

III. Toys (Stuffed Toys)

III. Toys (Stuffed Toys)

1. The Stuffed Toy Export Market and the International Development of the Industry

1-1 Outline

(1) Introduction

1) Stuffed Toys

In its broad sense the term "stuffed toy" refers to any toy made by stuffing a fabric outer shape with such materials as waste thread or cotton. However when used in the context of the stuffed toy industry, this refers to animal or character shaped dolls stuffed with materials such as thread or cotton and covered with various types of plush such as plush or high pile.

As stuffed toys were originally used as early childhood educational tools or playing partners for children, most items were in the shape of familiar animals such as bears, dogs, cats and rabbits. Recently, items which go beyond traditional concepts of stuffed toys have been developed, making the most of the texture of stuffed toys.

There has also been a diversification of the outer fabrics used in stuffed toys. Fabrics such as nylon-taffeta and TC in addition to plush are now used. Developments such as the use of IC sensors have also been seen. However, these developments are ultimately only concerned with improving the texture, appeal and realness of the character or animal. As such, they are not so much developments intended to widen the scope of stuffed toys as to increase added value within their traditional bounds.

2) Product Development in the Toy Industry

Today, toys with motion devices are comprised of those operated electronically, electrically and by power spring or friction. Toys without motion devices are categorized as plastic models, other plastic toys, fabric toys or other toys. The market share of each category varies according to the particular market. In general, however, electronic toys occupy 20-30 percent of the market, electric toys 5-10 percent, power spring and friction toys (action toys) 5 percent, and fabric toys (stuffed toys) between 7 and 8 percent.

The U.S. has always lead the way in the development process of the toy industry. In Europe, where stuffed toy craftsmanship has existed throughout history, the toy market has its roots in hand-made toys made carefully one by one. U.S. toys however had always developed running ahead of the age and the U.S. came to lead the market as "toy industry developer". Up until the 1980s the general global pattern was for there to be a boom of particular toy in the U.S. and for this to be followed in the European and Japanese markets.

However, from the early 1980s LSI games and computer games which were developed in Japan came onto the scene bringing with it various shifts in toy industry development. Those shifts were that a) the age of major toy booms only happening in the U.S. had come to an end b) toys using LSIs and ICs began to develop as part of the high level technology industry, c) the toy market began to polarize into low-priced products children could buy with their pocket money and less easily obtainable high-priced products, and d) the new toys brought infinite possibilities for more sophisticated forms of "play". These new trends are expected to support the industry while also bringing a revival to conventional toys in the industry.

3) Stuffed Toy Product Development

Whereas other toys have undergone major changes in both form and function, stuffed toys have seen relatively few changes. Stuffed toys are ultimately "character" products. The fact that characters occupy between 70 and 80 percent of the market is believed to be the reason there has been very little change among these products. Though washable materials, sensors and ICs have been used in stuffed toys since 1980, such products only represent a small share of production.

Characters account for the largest share of stuffed toys. These are followed by orthodox types, action types and others (toys for mental stimulation). Much of the washable material is used in orthodox types and many of the hi-tech components such as sensors and ICs in action toys.

(2) Stuffed Toys and Consumer Strata

1) Trends in Demand

Today's toy market is characterized by "market maturation" and "polarization into low and high priced products".

In recent years the toy market experienced either small or no growth and the market is believed to be reaching a stage of maturation. In the major markets, though annual toy consumption per child is increasing, because the number of children per household is tending to decrease no further substantial increase in market scale will be seen (table III-1-1)

In the past the belief that "you can't engineer a boom with an expensive product" was firmly entrenched. However the emergence of hi-tech toys overturned this belief and even among conventional toys, a stream of products in "one more price-range up" have been emerging. This same trend is visible in the stuffed toy market, and there have now emerged a number of high-priced products for gifts and interior decorating.

There are also a large number of palm sized, primarily character stuffed toys on the market designed to be bought on children's pocket money.

2) Diversification of distribution

Even now that that the stuffed toy market has matured, efforts are still being conducted to increase demand through product development targeting specific consumer strata. Joint development with other industrial subsectors is also taking place and efforts are being made to expand distribution routes.

In the past stuffed toys were sold only by toy shops or in special corners of large shops. However, after 1980, as part of distribution channel expansion strategies and due to the entrance by other industrial subsectors into the toy market, stuffed toys began appearing in fancy shops, boutiques, gift shops, shoe shops and even furniture stores. Although in the past stuffed toys were displayed in boutiques, gifts shops, etc. to create a certain image, sales of the toys were not thought possible. Sales in these shops were begun when the effectiveness of combining as a set the images of the shop's products and the stuffed toys was realized.

Specialty shops and department stores which have always sold stuffed toys, on the other hand, have been working on the improvement of the presentation of stuffed toys on the store floor. As stuffed toys are generally bigger than other toys the way they are

displayed has a major bearing on their image. Simply displaying similar products in the one place as in the past is now avoided. Instead, the concept of separate corners or sales areas was created. In addition, efforts are made to achieve attractive displays, and to periodically change toy types.

The expansion in the age brackets targeted in marketing strategies has resulted in the opening up of new market channels and the emergence of products which do not match the traditional concept of stuffed toys. Such products include: Christmas trees made from printed fabric, cars, vegetables, gloves and slippers in the form of monster hands and feet, and tissue box covers, and waste baskets made to look like stuffed toys.

3) Greater Range of Upmarket Products

Still retaining a 70-80 percent market share, characters lead the stuffed toy market. However, upmarket stuffed toys known as real-type toys have expanded their share considerably. Consumers of these products are comprised almost entirely of adults. The following are said to have brought about this trend:

1. Increased demand for interior decorating products,
2. Increased demand for upmarket stuffed toys made in the U.S. and Europe as a result of lower priced imports (particularly in Japan market), and
3. The development of greater realism in stuffed toys through the use of new materials.

As a result, the end-prices of stuffed toys as a whole are tending to increase. This trend has brought about price rises of between 10 and 15 percent.

4) Consumer Strata in Stuffed Toy Market

The concept of stuffed toys is growing wider. Which products target which consumer strata varies slightly in each country. However the following can be given as general indicators.

a) Low-grade stuffed toys (includes stuffed products other than toys)

The most significant feature of these products is their low price. Product types and distribution routes are as follows:

1. Items distributed as gifts as part of various product campaigns (sales expansion campaigns).
2. Items distributed for prize in games.
3. Palm-sized stuffed toys for babies and children.
4. Items for distribution mainly through discount stores and supermarkets (not limited to small-sized items, a number of different items sell well).
5. Miscellaneous goods such as pot holders and slippers in the shape of animals or with sewn-on faces. These items are shaped as things such as animals while retaining their original functions (distributed as miscellaneous goods).

Because of low price, low-grade products are inevitably of low quality. The following materials are commonly used.

1. Shiny acrylic plush (The shine is achieved by not conducting heat treatment, however, an animal fur-type feel is not achieved). Density of fibers is sparse.
2. Garment industry remnants and low quality synthetic textiles are used as stuffing. For this reason, items are heavy for their size and shape is easily deformed. Most accessories are merely glued on rather than attached using more time-consuming methods.

b) Middle range stuffed toys (includes stuffed products other than toys)

Middle range products comprise the majority of products seen in department stores and toy shops (standard items). Middle range products have no clearly defining characteristics and can be describes as those products which lie in between "low-quality, low -priced" items and "high-quality, high-priced" items. The following items are generally regarded as middle range products.

1. Character stuffed toys targeting children of 14 years and below.
2. Standard stuffed animal toys.
3. Stuffed toys and stuffed miscellaneous products used in sales promotion campaigns for upmarket goods and as prizes for a limited number of consumers in campaigns for low-priced products. (These are generally specifically for campaigns and are not available in stores.)
4. Stuffed miscellaneous products such as tissue box covers, pajama holders, and children's ruck-sacks. (While retaining their original function, they are made into animal shapes thereby increasing their added value.)

Matted acrylic plush is widely used as materials in these products. Recently stuffed toys made from nylon taffeta have become fashionable. As quality synthetic fibers are used as stuffing, products are light and shape is easily reproduced.

c) Upmarket stuffed toys (includes stuffed products other than toys).

Upmarket stuffed toys are both high in quality and price and may be divided into two categories.

1. Stuffed animal toys with a real touch intended as interior goods and gifts. Most are distributed through interior or gift shops or through department stores.
2. Long seller characters with stable prices. These are distributed primarily through department stores and toy shops.

Materials include high quality acrylic plush and high pile, fake fur and quilt. A variety of materials are used and finish is conducted with great care. In general many of these toys are light due to the use of synthetic materials as stuffing. Items intended primarily for use in interior decorating are sometimes stuffed with floss silk or urethane foam to give them a look of stability and sturdiness.

(3) The Stuffed Toy Export Market and Trends in Production

1) Outline

The international development of the stuffed toy industry has been characterized by the labor-intensive nature of the manufacturing process and remarkable changes in preferences in the market. Stuffed toy manufacturing is a typical labor-intensive industry, with personnel expenses generally accounting for 30 - 50 percent of production costs. As a result, the major exporting countries have changed with time. Japan, which was among the main exporting nations in the 1970s, moved production to R. Korea and Taiwan when its labor costs increased. In the latter half of the 1980s, China and Thailand began to replace R. Korea and Taiwan as the prime manufacturing bases. In the distribution of stuffed toys, however, buyers versed in market trends play an important role, thus, producing nations serve only as production bases. Sometimes vendors stand between buyers and manufacturers.

2) Main Export Markets

The United States is the largest stuffed toy market in the world, followed by the EC, mainly Germany, France, the United Kingdom and Italy, and Japan. The combined size of the toy markets in the U.S., Japan, Germany, the U.K., France and Italy in terms of consumption in 1990 stood at ¥4,670 billion (US\$34.6 billion) (See Table III-1-2). Of the total, stuffed toys are estimated to account for about 8 percent, corresponding to US\$2.8 billion. Since these six nations account for a combined 75 percent of the global market, the size of the world stuffed toy market is estimated at US\$3.7 billion (on a retail price base).

According to OECD statistics, on the other hand, the U.S. in 1989 imported US\$880 million worth of stuffed toys, Japan \$115 million, Germany \$158 million, France \$128 million, the U.K. \$147 million and Italy \$72 million. With estimated domestic distribution costs and margins added, the value of imports in terms of retail value amounts to US\$2.7 billion (see Table III-1-3). Taking the earlier-mentioned combined share of the six countries in the world market (75 percent) into account, the size of the world stuffed toy market may be estimated at around US\$3.7 billion.

The value of exports for these six OECD countries are US\$13 million for the U.S., US\$6.9 million for Japan, US\$43 million for Germany, US\$22 million for France, US\$19 million for the U.K., and US\$36 million for Italy. Exports as a proportion of imports are 50 percent for Italy and 27 percent for Germany. This proportion for the other four lies below 17 percent demonstrating a high rate of dependence on overseas sources.

Markets in these countries are almost mature and moves to shift stuffed toy production overseas have already been completed and thus import markets are not expected to change much in size in the future.

3) Production

In the middle of this century, Japan, backed by low labor costs, gradually began to come to the fore as a supply base for stuffed and other toys. Until 1960, toy manufacturing (including stuffed toys) in Japan grew as an export-oriented industry with exports accounting for more than half of total production value. The industry lost its export competitiveness, however, when exchange rates were floated in 1971 and the yen appreciated. The industry then gradually turned into domestic market-oriented, although it was able to maintain the position of a global supply base as far as stuffed toys were concerned.

In the latter half of the 1970s, U.S. buyers turned their eyes to R. Korea and Taiwan as new production bases. R. Korea actively proceeded to nurture the stuffed toy industry as part of its export industry promotion measures because the industry did not require much technology or production machinery and would make the most of the abundant labor force and low labor costs in the country at the time. Such national support, coupled with the waning competitiveness of Japan's stuffed toy industry, allowed R. Korea to quickly infiltrate the world market. Treading a similar path, Taiwan also grew into a major stuffed toy supplying nation.

Japan's stuffed toy industry, meanwhile, promptly lost any international competitiveness it once had, when the yen sharply appreciated following the Plaza agreement in 1985. While the higher yen triggered the decline of international competitiveness, a labor shortage and rising personnel costs exacerbated the situation.

R. Korea and Taiwan then promptly attained capabilities in other industries as well. As a result, they were forced to surrender the position of global supply base to other countries with lower labor costs due to rising personnel costs and a shortage of labor

which began to appear in the latter half of the 1980s. At that time, the Philippines, as well as Thailand and Malaysia, drew attention as new production bases for stuffed toys. However, their positions as production bases are threatened by countries with still cheaper labor, such as China, because stuffed toy manufacturing is a labor-intensive industry.

Currently, R. Korea, Taiwan and Hong Kong are the three major stuffed toy exporting countries or territories in the world, with Thailand, China, Sri Lanka and Malaysia quickly gaining strength (see Table III-1-4). In R. Korea, only few stuffed toy manufacturers remain, with all other major firms having suspended domestic production.

4) Raw Material Supply

Although being losing their positions as production bases for stuffed toys, Japan, R. Korea and Taiwan play an important role as raw material suppliers.

Among the new stuffed toy manufacturing nations, China can produce plush domestically. But the country cannot produce all varieties of the material and as a result it imports some, especially high grade materials from R. Korea. Thailand and Indonesia import plush mostly from R. Korea. Japan is a major supply source of fibers for making plush. R. Korea and Taiwan import high quality fibers from Japan, which also exports stuffing materials (acrylic cotton) for stuffed toys. Plastic eyes, cotton cloth, lace and other auxiliary materials are often produced in R. Korea and Taiwan for export. Thailand started producing plush in the country but the manufacturers have not grown enough to produce plush of export-quality because domestic demand is not large in proportion to the huge investment necessary for plant and equipment. In contrast, China is preparing a domestic supply system to meet increasing domestic demand. The country has introduced plush manufacturing facilities from Germany which are equal to those in R. Korea, enabling them to supply plush for medium-grade stuffed toys.

The importance of the role of buyers in stuffed toy trade has already been mentioned. A common form of trade transaction of toys is the direct deal between a manufacturer on the exporting side and a buyer on the importing side. But in the case of stuffed toys, vendors in third countries often stand between the buyers and manufacturers. Vendors do product development, sample making, pattern making, drawing up of detailed specifications, purchases or arrangement of raw materials, and arrangement and management of manufacturers standing between the buyers and manufacturers involved in the transaction.

Most vendors are former stuffed toy manufacturers in R. Korea and Taiwan. They once manufactured stuffed toys in their own countries by receiving orders from U.S. buyers. As domestic production became difficult due to higher wages and the labor shortage, they subcontracted part of their orders to other countries with the understanding of the buyers. The volume of subcontracting gradually grew and now they are producing entirely abroad. Through the same process, the Japanese buyers followed their U.S. counterparts and began using vendors in R. Korea and elsewhere.

On buyers' orders, vendors locate appropriate manufacturers, arrange raw materials and even provide technological guidance. They also play a big role in the supply of machinery including cutters, automatic stuffing machines and metal detectors which are mostly manufactured in R. Korea and Taiwan.

Direct transactions with buyers are done on the premise that the manufacturing side is equipped with ability in the areas of sample and pattern making and raw material purchasing.

Vendors are also used when the buyer lacks the ability to locate appropriate manufacturers or wants to avoid the trouble of supervising manufacturing. Given that stuffed toy manufacturing is an industry which is constantly moving its production base to new locations where labor is cheaper, the role of vendors having know-how as to raw material purchases, connections with buyers and manufacturing itself is believed to be required by both buyers and manufacturers.

1-2 The Japanese Market and Stuffed Toy Industry

(1) The Stuffed Toy Market and Purchasing Bracket

In the last five to six years the market for stuffed toys in Japan has risen a scale of about ¥45 billion (in terms of consumption value) and undergone shifts (see Table III-1-5). This accounts for about 5-6% of total domestic toy market.

Although the stuffed toys market was thought to be stable, fluctuations in the 1980s were considerable. This is due to the fact that character-items make up a 70-80% of this the stuffed toy market and the arrival of a particular character onto the market can cause a boom, expanding consumption scale. The popularity of Disney characters following the opening of the Tokyo Disneyland in 1983 caused expansion in the market as a whole. However, in 1987, the popularity of Disney characters began to fall, and the market scale dropped 15% on the previous year. This was also due to the fact that few other "hit" toys were seen on the market in that year.

The industry actively opened up new distribution channels and developed new products with the aim of widening the target age bracket and attracting male customers. For example, the industry aimed at spreading sales more evenly across the year, moving away from the traditional concentration around the end of the year by creating and carrying out marketing for new products as gifts and interior decorating materials. They also diversified retail outlets, to include furniture, stationery, shoes and flower retailers whereas in the past the bulk of sales were made through department stores and specialty shops. These efforts at developing markets brought about new trends of increase in consumption since 1987.

The major consumer strata and distribution routes as well as product types in Japan today were mentioned in 1-1, (2).

(2) Production and Distribution

Japan's toy industry comprises 1) the leading toy firms, with financial, product planning and purchasing strength, 2) toy firms mainly engaged in production, comprising largely cottage type, small and medium sized makers, and 3) small and medium sized toy firms with a degree of product planning strength and which to an extent function as buyers. In the domestic distribution system, deals are done between retailers and leading, medium sized or small firms, either 1) in the form of direct deals, or 2) with wholesalers (first, second and third) who act as intermediaries and carry out collection and delivery functions for the two parties. In addition there are small scale firms that specialize in product planning and development and who sell the toys they develop to the above mentioned firms. Product development, production, and the distribution structure for the stuffed toy industry is almost exactly the same as that for the toy industry in general.

Although the leading firms carry out product planning, their products are manufactured by domestic and overseas makers. Their role resembles that of "specialist wholesalers of products bearing the company brand". Overseas manufacturing takes the form of processing on assignment by makers in R. Korea, who is also a supplier of raw

materials. When manufacturing in R. Korea is not possible, the R. Korean manufacturers will often subcontract the work as vendors to other countries and then deliver the products. Sometimes, OEM contracts will be concluded directly between Japanese firms and makers in countries such as China and Thailand. However, as this entails placing production control almost entirely in the hands of the overseas makers, this is usually done in respect of low and medium-grade products. The products of these leading firms are retailed through department stores and toy shops.

The majority of small and medium firms resemble buyers. Some firms conduct their own product planning. However, firms will often develop products based on orders received from mass sales retail chains at the end of the distribution channel. Samples of new products are made in the firm itself. However, where products are complicated or the firms lacks the necessary personnel, the samples will be made by other firms according to the concept presented. Generally speaking, these firms deal with low and medium-grade products and character-items. Overseas production is done both through R. Korean firms as vendors and via direct OEM contracts with factories in countries such as China, Thailand, and Sri Lanka. Many firms depend on overseas manufacturers for production. Retail sales are conducted through general toy shops, sundries and variety stores, fancy shops and leading amusement parks.

Stuffed toy makers of cottage type and small and medium size also receive orders with short delivery periods from leading toy firms. Their own products are sold via the same delivery system as small and medium sized firms. The cottage type and small and medium sized makers are able to avoid the risks associated with development by entrusting this to the leading firms. This is because, while toys have a short product life and new products must be delivered constantly, the toy industry is one where risks are considerable and the costs incurred from failed products present a large burden.

According the Census of Manufacturers for 1986 there are a total of 1,876 registered manufacturers of toys nationally. Of these, 61.7% were cottage type enterprises employing between four and nine people. A further 20.5% employed between 10 and 19 people, and 10.0% between 20 and 29 people. Over 92% of the total number of makers employed fewer than 30 people. Firms with over 100 employees only accounted for 0.9% of the total.

(3) Trends in Overseas Production

In Japan, the transfer of production bases by toy firms to R. Korea, Taiwan, Hong Kong, and China occurred at a remarkable pace following the sudden strengthening of the yen in 1985. Growing difficulty in securing personnel and enormous increases in labor costs also prompted such transfers. According to Japan Exports and Imports published by Japan Tariff Association, Japan's imports of stuffed toys expanded from ¥2.3 billion in 1985 to ¥16.8 billion in 1990, a 630% increase (Table III-1-6). However this was not a simple matter of Japan increasing its imports. The increase was also the result of greater re-imports from Japanese production bases transferred overseas.

At the outset of this movement, most of Japan's production bases were established in R. Korea and Taiwan which were in close proximity to Japan and had inexpensive labor costs. Taiwan and R. Korea had gained experience in stuffed toy manufactures through filling orders from U.S. buyers. However, attention was turned next to China and Thailand following marked increases in labor costs in R. Korea.

As the stuffed toy industry is one where changes in consumer tastes are considerable, in addition to low production costs buyers also look to: 1) whether the time between when orders are made and delivery is short enough to ensure that products are not late for movements in the market, 2) how accurately the desired characteristics can be

embodied, and 3) how well quality is guaranteed. The particular type of product ordered in these countries varies according to the distance from Japan and the degree of ease of local material procurements. Thus most orders for character-items, which are subject to severe shifts in demand, and high value added products are placed with R. Korea and Taiwan, which are close Japan, and where quality and delivery conditions can be satisfied. Orders for standard products or sale (low price) items are usually placed with countries located some distance from Japan or with little experience.

R. Korean vendors play a very important role in overseas manufacture by Japanese firms. Although very little manufacturing is done in R. Korea today as a result of considerable increases in its labor costs, it still maintains its orders from Japan as a result of 1) raw materials supplying capabilities 2) its excellent development capabilities, and 3) the large number subcontractors overseas to which it has access.

(4) Raw Materials Supply

The production of plush in Japan fell dramatically alongside the reduction of domestic stuffed toy production, and labor force shortages. Furthermore, as plush manufacturers are making up for the lost demand by receiving orders from the apparel industry it has become more and more difficult to procure plush domestically. Today, Japanese stuffed toy makers rely on R. Korean plush manufacturers for most of their plush.

Among other materials, Japanese firms use domestically produced acrylic fiber as stuffing materials, which is both high quality and produced in large quantities. Japan is thus a major supplier of acrylic fiber to Asia. Plastic eyes are made by one or two Japanese makers. These are used by Japanese firms. Japanese cotton fabric and lace, which is also of a very high quality, is used by Japanese stuffed toy firms.

(5) Overseas Development and Interest in Purchases Abroad of Japanese Firms and the Philippines

The Japanese stuffed toy industry cannot afford to think of itself in isolation to overseas production countries. However, according to a survey of Japanese stuffed toy firms conducted in June to August 1991 by the Team, most of these firms were found not to be looking toward the Philippines. (Details in Annex III-1)

Of the 40 firms surveyed, 82.5% (33 firms) had already established production bases for stuffed-toys or other toys in Asia. However, only one had established a production base in the Philippines. Of the firms manufacturing stuffed toys in countries other than the Philippines, eight firms had production bases in China, seven in R. Korea, one in Thailand, one in Taiwan, three in Hong Kong, and three in Indonesia. One firm said that it wanted to establish a new production base overseas, and that it was studying the possibility of China or the Philippines.

Of the twenty opinions as to the potentiality as the production base, however, only seven showed a positive image of the Philippines as an overseas production base. Of the thirteen negative responses, six said that their image was based on doubts about personnel management and technology (the most common reply). There was a strong hint that most firms were not sufficiently well informed of the actual situation of the Philippine stuffed toy industry. Other reasons given were political instability and instability of raw materials supply as well as high labor costs.

The positive seven reasons given by the firms were wide ranging and it is quite possible that they did not have an accurate understanding of the situation regarding labor costs and the abundance of raw materials.

Most of the answers (seven out of eleven) given by the firms who had no plans to either establish a production base in the Philippines or import from the Philippines showed that their negative image with regard to investments there was based on political, economic and social instability. However, not a few firms (seven out of eleven answers) also indicated that they had neither the opportunity nor the means to conduct exchanges with the Philippines.

The information regarded as necessary to conduct research into the possibility of investing in the Philippines, included general information on the political, economic and social situation (14.3% of total responses), the situation regarding procurement of raw materials/resources (14.3%), labor costs (12.6%), the investment environment of export processing zones (8.4%), incentives for investors (7.6%) and labor conditions (6.7%).

Thus the way Japanese stuffed toy firms regard the Philippines is by no means optimistic for the Philippine industry. However as these assessments were not informed by accurate information, they cannot in many cases be said to be appropriate. There is need for Philippine side to actively approach Japanese stuffed toy makers in order to improve this situation.

1-3 The U.S. Market and Stuffed Toy Industry

(1) Outline

Under U.S. standard industrial classifications, stuffed toys are broken down into "stuffed dolls," "stuffed toy animals," and "other stuffed toys." Most are made of plush.

1) Supplying to the U.S. Market

99% of the plush products sold in the United States are imported, and most of these are produced in Asia for U.S. corporations in the form of processing on assignment. According to a survey of U.S. stuffed toy manufacturers carried out by the Team during June - August 1991 as part of the present study, there are various reasons behind the decision to produce abroad (see below), but the most common was lower labor costs.

1. Labor costs

Producing in countries with lower labor costs contributes greatly to the reduction of costs in competing markets. Chinese wages are extremely low in comparison with other nations, and as a result more than half of all imported stuffed dolls and toys originate here (see Table III-1-7). However, other important factors which must be taken into consideration are product quality and craftsmanship, since the merits of low labor costs can easily be offset by shoddy quality or craftsmanship.

2. Availability of high-quality plush

The second most important factor persuading companies to source or produce their products abroad is the availability of high-quality plush at reasonable prices. For U.S. stuffed toy manufacturers, is the leading producer of such fabrics, and from the late 1970s through the late 1980s leading makers turned to R. Korean firms for a supply of this material. In recent years, however, R. Korean firms have been shifting their operations to developing countries in Asia in search of lower labor costs.

3. Trade-related considerations

Another factor with a major effect on the U.S. import price is national trade status. In 1989 R. Korea, Taiwan, Hong Kong and Singapore lost their GSP (Generalized System of Preferences) status for exports to the United States. Meanwhile, China's MFN (Most Favored Nation) status was renewed in 1990, as a result of which import duties are

slashed from the normal 70% to just 12%. This has greatly contributed to the competitiveness of Chinese products on the U.S. market.

Stuffed toys produced abroad for U.S. manufacturers are exported directly from the producing country to the consuming market; virtually all imports to the United States are intended for sale on the U.S. market.

A look at import trends for stuffed toys shows a general increase in shipments from China, Thailand, Indonesia and other Asian developing countries offset by reduced imports from R. Korea. Imports of stuffed toys from Asian countries are described in Table III-1-8.

All of the responding firms indicated that R. Korean stuffed toys were of the highest quality and the most expensive, while Chinese goods fell at the opposite end of the scale in both categories. Unit price of imported stuffed toys was \$3.86 for R. Korea (56 million pieces, for a total of \$216 million) and \$1.35 for China (187 million pieces, for a total of \$254 million), a nearly three-fold difference in price.

Imports of stuffed toys from Indonesia and Thailand are also on the rise. From 1989 to 1990, shipments from the two countries grew by four-fold and three-fold, respectively. This is the result of R. Korean manufacturers establishing production facilities to take advantage of inexpensive skilled labor.

Many of the firms surveyed were positive concerning the potential of the Philippines as a supplier of stuffed toys, but they were also very concerned about political instability and increasing financial risks.

Together with the privatization of their economies, the Eastern European nations have come under increasing scrutiny as potential sites for future production. U.S. firms expect opportunities in this region in the form of joint ventures and processing on assignment.

2) Exports

According to the ITA (International Trade Administration), Department of Commerce, U.S. exports of stuffed dolls and stuffed toy animals dropped 11% over the five years since 1986, with 1990 shipments estimated at about \$48 million. U.S. manufacturers are continuing to shift production overseas, and exports of stuffed toys are expected to decline even further during the period from 1991 to 1995.

Most of the leading U.S. stuffed toy manufacturers have subsidiaries or sales networks in important markets around the world (e.g., Canada, Belgium, Australia, New Zealand, the U.K., France and Germany), but transactions with these firms are not included in U.S. trade statistics. Most imported stuffed toys are shipped directly from the foreign plant, and such transactions are classified as exports from the producing countries. All of the main U.S. stuffed toy producers have offices in Hong Kong from which they control Asian production operations and oversee the flow of products to export markets.

(2) Product Trends in the U.S. Market

1) Products and Buyers

The stuffed toy market can be divided into the following five categories:

1. Collectibles

Designed for adult collectors, most of these products are of the highest quality. Firms supplying this segment of the market include Steiff, Gund, Dakin and North American Bear.

2. Realistic

This category covers stuffed toys which are realistically modeled after animals. Firms supplying these items include Gund, Dakin, Ty and Mary Meyers.

3. Licensed

Modeled after well-known characters like Mickey Mouse, these products are produced under license. The leading firms in this field are Special Effects, Applause and Dakin.

4. Toys

In order for plush products to be classified as toys, they must not only be soft and stuffed but must also have an extra element allowing for play, such as a motor to make them move. Mattel and Fisher Price are major suppliers to this segment.

5. Gifts

Plush products falling into this category target impulse buying by consumers. An example might be a figure of a cat holding a tennis racket, designed to be purchased on a whim for a friend who likes cats or tennis. Leading makers include Russ Berrie and Applause.

Although there are no definitive data on the market shares of each category, estimates are as follows:

Collectibles:	5% - 10%
Realistic:	5% - 30%
Licensed:	20% - 40%
Toys:	10% - 40%
Gifts:	10% - 30%

2) Recent Product Trends

The toy market has become saturated with costly licensed goods, electronic items, and even more complex products. Recently, the overall mood has been one of "back to basics," responding with more fundamental toys, with a shift toward more economical, ecologically sound products.

In addition to traditional products, stuffed animal makers have supplemented their lineups with exotic products like sloths, hyenas, and dangerous animals. In fact, the recession and increasing environmental awareness among consumers have actually provided the stuffed toy industry with an excellent opportunity for the rebound of the plush category. Plush products are now seen as being virtually unbreakable, offering easy repair, and being healthy and long-lasting as well as helping children to develop their creativity.

According to TMA (Toy Manufacturers of America), the toy market has posted steady annual growth of 5.5% during the past five years. However, the market is vulnerable to major fluctuations depending on the presence or absence of hit products, and like the fashion industry changes very easily. In the toy industry's special products market, annual fluctuations of 20% - 30% are typical, and depending on the success of newly-introduced products sales may easily halve or double in a single year. Stuffed toy sales dropped dramatically in 1988 and bottomed out in 1989, but are expected to have risen in 1990 and the following years (see Table III-1-9).

In the mid-1980s, when sophisticated electronics toys and games held consumers spellbound, stuffed toy makers began R&D on the application of electronics to stuffed toys. One success resulting from this work was World of Wonder's Teddy Ruxpin. First appearing in 1985, this product went on to sell 5 million units by the end of the 1980s. Despite such successes, industry observers and TMA statistics suggest that the dominant trend today is clearly a return to fundamental toys and a new look at traditional stuffed toys. As evidence of this, the market share of stuffed toys containing electronics or sound-producing devices dropped from 30% of toy market in 1986 to 10% in 1989 and 12% in 1990.

With the ongoing U.S. recession, this trend is expected to continue. Consumers are looking for toys which are not susceptible to fads, which children will not easily tire of, and which are also environmentally sound. This is behind the recent popularity of high-quality traditional stuffed toys, which last virtually forever.

One of the reasons why stuffed toy sales dropped in the late 1980s was the increase in so-called "promotional plush," plush toys designed to be given away free with the purchase of other products. Consumers came to feel that they could get stuffed toys without paying for them, and this led to a decline in sales at the retail level.

3) Keys to Product Development

According to Stacy Botwinick, managing editor of *Plaything* magazine, the following factors all play a role in determining bestselling products:

1. Licensed products based on a character

Licensed products based on a character from a television program, movie, comic, or fairy tale have excellent potential for becoming bestsellers. The following recent bestsellers in the stuffed toy field are all licensed goods:

Garfield (Dakin)

Care Bears (Kenner)

Snoopy, Woodstock and Peanuts (Applause)

101 Dalmations (Mattel and Applause)

2. New ideas identifying or anticipating a trend

Keep in mind that the "ideas" indicated here is different from the trend-catching "ideas" of the fashion industry. One good example is the Cabbage Patch Doll. Although the appearance of these dolls is not especially attractive, their charming, healthy looks were well-received by U.S. consumers as part of the "back to basics" movement. Other examples include Tonka's Pound Puppies and Worlds of Wonder's Teddy Ruxpin. Just as in the apparel industry, stuffed toys often appear on the market to booming sales only to disappear soon after.

3. High quality

Some products have become bestsellers simply by virtue of their superior quality. Makers of products falling into this category include Dakin and Gund. Both firms use plush of the highest quality, and there is a distinct and noticeable difference between their products and those of other stuffed toy manufacturers.

4. Marketing, advertising and promotion

Some stuffed toy makers are known to pull out all the stops in their marketing and ad campaigns at the wholesale and retail levels when releasing a new product. Important marketing techniques include television and print advertisements and effective storefront

displays. Applause is well known as a firm which puts a lot behind its newly introduced lines, as recently seen in the case of 101 Dalmations.

4) Safety Standards

In the U.S. market, product safety considerations are critical elements in the development of products and designs. TMA is working together with the National Safety Council, the National Bureau of Standards, ANSI (the American National Standards Institute) and ASTM (the American Society for Testing and Materials) to establish a series of basic standards.

At the federal government level, the CPSC (Consumer Product Safety Commission) monitors toy safety based on the Federal Hazardous Substances Act, the Consumer Product Safety Act, and related amendments. The CPSC maintains offices in major cities across the country and is engaged in the establishment and implementation of standards relating to the safety of toys and other children's products. CPSC officials monitor the adherence of products, whether imported or produced locally, to certain minimum safety standards. CPSC standards are coordinated with TMA's own specifications through ASTM F 963 (Standard Consumer Safety Specifications on Toy Safety). This piece of legislation lays out standards for 19 areas, including raw material quality, flammability, toxicity, treatment of cut ends, projectiles, and labeling.

Since 1987 the U.S. Customs Service and CPSC have been jointly involved in a program to check imported toys for their adherence to the above safety standards. These inspections are carried out by import inspection experts, customs inspection supervisors and CPSC experts. The program is now in effect at all ports at which toys are brought into the country.

The International Committee of Toy Industries is responsible for the coordination of toy-related safety standards. As of 1991, this organization included among its members the United States, Australia, Canada, Denmark, France, Hong Kong, Italy, Japan, R. Korea, Spain, Sweden, Taiwan and the United Kingdom. In addition, Brazil and Thailand are classified as observers.

(3) Changes in Distribution

Recently there has been a significant increase in "direct business," in which products are shipped directly from overseas plants to the warehouses or distribution facilities of leading customers like Toys 'R' Us.

In order to cut shipping costs, large toys are sometimes shipped unstuffed from Asian plants for stuffing and final finishing at U.S. plants and subcontractors or in Caribbean nations offering cheap labor like Haiti and the Dominican Republic. These products are then exported back to the United States for shipment to domestic and foreign markets from local distribution centers.

(4) Evaluations of the Philippines and Philippine Products

Most of the firms responding to the survey held an image of the Philippines as a producer of natural fiber products like baskets and brooms and woodcrafts, and few knew much about the country's stuffed toy industry. There was also a general perception that this industry was an unsophisticated cottage industry lacking modern facilities and technology.

Responses concerning Philippine products and laborers, however, differed significantly from firm to firm. Some were of the impression that the Philippine labor

force was not only skilled in stuffed toy production (sewing in particular) but was also hard-working and well-motivated. Others felt that the quality of Philippine products was below average and that there were problems with delivery time.

Most of the firms responding to this survey had had either no direct contact with Philippine products or at best only very limited contact. Despite this, many were open to the possibility of production in the Philippines and welcomed the idea of promotional activities by Philippine toy manufacturers and industry associations in the United States. What was most emphasized by the respondents was that the firms be capable of providing products of specified quality within a given time frame.

In response to a solicitation of ideas about how Philippine stuffed toy manufacturers could best approach U.S. firms and through what channels U.S. firms wanted to obtain information about Philippine manufacturers and facilities, the following suggestions were made:

1. High-quality brochures and other printed materials concerning the Philippines and its production facilities
2. Provision of samples
3. Offers to price-out specified work
4. Promotion of trial orders
5. Display of current customer lists
6. Invitations to tour production facilities in the Philippines for a hands-on view of Philippine production capabilities

Here, it should be pointed out that U.S. firms hold certain distinct images that are ambivalent concerning the Philippines. The greatest of these is political instability, and this cannot be neglected in order to promote U.S. investment in the Philippines.

Concerns were also expressed about whether high-quality R. Korean plush could be imported into the Philippines. Firms were concerned that sourcing from R. Korea would be very costly, and that, because the unique characteristics of plush can only be maintained for three months when it is rolled up for storage, humidity encountered during shipping could cause flattening, matting, hardening, or in other ways damage the shelf life of the products.

1-4 German Market and German Stuffed Toy Industry

(1) Summary of Toy Industry

1) Market Size

The German (old West Germany, same below) toy industry, which had stagnated at around 3.5 billion German marks (below, "marks"; 1 mark = US\$0.67, at end of Nov. 1990) for a while, has been growing for the past three years. In 1990, it reached just under 5 billion marks.

German toy manufacturers are increasing their sales due to the rise in the birth rate, the growth in the leisure related market, and other factors. The percentage of game machines and toy purchases in leisure related expenditures is 6 percent in the case of households in the middle income region. Toys are growing stronger in competitiveness with other forms of entertainment such as movies, books, and sports. Stuffed toys account for a 9.1 percent share of all toys, the next largest share after the 10.4 percent for electric train sets.

2) Production

Toy production in 1990 rose 8.9 percent from the previous year to reach 2,075.68 million marks. Looking at the changes by products, Christmas toys rose 23.4 percent, metal miniature models rose 23.3 percent, electric trains, steam trains, and accessories rose 15.6 percent, dolls rose 12.0 percent, and cardboard puzzles declined 7.6 percent.

Production of stuffed animals (made out of tissue and furs) reached 138.75 million marks, a 6.7 percent share of toy production as a whole (see Table III-1-10).

The market has been good, but domestic producers are facing numerous difficulties. Specifically, 1) placing a new product on the market takes a tremendous amount in costs, 2) novelty products are copied immediately after appearing on the market, leading to a plunge in the price of the same, 3) development of export products is difficult, 4) large amounts of cheap foreign products are flooding in, and 5) an increasingly large number of small manufacturers now have to yield to powerful large procurers. A large number of businesses are forced to close down due to these circumstances. In their place, foreign companies with financial strength and aggressive pricing policies are entering the market. In point of fact, of the top 20 companies, half are foreign affiliated.

Due to the rise in domestic production costs, many businesses are moving their production centers and production processes overseas, but they are not necessarily limiting themselves to the Asian region. For example, the second largest company making dolls, Hans Goetz, is producing dolls and dresses in Hungary and has its own store in the capital Budapest.

3) Exports and Imports

German toy imports in 1990 rose 18.6 percent from the previous year to 2,122.73 million marks. Exports rose 13.1 percent to 1,296.76 million marks. In exports, the most important destinations are the other EC countries. 54.1 percent of the total goes to the EC. In imports, the Far East, including China, the biggest supplier, holds a 48.9 percent share, above the 33.8 percent share of the EC (see Table III-1-11).

Imports of stuffed toys have continued to decline since 1988 (235.6 million marks) and dropped 3.1 percent in 1990 to 186.1 million marks (down 21.0 percent compared with 1988). The main countries of origin were China (72 million marks, 38.7 percent of all imports) and R. Korea (67.2 million marks, 36.1 percent), with the two countries accounting for three-fourths of the total imports. Following this is Australia (10 million marks, 5.3 percent). Asian countries other than China and R. Korea include Thailand (7.2 million marks, 3.9 percent) and Taiwan (3.5 million marks, 1.9 percent), accounting for relatively large amounts. Imports from the Philippines totaled 1.2 million marks, 0.6 percent (see Table III-1-12).

The main countries of origin of stuffed animals made using man-made materials are China (52.3 million marks, 48.0 percent of the whole) and Italy (25.4 million marks, 23.3 percent), with the two countries accounting for over 60 percent of the whole (1990) (see Table III-1-13).

(2) Demand Trends

In Germany, a per capita 92 marks is spent per year for toys. The majority of the demand comes in the Christmas season, with 45 percent of the sales of the year being rung up in the two months of November and December.

These past two years have been good ones for German plush toy and plush figurine manufacturers. All the companies, with no exception, have achieved double digit growth.

The market for stuffed toys in 1990 (production - exports + imports) grew to 263.3 million marks, up 13.1 percent from the previous year, but this was still 15 percent below the level of 1988 (see Table III-1-14).

In these past few years, plush stuffed animal manufacturers have been searching for toys which have not yet been made with plush. Some companies have decided to manufacture plush bugs and beasts, but the trend is for a change from exotic animals to the conventional, traditional animals. Instead, even if the same type of animals as in the past, colors and forms are being changed to make them different. For example, in the case of life-size authentic looking goats, the products of Steiff have their mouths closed, while the products of Sigikid have their mouths wide open as if bleating out a welcome. Heunec makes plush mice of a pink, violet, or purple color and makes teddy bears of a light color wearing newsprint patterned cloth pants.

In the Nueremburg International Toy Fair held in June 1991, there was a display of novelty products of plush stuffed animals. For example, completely new items included snow leopards, opossums, long-tailed monkeys, snow geese, disco-birds, male and female-dressed career sows, well known animals of new colors, and new lines of popular teddy bears.

Many companies make use of the popularity of comic book characters and movie and TV characters in an attempt to increase sales. In addition to characters of regular TV series, several new characters have become popular. Some examples are as follows (all licensed products):

Alf, the Simpsons, Philipp, Bugs Bunny, Maja the Bee, The Gremlins, Fred Feuerstein, Feival, Pfiff and Hercules, Lassie, Tom & Jerry.

Plush stuffed toys are not only popular among children, but are liked by adults as well for decoration and for collections.

Recently, there has been an increase in the demand for promotional items. In some companies, 40 to 50 percent of their production is for such items. This year, there has been massive demand for promotional items from cosmetic, detergent, toilet paper, and other manufacturers. In addition to classic plush stuffed animals, fancy products are in very strong demand.

(3) Supply Structure

In 1990, there had been 6,500 toy manufacturers. Today, this has fallen to about 800. Currently approximately 20,000 people are employed in the toy industry. Most of the companies engaged in toys are medium or small in size. There are only a few large firms. Many are businesses not incorporated as companies, family businesses or partnerships. These businesses are small in size of operations, so the managers can easily maintain a grasp over the volume of business, technology, and finances. About three-fourths of the total number of companies have less than 10 employees. About 200 have over 20 employees. There are about 20 companies with over 200 workers. The toy companies also made wide use of subcontractors for production.

Brandstaetter, Lego, Otto Maier Verlag, and Maerklin are large corporations. There are no companies making 500 million marks in yearly sales. Over 90 percent of the companies make less than 20 million marks in sales.

Of the approximately 800 toys manufacturers, 18 are making stuffed toys.

Most of the toy production is being done in Bavaria in the south of the country. The region is the main production center for toys due to the facts that 1) it is close to Nueremburg, the traditional toymaking city, and 2) the low cost of labor.

The general consumer usually buys stuffed toys at the following locations:

- Toy shops
- Specialized shops for toys
- Drug stores
- Discount shops
- Supermarkets
- Variety shops

A look at the places where consumers buy toys by sales channel shows purchases at medium sized specialized shops, which offer broad lines and good quality service, accounting for 43.2 percent of the total purchases. Following this come supermarkets with self-service sales, at 23.0 percent (1990). In the toy market, the trade cooperatives play an important role. Almost all specialized shops belong to one of the associations, such as Vedes eG, Spielzeug-Ring (Toy Circle), Idee & Spiel (Idea & Toy), or Spiel & Hobby (Toy & Hobby) (Table III-1-15).

The appearance of drug stores selling toys has resulted in a major change in the structure of the retail toy business. The share of toys sold through this route is still only 5 percent (1990), but since the world's largest toy store (Toys' R' Us) entered Germany, it has opened 18 stores. As seen from this, the tempo of expansion has been extremely fast. These stores have large sales floors of over 3000 square meters and take as their basic management concept the aggressive marketing strategy of selling products as cheaply as possible. In addition to Toys' R' Us, Bonniland (subsidiary of Vedes) and Wir Kinder (subsidiary of Hertie) are proceeding in a similar fashion.

(4) Shift of Production Overseas

As seen from the example of Steiff, faced with a decline in the number of buyers and an increase in imports in the 1980's, German stuffed toy manufacturers have moved to deal with the changes in their environment by shifting all or part of their production processes overseas. Note that Foerster and Geretsried have shifted their entire production processes overseas and Althans, Hermann, and Heunec have shifted part of them overseas.

The majority of the overseas production of these companies is being done in R. Korea. The quality and craftsmanship of the products made there are excellent or sometimes extremely excellent, it may be said. On the other hand, the major origin of imports of plush stuffed toys is China. The Germans procure toys in China at low prices below even just the labor costs in Germany, but the quality is not very good.

Some companies have been arranging cooperative relations with former East German companies since the union of the country due to the shortage of skilled labor in the former West Germany.

(5) Guidelines for Toy Safety in EC

The EC has the EN 71 (published on December 1, 1988) guideline for toy safety. Germany published this guideline in July 1989 as a domestic draft proposal (DIN-EN)

(draft can be obtained from The Editor of BEUTH Verlag GmbH, Burggrafenstrasse 6-10, D-1000 Berlin 30).

The guideline shows technical details and control instructions for safety in the production of toys and sets matters to be observed in toy safety in the members of the EC. The regulations cover all products, including toys, manufactured and supplied to children of less than 14 years age. Therefore, they apply not only to products produced in Germany and the rest of the EC market, but also products supplied to the EC market from the outside. In addition to products meant for sale, lagniappes, magic tricks, advertising products, etc. are also covered.

(6) Evaluation of Philippine Stuffed Toys

Importers evaluate Philippine stuffed toys in the following way:

1. "We import from China, Japan, Taiwan, Macao, Hong Kong, and R. Korea, but have not yet handled stuffed toys from the Philippines. The quality of Japanese and Korean toys is very good. We would like to purchase from the Philippines, but would require catalogs, including photos and detailed explanations, and samples (major importer)."

2. "We are currently importing from China, but if conditions of price, quality, and delivery are met and Philippine companies earnestly engage in business, would consider importing from the Philippines as well."

3. "We are engaged in wholesale distribution of toys imported from China to businesses selling in amusement parks etc. The price of these products is extremely low. If Philippine products are to have a chance, it would only be if they were priced below the products currently handled."

4. "We are selling Chinese made products to wholesalers dealing with showmen. Chinese products are the cheapest in the world and the distribution channels from China to Germany have been greatly improved in these past few years. We go to the Canton Fair held twice a year. Low price and strict observance of delivery dates are the most important. If Philippine manufacturers can supply products cheaper than China, there would be a chance for sales by the Philippines. Chinese prices, however, are extremely low, so we do not feel the Philippines can supply goods at lower prices."

5. "Up until now we have imported from R. Korea, Taiwan, China, etc., but have never imported from the Philippines. There would be a chance for Philippine products to enter the German market as well. However, it is essential that a balance be maintained between prices and quality."

6. "We were shown Philippine stuffed toys by an importer based in Stuttgart in this year's Nueremberg Toy Fair. The quality was good, but we feel it necessary that a greater awareness be instilled in quality control in the Philippine manufacturers (famous manufacturer of plush stuffed toys)."

7. "We have four production bases for stuffed toys in China. We produce there in accordance with samples and instructions provided from the client and import the products. The quality is excellent. Our German clients are specialized toy shops."

(7) Advertisement and PR

The PR medium used most often for toys is television. Television advertisement has accounted for a 65.9 to 70.6 percent share of overall PR costs from 1986 to 1990. This is followed by magazines at 18.5 to 27.1 percent and radio at 2.3 to 6.5 percent.

A look at the timing of advertising and public relations activities throughout the year by type of PR medium shows the most money is spent in all the media in November, just before the Christmas season. The only exception is the specialized journals, where the most activity is shown in February. This is due to the activities related to the Nueremberg Toy Fair held about that time (see Table III-1-16).

Table III-1-1 Changes of the Population Under Aged 9 and Their Consuming Value

(Unit: 1,000 people, Japanese Yen)

Year	USA		Japan		Germany		U.K.		France		Italy	
	Popul.	Cons.	Popul.	Cons.	Popul.	Cons.	Popul.	Cons.	Popul.	Cons.	Popul.	Cons.
1986	33,328	62,371	16,475	47,448	6,041	50,687	7,007	28,728	7,645	54,820	7,754	19,648
1987	34,858	48,683	15,531	52,946	5,892	51,969	7,007	27,715	7,483	52,118	7,517	19,755
1988	35,419	49,081	15,130	58,363	5,867	56,284	7,009	42,204	7,497	50,686	6,890	26,270
1989	35,419	64,767	14,729	58,592	5,867	64,769	7,009	48,823	7,497	55,729	6,890	30,305
1990	35,915	68,893	14,344	63,179	8,184	51,075	7,236	48,148	7,567	55,927	6,302	32,434

Source: Japan Toys Association

Table III-1-2: Production, Import, Export and Consumption of Toys
in the Major Consuming Countries

		(Unit : Yen 100 million)					
Year		1985	1986	1987	1988	1989	1990
USA							
Production	(a)	11,330	10,554	7,630	5,376	4,883	4,455
Import	(b)	5,001	3,624	3,919	5,202	8,551	8,514
Export	(c)	402	310	236	275	421	505
Consumption	(d)	23,991	20,787	16,970	17,384	22,940	23,721
Distrb'n margin rate	(e)	66.4	66.7	66.7	59.3	56.7	52.5
Germany *)							
Production	(a)	1,244	1,288	1,266	1,310	1,507	1,658
Import	(b)	865	725	796	1,140	1,311	1,442
Export	(c)	713	621	670	799	918	1,010
Consumption	(d)	2,680	3,062	3,062	3,302	3,800	4,180
Distrb'n margin rate	(e)	52.1	45.5	45.5	50.0	50.0	50.0
U.K.							
Production	(a)	630	458	450	851	982	985
Import	(b)	973	741	743	936	1,152	1,223
Export	(c)	508	284	310	343	423	466
Consumption	(d)	2,499	2,013	1,942	2,888	3,422	3,484
Distrb'n margin rate	(e)	43.8	45.5	45.5	50.0	50.0	50.0
France							
Production	(a)	1,268	1,380	1,160	1,038	1,166	1,221
Import	(b)	937	847	857	1,088	1,235	1,249
Export	(c)	378	322	244	226	312	254
Consumption	(d)	3,159	4,191	3,900	3,800	4,178	4,232
Distrb'n margin rate	(e)	57.8	45.5	45.5	50.0	50.0	50.0
Italy							
Production	(a)	866	893	880	920	1,058	1,037
Import	(b)	238	251	245	492	566	594
Export	(c)	437	462	450	505	580	609
Consumption	(d)	1,466	1,500	1,485	1,810	2,088	2,044
Distrb'n margin rate	(e)	45.5	45.5	45.5	50.1	50.0	50.0
Total of above 4 EC countries							
Production	(a)	4,008	4,019	3,756	4,119	4,713	4,901
Import	(b)	3,013	2,564	2,641	3,656	4,264	4,508
Export	(c)	2,036	1,689	1,674	1,873	2,233	2,339
Consumption	(d)	9,804	10,766	10,389	11,800	13,488	13,940
Distrb'n margin rate	(e)	49.8	45.5	45.5	50.0	50.0	50.0
Japan							
Production	(a)	5,010	4,494	4,259	4,169	4,399	5,125
Import	(b)	232	291	561	560	646	745
Export	(c)	1,654	1,132	998	869	1,034	1,659
Consumption	(d)	7,718	7,817	8,223	8,830	8,630	9,065
Distrb'n margin rate	(e)	46.5	46.7	46.5	43.7	46.5	46.5

Notes: 1. *) West Germany only.

2. Production; FOR, Import; CIF, Export; FOB, Consumption; Retail price

3. $e = (a + b - c) / d \times 100$

Source: Japan Toys Association and World Bank(Modified)

**Table III-1-3: Import and Estimated Market Size of Stuffed Toys
in the World Major Consuming Countries**

		(Unit: US\$1,000)				
Year		1985	1986	1987	1989	
USA						
Import	(a)	630,506	523,530	479,340	880,116	
Estimated Market Size	(b)	1,026,883	852,655	780,684	1,433,414	
Germany						
Import	(a)	49,655	59,682	76,287	158,386	
Estimated Market Size	(b)	101,752	122,299	156,326	324,561	
U.K.						
Import	(a)	39,732	36,260	56,384	147,415	
Estimated Market Size	(b)	83,646	76,337	118,703	310,347	
France						
Import	(a)	50,865	62,772	86,783	128,451	
Estimated Market Size	(b)	102,139	126,048	174,263	257,934	
Italy						
Import	(a)	23,436	30,092	46,584	72,170	
Estimated Market Size	(b)	49,029	62,954	97,456	150,983	
Japan						
Import	(a)	8,154	15,296	22,147	115,035	
Estimated Market Size	(b)	17,688	33,180	48,041	249,534	

Notes: (b)=(a)x distribution margin

Source: OECD

1985 to 1987; OECD Imp. Statistic code SITC R2 No.894.22
1989; OECD Imp. Statistic code SITC R3 No.894.25

Table III-1-4: World Export of Stuffed Toys

	(Unit: US\$ million)					
	1980	1984	1985	1986	1987	1989
R.Korea	185.7	403.1	498.4	693.8	1,020.1	684.1
Taiwan	183.5	423.4	507.2	667.1	905.0	124.6
Hong Kong	523.6	670.7	709.5	769.6	900.3	118.9
Thailand	1.2	11.2	26.2	29.4	65.5	41.7
China	-	-	-	-	-	572.5
Malaysia	1.2	23.5	38.8	26.5	39.2	17.2
Philippine	8.9	7.0	6.5	5.1	8.0	11.5
World Total *)	2,447.3	3,137.3	3,812.5	4,818.5	6,239.4	1,821.4

Note: 1. *) Including others

2. Commodity code system was modified as follows;

1980 to 1987: OECD Imp. Statistic Code SITC R2 No. 894.22 (Dolls)

1989 : OECD Imp. Statistic Code SITC R2 No. 894.23

(Toys Representing Animals/Non-Human Creatures)

Source: OECD

Table III-1-5: Market Size of Stuffed Toys in Japan

Year	(Unit: Million Yen)				
	Market Size		Market Size		
	(A)	(B)	(A)	(B)	
1981	17,376	25,386	1986	31,103	45,441
1982	22,113	32,307	1987	26,503	38,721
1983	25,244	36,881	1988	28,500	41,639
1984	26,245	38,344	1989	31,211	45,599
1985	30,060	43,918	1990	34,073	49,781

Note: 1.(A): Ex-Factory Basis
(B): Retail Price Basis
2. Data (B) is modified on the basis of OECD statistics and estimation.

Source: OECD

Table III-1-6: Imports of Stuffed Toys in Japan

(Unit: Million Yen)					
Year	Import	Year	Import	Year	Import
1981	1,552	1985	2,313	1989	13,381
1982	1,670	1986	3,009	1990	16,781
1983	2,075	1987	3,984		
1984	3,076	1988	11,025		

Note: The commodities covered are,
1988-1990: Code No. HS9503.41-010 & 9503.41-020
1981-1987: Code No. CCCN97.02-000 & 97.03-010

Source: Japan Exportation & Importation by Japan Tariff Association

Table III-1-7: Monthly Labour Cost per Capita

	(Unit: US\$)		
	1989	1990	1991
China	30	30	30
Indonesia	48	52	52
Thailand	78	94	100
Philippines	160	190	210
Korea	420	485	555

Source: Dakin, Inc.

Table III-1-8: Import of Stuffed Toys in the United States

(Unit: US\$ 1,000)

	1987	1988	1989	1990
China	39,393	44,021	66,377	144,368
Hong Kong	9,800	4,179	4,647	3,607
Indonesia	0	0	10	45
Korea	11,281	10,001	5,136	4,324
Malaysia	4,061	4,938	4,798	4,432
Mexico	420	255	30	4,951
Philippines	1,484	1,844	4,511	7,001
Taiwan	50,361	67,477	103,061	104,630
Thailand	3,015	4,257	6,652	14,785
World	129,603	148,431	209,642	305,365

Source: ITA, Compiled from Official Department of Commerce Statistics

Table III-1-9: Sales of Plush Toys in the United States

Year	Units	Value (Unit: US\$ million)		
		Musical/Electronic	Traditional	Total
1983	112	n.a.	n.a.	360
1984	125	n.a.	n.a.	544
1985	90	n.a.	n.a.	585
1986	123	313	749	1062
1987	193	335	839	1174
1988	99	91	596	687
1989	72	50	448	498
1990	72	60	435	495

Note: 1. Statistics include domestically manufactured plush products and imported products.
2. n.a.: Not Available

Source: Toy Manufacturers of America, Inc.

Table III-1-10: Production of Toys in Germany, 1990

Group of Merchandise	Production (1,000 DM)	Share of Total Production (%)	Changes in Value Compared to 1989 *) (%)
Animal toys of textile fabric and fur	138,747	6.7	-
Animal toys excl. textile fabric and fur	33,095	1.6	-
Doll's prams and push cars	14,346	0.7	-
Children's vehicles	161,074	7.8	-
Electric model railways and accessories (without houses and trees)	350,261	16.9	+15.6
Dolls and parts/accessories	103034	5.0	12.0
Model construction sets	129,027	6.2	-
Constructional toys	71,664	3.4	-
Die-cast miniature models of metal	61,855	3.0	+23.3
Toys and models incorporating a motor- in man-made material	65,166	3.1	-
Hard paper puzzles	52,702	2.5	-7.6
Paper and hard paper toys (incl. family games)	178,888	8.6	-
Christmas articles	79,148	3.8	+23.4
Others	636,674	30.7	-
Toys and Christmas articles totalling	2,075,681	100.0	+8.96

Note: *) Due to the changed taxonomy, the changes compared to 1989 are only visible in a few group.

Source: Federal Bureau of Statistics, Wiesbaden

Table III-1-11: Imports and Exports of Toys in Germany (1990)

Group of merchandise	(territory before Oct. 3, 1990)			
	I m p o r t s		E x p o r t s	
	1,000 DM	Changes in % comp. to 1989	1,000 DM	Changes in % comp. to 1989
Dolls and accessories in man-made material	103,935	+24.4	57,762	+19.4
ditto of other material	44,420	- 7.0	14,581	+ 1.0
ditto and parts	24,098	-14.9	11,598	+47.2
	172,453	+13.1	83,941	+18.7
Doll's prams	4,414	+20.8	8,105	- 4.1
Children's vehicles	20,420	+37.3	45,908	+ 7.5
Electric model railways	45,958	+ 0.3	92,887	+ 5.0
Other electric railways	9,673	- 5.6	9,647	- 3.6
	55,631	- 0.8	102,534	+ 4.1
Models for construction in man-made material	39,843	-15.5	37,551	- 0.4
ditto of other material	7,113	- 0.1	4,540	- 9.4
	46,956	-13.5	42,091	- 1.4
Construction toy sets in man-made material	224,427	+11.5	24,428	+24.6
ditto of wood	6,027	+26.0	13,281	+32.2
ditto of other material	3,172	-16.4	983	+24.3
	233,626	+11.3	38,692	-25.0
Animal toys, stuffed	186,077	- 3.2	61,467	+ 2.9
Other animal toys of wood	13,063	- 6.1	15,723	+ 0.1
ditto of man-made material	108,905	+44.0	153,972	+29.7
ditto of other material	23,242	+49.9	6,639	-29.0
	145,210	+38.2	176,334	+22.6
Musical toys	20,463	+15.6	7,305	+17.6
Puzzles made out of wood	4,091	- 2.7	1,919	+39.1
ditto of other material	8,345	+11.1	33,295	+12.3
	12,436	+ 6.2	35,214	+13.5
Toys, put up in sets	20,191	+ 4.0	35,686	-16.7
Toys & models with built-in motors in man-made material	105,718	+59.1	15,085	+19.1
ditto of other material	10,284	+21.3	5,342	+34.7
	116,002	+54.8	20,427	+22.8
Die-cast miniature models of metal	90,560	+ 5.5	46,061	+ 8.8
Other toys in man-made material	350,548	+22.0	169,208	+27.4
ditto of rubber	9,839	- 9.4	11,363	+13.6
ditto of textile fabrics	9,796	+13.3	4,439	-19.3
ditto of metal	26,059	+23.6	16,240	+ 3.4
ditto of othr material	45,175	+20.8	51,614	+ 2.4
	441,427	+19.9	252,862	+17.9
Toy weapons	18,364	+49.1	6,562.0	+46.0
Party, family and card games	227,829	+35.8	166,864.0	+16.1
Electric car racing sets	7,702	+50.8	-	-
Video games	82,863	+121.3	14,585.0	+187.9
Billiard games and accessories (without coins)	20,458	+ 9.6	11,888.0	+ 3.3
Picture-books, painting and drawing books	17,396	+ 4.9	33,460.0	+15.4
Christmas articles of glass	9,832	+ 1.7	27,670.0	+12.4
ditto of other material	102,733	+ 4.2	39,190.0	+ 3.7
	112,565	+ 4.0	66,860.0	+ 7.1
Other festival, party, carnival and joke articles	69,695	+20.5	39,912.0	+ 0.5
Total	2,122,728	+18.6	1,296,758.0	+13.1

Source: Fed. Bureau of Stat.

Table III-1-12: Germany/Import of Stuffed Animal Toys by Major Supplying Countries

(Unit: tons, million DM)

	1988		1989		1990	
	quant.	value	quant.	value	quant.	value
Netherlands	90	1.5	84	1.5	69	1.9
Italy	597	9.9	561	7.2	692	8.0
Great Britain	77	1.6	34	1.6	139	3.4
Austria	85	9.4	79	9.1	92	10.0
Thailand	44	1.2	77	2.0	360	7.2
Philippines	8	0.2	101	1.6	53	1.2
China	6,351	95.1	4,330	71.0	4,957	72.0
South Korea	4,064	95.1	3,463	79.6	3,074	67.2
Taiwan	458	10.7	221	5.7	141	3.5
Hong Kong	127	2.3	238	3.4	29	0.7
Others	320	8.6	339	9.4	432	11.0
Total	12,221	235.6	9,527	192.1	10,038	186.1

Source: Fed. Bureau of Stat.

Table III-1-13: Germany/Imports of Animal Toys in Man-made Material by Major Supplying Countries

(Unit: tons, million DM)

	1988		1989		1990	
	quant.	value	quant.	value	quant.	value
France	179	1.5	149	1.2	61	1.1
Italy	1,447	13.8	1,840	16.4	3,216	25.4
Great Britain	72	1.2	36	0.5	108	1.9
Portugal	129	1.8	171	2.9	140	2.5
Thailand	134	1.4	275	2.6	275	3.5
Malaysia	79	1.3	79	2.0	109	1.7
Philippines	-	-	10	0.2	14	0.3
China	1,554	19.5	2,216	32.6	3,938	52.3
South Korea	68	1.4	49	0.9	52	1.1
Taiwan	511	5.4	267	3.3	251	2.9
Hong Kong	623	7.8	579	8.7	212	2.4
Others	447	8.0	251	4.3	648	13.8
Total	5,243	63.1	5,922	75.6	9,034	108.9

Source: Fed. Bureau of Stat.

Table III-1-14: Germany/Market Supply of Stuffed Toys

(Unit: million DM)				
Year	Production	Export	Import	Market Supply
1989	100.5	59.7	192.1	232.9
1990	138.7	61.5	186.1	263.3

Note: (Market Supply)=(Production)-(Export)+(Import)

Source: Fed. Bureau of Stat. and own calculations

Table III-1-15: Germany/Sales of Toys by Distribution Channel

Distribution channels	Tendency			
	(%)		(million DM)*	(%)
1. Mail-order trade	4.5	(+/-)	230	(+11.1)
2. Drugstores	20.8	(-)	1061	(+ 3.1)
3. Specialized shops **)	43.2	(+/-)	2203	(+ 6.8)
4. Supermarkets	23.0	(+/-)	1173	(+ 7.6)
5. Specialized stores	6.9	(+)	352	(+46.7)
6. Others	1.6	(+)	82	(+15.4)
Total	100.0		5100	(+ 8.5)

Note: *) Sales turnover; in parenthesis: increase of the turnover compared to 1989 in %

***) The distribution form called "self-service store" covers in this case stores offering a large assortment and specialized shop (approx. 37.2% of the market share) as well as specialized shops which sell apart from toys also other articles (approx. 5.6% of the market share).

Source: BB -Annual Report 1990/91

Table III-1-16: Germany/Advertising Expenses for Toys (by Media, by Month, 1990)

	Daily Papers		Poster Advert.		Spec. Journals		Radio Advert.		Magazines		TV Advert.		Total	
		%		%		%		%		%		%		%
January	2	0.5	-	-	192	8.9	22	0.4	331	2.0	646	1.0	1,193	
February	-	-	3	0.2	483	22.4	13	0.2	660	4.0	1,564	2.5	2,723	
March	6	1.4	2	0.2	319	14.8	13	0.2	561	3.4	4,565	7.2	5,466	
April	286	65.7	10	0.8	147	6.8	62	1.1	480	2.9	3,512	5.6	4,497	
May	2	0.5	-	-	217	10.0	119	2.0	724	4.4	2,666	4.2	3,728	
June	9	2.1	-	-	159	7.4	198	3.4	825	5.0	2,435	3.9	3,626	
July	7	1.6	-	-	68	3.1	8	0.1	462	2.8	349	0.6	894	
August	9	2.1	-	-	118	5.5	6	0.1	271	1.6	454	0.7	858	
September	31	7.1	-	-	177	8.2	913	15.7	739	4.5	3,078	4.9	4,938	
October	22	5.1	-	-	89	4.1	1,676	28.8	2,752	16.6	10,907	17.3	15,446	
November	38	8.7	740	59.7	151	7.0	2,045	35.1	6,400	38.7	20,183	32.0	29,557	
December	23	5.3	485	39.1	40	1.9	749	12.9	2,347	14.2	12,745	20.2	16,389	
Total	435	100.0	1,240	100.0	2,160	100.0	5,824	100.0	16,552	100.0	63,104	100.0	89,315	
% of all media	(0.5)		(1.4)		(2.4)		(6.5)		(18.6)		(70.6)		(100.0)	

Source: Schmidt & Pohlmann

2. The Stuffed Toy Industry in Neighboring Countries

2-1 Republic of Korea

(1) Outline of the Stuffed Toy Industry

1) Production

Virtually all stuffed toy production is exported, with export ratios of at least 95% every year from 1986 through 1990. Production peaked in 1987, dropped 12.1% the following year, and dropped another 17.7% in 1990 to US\$549.157 million (see Table III-2-1-1). This drop in production is due to the increasing number of Korean manufacturers who have moved their production facilities abroad and are exporting directly to target markets.

Despite healthy domestic demand, overall Korean toy production peaked at US\$1,225.033 million in 1987 and has been falling since, dropping 14.3% in 1990 to US\$909.432 million in reflection of sluggish exports. The share of total toy production accounted for by stuffed toys has shown a gradual but steady decline, from 66.6% in 1987 to 60.4% in 1990.

2) Exports

Exports of stuffed toys have declined steadily since peaking at US\$798.241 million in 1987, and in 1990 they dropped 21.3% to US\$512.152 million. However, stuffed toys continue to account for more than 70% of all Korean toy exports.

The United States is the leading export market, responsible for 46.1% of total Korean exports, followed by Japan, with 17.9%, Germany, with 7.0%, the United Kingdom, with 6.0%, and Italy, with 3.7% (value-based figures for 1990). Japan's share of Korean exports has grown steadily, from 12.4% in 1988 to 16.6% in 1989 and 17.9% in 1990 (see Table III-2-1-2).

3) Imports

Stuffed toy imports swelled from US\$1.166 million in 1988 to US\$2.407 million in 1989 before dropping 31.6% the following year to US\$1.647 million. Stuffed toys represent a small and decreasing percentage of overall toy imports, falling from 10.7% in 1988 to 5.3% in 1990. 1990 imports from the Philippines amounted to US\$4,500.

4) Consumption Trends

Through the 1960s, most of the toys consumed in R. Korea were dolls, stuffed toys and inexpensive action toys, reflecting a low standard of living and a limited variety of toys. With the coming of the 1970s, sales of metal and plastic toys grew significantly. In the 1980s, a greatly-improved national income level propelled an overall increase in toy demand. This decade saw the release of a variety of multi-functional electronic toys, including educational toys incorporated with IC, games for families and adults, and products patterned after characters from television and movies. The toy industry, boosted by developments in the electronics field, is rapidly becoming a high-tech sector. Toys are now considered necessary tools for developing creativity and intelligence in children. In addition, increased development efforts and a trend towards fashion-oriented household goods have expanded the concept of toys to include interior decorating products, chairs, and bedding for infants.

Reflecting these changing consumer tastes, domestic consumption of stuffed toys grew from US\$14.634 million in 1985 to US\$21.657 million in 1987 but thereafter declined somewhat, falling to US\$19.764 million in 1990. As a result, the stuffed toy share of total domestic toy consumption remained steady at 13% during the three years following 1985 but dropped to 9.3% in 1990. In contrast, consumer demand for high-grade, high-tech toys led to greater sales of metal and plastic toys, whose share rose from 56.6% in 1985 to 63.0% in 1990.

A wide range of toys are distributed on the local market, but most locally-produced items are priced at 5,000 to 40,000 won (retail price), with products falling into the 10,000-15,000 won range being the most popular. In the case of imports, expensive electronic action toys priced at 100,000 to 200,000 won per set are selling well in the large cities.

Seasonal consumption trends for toys are shown in Fig. III-2-1-1.

(2) Stuffed Toy Industry

1) Manufacturers

There are 499 toy makers in R. Korea, of which 218 belong to the Korea Toy Industry Cooperative (1990). Most of the members are large firms often engaged in exports. Companies not belonging to this association are typically cottage industries relying on manual labor and local markets.

119 of the manufacturers belonging to the Korea Toy Industry Cooperative, or 54.6% of the total, are stuffed toy makers, while the 63 plastic toy manufacturers account for another 28.9% of the membership.

According to the Economic Planning Board's Report on Mining and Manufacturing Survey, the number of doll and stuffed toy manufacturers fell from 303 in 1987 to 300 in 1988 and 261 in 1989. When broken down by location, more than 52% of the firms are concentrated in Seoul proper, with another 23% in the Seoul metropolitan area and 6% in Pusan (1989 figures). This heavy concentration in the large cities is due to the large number of consumers found here coupled with easy access to raw materials.

When broken down by number of employees, the number of firms with 5 to 19 employees grew from 72 in 1987 to 84 in 1988 and 94 in 1989, with their percentage of the total number of firms increasing from 23.7% in 1987 to 28.0% in 1988 and 36.1% in 1989. In contrast, the number of firms with at least 100 employees has been gradually declining, reflecting sluggish exports and a deteriorating business environment (see Table III-2-1-3).

2) Activities of the South Korea Toy Industry Cooperative

The main activities of the South Korea Toy Industry Cooperative Association are as shown below.

1. Analysis of trends in toy production, exports and imports, and domestic demand
2. Participation in and solicitation for seminars held by the Korea Productivity Center, the Korea Small and Medium Industry Promotion Corporation, and the Korea Management Association in order to improve productivity, quality control, and technology at member firms
3. Supply of the latest foreign and local information to boost toy exports and promote new product development

4. Submission of industry views to the Ministry of Trade and Industry and other government bodies for the protection of industry interests
5. Participation in toy-related exhibitions and trade fairs, both foreign and domestic, and negotiation on behalf of companies who want to observe
6. Publication of the monthly magazine *Toys* (distributed to member firms, government bodies and other related organizations)
7. Solicitation of companies to join the Association in order to expand cooperation between toy-related firms

3) Investment in Technology Development and Technical Standards

Toys are a finished consumer good requiring a variety of parts and materials. Thus they are greatly affected by changes in technology and quality standards in related sectors like textiles, machinery, and the petrochemical industry.

Dolls and stuffed toys are simple processed items, and the production technologies and quality standards of the local industry have reached high levels. Development of the Korean textile industry and other related sectors has made possible a smooth flow of high-quality raw materials for use in toys, and processing technologies have also improved greatly.

a) Investment in Technology Development

The percentage of sales spent on investment in technology development by the Korean toy industry averaged 2.14% during 1980-84, significantly higher than the figures of 0.54% and 0.44% posted by light industry and the textile industry, respectively.

47.2% of all such investment by the toy industry is aimed at improving quality, while another 45.2% is spent with the objective of developing new products. This reflects the rapid drive towards high-grade toys as well as the short life cycle of these products, which intensifies competition for new product development (see Table III-2-1-4).

b) Technological Standards

A 1989 study of foreign toy industries conducted by the Korea Trade Center (KOTRA) compared the non-price competitiveness of stuffed toys produced in Taiwan, Hong Kong and China, all of which are competitors for Korean manufacturers. The study concluded that Korean products are superior to the competitors in terms of production technologies, design and materials (see Table III-2-1-4). Table III-2-1-5 is a comparison of Korean and foreign-made stuffed toys based on data provided by KOTRA and Korea Toy Industry Cooperative.

4) Compliance with Safety Standards in Main Markets

In August 1990, the Industrial Advancement Administration revised its inspection standards for toys based on Article 6 (Quality Inspections) of the Industrial Products Quality Control Act. As a result, inspection standards for export toys and standards for the domestic market were integrated and adjusted to comply with European toy safety standards (EN 71). Furthermore, Industrial Advancement Administration Directive No. 90-1084, released on August 29, 1990, revised the quality inspection standards for action toys, with implementation beginning on December 1 of the same year.

(3) Government Assistance for the Stuffed Toy Industry

Korean government assistance for the stuffed toy industry can be broken down into: 1) measures to promote structural improvements in the toy industry; 2) funding assistance; 3) promotion of foreign capital investment with the object of stimulating Korean industry; and 4) export promotion measures.

1) Measures to Promote Structural Improvements

The Korean government and toy industry provide assistance for resolution of problems faced by the industry, including a weak production structure, an excessive reliance on exports, and a lack of design skills.

The basic philosophy of industry and government with respect to the production structure is that production of low-end stuffed toys should be shifted to developing countries like China and Thailand while converting local production to metal and plastic toys, which offer high added value and are in demand on world markets. In order to encourage such efforts, the government provides: 1) direct assistance for five manufacturers who set up in-house product research centers in order to develop quality products; and 2) government financing totaling 750 billion won for (a) the standardization of toy gears and gear boxes and (b) the designation of standardization as a key technical topic for 1990 in terms of the production infrastructure for metal, plastic and other non-stuffed toys. In 1991 there are also plans to establish a comprehensive toy research center based around the South Korea Toy Industry Cooperative Association.

In order to correct the industry's excessive dependence on specific export markets, the government plans to subsidize 50% of all costs incurred for participation in the Nuremberg exhibition in Germany and the toy related exhibitions in Japan. This measure aims at diversifying exports to the European and Japanese markets and reducing the industry's current dependence on the United States.

The government will also provide incentives for the creation of design development centers at individual corporations and introduce a design protection program. These measures are intended to promote development of new designs and company brands, both of which are crucial to survival in the toy industry. In addition, the government plans to develop toys for a wide range of age groups and establish toy department stores in major cities across the country in order to boost local demand.

Firms judged as being unlikely to survive despite these measures will be persuaded to move to other sectors with funding assistance from the government.

2) Funding Assistance

Funding assistance is not limited to the toy industry; instead, these measures are designed for the promotion of small business in general. They include loans under special government funded institutional scheme and ordinary financing.

a) Loans under special government programs

These low-interest loans are provided at rates below the prime rate (currently 10%) and are designed to promote technological development, capital investment, exports, and stable management.

Of these loans, the most commonly used by small business is the small business structural adjustment financing set out in the Special Measure Concerning the Promotion of Stable Management and Structural Adjustment at Small Businesses. Other programs include the Industrial Development Fund, the Industrial Technology Improvement Fund,

and special foreign-currency loans, all of which give priority consideration to small businesses.

b) Ordinary Financing

These loans, provided at rates at or above the prime rate, are used to secure stable demand for small businesses, to promote exports by the same, to encourage foreign investment, and to promote technological development. In regard to financing for technological development, while loans under special government programs are used exclusively for the development of new technologies, most ordinary financing is used for product development or for the establishment of new businesses based on newly-developed or purchased technologies. One example is the Special Assistance Fund for Small Businesses, managed by the Small Business Bank in accordance with government policy.

3) Measures to Promote the Introduction of Foreign Capital

Foreign investment has been liberalized substantially since 1984, when the Korean government made significant improvements in the foreign capital introduction system and moved to a negative list in place of the previous method of designating those fields in which foreigners could invest. The number of fields with limitations on investment have been cut substantially, and the application procedures for prospective foreign investors have been greatly simplified.

The government also revised the enforcement ordinance for the Foreign Capital Introduction Act on February 27, 1991, with implementation to start March 1. Foreign investment in the distribution sector, which includes the handling of toys, was also opened up significantly starting July 1 of the same year. According to industry officials, foreign firms preparing to move into the Korean market include Toys 'R' Us and Mattel from the United States and Tsukuda, Kiddyland, and Sanrio from Japan. These firms are expected to move into the market for video games and other sophisticated electronic toys. The local industry is apprehensive about the situation and fears these moves will have a major impact on small toy makers.

Starting in 1993, the government plans to adopt a self-declaration system for all foreign investment with the exception of those sectors in which foreign investment is restricted or prohibited. While greatly liberalizing the environment for foreign investors, the government is also reducing the incentives it extended to foreign corporations in the past.

The stuffed toy industry is designated as a "small business sector." Based on Article 12 (Small Business Sectors) of the stipulation concerning foreign investment in such sectors (Ministry of Finance Directive No. 91-3, February 27, 1991), foreign investment can be authorized only if the conditions laid out in the Small Business Operations Coordinating Act are met.

4) Export Promotion Measures

a) Funding Assistance

Although there are no programs specifically targeting toy exports, the following types of export financing and assistance are extended to all industries.

1. Short-term operating fund assistance required in conducting export business
2. Fund assistance required from the time the export product is manufactured or processed until the bill is paid

b) Quality Improvement Measures Targeting Stuffed Toys

Korean products are approaching the state of the industry in terms of production technology and assembly technology in particular. Because they are OEM products and do not carry Korean brand names, however, foreign consumers generally view the country's products as being intermediate-range. From the philosophy that improvements in technological development, design, and marketing skills would make it possible to produce and export high-priced, high-value-added products, KOTRA and the Ministry of Trade and Industry in January 1987 designated ten items to be developed into world-class products. Among the ten were stuffed toys, athletic footwear, VTRs, microwave ovens, pianos and travel bags.

The objectives of this strategy are as follows:

1. To improve the image of Korean export products overall through improvements in quality, marketing and other facets of non-price competitiveness
2. To reinforce market dominance through improved technology and design for Korean products, which are typically viewed as being "intermediate-range"
3. To designate representative products with high potential and make them into world-class products through coordinated, comprehensive government assistance

Korean stuffed toys are already recognized by foreign markets for their quality and price competitiveness, but exports under local brand names are far outstripped by OEM supply for large foreign buyers. OEM shipments account for fully 95% of all exports (see Table III-2-1-6).

Taking the example of world-famous manufacturers, the following objectives must be achieved in order to transform the ten designated items into world-class products.

1. Development of higher-range products through a transition from OEM supply to exports under Korean brand names
2. Establishment of superiority in advertising and distribution channels
3. Establishment of superior product development skills (R&D, design, materials)
4. Enhancement of competitiveness through improved productivity
5. Movement of production facilities abroad for products whose price competitiveness on world markets is expected to drop

In order to achieve these goals, the government has designated firms producing the ten items and provided them with funding assistance (from financial institutions) and the latest information concerning their products, given them instruction in quality control and plant-floor technology through the Korea Small and Medium Industry Promotion Corporation, and helped them obtain KS (Korean Industrial Standard) Plant Certification from the Industrial Advancement Administration.

c) Free Overseas PR for New Products

For those small businesses who have developed products with export potential but cannot raise the money required for overseas promotional activities, KOTRA will promote the product free-of-charge.

The selection criteria for this program are as follows:

- New products with export potential developed by local small businesses
- Products for which a patent or utility model right has been obtained or is pending at home or abroad

- Products based on a creative idea and not modeled after existing items
- Products which have earned the "Good Design Mark"

KOTRA places advertisements for the product in leading local magazines and newspapers through its overseas offices.

(4) Raw Material Supply and Procurement

With the development of the textile industry, the supply of the main raw materials used in stuffed toys has been greatly improved in terms of both quantity and quality. For some materials, however, manufacturers continue to be plagued by shortages, heavy dependence on imports, and low quality.

Production of acrylic spun yarn (SF), which is the most commonly used material in stuffed toys, grew from 169,097 tons in 1985 to 194,625 tons in 1989. With the exception of 1987, self-sufficiency was consistently 80% or higher. Roughly half of the demand for acrylic spun yarn came from textile products, while stuffed toys were estimated to account for another 25%.

The leading Korean manufacturers of acrylic spun yarn are Hanil Synthetic Fiber Ind., Co., Ltd. (daily production capacity: 322 tons) and Tae-kwang Industrial Co., Ltd. (daily production capacity: 217 tons). At both companies, demand for costly high-pile raw cloth has been rapidly increasing in recent years due to the trend towards more expensive stuffed toys. The raw material for this type of cloth, modacrylic, has yet to be produced locally and must be imported from Japan. Thus manufacturers are concerned about price increases and the ability to obtain the material when they need it.

(5) Foreign Investment by the Korean Stuffed Toy Industry

Since 1986 the international competitiveness of Korean exporters has improved significantly, reflecting stable crude oil prices and the appreciation of the yen. One result has been active foreign investment, boosted by government incentives stemming from the nation's balance of payments surplus. The movement of production facilities to Southeast Asia by light industries such as toys, textiles, and footwear has been noteworthy. The main reasons for this move are a drop in export competitiveness, resulting from intensified labor disputes and rising labor costs since 1987, the deterioration of the business environment, and a shortage of skilled labor. Types of foreign investment expected to increase include the following: 1) investment for the introduction of sophisticated technologies; 2) investment for exports designed to develop local resources; and 3) investment aimed at labor-intensive industries and the avoidance of import quotas. Potential locations include North America, Southeast Asia, the Special Economic Zones in China, and the Eastern European countries, in which chambers of commerce have been mutually established.

As of the end of 1990, there were 40 foreign investment projects by the stuffed toy industry valued at a total of US\$24.012 million.

Thailand was the largest destination, accounting for nine projects and US\$8.662 million (36.1% of total foreign investment by the stuffed toy industry); followed by Indonesia, with 11 projects and US\$8.412 million; the United States, with six projects and US\$2.415 million; and Hong Kong, with seven projects and US\$1.741 million. When broken down by the size of investment, five of the projects involved less than US\$100,000; 16, US\$100,000 to US\$500,000; 10, US\$500,000 to US\$1 million; and nine, more than US\$1 million. Projects ranging from US\$100,000 to US\$500,000 accounted for 40.0% of total investment (see Table III-2-1-7).

2-2 Thailand

(1) Development of the Stuffed Toy Industry

In the initial stages of the industry's development, most production was conducted by cottage industries in the suburbs. Items for the domestic low-priced toy market were manufactured using very simple equipment. As the majority of these were sold as souvenirs to tourists, the market was very limited. In the early 1980s the Thai government gave support to this industry by introducing major overseas markets to the Thai stuffed toy industry and offering investment incentives to firms investing over 2 million bahts. Despite this support, the development of the industry was still very limited.

Rapid development of Thailand's stuffed toy industry began in 1988. Manufacturers from countries such as Hong Kong, Taiwan, and R. Korea with an annual production capacity of over 1 million items were awarded incentives by BOI, established production bases in Thailand and began operations there. Production capacity grew in leaps and bounds and export volumes increased each year.

At present there are 46 stuffed toy makers operative in Thailand. Production capacity varies widely from firm to firm. BOI offers incentives to firms which produce upward of 1 million items in a usual year (although the average for local firms is 80,000 items). Firms receiving BOI incentives account for 44 percent of the total, the majority of these firms being either foreign affiliated firms or joint ventures between local and overseas firms. The firms receiving BOI incentives are all export oriented. Although some major local firms target both domestic and overseas markets, only a few, primarily small firms, target only the domestic market (Tables III-2-2-1 and III-2-2-2).

Both domestic and overseas markets are showing clear trends of expansion, and makers judge the market situation to be extremely favorable. Some existing firms are aiming to strengthen their production facilities and additional overseas firms are waiting to receive BOI permission to invest in Thailand. As wages are lower than in surrounding countries and there is a labor surplus, the environment for investment in the stuffed toy industry is stable.

The minimum wages set by the Department of Labour, Ministry of Interior are competitive at 100 bahts (per day) in Bangkok and the surrounding area and 82-93 bahts (depending on location) in other areas. This is another aspect that makes Thailand attractive to investors.

From the perspective of trade, too, Thailand still enjoys popularity with investors. Many Thai products receive preferential tariffs in industrialized countries and are winning increasing popularity in the international market. Exports are therefore expected to grow at a fairly high rate.

However, there is a need to increase the quality of products and it is likely that exporting firms will have to pay more attention to QC systems in order to satisfy strict safety standards, particularly those in the European market. In order to further stabilize the growth in demand for Thai toys which began 1988, it will be necessary to place greater emphasis on improvement of quality and design and to step up efforts in the area of product safety.

The safety standards applied in the global market are ASTM (US regulations) and EN-71 (EC regulations). The U.S. and the E.C. are the major markets for Thai stuffed toys. Many exporters are in the process of bringing their products up to levels which conform to the standards set down in these major markets.

(2) Production and Consumption Trends

Production of stuffed toys accounts for 30 percent of total toy production. Between 25 and 30 percent of the total volume produced is supplied to the domestic market and the rest exported. Imports, which are primarily comprised of upmarket products, account for 20 percent of the domestic market. Due to their price, imported products target only an extremely limited number of consumers.

Because consumer interest in stuffed toys spread only very slowly among domestic consumers, firm growth in domestic consumption was not achieved until 1988. In that year overseas toy makers entered Thailand and Thai stuffed toys received reassessment in the international market. The popularity, of stuffed toys, particularly with younger age groups, spread widely. Today the support of a wide range of consumers has been won and stuffed toys are bought as gifts on number of different occasions. There are varying degrees of quality and consumers may choose from a diverse range of products. At present, most purchases are made on the basis of considerations of price and design. However it is believed that in the future more emphasis will be placed on quality.

Stuffed toys for the domestic market can be broadly divided into two categories: "dolls" and "toys in the shape of animals". The former includes a Thai style doll made of Kapok and manufactured mainly in Northern regions such as Chiang Mai. In the latter category, dog and bear designs are most common, and because the designs themselves are both creative and attractive they account for over half the demand in the market. Dolls occupy 20 percent of demand and their popularity among consumers is growing steadily weaker.

Although stuffed toys of all sizes are produced in Thailand, middle-sized and small toys are preferred in the domestic market. Whereas brand is not a very important consideration for consumers, design and price influence sales considerably. Cute and original designs are preferred.

(3) Trends in Exports

Very few years have passed since Thai stuffed toys gained wide acceptance in the international market. Only since 1988 has the industry been able to expect exports to perform well each year. The major destinations for exports are the U.S. and Europe. As each of these countries has granted Thailand GSP it is believed that stuffed toy exports to these regions will continue to grow in the future.

In 1990 exports grew a huge 80 percent on the year before (on a quantity basis). Firms that began production as BOI registered firms in the beginning of 1990 are believed to have contributed considerably to this figure.

The export trends for Thai stuffed toy markets are as follows (refer Table III-2-2-3).

Orders from the U.S. the largest market are increasing yearly.

Within the E.C., the U.K. and Germany provide the largest markets and orders from them are growing larger every year. Recently exports to The Netherlands have been posting large gains. The trend of accepting Thai stuffed toys in the markets in the E.C. is growing stronger and increased exports to the E.C. in the future may be expected.

In the Asian market, exports of Thai stuffed toys to Australia and Hong Kong are experiencing high rates of growth. Although exports to Japan dropped considerably on a quantity basis in 1989, they achieved growth of 25 percent on a value basis. This

phenomenon was due to the fact that from 1989 the stuffing for most products was changed over from kapok and cotton wool to synthetic material which is lighter but more expensive (refer Table III-2-2-3 and III-2-2-4).

(4) Domestic Supply of Raw Materials

There are three types of materials used in stuffed toys: structuring materials, stuffing and accessories.

The main fabrics used as structuring materials are cloth and plush. In Thailand there are a large number of makers who produce textiles and cloth with various patterns. These makers produced items of varying degrees of quality from low-grade to upmarket cloth. The production capacity of these makers is sufficient to meet demand from the stuffed toy industry.

There are only 5 plush makers in Thailand, including the largest maker, Jong Stit Co. Ltd.. However these firms are able to supply most of the plush needed by the industry with the exception of certain textiles for which imports must be relied upon. Although, as a result of quality improvements and increased production, these firms now have the capacity to respond to the demands of the stuffed toy industry, there are limits to this capacity, and in the future a certain amount may have to be imported.

In the past kapok and cotton wool were widely used as stuffing. However, as neither of these materials can stand more than occasional washing or hold glue for very long they are not used very much today. Instead of this many makers are using polyester which is softer and able to stand up to washing. As the domestic polyester textile industry is unable to meet industrial demand, over half of this material is imported from R. Korea and other Asian countries.

Also required in the production of stuffed toys are accessories such as plastic eyes and noses, and packaging material such as plastic bags of various sizes. Domestic components have been improved so that they meet the standards set by market countries. Packaging materials makers are able to adequately supply stuffed toy makers (Table III-2-2-5).

The plastic parts used in eyes and noses are made by plastic parts makers along with buttons of various shapes and sizes. In the past stuffed toy makers, particularly those conducting exports, procured these parts from overseas due to the fact that domestically made plastic parts were of poor quality and that deliveries were late almost daily. However, when, following expansion in the domestic market, it became evident that production of large quantities of eyes and noses would be possible, domestic makers began to make efforts at improving quality in order to meet the demands of stuffed toy makers. Makers are now able to produce components with high safety requirements such as locked eyes.

In addition, domestically produced materials such as acrylic textiles, lace, ribbons, thread, packaging, and fabrics have reached sufficient quality levels. As there is only small demand for these materials, the production capacity of existing makers is sufficient to satisfy this demand. Product development is the issue to be tackled by these firms.

Following improvement in the quality of domestically produced materials, a fair proportion of stuffed toy makers are forecast to begin procuring materials from within Thailand instead of from overseas. However it is likely that firms receiving BOI incentives will continue to rely on imported materials in order to gain the full benefit of those incentives.

(5) The Government's Industrial Support Policy

Investment related aspects of the government's industrial support policy are dealt with by BOI, Office of the Prime Minister and matters relating to marketing in overseas markets by the DEP (Department of Export Promotion), Department of Commerce.

BOI incentives are granted to firms investing over 2 million bahts and which primarily target the export market. The incentives include exemption from import tax on necessary materials and machinery, exemption from business tax and the return or effective return of import tax paid at the time materials are imported. Although BOI incentives are granted to both local and foreign capital firms, the introduction and use of foreign capital is a factor for consideration.

As marketing support the DEP offers trade information to local firms free of charge. Trade specialists give consultations and a "seminar on technological development and trends in overseas markets" are held every year to assist firms in product improvement and marketing strategy. DEP also has on constant offer information regarding product safety standards in the major markets.

As well as the above, a program relating to QC systems which are emphasized particularly in Europe, and intensive courses in business English are also offered.

DEP arranges and coordinates trade fairs and exhibitions in Thailand and overseas and sends over 10 trade missions comprised of makers overseas every year. This produces visible results as manufacturers are able to feel consumer demands first hand.

In addition to these activities the government is implementing a program jointly with the Thai Toy Industry Association which aims at increasing the popularity of stuffed toys in the domestic market.

While implementing the above industrial development program the government also protects the domestic stuffed toy industry by levying a 80 percent tariff on imports. As a result imported stuffed toys are between 2 and 3 times more expensive than local products.

(6) Transfer of Overseas Production Bases to Thailand

In the past several years a number of overseas stuffed toy makers have begun moving production bases into Thailand. These firms' main motivation has been the utilization Thailand's labor force. As well as labor costs being relatively low, many firms view Thai workers as efficient. The transfer of production bases into Thailand is resulting in considerable expansion in domestic stuffed toy production.

Of the 41 stuffed toy firms receiving BOI incentives, 7 (17%) are local stuffed toy manufacturers, 15 (37%) are foreign firms and 19 (46%) are joint ventures between foreign and local firms (7 joint ventures with Taiwanese firms and 5 with Korean firms).

Investment in Thailand's stuffed toy industry in recent years has come largely from R. Korea, Taiwan and Hong Kong. Transfer of production bases from R. Korea has been particularly prominent. The number of Korean firms receiving BOI benefits total 13. However as there is a strong tendency among Korean firms to conduct management on their own there are not many joint ventures with Korean firms. Taiwanese capital also occupies a large proportion of the stuffed toy industry in Thailand. The Thai industry is home to 7 joint venture firms between Taiwanese and local firms and 5 wholly-owned Taiwanese firms (refer Table III-2-2-6). Together they account for 29.3 percent of the total number of firms receiving BOI incentives.

(7) Industry Organization Activities

The Thai Toy Association conducts a number of industrial promotion activities targeting all toy makers including stuffed toy makers. The association was established in 1987 and is comprised largely of makers targeting overseas markets. Its management staff are elected by representatives of the member firms.

The main objective of the Thai Toy Association is the support of member firms in areas of production and marketing. It participates in programs offered by related government organizations and trade promotion organizations, and makes efforts to supply manufacturers with production technology and opportunities to enter overseas markets. The organization has held programs on export procedures in conjunction with the Customs Department on a number of occasions. It has also held a "Toy Design Contest and Exhibition" twice in order to stabilize and stimulate the domestic market.

The expert committee of the organization planned to hold seminars on QC systems and new technologies in 1991 with the backing of the Chulalongkon University. It also planned to run activities in cooperation with related government organizations regarding the solving of problems relating to exports and the expansion of export markets.

Table III-2-1-1: Demand and Supply of Toys in R. Korea
(1986 - 1990)

Product	(Unit: US\$ 1,000)				
	1986	1987	1988	1989	1990
Vehicles for	19,874	31,789	47,080	41,616	42,329
Imports (b)	956	2,101	455	768	671
Exports (c)	7,351	16,074	25,083	19,734	20,218
Consumption (d)	13,479	17,816	22,452	22,650	22,782
Dolls	24,715	36,424	37,647	28,996	33,715
Imports (b)	1,169	22	416	675	943
Exports (c)	16,909	23,787	25,099	17,876	21,642
Consumption (d)	8,975	12,659	12,964	11,795	13,016
Stuffed Toys	580,598	815,778	717,280	667,214	549,157
Imports (b)	118	634	1,161	2,034	1,650
Exports (c)	565,643	794,845	701,013	650,748	531,043
Consumption (d)	15,073	21,567	17,428	18,500	19,764
Metal/Plastic	116,945	193,335	250,622	229,961	195,217
Production (a)	116,945	193,335	250,622	229,961	195,217
Imports (b)	1,479	2,259	6,036	8,008	16,517
Exports (c)	55,122	107,288	139,549	115,058	78,324
Consumption (d)	63,302	88,306	116,109	122,911	133,410
Others	88,709	147,707	100,232	93,619	89,014
Imports (b)	5,856	5,924	4,811	11,043	11,267
Exports (c)	82,830	136,793	83,639	82,547	77,499
Consumption (d)	11,735	16,838	21,404	22,115	22,782
Total	830,841	1,225,033	1,152,861	1,061,406	909,432
Imports (b)	9,578	10,940	12,879	22,528	31,048
Exports (c)	727,855	1,078,787	974,383	885,963	728,726
Consumption (d)	112,564	157,186	190,357	197,971	211,754

Notes: 1. Others include ceramic and wooden toys as well as parts of toys.

2. (d) = (a) + (b) - (c)

Source: Korea Toy Industry Cooperative and Bureau of Custom

Table III-2-1-2: R.Korea/Export of Stuffed Toys (1990)

(Unit: US\$ 1,000)

Nationality	Toys (representing animals or non-human creatures, stuffed, of woven fabric) HS: 9503411000	Toys (representing animals or non-human creatures, stuffed, of other material) HS: 9503419000	Toys (Others, of woven fabric) HS: 9503491000	Total
Japan	90,559	1,300	3,128	94,987
France	14,293	n.a.	n.a.	14,293
Italy	19,440	n.a.	n.a.	19,440
Germany	32,859	1,221	3,052	37,132
Netherlands	12,833	n.a.	n.a.	12,833
U.K.	31,608	n.a.	n.a.	31,608
Canada	16,999	n.a.	2,130	19,129
U.S.A.	215,748	2,307	26,578	244,733
Australia	9,088	n.a.	1,398	10,486
Total (incl.others)	481,313	8,326	41,402	531,041

Source: Bureau of Custom

Table III-2-1-3: R.Korea/Number of Stuffed Toy and Doll Manufacturers by the Scale of Employees

Scale of Employees	1987 Share(%)	1988 Share(%)	1989 Share(%)
5 to 9	31	10.2	32
10 to 19	41	13.5	52
20 to 99	134	44.2	140
100 to 299	80	26.4	62
300 to 499	12	4.0	10
500 over	5	1.7	4
Total	303	100.0	300
		100.0	261
			100.0

Source: Economic Planning Board

**Table III-2-1-4: Comparison of Non-price Competitiveness
(Stuffed Toys)**

	Korea	Taiwan	H.K.	China
Prod. Technology	A	B	C	D
Coloring	B	C	B	C
Design	A	C	B	C
Skill	B	C	A	C
Raw Materials	A	A	A	C
Sewing	C	A	B	D

Note: A: Excellent, B: Good, C: Acceptable
D: Poor

Source: KOTRA, 1989

Table III-2-1-5: R.Korea/Competitiveness to Competitive Countries

(R.Korea VS)	Japan	EC	H.K.	Taiwan	China	Thailand
Price	B	A	B	B	D	C
Quality	B	A	A	A	A	A
Design	B	A	A	A	A	A
Item	A	A	A	A	A	A
Delivery	B	B	B	B	D	A

Note: A: Ahead, B: Equivalent, C: Behind, D: Much Behind

Source: KOTRA and Korea Toy Industry Cooperative, R.Korea, 1990

Table III-2-1-6: R.Korea/Export under OEM Basis of Stuffed Toys

(Unit: US\$ Million)

	1981	1985	1986 (Jan. to Nov.)
Total Export(A)	162.0	342.2	511.6
Exp. under OEM(B)	159.0	322.3	490.0
(B/A) (%)	98.1	94.2	95.8

Source: KOTRA

Table III-2-1-7: R.Korea/Foreign investment by the R.Korea Stuffed Toy Industry

Host Country	Numbers of Investment		Investment Ratio		Amount Approved(US\$)	Approved Numbers by Investment Scale(US\$ Mil.)				Amount Invested(US\$)
	>50%	50-99%	100%	100%		>0.1	>0.1-0.49	>0.5-0.99	1.0<	
Indonesia	11	2	9		8,412,000	1	4	2	4	4,649,000
Thailand	9	1		8	8,662,000		2	3	4	4,283,000
Philippine	2	1		1	714,000	1		1		52,000
Hong Kong	7	2	1	4	1,741,000	1	5	1		635,000
Japan	2	1		1	843,000		1	1		
Sri Lanka	1		1		600,000			1		600,000
India	1	1			25,000	1				25,000
China	1		1		600,000			1		600,000
U.S.A.	6		1	5	2,415,000	1	4		1	255,000
Total	40	8	13	19	24,012,000	5	16	10	9	11,099,000

Source: Bank of Korea

**Table III-2-2-1: Thailand/Stuffed Toy Manufacturers by the Type of Investment
(As of July, 1991)**

Type of Investment	No. of Manufacturers	%
BOI Promoted	20	43.5
Non-BOI Promoted	26	56.5
Total	46	100.0

Source: BOI

Table III-2-2-2: Thailand/Stuffed Toy Manufacturers by Market Sites

Market	No. of Manufacturers	%
Export Only	20	43.5
Export & Domestic	15	32.6
Domestic Only	11	23.9
Total	46	100.0

Source: BOI

**Table III-2-2-3: Thailand/Export Volume of Stuffed Toys by Country
of Destination, 1988-1990**

Country of Destination	(Unit: kg)		
	1988	1989	1990
Australia	9,246	126,400	419,523
Belgium	57,210	379,214	135,392
Canada	23,770	31,089	81,769
France	114,387	241,522	100,451
Germany, F.D.R.	47,760	89,712	528,953
Hong Kong	16,613	35,352	51,837
Japan	3,036,205	248,785	427,278
Netherlands	11,310	14,426	22,114
United Kingdom	72,269	227,329	408,283
U.S.A.	1,233,882	2,484,476	5,866,101
Others	51,314	150,969	316,861
Total	4,664,720	4,029,274	7,247,562

Source: The Customs Department

Table III-2-2-4: Thailand/Export Value of Stuffed Toys by Country of Destination, 1988-1990

Country of Destination	(Unit: Million Baht)		
	1988	1989	1990
Australia	1.74	26.38	79.16
Belgium	12.05	120.99	34.67
Canada	5.92	8.12	25.35
France	14.82	54.35	20.40
Germany, F.D.R.	14.03	24.58	146.43
Hong Kong	2.96	9.59	14.63
Japan	79.29	104.43	146.16
Netherlands	1.71	3.62	6.35
United Kingdom	18.87	50.15	98.61
U.S.A.	301.17	619.05	1,204.44
Others	11.51	39.06	78.98
Total	464.07	1,060.32	1,855.18

Source: The Customs Department

Table III-2-2-5: Thailand/No. of Major Manufacturers in Stuffed Toy Peripheral Industries by Product Type

Product & Type	No. of Manufacturers
Textiles and Fabrics	230
Plush	5
Stuffing Materials	n.a.
Lace (Embroidery & Raschel)	18
Ribbon	5
Thread	45
Acrylic Yarn	20
Plastic Eyes/Noses	8
Display Boxes/Paper Boxes	75
Plastic Bags	50

Source: A.R. Business Consultant Co., Ltd.

Table III-2-2-6: BOI Promoted Foreign Stuffed Toy Manufacturers In Thailand (by Nationality, by Type)

Nationality	Co-operation with Thai Investors		Total
	Yes	No	
Hong Kong	3	1	4
Japan	1	1	2
R.Korea	5	8	13
Taiwan	7	5	12
Others	3	-	3
Total	19	15	34

Source: BOI

Figure III-2-1-1: R.Korea/Monthly Consumption Trends of Toys

Jan.	New Year's Holiday (Consuming period)
Feb.	-ditto- (by Lunar Calender)(Consuming period)
Mar.	
Apr.	● Sales period for Children's day
May	● Children's Day (Main consuming period next to X'mas)
Jun.	
Jul.	
Aug.	● Summer Holiday (Consuming period for educational
Sep.	toys and swimming equipment)
Oct.	● Sales period for the Lantern Festival
Nov.	● the Lantern Festival (Consuming period)
Dec.	Christmas (Main consuming period)

Source: Home Appliances Testing Center of Korea

3. Current Situation and Issues in the Philippine Stuffed Toy Industry

3-1 Outline

(1) General Situation

The number of stuffed toy manufacturers in the Philippines is estimated at 104, with most of them operating in the Metro Manila area. The stuffed toy industry of the Philippines is engaged mainly in production for export in close relationship with vendor firms affiliated with R. Korea, Hong Kong and Taiwan and buyers in the United States, Japan and Europe. Although no data are available concerning stuffed toys specifically, 70 percent in terms of item numbers of all domestically-produced toys in the Philippines are for the export market. Total toy exports in 1990 totaled 24.42 million pesos. Most exports were destined for the U.S., the EC and Japan. Stuffed toys are estimated to account for nearly 70 percent of all toy exports. Thirteen of the leading manufacturers are regular members of PHILTOY which are engaged in exports as well. Most of the remaining firms are cottage industries or small and medium-size enterprises, many of which are engaged in subcontracting.

Fifteen out of the 31 BOI-registered stuffed toy manufacturers are foreign-affiliated firms.

Many raw materials including plush are either not produced domestically or else are unsuitable for export in terms of quality and supplies are mostly dependent on overseas sources. There also are many cases of importing raw materials for use under the processing on assignment contracts.

Fifteen stuffed/fabric toy manufacturers are registered as regular members of the industry organization PHILTOY (Philippine Toy and Novelty Manufacturers Association, Inc.) and eight others are registered as associate members.

(2) Background to Establishment of Industry

The development stages of the stuffed toy industry in the Philippines can be divided into the following three periods.

Period I (1950 - beginning of 1970s):

The origins of the Philippine stuffed toy industry are to be found in the production of hand-made dolls begun by women in their homes in the early 1950s. Fabrics were procured at Divisoria in Metro Manila. In the 1960s U.S. stuffed toys and their patterns were introduced to the Philippines through books and magazines. Stuffed toys came to be patterned on these. In the latter half of the 1960s the first actual overseas stuffed toys were introduced into the Philippines when electric-powered moving dolls were imported, often illegally, from neighboring Asian countries such as Japan and Hong Kong. However, due to the 70 percent tariff levied at the time to protect the domestic industry, producers or consumers were not widely exposed to overseas stuffed toys.

Period II (early 1970s - mid-1980s)

Factory-scale stuffed toy production was first seen in the Philippines in the 1970s. This began when direct inquiries were received from the U.S. or when Korean manufacturers in close relationships with U.S. buyers built production bases in the Philippines and formed tieups with local firms. With this introduction of U.S. and Korean technology, the industry began to accumulate essential information and technology such as overseas product safety standards concepts, sample production

methods and measurement methods. However, at the time, imports were restricted and although imports of fabric by garment makers were permitted, the same was not true for stuffed toy makers. Furthermore, tariffs on imports of other materials were high, and tariff classification criteria unclear.

Under these circumstances PTMA (Philippine Toy Manufacturers Association) was established in 1975 with the purpose of unifying the toy industry, including the stuffed toy industry, and negotiating with the government on its behalf. At the time the Association's efforts were focused on lobbying the government in respect of securement of imported raw materials. Very few of the original Association member firms remain.

Period III (mid-1980s onward)

In the mid-1980s production bases, which had been based in Asian NIES such as Taiwan, R. Korea and Hong Kong, began to be transferred to countries with lower labor costs. Stuffed toy consumer countries such as the U.S., the and the U.K. also began establishing production bases in Asia. These movements provided the basis for the present stuffed toy industry. Of the 15 foreign affiliated stuffed toy firms registered with the BOI, most registered after 1988: one in 1974, one in 1983, one in 1988, ten in 1989 and two in 1990.

In 1986 PTMA was replaced with PHILTOY (Philippine Toy and Novelty Manufacturers Association, Inc.). It was hoped that the new organization would be able to support and supplement government measures in a more systematic manner by encouraging exchange of technological information between firms, conducting periodic discussions with government, and implementing a range of programs.

(3) Contribution to Employment Creation

The stuffed toy industry is a typical example of a labour intensive industry. Although in the Philippines, labor costs account for 23 percent of total production costs, the corresponding figure for Japan is 40 percent. Due to the difficult nature of automation in this industry, any increase in labor costs is reflected almost directly in production costs. Because capital investment and skilled labor requirements are lower than for other toy industries, stuffed toy industries in countries with low labor costs have an advantage.

It is thus an industry which has considerable scope for employment creation. This aspect of the industry has been taken up in the Philippines on a number of occasions as well. For example, the government gave financial support for the establishment of the San Miguel Bulacan Toy City with the aim of contributing to the creation of employment opportunities for women in regional areas. Another example is TLRC's (Technology and Livelihood Resource Center) stuffed toy entrepreneur education courses.

Government organizations have not been the only ones to focus on the labor intensive nature of this industry. NGO's DON BOSCO holds courses in stuffed toy making skills independently. Those who complete the course may also be offered positions at one of the firms managed by the organization.

However due to inadequacies in the marketing system, these activities have, on the whole, not been very successful.

The results of the survey, conducted by the Team between June and September 1991, targeting Philippine stuffed toy firms on the distribution of employees by scale in the stuffed toy industry are shown in figure III-3-1. The 70 firms which responded to the survey employ a total of 3,303 people, averaging 47 people per firm. Annual turnover per employee averages 160,000 pesos worth of goods. Subcontractors are not counted as employees for the purposes of this survey. As will be mentioned below, the attitudes to

subcontracting among large and middle-sized firms varies according to the particular firm. As a result, the number of subcontractors employed by each firm, as a proportion of its total employees, varies considerably from firm to firm. For firms who are positive about subcontract work, subcontracting costs account for around 15 percent of total cost.

3-2 Structure of Industry

(1) General Situation

1) Number of firms and regional distribution

No accurate data are available regarding the total number of stuffed toy firms. However, the number is estimated at around 104 on the basis of the number of BOI-registered firms, the PHILTOY membership and various data of PCHI (Philippine Chamber of Handicraft Industry).

Thirty-one firms are registered at BOI as stuffed toy manufacturers (as of March 11, 1991) and their annual production capacity totals around 30 million pieces.

Of the 43 PHILTOY member firms (27 regular and 16 associate), 15 regular and eight associate members are registered as stuffed toy/fabric toy manufacturers. Out of the 15 regular members, 11 are registered at BOI. Relationships between the number of BOI-registered and PHILTOY member firms are as follows:

	BOI-registered firms	Firms not registered at BOI	Total
PHILTOY regular members	11	4	15
PHILTOY associate members	0	8	8
Non-members	20	61*	81
Total	31	73	104

Note * Estimated on the assumption that the total number of firms is 104.

Of these firms, it is estimated that 19 specialize in exports. The remaining 85 are mostly cottage or small and medium-size enterprises, and many of them are engaged in subcontracting. Even among firms specialized in exports, mutual subcontracting is conducted as occasion demands.

Most of the stuffed toy manufacturers are concentrated in Metro Manila and its periphery. Only a very limited number of firms (As for BOI-registered firms, three out of the 31) are operating outside of Metro Manila, namely in Iloilo, Bacolod and Cebu. A similar tendency is seen in firms not registered with BOI.

Many stuffed toy manufacturers depend on imported raw materials and parts. Their concentration in Metro Manila and its periphery comes partly from the easy access to imported raw materials and parts available in the area. At the Divisoria area of Metro Manila, transactions are made for imported and domestically-produced raw materials and parts, cuttings released from textile/garment firms and other materials. Some manufacturers operating in Cebu are seen purchasing materials in this area.

Other advantages of being located in Metro Manila include easy access for buyers, convenient transportation and ease in collecting information.

There are two types of firm locating businesses in the provinces. One is a foreign-affiliated enterprise, using the Philippines (Cebu) only as a production base. With marketing, product development and raw material purchasing functions left to the parent firm in the home country, it has no particular need for the advantages offered by location in Manila. Rather, the firm holds the view that Cebu has advantages over Manila in the form of cheaper labor costs and fewer labor disputes. Taking this view into consideration, a R. Korean-affiliated firm has already started operating there, while some European and Hong Kong firms are investigating Cebu as a potential site for their new factories.

The other type of firm locating business in the provinces is small local enterprises founded solely to cater to the local market in Cebu. From the viewpoint of exports, disadvantages of location in the provinces are obvious compared with the situation in Manila. In addition, as stated earlier, such firms must visit Manila to buy raw materials.

(2) Market

As can be seen from its history, the Philippine stuffed toy industry is traditionally export oriented. It has developed with the support of U.S. buyers and R. Korean manufacturers who have close relationships with them. Although no accurate data solely focused on the stuffed toys are available, BSMBD says 35 percent of item numbers of all products is exported, another 35 percent is mostly exported, 5 percent is half for exports and half for domestic sales, 17 percent is mostly for the domestic market, and another 5 percent purely for the domestic market.

Exports from the Philippine toy industry between 1982 and 1986 fell by an annual average 29 percent (table III-3-1). This compares with the annual average growth of 133 percent between 1977 and 1981. The factors chiefly responsible for the fall include: 1) the effects of a global economic slowdown in 1981; 2) the rise of production costs due to a series of peso depreciations; and 3) the advances of competitors such as Hong Kong, R. Korea and Taiwan into the field of dolls, which were previously the Philippine industry's major products. The fall bottomed out in 1986, however. Exports subsequently grew smoothly, reaching \$24.40 million in 1990. Exports of stuffed toys during the period are believed to have followed the trends of toys as a whole almost exactly.

The share of stuffed toys among all toy exports is believed to have approached 70 percent in 1990 after remaining at approximately 60 percent for the past several years.

Although there is little data on exports of stuffed toys alone, table III-3-2 shows the main markets for exports of toys for children, which are comprised mostly of stuffed toys. The U.S. is the biggest market for Philippine stuffed toys overall. In 1989, the U.S. accounted for 55.8 percent of the world market, followed by the U.K. (17.9 percent), West Germany (7.3 percent), Japan (6.1 percent) and Australia (2.0 percent). Although varying widely year after year, the U.S. share has been showing a downward trend recently and the share of the EC nations is increasing in its place.

(3) Buyers and Vendors and their Functions

As is the situation in other developing nations, the stuffed toy industry in the Philippines is based on close relationships with buyers or vendors.

Vendors are mostly R. Korean and Taiwanese firms, most of which are connected with U.S. buyers. The Philippine enterprises are often wholly owned by these vendors or are joint ventures between local firms and vendors. Few local wholly-owned enterprises do business transactions with vendors.

Buyers and vendors overseas regard the Philippines as a production base, with marketing, product development and raw material purchases made by R. Korean and Taiwanese vendors. Because these vendors have networks with two or more buyers, manufacturers which have close relations with these vendors can maintain high rates of operation and can export almost 100 percent of their production. Such enterprises, however, account for only around 8 percent of the entire industry.

The other firms deal directly with buyers. Some firms do business by planning their production on the basis of long-term contracts with specified buyers, while others do transactions with buyers on a spot basis.

To do business with buyers, manufacturers must be able to make counter samples and patterns. Contracts are concluded on the premise that manufacturers have reached a certain technological level. Few manufacturers without experience can attract the attention of buyers.

Manufacturers with long-term contracts with specific buyers maintain stable operating rates which are higher than those of other manufacturers. But such firms account for a mere 11 percent of all manufacturers.

In contrast, manufacturers operating on a spot contract basis generally lack a steady flow of orders and their operation rate is low. In general, these firms make several samples from an original design, bring them to buyers and receive orders if buyers find any of the samples attractive. It is rare that the original design is accepted as it is presented and buyers often request some changes. In other words, these manufacturers lack the power to develop markets for their own products on their own.

(4) Subcontracting Firms

Out of the 104 stuffed toy firms, 31 BOI-registered enterprises (as of 1991) are believed to be oriented toward direct exports. However, only 16 of them are actively exporting and the remaining 15 have either suspended their overseas transactions or are exporting on a drastically reduced scale due to the slump in business. Other manufacturers are generally shipping their products to the domestic market or subcontracting for export enterprises. Because the domestic market is small in scale, most of them are believed to be subcontracting.

There are two attitudes toward the employment of subcontracting among exporting enterprises. One is to keep the use of subcontracting to a minimum and incorporate the relevant processes into their own lines. This tendency, which stems from the difficulty of extending quality control standards over subcontracting firms, is observed at foreign-affiliated firms.

The other attitude is to actively use subcontracting to enhance order reception capacity. This trend is strong among medium-size local enterprises. In such cases, there is a strong tendency to expect assignment of specific processes to specialized subcontractors rather than a simple expansion of the subcontracted portion of a product.

The following are examples of subcontracting arrangements observed.

1. Firms subcontract parts of orders so that they may meet delivery schedules when the orders are too large for them to cope with on their own. There are two types of outside ordering: one is the subcontracting of part of an order and the other is the assignment of sewing or other parts of the manufacturing process to outside firms. The latter form of subcontracting is dominant while the former type is limited to cases where the firms

receiving the subcontracted orders are large enough to be able to manufacture export products on their own.

2. Usually, firms are operating with only a minimum number of regular staff. However, subcontracting sewing or other parts of the manufacturing process to cope with seasonal variations in orders received.

3. Establish a subcontracting system in advance by loaning sewing machines to neighboring housewives or other persons and placing orders as occasion demands.

4. To improve productivity and quality through specialization of manufacturing processes at the subcontractor, subcontractors are actively nurtured. For instance, they are regarded as equal partners and take part in some of the specialized processes.

Subcontracting firms may be divided into the following groups according to their ability, principles, etc.

1. Firms which originally aimed for independent manufacturing but which have given up direct contact with buyers and are subcontracting sewing work, etc., from other firms because of their inability to make their own designs and patterns.

2. Firms able to make their own designs and samples but which due to a small volume of orders are supplementing their business by accepting subcontracting orders for sewing from clothing companies and major stuffed toy manufacturers.

3. Those who are loaned sewing machines from prime contractors and work as part of subcontracting networks of prime contracting firms. They are mostly individuals.

(5) Manufacturers

1) Overview of stuffed toy industry in the Philippines

Stuffed toy manufacturers in the Philippines may be categorized into seven groups, as described later, in view of their market access, design (pattern making) ability and level of manufacturing technology. (The objective of the categorization below is to group firms by the problems faced in their development and to find out which group of firms should be the priority target of individual development programs that will be recommended later.)

Market access differs depending on: 1) whether they have direct contact with buyers or vendors or they are in a position of subcontracting for manufacturers; and 2) whether business relations with buyers are stable over a long period or are based on spot deals. Design ability and the level of manufacturing technology are greatly influenced by relations with buyers or vendors. Thus, the biggest factor in the categorization below may be said to be the difference in market access.

1) Group A: Firms in direct investment or tie-up relationships with buyers/manufacturers in the U.S./Europe/Australia/Japan. These firms are essentially production bases for these buyers. Five firms with relationships with U.S., European and Australian buyers belong to this group. However, firms which have long-term business relationships with overseas buyers have been categorized into Group C if those relationships are only temporary management measures.

Most of the Group A firms employ more than 100 workers, have authorized capital of four million pesos or more and export no less than 80 percent of their production.

Marketing: Market exploitation, product planning, sales promotion and distribution are wholly assigned to buyers in capital affiliation or tie-up relationships. Markets for medium grade or high grade products in terms of quality and price are often targeted.

Production technology and quality: It is common practice and within the ability of Philippine manufacturers in this group that they make samples and patterns from concept sketches prepared by buyers. Many manufacturers have obtained production technology through transfer from buyers or have learned basic technology independently and reached a higher level through guidance from the parent firms. All of them possess the technology required to manufacture high grade products.

Under the guidance of buyers, they rigidly control production and quality by assigning full-time staff for the purpose. For example, plastic eyes are not only fixed by washers but also have the pointed ends on the backside melted by heaters to make them blunt. Prior to wrapping, the products are brushed to clear flocks and dust from the surface. Strict observance of such detailed quality control is a characteristic of companies specialized in exports, including Group A firms. Such strict quality control is generally conducted by Group B and C firms as well but rarely by companies belonging to Groups D ~ G. Among other safety control measures, firms in Groups A ~ D have metal detectors to prevent mixing of dangerous metal articles, while companies in Groups E ~ G generally do not have such detectors.

The quality control system is well on the right track, with inspection by parent firms maintained on a limited scale before shipment or midway through production.

Raw material purchases: Imported raw materials are used to cope with the quality requirements of the export markets. Either buyers purchase raw materials and supply them to manufacturers or manufacturers independently import raw materials with the approval of buyers. The products are entirely aimed at export and are often bonded throughout processing.

Fund-raising: Both collateral and credit capacity are relatively adequate and relations with banks, etc., are generally good. There are few problems with fund-raising.

2) Group B: Firms in direct investment or tie-up relationships with vendors in Taiwan, R. Korea, etc. They are essentially one of the vendors' production bases. Three firms belong to this group. They export 100 percent of their production and employ more than four times as many temporary workers as regular staff (number of employees is no less than 150 including temporary workers).

Marketing: Market exploitation, product planning and sales promotion are done by buyers and sample making, arrangement of producers and preparation of raw materials are done by vendors, leaving manufacturers chiefly in charge of production.

Buyers and manufacturers have no direct relationship. In compliance with buyers' demands, vendors decide the manufacturing country and manufacturer. Philippine manufacturers are assigned products mainly for the medium and lower grade product markets in the U.S., Europe and Australia.

Production technology and quality: On the basis of concept sketches supplied by buyers, vendors make samples and patterns and develop concrete specifications and supply them to manufacturers.

Although it is rare, manufacturers sometimes make samples.

With sufficient experience in manufacturing technology and production management, vendors are transferring technology to or cooperating in other ways with manufacturers. Regarding quality control, for instance, vendors' guidance has been so thorough from the initial stages that vendors basically accept inspections done by manufacturers. Only occasionally will vendors conduct inspection through random sampling.

Raw material purchases: In general, vendors arrange, purchase and supply raw materials.

Fund-raising: Raw materials, which account for the largest part of necessary working funds, are supplied by vendors so that there are few problems with fund-raising.

3) **Group C:** Domestic capital firms without equity connections with overseas buyers or vendors but with relatively long-term business relationships with specific buyers. The operation rate of their facilities is generally low because such buyers are few in number and orders tend to be concentrated in particular times of the year. While U.S. and European buyers make inquiries far in advance so that annual production plans can be easily worked out, Japanese buyers order close to the time of delivery and thus it is difficult to incorporate the orders into production plans. The firms are likely to be affected by market changes such as the recent recession in the U.S. Around seven firms are categorized into this group.

For these firms, marketing means how to develop relations with buyers or vendors. These activities are done generally by owners. Accordingly, the operation rate of their facilities varies widely depending on the abilities of individual owners. Few manufacturers actively seek new buyers and buyers usually move first to contact manufacturers.

Most of the products these firms manufacture are directed toward the medium grade product markets of the U.S. and Europe, with some sold wholesale to the domestic market. Because of the small scale of the domestic market, domestic sales are considered merely as part of a strategy to raise operation rates.

The common characteristics of firms in this group are that they exporting no less than 80 percent of their production, have a regular work force numbering between 50 and 200 and have authorized capital of no more than 5 million pesos.

Production technology and quality: Either manufacturers make counter samples on the basis of original designs or design concepts supplied by buyers or buyers select samples of original designs made by manufacturers. Many firms have received guidance from buyers before and are thus able to undertake their own product development. Firms in this group possess the production technology and quality control ability to manufacture products suitable for the medium grade product markets in the U.S. and Europe. In other words, if there are no problems with the quality of the raw materials used, the products will be suitable for export.

Raw material purchases: Raw materials are generally imported. Manufacturers import them independently. Occasionally, some of the materials are bought on the domestic market. All purchases are made after orders become definite and thus the period from order receipt to delivery of products tends to be long. Because manufacturers have no stock of raw materials to make samples, their sample-making ability is constrained.

Fund-raising: Raw material purchases are financed by the use of import financing based on L/C. Long-term finance depends a great deal on the fund-raising ability and securing capability of individual owners.

4) Group D: Domestic capital firms without long-term relationships with specific buyers. Firms categorized into this group have no stable buyers and receive orders on a spot basis. This results in instability in the receipt of orders, which in turn deprives them of opportunities for technology transfer, making it difficult for them to improve technologically. About 30 firms are categorized into this group. Among other common characteristics, many of them produce mainly stuffed toys but handle sundry goods such as Christmas decorations as well, with the latter often being accepted more favorably in export markets. The share of exports in total production is no more than 50 percent and the number of employees is 100 or less.

Marketing: The firms receive orders mainly from the domestic market. Overseas orders come but are highly seasonally and on a spot basis. Due to the small size of the domestic market, the firms make efforts to raise the operation rates of their production machinery and workers by advancing into the fields of apparel and sewing. Although they endeavor to expand markets either by displaying products at trade promotion exhibitions or visiting buyers directly, their experience in the industry is still insufficient and knowledge of the means by which to access to buyers is scarce.

The firms handle mostly medium and lower grade products for the U.S. and European markets. Most of their products are lower priced.

Production technology and quality: If products are for overseas markets, manufacturers make counter samples based on buyers' designs. For the domestic market, either the firms' own designs or partially revised versions of hit products in the advanced nations are used. Because no guidances can be obtained from buyers or vendors, there are no means by which to learn technology other than in-company accumulation and no designers or patternmakers can be nurtured. Accordingly, there are problems with the product design and pattern making stages.

Regarding production technology and quality control, manufacturing staff double as quality inspectors. However, their checking points and standards for passing are not thorough and as a result inconsistent quality is seen in the final products even after inspection. During safety examinations for stuffed toys, inspections are made for sharp metal objects but bumps on plastic eyes are usually neglected.

Raw material purchases: Raw materials for stuffed toys for export are mostly imported but sometimes small amounts of domestically-produced raw materials are used to reduce production costs when a large number of orders for low priced products are received. Domestically-produced raw materials are purchased and used for products for the domestic market. It is difficult to obtain raw materials for use to make samples. For the production of sundry goods, domestically-produced raw materials are often used for both export and domestic markets and thus raw material purchasing is easier for sundry goods than for stuffed toys.

Fund-raising: Raw material purchases for export products are financed by export financing based on L/C. Financing for production of articles for the domestic market and raising of long-term funds depend on the fund-raising ability and securing capability of individual owners.

5) Group E: Stuffed toy manufacturers producing mainly handicraft and sundry goods for export. These firms were originally set up as stuffed toy manufacturers but, due to small and unstable orders, they turned to production of sundry goods and handicrafts which require manufacturing processes and fabrics similar to those used for stuffed toys. Because the added value of labor for sundry goods is around 20 percent lower than that for stuffed toys, most of these firms want to handle manufacturing of stuffed toys if the occasion arises. In contrast, firms employing no less than 500 workers devote their

production lines to manufacturing sundry articles, producing stuffed toys only upon request from parent companies.

Another reason for the forced withdrawal of these firms from stuffed toy manufacturing is that they had not maintained designers/patternmakers. They previously did not require designers because they handled mostly low grade products. With the transfer of orders for low grade products to other countries where labor costs are cheaper, efforts to obtain orders for medium-grade products are required. In such cases, the failure to retain designers has become a great impediment to efforts to obtain orders.

Marketing: The main markets of most firms are traditionally the low-grade product markets of the U.S. and Europe. Like the firms categorized into Group D mentioned above, their marketing mostly depends on contact with buyers at various trade fairs or other opportunities and they have no stable routes of market access.

Production technology and quality: Manufacturers of sundry goods and handicrafts obtain basic designs from buyers and often make the articles on an experimental basis. Because the designs are simpler than those of stuffed toys, there is less anxiety about making patterns and samples. Special guidance on technology from overseas is scarce, but the firms can cope rather easily because there are few products requiring high technology. Regarding quality and production control, manufacturing staff are responsible for inspecting the quality of products. There are few problems, however, because the products are simpler than stuffed toys and the scope of tolerance for variations in quality is wider.

6) Group F: Firms specialized in subcontracting and individual subcontractors

Firms in this group cannot make design and patterns and exploit markets within the industry. Originally intended to become independent stuffed toy companies, many of them cannot afford to compete in this market, and content themselves with subcontracting. Some owners come in contact with buyers by chance and try to make counter designs but are often forced to give up because of the difficulty in obtaining the raw materials to make them.

Subcontracting firms/individuals receive orders to perform parts of the manufacturing process such as sewing and cutting from prime contractors. Recently, however, they are faced with operating difficulties due to a remarkable decline in orders received.

Their knowledge about quality control is insufficient. They do not have the facilities and inspection tools necessary to manufacture safe products. Only sight inspections are done.

7) Group G: A small volume of simple products is manufactured at home. Intended only for local markets, products are seasonally made for Christmas and other occasions. As their work is essentially an extension of their hobbies, most individuals have no special technological ability but develop products by consulting magazines and catalogs.

3-3 Raw Material Supply

(1) Outline

Raw materials used to manufacture stuffed toys include: 1) boa, sliver high pile and other fabrics (hereinafter generically referred to as plush), 2) stuffing, and 3) parts such as eyes and noses and decorations including lacework. For the manufacture of stuffed toys for export, all of these items are generally imported.

Foreign capital firms and joint ventures with foreign capital have all raw materials except for cartons purchased overseas and supplied to them by the foreign firms, namely, buyers or vendors cooperating with them. The percentage of domestic products in use is higher for cartons than for other raw materials. However, cartons printed with the names of buyers or brands are mostly supplied by foreign enterprises.

Domestic capital firms also use imported raw materials to manufacture products for export under the direction or introduction of vendors or buyers. Sometimes, domestically-produced plush is used to reduce production costs if buyers approve.

For products for the domestic market, domestically-produced or purchased plush is used. The specifications, color and all other details of stuffed toys for the domestic market may be adapted to the color and quality of plush available in the domestic market. Because the domestic market for stuffed toys is small in scale and only a small quantity of stuffed toys is manufactured, demand for domestically-produced plush has not grown. The size of plush orders from manufacturers of stuffed toys for the domestic market does not reach the minimum amount fixed by plush manufacturers. As a result, the manufacturers of stuffed toys for the domestic market buy plush from retailers who handle sales in small lots. Most of the plush handled by retailers is imported from R. Korea or Taiwan and the domestic products are left unused.

The main stuffing is unspun polyester fibers which must be imported because there are no polyester fiber-synthesizing chemical plants in the country. Parts including plastic eyes and noses are imported to manufacture stuffed toys for export. Sometimes, collected cotton or fabrics are used as stuffing for toys for the domestic market. Domestically-produced plastic eyes and noses are rarely seen.

Whether raw materials can be obtained or not at suitable cost and within a suitable period of time affects 1) the time required for making counter samples, 2) the time from receipt of orders to delivery of products, and 3) production costs. Accordingly, this is one of the important points which buyers or vendors consider when searching for manufacturers.

(2) Domestic Supply of Plush

There are two domestic plush manufacturers in the Philippines. One produces plush whose density of thickening, materials and color are not suitable for manufacturing exports. It also consumes most of the plush it produces itself (at affiliated stuffed toy plants) and sells only a small quantity.

The other is a joint venture with a Japanese firm set up in 1990. Although fabrics such as the boa it produces may be suitable for export, the plush it produces does not meet the specifications required by stuffed toy manufacturers in that: 1) it fails to satisfy the delicate color requirements of manufacturers, and 2) there are few kinds of fabrics produced (sliver high pile, jacquard, tumbling, etc.). At this stage, therefore, stuffed toy manufacturers do not regularly use the venture's products, though some are using them on a trial basis. On the other hand, plush manufacturers face difficult problems such as insufficiently large orders from users and the inability to secure all necessary dyes because of the small volume of orders for each color. With regard to color matching, technical problems are expected to be solved in the near future. From the conventional method of deciding the hue and tone of a color by using only a fiber under natural light, the firm is shifting to a new method of inspecting bundled fibers closely resembling sample fabrics and analyzing color by computer and grating spectrosopes.