

## Coin of China's infant formulas: the challenge and chance

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### Introduction

From 2000 to 2013, there were 16-18 million newborn and 48-52 million children aged 1-3 years every year in China (2). We estimated that about 40% of Chinese children younger than 3 years are formula fed (2). A health formula-fed infant at first 6 months of life, 6-12 months, and 1-3 years of age need about 47 kg, 58 kg, and 40 kg infant formulas each year, respectively. This is 11-12.5 million tons formulas are consumed each year. According to UBIC<sup>1</sup> report, China is first in world infant formula market with 53% share and Western Europe and North America share 33% of the world infant market (3). This is a good new and an immense profit for Chinese dairy companies, but five years ago, melamine scandal has damaged deeply China's milk industry, and caused outrage among consumers and fraud patents. Now, how about China's infant formula? We think Chinese formula companies are facing challenge and chance.

### Challenge

In 2008, the use of melamine in milk killed six babies and made 300,000 ill. Since then, Chinese dairy industry has suffered disaster. A decade before 2008, China's milk industry developed rapidly, and the raw milk production have increased by 17.4% per year. But

increase of that is 0.87% in 2008, -0.98% in 2009, 1.56% in 2010, 2.1% in 2011, and 1.5% in 2012, respectively since this scandal (1). Output of raw milk is 3207, 3528, 3559, 3523, 3580, 3664, 3750 thousand tons in 2006-2012, respectively (2). This issue destroyed China's reputation on food exports, with at least 11 countries stopping all imports of Chinese dairy products. Kungang Song said, the present of China Dairy Industry Association, China exported 12.4 thousand tons dairy products, but imports have jumped 596.2 thousand tons in 2012. In terms of value, China dairy exports were 24 million CNY, but imports of that were 2100 million CNY in 2012. Moreover, Chinese parents lost their confidence to the local made formulas and pay more for foreign brands for health and safety. According to 2012 report of China Chamber of Commerce of Foodstuffs and Native Produce, shares of the foreign brands increased from about 30% before 2008 to more than 50% in 2010. The high-end milk powder market has been dominated by the foreign milk companies, while the majority sales amount of national brand is from in the market of the second and third-tier cities. Fortunately, this can boost breast-feeding rates in China.

### Chance

There is an old saying in China, "misfortune, that is where happiness depends; happiness, that is where misfortune underlies." This is true for melamine milk scandal in China. Some real chances exist for dairy industry in China. First, demand will be the key driver for revitalization of infant formulas. China has pledged to loosen its one-child policy. Couples in which one member is an only child will be allowed to have two children on Eight

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### Abbreviations

CNY	Chinese Yuan
GMP	Good Manufacturing Practice
UBIC	Used Book Inventory Control

Third Plenary Session of China. The baby boom must be coming in China. It is predicted that infant formulas will usher in the gold development period and the huge infant consumption groups are pregnant with huge market space for China's infant formula milk powder. Second, safety and quality of infant formula, and consumer confidence is improving through effects of China's government and dairy industries. For example, government made investments to increase profit of dairy farmers, offered subsidy to milk farmers and middlemen, and issued soft loans or exemption and reduction in taxes to dairy companies; some regulations and guidelines were released since then, such as Guideline on Rectification and Revitalization of The Dairy Industry, Dairy Quality and Safety Supervision and Management Regulations, Dairy Processing Industry Industrial Policy, the National Milk Storage Plan, and Improve Milk Quality Level and Boost Consumer Confidence Action, the amendments of Infant Formula Milk Powder Production and Review of Permit Conditions (2010 edition), Conditions of Production Dairy Permits Review of Rules (2010 edition). In the future, infant formulas enterprises must implement Good Manufacturing Practice (GMP) certification from the production processes, and the quality of infant formula powder will refer to the management of drug administration in China. On the other hand, Chinese dairy firms strive to create a win-win relationship with milk farmers. Milk testing and quality control are their top priority. They invited consumers to visit milk source bases, manufactory, and production process and so on.

## Discussion

In fact, the challenge surpasses the chance, and consumer confidence crisis is still continuing in China. If Chinese get the opportunity, they must buy foreign-made baby formula now. Consumer confidence is pretty fragile right now, and next baby formula scandal must shock the company and its brand, including foreign-made formulas. Out of the blue, melamine scandal may be boost initiation rates and duration rates of breastfeeding, strategies and products for promoting lactation will be popular in China.

Consumers learn more from this scandal, and they want to know which formula is the best? A good formula must be made from good cows' milk, has a good taste,

and undergoes microbiological testing, chemical testing for composition (nutritional, vitamin and mineral content), sensory testing, packing checks for labelling and sealing, in order to satisfy strict quality, safety and nutritional criteria. What makes one formula different from another are the specific carbohydrate and protein it uses, as well as any additional ingredients it includes. But how to make a profit formula is a question which concerns dairy companies. How to better balance between consumers and formula companies? We think the increase in demand will promote the profit of companies under government management and supervision.

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