3-4. Japanese Toy Market

3-4-1. Outline

The birth of the modern toy industry in Japan dates back to the 1870s. First modern toys produced in japan were copies of German-made toys. Later, metal-made toys flourished in the domestic market and became a leading export item.

After World War II ended in 1945, the revival of the toy industry came first in food-related toys and picture-story show. Later, appeared automotive toys, mainly jeeps which were made from cans. The toy industry began to stand on its own feet as a light industry products.

The following year (1946) saw celluloid and spring-driven toys exported. Spring-driven items soon started being replaced by friction-driven ones. In the 1950s, plastic began to be used. In those days, children's magazine publishers competed with each other in getting small toys to their publications as extras in order to boost circulation. This practice spurred the squared of toys. Around 1957, fad toys such as hula hoops and cute black girl "Dakko-chan" dolls appeared in the market and became vogue. Since then, with the spread of television sets, toys featuring television cartoon characters were commercialized. Thereafter, a diversification trend got under way with the creation of racing car and game toys.

In the early 1970s, monster toys, character toys featuring a TV hero called "Masked Rider", and a bowling simulation game became popular. In addition, stuffed panda, Othello games (board game) and fashion dolls enjoyed widespread popularity.

Around 1975 fancy goods became increasingly sought-after and electronic toys such as video games became popular. In addition, radio-controlled cars and doll-related toys for girls enjoyed popularity. At present, family computer games are selling remarkably\ Boys' toys featuring TV characters, racing cars, and abeam guns are selling favorably.

Environment surrounding toy market in 1987 is a lack of leading products to take the place of family computers which are gradually beginning to show a decline in sales in the domestic market. Market observers are hoping that a shift will take place in consumer preference from single-player games like family computers to games which involve interaction between more than one player. Merchandise which attracts youngsters as well as children is desired. Specifically, TV or comic book character toys for boys, racing cars, radio-controlled cars, and ray gund (which utilize TV screens), will help to cultivate new demand.

a. TV/comic book character products for boys

The individualities of TV/comic book characters are being fully utilized in making creative products. Demand for various kinds of such toys exists among children. No single product is dominating this particular market. expensive large-size goods have declined in sales and reasonably-priced ones are becoming more popular.

b. Boy's racing-related toys

These items are selling exceptionally well in the relatively sluggish market. Some shops have posted sales twice as large as they expected. Such toys, along with radio-controlled cars are considered to be one of the current market leaders.

c. Ray guns

This product has attracted people in their twenties, an age group older than the original target, owing to the fact that the play utilizes a TV screen.

d. Ordinary toys

There appears no major leading toy whipping up demand. Somewhat popular are situational, authropomorphic animal toys, hobby-related toys, and high-tech dolls.

e. Girls' toys

Dress-up dolls have been garnering a large share in the market for the past four to five years. Toys in this category, which includes fancy goods, have shown a relatively slow growth and signs of decrease in sales since the beginning of this year.

f. Ordinary games and standard items

Board games are sluggish in sales while action games are enjoying relatively satisfactory sales.

3-4-2. Trends of Demand

(1) Domestic Production

Japan's domestic toy output changed during 1982-1986 as follows: ¥477.5 billion in 1982; ¥438.8 billion in 1983, or 91.8% as a ratio to the previous year; ¥456.1 billion in 1984, or 103.9%, ¥501.0 billion in 1985, or 109.8%; and ¥449.4 billion in 1986, or 89.7%.

A breakdown of 1986 output by product line indicates: Production of metal goods was valued at ¥26.4 million (its share of total production: 5.9%); paper: ¥7.4 billion (1.6%); wooden: ¥8.8 billion (1.9%); rubber: ¥1.9 billion (4.2%); plastic ¥108.0 billion (24.0%); ceramic: ¥6.3 billion (1.5%); textile-fabricated: ¥41.0 billion (9.1%); children's wheeled toys: ¥20.8 billion (4.6%); dolls: ¥54.9 billion (12.2%); electronic games and dry-battery driven: ¥10.2 billion (2.2%); other ¥163.7 billion (36.4%).

Production as a ratio to the preceding year for each category was: Metal: 64.3%; paper: 101.1%; wooden: 104.8%; children's wheeled toys: 91.2%; dolls: 98.3%; electronic games and battery-driven: 97.7%; other: 91.3%.

Increases were seen in paper, wood, rubber, and textile-fabricated, while other items posted a decrease. (Table III-37)

According to industrial statistics compiled by the Ministry of International Trade and Industry, Japanese toy businesses number 5,350 and employ 42,896 workers (in the category of the recreational equipment and toy manufacturing industry).

The peculiarities of the Japanese toy industry may be summarized as follows: 1) Many kinds of merchandise are produced but each in small quantity; 2) many firms are located in city areas and operate locally; and 3) companies are tended to be concentrated in metropolitan regions. These characteristics are attributable to the following factors: 1) Firms located in metropolitan areas have easy access to major toy consumption areas; 2) the life cycle of toys tends to be short while the complexity of production processes makes it difficult for a company to install a complete assembly system; 3) each business is therefore forced to take part in a division-of-labor system of production.

Furthermore, many toy firms operate on a very small scale. Those companies with eight employees or fewer account for 80% of all the toy manufacturers.

The yen's appreciation dealt a severe blow to the industry and the domestic market can no longer be counted on expand further. Therefore, merger or grouping by major producers is expected to take place with greater frequency.

Nintendo was the largest company in the toy, hobby, and leisure industry in terms of sales, according to a 1986 Nihon Keizai Shimbun's survey of wholesalers. Nintendo was followed by Sanrio, Bandai, Takara and Taito, respectively. Listed are the rankings of the 29 firms which responded to the survey and their 1986 sales figures.

	No. of business establishments	No. of employees
Recreational equipment and toy manufacturing	3,025	29,470
Doll manufacturing	2,112	11,526
Children's wheeled toy manufacturing	213	1,900
TOTAL	5,350	42,896

Source: Industrial Statistics, 1985

Table III-37. Changes in Japan's Toy Production by Category

(Unit: Million yen)

	Metal	Paper	Wood	Rubber	Plastic	Ceramic	Fabric	Children's Vehicles	Dolls	Electronic Games with Battery	Others	Total
1982	41,000	8,000	9,200	2,300	105,000	6,000	23,000	28,500	69,500		185,000	477,500
1983	36,800	7,600	8,300	2,200	100,300	6,700	34,900	25,400	60,800	59,000	96,800	438,800
1984	40,000	7,200	8,000	1,800	120,000	6,400	38,000	24,500	58,200	22,000	130,000	456,100
1985	41,020	7,320	8,400	1,860	128,000	6,600	39,420	22,800	55,840	10,440	179,300	501,000
1986	26,400	7,400	8,800	1,900	108,000	6,300	41,000	20,800	54,900	10,200	163,700	449,400

Source: Japan Toy Association

Company Name	Sales (million yen)	Growth (%)
Ninten do	117,787	52.5
Sanrio	71,669	1.4
Bandai	70,743	-16.3
Takara	48,088	-6.7
Taito	40,443	17.5
Sega Enterprise	39,000	25.8
Kawada	33,751	69.9
Namco	31,494	0.6
Tsukuda G	19,290	7.3
Mitsuboshi Shoten	17,426	8.5
Tomy	15,195	-2.5
Asakusa Gangu	13,530	7.9
Epoch	11,906	15.6
Combi G	11,033	9.7
Yamaguchi	10,414	106.6
Mori Gangu	9,654	18.2
Chugan Shoji	7,524	50.8
Nichigashi G	6,821	4.3
Kyugetsu	6,351	-1.0
Tenyo	6,100	-5.6
Abe Gangu	4,339	33.5
Sankyo Shoji	3,945	—
Miyazawa Mokei	3,827	-7.5
Momotaro G	3,814	16.1
Alps Shoji	3,543	-7.4
Ogawa Shoten	2,504	39.6
Inawataya Shoten	2,368	-1.4
Yushin	2,275	12.8
Togyoku	1,912	-3.8

Source: Nihon Keizai Shimbun's Survey on the Wholesalers

3-4-3. Exports/Imports

(1) Exports Trends

Exports of toys and related products during the 1982-1986 period were as follows:¥181.6 billion in 1982; ¥141.1 billion in 1983 (77.7% as a ratio to the preceding year); ¥143.8 billion in 1984 (101.8%); ¥165.4 billion in 1985 (115.0%) and ¥113.2 billion in 1986 (68.5%). To be more precise, the 1986 exports totaled ¥113,241 million. In 1986 a decrease was registered for the first time since 1983.

A breakdown of 1986 exports by product (all figures are shown as a ratio to the previous year's corresponding figures) shows: Metal 19.7%; paper 98.5%; wooden 69.1%; rubber 62.6%; plastic 56.7%; ceramic 89.9%; textile-fabricated 41.2%; wheeled toys for children 46.9%; dolls 95.6%; electronic games and battery-driven 100.3%; other 85.6%. (See Table III-38.)

As shown, exports of metal toys declined enormously, and other products also showed a decrease with the exception of electronic games and battery-driven toys.

Examining exports by destination showed, the United States with the dominant share of 53.3%, followed by Great Britain at 7.6%, Hong Kong at 6.3%, and West Germany at 6.0%. No major change has occurred in this export pattern since 1982. (See Table III-39.)

(2) Import Trends

In 1986 Japan imported toys worth $128,372,000. As a percentage of the previous year's figure, toy imports increased 172.0%. This great increase was ascribed to the strong yen. The following are the changes in the value of toy imports during the 1982-1985 period: $56,909,000 in 1982; $60,404,000 in 1983; $76,940,000 in 1984; $74,611,000 in 1985. Imports in 1986 were 225.6% greater than in 1982.

The biggest toy exporter to Japan in 1986 was Taiwan, accounting for 27.2% of Japan's total toy imports. South Korea followed with 22.6% and Hong Kong was third with 18.4%. (See Table III-40.)

Toy imports in 1986, including wheeled toys for children, tricycles, playing cards, and other table-game equipment, amounted to ¥23,910 million, according to the Finance Ministry's customs-clearance statistics. Imports of children's wheeled toys, tricycles and others were worth ¥401.65 million; dolls ¥2,543.26 million; toys and working models of textile-woven fabrics ¥465.92 million; metal toys and working models ¥1,016.62 million; inflatable plastic toys ¥1,058.10 million; other plastic toys ¥9,913.76 million; other working models and toys ¥8,213.28 million; playing cards and other table-game equipment ¥297.01 million, as shown in Table III-41.

Table III-39. Japan's Toy Exports by Country

(Unit: Million yen)

	1982	%	1983	%	1984	%	1985	%	1986	%
Hong Kong	11,245	(6.2)	9,777	(6.9)	7,541	(5.2)	8,071	(4.9)	7,082	(6.3)
Singapore	6,884	(3.8)	5,110	(3,6)	4,903	(3.4)	4,391	(2.7)	3,615	(3.2)
FRG	11,718	(6.5)	9,002	(6.4)	10,258	(7.1)	7,636	(4.6)	6,850	(6.0)
France	6,332	(3.8)	12,444	(8.8)	4,416	(3.1)	1,659	(1.0)	1,345	(1.2)
U.K.	9,666	(5.3)	9,334	(6.6)	7,846	(5.5)	8,144	(4.9)	8,751	(7.6)
U.S.	89,153	(49.1)	50,195	(35.6)	75,387	(52.4)	100,828	(61.0)	60,342	(53.3)
Canada	2,317	(1.3)	3,326	(2.4)	3,842	(2.7)	7,456	(4.5)	4,064	(3.5)
Venezuela	880	(0.5)	-		-		-		-	
Australia	5,228	(2.9)	4,557	(3.2)	3,452	(2.4)	4,725	(2.9)	2,976	(2.6)
Total Export	181,553	(100.0)	141,087	(100.0)	143,762	(100.0)	165,366	(100.0)	113,241	(100.0)

Source: Japan Toy Association

Table III-38. Changes of Japan's Toy Exports by Category

(Unit: Million yen)

	Metal	Paper	Wood	Rubber	Plastic	Ceramic	Fabric	Children's Vehicles	Dolls	Electronic Games with Battery	Others	Total
1982	9,403	321	249	354	29,759	219	1,622	3,122	5,490		131,024	181,563
1983	6,426	406	357	661	21,399	2,865	1,250	3,753	2,168	45,395	56,407	141,087
1984	12,445	288	317	252	44,430	2,675	1,316	4,224	2,348	15,033	60,434	143,762
1985	18,265	408	320	369	53,830	2,744	1,115	3,538	2,050	6,239	76,488	165,366
1986	3,597	402	221	231	30,497	2,467	460	1,661	1,960	6,260	65,485	113,241

Source: Japan Toy Association

Table III-40. Japan's Toy Import Sources by Country

(Unit: US$1,000)

	1982	1983	1984	1985	1986
South Korea	5,463	7,834	12,637	10,948	29,032
Taiwan	10,354	12,743	22,133	20,873	35,511
Hong Kong	16,339	14,765	12,857	11,689	23,602
Denmark	2,513	4,530	3,769	8,155	9,791
U.K.	887	736	959	846	1,220
France	1,050	952	1,137	1,231	1,791
FRG	3,249	3,001	4,438	5,198	6,033
Italiy	1,102	894	1,169	1,415	2,076
Australia	1,678	529	294	125	348
U.S.	8,074	6,415	5,435	4,697	7,251
Singapore	-	-	2,974	5,452	1,695
Total Imports	56,909	60,404	76,940	74,611	128,372

Source: Japanese Union of Light-Industry Product Importers

Table III-41. Japan's Toy Import by Item

(Unit: Million yen)

Item	Imports	Share
Children's wheeled toys; tricylces, etc.	401.65	1.7
Dolls	2,543.26	10.6
Toys and working models of textile woven fabrics	465.92	1.9
Toys and working models of base metal	1,016.62	4.2
Inflatable plastic toys	1,058.10	4.4
Other plastic toys	9,913.76	41.6
Other toys and working models	8,213.28	34.4
Playing cards and other equipment for table games	297.01	1.2
TOTAL	23,909.60	100.0

Source: Customers clearance statistics

(3) Competition Between Domestic and Imported Toys; The Position of Imported Goods in the Market

In 1986 domestic toy output totaled ¥449.4 billion, of which ¥113.2 billion was exported. Japan imported ¥29.1 billion worth of toys and domestic toy consumption amounted to ¥781.7 billion. As a percentage of the corresponding figures of the previous year, production went down to 89.7%, exports dropped to 68.5%, imports grew to 125.4%, and domestic consumption rose but slightly to 101.3%. (See Table III-42.)

Imported toys accounted for 3.0% of domestic consumption in 1982, 2.9% in 1983, 3.2% in 1984, 3.0% in 1985, and 3.7% in 1986. The figure rose slightly in 1986, but overall it has been steady around the three percent level.

South Korea's exports to Japan consisted of stuffed toy animals, plastic toys, skin animals, electronic toys, musical toys, small toys, and textile-woven toys.

From Taiwan, japan's primary import was dolls. Other items from Taiwan included inflatable plastic toys, animal-shaped bags, and musical-instrument toys. From Hong Kong came friction-driven toys, educational toys, stuffed animal toys, walky-talky sets, action toys, robots, and remote-controlled toys. Hong Kong is making a conscious effort to export electronic items.

Beam guns, a product gaining great popularity in Japan, have already been commercialized by Taiwan and their sales to Japan have already started.

Imported goods from Europe and the United States are priced about 20 to 30% higher than domestically produced items. Conversely, products from the NIEs are about 20% less expensive than competing Japanese toys. (See Table III-43.)

Table III-42. Trends in Major Nation's Toy Production, Export and Import, and Domestic Consumption

(Unit: ¥ hundred million)

	U.S.				Japan				West Germany			
	Production	Export	Import	Consumption	Prodution	Export	Import	Consumption	Production	Export	Import	Consumption
1982	8,522	629	2,593	19,923	4,775	1,816	211	7,030	2,159	900	996	5,208
1983	7,980	614	2,605	18,945	4,388	1,411	205	6,914	1,792	756	836	4,118
1984	10,770	555	2,882	24,885	4,561	1,438	233	7,184	1,333	529	585	3,056
1985	11,330	402	5,001	23,991	5,010	1,654	232	7,718	1,244	713	865	2,680
1986	10,554	310	3,624	20,787	4,494	1,132	291	7,817	1,288	621	725	3,062

Source: Japan Toy Association

Table III-43. Import Value, Volume, Unit Prices, and Shares by Item

Item	Imported Country	Volume	Value (1000 yen)	Unit price (yen)	Share
Wheeled toys for children	Taiwan	373,377 kg	239,882	642/kg	59.7
	U.S.	60,441	67,218	1,112	16.7
	South Korea	31,165	11,334	364	2.8
	Total	529,023	401,605	759	100.0
	Thailand	-	-	-	-
Dolls	Taiwan	425,562 kg	790,183	1,857/dz	31.1
	South Korea	178,843	422,809	2,364	16.6
	China	158,542	339,430	2,141	13.3
	Total	1,043,465	2,643,258	2,437	100.0
	Thailand	1,632	5,092	3,120	0.2
Toys and working models of textile woven fabrics	South Korea	53,553 dz	163,506	3,053/dz	35.1
	Taiwan	105,294	99,563	946	21.4
	Italy	1,300	39,223	30,171	8.4
	Total	120,047	465,925	3,881	100.0
	Thailand	2,528	11,001	4,352	2.4
Toys and working models of base metal	Hong Kong	1,406,448 dz	285,577	203/dz	28.1
	France	245,101	240,273	980	23.6
	Taiwan	141,899	119,648	843	11.8
	Total	1,954,659	1,016,624	520	100.0
	Thailand	11,284	11,208	993	1.1
Inflatable plastic toys	Taiwan	1,257,620 dz	927,749	738/dz	87.7
	South Korea	114,090	42,966	376	4.6
	Mexico	39,414	34,603	878	3.3
	Total	1,452,358	1,058,106	728	100.0
	Thailand	-	-	-	-
Plastic toys	Taiwan	5,511,152 dz	2,839,930	515/dz	28.6
	Hong Kong	3,686,189	2,397,822	650	24.2
	Denmark	295,416	1,651,009	5,589	16.7
	Total	11,130,991	9,913,763	890	100.0
	Thailand	11,014	25,816	2,344	0.3
Toys for recreational purposes	South Korea	2,730,270 kg	4,040,774	1,479/kg	49.2
	Taiwan	1,290,632	1,747,867	1,354	21.3
	China	288,075	427,660	1,484	5.2
	Total	5,339,353	8,213,281	1,538	100.0
	Thailand	89,456	219,691	2,456	2.7
Playing cards and games	Taiwan	87,863 kg	65,940	750/kg	22.2
	South Korea	81,651	25,064	307	8.4
	Hong Kong	23,916	27,496	1,149	9.2
	Total	293,105	277,012	1,013	100.0
	Thailand	5,056	7,390	1,462	2.5

Source: Customors clearance statistics
Note: Shares are based on value

3-4-4. Trends of Consumption

Japan's average per-household consumer spending was ¥3,316,493 in 1986, a slim increase of 1% compared with ¥3,277,373 in 1985. Of this, ¥6,693 was spent on the purchase of toys. Figures show that per-household spending on toys has remained in the ¥6,000-7,000 region since 1981: ¥6,190 in 1981; ¥6,417 in 1982; ¥6,064 in 1983; ¥6,019 in 1984; and ¥6,352 in 1985, as shown in Table III-44.

The number of times each household frequented shops and other places to make general purchases was 2,900 in 1986. each household visited shops to buy toys 4.5 times in 1986.

Of the average ¥6,693 spent on toys, ¥233 was used for purchasing dolls: ¥169 for plastic toys; and the remaining ¥6,291 went for "others." Disbursement on dolls reached its peak in 1976 and has since been declining. (Expenditures on dolls in 1986 were 63% of those in 1976.) Spending on plastic toys peaked in 1984. By 1986 it had decreased to 44% of the 1984 level.

Meanwhile, expenditures on other toys had appeared to have leveled off at around ¥5,000 in recent years. However in 1986, they exceeded th ¥6,000 mark for the first time. The 1986 figure was 106% of that of the previous year.

Broken down by annual income backed, Income Group I (with an annual income less than ¥3.14 million) spent ¥4,798 per household on toys, compared to the average ¥6,693; Group II (¥3.14 million to ¥4.34 million) spent ¥7,582; Group III (¥4.34 million to ¥5.59 million) spent ¥7,582; Group IV spent (¥5.59 million to ¥7.54 million) spent ¥7,027; Group V (more than ¥7.54 million) spent ¥6,400.

As indicated above, the household bracket with an annual income of ¥4.67 million - ¥5.87 million showed the highest per-capital spending on toys. Group II with a ¥3.14 million - ¥4.34 million income followed. A larger income does not necessarily lead to greater expenditure on toys. This assertion is supported by two factors: 1) In Japan, the income bracket which contains the largest number of households in the ¥3 million - ¥4 million group, and 2) most toys are oriented toward mass consumption rather toward than specialized groups of people.

Looking at expenditures by age of householders reveals that those between 30 to 34 years old spent the most with an expenditure of ¥13,292, followed by those 35 to 39 years of age with ¥11,761 and 25 to 29 years old with ¥11,060.

Those 30 to 34 years old are in their prime at work and this coincides with the period when they pay greatest attention to child rearing. Upon reaching 45 years of age, expenditures on toys have decreased to the ¥2,000 level. But those older than 60 years

spend ¥5,000. The increase is assumed to be owing to disbursement on presents given to their grandchildren.

Monthly spending on toys varies as follows (the total annual spending is set as 100): January 8.5; February 4.0; March 5.9; April 5.9; May 5.9; June 6.5; July 8.4; August 10.9; September 6.2; October 5.2; November 6.8; December 25.8. January and December account for 34.3% of total. The summer months July and August see 19.3%. Together these four months, i.e., Jan., Jul., Aug., and Dec., garner 53.6% of the entire annual expenditures. In these months salaried workers get their bonuses and annual festive occasions such as year-end, new-year celebrations, and the Buddhist festival of the dead are held. All contribute to toy expenditures.

The average household expenditures by region from north to south are as follows: ¥6,743 in Hokkaido; ¥6,083 in Tohoku; ¥7,451 in Kanto; ¥6,928 in Hokuriku; ¥6,475 in Tokai, ¥6,249 in Kinki; ¥6,765 in Chugoku; ¥6,782 in Shikoku; ¥5,616 in Kyushu; ¥5,124 in Okinawa. Expenditures are higher in Kanto, Hokuriku, and Chugoku respectively. However, the regional differences are not particularly significant. The figures are more or less the same.

Comparison of metropolitan areas show that an average household in the Keihin region which includes Tokyo and Yokohama spent ¥7,287, while the Chukyo (containing Nagoya), Keihanshin (Osaka, Kobe), Kitakyushu (Fukuoka) regions' expenditures are ¥7,111, ¥6,245, and ¥6,608 respectively.

A great difference in per-household expenditure exists between town/village areas and small-sized cities. For the former, disbursement is ¥6,488, and for the latter, ¥5,736. Among metropolitan areas, however,r the difference is very small.

Table III-45 and 46 show the number of children and consumer expenditures per children of major countries.

Demand for toys is generated mainly by those who are in the 0-15 year-old age bracket, although the age is increasing because of the popularity of video games and electronic beam guns. (See Chart III-13.) Information regarding the marketing of toys for each age group in the above-mentioned bracket is outlined below

a. Toys for infants

Those toys which appeal directly to the senses are preferred. Babies aged four to five months should be given harmless and safe toys in ordinary use. The toys should not be fragile, and should help babies to engage in some kind of physical exercise.

b. Toys for two to three-year-old children

Children at this age become interested in what is going on around them. Therefore, in view of child care, preferred toys are those of animal they are familiar with, wheeled toys, textile-woven fabric toys, or those operated by pulling attached strings.

c. Toys for four to five-year-old children

At this stage, there is a possibility that the scope of children's play expands. Playing with dolls, playing house, playing at train riding, etc. can help children be more imaginative and cultivate sensitivities to various matters.

d. Toys for six to seven-year-old children

Children at this age become curious about the daily life of adults and copy adult actions. Toys do not have to be different from those given to four or five-year old children. Nevertheless, toys which give some sort of elementary mental training may be beneficial.

e. Toys for primary-school children

A great deal of time is spent at school rather than at home. A shift occurs in the child's psychology, from the preoccupation with "imagination" to "knowledge." Demand increases for toys which require scientific knowledge, thinking, and which help children develop their physical abilities. Toys should also nurture independence.

Table III-44. Annual Expenditures on Toys

(Unit: Yen)

Item	Consumption Expenditure	Total Toys	Dolls	Plastic Models	Other Toys
Year					
1981	2,880,163	6,190	266	287	5,638
1982	3,038,024	6,417	276	380	5,761
1983	3,114,247	6,064	255	329	5,480
1984	3,195,829	6,019	249	240	5,530
1985	3,277,373	6,352	243	192	5,917
1986	3,316,493	6,693	233	169	6,291
Annual income divided in five classes					
I	2,054,171	4,798	196	134	4,468
II	2,730,003	7,582	299	183	7,100
III	3,179,460	7,658	191	188	7,279
IV	3,732,205	7,027	252	195	6,580
V	4,886,628	6,400	226	145	6,030
Age level of householder					
to 24	2,312,070	5,442	56	3	5,382
25-29	2,849,689	11,060	340	105	10,615
30-34	2,895,605	13,292	384	258	12,650
35-39	3,154,700	11,761	339	299	11,123
40-44	3,516,830	7,005	224	286	6,495
45-49	3,880,857	2,975	143	142	2,690
50-54	3,993,784	2,298	162	31	2,105
55-59	3,521,820	4,385	138	87	4,160
60-64	2,996,413	5,357	257	101	4,998
65-	2,483,410	3,877	175	84	3,619
Urban level					
National	3,316,493	6,693	233	169	6,291
All cities	3,342,450	6,739	246	146	6,346
Towns and villages	3,200,279	6,488	173	270	6,045

Source: Survey on Household Finances

Table III-45. No. of Children Under 9 Years of Ages

(Unit: 1,000 persons)

Year	U.S.		Japan		FRG		U.K.		France		Italy	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1982	16,247	15,716	9,510	9,040	3,342	3,194	3,788	3,579	3,999	3,817	4,446	4,218
1983	16,871	16,115	9,018	8,567	3,232	3,085	3,282	3,103	3,944	3,760	4,099	3,884
1984	16,871	16,155	8,741	8,289	3,154	3,011	3,187	3,021	3,944	3,760	4,099	3,884
1985	17,047	16,281	8,451	8,024	3,090	2,951	3,595	3,412	3,914	3,731	3,980	3,774
1986	17,047	16,281	8,451	8,024	3,090	2,951	3,595	3,412	3,914	3,731	3,980	3,774

Source: Japan Toy Association

Table III-46. Consumer Expenditures Per Capita Child

(Unit: yen)

Year	U.S.	Japan	FRG	U.K.	France	Italy
1982	61,982	37,898	79,682	62,210	60,312	26,593
1983	57,433	39,318	65,189	62,850	52,998	21,997
1984	75,441	42,184	49,570	44,410	53,855	19,241
1985	71,985	46,847	44,364	35,664	41,321	18,648
1986	62,371	47,448	50,687	28,728	54,820	19,345

Source: Japan Toy Association

Chart III-13. Children's Play/Toys and Ages

		M 7	Y 1	2	3	4	5	6	PS L	PS U	J
Toys, play at watching, listening	Merry-go-round; rattle; tumbler; teething ring										
	Stuffed animal toy; doll; plastic animal toy; French doll										
	Desktop piano; glockenspiel; xylophone; harmonica; drum										
Roll playing games, etc.	Dress-up doll; walking doll; talking doll; miniature furniture; blackboard; letter-play										
	Telephone; playing shop; playing house										
	Equipment for play in sand lot, with water; gun										
Involving physical exercise	Walker; cart										
	Plastic swimming pool; kicking-ball; throwing ring; tricycle; mini-car for riding										
	Small beanbags; top; kite; skipping rope; cup-&-ball play; bicycle; rollerskating										
	Bowling; baseball; table tennis; badmington; battledore-&-shuttle-cock play, etc.										
Moving toys	Spring-driven toy animal; plastic or wooden car, etc.										
	Spring-&-electrocity-run car, train, boat, animal, etc.										
Building, creating	Building block (wooden, plastic)										
	Paper-folding; clay work; picture puzzle; block										
	Working model; plastic model										
Games	Sports game; playing cards; GO; SHOGI; other games										
	KARUTA cards; small-glass-disc play; MENKO -card play										
Science-related toys	Telescope; microscope; camera; transceiver										
	Miniature car; on-rail locomotive & train set; radio-controlled car, etc.										

Notes: M=months old; Y=year (s) old; PS=Primary school L=lower grades; U=upper grades; J=junior high school student and older

Indications given in the chart may not necessarily coincide with each child's behavioral development.

Source: Japan Toy Association

3-4-5. Trends of Quality and Design

a. Games

Ordinary games such as board games or action games are targeted for lower age groups. The market leaders in this category are low-priced board games featuring popular TV/comic characters. For example, the games featuring Japanese medieval-age warriors which were produced following the TV program "Dokuganryu Masamune," a story on a famous medieval warrior, which gained great popularity.

Action games have been constantly popular among preschool-age children. Like board games, games in this category feature popular characters. Some of them are also designed to promote children's mental development.

For older age groups, billards games, "adult games" (those intended for low teens or older such as jigsaw puzzles, guns), and joke games are commercialized.

Family computer games are no longer growing as fast as before. But well-developed software programs are becoming important in the market. Examples are "Dragon Quest III", "Family Stadium", and "Golf: Japan Course."

b. Toys featuring TV/comic characters

Each maker produces a diversified range of toys featuring popular characters. Most dominant are figure toys modeled on such characters. They are usually marketed as a set which can be collected one by one. Prices are normally relatively low, which makes them more accessible to children. Higher age brackets have also become a target for these toys.

New types of fashion items are being developed such as goods for outdoor activities, gloves, hats, etc.

Efforts are being made by toy manufacturers and cartoon film producers to create new characters. Toy makers also have come up with various ideas to make "sets" of goods more attractive to children. One such idea is to assign different colors to "just" and "evil" characters in the set so that they can be easily distinguished.

In this area, various forms of tie-up cooperation are made actively between toy manufacturers and other businesses such as magazine publishers, and confectionery makers. Businessmen are making conscious efforts to produce goods that reflect the desires of fans by, for instance, materializing items that have been selected at design contests. In this category, toy makers are approaching customers with novel ideas and hobby-oriented designs.

c. Ordinary toys

Makers are having second thoughts about traditional miniature cars and on-rail toys. New products are being developed in their stead.

The product lineup of radio-controlled cars is showing more and more variety, from low-priced smaller ones to expensive ones equipped with various functions.

Once a popular item in the past, racing cars are accepted by present day children as a completely novel toy. This product shows the potential of gaining loyal customers. Having bought a set of racing cars, a customer is likely to come to the shop again to purchase other kinds of rails, cars, and related-goods which come onto the market.

Beam guns are regarded as a promising item as racing cars in the relatively stagnant toy market. Diversification is also seen in this line of products. Different ideas are incorporated in creating new types of guns which are more exciting and appealing to the senses. They are no longer just a target-hitting game.

d. Toys for girls

Two mainstay items are dress-up dolls and situational, anthropomorphic animal flock toys.

Dress-up doll goods have taken in various play-house and novel fashion elements. Some of the dolls wear cosmetics or have a speaking function on limited topics of conversation such as high-school life. To make them more appealing to customer,s dresses are available in a variety of qualities, prices, etc. Thus the development of a doll with personality is the most important point now.

Animal flock toys have their own selling point. Recently appearing on the market are low-priced goods which are highly play-oriented but have some practical uses. A variety of stuffed animal toys are available including comical, traditional, and those featuring TV/comic characters.

e. Toys for educational purposes

Building blocks can be attractive to children of both sexes. Newly introduced ones not only have simple building functions but other features as well. Examples are a town-building set, a series of the so-called space blocks with scifi touches, blocks with dolls attractive to girls, and LSI-incorporated ones which can produce sound and light.

Young mothers tend to like wooden toys because of their simplicity. Further improvement has been made in such aspects as the form and safety of these goods. Toys modeled on Disney comic characters, Snoopy, and others are drawing attention from both parents and children.

Child rearing toys and equipment for infants have been making significant improvement both in quality and forms. Consideration is given to safety, design, and other factors in producing strollers and car seats for babies. They are designed so that mothers can handle them. Such toys much not hamper the growth and mental development of infants and should teach children some basic play techniques in everyday life.

f. "Adult-oriented" goods

These items are gaining importance as toy manufacturers make efforts to attract much older customers. One of the goods in this group is the jigsaw puzzle. A wide range of picture variations including seasonal scenery, are accepted by young and old of both sexes. Makers have come up with a variety of ideas in producing picture panels which are easy to assemble without tools. They are designed to be part of interior goods.

Emphasis is shifting in air guns from compressed-air discharge types to ones using Freon gas. A variety of guns are available such as water guns, beam guns, and air soft guns. Their appearance and accuracy have greatly improved. Guns are attracting high-school and college students and even salaried workers.

"Adult-oriented" goods are mainly targeted at young adults. Other products include chess, backgammon, darts, bingo, party-related goods, and comical joke toys.

3-4-6. Trends in Distribution

(1) Characteristics of the Japanese Toy Market Distribution System

Listed below are the characteristics of the toy market distribution system:

1) No direct transactions take place between manufacturer and retailer. (The wholesaler acts as an in-between agent.)
2) Toys are traditionally sold at fixed prices. Makers and wholesalers endeavor to maintain such prices.
3) Accounts are generally settled in cash. When a newcomer enters the market, he must settle accounts in cash for at least the first year. Thereafter, depending on his reliability and credibility, drafts may be used. On average, drafts are drawn at 60 to 90 days' sight.
4) Unsold articles cannot be returned to wholesalers or manufacturers. However, there are exceptions:
   i) Department stores and large-scale retailers are allowed to return unsold items in the form of "merchandise exchange."
   ii) Manufacturers and "manufacturing wholesalers" (wholesalers affiliated with manufacturers) often conduct sales campaigns for short-lived fad goods or publicized TV/comic-related items. Returns of unsold portions of these articles during the campaign period are accepted.

The environment of the Japanese toy industry is becoming inhospitable because of 1) the entry of other industries into the toy market, 2) a low birthrate, and 3) the appreciation of the Japanese currency.

The strong yen has dealt a severe blow to the industry and some companies have been forced to shut down their plants and cut their workforce. With the birthrate declining, the size of the market has not grown. Moreover, as other industries enter the toy market, the sales floor areas itself is expanding.

Under these circumstances, polarization in the scale of manufacturers has taken place between large-scale businesses and medium and small-sized producers. This polarizing tendency is also occurring in the retail sector. The gap in sales has been widening between relatively small retail stores and specialized shops, department stores and large-scale retailers.

Recent developments in the distribution system are 1) an increase in the number of large-scale retailers in suburban areas, 2) moves by toy manufacturers to form retail store groups, and 3) the emergence of unique, specialized toy shops.

a. Large-sized retail shops in the suburbs

This is an area where the entry of other industries is most conspicuous. These large stores are built along major roads. Whereas ordinary retailers in principle sell goods at fixed prices, suburban shops sell them at about a 15% discount. Some of them have developed nationwide chain-store networks and further expansion is expected in the future.

b. Manufacturers' move to form retail store groups

Grouping of retailers by wholesalers has been underway for the past four or five years. Encouraged by manufacturers, retailers are grouped in "circles" or "tomonokai (association of friends)."

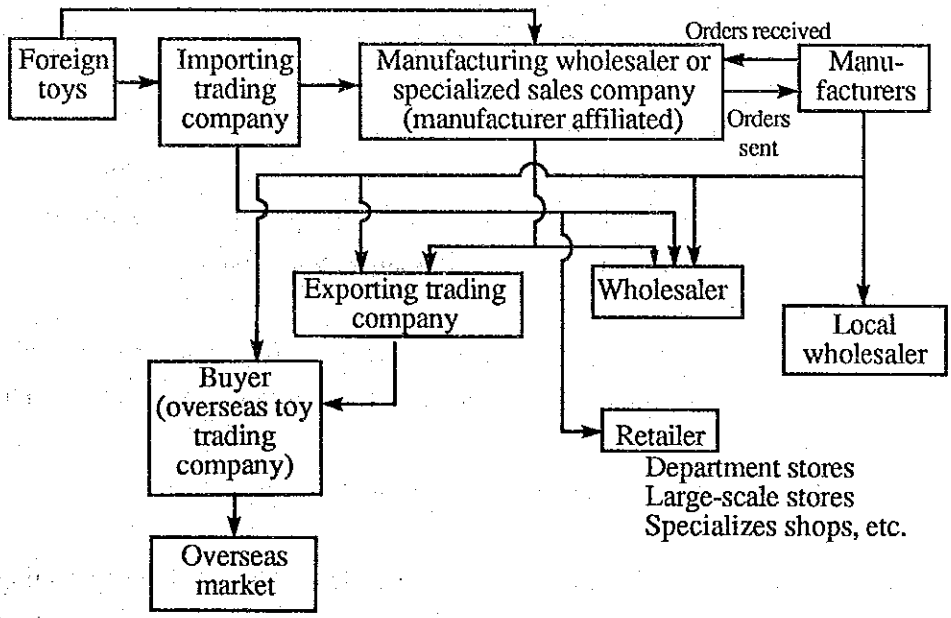
The rationale to such a move is to strengthen ties with retailers so that a manufacturer can maintain a stable distribution channel, and to gain that a manufacturer can maintain a stable distribution channel, and to gain systematically more first-hand information on consumer trends through retailers, whereby products catering to the needs to users can be developed.

c. Specialized shops

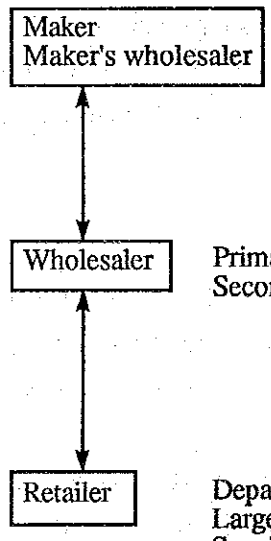
With consumers' needs diversifying, new kinds of specialized shops are proliferating. Once-ordinary toy shops are turning into specialized stores and developing different sales strategies. Some examples are: shops which maintain close ties with people in the region and gain loyal customers by selling all kinds of toys and articles; stores which sell not only high-priced items but also cheap confectioneries and items like puzzle rings, shops which aim to increase sales by attracting as many customers as possible rather than expecting big purchases from a limited number of customers; and shops which put emphases on product quality rather than quantity and sell not only toys but other goods like garments for children to meet the demand of total daily life.

(2) Distribution Channels and Roles of Each Agent Involved

Below is diagram of the distribution channel of the toy market.



Below shows the roles of each agent in the toy market.



Designing, development of merchandise
Planning of sales channels
Advertisement
Fund procurement
Assessment of risk involving use of certain brand name
Preparation, provision of sales promotion materials
Decision on prices and concept of goods

Primary dealer
Secondary dealer in local area

Delivery and stockpiling of merchandise
Introduction and making sales pitches for new products
Obtaining and providing information regarding industry and products

Department store
Large-scale store
Specialized shop
Ordinary retailer

Researching needs of customers in relation to shop's size and other conditions
Creating shop environment conducive to sales promotion

A characteristic of the Japanese toy distribution system is the roll played by the so-called manufacturer's wholesaler which functions as manufacturer and wholesaler. It participates in the development of new products by providing ideas and designs. It is actually a prime mover in the market since it authorizes the management of production volume and pricing. Its function in distribution is also significant. In exporting toys, it acts as a trading firm.

Idea is the most important part in toy industry.

1) From the viewpoint of a manufacturer, information regarding preferences of customers can be obtained more readily through distributors. It is crucial to obtain such information since what counts are ideas reflecting customers' needs.
2) Manufacturing wholesalers also act as a financing company. This guarantees the manufacturer financial security in its prospective production plan.
3) Manufacturing wholesalers also have a marketing function.

There are three kinds of manufacturing wholesalers: Those primarily dealing with 1) department stores, 2) specialized shops, and 3) large-scale retailers. In terms of regions, wholesalers form two groups: Nationwide dealers and local dealers. Basically they stand between manufacturers and retailers to deliver and store merchandise. They also provide retail stores with information on the industry, products, etc.

Retailers are divided into department stores, large-scale shops, specialized shops, souvenir sellers, and stationers. Nationwide chain-store groups appeared at the time when large-size retailers in the suburbs entered the market. They are, like large retailers, capable of attracting a large number of customers.

(3) Market Share and Role of Toy Importers

Approximately 150 firms are engaged in importing toys. Some of them are toy manufacturer which have a division specializing in direct external trade. They also include trading houses which specialize in certain merchandise or specific areas of the world. Methods of importing vary.

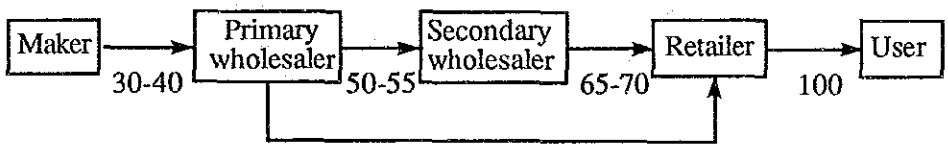
Such companies sell goods to domestic distributors like wholesalers. (Many trading houses engage in wholesale business.) It is therefore important to know each trading house's specialized products, regions, and distribution routes. Some points that should be considered when exporting toys to Japan are basic elements such as safety, reliability, and good quality, along with packaging, advertisement, and product name.

The packaging of foreign-made goods is rarely changed when they are imported. Advertising is conducted through mass media such as newspapers and magazines when a dealer imports original merchandise. A unique naming method is employed for domestically produced toys but imported toys' names used in the exporting countries are normally not modified. A better sales strategy may be to change the names of imported toys to ones which appeal to Japanese customers.

(4) Price Structure

The normal pricing structure in the toy distribution system is described below.

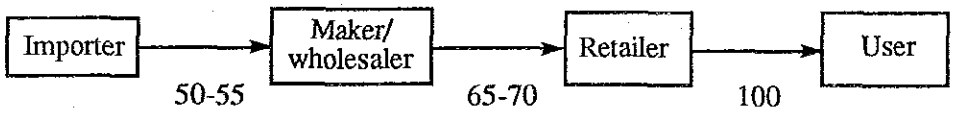
(Retail prices are counted as 100.)



A retailer's profit margin is normally 30 to 35%. In sales of fancy goods a retail shop earns 40% of the price, but for major makers' items they get only 30%. Profit margins differ according to quantity, payment conditions, kinds of products, etc. Unsold goods are usually not returnable. However, there are cases of a retailer returning unsold merchandise in exchange for new products. The pricing structure for imported toys is basically the same.

When goods are imported, 15 to 20% of the CIF (cost, insurance, freight) price is added as an increment to cover costs for customs clearance, transportation, and storage. Retail prices are set by import agents at prices 2.5 to 3 times higher than for FOB (free on board) prices. However, prices also vary, as with domestic goods, according to quantity, form of transaction, etc.

(Retail prices are counted as 100.)



Some importers sell goods directly to retailers or directly to customers without relying on wholesalers and/or retailers.

(5) Examples of Product Prices by Category

Toy distribution routes can be classified into two categories. One is distribution through general sales agents (such as department stores, large retailers, specialized shops, ordinary retailers); the other through suburban special shops, some of which are set up by firms of other industries. General sales agents maintain fixed prices while suburban shops sell goods at prices 15% lower on average. The chart below shows examples of differences in prices by product category of general and suburban stores.

Examples of Differences in Prices by Product Category are as follows.

General Stores and Suburban Stores

Merchandise Category	Name of Maker	Name of Product	Sale Price	
			General Shops (Fixed Price)	Suburban Shops (Discont Price)
Family Computer	Nintendo	Family Computer	14,800	10,800
		Disc System	15,000	10,800
Race track, radio-controlled cars	Tomy	My Flex	6,800	3,980
		Railroad Crossing	4,980	3,570
	Cherico	Big Racing BS-30	4,800	3,800
		Big Racing BS-88	9,500	7,970
	Niko	4WD Stealth	19,800	15,700
		Frame Buggy Hurricane	14,800	12,700
		Bison Jr. Turbo Panther	7,980	6,370
	Shinsei	Be-1	4,500	3,600
	Taiyo	Mini Hopper	4,980	4,470
		Turbo Arrow Jet Fighter	9,980	8,970
	Yonezawa	Star Shooter	7,800	6,630
Character toys /for boys	Bandai	Saint Seiya		
		Golden Cross	2,200	1,980
		Seitoshi Seiya Game	2,500	1,980
		Saint Kuroshiseo	5,980	5,000
		Majin Robo R Jutan	6,500	5,520
		DX Galaxy Robo	3,980	3,570
		Big Scale Turbo Rancher	6,500	5,520
	Tomy	Zoid Shield Rangar	1,980	1,700
		Zoid Death Zaurar	4,800	4,320
	Takara	Transformer D98 Six Shot	3,980	3,570
		C-131 Raiden	4,980	4,230
		D-93 Megazatec	4,980	4,230
Stuffed Animals	Alps	Nurinko Club	3,000	2,700
	Masudaya	Mannekko Kuma (Copy -cat Bear)	8,800	7,920
		New Mannekko	7,600	6,840

Merchandise Category	Name of Maker	Name of Product	Sale Price	
			General Shops (Fixed Price)	Suburban Shops (Discont Price)
	First	Itazura Tenshi (Mischievous Angel)	1,600-10,000	10% discount
		Jimmy	2,800-10,000	10% discount
	Iwaya	Oshaberi Friday (Jabbering Friday)	8,800	7,920
		Zabu Buta	1,000-3,000	10% discount
	Nakajima	Kirin (Rideable Giraffe)	10,000	10% discount
		Mizudori no Ko (Rideable Waterbird Chick)	10,000	10% discount
		Wa Nage Kirin (Ring Throw Giraffe)	1,500-12,000	10% discount
		Paku Paku Talk	8,500	7,650
	Oike	Kon Kitsune (Howling Fox)	1,300-6,000	10% discount
		Candy	2,500-13,000	10% discount
	Kichitoku	Zuni Kirin	2,400-10,000	10% discount
		Candy	2,500-13,000	10% discount
Girl's Dolls Etc.	Takara	Rika-chan Doll	2,000-3,400	
		Jenny Doll	2,000-4,980	
		Jenny Beauty Room	3,500	3,150
	Epoch	Sylvania Urban House	5,980	5,380
	Bandai	Soft Cream House	2,500	2,250
		Cake ya san (Confectionary)	2,500	2,250
	Tomy	Princess Ori	5,800	5,220
	Royal	Party Queen Set	3,000	2,700
Games	Sega	Doki Doki Shouboutai (Exciting Firefighters)	1,980	1,770

Merchandise Category	Name of Maker	Name of Product	Sale Price	
			General Shops (Fixed Price)	Suburban Shops (Discont Price)
	Nomura Toy	Butaminton	3,000	2,700
	Epoch	Doki Doki Jigoku Land (Exciting Hell Land)	3,500	3,150
		Fusen no Torasan (Balloon Tiger)	2,800	2,520
	Yonezawa	Gabbucho Sakana Tsuri Game (Dunking Fishing Game)	2,800	2,520
	Takara	Darumasan ga Koronda (St,Dharma Rolled Over)	3,600	3,240
Beam guns, toy passenger and large size cars for boys	Sega	Zillion Shooting	5,500	4,950
	Masudaya	Dizzy Kousen Jyu (Dizzy Beam Gun)	5,200	3,980
	Shinsei	Beat Rider	1,300	1,170
	Toy Box	Super Circuit	3,400	3,060
	Gakken	F-1 Sover	2,980	2,670
	Alps	Skyline Patrol Car	2,800	2,520
		Shoubou Kyukyu Tai (Fire Dept. Rescue Team)	2,700	2,430
	Terai	Mammoth Power Shovel	2,900	2,600
	Yonezawa	Monster Bike	29,800	26,700
	Bandai	Mini Electronic Patrol Car	3,980	3,570
Educational Toys	Kawai Gakki	Mini Piano P-32	9,800	8,800
	Ewan	Elecsound M.M	4,800	4,320

Merchandise Category	Name of Maker	Name of Product	Sale Price	
			General Shops (Fixed Price)	Suburban Shops (Discont Price)
	Bandai	Melody Step	3,500	3,150
	Toy Box	Moshi Moshi Kisha Poppo (Talking Locomotive)	3,200	2,870
	People	Kowashitai Hodai (Break-as-you-please)	5,980	5,370
		Wanpaku Gym	6,900	6,200
	Nihon Lego	Lego No.340	4,400	3,960
	Kawada	Diamond Block Linear Car	8,800	7,920

(6) Sales Strategy

Toys are fashion goods and short-lived in the market. A variety of merchandise is produced but each in small quantity. Sales promotion depends on novel, imaginative designs and ideas. Sales of toys are also affected by seasonal factors. It is thus necessary to be aware of the characteristics of the distribution system and to obtain information about the influences on demand.

Distribution strategy is basic in the promotion of sales. As mass sales it have become less effective in generating profit, manufacturers are designing and implementing plans to acquire information about consumers' needs by way of distribution routes. It is crucial to pin down what customers wand in developing and marketing products that fit consumer demand using the distribution channels.

Other sales promotion strategies include TV commercials, effective package design, sale promotion tool, good advice, etc.

To assist retailers in boosting sales and gaining customer loyalty, various events and campaigns are stages. These include "idea contests" and "commendation ceremonies for retailers providing excellent service to customers."

Nowadays the consumption behavior of children is showing a dichotomy. Individually, children exhibit their own distinguishing taste and preference in choosing toys, but often they will all jump at new attractive goods which are in vogue. This tendency has created a situation in which manufacturers can no longer make use of traditional market research and surveys. The better strategy is to check the needs of customers directly by getting in touch with them at the forefront of sales.

Manufacturers and wholesalers exchanges ideas and make proposals to each other on such matters as consumer trends and new sales tactics. Wholesalers and retailers cooperate to work out way of attracting customers. Such measures include sending direct mail to listed customers, handing out pamphlets, giving advice on showcase displays, conducting competition games for users, special sales, events, and so on.

There has been virtually no competition in the toy industry with respect to prices. To a certain degree, it has been relatively easy to secure profits. However, the result has been inflexibility of business practices and uninspiring displays of merchandise in shops. With the entry of other businesses into the toy market, measures to explore customers' needs and to boost sales have been diversifying.

3-4-7. Future Market Outlook

(1) General

In the past, it was said that the toy market was "recession-proof" due to Japan's strong economic growth, the increase in household income, the diversification of hobbies, and the consistent demand for toy by children.

The environment surrounding the toy industry is changing, however, as indicated by a decline in the numbers of children, the levelling of of disposable incomes, sluggish consumption, etc. Since 1986 some manufacturers have been forced to close their businesses due to the sharp appreciation of the yen. In Tokyo alone, about 30 firms have suspended business. At the moment, further expansion of the domestic market appears unlikely.

With regard to distribution, toy retailers set up by firms from other industries have been creating nationwide sales networks. Existing specialized shops are branching out into suburban areas. While the profit pie remains the same size, market participants are multiplying and sales floor space is increasing.

Toy producers are moving production bases to Southeast Asian nations because of the strong yen. Some toy makers are studying the possibility of starting up production in China, a country which has great potential as a prospective market.

Family computer games have reached their peak in sales due to their wide penetration of the market. Manufacturers are looking for the next market leader.

Currently, there are some favorable indications regarding ordinary toys. Boys' toys featuring TV/comic characters are pushing up sales and racing cars and radio-controlled cars are beginning to enjoy renewed popularity. In the meantime, girls' toys are showing less than spectacular performance in sales.

Market attention is being drawn to the popularity of water and beam guns. What are called "interaction games" involving the use of a TV screen and other equipment are suggesting a new form of play that can be further explored by manufacturers.

In its 1987 business outlook, the Japan Toy Association anticipates production of ¥480 billion, of which exports comprise ¥80 billion. However, the actual production figure is expected to be around ¥440 billion, the same level as 1986.

"Toy Gift Coupons"

So-called "toy gift coupons" have been sold in the market since December 1987. Forty percent of them have been purchased as gift certificates to be given to others. The creation of toy tickets was based on the assumption that toy are, by nature, suited to the gift certificate market.

Nine major members of the Japan Toy Association, including Bandai and Takara, will jointly set up a new corporation called "Toy Card." The new company will issue gift certificates for toys and engage in activities to promote toy sales. The certificates will have a face value of ¥500. There will be two types of certificates. The ordinary "A" certificates (sold at the Association's member retailers) are intended to create demand through the efforts of the toy industry itself. The "B" certificates which is a quite new trial will be issued to corporations and organizations (to be used in advertising activities and/or sold by specified agents) and are aimed at increasing demand with the help of others outside the industry.

As of December 1, 1987, there were 3,000 shops throughout Japan which accepted the certificates including specialized shops, department stores and large retailers. By March, 1988, the number is expected to reach 5,000. In 1987, 10 million certificates worth ¥5 billion were expected to have been issued. The target for 1990 is ¥10 billion.

(2) Marketability of Toys and Advice on Expansion of Exports

a. The Japanese toy market has remained almost unchanged in size due to low birthrates and the stagnation in consumer spending. In addition, more market participants and greater sales floor space have resulted from the diversification of toy shops and development of sales networks by the suburb-based stores opened along major roads.

b. The high yen and other factors have prevented domestic manufacturers from increasing production. However, exports by domestic markers are declining and the resultant overproduction has been shifted to the domestic market. Under these circumstances, Japanese makers are branching into new, unexplored product areas.

c. Exporting toys to Japan will be a challenge because the market will be floaded with those domestic products that have survived severe competition.

d. There are, however, chances for both domestic makers and importers of foreign toys for penetrating the market. Retailers have been looking for a new market leader that can take the place of the once-dominant family computer. This may be an area with sales potential.

e. There remain some difficulties in the market, for there are enormous numbers of items, and goods in vogue which tended to have a short life span in the market. Moreover, even domestic makers which have sold successful goods experience great difficulty in analyzing children's preferences and needs.

f. Close contacts with trading houses and domestic wholesalers are vital if an exporter is to obtain information that will help him respond to the needs of Japanese customers. It is also important to narrow the range of merchandise for sale to allow a swift response to the needs of customers.

g. Recently a foreign maker withdrew from the Japanese market. The company had been selling Hong Kong-made water guns. Complaints from customers were raised against inferior parts. A Japanese company obtained the production license from the foreign maker and started manufacturing them in Japan. Even though the article was low-priced, Japanese consumers would not accept goods of questionable quality. Consideration should be given to after-sale service and mechanisms for dealing with complaints.

h. Against the backdrop of the strong yen, Japanese toy makers are shifting production bases overseas where abundant, younger workforces are available at low wages. A shift of operations has other repercussions. Overseas export operations can benefit from preferential tariff treatment by the United States and Europe for which a Japanese exporter could not qualify.

(3) Advice for Marketability of the Domestic Products in Question and for Expansion of Exports

The Japanese to market in 1987 suffered under such unfavorable conditions as a decrease in infant population, a stagnation of national income, and a decline in the production strength of domestic makers.

The market is not expanding, but due to the participation of different types of industries, the market area has expanded through their nationwide development of large suburban roadside chain store.

Since the export market is on the decrease, toy makers are stressing production of products for and sales on the domestic market, making competition intense.

The reasons it has always been thought difficult for imports products to permeate the domestic market are 1) the existence of wholesalers who find it constitutionally difficult to recognize new values, and 2) the existence of quality standards which are bothersome. These are the two reasons.

Since toys are made for babies, infants, and small children, in terms of quality, both domestic and foreign makers find it necessary to conform to fulfill the needs of the Japanese domestic market.

In terms of distribution, the old constitution is in the process of change due to the modernization of distribution system, and a new look is being taken at the function of the wholesalers themselves.

Also the toy shops themselves are in the process of change due to such factors as the strength gained by suburban roadside shops brought about by the participation of different types of industries.

The management sensitivities of the operators of the large shops of the different types of industries are severe, and they have a set policy in selection of products.

As a result, when Thai enterprises wish to develop sales of their toys on the Japanese market, rather than going through the older distribution channels, it is better for them to approach these new suburban shops. At least there is a leeway here for advance into the Japanese market.

Particularly in Japan, imported products have spread and become daily life related items, which means that there is no longer any psychological concern over what country a products was made in.

If export to Japan is carried out with low prices, with products that bring out the unique qualities of their materials, and with considerations for safety (quality), Thai products will also be accepted. The Japanese market is an easy market to enter.

In terms of products, the Japanese toy market demand for family computer hardware has gone into a slump, and it has entered and age of software development.

Electronic toys to compete with the family computer are difficult to predict in terms of technology, and since their sales are determined by fads, they are not very appropriate as import products.

Audio-visual toys that use TV monitors will be produced by domestic makers in a variety of toys in the future. Therefore, it is wise for new export countries to avoid competition in this area.

Growth can be expected in the area of general toys in the future with products that provide children with dreams and show term those dreams.

The market hods particular promise for handmade toys that stress the tactile sensitivities and bring to life such materials as wood and cloth.

However, since Japan is stricts about quality, it is necessary to comply with the needs of the Japanese domestic market.

Among the distribution channels, wholesalers will carry out checks on price and quality, while large trading companies will demand products samples and carry out checks on such matters as whether or not the expression of a dolls face will appeal to the people of Japan.

However, it is even difficult for Japanese enterprises to determine what sort of toys will sell if they are produced because of the lack of clarity in demand trends.

And it is not possible to wholesalers or trading companies to function effectively in this area at the time of product development and planning.

In order to make it easier to match up the producers of export nations and the needs of the Japanese market, it may be best to work through the large suburban stores in this context as well.

Concerning export products for the Japanese market, predictions are difficult, as mentioned above, so for Thailand, conversely, the main point is what can be supplier from Thai producers.

And rather than products that are similar to those of the past, items that show originality are necessary.

It is necessary to establish toy production methods, volume, and supply organizations, and even in the case of consignment production, delivery deadlines are very strict.

It is necessary to compare the production strength level, the possibility of parts production, the possibility of production of half-finished products and finished products, and the conditions of your own country's production with the technology and product standards of the Japanese market.

In case of either import product or sub-contract production, supply speed and delivery deadlines are demanded when exporting to Japan. Thus it is necessary to establish a system that answers these needs.

Matters to be considered concerning the Japanese market, are the making of deals is small units at the start and being prepared for the problem of returned goods.

It also depends upon the price that is set, but Japanese deal units are normally made in orders or lots of several thousand. In the case of the foremost major enterprises, there are orders of several tens of thousands, but orders or lots of 1,000 are appropriate.

Also, since Japan is not a contract society, verbal contracts are the norm. And detailed specifications are made concerning quality.

4. Requirements for Growth

4-1. General

4-1-1. Major Tasks

The main tasks facing the Thai toy industry, if it is to carve out a position for itself as an export industry, have been summarized into the following four points:

a. A change in the medium- to long-term to a variety of goods including the manufacturer's own brand of goods and the high-grade OEM product;
b. The establishment of product development systems which continue to meet the tastes of the main world markets;
c. The establishment of production systems which are of the same level of quality as those found abroad;
d. The establishment of its own identity as a toy supply country on the international market.

4-1-2. Technological Support to the Industry

In order to promote the Thai toy industry, it is necessary to deal with the issues and come up with solutions to technological problems which cut through the entire industry. It will take some time until this can be done by a group made up of only private companies. In the meantime, it is therefore necessary for industry guidance and support to be provided by an organization which lies somewhere between the public and private sectors.

The main tasks relating to guidance and support for the industry are:

a. Support to enable individual manufacturers to raise their capacity for product development. For example, providing instruction for product development staff and designers;
b. Establishment of its function as a center of overseas publicity activities;
c. Popularization of the Thai toy standard and the toy safety standards from targeting countries;
d. Mainly for improving Thai toy reliance to increase the export of toys establishment of safety examination systems

4-2. Marketing

4-2-1. Collection and Supply of Market Information

The provision of information on overseas markets and technologies will prove effective in promoting the development of the Thai toy industry. The types of information which are required are:

a. Information and data which form the basis of product development. For instance, trends relating to tastes, fashions, and the style of distribution;
b. Information on overseas manufacturers who are customers or with whom there are tie ups;
c. Information on new overseas technologies and products;
d. Detailed inquiries from overseas customers.

The DEP is already providing assistance in regard to some of these. To collect a wider range of information in the future, the activities of the DEP can be expanded or information can be collected from other organizations which are supported by the Ministry of Industry and/or the Ministry of Commerce. The publication of a periodical, opportunities to view samples and materials, consulting, and the holding of seminars would provide a means of supplying Thai toy manufacturers with this sort of information. It is necessary to specify an organization for implementing these tasks.

4-2-2. Overseas Publicity Activities for the Industry as a Whole

Also, for instance, it is necessary for Thailand to undertake a campaign which gradually adds to expectations through statements such as "The Kingdom of Doll Know-How" and "Thailand is playing an active role in the world market" These activities for be effective establishing its own identify as a toy supply country. For opening up markets overseas, it is necessary for the Thai industry to conduct organized publicity activities aimed at major overseas distribution channels. It is important to repeatedly make it understood that there are many advantages to be gained by placing orders with Thai toy manufacturers.

4-2-3. Introduction of Techniques for Analysis of Sales Data

In carrying out product planning and product development, the analysis of sales data is important to explain "why" a product can sell and "how" to sell it. Because it is impossible to carry out market surveys for every product, it would be worthwhile for

Thai toy manufacturers to adopt this sort of technique for scientific analysis. By starting with easy methods and then gradually improving techniques, it is possible to judge whether the design of a product is suitable or not.

4-2-4. Development of Goods Aimed at Tourists

Today the stuffed toy market for tourists in Thailand is largely untouched, and it is an area which can be expected to develop as a market in the future. It is first necessary to plan and develop products aimed at this market.

4-2-5. Sales Promotion of Stuffed Toys

If the present situation continues in which it is decided where almost all goods are to be sold, it is not really necessary to increase functions relating to sales and staff above the present levels. However, the following developments are necessary in order to expand the overseas markets of Thai-made stuffed toys:

a. Trading companies which would concentrate on the export of Thai-made stuffed toys;
b. The promotion of sales overseas representing the industry as a whole;
c. Sales promotion activities carried out by each individual company.

4-3. Technical Capacity

4-3-1. Product Planning and Development for Plastic Toys

In order to achieve business stability in the medium to long term, the plastic toy industry must change over from concentrating mainly on OEM products to a variety of products which include companies' own product brands. However, the level of product planning and development among large companies within the Thai plastic toy industry is low. It is essential to make an effort to accumulate technology relating to product planning and development while there is a steady flow of orders for OEM products from abroad.

4-3-2. Production Control Systems for Plastic Toys

In order to achieve a certain standard of quality while production volume is being increased, it is necessary for the plastic toy industry to analyze the elements of operations and grasp the problems related to each model and each process. There is also the need to

remedy the inconsistency in quality which exists among processes and lots and to raise the low level of precision in the individual parts processing and assembly processes. Also, rationalizations and increased efficiency are also required while making use of the advantages of labor-intensive production systems.

For this, it is necessary bring up production technicians and quality control experts in order to strengthen the quality control system. Then it is necessary to establish a system for investigating problem of quality inconsistency. To contribute to improvements in operations on the lines.

4-3-3. Production Control Systems for Stuffed Toys

Quality control is the area which should receive the most attention relating to the production quality of stuffed toys. The following three tasks must be dealt with in the quality control of stuffed toys:

a. Are basic manufacturing techniques (sewing, binding, stuffing, etc.) reflected in the products in accordance with international standards?
b. As a toy aimed at children, does the final product meet safety standards?
c. Does the product as a whole, or in parts, convey the same atmosphere as the basic design?.

From now on the stuffed toy industry will work on expanding rapidly in terms of quantitative production capacity. For this, production efficiency needs to be improved in all parts of the work place while simultaneously maintaining quality standards. It will become necessary to manage plant layout, the order of operations, the supply of materials, labor efficiency, precision, and subcontracting. The creation of a control system to achieve this is an important task for stuffed toy manufacturers.

4-3-4. Fostering of Technical Staff for Stuffed Toy Manufacturers

(1) Product Development Staff

The importance of product development planners and also product designers will increase for the Thai stuffed toy industry. A leading Japanese manufacturer carries out product development by employing 70 character designers for developing basic designs, 3 doll product planners who experiment in putting basic designs into three dimensional form and also in making estimates of sales, and 3 doll merchandise controllers who analyze market data and give instructions as to where improvements need to be made. In the immediate future stuffed toy manufacturers in Thailand will have to carry out product development with a small number of staff. In order to increase their market share in the

medium to long term, it is desirable to make full use of product development staff which has plenty of sensitivity.

In order to speed up the training of the product planning staff for a high degree of sensitivity, instruction relating to the following two points is advisable:

a. Employ experts to provide instruction on techniques, using as examples products full of ideas from overseas markets. Also, as training proceeds, teach how to understand the tastes of overseas markets;

b. Come in contact with as many attractive cloth product designs as possible.

(2) Quality Control Staff

Quality control is the area concerning staff at the site of manufacture which should receive the most attention from the staff at the manufacture site. While having group chiefs from the various parts of the plant give instruction as production is being carried out, quality control staff who are separate from the production lines are also necessary for standardizing quality.

Instruction should be provided on the following two points when training quality control staff:

a. Before the commencement of production industry standards, company standards and specifications governing products should be documented and put into manual form, and staff should be able to see that they are implemented throughout all the production stages. Also, in relation to this, they should be trained so that they can create improvement plans for manufacturing systems;

b. They should be able to understand the quality standards of the United States, Europe, and Japan;

4-3-5. Systematic Acquisition of Technical Knowledge

Technical know, how relating to the various sectors in the Thai toy industry is fragmentary and is not organized into any systematic form. Although technical education provided at educational facilities is systematic, there is a lack of practical training. It is necessary for each individual company to accumulate specialized technical know, how and to pay attention to the education and fostering of technical experts. To fill the existing gaps in technical know, how, information should be gained through the cooperation of educational facilities and overseas customers. For addition to efforts taken by the companies themselves, the provision of instruction and research facilities by

governmental organizations and industry groups will prove effective in raising the standard of the toy industry as a whole.

4-3-6. Systematic Education of Employees

It would be worthwhile to systematically include the technical education of employees belonging to the Thai toy industry within company activities. If it is left up to nature, there is the danger that the rate of worker training will not meet the rapid pace of expansion in production. This can also hinder production efficiency, and it should be realized that a wide gap in know, how from individual to individual and a lack of understanding can harm production. Speeding up the technical ability of employees through the creation of technology acquisition programs is necessary to produce goods of a certain standard of quality under mass production systems.

In addition, controllers to supervise the various processes are needed in order to be able to develop in-house to and produce international goods which are over and above a set standard.

4-4. Standards

4-4-1. Thai Safety Standards for Toys

For toys which are touched by children, safety is of the highest priority. In Thailand there were no quality standards or safety standards for toys which would meet international standards until 1987. It seems that this was one of the reasons for the low rating of Thai toys overseas. From now on the Thai toy standard should be popularized and the required tests should be carried out based on those safety standards and inspection standards. Guaranteed quality for toys for export will lead to an improvement in the level of toys made in Thailand and will also earn the confidence of overseas customers.

Today, when toys are exported from Japan to the United States, a mark indicating that the product is safe and that it has passed Japanese requirements is put on the toys despite the fact that the United States also has its own safety standards. In the United States a high value is put on goods which have passed Japanese safety requirements. Therefore, if Thailand makes its own safety standards and exports products which meet those standards to markets in advanced countries, it will be just the same as if product inspection has been carried out in those countries. If Thai safety regulations are the same as regulations in advanced countries, the products will be trusted internationally and will be regarded highly at the time of import inspection.

The popularization of Thai standards for toys and the carrying out of the required tests have the following significance:

a. In addition to making it widely known that Thai toys are safe for children, they will form a foundation for that trust;

b. It will show that in toy manufacture in Thailand, safety is recognized as the most basic and important point;

c. Because the guarantee of safety will be brought to all parts of toy production, it will become easy to meet requirements for export products.(It will raise the level of technology.)

4-4-2. Company Standards

The setting of operational standards and quality standards within each company is necessary in order to guarantee the quality of higher standard goods. It will also raise technical capacity and lead to companies having their own brand of products in the future.

4-5. Supporting Industries

4-5-1. General

Because the toy industry is not a key industry, the existence and development of the industry is not a prerequisite for the development of supporting industries such as the mold and die industry and the parts industry. Yet, policies and projects for the development of the toy industry will benefit supporting industries, and at the same time it is to be hoped that standards will increase across the board.

4-5-2. Developing Outside Manufacturers

As the Thai toy industry gradually increases its exports, the companies which form the nucleus of the industry will adopt mass production systems. At this point, it will not only be necessary to increase the capacity of their own plants, but to develop some outside manufacturers as well. Therefore, the medium, and small-scale manufacturers will have to increase their capacity for mass production and quality control.

4-5-3. Supply of Materials for Stuffed Toys

It is not possible to produce stuffed toys which are first class by international standards by using only materials produced in Thailand today. Because of this, a variety of materials which are high in quality have to be imported from Japan and other Asian nations. It would be profitable to gradually improve supply from within Thailand. However, because of the small size of the orders, Thai textile manufacturers find it difficult to produce materials for stuffed toy manufacturers. In this situation, the following would be advisable:

a. Arranging orders of large lots through the cooperation of companies within the industry;
b. Fostering of manufacturers of felt, ribbon, and beads, etc, or enticing of such manufacturers to Thailand;
c. Developing and fostering cooperative cotton spinners, or enticing cotton spinners to Thailand.

5. Problems and Countermeasures

(1) Lack of organization within the industry

(Problems)

[1] The Thai Toy Center was established in 1986 and so far 35 companies have become members. However, the center is not registered with the government and it is no more than a private club.

[2] Although in Thailand the safety inspection of toys is carried out by a government inspection facility and the SGS in response to requests from customers, the equipment used for such inspections is inadequate. If Thailand is to maintain rapid growth in toy exports, copied products have to be done away with and safety must be guaranteed.

(Countermeasures)

- Although the Thai Toy Center is expected to be registered as a government association in 1988, the function of the center as an industry group needs to be strengthened and also close ties should be formed between it and the export promotion activities of the Ministry of Commerce's Department of Export Promotion;
- An organization should be established to carry out the professional inspection of quality and safety standards, and Thai toy manufacturers taught more about improving quality and guranteeing safety.

(2) Lack of information

(Problems)

[1] The industry lacks information about the trends of the major overseas markets (U.S., Europe, Japan).

[2] With the exception of a few large companies, manufacturers know barely anything about international safety standards for toys (such as those in the U.S., Europe and Japan).

[3] There is insufficient knowledge about production technology. There is also a lack of information and experience relating to design and product development.

(Countermeasures)

- The provision of abundant information related to toys overseas;
- The collection and provision of information by the establishment of a toy industry promotion center;

- Increased and improved activities concerning toys by the Department of Export Promotion;
- Greater PR activities aimed at overseas industries regarding the Thai toy industry as a whole;
- The provision of sufficient information required in order to guarantee quality and safety and product development;
- Strengthen ties with overseas manufacturers with regard to information;
- Spread information regarding overseas markets over a wider area.

(3) Technical Problems

(Problems)

[1] Because most products are either medium grade products which have few parts or low grade products which have a low added value, very few upper-grade products are produced. As competitors such as China appear in the future, products with a higher level of added value will be required.

[2] The precision for parts is low and the finishing off processes such as the gate finishing process and removal of edges are rough. Precision in processing and assembly is similarly rough.

[3] Although injection molding machines are used by even the smallest manufacturers in Thailand, they are mainly used-machines made in Hong Kong and Taiwan. Though manufacturers would like to introduce high performance injection molding machines from Japan, they are expensive.

[4] Although general industrial sewing machines are used by stuffed toy manufacturers, they are usually old models. There are only a few manufacturers which have lock sawing machines which are capable of overcasting. Only manufacturers which employ more than 200 workers have stuffing machines.

[5] The processing equipment of large companies includes belt conveyor lines, ultrasonic welding machines, painting equipment and ball lathes. Although medium and small companies possess the necessary equipment, such equipment is mostly of a low level. Although some companies have assembly lines they are not used as efficiently as they could and there is a noticeable lack of technical knowledge. In the case of small manufacturers, parts are treated badly after shaping, and there are no set standards for the subsequent processing and assembly stages.

[6] Because the domestic mold and die industry is undeveloped, there are many companies which rely on importing expensive molds from overseas.

Although large and medium-sized companies have the minimum of equipment required for the maintenance of molds, there is a lack of metal processing machines and equipment which are required for undertaking repairs and remodelling.

[7] Imports are relied on for many types of parts such as small metal parts (springs and screws), and also gears, motors and rubber parts. When production expands in the future it will be necessary to have a large quantity of the same part supplied at the same time, and this could pose some problems in regard to delivery.

[8] Technical capacity is low and many companies are unable to become involved in OEM production.

(Countermeasures)

- As the trend towards greater OEM production continues, a greater amount of technology should be accumlated and development capacity improved. In particular, more training and technical guidance is required for product development and design, and preparations should be made for producing goods with a high added value in the future;
- Continuous training and technical guidance needs to be carried out for raising quality;
- Exemption from duties for imported machinery (injection molding machines, industrial sewing machines, cutting machines, etc);
- More technical guidance and efforts to spread technical knowledge over a wide area;
- The invitation of experts to carry out long-term technical guidance and training for private companies;
- Moves to promote the development of domestic mold and die manufacturers;
- Integration of industries, including supporting industries and increased links with peripheral industries;
- Promote establishment of joint ventures and setting up of production bases by foreign companies;
- Promotion of the formation of joint ventures with foreign companies and technical tie-ups with manufacturers which are interested in OEM production;

(4) Quality control and safety standards

(Problems)

[1] Quality control systems are inadequate. While larger manufacturers carry out inspection both on production lines and then when products are finished, inspection carried out by the majority of medium and small companies is no more than a simple visual and manual inspection of functions.

[2] Beause the requirements and standards for sewing, binding, stuffing and sewing attachments which ensure basic quality in the case of stuffed toys are unclear, there is a lack of attention paid to detail. This is reflected in the roughness and looseness of stitches and there is an inconsistency in hardness (e.g. the face is hard but the body is soft).

[3] With the exception of the large companies, most of the medium- and small-scale companies have little or no understanding of world safety standards for toys (e.g. the ST mark for Japan), and in many cases export inspection is carried out at the request of the customers.

(Countermeasures)

- More training and courses for production management, quality control and safety;
- The invitation of experts to carry out such training over a considerable period of time;
- The establishment of an authorized inspection organization and thorough inspection to be carried out in regard to safety;
- Greater technical guidance and training in order to guarantee safety.

(5) Product Planning and Development Divisions

(Problems)

[1] Due to the heavy reliance on OEM production there is insufficient understanding as to the importance and meaning of the development of original products. Also, companies do not have the capacity to develop their own products, skills are inadequate and there is a shortage of development experts.

[2] Stuffed toy manufacturers focus on coming up with single products in terms of product development and they do not undertake product planning using a range of products.

(Countermeasures)

- In preparation for independent product development in the future human resources must be developed (by holding training seminars related to products and design);
- Improved training and technical guidance in relation to product development and design;
- Invite experts to provide guidance over a long period of time.

(6) Marketing

(Problems)

[1] There is a lack of information about overseas markets. This proves a handicap in following the trends of products which sell well around the world and in opening up new markets.

[2] There are few companies which export or open up markets on their own. Market development is insufficient and is restricted to mainly overseas missions by the DEP, customer referrals, and particpation in overseas toy trade fairs.

[3] Due to the dependence on OEM production few companies are involved in sales-related activities. They do not have product catalogs or materials, and they usually do not know how their products are selling overseas or how they are used.

[4] Manufacturers are unaware of the market for products for tourists (souvenirs and folk dolls).

(Countermeasures)

- The provision of abundant information related to toys overseas;
- Increased collection and provision of information through the establishment of a toy industry promotion center;
- More export promotion activities related to toys by the DEP;
- Greater PR activities aimed at overseas industries regarding by the Thai toy industry as a whole;
- The provision of sufficient information required in order to guarantee quality and safety and product development;
- Strengthened ties with overseas manufacturers with regard to information;
- Spreading information on overseas markets over a wider area;
- Technical guidance for improving folk dolls and also improvements on design and quality;
- Continuous guidance by experts;

- The formation of an organization and sales channels for developing the tourist market.

IV. COMPREHENSIVE PROGRAM

IV. Comprehensive Program

1. Imbalance in Industrial Structure and Small- and Medium-Sized Enterprises

1-1. Growing Imbalance in Industrial Structure

Thailand's manufacturing industries are continuing to grow steadily. In particular, the brisk investment activities of domestic and foreign companies making use of the investment incentives of the BOI have helped promote rapid development of the export-oriented manufacturing industries. Exports of a broad range of industrial manufactures, from processed foods, textiles, and light industrial goods to automobiles and parts, electrical and electronic equipment and parts, etc., have been growing rapidly. In view of the sustained activity in investment, this trend may be expected to continue in the future.

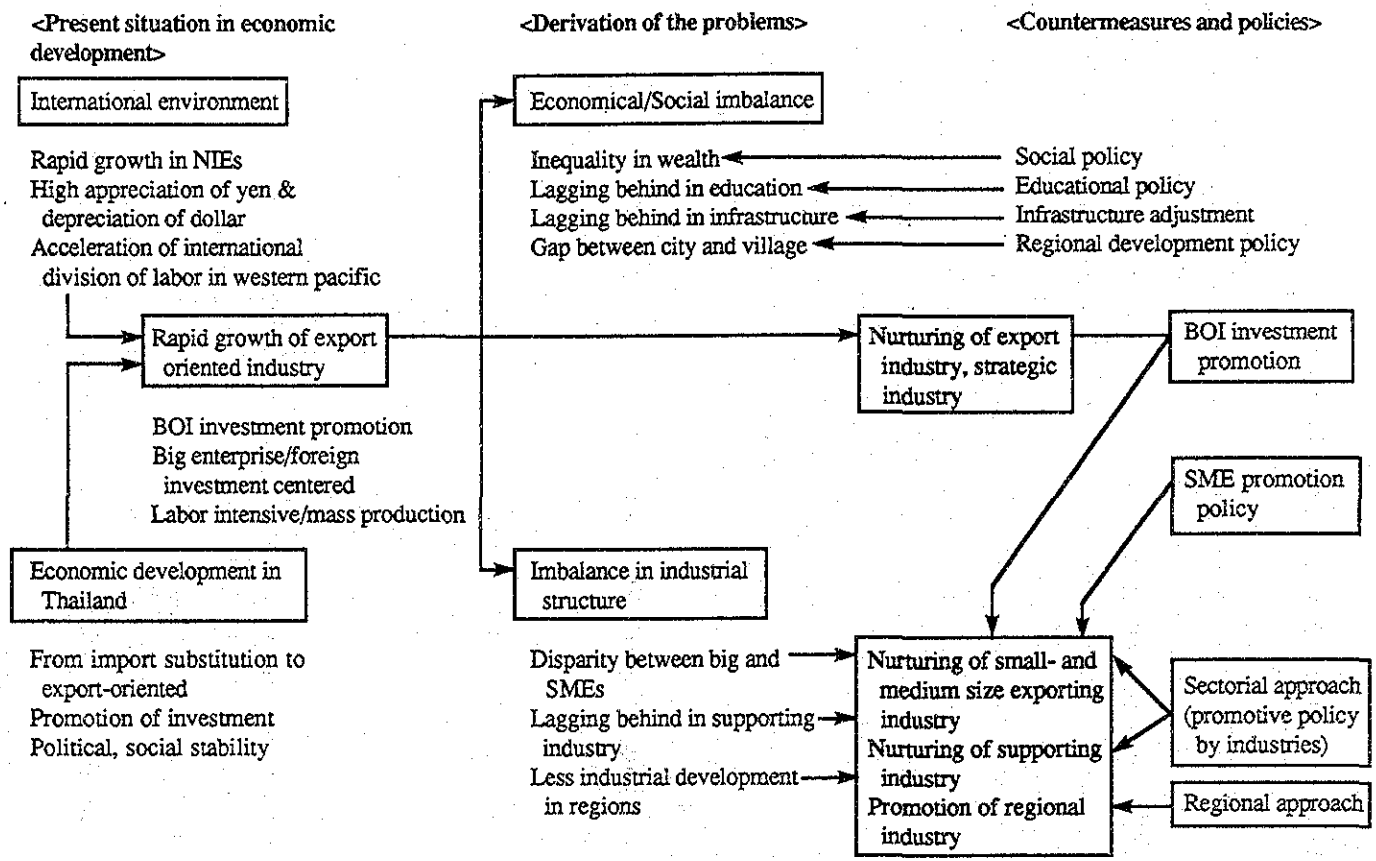
However, several issues and problems are arising in the process of this steady industrial development as seen from the viewpoint of promotion of export industries. For example, there is congestion in the ports, insufficient industrial sites, lack of means of communication, and other problems in infrastructure. The government and related organizations are working to resolve these problems, however, and the situation is expected to improve.

Along with this, there is the very grave problem of a growing imbalance in the industrial structure. While export-oriented manufacturing industries have been developing rapidly, there are many small- and medium-sized enterprises(SMEs) and petty industries which are being left behind, resulting in a growing gap in technology and management expertise between the large corporations and foreign affiliates and the SMEs and petty industries. There are many SMEs which cannot keep up with the growth of the export industries in the supporting industries and subcontracting industries as well, which support the export-oriented industries. This is causing a structural imbalance in the manufacturing industries. It is not only a restrictive factor in the activities of the large corporations and foreign affiliated firms, but is also inviting a surge in imports of parts and materials and therefore leading to a growing trade imbalance.

This delayed development of the SMEs and the supporting industries (including subcontracting industries) is due to various factors, for example:

- The investment incentives of the BOI, which are a major driving force behind the industrial development of Thailand, are difficult to use by such industries. (Since BOI approve its investment incentives to the companies by separate examination, there is a tendency for giving priority in processing to more effective, larger projects.)

Chart IV-1. Economical/Social/Industrial Development and Policies in Thailand



- The taxation system in Thailand is disadvantageous to the SMEs as compared with the large corporations and inconvenient to the supporting industries too.
- The financial system of Thailand is disadvantageous to the SMEs as compared with the large corporations in many cases.
- In general, the SMEs are slow in modernizing their management and technologies and lack the necessary information and knowhow.

1-2. Case of Mold and Die Industry

The mold and die industry, one of the industries surveyed, represents an important part of the supporting industries. In present day Thailand, demand for molds and dies is growing rapidly in the export industries, but the domestic supply capacity is far from sufficient. Therefore, large corporations and foreign affiliated firms either establish in-house divisions for producing molds and dies and supply themselves or else rely on imports for the majority of their required molds and dies. Most small- and medium-independent mold and die manufacturers cannot cope with this new demand and are being left behind with their low level of technology and old-fashioned management standings.

The light industries (in particular plastic working, toys, etc.), automobile and auto parts industries, and electrical and electronic equipment industries, growing Thai export industries, require the supply of high quality molds and dies. Even if in-house production and imports of high quality molds and dies continues to be necessary in the future, there is no question that most users would hope to see an improvement in the technical level and supply capacity of independent, domestic mold and die manufacturers.

For molds and dies, in view of the nature of the product, it would be preferable structurally to have a large number of independent, SMEs in addition to the in-house production divisions of major users. This is the general situation in the industrialized nations. However, in Thailand, the SMEs have fallen behind and are unable to cope with user needs, so the situation is far from ideal structure. This shows there is a structural imbalance in the mold and die industry.

A similar problem has been pointed out in South Korea. South Korea has devised a series of measures since 1986 to rapidly promote the growth of a number of "subcontracting industries", including mold and die manufacturers.

1-3. Case of Toy Industry

In the other industry surveyed, toys, a few large manufacturers and foreign affiliated firms have established international levels of production technology and management with mass production of relatively simple types of products and are expanding their exports to foreign markets. These companies are mostly, however, engaged in OEM production under order from foreign companies or also subcontracting production. Many companies do not yet have the ability to design and develop their own products. At the present stage, Thailand is using OEM production to lay the foundation for the industry and accumulate technical knowhow, but in the future it will have to foster its own design and product development capabilities.

On the other hand, there are many SMEs producing copies of foreign products or inferior merchandise. Most of these enterprises are old-fashioned in management and are being left behind the process of development of the export industry.

As seen from the examples of Hong Kong and Japan, the toy industry is inherently founded on small firms and petty industries. While large corporations may form for mass produced products, it is the cumulative effect of the various types of toy makers, from large enterprises to small and petty sized industries, and the supporting industries which is great.

If Thailand wishes to strengthen its role as a production and export base for toys, then the current situation, where the large manufacturers and foreign affiliates are boosting exports based on OEM production and subcontracted production and where the SMEs are being left behind, is undesirable. Here too, this can be pointed to as a structural imbalance.

In the future, Thailand should aim at an industrial structure where the many SMEs modernize their technology and management or tie up with large corporations or foreign affiliates and enter into OEM production or subcontracted production so that the various toy makers, from the large firms to small ones, compete in activity.

1-4. Division of Labor Between Large Enterprises and SMEs

A look at the process of development of the industrial structures of the industrialized nations and the NIEs shows that industrial development was accompanied by a pursuit of the "profits of scale". Many "large corporations" grew through expansion of production facilities, expansion of sales networks, and the corresponding growth of the corporate organizations. These came to play central roles in the industrial development. On the other hand, since the large corporations concentrated their activities

in fields suited for mass production and mass sales, there were "gaps" all over the activities of the large firms.

In parallel with the development of the large enterprises, numerous SMEs were developed and filled these gaps, thereby forming a social division of labor between the large firms and small ones.

On the other hand, the large corporations themselves tended increasingly to lose flexibility as enterprises due to the immobilization of assets and swelling management expenses. To deal with this, most of them concentrated the own production activities as much as possible in efficient, basic fields and contracted out the supplementary work to SMEs and subcontractors. This also promoted the social division of labor between the large firms and small enterprises.

The coexistence of the large and small firms leave open the chance for SMEs with strong growth potentials to expand their businesses into the field of activities of the large firms or expand in size through development of new products and new techniques and thus grow to large firms. This prevented the large corporations from maintaining a monopolistic position and gave rise to competition among the large firms or among the large firms and the SMEs and thus had the effect of maintaining the dynamism of industrial development.

Further, in recent years, demand and preferences have been diversifying on the world market and becoming more personalized, with an increase in the fields easier for SMEs rather than large corporations to cope with.

Further, there are many areas in the many new, growing service fields which are suited to the activities of SMEs. This promises further development of the social division of labor between large corporations and SMEs.

Today, the large corporations and SMEs coexist with a certain balance in the industrial structures of all the advanced industrialized nations of the world. This is recognized as desirable both for dealing with social demand and for maintaining the vitality of industrial activity.

The factors enable survival of the SMEs have been said to be the following:

[1] They handle the production, sales, and services in "gap" areas not dealt with by the large corporations.

[2] They handle parts production, subcontracting of work, repair of machinery and equipment, and other so-called supporting industries, lines of business supplementing the large corporations.

[3] They operate in specialized fields such as traditional technology, new technology, and new services.

[4] They function as "regulatory valves" as they deal fluidly with business fluctuations and changes in the market.

1-5. Necessity for Small- and Medium-Enterprise Policy

There have been cases in some countries and industries where the growth of large corporations at a certain stage of development obstructed the growth of SMEs or else drove them out of the market. This is the so-called "formation of a monopoly" frequently pointed out by economists.

Industrial development of the type where the growth of the large corporations blocks or drives out the SMEs is disadvantageous to the consumer in that a "monopoly" is formed. It becomes difficult to deal with the "gaps" in demand and even the large corporations themselves are inconvenienced in their activities due to the loss of the SMEs in the supplementary business fields. The recognition has therefore gradually spread that this is disadvantageous to the growth of the economy and industry. Along with this, it is recognized that the SMEs are problematical in the achievement of the goal of economic growth or a proper balance in the industrial structure. As a means to deal with this, "small- and medium-enterprise policies" are often formulated.

Japan began implementing various measures to promote SMEs at an early date, but has only relatively recently made its SMEs policies the centerpiece of its industrial policy. This was with the establishment of the Small- and Medium-Enteprise Basic Law of 1963. The basic concepts of Japan's small- and medium-enterprise policies are clearly set forth in this law.

The Small- and Medium-Enterprise Basic Law, in its preamble, evaluates SMEs as having "contributed to development of the national economy in all fields such as expansion of mining and manufacturing production, smooth distribution of commodities, exploitation of overseas markets, increase of employment opportunity, and have at the same time rendered great services in the stability of the people's living" and considers them as "continuously important for the growth and development of the national economy as well as stabilization and elevation of the people's living." Further, it clearly sets down the basic concept that a policy of "the promotion of growth and development of SMEs by correcting disadvantages due to the economic and social deterrence of SMEs as well as by respecting initiative of SMEs and by encouraging their voluntary efforts while paying such appropriate consideration as to heighten the standard of living of employees in small scaled enterprises" is a duty imposed upon the people.

Based on this concept, the basic law sets the following three targets for the SMEs policy in its general provisions:

(1) Correction of disadvantages due to the economic and social conditions of SMEs

(2) Encouragement of voluntary efforts of SMEs

(3) Correction of various disparities of productivity, etc. among enterprises so as to promote the growth and development of SMEs and to improve the economic and social status of their employees

As measures required to achieve these three policy targets, Article 3 of the Small- and Medium-Enterprise Basic Law lists the following:

(1) Modernization of facilities (introduction of modern facilities etc.)

(2) Improvement of technology (technical research and development, training of engineers and technicians, etc.)

(3) Rationalization of management (introduction of modern management methods, improvement of ability of managers, etc.)

(4) Advancement of structure of SMEs (rectification of sizes of enterprises, joint operation of business, collective establishment of factories and stores, conversion of lines of business, and modernization of management in retailing)

(5) Correction of disadvantages in business conditions (prevention of excess competition and rectification of subcontracting deals)

(6) Promotion of demand (export promotion etc.)

(7) Ensurement of proper opportunities for business activities (coordination of business activities of parties other than SMEs)

(8) Rectification of labor relations, improvement of employee welfare, and ensurement of necessary labor force

The law also obligates the government to devise legal and fiscal measures to implement these policies and to make a report each year to the National Diet on the trends in SMEs and the measures taken.

The requisite measures are organized as follows by the Small- and Medium-Enterprise Basic Law:

(1) Advancement of structure of SMEs (modernization of facilities, improvement of technology, rationalization of management, rectification of size of enterprises, joint operation of businesses, conversion of businesses, rectification of labor relations)

(2) Correction of disadvantages in business activities (prevention of excess competition, rectification of subcontracting deals, ensurement of opportunities for business activities, ensurement of opportunities of orders from the state etc., promotion of exports, coordination with import volumes)

(3) Special measures such as improvement of management of small enterprises

(4) Special measures such as in financing and taxation (suitable facilitation of financing, improvement of capital of enterprises)

(5) Establishment of administration organizations and organizations of SMEs (establishment of organization for administering SMEs, establishment of small- and medium-enterprise organizations)

The establishment of this Small- and Medium-Enterprise Basic Law led to the creation of new systems and establishment of comprehensive policies. In the succeeding years, new systems were established to deal with the changing times to further improve and bolster the SMEs. The Small- and Medium-Enterprise Agency, which is the central organization for promotion of SMEs, manages the current laws and systems as shown in the following table. Specifically, Japan's SMEs policies ensures that SMEs are not placed in disadvantageous positions due to the very fact of their being SMEs and provides various systems for supporting the independent effort of the SMEs, providing financial and tax assistance to enable their stabilization and growth, in particular their ability to cope with the changing times. It implements the policies with special consideration given to the very many small enterprises .

Table IV-1. Organization of Small and Medium Enterprise Policies of Japan

1. Modernization and advancement of SMEs

(1)	Modernization by industry:	Measures for modernization of SMEs by industry (Small and Medium Enterprise Modernization Promotion Law)
(2)	Financing for advancement:	System of financing of Small and Medium Enterprise Corporation (Small and Medium Enterprise Promotion Fund Assistance Law)
(3)	Improvement of management resources:	System of diagnosis, guidance, information, training, technical promotion, guidance for internationalization, etc. by government, local bodies, Small Enterprise Corporation, etc. (Small and Medium Enterprise Guidance Law)
(4)	Organization:	System of promotion of joint operation of business and collective business (Small and Medium Enterprise Cooperative Association Law)
(5)	Small and medium commerce and service measures:	Promotion and coordination of commerce (Small and Medium Retail Commerce Promotion Law, Shopping District Promotion Association Law, Law on Special Measures for Adjusting Retail Commerce)
(6)	Business conversion:	Measures for business conversion (Law on Provisional Measures for Conversion of Business of Small and Medium Enterprises)
(7)	Measures for regional SMEs :	Measures for SMEs in production areas, indigenous industries, special industrial regions, etc. (Law on Provisional Measures for Small and Medium Enterprises in Production Areas, Law on Provisional Measures for Small and Medium Enterprises in Specific Recession Areas, Law on Provisional Measures for Small and Medium Enterprises in Specific Industries)

2.Stabilization of Management

(1)Financial assistance: Financing by government financial institutions, fund assistance for strengthening SMEs, credit supplementation system

(2)Tax measures: Reduced tax rates, remuneration to business owners, special depreciation, reserves, and other systems

(3)Improvement of net worth: Investment by Small and Medium Enterprise Investment Promotion Co.

(4)Prevention of bankruptcies: Mutual aid for prevention of bankruptcies, financing, consultations, guarantees, and other systems

3.Correction of Disadvantages in Business Activities

(1)Promotion of subcontractors: Prevention of delayed payment of subcontracting fees, introduction of subcontracting business, and ensurement of fairness

(2)Ensurement of government and public demand: Participation of SMEs in government and public demand

(3)Rectification of business activities: Coordination and ensurement of business fields (Law for Adjustment of Fields of Small and Medium Enterprises, Large-Sized Retail Store Law, Law for Special Measures to Adjust Retail Commerce, Law Regarding Organizations of Small and Medium Enterprises, Small and Medium Enterprise Cooperative Association Law)

4.Small enterprise measures

(1)Project for improvement of management: System of management guidance by commerce and industry associations and chambers of commerce and industry

(2)Individual consultation and guidance system: Guidance by small business counsellors

(3)System for financing improvement of management of small businesses: Financing without collateral or guarantor

(4)System for funding modernization of equipment: Investment of funds for modernization of equipment and leasing of equipment

(5)System of mutual aid for small businesses: Mutual aid system for abandonment of business etc.

Source: K. Fujita, M. Takeuchi, "Small Business Theory", Yuhikaku, 1987

1-6. Thailand's Small and Medium Enterprise Policies

The fifth 5-year development plan (1982 to 1986) announced by the National Economic and Social Development Board (NESDB) gives as some of the key development goals for long-term stabilization of the national economy "the relief from extreme poverty and the development of regional, undeveloped areas" and the "reconstruction of production systems in agriculture and industry". It sets down the following policies and measures to assist small and petty industries:

[1] Improvement and reinforcement of policies for raising productivity in cottage industries. By this, the government extends basic benefits to the small sized industries. These basic benefits include training, financing, and assistance in market expansion.

[2] Reinforcement and strengthening of policy of regional dispersion of industry so as to promote the establishment of greater numbers and types of small industries. In particular, the government is giving priority to exports and regional production of agricultural products, fabrics, machine tools, handicrafts, etc.

Further, it has set the following two targets for promotion of small and cottage industries:

[1] Promotion of increase in annual income of residents of regional areas throughout the country. The main source of revenue is from the cottage industries and handicraft industries.

[2] Promotion of increase of number of cottage industries and small industries in the regional aeras to provide employment opportunities for about 400,000 people within five years, that is, creation of 80,000 new jobs a year.

To achieve these targets, the Department of Industrial Promotion of the Ministry of Industry has engaged in a series of projects to implement the government's policies.

One of the divisions of the Ministry of Industry, the Industrial Service Institute (ISI) works to promote the government's SMEs policies. This was established in 1966 as a joint project between the Ministry of Industry and the United Nations Development Program and provides technical information, consulting, and other services and offers seminars and training on a wide range of activities in the field of light industries. In addition, it functions to develop inexpensive, appropriate machinery and equipment to replace imports and runs technical and economic surveys to evaluate the requirements for technology, labor, and financing in the industrial sector and provides training to small businesses on technology, management, and trade.

On the other hand, there are two public financial institutions active in this field: the Small Industries Finance Office (SIFO), which handles financing to small businesses, and the Industrial Finance Corporation of Thailand (IFCT).

The main objective of the SIFO is to provide relatively low interest fund assistance and technical aid to handicraft and other cottage and small industries.

The IFCT has as its objectives the financing of various projects useful to Thailand's economic development, such as the establishment, expansion, and modernization of private businesses.

It would be difficult to say as of the present time that this series of measures for the promotion of SMEs, however, has been effective enough in view of the progress made in Thai's industrialization or the rapid growth of its export industries. There are many reasons for this. For example, the merits given to the SMEs under the small and medium enterprise policies are still smaller than those obtained by the large corporations and foreign affiliated firms from the investment incentives of the BOI. Further, the institutional financing provided through the IFCT and SIFO has not necessarily had the desired effect.

Several industrial fields in Thailand have reached the stage where the SMEs should play important roles as export industries or supporting industries. The present situation, where the SMEs are lagging far behind the rapid growth of the export industries, may prove a major restriction or barrier to future progress in Thailand's industrialization.

In particular, the mold and die and the toy industries are well suited for the growth and activity of SMEs. Further, they are important industries for Thailand's industrialization and export promotion. The promotion of SMEs in these two fields may be said to be an urgent task for Thailand.

1-7. Sector Approach in Industrial Policy

One more thing which can be pointed out in relation to the current state of the mold and die and the toy industries of Thailand is the need for a sector approach, i.e., policies covering specific, important industrial sectors and promoting the same. In present day Thailand, almost all of the investment incentives of the BOI (Board of Investment) function as a single industrial promotion policy. While some industries are designated for encouragement, no targets are set for promotion of specific industrial sectors and, further, one cannot say that any effects have appeared in that direction.

Several of the industrialized nations and South Korea and Taiwan have adopted sector-wise policies for the promotion of the development of "basic industries," "strategic

industries," "export industries," etc. important to the process of their industrial development. The general method used is to select the important industries and establish financing, tax, and tariff privileges for the same or assistance in the securement of the supply of materials and energy, research and development, etc. While the results aimed at may not have been achieved in more than a few cases, there have been many cases which may be considered to have been a success in the final analysis.

Even in policies for SMEs, there have been a number of cases where sector-wise promotional measures have been devised for fields in which many small businesses are active, industrial fields considered suitable for small businesses, etc. Japan, in its small business policies, designated several industries for promotion under a "small- and medium-sized enterprise modernization program."

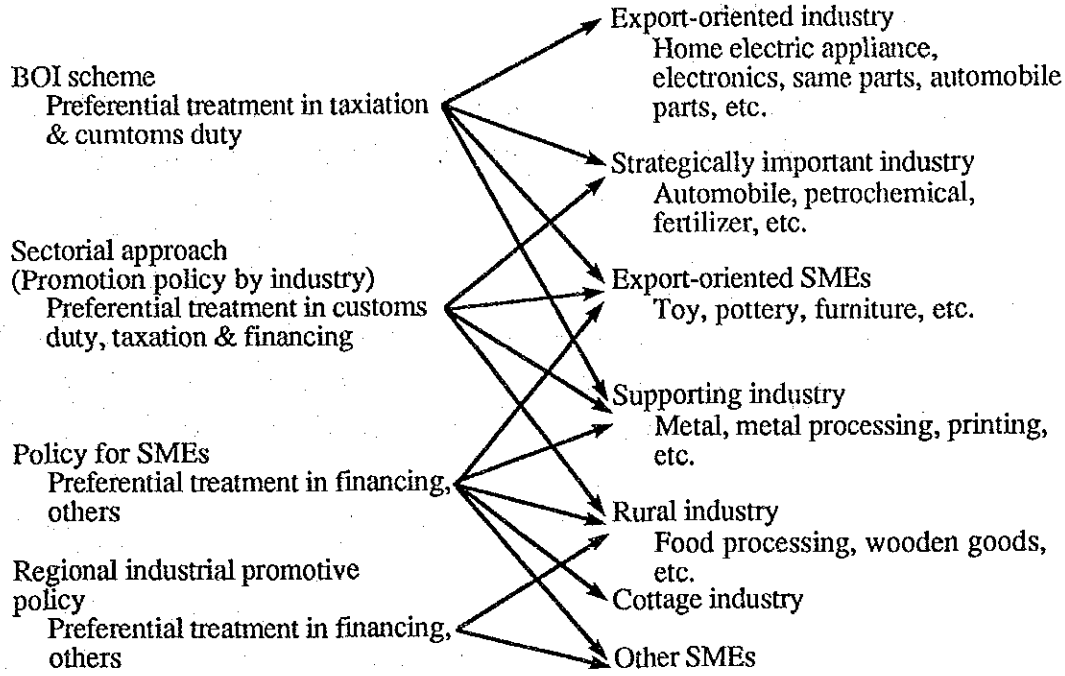
One important precondition of a sector approach is that the series of promotional measures cover selected "specific industrial sectors" and be "limited to a fixed period of time." This is because the "key industrial sectors" of any nation change with each stage of economic and industrial development. Further, by applying a series of promotional measures on a concentrated basis for a fixed period of time, a greater effectiveness can be achieved, it is believed.

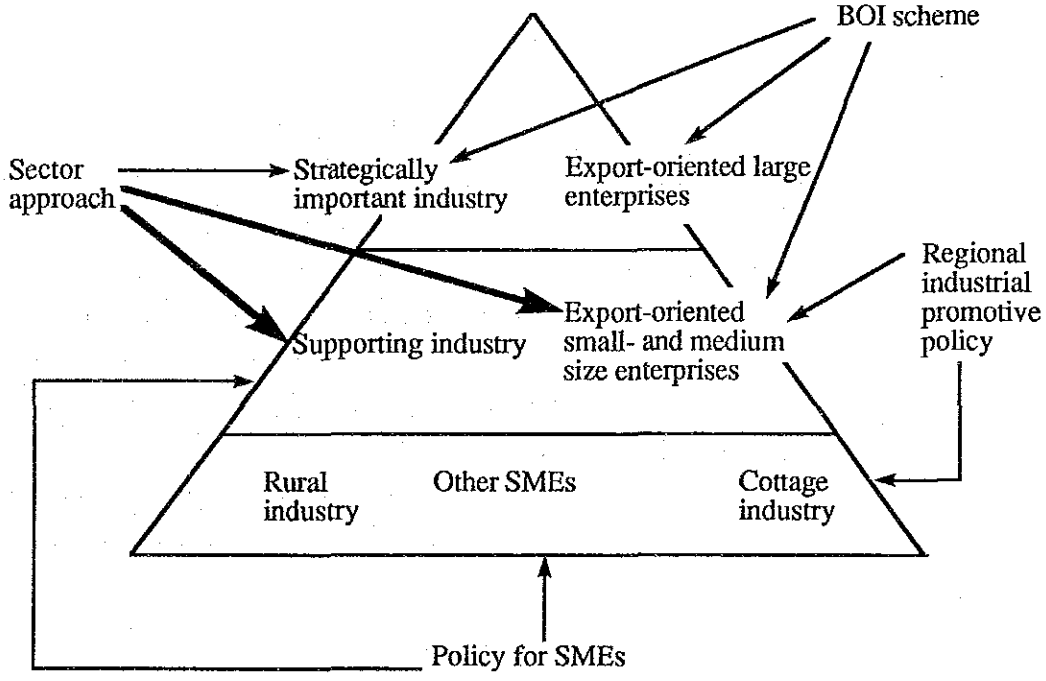
In the experience of Japan and the other industrialized nations, overall small business policies are established as permanent policy schemes while sector-wise promotional policies are devised as limited duration policy schemes. Further, the privileges given under the overall small business policies are "broad, but shallow," while those of the sector-wise policies are "narrow, but deep."

Therefore, the SMEs in key industrial sectors can make use of the both policy schemes.

The mold and die industry of Thailand has an extremely important role as a supporting industry for the export industries. The toy industry holds forth the possibility of major growth as an export industry. Seen from this perspective, it is essential, and would be considered effective, for industrial development in Thailand to establish promotional measures for small businesses, which constitute the mainstream of businesses in the two industries, and limited-duration promotional measures for just the two industries.

Chart IV-2. Industrial Policies in Thailand (4 types of appraoch)





2. Current State and Problems in Policies and Industry

2-1. Industrial Promotion Policies

The current state of and problems in Thailand's industrial promotion policies may be summarized as follows from the viewpoint of matters common to the mold and die and the toy industries:

<Investment Promotion Measures>

In Thailand, the investment incentives of the BOI play the central role in promotion of industry. Without question, the investment incentives of the BOI have been effective, as evidenced by the rapid progress made in industrialization in these past few years.

On the other hand, however, these measures applied after approval based on individual examinations and there is a tendency for giving priority in processing to more effective, larger projects, so they are difficult to use by the existing SMEs and cottage industries, which account for the vast majority of enterprises in Thai's industrial world. As a result, they have not helped the development of a broad ranged industries including SMEs . Further, the delay in the developing of supporting industries, which are necessary for the development of export industries, may also be considered to have been due in part to this.

<Industrial Policies>

With regard to the overall industrial policies, the Ministry of Industry is traditionally organized with an emphasis on technical guidance and, in this arena, has played an important role. However, it has little experience with drafting and implementing policies for industrial promotion and does not function well yet in these areas. Further, industrial organizations often play a major role in the drafting and concrete formulation of industrial policies, but in Thailand the manufacturers' organizations are still weak. Further, as part of the delay in establishment of full industrial policies, Thailand does not have full systems and measures for promotion of SMEs.

These factors are also believed to have led to the delay in development of SMEs and supporting industries and have inhibited the development of the mold and die and toy industries.

<Taxation>

Thailand imposes taxes on transactions at all stages of commerce. This system has many defects from the viewpoint of industrial development, as previously debated among the EC nations. Specifically, as compared with the large corporations which deal in-house with everything from raw materials to semifinished materials, parts, and finished products, the SMEs are taxed at every stage of transaction, so the system works to the disadvantage of the SMEs. This is also considered to be a major reason behind the delayed development of the SMEs and the supporting industries.

<Financing>

Thailand still does not have systematic small and medium enterprise policies, but offers financing for the promotion of SMEs through the IFCT and SIFO.

However, at least up until now, enterprises have not been able to handle the complex procedures required for making use of this institutional financing and there has been no credit supplementation system for the same. Further, the institutions themselves are short of funds, branch networks, and staff and the interest rates themselves are not that low. As a result, the desired effects have not been able to be realized.

<Information>

Aside from this, there is in general a serious lack of information in the Thai industrial world. This is a problem often encountered in developing countries with their own languages. To overcome this, the government and public organizations have to exert effort to collect and disseminate information.

However, in Thailand, the public organizations, industrial organizations, etc. are not yet that active in providing information to the SMEs. Therefore, despite Thailand's being in a period of rapid industrial growth, the SMEs, in particular, find themselves with a decisive lack of information in both quantitative and qualitative terms. Further, SMEs do not know what level they are internationally speaking in management and technology due to the lack of information and thus fail to recognize the need for improvement of their operations. This is also believed to be an important reason for the delayed development of the SMEs.

Table IV-2 Current Situation, Problems and Countermeasures in Industrial Promotion

CURRENT SITUATION OF POLICIES	PROBLEMS	COUNTERMEASURES
<Investment Encouragement Measures>		
BOI plays a key role.	Not helpful in nurturing a wide range of industries. Slow-development of supporting industries.	"Sector approach" - targets are to be set up, promotion measures are to be drawn up and implemented for each of the priority industries.
<Industrial Policy>		
Technological guidance emphasized by the Ministry of Industry.	Poor function of the Ministry of Industry. Weak Industrial Organizations. Imperfect systems & policies for SMEs.	Strengthening & improvement of functions & activities of the Ministry of Industry. Setting up of industrial association. Preparations for a small- & medium-sized enterprises law are now under way.
<Tax System>		
Systematic detects of the current transaction tax.	Cumulative taxation being unfavorable to SMEs.	Materializing an exceptional tax reduction or exemption measures for export industries & their supporting industries.
<Financing>		
Systematic financing by IFCT & SIFO.	Complicated application procedures. Imperfect credit supplementation system. Insufficiency of money supply, the network of branches and their staff. interest rate is not very low.	The improvement of systematic financing by IFCT & SIFO. A special scheme of low-interest loans for priority. industries (SIFO). Expanding SIFO's business. The promotion of bank loans to SMEs, and a reduction of their interest rate.

CURRENT SITUATION OF POLICIES	PROBLEMS	COUNTERMEASURES
<Information> Insufficient supply of information to SMEs.	No recognition of the necessity of improving management by SMEs.	Setting up a "data and information center"

2-2. Export Promotion Policies

<Taxes and Tariffs>

Thailand provides special privileges in taxes and tariffs to investments in the export industries through the investment incentives of the BOI and these have proven effective in promoting exports. Further, export companies may make use of a rebate system for taxes and tariffs on imports of materials and domestic transactions.

However, the investment incentives of the BOI can only be used by "limited companies", as mentioned earlier. Further, the rebate system for taxes and tariffs (which reportedly has recently been considerably improved) had many problems, such as the complex procedures and the long time before the rebates are actually made.

<Export Financing>

Looking at export financing, there is the export refinance system of the Bank of Thailand. This is primarily used, however, by exporters in the primary industries, such as exporters of rice, a traditional Thai export, and is still relatively little used by exporters of industrial goods. Therefore, the manufacturing sector, particularly the small- and medium-sized exporters, rely on high interest funding in many cases.

<Activities of DEP>

In the Thai government, the Department of Export Promotion of the Ministry of Commerce is in charge of export promotion activities. It participates in trade fairs, provides information, and otherwise supports export companies.

However, with the rapid growth of exports of Thai's industrial goods, the DEP must function in a rapidly increasing number of arenas. Unfortunately, it suffers from budgetary restraints and cannot sufficiently expand its operations, so cannot fully cope with demand from the export indusries. In particular, it is not able to collect enough information from abroad and supply the same to industry. This is believed to be one major reason for the lack of information among Thailand's SMEs.

2-3. Mold and Die Industry

The mold and die industry plays a large role as a supporting industry of the export industries. This industry is comprised of in-house mold and die manufacturing divisions of large firms and foreign affiliated enterprises and independent SMEs . For the time being, it is the independent SMEs which should be promoted. Therefore, the summary of

Table IV-3 Current Situation, Problems and Countermeasures in Export Promotion

CURRENT SITUATION OF POLICIES	PROBLEMS	COUNTERMEASURES
<Tax System & Customs Duties> BOI's preferential treatment. A system of refunding taxes & customs duties for raw materials.	Not available for non-encouraged enterprises by BOI. The system of refunding taxes & customs duties needs completed procedures & time.	Similar preferential treatment needs to be applied to important, but non-encouraged enterprises by BOI. As for the preferential treatment of exports, more effective measures for priority items will be necessary.
<Import Financing> The central bank has a system of refinancing exports.	Few export enterprises have utilized it. Small - & medium-size exporters depend on high-interest funds.	Preferential treatment to exports of industrial goods, particularly priority items. Applying a floating interest rate system.
<Activities of DEP> Trade fairs & supply of information to export enterprise.	Insufficient budget & business of DEP Insufficient information from abroad.	Expanding activities of DEP. Strengthening overseas marketing activities. Supplying overseas market information. Cooperation between the Ministry of Commerce and the Ministry of Industry, and clear division of the work between them will be needed.

industry and the problems therein given below primarily relate to the small, medium, and very small independent manufacturers.

<Management>

Thailand's mold and die industry is characterized by a large number of independent SMEs with old fashioned operations. In particular, there are striking numbers of companies lacking sales activities or without sufficient book keeping and accounting skills. This is believed to be principally due to a lack of the basic information and knowledge required for business management.

On the other hand, most of these enterprises are weak in funds. Further, they often do not make use of the institutional financing or even seek financing from the general banks, but rely on high interest funds from finance companies, etc. Due to this situation, they are slow to introduce machinery enabling them to cope with the changes in their clients' needs accompanying industrialization.

<Design and Production>

The small- and medium-sized mold and die manufacturers of Thailand are in general immature when it comes to design concepts. This is mainly due to a lack of engineers and skilled draftsmen. As a result, many companies rely on experience and sense in production.

On the other hand, many companies lack sufficient process control. Therefore, they produce molds and dies of an inferior quality and precision and further are often late in deliveries.

<Facilities>

Many of Thailand's small and medium mold and die manufacturers are equipped with outdated, antiquidated machinery. This is due in part to the lack of funds, mentioned above, and the problems in institutional financing, but in many cases is also thought due to a lack of basic information and knowledge.

As a result, these SMEs cannot produce high precision molds and dies. Further, even when they go to the trouble to introduce new machinery, the new and old machinery work side by side and balance of machinery is poor, so in many cases the new machinery cannot operate at full performance. Further, in the peripheral industries, there are often cases where inexperience with heat treatment ruins the precision of the molds and dies. To deal with this, there are cases where the mold and die manufacturers themselves must purchase high priced facilities for peripheral sectors.

Table IV-4 Current Situation, Problems and Countermeasures of Mold & Die Industry

CURRENT SITUATION OF INDUSTRY	PROBLEMS	COUNTERMEASURES
<Management>		
Lagging behind in modernization.	Insufficient information & knowledge.	Setting up a data & information center.
Weak in financing capacity.	Sales activities are absent.	Information supply services; publishing specialized mold & die periodical publication.
	Poor in bookkeeping & accounting.	
	High interest rate funds from finance. companies.	Management consulting and study and training courses for managers.
	Introduction of equipment lags behind the current needs.	Invitation of foreign manufacturers and joint ventures with local manufacturers.
		Long-term, low-interest funds.
		Two-steps loan and two-step investment.
		Publicity activities for utilizing international financing.
<Design and Production>		
Design ideas are immature.	Short supply of engineers & draftsmen.	Expanding university courses on engineering.
Process control is poor.	Industry are not well organized.	Expanding "Mold & die courses" in technical high schools. and vocational training high schools.
	Heavy rely on experience & institution	Fulfilling MIDI's study and training functions, and training draftsmen.
	Products are inferior in quality and precision.	Perfecting a qualification system for skilled workers.
	Late Delivery.	Standardization of various technology & management.
		Holding lecture courses & seminars.
		Technical exchanges with big and foreign affiliated enterprises.

CURRENT SITUATION OF INDUSTRY	PROBLEMS	COUNTERMEASURES
		Inviting foreign manufacturers & promoting joint ventures. Translating & spreading manuals and teaching materials for training courses & technical education.
<Facilities> Many are outdated, obsolete, and ill-balanced. Peripheral industries are immature.	Mold & die of high precision can not be manufactured. New machines are combined with outdated ones. Precision of metal mold is harmed by poor heat treatment. The peripheral sections needs to purchase expensive equipment.	Supply long term, low-interest funds for introduction of new equipment. The preferential treatment of equipment purchases under the tax and customs duties system. Expensive equipment will be "jointly purchased or used." Measures to facilitate peripheral industries. Setting up "common facilities" or "common factories" for heat treatment & other peripheral processes. Setting up an industrial park for the mold industry. Inviting foreign firms and promoting joint ventures in the area of peripheral industries.

2-4. Toy Industry

<Toy Industry in General>

Looking at the state of the toy industry as a whole, one thing which may be pointed out is the large percentage of OEM production for foreign firms, by both the large corporations and SMEs, subcontracted production, and production of copies and quasi-copies. This is due in part to the lack of product development and design capabilities, but in any case it means that the industry is not yet stable in position as an export industry in the medium and long term.

Along with this, there are many enterprises which suffer from a decisive lack of information on foreign markets and toy industries and which rely on foreign firms for their exports, i.e., there are strikingly few companies which strive to export on their own or develop their own markets. This also suggests that many problems remain to be solved before the industry achieves stable status as an export industry.

In addition, mention may be made of the low general awareness of the need for safety and quality. This is believed to be not only obstructing the improvement of the quality and image of Thai toys, but also becoming a major cause for future concern. Further, the lack of peripheral supporting industries, such as for production of molds and dies, is also important. Toy manufacturers therefore often rely on imports for their materials and parts.

<Plastic Toys>

Thailand's plastic toy industry is dominated by large enterprises and foreign affiliates engaged in OEM production for large overseas companies. However, numerically, there are also large numbers of SMEs and cottage industries.

The problem is that most of the production, including that by large enterprises and foreign capital affiliates, is for medium grade, low value added products comprised of only a few parts. Also, almost no companies have their own development and design divisions.

Looking at just the SMEs and cottage industries, there are problems in insufficient production systems and quality control systems, insufficient awareness of safety and insufficient inspection systems, and a lack of information on overseas markets.

<Metal Toys>

Metal toys represent an industry which Thailand could easily promote. At the present time, however, only one company, a Hong Kong based one, has invested in it and there is only one other investment being planned, so production is still low. Domestic

toy makers and related industries also appear little interested in the field at the present time.

<Stuffed Toys>

Fabric toys (stuffed toys) are mostly manufactured under OEM arrangements or order by a handful of large manufacturers. The SMEs mostly produce copies or quasi-copies.

As problems, first, there is little production of original products by manufacturers, including large enterprises, under their own brands. Also, the SMEs lack sufficient quality control and have low awareness of the need for safety, another important problem. There are large numbers of cottage industries around Chiengmai in Northern Thailand which are producing ethnic dolls for tourists. However, these are poor in both design and quality. Further, the sales methods and channels are still undeveloped.

Table IV-5 Current Situation, Problems and Countermeasures of Toy Industry

CURRENT SITUATION OF INDUSTRY	PROBLEMS	COUNTERMEASURES
<The Toy Industry in General>		
Depending on OEM production & manufacturing of copies. Relying on foreign enterprises for export. Low recognition of safety. Insufficient peripheral industries.	This industry is not in a medium-and long-term stable position as an export industry. Short supply of information on overseas market & toy industries. Few firms make independent efforts to export. Heavily depending on imports of raw materials and parts.	Nurturing talented people. Supplying overseas information necessary for product development and the assurance of safety. Strengthening tie-up relations with foreign manufacturers in the area of information. Diffusing information on overseas market. Strengthening DEP's export promotion activities. Strengthening publicity activities among overseas markets. Setting up an authorized inspection organ. Expanding study and training courses and technical guidance to ensure safety. Advancing foreign enterprises and establishing joint ventures in the area of toy and its supporting industries. Strengthening the linkage with peripheral industries.
<Plastic Toys>		
OEM production by major firms & foreign enterprises. Many SMEs produce copies or imitations.	Many products are of medium grade, or low value added. Hardly any firm has in-company development and design sections. No overseas market information.	Strengthening study & training courses and technological guidance on product development & design. Supplying overseas information on toy & toy markets. Strengthening study & training courses covering production control, quality control & safety.

CURRENT SITUATION OF INDUSTRY	PROBLEMS	COUNTERMEASURES
	Imperfect production & quality control system . Deficient inspection system & recognition of safety.	Setting up an authorized inspection organ. Promoting joint ventures or technical tie-ups with foreign enterprises.
<Metal Toys> A Hong Kong firm has entered into the market, and there's another plan.	Production is still small. Not much interest from domestic toy manufacturers & peripheral industries.	Expanding OEM production through the invitation of foreign enterprises and encouragement of joint ventures. Arising interest among toy & related industries by supplying information.
<Stuffed Toys> OEM production or manufacturing upon receipt of orders by a few major firms. Copies or imitations by many SMEs. Ethnic dolls for tourists by many small-sized firms in the north & elsewhere.	Few self-developed products. Insufficient quality control and low recognition of safety. Both design & quality of products are at low level.	Strengthening study & training courses and technical guidance on product development and design. Supplying information on product development. Strengthening study & training courses and technical guidance for upgrading quality & disign. Setting up an authorized inspection organ. Creation of organs and sales channels for ethnic dolls.

3. Studies on Countermeasures

Based on the above-mentioned situation and problems, a study will be made on a measures for alleviating each of these problems and promoting industry and exports in each of these industries.

3-1. Industrial Promotion Policies (Common for Molds and Dies and for Toys)

The most important point is to eliminate the restrictions and barriers to the development of SMEs and cottage industries in industries important for supporting exports, such as molds and dies, and in industries showing promise in exports, such as toys, so as to promote the same. The following four types of measures may be considered:

1) Organizational and Institutional Approach

[1] Reinforcement of the so-called "sector approach", wherein targets are established for specific key industries such as molds and dies and toys and measures are formulated and realized for promotion thereof.

[2] Toward this end, delegation of responsibility over promotion of key industries (that is, molds and dies and toys) to the Ministry of Industry and establishment of sectors and staff to act as promoters for action on various promotional measures.

[3] Establishment of industrial organizations in the key industries (in particular for molds and dies) under promotion so as to facilitate cooperation and consensus within the industries, cooperation with the government, and supply of information. (For this, positive government assistance is considered necessary.)

[4] Early establishment of Small and Medium Enterprise Act now being prepared by Department of Industrial Promotion and establishment of system for promotion of SMEs, desirably.

2) Tax and Tariff Approach

[1] Quick realization of introduction of ad valorum tax now under study.

[2] Apart from [1], implementation of special tax and tariff abatement measures for important export industries and their supporting industries as part of the "sector approach" mentioned in 1)-[1].

3) Financial Approach

[1] Positive use of SMEs financing of the IFCT and SIFO for capital investment of SMEs in molds and dies and in toys.

[2] In relation to the above, establishment of a special low interest loan scheme for key industries, in particular through the introduction of two-step loans.

[3] Promotion of use of institutional financing to the SMEs by expansion of the branch networks of the institutional financing organizations (in particular the SIFO), PR campaigns on the systems, and stronger consultation services.

4) Approaches to Lack of Information and Knowhow

[1] Establishment in Ministry of Industry of "Reference and Information Center" for promoting collection, organization, translation, dissemination, etc. of reference materials, information, and training materials, with emphasis on molds and dies, toys, and other key SME industries.

[2] Promotion of cooperation, ties, and sharing of responsibilities with Department of Export Promotion (DEP) of Ministry of Commerce for collection and dissemination of overseas information, materials, etc.

[3] Establishment of system for urgent collection and supply of references and information relating to molds and dies and to toys, without waiting for [1], in view of urgency of situation. (Systems to be established for molds and dies by MIDI and industrial organizations and for toys by section in charge in DIP and industrial organizations.)

[4] Promotion of effective dissemination of information collected by the Reference and Information Center of [1] through establishment and expansion of industrial organizations (see 1-[3]) and provision of same with information service capabilities.

[5] Increase of overseas inspections and training for managers in key industries of SMEs.

3-2. Export Promotion Policies

As possible export promotion policies, mention may be made of extension of privileges for capital investment, technical development, and production activities of companies producing export goods, direct privileges to the export activities of the companies (financing, tax system, etc.), and sideline support measures for export activities. From the current situation in Thailand, the following three types of measures are conceivable now for promotion of exports of toys. (Molds and dies are not

considered to be at a stage where growth as an export industry can be expected, so will not be considered here.)

1) Tax and Tariff Approach

[1] The investment incentive of the BOI include generous privileges in taxes and tariffs for investments into export industries. Measures may be devised enabling application of similar privileges to exporting SMEs as well (for example, reduction of import tariffs on raw materials and machinery).

[2] Measures may be designed for more functional, effective application of the system of rebates on taxes and tariffs, after export, for imports of raw materials and domestic transactions.

2) Financial Approach

[1] Incentives may be devised with regard to the export refinance system of the Bank of Thailand, e.g. raising of the credit ceiling and establishment of preferential interest rates, in particular for key export items.

[2] Regarding the preferential interest rates for export financing of [1], implementation of a "floating system" enabling adjustment of rates along with changes in the commercial interest rates.

[3] New establishment of export credit guarantee organization for small- and medium-sized exporters.

3) Activities of Department of Export Promotion (DEP) of Ministry of Commerce

[1] Expansion of the export promotion activities of the DEP to cover promotion of exports of key goods.

[2] Along with [1], strengthening of such activities, in particular with surveys of overseas markets (including dissemination of reports to industry), participation in exhibitions, dispatch of missions, and industry-wise overseas PR.

[3] Provision of abundant overseas market information to production companies in key export industries and to export companies. In particular, expansion of media and channels for supply of information and strengthening of supply of information to SMEs with potential for export. Further, for collection of overseas material and information, establishment of system for cooperation, liaison, and sharing of responsibilities between DEP and Ministry of Industry. Toward this end, establishment of "Overseas Information Liaison Group" on administrative level between sections in charge of materials and information in the DEP and Ministry of Industry.

3-3. Mold and Die Industry

There are few problems in the mold and die industry in terms of the in-house production divisions of the large corporations and the foreign capital affiliates. Rather, the problems appear in the small and medium and the petty independent manufacturers. Almost all of these enterprises have been slow to modernize in all areas, including management, finances, and production facilities, and cannot cope with the rapid growth of Thailand's export industries and the accompanying surge in mold and die demand. In view of the importance of molds and dies as a supporting industry, particularly the significance of the SMEs, promotion of the same is an urgent task. The following four approaches may be considered for dealing with this.

1) Approaches on Lack of Information and Knowledge and Delay in Modernization of Management

[1] Establishment of Reference and Information Center in Ministry of Industry.

[2] For time being, quick start by relevant section of Ministry of Industry (MIDI is considered suitable) of collection of information and materials required for development of mold and die industry, without waiting for establishment of [1].

[3] Quick establishment of industrial organization for mold and die manufacturers.

[4] Reinforcement of information service activities to mold and die manufacturers through the activities of [2] and the establishment of an industrial organization. In particular, issuance and distribution of a "Mold and Die Information Magazine" including information useful to the many SMEs is considered effective.

[5] Reinforcement of consulting activities, training of managers, etc. for through the related departments of the Ministry of Industry, industrial organizations, etc. (including invitation to foreign experts and overseas dispatch of study teams of managers)

[6] Promotion of investment from foreign mold and die manufacturers and promotion of joint ventures with local firms. (Establishment of joint ventures between foreign mold and die manufacturers and Thai domestic mold and die manufacturers is considered effective.)

2) Approaches on Lack of Funds

[1] Supply of long-term low interest funds to small- and medium-sized mold and die manufacturers for the purpose of capital investment and purchases of equipment by efficient use of the institutional financing offered to the SMEs by the IFCT and SIFO.

[2] For [1], effective use of two-step loans and two-step incentives.

[3] Stronger PR activities (in particular of SIFO) on institutional financing available to small- and medium-sized mold and die manufacturers so as to promote effective use of the institutional financing available to small and medium enterprises.

3) Approaches on Lack of Design and Production Capabilities and Human Resources

<Provisional Approaches>

[1] Expansion of training function of MIDI for molds and dies. (In particular, stress on raising of level of design and drafting technology and process control)

[2] To compensate for overwhelming shortage of skilled labor, establishment of urgent training program and expansion of seminars, technical guidance, etc. by invited experts.

[3] In relation to [1] and [2], translation of materials and manuals for training and vocational eduction and dissemination of same to SMEs.

[4] In relation to [1], promotion of exchange of technology (for example, through MIDI) between in-house mold and die production divisions of large corporations and foreign capital affiliates in Thailand and the independent SMEs

[5] Attraction of foreign manufacturers and promotion of joint ventures. Toward this end, matching and introduction of partners. In particular, joint ventures between large Thai users and foreign mold and die manufacturers would be promising. (Same as above-mentioned 1)-[4])

<Medium- and Long-Term Approaches>

[6] Expansion of "metalworking course" in industrial colleges and vocational schools for training of skilled workers with basic knowhow.

[7] Expansion of engineering courses in universities.

[8] Establishment of qualification system for skilled workers undergoing training.

4) Approaches to Antiquidated Facilities and Lack of Facilities

[1] Supply of long-term low interest funds to small- and medium-sized mold and die manufacturers making use of institutional financing of above-mentioned [2] and promotion of purchases of new machinery suitable for needs and capabilities. (short term)

[2] Extension of privileges in taxes and tariffs (same as those to BOI promoted companies, for example) for the purchase of machinery used for mold and die production. In particular, exemption of import duties on important machinery would be considered effective.

[3] Realization of establishment of "joint use" of machinery and equipment or "jointly operated factories" for high priced machinery or facilities in the heat treatment and other peripheral industries.

[4] Devising of similar promotional measures as the above-mentioned [1] and [2] for promotion of other peripheral industries such as heat treatment.

[5] Invitation of foreign manufacturers and promotion of establishment of joint ventures for mold and die industry and also peripheral industries. Toward this end, matching and introduction of partners.

[6] In relation to the above-mentioned [3] and [5], establishment of industrial estates for "molds and dies" or for "metalworking". (Use of tax and tariff privileges and BOI scheme mentioned in [2] would be desirable.)

3-4. Toy Industry

In the toy industry too, the problems concentrate in the SMEs, which are producing copies, imitations, and low quality products. However, there are problems in the large enterprises and foreign capital affiliates too in regard to product development, design, and other expertise. The following four approaches are considered.

1) Approaches on Lack of Development and Design Capabilities

[1] due to the poor new product development and design capabilities of the industry, including large enterprises and foreign capital affiliates, which primarily engage in OEM production, reinforcement of training, technical guidance, and seminars to raise the accumulation of technical knowhow and foster development capabilities for the future. (Accompanied by invitations to experts from abroad.)

[2] In relation to [1], provision of abundant information on foreign toy industries and markets to serve as basic data on product development and reference material. (Use of the above-mentioned Reference and Information Center of the Department of Industrial Promotion of the Ministry of Industry may be considered, but for the time being it is urgent to set up a system for the collection and supply of information through related government organizations and industrial organizations. At this time, issuance and distribution of a "Toy Information Magazine" would be effective. Further, for foreign market information, it is considered effective to strengthen and utilize the functions of the DEP.)

[3] For the time being, promotion of expansion of OEM production and production on order from foreign companies so as to raise the accumulation of technology. Further, for the small- and medium-sized toy manufacturers not in this field, promotion of entry into OEM production and production on order through joint ventures and technical tieups with foreign companies. Toward this end, matching and introduction of partners.

2) Approaches to Delayed Development of Production and Quality Control Systems and Awareness of Safety

[1] Reinforcement of training, lectures, seminars, etc. on production control, quality control, safety, etc. (including invitations to foreign experts.)

[2] Establishment of authorized inspection organization for safety and quality and thoroughgoing inspections of quality by same. (Establishment of "Toy Industry Promotion Center", main portion of which is to be comprised of inspection organization, but also equipped with information and training functions.)

3) Approaches to Lack of Market Information and Lack of Independent Export Activities

[1] Expansion of supply of information on foreign toy industries and markets. (Covering not only export manufacturers, but also manufacturers with future potential for export.) (Same as above-mentioned 3-1)-[2])

[2] Strengthening of exchanges of information with affiliated foreign manufacturers.

[3] Wide expansion of export promotion activities of Department of Export Promotion of Ministry of Commerce regarding toys. (Supply of market information, participation in exhibitions, dispatch of missions overseas, etc.)

[4] Overseas PR activities on Thai toy industry as a whole (sector PR).

[5] In future, consideration of organizaiton of international toy fair in Thailand.

4) Approaches to Lack of Peripheral Industries

[1] Devising of tax, tariff, and financial privileges (same as mentioned for mold and die industry) for enterprises in peripheral industries of toys.

[2] Promotion of investment and joint ventures of foreign companies in peripheral industries of toys.