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WORKING PAPER

Exploring the Changing Dynamics in Indian Toy Sector: Challenges and Way Forward

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Exploring the Changing Dynamics in Indian Toy Sector: Challenges and Way Forward

Ramaa Arun Kumar & Kanishk Rohilla***

[Abstract: The prospects of Indian toy manufacturing are bright with a significant market for toys driven by huge consumer base, and rising purchasing power. Toy manufacturing in India is heavily dominated by the unorganised manufacturing sector, thus, possesses huge employment potential and economic growth. However, a series of policy changes in India led to a major disruption in the industry. Starting 2000s, India reduced tariff and non-tariff barriers on a unilateral basis, and the domestic production capacity was eroded due to influx of imports from China. This led to de-industrialisation of the sector in terms of a fall in the number of factories, employment and output. As a result, trade deficit in the toy industry reached \$255 million by 2015. The sector could not cater to the changing demands for the products especially in the wake of availability of a wide range of toys from China.

The objective of this study has, therefore, been to evaluate the performance of the toys sector in the wake of changes in trade policy and determine the important factors that have played the role in dragging growth in this sector from being a strong sector to a weak one. Using the NSS as well as the ASI data, we find that domestic production ratios for the toy manufacturing almost halved between 2000-01 and 2010-11. The ratio rose mildly by 2015-16 to 55.7 per cent. Moreover, during these years, the fall in employment as well as the number of enterprises for the unorganised manufacturing sector was much higher than that for the organised manufacturing sector.

While it is a welcoming move on the part of the Make in India initiative under which Government of India has launched multi-pronged approach for the revival and growth of this sector, there are some concerns still remaining in ensuring that the toy manufacturing sector in India takes off to achieve the target of replacing China in the global toy market.]

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1. Introduction

India represents a significant market for toys driven by huge consumer base, with a major share of population of 1.4 billion people is accounted for by youth below 25 years of age. In addition, the purchasing power of an average Indian has also risen with India's economic growth in the recent years. As the import figures also suggest, India has a huge demand for toys and games and therefore, it is important to study the toys sector in India as the domestic toy industry has not displayed a strong growth and has lagged behind in terms of competitiveness, with 80 per cent of the Indian toy market being catered to by imports mostly from China.

The changing dynamics in the Indian as well as global trade policies, followed by a lacklustre industrial policy coincided with the deterioration of the toys sector. The entry of China into WTO along with tariff and non-tariff barrier reduction by India on a unilateral basis struck a hard chord with this sector. Imports from China eroded the domestic production capacity and led to de-industrialisation of the sector in terms of a fall in the number of factories, employment and output.

However, the toys sector showed early signs of deterioration even before the trade deficit started rising from 1997 onwards, much before the removal of QRs in 2000. Trade in this sector remained in surplus all through post-liberalisation till 1997 when it led to a rise in trade deficit after 1997 till 2020. As a result, trade surplus from \$ 54 million in 1997 in this sector was transformed into rising trade deficit which reached \$255 million by 2015. The sector could not cater to the changing demands for the products especially in the wake of availability of a wide range of toys from China. In addition to this, the composition of Indian toys, especially, remained more traditional in nature while the imported toys were increasingly modern, mostly battery operated.

The study, therefore, would evaluate the performance of the toys sector in the wake of changes in trade policy and determine the important factors that have played the role in dragging growth in this sector from being a strong sector to a weak one. Section 2 traces the various sector specific policy changes that were implemented by India which adversely affected the competitiveness of India in the toy sector. The state of toy industry as explored in the literature is discussed in section 3. Section 4 briefly discusses the methodology and the databases used in this study. Section 5 and 6 analyse the domestic and global position of the Indian toy industry. Section 7 discusses the impact on local production and competitiveness in the Indian toy industry during the different phases of trade liberalisation. In section 8 the study throws up some burning issues that the Indian policy makers need to keep in mind even though we have observed a progress in the performance of the toy sector since 2020-21. Section 9 gives some concluding remarks for the way forward.

2. Trajectory of Policy Changes

This section discusses the changes in the policies that affected the toys sector; adversely, in the post-1991 and during the liberalisation period; and progressively in the last ten years after the tightening of trade barriers and quality controls.

The toys sector in India had a strong industrial base in India in the pre-liberalisation era. Owing to the reservation under Small Scale Industries, the industry was predominantly concentrated in the MSME segment. The sector faced a major change after India embraced trade liberalisation in all spheres including tariff and non-tariff barriers. In a span of 20 years starting 1996, India's toys sector was transformed from a trade surplus to a heavily trade deficit sector. The absence of a commensurate industrial policy to provide a support for this sector to thrive also aggravated the deteriorating situation.

Tariff Changes

India's trade liberalisation path was marked by the unilateral reduction of tariffs under the economic reforms announced in 1991, following the twin deficit crisis in late 1980s. This was followed by the accession to WTO under which India was committed to reduce bound tariff rates to the range of 25-40 per cent from 100-300 per cent applied on various products. As a result, for the toys sector, the applied MFN tariffs were brought down to 10 per cent by 2007-08 from 40 per cent in the 1990s.

After a period of ten years, the Government raised tariffs to 40 per cent in 2017-18, to 60 per cent in 2020 and to 70 per cent in May 2023. This led to reduced imports of electronic, non-electronic, and parts of electronic toy-related goods. India witnessed an exponential decline in toy imports by 57%, dropping from \$371.69 million in 2018-19 to \$158.70 million in 2022-23.

Non-Tariff Barriers

India had imposed quantitative restrictions (QRs) on various items under the Article XVIII of GATT (Jagota, 2004) which was allowed under special circumstances as an exception to the prohibition on QRs under GATT Discipline (Article XI). Since India had overcome the balance of payment crisis of the late 1980s, various developed and developing countries starting from the USA pressurised India to remove QRs in 2001 instead of the original deadline of March 2003. The removal of QRs for the toy sector also coincided in 2001. This led to the closure of several small toy makers turning them into traders of toys, giving way to the cheaper toys from China to infiltrate the Indian markets for many years to come.

The Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, issued the Toys (Quality Control) Amendment Order, 2020 according to which toy manufacturers must conform to 7 Indian Standards for toys, ensuring physical, electrical, and chemical safety. They are also required to bear the ISI mark under the license from BIS for the permit of the manufactured, import, and storage of toys and

related items. As a result of this, toy manufacturers in India have been incentivised to undertake increased production, curbing low grade toy imports especially from China.

Industrial policy

Since the beginning of the trade liberalisation process, there was no specific industrial policy oriented towards the toys sector to protect the interests of the producers under the changing economic environment. The sector was faced by ongoing challenges like economies of scale, lower productivity and lack of technology as it was confined to the small scale sector owing to the SSI reservation policy. However, in 1997, toys were removed from the list of reserved items, making it easy for imports to As a result, cheaper and mass-produced Chinese toys made their way into the Indian market at a very fast pace, leading to higher trade deficits and closure of many small scale units (Sridhar, 2000).

A fragmented approach was being followed. In the late 1990s, the concept of Toy City in Greater Noida was initiated, along with a national programme for the development of the toy Industry in 2002¹. This included the development of a Toy Design and Development Institute. However, there was hardly any boost given to the manufacturing of toys in the country. In the recent years, the policy makers have acknowledged the potential of this sector in terms of output and employment that it can generate. In order to boost local manufacturing of toys in India, the government announced various initiatives.

In 2020-21, various initiatives were rolled out by the Central Government which includes the Product Specific Industrial Cluster Development Programme to set up toy clusters in dedicated SEZs. Under the Scheme of Funds for Regeneration of Traditional Industries (SFURTI), assistance is provided for creation of Common Facility Centres with latest machines, design centres, skill development, etc. A total of 19 Toy Clusters have been approved under the scheme benefitting 11,749 artisans with an outlay of Rs. 55.65 crore. Nine of these clusters are located in Madhya Pradesh, 3 in Rajasthan, 2 in Uttar Pradesh, 2 in Karnataka, and 1 each in Andhra Pradesh, Maharashtra, and Tamil Nadu. The clusters would comprise the entire value chain of capabilities ranging from toy making, production of packaging, tool making, paint making, developing electronic and other accessories, thus, create conditions for future employment growth.

3. Review of Literature

Toy market in India had been immensely underestimated as a source of employment creation and contribution to GDP. The sector was in an ailing condition due to reasons discussed earlier such as unilateral reduction in tariffs, signing of free trade agreements (Sridhar, 2000; Chaudhuri, 2013). Thereby, the toy sector was adversely affected from foreign competition as well as lack of catching up to the changing dynamics of the market (Sycom,

¹ <https://www.hindustantimes.com/india-news/india-s-first-toy-making-hub-pins-hopes-on-vocal-for-local/story-zZqiCfy3GXBPPBCi3cHkHM.html>

2014; Sridhar, 2000). It was estimated by the study that Indian toy companies were catering approximately 30 per cent of the domestic demand, while 70 per cent of the demand was being met by imports mostly from China in 2013.

On the performance side, toy sector has been facing challenges like economies of scale, lower productivity and lack of technology as it was confined to the small scale sector owing to the SSI reservation policy. The lack of economies of scale for the sector did not allow the sector to raise efficiency in terms of labour productivity. Being a labour intensive sector, the gains in terms of labour productivity growth were highly unimpressive as found by Sunny and Sund (2014). The labour productivity growth for the registered part of the toy manufacturing sector was a miniscule 6 per cent over a 4-year period. The study also points to the role that technology could have played in sustaining the industry, which was found in a negative growth rate of capital productivity and total factor productivity in the same period for the registered toy enterprises in India.

Kumar (2023) has highlighted that the toy manufacturing is heavily tilted towards the unorganised manufacturing sector accounting for over 99 per cent of the number of firms in toy sector and about 77 per cent of jobs concentrated in the toy sector. The value added, however, did not match with the employment figures, with the unorganised manufacturing contributing only 36 per cent of total GVA generated by the toy manufacturing sector.

The informal nature of this sector is not peculiar to Indian manufacturing sector. Many sectors such as textiles, ready-made garments, tobacco and food products face challenges that the toy sector faces and the potential in generating employment are immense. Therefore, given that the nature of the sector was predominantly small scale and plagued by the lack of adoption of new technology, the liberalisation of trade took away the opportunity for the toy industry to compete with foreign competitors. The experience of toy industry was contrary to the conventional economic theory of trade leading to raising productivity of the industries through competition and greater access to imported inputs leading to efficiency in production process.

This study brings a new perspective to the present challenges of toy making in India, pointing to the potential of the toy manufacturing in India with the key role that could be played by the small manufacturers MSMEs.

4. Methodology and Data

The primary exercise to be undertaken is to analyse the domestic and global position of the toys sector in India. This would entail a descriptive analysis by accessing industry level data from Annual Survey of Industries for the organised manufacturing sector and the Enterprise Surveys compiled by the National Sampler Survey Organisation for the unorganised manufacturing sector. The games and toys sector is classified under NIC 3240 and the corresponding matching of HS codes for trade data under these industry codes are identified

with HS 9503, 9504 and 9505 falling under toys sector (using the HS-NIC concordance from Kumar and Dhar, 2023).

Combining the trade and industry level data, we are able to compare the overall performance for this sector through domestic production ratio (DPR). DPR is the ratio of domestic production in the total domestic market (domestic production + imports - exports). In addition, the industry level descriptive analysis has been done using both ASI and NSS rounds on Unorganised Manufacturing Sector enterprises. Since the toys sector is predominantly in the MSME sector, ignoring the small scale industries provide a misleading and incomplete picture of the entire sector.

In understanding the global position of the toy sector, we have sourced the data from the Export Import Data Bank, TradeStat, DGCIS provided by the Ministry of Commerce. To compare the global markets, we use the World Integrated Trade Statistics (WITS) COMTRADE, World Bank. In order to understand the implications of tariff reduction, we have sources tariff data from the Tariff Database, World Trade Organisation.

5. Domestic Position

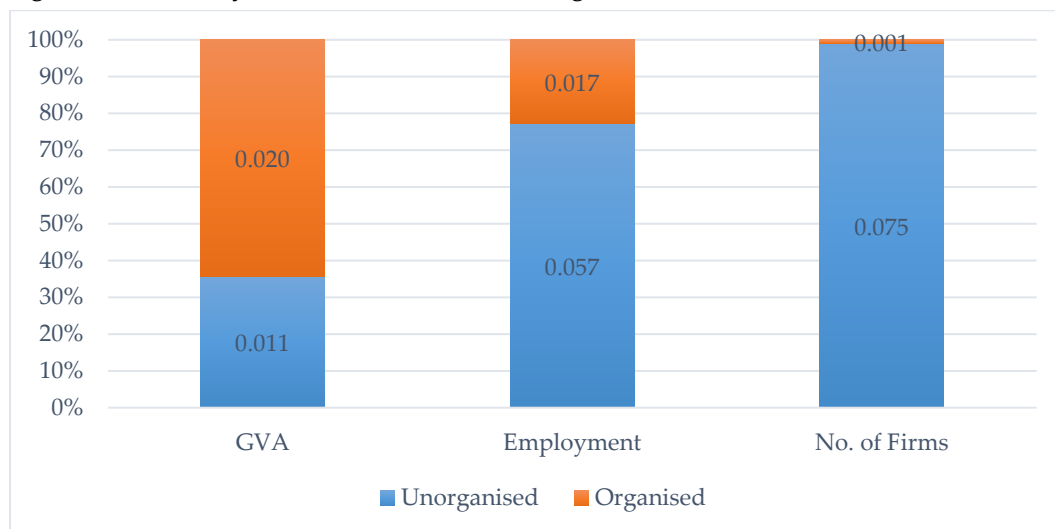
The domestic position of the toy industry is assessed in terms of value added. The share of toys sector in domestic manufacturing is very miniscule. The overall contribution of the toy sector (organised as well as unorganised manufacturing) was a mere 0.03 per cent of the total manufacturing GVA of India. The distribution of the toys sector in total manufacturing is highly lop-sided towards the unorganised manufacturing sector in terms of employment and number of firms. In terms of employment, of the total employment in the manufacturing sector as a whole, toy sector employs only around 0.06 per cent in the unorganised manufacturing sector, while only 0.02 per cent is employed in the organised sector. However, the share of organised toy manufacturing is higher than that of the unorganised sector in total manufacturing GVA (Figure 1 below for 2015-16 latest).

This clearly shows that the smaller scale operations in the toy sector have played their part in dragging down the performance of the smaller firms in output shares while employing more number of workers, vis-a-vis, the larger firms. Another observation that indicates the advantages of scale economies is that a very small share of firms operating in the organised part are able to contribute a much larger share to the total manufacturing GVA than the smaller firms, although much more in numbers. Bhattacharjea (2022) points to the limitations on expanding technologies that were imposed on the items reserved for small scale production was primarily the reason for their lack of growth over the years. As pointed in Kumar (2024), during the trade liberalising years, toy sector, among many other sectors experienced a surge in their imports, which led to massive rise in the import penetration de-industrialising the industry.

If we consider the toy sector as a whole, we find the same discrepancy as in terms of total manufacturing sector. One can observe that around 99 per cent of the total enterprises in the

toy sector are unorganised in nature, employing less than 10 workers. This is corroborated by the share of employment provided by the unorganised sector to the tune of 77 per cent of total toy sector employment. However, in terms of contributing to the value added, the small scale sector contributed only 3 per cent of total value added in the toy sector.

Figure 1: Share of Toys Sector in Total Manufacturing



Source: ASI, 2015-16 and NSS Enterprise Survey, 2015-16

Figure 2: Share of Organised and Unorganised Manufacturing in Toys Sector



Source: Same as Figure 1.

De-industrialisation of the Toy Sector: Some Indications

As mentioned earlier, the impact of trade liberalisation adversely affected the toy sector by opening up the domestic market to foreign competition, especially the mass produced cheaper imports from China entering the Indian market without proper scrutiny on quality and standards. Sridhar (2004), Sycome (2014) and Jagota (2003) had noted that the trade liberalisation without a corresponding industrial policy to boost competitiveness would lead to a de-industrialisation in the toy sector.

Table 1: Estimated No. of Enterprises and Employment (in numbers)

Years	No. of Enterprises		Employment	
	Organised	Unorganised	Organised	Unorganised
2000-01	112	20,774	3974	56536
2010-11	95	13,971	3078	37712
2015-16	150	29,307	8196	27982

Source: ASI and NSS Enterprise Surveys of various years

As one can note from the Table 1, there was a fall in the number of enterprises from 2000-01 (marking the removal of trade restrictions in terms of QRs and lowering tariffs) to 2010-11. The process of de-industrialisation had begun by the turn of the millennium for the toys sector in terms of fall in number of enterprises to fall in production capacity. There was a fall in employment during the period of 15 years especially for the small-scale sector in the unorganised part. Employment fell from 56 thousand in 2000-01 to almost 28 thousand in 2015-16.

In terms of output growth (Table 2), the compounded growth rate of output in unorganised manufacturing sector for five years' period was negative for the small-scale sector in the from 2000-01 to 2010-11. The organised manufacturing also suffered a fall in the output growth rate in 2010-11, indicating the significant damage that liberalisation had been casting upon this sector.

Table 2: CAGR of Output in Toy Sector (in %)

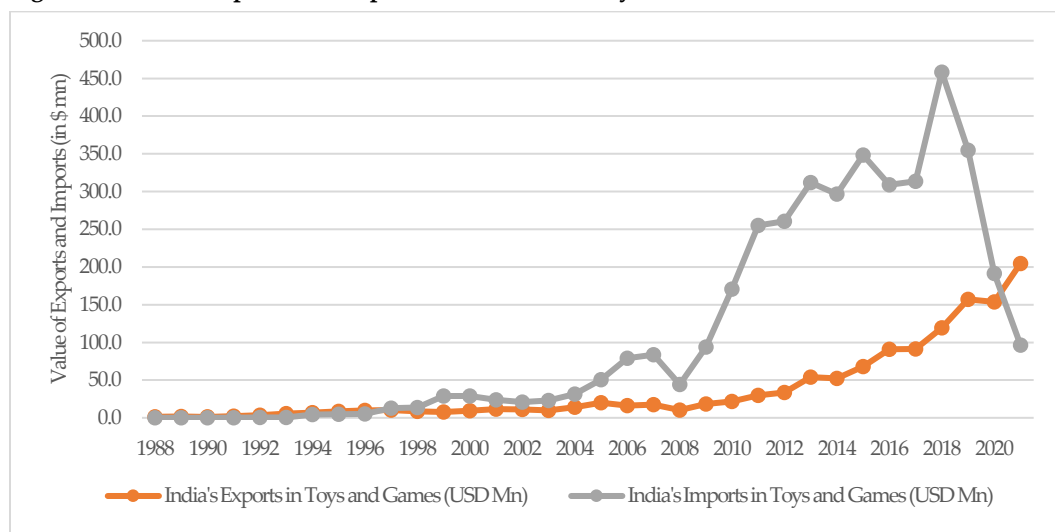
	Organised	Unorganised
2005-06	0.40	-0.10
2010-11	-0.08	-0.15
2015-16	0.24	0.67

Source: ASI and NSS Rounds of various years

6. Global Position in Trade

Although India's share in total world toy exports as well as imports is not very high, India clearly has witnessed a major rise in the import share as compared to export share. As figure 3 depicts, toy imports had already started rising after 1998, however in terms of magnitude there was an import surge in the year 2008 when India's import values rose manifolds and imports share shot up from 0.05 per cent to 0.46 per cent consistently till 2013. After reaching a share of 0.56 per cent in 2018, has now fallen to 0.12 per cent in 2021, in the aftermath of the COVID-19 pandemic.

Figure 3: Trend in Exports and Imports of India under Toys Sector



Source: UN WITS COMTRADE data

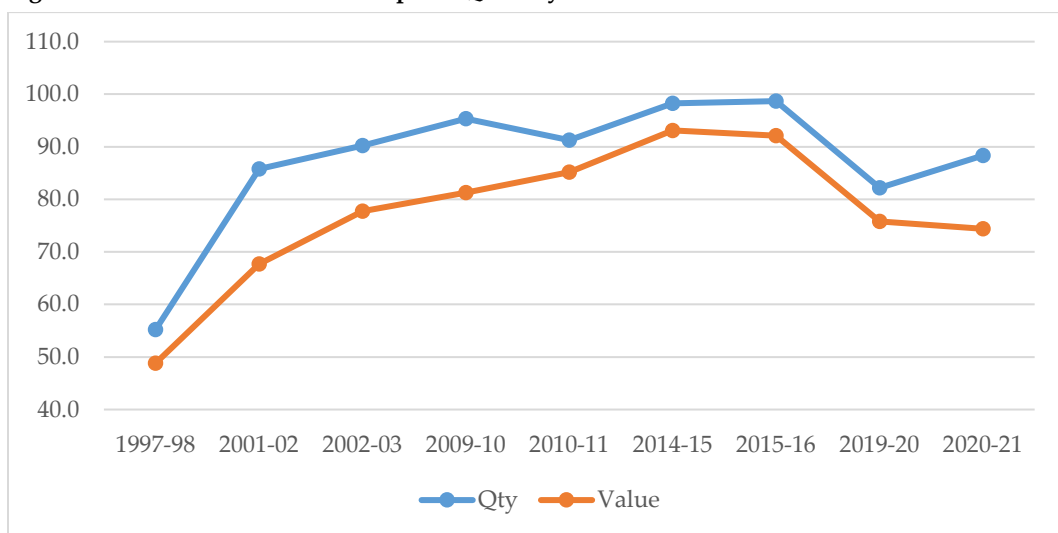
Global Import Dependence of India

India's toys market is predominantly dependent on China for its imports. With tariff and non-tariff barrier reductions in late 1990s and early 2000s, the possibility of foreign imports entering the Indian market rose manifolds with lowered trade barriers and absence of screening the quality and standards of imports at the customs. Manufacturing fell as a result of cheaper availability of toys which could be imported at reasonable costs, without standards being tested. China, in the meantime, had invested heavily in its toy manufacturing after it acceded to the WTO in 2001. The Hong Kong toy manufacturing which was already flourishing started shifting production facilities into mainland China to take advantage of the lower operational costs². These developments led to China becoming a major source of imports of toys in India.

² <https://www.icmrindia.org/casestudies/catalogue/Business%20Environment/The%20Chinese%20Toy%20Industry-Business%20Environment%20Case%20Studies.htm#The%20Growth>

Figure 4 depicts the extent of this import dependence which has been over 80 per cent in most of the years. In terms of value as well as quantity, the shares of imports from China can be seen to have increased manifold. Although China always dominated the imports of India in this sector, the major jump in the shares was seen in the early 2000s which coincided with the changing dynamics in world and Indian trade policy scenario. The late, but recent realisation of the adverse effects of import dependence on China by the Indian government has led to many policy changes to reduce imports and ensure implementation of quality standards on cheap quality Chinese imports into India. This is because in 2019, Quality Council of India found that over 67% of imported Chinese toys failed to meet India's quality standards. As a result, stricter quality control in the recent years has reduced China's share in India's total toys imports.

Figure 4: China's Share in India's Imports (Quantity and Value)



Source: DGCI&S TRADESTAT

7. Impact on Domestic Production

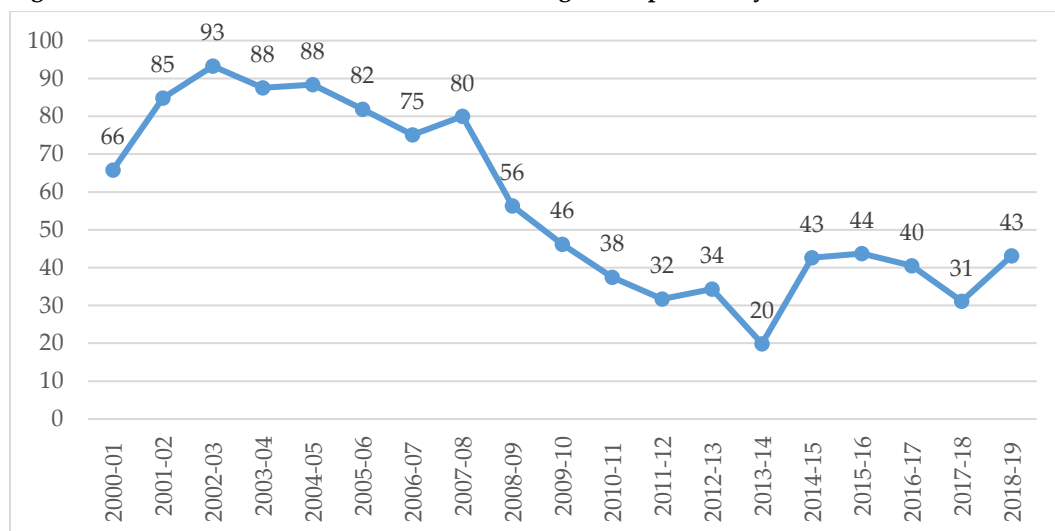
Trade liberalisation as such is conceptually a supportive policy as long as the industrial readiness is supportive enough for realising the benefits of market forces playing their parts. In case of India, in many sectors that included toys sector also, the reduction of unilateral tariff reductions, followed by a forced QR reduction by western countries was a dangerous concoction for the destruction and de-industrialisation of many small scale industries in the manufacturing sector (Chaudhuri, 2015; Chaudhuri, 2013; Sunny and Sund, 2014). The effect, as already noted in the above sections, was a fall in the number of enterprises as well as employment.

In terms of local production, it is not sufficient to see only the rate of growth of output, but the extent to which the domestic production could cater to the local demand. As in the case

of many other sectors, the case of toy industry was no different in terms of increased dependence on imports. As toy sector comprises of finished products only, a fall in the domestic production compared to rising imports is a major concern given that Indian toy industry was doing relatively well. Therefore, domestic production ratio for various years for the toy sector has been calculated. The DPR is a ratio of domestic production as a percentage of total demand given by: domestic production + imports – exports.

Figure 5 shows the consistent fall in the domestic production ratio beginning 2002-03 from more than 90 per cent in 2002-03 to less than 20 per cent in 2013-14. Falling domestic production ratio indicates local producers failing to meet the growing domestic demand. On the other hand, rising share of imports and growing trade deficit both indicate that Indian toy manufacturers were losing out on the competitiveness in global as well as domestic markets.

Figure 5: Trend in Domestic Production Ratio in Organised part of Toy Sector



Source: Author's calculations from ASI and DGCI&S data

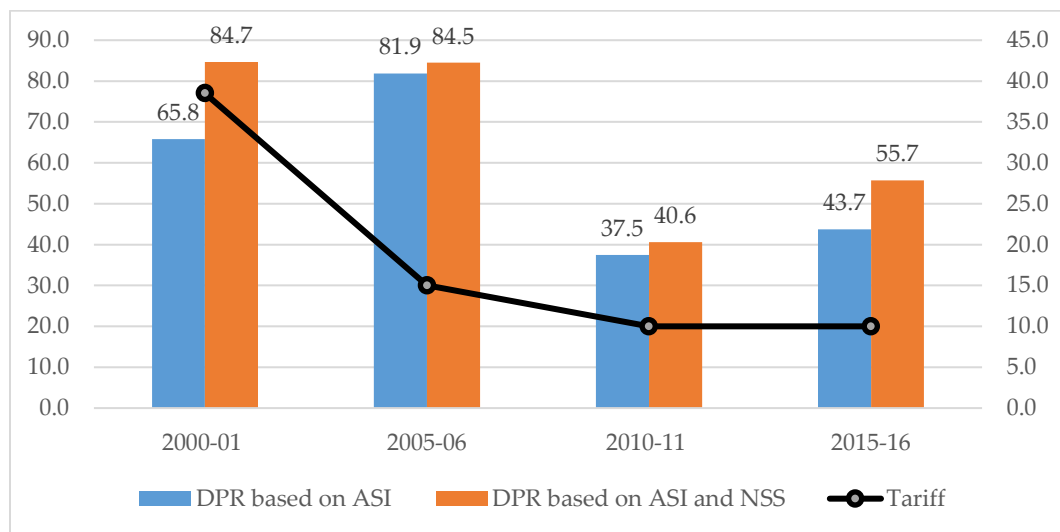
Figure 5 shows clearly that tariff reductions (coupled with reduction in QRs) coincided with a reduction in domestic production ratio since 2000-01.

The domestic production data used in the Figure 5 is sourced from the Annual Survey of Industries to get smooth time series that would give the trend and impact on toys sector of the trade liberalisation process. However, as already mentioned, a major share of toys sector in terms of employment and number of enterprises is in the unorganised and small scale manufacturing sector. Thus, this study has also calculated the adjusted DPRs for the time periods combining the output data from the NSS Rounds on Enterprise Surveys on Unorganised Enterprises.

The effect of including the unorganised manufacturing sector in DPR can be seen in Figure 6. The Indian toy manufacturing was catering a substantial share of about 85 per cent of the

domestic demand (supplied mainly by the MSMEs) in 2000-01. This was halved to 41 per cent by 2010-11 in the liberalising years between 2000-01 and 2010-11. The ratio rose mildly by 2015-16 to 55.7 per cent for both unorganised as well as organised toy sector combined.

Figure 6: Discrepancy in Domestic Production Ratio after including Unorganised Manufacturing Sector



Source: Author's calculations from ASI, NSS Enterprise Survey and DGCI&S data

8. Post 2020 Scenario

The recognition of the immense potential of this sector, and the boost that the present Central Government has provided to this sector has been long awaited and very timely. T³. As India is the third-largest manufacturing economy, this manufacturing powerhouse could significantly contribute to India's GDP.

Toy sector attracted the policy makers' attention to address the influx of cheap (both in terms of prices and quality) imports into India. Burgeoning trade deficits in this sector, especially with China, was a growing concern owing to the adverse effects that cheap Chinese toy imports had on the domestic manufacturing. A series of steps were initiated during the pandemic that included raising import duties, mandating sample testing of each import consignment, bringing toys under the purview of compulsory certification from the Bureau of Indian Standards (BIS). Additionally, the unprecedented crisis of COVID pandemic which led to disruptions in various supply chains across the world, enabled the Indian policy makers to realise self-sufficiency in manufacturing. This gave boost to the Indian toy

³ <https://www.investindia.gov.in/sector/consumer-goods/toys-manufacturing#:~:text=Toys%20have%20been%20recognised%20as,12%25%20between%202022%2D28>.

entrepreneurs to take up to toy manufacturing, as a result of the change in policy towards supporting local manufacturing by the Central Government.

Among the important policy changes, the most important change was the raising of import duty for tariff items under HS 9503 from 10 per cent in 2015-16 to 60 per cent in 2020 to 70% in May 2023. This led to reduced imports of electronic, non-electronic, and parts of electronic toy-related goods. India witnessed an exponential decline in toy imports by 57%, dropping from \$371.69 million in 2018-19 to \$158.70 million in 2022-23.

The second most important step was to curtail the imports of cheap quality toys being dumped from China into India. The Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry, issued the Toys (Quality Control) Amendment Order, 2020 to monitor and manage the quality of goods, processes, systems, and services to protect the interests of consumers and other stakeholders (BIS,2020). According to the quality control order that came into force on January 1, 2021, toy manufacturers must conform to 7 Indian Standards for toys, ensuring physical, electrical, and chemical safety. They are also required to bear the ISI mark under the license from BIS for the permit for the manufacture, import, and storage of toys and related items.

National Action Plan for Toys, 200 (NAPT) with 21 specific action points (refer to Table A.1 in Appendix) and implemented by 14 Central Ministries/Departments (Table A.2 in Appendix), with DPIIT as the coordinating body.

Impact and Lurking Challenges

Although the effects of the recent policy changes are reflected in the rise in domestic production and the reduction in imports, there are still some challenges that should be overcome in order to sustain the positive impact.

One is that the data constraints do not allow the study to include the unregistered manufacturing status of production after 2015-16. Since toy sector is predominantly in the unregistered sector, lack of data on output underestimates and limits our analysis. Nevertheless, the study indicates that even with the absence of this sector's output, the impact of the recent changes in policies would be even more favourable if the data constraints were removed.

Secondly, as it would be discussed below, the trade data shows a deterioration in terms of the surplus going down in 2022-23. Although it is very premature to conclude any trend, an interaction with the Toy Association of India reveals the gaps that the policy makers need to ensure in order to sustain the rise in domestic production.

We discuss the impact of the recent policy changes, indicating the above-mentioned cautions while interpreting and analysing the trends.

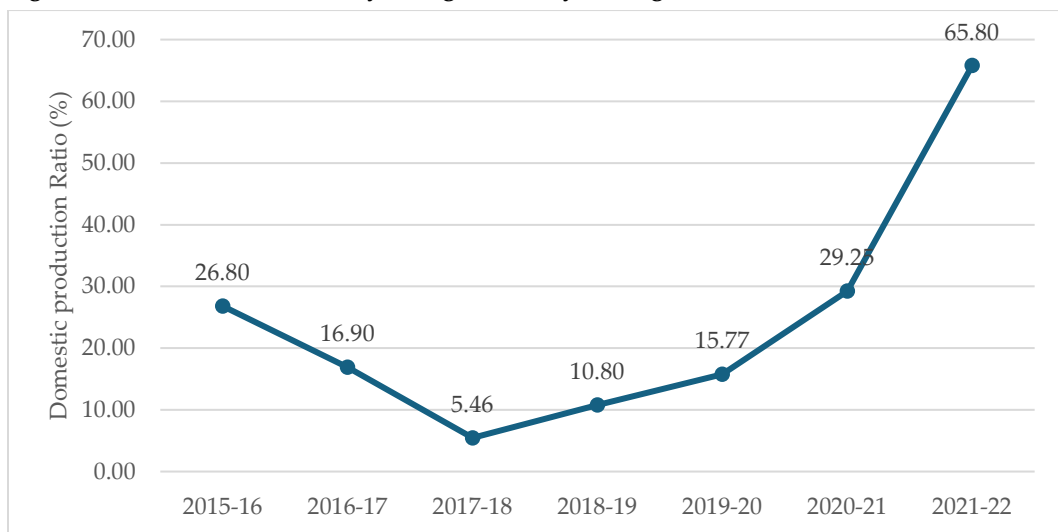
Domestic Production on the Rise

In order to reverse the de-industrialisation that occurred in the toy sector, the recent policy changes with a concerted effort by the Government of India has translated into an increase in domestic production in the registered manufacturing sector. As noted in Figure 6 above, the registered toy manufacturing was adversely affected due to rising imports with the domestic production ratio falling from 65.8 per cent in 2000-02 to 37.5 per cent in 2010-11.

Figure 7 below shows the domestic production compared to domestic consumption indicating the extent of self-sufficiency in the registered toy making in india in the recent years. The post-2020 years have shown a drastic rise in the ratio of domestic supply to the domestic demand⁴

The domestic production ratio for the registered manufacturing sector rose from 15.7 per cent in 2019-20 to 65.8 per cent in 2021-22. In other words, the extent of self-sufficiency in domestic production has increased after 2020 reforms.

Figure 7: Extent of Self-Sufficiency in Registered Toy making in India



Source: Author's calculations from ASI and DGCI&S data

Imports Still Pose a Threat

The other fallout of the recent policy changes have been a reduction in imports from China which has been curtailed due to the stringent BIS regulations being implemented. The official estimates that are reported for the toy sector in India include HS 9503 to 9505 codes. However, as per the description it is mostly 9503 and 9504 which match the description of toys. HS 9505 contains all festive and carnival related articles. If we compare the two sets of

⁴ Calculated as net output (output less exports) as a ratio of domestic demand (output+imports-exports). This is denoted as a measure of self-sufficiency of the toy sector.

trade data (refer Table 3), we observe that the trade deficit in 2019-20 was \$170 million for only toys was much higher than that after including the HS 9505. This indicates that the toy sector was much more in deficit than that under the broader definition.

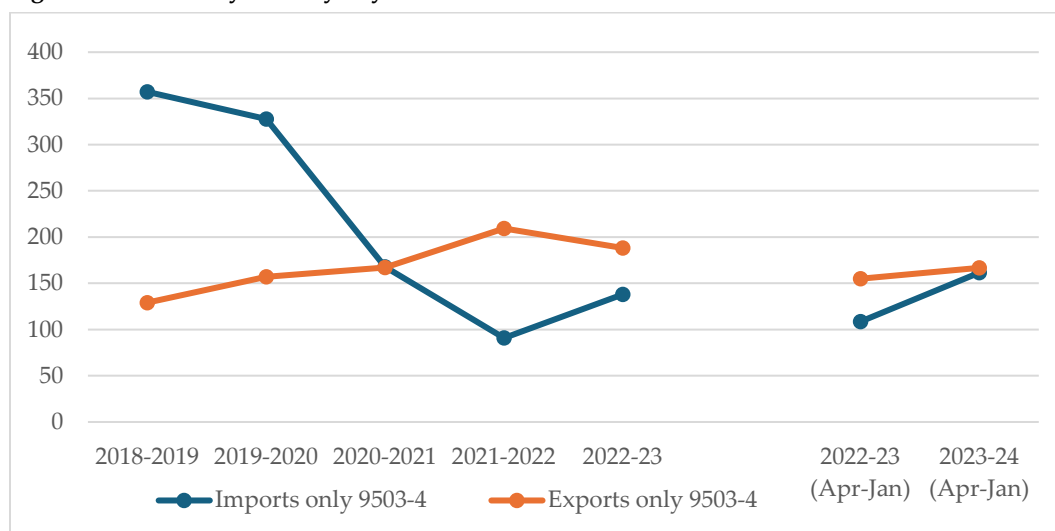
Table 3: Trade Figures for the Toy Sector for 2018-19 to 2023-24 (Fig. in \$ mn)

	Total Imports				Total Exports				Trade Surplus	
	9503	9504	9505	Total	9503	9504	9505	Total	HS 9503-05	Only Toys HS 9503-04
2018-19	304.1	53.0	14.6	371.7	109.3	19.8	74.4	203.5	-168.2	-228.0
2019-20	279.3	48.4	16.3	343.9	129.6	27.4	81.7	238.8	-105.2	-170.6
2020-21	129.6	38.1	10.2	177.9	141.2	25.8	71.9	239.0	61.0	-0.7
2021-22	35.9	55.0	18.9	109.7	177.0	32.3	117.3	326.6	216.9	118.5
2022-23	62.4	75.8	20.5	158.7	153.9	34.4	137.4	325.7	167.1	50.2
2023-24 (Apr-Jan)	54.2	107.5	17.3	179	128.1	27	121.7	276.8		
[2022-23]	[51.5]	[57.2]	[18.9]	[127.6]	[136.6]	[30]	[131.7]	[298]		

Source: DGCI&S TRADESTAT

Figure 8 indicates that in 2022-23 and 2023-24 (Apr-Jan), there are indications of the toy imports rising again and the difference between exports and imports is narrowing. This is concerning evidence of the lurking challenges still prevailing in the toy sector.

Figure 8: Trade Analysis: Only Toys HS 9503-04



Source: Same as Table 3.

9. Way Forward

As pointed out in the study, the major turnaround for the toy sector was marked by the supportive government initiatives which has led to localisation of toy production on a large scale, leading to a reduction in imports, while a simultaneous but slower rise in the domestic production. The global as well as the domestic demand for toys is very strong, and the industry figures indicate that the sector shows improving signs in terms of rising production capacity. However, an empirical analysis into the factors such as labour productivity, cost of production, firm size, firm location etc. that have led to this recent change in trajectory would be optimal, which is beyond the scope of the present study. This is because the policy changes have been very recent, and the industry data is not sufficient to undertake a panel data analysis.

Nevertheless, the study brought out the changing significance of the toy manufacturing sector in trade and domestic value addition, following the reforms that have been brought about by the Government to support the sector. We note that the sector is vulnerable to the threat posed by Chinese manufacturing and would entail continuous upgradation of the production strategies, while targeted sectoral policies supporting the industry would be very essential.

There are many challenges upholding the growth potential of this sector in India. In the light of the above discussion, Indian government should pursue a multi-pronged approach towards reaping this potential.

Appendix Tables

Table A.1: 21 Points Under the National Action Plan for Toys

The Government of India developed a comprehensive action plan in 2020 to boost local manufacturing and incentivise toy and handicraft manufacturers to make India the next global hub. The following action items were outlined in the plan to support the toy ecosystem:

- Setting up toy production clusters across the country
- Launching central government schemes to incentivise manufacturing and exports
- Strengthening the R&D infrastructure for toys and games promoting self-discovery and self-learning
- Integrating toys and games with education, specifically for subjects such as mathematics, history and science
- Increasing awareness among consumers via outreach campaigns to boost purchase of local toys
- Promoting innovation & design and upskilling artisans
- Creating a working group for '*Ek Bharat Shrestha Bharat*'
- Meeting crowdsourcing procurement needs to boost demand
- Utilising analytics and digital marketing tools for targeted brand promotions
- Organising hackathons and grand challenges to encourage design and innovation
- Building toy repository centres
- Promoting development of digital and online games
- Developing toy laboratories to test and monitor quality & safety standards
- Organising annual toy fairs and exhibitions across production hubs
- Focusing on production of mechanical and electronic toys
- Observing an annual '*Made in India Toy Day*' in schools
- Strengthening awareness and production of indigenous toys such as puppets, wooden dolls, clay toys and tribal games
- Airing special programmes on toys and games on public broadcast channels such as Doordarshan (DD) and All India Radio (AIR)
- Promoting toys made with recycled and upcycled materials
- Developing an e-commerce platform to provide a centralised direct marketing portal to handicraft artisans
- Building India's first '*Toy Museum*'

Source: Press Information Bureau

Table A.2: Ministry/Department-wise Action Points under National Action Plan for Toys

SN.	Ministry/Department	SN.	Action Point
1.	Department of School Education	1.	Use toys as a learning resource
		2.	Prepare a catalogue of books and references on toys since ancient times
2.	Department of Higher Education	3.	Designing of toys based on Indian values, culture, and history
		4.	Organize hackathons and grand challenges for toy designing and manufacturing
		5.	Research on toys on Indian culture & historical traditions
3.	Ministry of Women and Child Development	6.	Utilize toys as a means to promote "Ek Bharat Shreshtha Bharat" (EBSB)
		7.	Public procurement of indigenous toys
4.	Ministry of Textiles	8.	Promote 'Made in India' toys
		9.	Promoting indigenous toy clusters
5.	Ministry of Information and Broadcasting	10.	Consumer awareness campaigns
6.	Department of Science and Technology	11.	Digital and Online Games
7.	Ministry of Culture	12.	Creating Toy Repositories
8.	Ministry of Tourism	13.	Promotion of toy tourism including operating 'Toy Express'
9.	Ministry of Micro, Small and Medium Enterprises	14.	Promote domestic manufacturing of toys
10.	Department of Commerce	15.	Promoting exports of Indian toys
11.	Department of Consumer Affairs	16.	Monitor quality of toys
12.	Department for Promotion of Industry and Internal Trade	17.	Promote investments in toy industry
		18.	Study on global markets to understand trends in toy manufacturing and consumption
13.	Ministry of Skill Development and Entrepreneurship	19.	Development of skills for toys industry
14.	Ministry of Housing and Urban Affairs	20.	Create awareness in urban areas about Indian toys
		21.	Conduct competition on creation of best toys from waste in 100 cities and towns of the country

Source: IIM Lucknow Study on "A Case Study on Success Story of Made in India Toys", 2023.

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