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Playing fast and loose in China's 'cut-throat capitalism'

Boom in deadly fakes driven by entrepreneurs taking advantage of a weak legal system

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WUDI, China—They might be called China's renegade businessmen, small entrepreneurs who are experts at counterfeiting and willing to go to extraordinary lengths to make a profit. But just how far out of the Chinese mainstream are they?

Here in Wudi in eastern China, a few companies tried to save money by slipping the industrial chemical melamine into pet food ingredients as a cheap protein enhancer, helping incite one of the largest pet food recalls ever.

In Taixing, a city far to the south, a small business cheated the system by substituting a cheap toxic chemical for pharmaceutical-grade syrup, leading to a mass poisoning in Panama. And in the eastern province of Anhui, a group of entrepreneurs concocted a fake baby-milk formula that eventually killed dozens of rural children.

The incidents are the latest indications that cutting corners or producing fake goods is not just a legacy of China's initial rush toward the free market three decades ago but still woven into the fabric of the nation's thriving industrial economy. It is driven by entrepreneurs who are taking advantage of a weak legal system, lax regulations and a business culture where bribery and corruption are rampant.

"This is cut-throat market capitalism," said Wenran Jiang, a specialist in China who teaches at the University of Alberta. "But the question has to be asked: is this uniquely Chinese or is there simply a lack of regulation in the market?"

Counterfeiting, of course, is not new to China. Since this country's economic reforms began to take root in the 1980s, businesses have engineered countless ways to produce everything from fake car parts, cosmetics and brand name bags to counterfeit electrical cables and phony Viagra. Counterfeiting rings are broken nearly every week; nonetheless, the government seems to be waging a losing battle against the operations.

Dozens of Chinese cities have risen to prominence over the last two decades by first specializing in fake goods, like Wenzhou, which was once known for selling counterfeit Procter & Gamble products, and Kaihua in Zhejiang province, which specialized in fake Philips light bulbs.

For a time, people even derided the entire province of Henan as the capital of substandard or fake goods, like medicines that could make you miraculously grow taller.

But the discovery of dangerous ingredients in foods and drugs has raised more serious questions.

One such operation is centred here in Wudi, about five hours southeast of Beijing. This is where the trail of the American pet food recall leads.

Regulators came to Wudi early last month and shut down one of the region's biggest feed exporters, the Binzhou Futian Biology Technology Company. They also detained its manager, Tian Feng, after American officials identified Binzhou Futian as one of two Chinese companies responsible for shipping contaminated pet food ingredients to the United States.

Chinese authorities said Binzhou Futian and a company in bordering Jiangsu province had intentionally doctored feed ingredients to generate bigger profits. Regulators in China called it an isolated incident.

But agricultural workers and experts in this region tell a different story. They say the practice of doctoring animal and fish feed with melamine and other ingredients is widespread in China. And Wudi, they say, has long been known as a centre for such activity.

"Wudi became famous for fake fish powder almost 10 years ago," said Chen Baojiang, a professor of animal nutrition at the Agricultural University of Hebei. (Fish powder is used as a protein additive to animal feed, including fish feed.)

"All kinds of fillers have been used. At the beginning it was vegetable protein, then urea. Now it's feather powder."

In small village workshops on the outskirts of Wudi, residents say hundreds of workers make animal feed doctored with fish scraps and cheap ingredients that are then packaged for sale to unsuspecting farmers and fish farms.

To reach bigger customers, feed producers from Wudi recently began calling themselves "technology" companies that sell protein powder. And they are using online trading websites like Alibaba.com to sell their goods.

But few firms here were as successful as Binzhou Futian, which in 2006 won contracts to ship pet food ingredients to major suppliers in the U.S. and South Africa.

The American and South African middlemen say they found Binzhou Futian through online advertisements and commodity-trading websites. They did not bother to visit Binzhou's factories or to investigate its background or export record.

Binzhou Futian was run by Tian Feng, a small-town entrepreneur who started out producing fish powder but later moved into vegetable protein, according to local residents.

Investigators say Tian's company engaged in fraud: it mislabelled its feed exports as nonfeed goods, possibly to avoid food inspection; it also exported tonnes of pet food ingredients labelled as corn gluten and rice protein concentrate. Actually, they say, it was low-protein wheat powder. Analysts say Binzhou's case is not unusual. This is how the counterfeiting system often evolves, they say.

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