000-yuan (\$29,000; £21,000) pay-out from Sanlumilk company.

19 Jan: Reports reveal that 213 families whose children were made ill or died from tainted milk have petitioned the Supreme Court, demanding higher levels of compensation.

21 and 22 Jan: Sentences are handed out to 21 people in total, including Sanlu executives and milk producers and traders following their trials in Hebei province, where Sanlu was based. They range from two death sentences to long jail terms.

26 March: The Hebei Provincial Higher People's Court upholds the sentences after appeals, including the death sentences.

24 November: Zhang Yujun and GengJinping are executed. They were convicted of producing and selling hundreds of tonnes of melamine-laced milk and milk powder.

6 Jan 2010: Prosecutors in Shanghai say three dairy executives are to go on trial for new cases of allegedly selling milk tainted with melamine.

25 Jan: Melamine-tainted milk products are pulled from the shelves of supermarkets in Guizhou province.”¹

¹ “Timelines: China Milk Scandal,” BBC NEWS, January 25, 2010, <http://news.bbc.co.uk/go/pr/fr/-/2/hi/asia-pacific/7720404.stm>.

APPENDIX G

WHERE THE ADDITIVE PROCESS OF MELAMINE BEGINS

The cause of Sanluproducing fake milk as reported by BBC in September of 2008 had cleared a lot of the doubtfulness that stunted the world for years,

“China's failure to produce good milk has killed at least four babies, and sickened many thousands of others.Domestic and export markets in anything that might contain Chinese milk powder are stymied, and scores of dairy firms have gone to the wall.The still unravelling saga has reduced China's reputation for food safety - and manufacturing integrity - to its lowest level in years.

Experts in the industry say the problems start at source - the cows.Most farmers are poor and do not eat well - and neither do their cows. Average herds of just three to five cows are often kept in substandard, filthy conditions.But bigger problems occur as the milk moves through the production chain.

Squeezed on price

The farmers have few means to monitor the quality of the milk they are producing. And their small business size gives them little ability to influence the market.

The farmers have no bargaining power when they sell the milk to middlemen, who are usually independent and unregulated.

The farmers get squeezed on price yet are under constant pressure to produce more milk.So in order to meet the booming industry's gulping demands, and to cope with the ever lower prices paid for raw milk to smallholders, the milk is bulked up. Several experts on the Chinese milk industry say this is where the additive process begins.

Ins and outs

"First they dilute the raw milk with water to increase its volume, often up to about 30%," said one of several experts who spoke to the BBC on condition of anonymity.

The problem is that the dilution also lowers the nutrient content of the milk, especially its protein, and that lowers the price paid for the milk.

That is when the melamine comes in. A nitrogen compound, it makes the milk appear to have more protein.

Until now, no dairy was testing its milk for melamine, not just in China but across Australasia, with consequences that are now known to be fatal.

The scandal has spread around the world to wherever China has exported its milk-based products.Several babies in Hong Kong have also become unwell.

Booming industry

Compounding the problems is the frantic pace of development in the dairy industry, which has been growing at the rate of about 30% a year until this year.

Lack of modernization and economies of scale make it impossible for farmers to meet demand.

The regulatory and watchdog bodies of government have failed to keep up. After all, the dairy sector has grown from being tiny to a worth of about \$20bn in less than five years.

Experts say it is more difficult for farmers in the major milk areas of northern China where the industry is dominated by the huge Yili and Mengniu groups. "These farmers are under enormous pressure to keep supplying, no matter what," said one of the industry experts.

Dysfunctional system

What has made it all so much worse, for parents, consumers and the foreign partners involved in Chinese dairy firms, has been the failings of China's political system in coping with the tragedy. "We now know that Sanlu - the company where this all started - knew about their melamine problem in December last year, and they were sitting on it," said another source closely involved with the unravelling of the scandal.

As soon as Fonterra, New Zealand's dominant dairy company and 43% stakeholder in Sanlu, heard about the possible contamination, they sought meetings with their local partner.

That is when another chain of frustration began, as allegations circulated about huge delays in the company's admission of fault.

"If these allegations prove to be true then frankly I'm appalled this could go on," said Fonterra chief executive officer Andrew Ferrier.

"We're just deeply, deeply saddened and we wish there was something we could do and of course we apologise to Chinese consumers," he said."¹

¹Vaudine England, "Why China's Milk Industry Went Sour," BBC News, September 29, 2008, <http://news.bbc.co.uk/2/hi/asia-pacific/7635466.stm>.

APPENDIX H
MELAMINE AND CYANURIC ACID:
TOXICITY, PRELIMINARY RISK ASSESSMENT AND
GUIDANCE ON LEVELS IN FOOD

25 September 2008

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Introduction

An increased incidence of kidney stones and renal failure in infants has been reported in China, believed to be associated with the ingestion of infant formula contaminated with melamine. It has been discovered that melamine has been deliberately added to raw milk for a number of months in order to boost its apparent protein content.

In 2007 there was a large outbreak of renal failure in cats and dogs in the USA associated with ingestion of pet food found to contain melamine and cyanuric acid. The melamine was added deliberately to one of the ingredients. Melamine alone is of low toxicity, however experimental studies have shown that combination with cyanuric acid leads to crystal formation and subsequent kidney toxicity. It is not known whether the cyanuric acid was also added deliberately or whether it was a by-product of the melamine preparation added. Analysis of the contaminated ingredient (gluten) responsible for this outbreak revealed the following triazine compounds: melamine 8.4%, cyanuric acid 5.3%, ammeline 2.3%, ammeline 1.7%, ureidomelamine and methylmelamine both <1% (Dobson et al 2008).

It appears that melamine can be found in a variety of milk and milk products at varying levels, from low ppb to ppm ranges. Following the pet food incident in 2007 preliminary risk assessments have been published by nationals/regional authorities. These form the basis for this preliminary guidance developed to assist in the decision-making process on possible health concern of melamine levels in food.

This preliminary guidance is proposed as a first pragmatic approach until more data becomes available that will allow a more detailed assessment. It has to be noted that currently there are large uncertainties involved in the assessment which preclude a more detailed guidance and emphasize the need for more data.

WHO is presently initiating action to develop a more thorough assessment through meetings of international scientists?

Uses and possible human exposure

Melamine (CAS No. 108-78-1) is used in the production of melamine resins, typically by reaction with formaldehyde. It has many industrial uses, including in the production of laminates, glues, adhesives, moulding compounds, coatings and flame retardants.

In the US melamine is an indirect food additive for use only as a component of adhesives.

[21 CFR 175.105; U.S. National Archives and Records Administration's Electronic Code of Federal Regulations. Available from: <http://www.gpoaccess.gov/ecfr> as of June 18, 2007]

Melamine was also found as a metabolite of the pesticide cyromazine in plants, goats, hens and rats (JMPR Report 2006). Melamine is also used in some fertilizers.

Outside the current food safety incident consumer exposure to melamine is considered to be low. Besides low levels of residues as consequence of cyromazine metabolism it may occur through the extraction of melamine from compression moulds by acidic foods, such as lemon or orange juice or curdled milk, at high temperature. Taking into account these sources the estimated oral uptake of melamine is around 0.007 mg melamine/kg body weight/day (OECD 1998).

Cyanuric acid (CAS No 108-80-5) is a structural analogue of melamine. It may be found as an impurity of melamine. Cyanuric acid is an FDA-accepted component of feed-grade biuret, a ruminant feed additive. It is also found in swimming pool water as the dissociation product of dichloroisocyanurates used for water disinfection. Consumer exposure may be through swallowing swimming pool water, through drinking water processed from surface water, and through fish which may accumulate this chemical (OECD 1999). When used in drinking water for disinfection purposes, sodium dichloroisocyanurate is rapidly dechlorinated to cyanurate.

Due to the widespread use of melamine, also in material in contact with food, low levels may be detected in food, not necessarily due to adulteration. Some countries have established legal limits in relation to migration of melamine from food contact material into foods.

Toxicity of Melamine

Melamine is not metabolized and is rapidly eliminated in the urine with a half-life in plasma of around 3 hours (OECD 1998). The compound has a low acute toxicity, with an oral LD in the rate of 3161 mg/kg body weight (OECD 1998).

No human data could be found on the oral toxicity of melamine. Data are available from animal feeding studies carried out in rats, mice and dogs. The main toxic effects of dietary exposure to melamine in rats and mice were calculi formation, inflammatory reactions and hyperplasia in the urinary bladder (OECD 1998, Melnick et al 1984; Bingham et al 2001; IARC 1986). Melamine crystalluria has been reported in dogs (Bingham et al 2001).

Haematuria has been reported in rats (IUCLID 2000). The lowest no-observed-effect-level (NOEL) for bladder calculi is 63 mg/kg/day in a 13 week rat study (OECD 1998).

Rodent studies have shown a differentiation of effects between males and females, with males more likely to develop bladder calculi (DHSS/NTP). There are also species differences in the incidence of bladder calculi, believed to be due to toxicokinetic differences.

Analysis of the bladder calculi has shown that these are constituted by melamine and uric acid, or melamine in a matrix of protein, uric acid and phosphate (Ogasawara H et al 1995; OECD 1999).

Renal toxicity of melamine

Most of the sub-chronic and chronic feeding studies in animals have failed to show any renal toxicity. In female rats, however, a 13 week feeding study found dose-related calcareous deposits in the proximal tubules, and following a 2 year feeding study chronic inflammation of the kidney was seen (DHSS/NTP).

In rats and dogs, high doses of melamine had diuretic properties, but did not produce renal toxicity (Lipschitz and Stokey, 1945).

Carcinogenicity

Induction of carcinomas of the urinary bladder occurred in male rats fed diets containing melamine at 4500 ppm (equivalent to 225 mg/kg bw per day) for 103 weeks, but not in female rats or in male or female mice (JMPR 2006). Tumours are significantly associated with the development of bladder calculi (DHHS/NTP 1983) and are related to the administration of high doses.

Melamine is not genotoxic in vitro or in vivo.

The WHO International Agency for Research on Cancer has concluded that there is sufficient evidence in experimental animals for the carcinogenicity of melamine under conditions in which it produces bladder calculi. There is inadequate evidence for carcinogenicity in humans (IARC 1999).

Toxicity of cyanuric acid

Cyanuric acid has low acute toxicity in mammals, with a rat oral LD of 7,700 mg/kg body weight for rats (OECD 1999). Several subchronic oral toxicity studies have demonstrated that it causes renal tissue damage, including dilatation of the renal tubules, necrosis or hyperplasia of the tubular epithelium, increased basophilic tubules, neutrophilic infiltration, mineralization and fibrosis. These changes were probably caused by cyanurate crystals in the renal tubules (OECD 1999). The no-observed-adverse-effect-level (NOAEL) for these effects is 150 mg/kg/day (OECD 1999).

In humans, more than 98% of an orally administered dose of cyanuric acid is excreted unchanged in urine within 24 hours (Allen et al 1982).

Sodium cyanurate was tested in several short- and long-term studies in rats and mice. It did not induce any genotoxic, carcinogenic or teratogenic effect. Effects observed in rats and mice at high doses were occurrence of bladder calculi, epithelial hyperplasia of the bladder and at longer-term studies also renal tubular nephrosis. The NOAEL for sodium cyanurate derived from the 2-year study in rats was 154 mg/kg b.w. per day (WHO 2004).

Combined toxicity

While melamine and cyanuric acid are of low acute toxicity, evidence from the outbreak of acute renal failure in cats and dogs in 2007 associated with the consumption of contaminated pet food suggests that when melamine and cyanuric acid are co-ingested renal toxicity results. In the pet food incident, analysis of the food revealed the presence of a number of triazine compounds in the feed including melamine and cyanuric acid. A small study in which cats were fed increasing amounts of melamine and cyanuric acid also reported renal failure and the presence of renal crystals (Brown et al., 2007; Puschner et al., 2007). This was confirmed by Dobson et al (2008) who

conducted a rat study that tested ingestion of melamine alone, ammeline or ammelide alone (both analogs of melamine), a mixture of melamine and cyanuric acid and a mixture of all four compounds. Neither ammeline nor ammelide alone produced any renal effects, but the mixtures produced significant renal damage and crystals in nephrons. Analysis confirmed the presence of melamine and cyanuric acid in the kidney. Infrared Microspectroscopy on individual crystals from rat and cat (from the pet food outbreak) kidneys confirmed that they were melamine-cyanuric acid co-crystals.

Melamine cyanurate has very low solubility and it is hypothesized that this leads to the formation of melamine cyanurate crystals in the kidney. It is assumed that melamine and cyanuric acid are absorbed in the GI tract, distributed systemically and, for reasons that have not yet been fully determined, precipitate in the renal tubules leading to progressive tubular blockage and degeneration (Dobson et al, 2008).

Safety/Risk Assessment

Following the above mentioned pet food incident and possible contamination of animal feed, the US FDA and the European Food Safety Agency (EFSA) performed preliminary risk assessments in 2007.

The US FDA has published an interim safety/risk assessment on melamine and structural analogues and has established for melamine a tolerable daily intake (TDI) of 0.63 mg per kg of body weight per day.

<http://www.cfsan.fda.gov/dms/melamra.html>

EFSA has published a provisional statement and recommended to apply a TDI of 0.5 mg per kg of body weight per day for the total of melamine and its analogues (ammeline, ammelide, cyanuric acid).

http://www.efsa.eu.int/EFSA/Statement/efsa_statement_melamine_en_rev1.pdf?ssbinary=true

An updated Statement of EFSA on risks for public health due to the presences of melamine in infant milk and other milk products in China has been issued on 24th of September.

http://www.efsa.eu.int/EFSA/efsa_locale-1178620753812_1211902098495.htm

These values are based on experimental toxicity studies with melamine. Since there are no studies available investigating the combined toxicity of melamine and cyanuric acid together that would allow derivation of a tolerable intake value, it is recommended to use the currently proposed TDI values.

Guidance on levels of health concern in foods

The US FDA has published in their interim assessment an approach on how to determine a 'level of concern' for specific food products. This is the level at which the TDI would be reached when taking local consumption patterns and target population into account.

This approach can be applied to get an indication of what levels of contamination of melamine would raise potential health concern in specific foods.

In this approach one has to consider the average body weight of the target population to calculate the tolerable amount of melamine per person per day, then consider the amount of respective food eaten per day.

Considering a TDI of 0.5 mg/kg body weight, this would lead for a 50kg person to a tolerable amount of 25 mg melamine per day. Assuming this person would drink one litre of milk per day, this would indicate that the TDI would be reached at a

level of 25 mg melamine per litre of milk. This level then would be considered as the 'level of concern'.

Considering a 5kg infant, the tolerable amount of melamine would be 2.5 mg per day. This amount would be reached when consuming 750 ml liquid (or reconstituted) formula contaminated at a level around 3.3 mg/l (ppm).

For comparison, the Sanlu product incriminated in the cases in China was contaminated at a level of over 2500 mg/kg powder, corresponding to approximately 350 ppm in reconstituted product (assuming a 7-fold reconstitution factor).

It has to be noted that this approach has a large uncertainty. For melamine toxicity species differences in toxicokinetics have been reported and insufficient information is available regarding specific sensitivity of infants. There is also a lack of information on the interaction of melamine and cyanuric acid. Also, dietary exposure to melamine and structural analogues as result of migration from food contact material or from other sources is not included, but this source of exposure can normally be considered low.

Therefore, when considering regulatory actions to be taken on contaminated food products potential human health impact, availability of foods and other factors should be taken into account. Investigations into source(s) of melamine contamination should be carried out in all cases to the extent possible.

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