

# Toy Industry

## Wánjù hángyè 玩具行业

**Since its beginnings in the 1920s, China's toy industry has grown to become the largest in the world. Though faced with accusations of poor working conditions and taking the blow of recent recalls, the toy market in China remains the leading toy market today.**

**C**hina is the world's largest toy maker and exporter with more than 8,000 toy manufacturers producing around 30,000 kinds of toys. The country's toy exports in 2005 totaled \$15.18 billion, accounting for 70 percent of the world toy market. But the industry

suffered a blow in 2007 with a series of recalls that dented the industry's reputation but did not alter predictions for continued growth, especially in the country's expanding domestic market.

### Growth of China's Toy industry

Toy making in China began to take shape with the arrival of tin-can manufacturing around Shanghai in the 1920s and 1930s. Western influences in the area led to the manufacture of Western tin-plate toys that became quite popular. War-related toys, such as fighter planes, tanks,



**An American boy looks at a store window display of toys, including a Chinese Checkers game, a policeman's accessory set including a toy pistol and handcuffs, Ring Toss, and a pastry set, 1942. Toys produced in China were finding their way onto the shelves of American toy stores as early as the 1920s. LIBRARY OF CONGRESS.**

and soldiers, dominated the market around the time of the Japanese invasion of China in the mid-1930s. After the Communist Revolution of 1949, toys became a vehicle for propaganda, especially during the Cultural Revolution (1966–1976) when dolls in Mao suits and cars painted with political slogans flourished.

By the early 1980s, Hong Kong had become the world's largest toy exporter, but rising labor and land costs pushed the colony's toy manufacturers to relocate across the border to China. In 1984, China designated Shenzhen, Guangdong Province, its first special economic zone (SEZ), offering foreign investors a tariff-free environment with low-cost labor and cheap factory space. Hong Kong toy manufacturers moved more and more production into China while leaving in Hong Kong the value-added work, such as product design, production planning, quality control, management, and marketing.

Drawn by the incentives of the SEZs, multinational toy companies began to set up shop in China, especially in the Pearl River delta region of Guangdong. China developed a solid network of supporting industries and services, such as logistics, communications, and component manufacturing, which helped international companies to strengthen productivity, reliability, and delivery.

By 1993, China had become the world's largest toy manufacturer and leading exporter, reaching an export volume of \$8 billion. China's accession to the World Trade Organization in 2001 strengthened its domestic industry, and its exports rose sharply. In 2006, China exported 22 billion units of toys worth \$7.5 billion. By the end of the year, Chinese toys accounted for 75 percent of world output.

## Trade Friction

Throughout the 1990s, China was confronted with allegations of dismal working conditions and human rights violations. Labor unionists and human-rights activists cited low wages, failure to provide social insurance, appalling safety and working conditions, and restrictions on workers' freedoms to call for the elimination of China's most-favored-nation (MFN) trading status.

The U.S. toy industry argued against such demands, saying that without MFN status, toy importers would face price increases of 10 percent to 30 percent. The industry

trade group Toy Manufacturers of America estimated that U.S. toy consumers would see prices rise up to 50 percent, and 25,000 jobs in the American toy industry would be lost.

After much pressure from both sides of the controversy, President Clinton renewed China's trade privileges in 1994, saying that the United State needed to see its relations with China in a "broader context" than simply human rights. He renewed China's trade privileges annually until 2000, when the U.S. Congress voted to grant China permanent Normal Trade Relations status.

## Economic Challenges

By 2005, many toy factories faced difficult challenges that threatened to impact the structure of the industry. Powerful foreign buyers demanded lower prices while the cost of labor and raw materials increased. In addition, U.S. and European brands increased pressure on China's toy companies to meet their high labor standards. This caused some manufacturers to leave Guangdong for second border locations or even the Chinese hinterland. Other Chinese manufacturers blamed Western corporations for squeezing their margins so tightly there wasn't enough money to improve worker conditions. Bama Athreya, director of the International Labor Rights Forum, testified before the U.S. Congress in 2005 that "Wal-Mart bears a lion's share of responsibility for pushing the [Chinese] toy industry to a place where worker health and safety are basically nonexistent" (Written testimony, 2007).

China's toy industry also faced increasing scrutiny of its product safety. The Chinese government responded in 2006 with the China Compulsory Certification (CCC) scheme, which allowed only those toys that meet CCC standards to be exported to foreign markets or sold domestically. Later the same year, the government, responding to an EU report that many "problematic imported products" were toys from China, signed a draft Guide for the Strengthening of Sino-EU Cooperative Action for Toy Safety. A month later, China and the EU held a toy-safety forum on enforcing stricter quality and safety standards.

Despite the persistent quality and safety issues, foreign buyers remained confident in China's toy manufacturing industry. Besides, international toy companies and China's manufacturers had become so intertwined



**A selection of modern toys manufactured in China.** COURTESY OF THE PULVER FAMILY.

over the years that neither could easily survive without the other. “China has a very systematic toy production system involving layers of suppliers in screws, paint, electronics, and other components. No other countries have this cutting edge,” said Ben Lau, technical director of toys and premiums at Specialized Technology Resources, an international safety and testing lab, in an interview with a *Forbes* magazine reporter. “There is no alternative to China, no contingency plan. If you shift production to other countries, you’ll face similar problems or even worse” (Shen 2007).

## The Year of Recalls

Problems for China’s toy industry escalated in mid-December 2006, when the first warning in what was to become a spate of recalls was issued by the U.S. Consumer Product Safety Commission (CPSC). Chinese-

made products, such as bell rattles, Christmas lights, and four other types of toys, were listed as having parts that posed a choking risk to children. High lead content and leaking batteries were given as other reasons for the warnings. Several retail outlets in the United States recalled the toys. The EU also issued warnings around the same time for a list of fifteen toys made in China.

In February 2007, the CPSC and international toy maker Hasbro recalled nearly 1 million China-made Easy-Bake Ovens because the door could trap children’s fingers, causing serious burns. In June of the same year, the CPSC and RC2 Corporation recalled 1.5 million Thomas & Friends railway toys because the paint on the toys contained unsafe levels of lead.

In July, the CPSC and Hasbro recalled another 1 million Easy-Bake Ovens, citing an additional 77 cases of children’s hands or fingers getting stuck in the door. In one case, a 5-year-old girl suffered serious burns that required the partial amputation of fingers.

In August, Mattel twice announced recalls of China-made toys due to unsafe levels of lead and magnets that could be swallowed by children. In September, Mattel recalled another 844,000 toys because of high lead levels. In all, Mattel recalled about 20 million toys. The scandal cost the Dali Toy Limited Company, a Mattel supplier in Guangdong, a devastating \$30 million and drove CEO Zhang Shuhong to commit suicide.

Mattel apologized for the recalls, but the damage was done. With the toy scandals combining with earlier recalls of tainted seafood, toxic toothpaste, and poisoned dog food, U.S. and European consumers were losing faith in the “Made in China” label.

The Chinese government responded by setting up a task force led by a well-known trade official, Wu Yi, to get a handle on product quality and food safety. The General Administration of Quality Supervision, Inspection and Quarantine promised to check every shipment of goods leaving the country. And new rules were put into effect that required Chinese companies that manufacture defective products to cease production and sales until the problems are resolved.

Some analysts suggested that the recalls underscored the problems facing toy makers and other manufacturers in China. Pressure to keep prices low in the face of rising costs for labor, raw materials and transportation, as well as an appreciating yuan, pushed some manufacturers to cut corners and use cheap and illegal substitutes.

Despite the recalls, China’s toy exports grew in the first 10 months of 2007, reaching \$7.07 billion, a 20 percent increase over the previous comparable period. The United States and EU bought 67.6 percent of those toys.

## Outlook for China’s Toy Industry

Many analysts see economic changes in the U.S. and China as the real threat to China’s toy industry. In China, efforts to improve safety checks have caused shipment delays and product rejections. In 2007, the yuan appreciated 7 percent against the dollar, migrant-labor wages increased at least 17 percent, and new environmental controls all helped to push up the cost of production.

In the United States, a slowing economy resulted in

slower retail sales of toys. An industry report released in February 2008 said that U.S. retail sales for toys were down 2.2 percent in 2007, a downward trend that has continued into 2009.

Nevertheless, toy companies don’t see a realistic alternative to China as a producer nation. Its infrastructure and manufacturing costs still give it an edge over alternative locations. Philip Shoptaugh, owner of the Oakland, California-based Shoptaugh Games, quoted in an article posted on the Green Options blog, wondered whether consumers would pay more for toys produced in other locations. “Are you going to spend twice as much for a doll because it’s not made in China? The thing is you cannot make these things in the United States and have them be competitive on the shelf” (Lance 2008).

Meanwhile, China-based toy makers are looking at the potential of its domestic market. By some estimates, China has a population of 300 million children in the under eight-year-old age group compared to 50 million in that group in the United States. Industry experts also stress the importance of the Chinese toy industry to undergo innovation-oriented reforms and create its own brands.

The global financial meltdown of 2008 has made the reorientation towards the domestic market and the upgrading of quality a matter of urgency for the toy industry, which suffered the closing of 49 percent of its export-oriented companies by early 2009.

**Robert Y. ENG**

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