

# TRUSTLETS™

QUICK CASE STUDIES ON ORGANIZATIONAL TRUST

## **The Chinese Infant Formula Crisis: Trust in the Global Economy**

**By Kent Grayson**

To understand what caused the infant formula crisis in China, it is important to first understand how governments and regulatory agencies test whether or not a company is producing infant formula of acceptable quality. Quality tests for infant formula tend to focus on the presence (or absence) of nitrogen in the powder or liquid. Nitrogen naturally occurs in the amino acids of proteins (for example, in dairy products). It can therefore be revealing to test the level of nitrogen in a product that claims to be infant formula.

However, some manufacturers try to fool this testing regime by adding melamine to their dairy products. Melamine, which is used to produce plastics, is rich in nitrogen. Adding melamine to milk or infant formula can therefore give the impression that a product has more protein than it does and thus trick regulators into thinking that the product quality is acceptable. Melamine is also dangerous for people (especially babies) to consume.

In 2008, it was revealed that a major producer of infant formula in China had been adding melamine to its infant formula to disguise the low quality of its products. The first article below provides a summary of what happened and the significant consequences. The next four articles examine the economic impact of this crisis ten years later.

### **Articles to be read before discussion:**

Read *NBC News.com*: [China: “Out of Control” Dairy System Led To Abuse](#)

Read *Campaign Asia*: [Formula Safety Still A Prime Concern of Chinese Mums](#)

Read *BusinessInsider*: [Meet the Chinese Students Making \\$3,000 a Week](#)

Read *Bloomberg.com*: [China Removes 1,400 Baby Formula Products from Shelves](#)

Read *Daily Telegraph*: [China’s Huge Demand for Baby Formula Driving Up Butter Prices](#)

### **Questions for discussion:**

- 10 years after the melamine crisis, Chinese mothers still mistrust domestic formula producers. What factors do you think contributed to the fact that this mistrust has lasted so long?
- Do you think the new 2018 regulations are sufficient to restore trust in domestic infant formula? If not, what other actions do you think are required from the government? Or, should other parties also step in?
- What factors made it possible for the Australian economy to benefit from the trust crisis in China?
- In what ways has trust in Australia been enhanced or undermined by the Chinese trust crisis?

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