

Report: TDAP-Light Engineering Sector of Pakistan

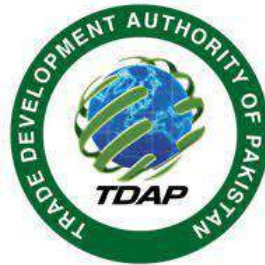
Series: 01/2021

TOY INDUSTRY – A CASE STUDY OF PAKISTAN

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Trade Development Authority of Pakistan

December, 2021



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Table of Contents

Table of Contents	II
List of Figures	III
List of Tables.....	III
List of Acronyms.....	III
Executive Summary	IV
Chapter 1-Introduction	1
1.1-Major Challenges Faced by Toy Industry	1
1.2- Objective of the Study.....	2
1.3- Outlook of the Toy Industry in Pakistan	2
Chapter 2-Global Toy Industry	3
2.1-Global Exporters of Toys	3
2.2-Global Importers of Toys	5
Chapter 3-Field Survey: Toy Wholesalers and Retailers	8
3.1-Value Chain of Toys Industry	10
Chapter 4- Types of Toys.....	11
Chapter 5-Current Scenario of Toys Trade	12
5.1-Exports of Toys by Pakistan.....	12
5.2-Imports of Toys by Pakistan.....	13
5.3-Import Product Mix of Toys.....	13
5.3.1 Top Exporters of (HS-9503) to Pakistan	15
5.3.2-Imports of Tricycles at 6 Digit Level (HS-950300)	15
Chapter 6- Cross Country Comparison	17
Chapter 7- Custom and Regulatory Duty on Imports of Tricycles (HS-950300) by Pakistan.....	18
Chapter 8-Global Perspective of Toys Trade	19
8.1- Top Import and Export Destinations of (HS-950300)	19
8.1.1-Analysis at 8 Digit Level (HS-95030090).....	19
8.1.2-Comparison between Top Export and Import Destinations of Pakistan (HS-95030090)	19
8.2-Price Comparison between Imported and Domestic Tricycles	20
Chapter 9- India’s Toy Industry	21
9.1-Comparison of Pakistan and India Top Exporters of (HS-950300)	22
Chapter 10- Conclusion and Policy Recommendations	24



10.1- Conclusion.....	24
10.2-Policy Recommendations.....	24
References	26

List of Figures

FIGURE 1: GLOBAL TOY MARKET SIZE.....	3
FIGURE 2(A): TOP GLOBAL EXPORTERS FOR THE YEAR 2020	4
FIGURE 3(B): SHARE OF TOP 5 GLOBAL EXPORTERS	4
FIGURE 4: WORLD'S TOYS IMPORTS (IN \$ BILLION)	5
FIGURE 5: TOP 5 GLOBAL IMPORTERS OF TOYS 2016-20.....	6
FIGURE 6: SHARE OF TOP 5 GLOBAL IMPORTERS IN TOYS IMPORTS	6
FIGURE 7: VALUE CHAIN OF TOYS INDUSTRY	10
FIGURE 8: IMPORT PRODUCT MIX OF TOYS	14
FIGURE 9: IMPORTS OF TRICYCLES, SCOOTERS, PEDAL CARS, AND SIMILAR WHEELED TOYS; DOLLS' CARRIAGES; DOLLS; OTHER TOYS (HS-9503) IN \$ MILLION	14
FIGURE 10: PAKISTAN & INDIA TRADE OF 9503 TRICYCLES, SCOOTERS, PEDAL CARS, AND SIMILAR WHEELED TOYS; DOLLS' CARRIAGES; DOLLS; OTHER TOYS	22

List of Tables

TABLE 1: LIST OF HS-CODES	11
TABLE 2: EXPORTS OF TOYS BY PAKISTAN 2016-20 (IN USD MILLION).....	12
TABLE 3: EXPORTS OF TOYS BY PAKISTAN 2016-20 (IN USD MILLION).....	13
TABLE 4: TOP EXPORTER OF (HS-9503).....	15
TABLE 5: IMPORTED VALUE (HS-950300).....	15
TABLE 6: CHINA'S TOP EXPORT DESTINATIONS OF (HS-950300).....	17
TABLE 7: CUSTOM AND REGULATORY DUTY ON IMPORTS OF TRICYCLES	18
TABLE 8: TOP IMPORT AND EXPORT DESTINATIONS (HS-950300).....	19
TABLE 9: TOP IMPORT AND EXPORT DESTINATIONS OF PAKISTAN (HS-95030090).....	19
TABLE 10: COMPARISON BETWEEN IMPORTED PRICE AND DOMESTIC PRICE OF (HS-95030090).....	20
TABLE 11: PAKISTAN & INDIA TRADE OF (HS-9503) TRICYCLES, SCOOTERS, PEDAL CARS, AND SIMILAR WHEELED TOYS; DOLLS' CARRIAGES; DOLLS; OTHER TOYS.....	21
TABLE 12: PAKISTAN AND INDIA TOP EXPORTERS OF (HS-950300)	23

List of Acronyms

CAGR	Compound Annual Growth Rate
HS Codes	Harmonized System Codes
PCT	Pakistan Customs Tariff Codes
R&D	Research and Development



Executive Summary

Toys play a vital role in the cognitive development of children. The significance of the toy industry has always been ignored in Pakistan despite having huge demand as children between 0-15 years of age are 34.8% of our total population. Pakistan's total imports of different types of toys is more than \$100 million. To fulfill domestic demand 80-90% of the toys are imported mainly from China. From 2016 through 2020, on average Pakistan's total toy imports remained \$112.17 million. Whereas, the exports are only 0.002% of Pakistan's total exports. The contribution of the domestic industry constitutes only 5-10% supply. The wholesalers import directly from international market that distributes them to retail stores that spread over to all over the country. The lack of recognition of the significance of this sector and the inadequate infrastructure has not allowed the sector to flourish.

Keeping in view the industry's major challenges, the present study focuses on import substitution and is in the wake of increasing competition that the domestic industry is facing, especially from China. On the basis of imported value it is identified that category tricycles, scooters, pedal cars and similar wheeled toys (HS-9503) is the top imported product by Pakistan. Followed by this further analysis is done on the trade of wheeled toys (i.e. tricycles). China, United Arab Emirates, and the United Kingdom are the top three exporters of wheeled toys to Pakistan.

Findings of the study suggests that the local manufacturers, instead of manufacturing, have started importing toys from China and more than 80 percent of the toys being sold in the local market are imported Chinese products. Due to the lack of engagement of local industry in domestic production, only a few companies produce toys within the price range of 100 rupees. But these factories use plastic scraps such as recycled plastic as a raw material which is dangerous for children's health and safety.

Formulation of a comprehensive import substitution policy is the dire need of the hour, for which the first crucial part of the strategy is to find areas for investment in manufacturing, which can cater to domestic needs that are currently being met by imports.

Chapter 1-Introduction

In 1990s, Pakistani toys industry enjoyed 75 percent of the market share; it comprised three leading players in the organized sector and a few from the informal sector. In contrast, 25 percent of the market was shared by foreign players. Since 1998, the local market share has dropped by 40 percent; over time, Chinese products have captured a staggering 90 percent market share. We can broadly divide the Pakistani toy industry into two categories, i.e., small and medium unorganized and organized manufacturing units. The local manufacturers, instead of manufacturing, have started importing toys from China and more than 80 percent of the toys being sold in the local market are imported Chinese products. The toy industry of Pakistan is divided among organized and unorganized sector. There is no one manufacturer at national level, there are small manufacturing units which produce toys often price at 20 to 50 Rs for lower end of market.

High-end toys, mainly, are being imported with almost zero local production. In 2020 alone, video games and toys worth 41 million dollars were imported. Despite all these imports, a large fraction of newly introduced toys in the world still don't get introduced in the local market.

Low-priced toys are commonly sold in local markets, ranging between Rs.100 and Rs. 1500 are the most sold items as compared to expensive toys, i.e., remote-controlled chargeable toys. Generally, these are the most expensive toys ranging from thousands to hundreds of thousands of rupees. Then come to the battery-powered toys that are slightly lower in price than the previous category and lastly the plastic toys are the cheapest (Asif, 2021).

If we talk about the demographics of Pakistan, 34.8% of the population is below 15 years of age, and demand for toys is directly proportional to number of children (Statista, 2020). Additionally, the standard of living in the country is expected to grow in the coming years as in terms of purchasing power parity, Pakistan is the 26th largest global economy (Wikipedia, 2020).

Additionally, due to the lack of engagement of local companies in domestic production, only a few companies produce toys within the price range of 100 rupees. But these factories use plastic scraps such as recycled plastic as a raw material which is dangerous for children's health and safety.

1.1-Major Challenges Faced by Toy Industry

- Heavily dependent on imports.
- Limited production of toys.

Toy Industry- A Case Study of Pakistan

- Few number of toys producing factories.
- Unorganized sector
- There is no manufacturer of toys in Pakistan hence whole demand is being fulfilled by imported toys.

1.2- Objective of the Study

- Keeping in view the industry's major challenges, the present study focuses on import substitution and is in the wake of increasing competition that the domestic industry is facing, especially from China.
- Identification of major challenges faced by the toy industry.

This report consists of four sections; first section describes the insight of global toy industry and Pakistan's toy industry. Second section represents the results of field survey of local toy market. It indicates the current issues faced by toy industry of Pakistan. Third section of the report is based on current trade scenario of Pakistan's toy trade and price comparison of imported toys and locally manufactured toys. On the basis of imported value it is identified that category tricycles, scooters, pedal cars and similar wheeled toys (HS-9503) is the top imported product by Pakistan. Followed by this further analysis is done on the trade of wheeled toys (i.e. tricycles).

The last part of the report is based on conclusion and policy recommendations which indicates that formulation of a comprehensive import substitution policy is the dire need of the hour, for which the first crucial part of the strategy is to find areas for investment in manufacturing, which can cater to domestic needs that are currently being met by imports.

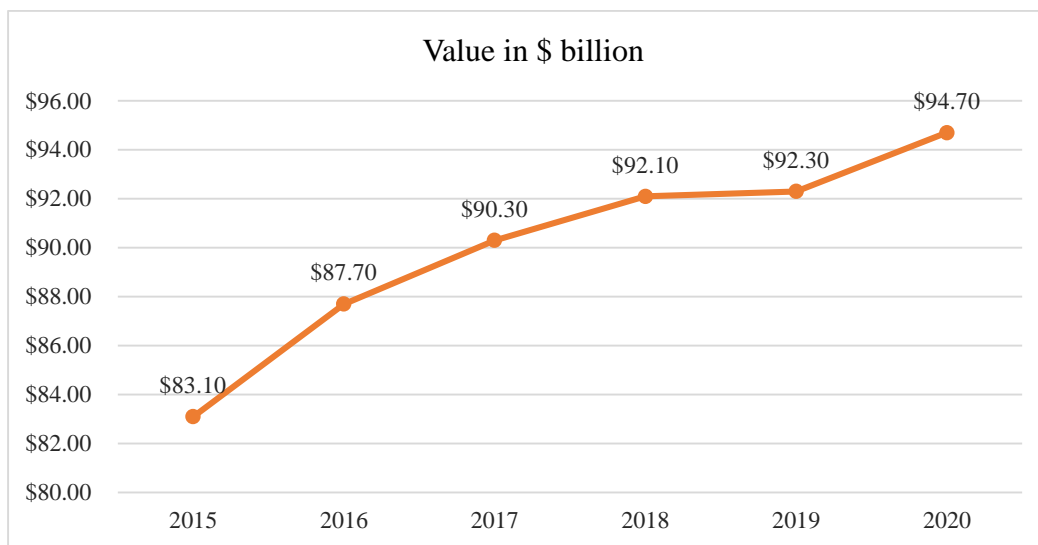
1.3- Outlook of the Toy Industry in Pakistan

- Revenue in the Toys & Baby segment is expected to reach US\$84M by 2021.
- Revenue is estimated to show an annual growth rate (CAGR 2021-2025) of 3.75%, resulting in a projected market volume of US\$98M by 2025.
- The number of users is expected to increase by 11.0M users by 2025 in the Toys & Baby segment.
- User penetration is 3.3% in 2021 and is projected to reach 4.3% by 2025 (Statista, 2020)

Chapter 2-Global Toy Industry

The global toys market size is \$94.7 billion in 2020 and is expected to hit \$103.8 billion by 2027, with a projected compound annual growth rate (CAGR) of 2.5% from 2021 to 2027. Global toy sales reached \$95 billion in 2020, posting a 2.6% growth over 2020 (ICTI, 2020). The increase in the number of children globally, along with an overall increase in disposable income will drive growth in the market. The strong growth will be mainly driven by the Asia-Pacific region, especially China, India and Indonesia (MarketLine, 2018).

Figure 1: Global Toy Market Size



Source: International Council of Toy Industries

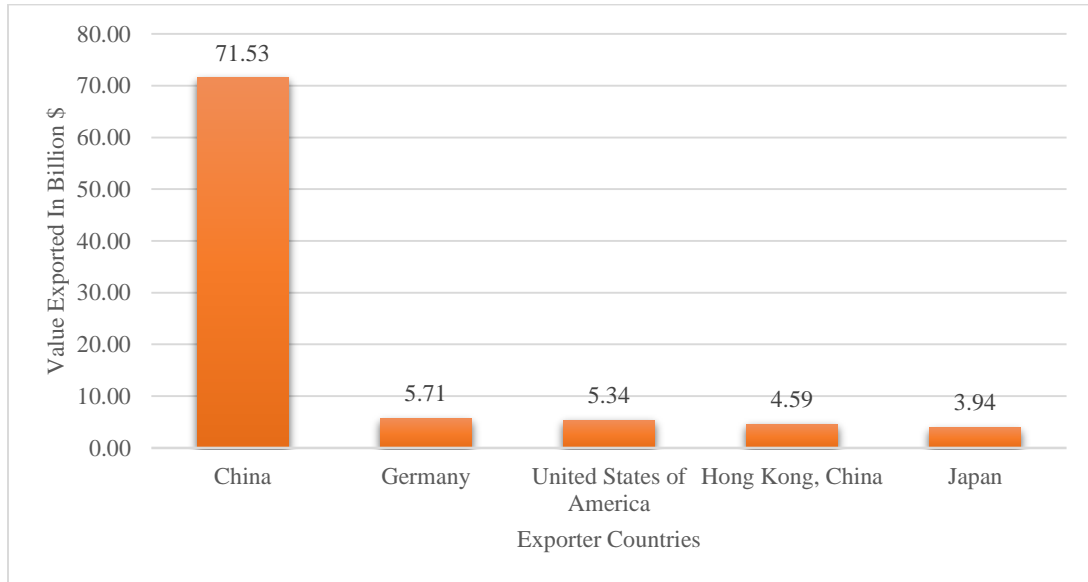
The above graph is projected last five years (2015-20) of toy market size, it can be seen that throughout the period the size of the market is increasing as in 2015 it was \$83.1 billion which is reached to \$95 billion in 2020 and further expected to reach \$103.8 billion as per international council of toys. It was observed that during 2018-19 there was no significant change in the size of toy market but in 2020 it is increased by \$3 billion. (See fig 1).

2.1-Global Exporters of Toys

Over time, the United States, China, and Japan have emerged to the top three countries in terms of toy sales worldwide. To meet domestic consumer needs, countries have actively promoted the domestic toy sector and exports through a variety of ways. These countries now not only have their own regional identities, but they also support local toy manufacturers. To remain relevant in a dynamic market, toy manufacturers in developing countries like Pakistan must come up with new,

innovative, and technologically sophisticated strategies to enhance domestic toy production and exports with the support of government incentives and targeted investments.

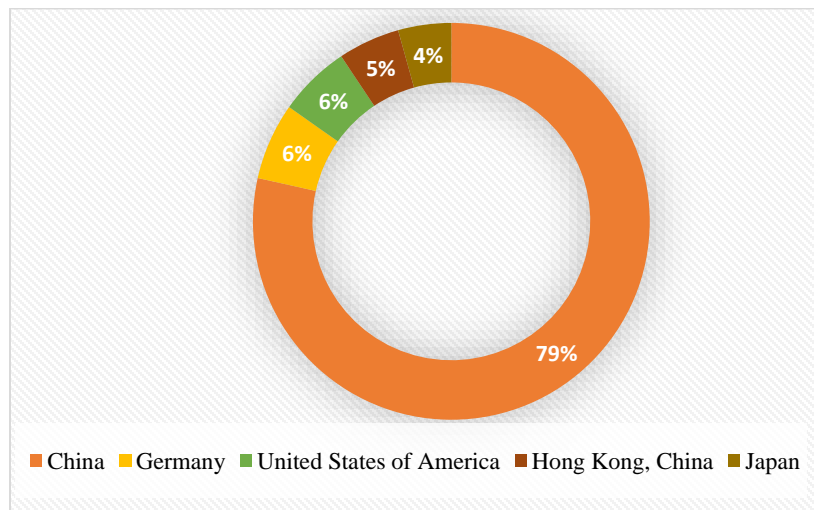
Figure 2(a): Top Global Exporters for the year 2020



Source: ITC Trade Map

China is the largest manufacturer and exporter of toys in the global toy industry. China's toy exports reached \$72 billion in 2020 .In terms of exported values other than China, other top 4 countries have approximately similar export values ranges \$3.94-5.7 billion. (See figure 2a).

Figure 3(b): Share of Top 5 Global Exporters



Source: ITC Trade Map

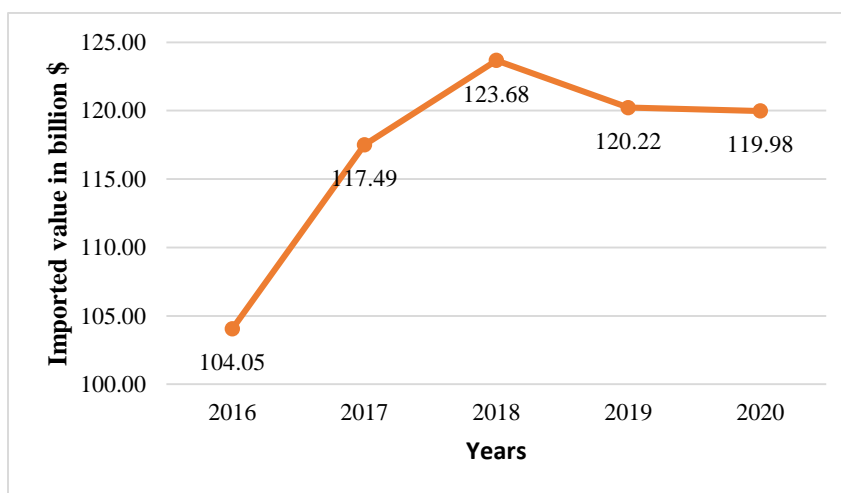
Further, we have also presented market share of top 5 exporting countries. Around 4/5th of market is dominated by China. While other countries have 4 to 6% share in toy market. One of the reasons that lead to an increase in the toys market growth in China is that the Chinese Government relaxed its decades-old one-child policy to address the challenge of the aging population, allowing all couples to have two kids (Vig, 2020). Thus, the number of kids is expected to increase in the upcoming years that propelled toys market growth.

It is intuitive to think that toys market growth is directly linked with the number of children across the globe. In the year 2020, there will be around 1.9 billion children, which is expected to be increased by 2.02 billion by 2030 (Statista, 2020). Based on age groups, the global toys market is divided into 5 years, 5 to 10 years, and above ten years. 5-10 years of children have a major share in the global market and is expected to grow with the highest CAGR (3.3%) during 2020-27 (MarketLine, 2018).

2.2-Global Importers of Toys

The growth of the toys market will be propelled by an increase in the number of children around the world, as well as an overall increase in disposable income. The Asia-Pacific area, particularly China, India, and Indonesia, will drive the significant growth (Vig, 2020).

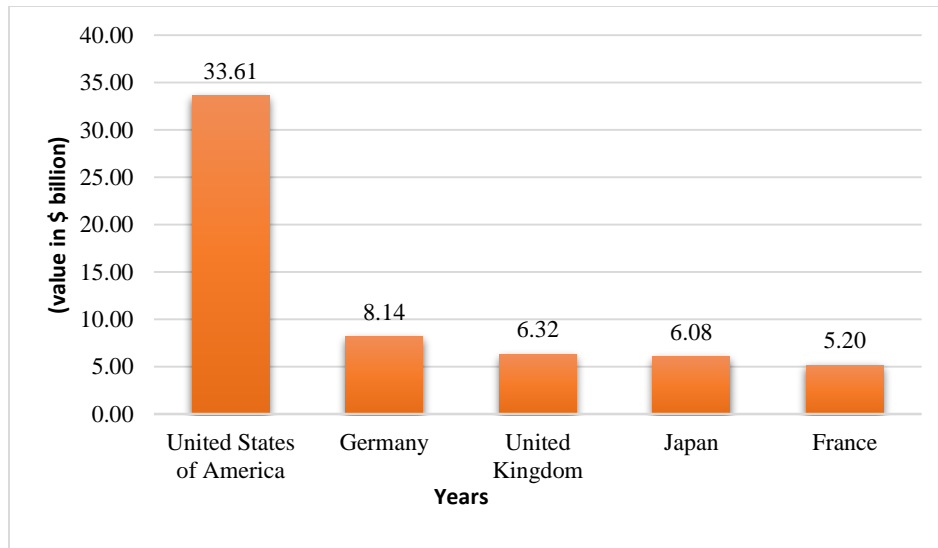
Figure 4: World's Toys Imports (in \$ billion)



Source: ITC Trade Map

Global toy imports reported \$119.9 billion in 2020. From 2016 to 2018, toy import has been increased; the highest reported value is in 2018, which stood at \$123.7 billion. (See fig 3). In the past two years, there has been a decline in the toys imports due to the current pandemic.

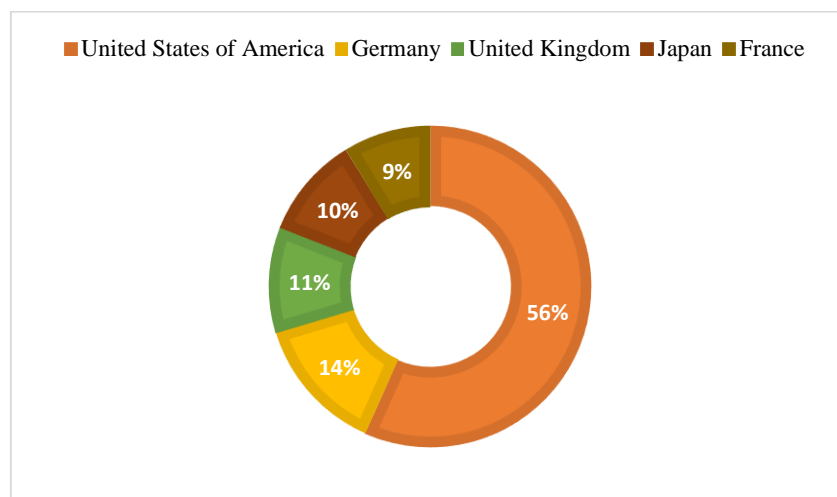
Figure 5: Top 5 Global Importers of Toys 2016-20



Source: ITC Trade Map

The above graph shows the top 5 global importers of toys in terms of imported values. The USA remained top international importer of toys with a share of 56% while Germany is the 2nd largest toys importer with a share of 14%. The third-largest importer is the United Kingdom with a share of 10%), followed by Japan and France. (See fig 5).

Figure 6: Share of Top 5 Global Importers in Toys Imports



Source: ITC Trade Map

Due to the coronavirus outbreak, the worldwide consumer goods business has been severely disrupted. Due to supply chain interruptions and the imposition of rigorous limitations to follow social distance and persistent lockdown around the world, demand for toys and games is projected



to taper significantly around the world. The global implementation of a strict lockdown has disrupted the supply chain and halted manufacturing. The overall impact of the corona virus is highly unpredictable, given changing global dynamics and strong market volatility (Vig, 2020).



Chapter 3-Field Survey: Toy Wholesalers and Retailers

To understand the market dynamics of toys, a field survey has been conducted with wholesalers and retailers of toy markets in Karachi. The main objective of this survey was to get feedback from wholesalers and retailers regarding types of toys, price range, and consumer preferences. Based on our convenience, a total of 10 wholesalers and retailers were interviewed. The following information related to the toys market was gathered;

Small and Medium Level of Manufacturing Factories

Toys are manufactured in two major cities in Pakistan, namely Lahore and Karachi, according to our research. Local vendors prefer toys produced in Lahore due to economies of scale, while small and medium toy manufacturing enterprises operating inside Karachi districts only produce substandard quality plastic toys. Small and medium-sized toy producers also confront a variety of issues when it comes to quality control and toy safety regulations.

Limited Variety of Toys

Locally manufactured toys are limited in diversity; some companies produce just plastic and metal toys, such as dolls, automobiles, kitchenware, and other relatively basic toys, rather than a diverse range of toys. The global toy industry, on the other hand, has launched technologically advanced toys; our local industry, on either hand, is unable to keep up with the changing trends.

Dragon Effect

Chinese toys are now the most prevalent in the local toy market; around 80 to 90% of the toys are imported from China. In comparison to locally manufactured toys, Chinese products appeal to local shoppers because of their low cost and huge variety. This is known as the "Dragon Effect," and as a result, our local markets are saturated with Chinese toys, and local industry is virtually non-existent.

Low Quality of Raw Material

Local manufacturers use substandard and hazardous raw materials for their products, such as recycled plastic or plastic made from recycled medical waste, which is tremendously unsafe for children's health. The main reason for using hazardous raw materials is the high cost of raw



materials. Wasted plastic material is converted into small plastic granules, and then it is transformed into toys through injection molding machines.

Anomalies in the Distribution of Imported Toys

Toys are imported to Karachi port, however local retailers claim that a container of toys costs them \$5000, while importers in Lahore, Punjab, pay \$3000. Because of this, 80 percent of toys are shipped from Lahore to Karachi. The leading cause of these discrepancies is valuation of imported toys.

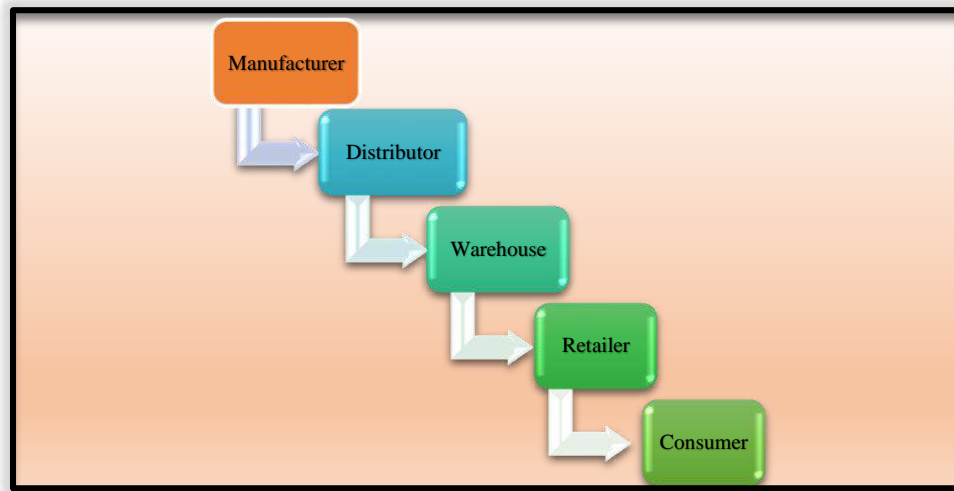
Price Range of Imported and Local Toys

Chinese toys range from Rs. 5 to Rs. 5000, depending on the product's quality. Generally, the Chinese product beats the Pakistani toys in quality and finishing, but in the cheaper toys segment, the local product competes with the Chinese product. Chinese toys have captured a considerable market share, and also customers demand imported items instead of locally produced goods due to the slightly better quality finishing of the products. Chinese toys range from Rs. 7 to Rs. 800 in rubber items, Rs. 30 to Rs. 2500 in plastic items and Rs. 60 to Rs. 5000 in mechanical toys. Locally produced toys usually range from Rs. 20 to RS. 350.

3.1-Value Chain of Toys Industry

The value chain of the toy industry is depicted in the diagram below. This diagram depicts the general value chain procedures used in the toy industry. The distribution chain begins with the manufacturers and ends with the customers. Distributors and retailers serve as intermediaries between these two parties.

Figure 7: Value Chain of Toys Industry



Source: Mdpi.com

Chapter 4- Types of Toys

The following table shows the major categories of toys along with their HS codes.

**Table 1-
List of HS-Codes**

HS-Code	Product Description
9506	Articles and equipment for general physical exercise, gymnastics, athletics, other sports,
9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; puzzles of all kinds
9507	Fishing rods, fishhooks and other line fishing tackle, n.e.s; fish landing nets, butterfly nets, and similar nets; decoys and similar hunting or shooting requisites (excluding those of heading 9208 and 9705)
9504	Video game consoles and machines, articles for funfair, table or parlor games, incl. pintables, billiards, special tables for casino games and automatic bowling alley equipment
9505	Festival, carnival or other entertainment articles, incl. Conjuring tricks and novelty jokes, n.e.s.
9508	Roundabouts, swings, shooting galleries and other fairground amusements; traveling circuses and traveling menageries; travelling theatres (excluding booths, incl. the goods on sale, goods for distribution as prizes, gaming machines accepting coins or tokens, and tractors and other transport vehicles, incl. normal trailers)

Source: ITC Trade Map

One of the primary categories representing most of the toys is tricycles, scooters, pedal cars, and similar wheeled toys; dolls' carriages; dolls; other toys models and similar recreational models, working or not; puzzles of all kinds (HS-9503).

Chapter 5-Current Scenario of Toys Trade

5.1-Exports of Toys by Pakistan

In 2020, the value of various sorts of toys exported is \$178.6 million. Articles and equipment for general physical activity, gymnastics, athletics, and other sports are Pakistan's top exports (HS-9506). From 2016 through 2020, the product's average export value was \$208.90 million. However, there is a discrepancy between this product and toys, as (HS-9506) contains sports equipment but not toys. Pakistan's toy exports, which include tricycles, scooters, pedal vehicles, and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; and puzzles of all types (HS-9503), account for barely 0.002 percent of the country's overall exports (Economy, 2020).

Table 2
Exports of Toys by Pakistan 2016-20 (in \$ Million)

HS-Code	Product Description	Average Exported Value 2016-20) in \$ million
9506	Articles and equipment for general physical exercise, gymnastics, athletics, other sports.	208.9
9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; puzzles of all kinds	0.14
9507	Fishing rods, fishhooks and other line fishing tackle, n.e.s; fish landing nets, butterfly nets, and similar nets; decoys and similar hunting or shooting requisites (excluding those of heading 9208 and 9705)	0.31
9504	Video game consoles and machines, articles for funfair, table or parlor games, incl. pintables, billiards, special tables for casino games and automatic bowling alley equipment	0.27
9505	Festival, carnival or other entertainment articles, incl. Conjuring tricks and novelty jokes, n.e.s.	0.06
9508	Roundabouts, swings, shooting galleries and other fairground amusements; traveling circuses and traveling menageries; travelling theatres (excluding booths, incl. the goods on sale, goods for distribution as prizes, gaming machines accepting coins or tokens, and tractors and other transport vehicles, incl. normal trailers.	0.01

Source: ITC Trade Map

5.2-Imports of Toys by Pakistan

From 2016 through 2020, Pakistan's total toy imports averaged \$112.17 million. Table 3 shows the average four-digit level of toy imports from 2016 to 20.

Table 3
Imports of Toys by Pakistan 2016-20 (in \$ Million)

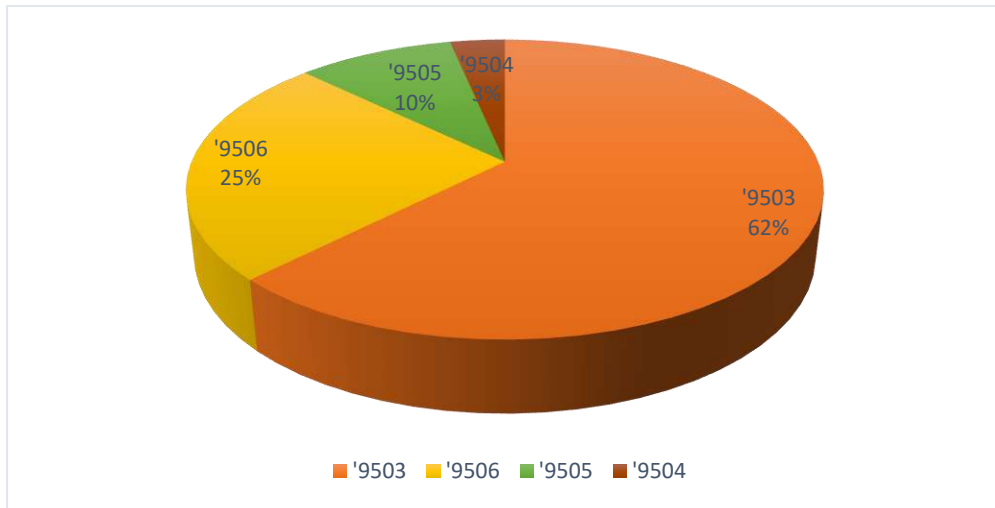
HS-Code	Product Description	Average Imported Value (2016-20) in \$ million
9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; puzzles of all kinds	42.29
9506	Articles and equipment for general physical exercise, gymnastics, athletics, other sports.	14.28
9505	Festival, carnival or other entertainment articles, incl. Conjuring tricks and novelty jokes, n.e.s.	4.76
9504	Video game consoles and machines, articles for funfair, table or parlor games, incl. pintables, billiards, special tables for casino games and automatic bowling alley equipment	2.74
9508	Roundabouts, swings, shooting galleries and other fairground amusements; traveling circuses and traveling menageries; travelling theatres (excluding booths, incl. the goods on sale, goods for distribution as prizes, gaming machines accepting coins or tokens, and tractors and other transport vehicles, incl. normal trailers)	2.62
9507	Fishing rods, fishhooks and other line fishing tackle, n.e.s; fish landing nets, butterfly nets, and similar nets; decoys and similar hunting or shooting requisites (excluding those of heading 9208 and 9705)	0.14

Source: ITC Trade Map

5.3-Import Product Mix of Toys

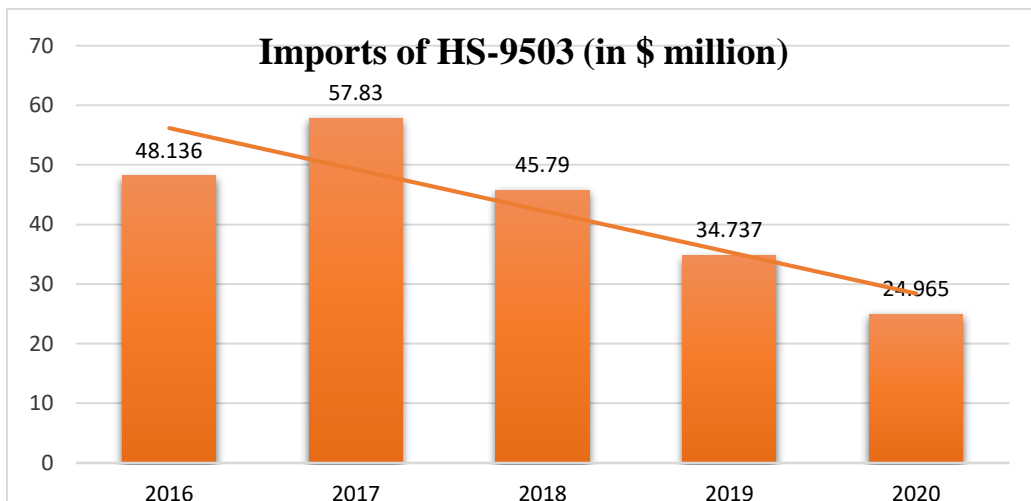
The following chart indicates Pakistan's import product mix for toy sector, based on total value of products imported in the year 2016-20. It can be seen that the major import value in Pakistan's toy sector imports is product category (HS-9503) which represents tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; puzzles of all kinds. For HS codes reflecting 0% are rounded down and form a negligible portion of the Product Mix.

Figure 8: Import Product Mix of Toys



Source: ITC Trade Map

Figure 9: Imports of Tricycles, Scooters, Pedal Cars, and Similar Wheeled Toys; Dolls' Carriages; Dolls; Other Toys (HS-9503) in \$ million



Source: ITC Trade Map

Tricycles, scooters, pedal vehicles, and other similar wheeled toys; dolls' carriages; dolls; other toys (HS-9503) is Pakistan's top imported product among all toy categories. Pakistan imported \$ 42.2 million in this category on average during 2016 and 20. (HS-9503). As a result of COVID-19 import restrictions, the value of imported products has recently decreased. (See fig 9)

In the light of the above discussion, our further analysis will be on the imports of HS-9503 at four, six, and HS code digits, respectively.

5.3.1 Top Exporters of (HS-9503) to Pakistan

Table 4
Top Exporter of (HS-9503)

HS-Code	Product label	Average Imported Value (2016-20) \$ million	Top 3 Exporters of Pakistan
9503	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size "scale" recreational models, working or not; puzzles of all kinds	42.29	China (\$40.7M) UAE (\$0.23M) UK (\$0.15 M)

Source: ITC Trade Map

China, the United Arab Emirates, and the United Kingdom are the top three exporters of the product (HS-9503) in the table above. The total value of imported goods is \$42.9 million, with \$40 million coming from China, \$0.23 million from the United Kingdom, and \$0.15 million from the United States.

To be more specific, we are taking the product (HS-9503) at six digits for further analysis as it is the topmost imported category by Pakistan. The reason for this category's prominence as the top imported product is that it encompasses all toys aimed at children under the age of 15.

5.3.2-Imports of Tricycles at 6 Digit Level (HS-950300)

Table 5
Average Imports of (HS-950300) and Tariff Applied by Pakistan

Top Exporters	Average Imports (2016-20) in \$ million	Average Tariff Applied by Pakistan (%)
China	40.72	10
UAE	0.23	13
USA	0.2	13
UK	0.15	13
France	0.08	13

Source: ITC Trade Map

China is the top exporter of the product (HS-950300), with \$40.72 million in imports to Pakistan, followed by the UAE, the United States, the United Kingdom, and France. When it comes to tariffs, Pakistan has imposed a 10% tariff on imports from China and a 13% duty on the rest of the world. Because China is Pakistan's largest toy exporter, tariffs on Chinese imports should be further decreased to minimize the import bill. One of the main reasons that China is a global exporter is



the low cost of labor and utilities, as well as the incentives provided by the Chinese government to export-oriented sectors to reduce manufacturing costs (Incorporated, 2019).

Chapter 6- Cross Country Comparison

In the table given below top export destinations of China are shown from 2016-2020.

Table 6
China's Top Export Destinations of (HS-950300)

Exporter	Top 5 Export Destinations	Average Imported Value (2016-20) in \$ million	Tariff Faced by China (%)
China	USA	7,361	0
	UK	1,420	0
	Japan	966	0
	Germany	944	0
	Singapore	738	0

Source: ITC Trade Map

China is the top exporter of tricycles, scooters, pedal cars, and similar wheeled toys (HS-950300) globally. While the leading importers of the product (HS-950300) are the USA, UK, Japan, and Germany, followed by Singapore. All of these countries have applied zero Tariff to China; on the other hand, Pakistan has applied 10 percent tariff on tricycles imports instead of having the most significant imports of (HS-950300) among all the categories of toys. The quality and price of Chinese products make them competitive all over the globe.

China has grown to become the world's top maker and exporter of toys by taking advantage of low labor costs and cheap raw materials. Strict safety rules imposed by Western governments, as well as consumer knowledge of the dangers of high-lead toys, are impacting shipments of toys from China. For example, lead levels in paint used to coat children's toys must be tested for lead and verified by independent laboratories under legislation passed by the United States Congress. Exporting to European countries is subject to considerably more stringent regulations. Certain odors are now prohibited on toys sent into the continent, according to new legislation. But Chinese Producers adjust their products to meet the changing demands. China is still the world's largest manufacturer and exporter of toy products (GROUP, 2017).

Chapter 7- Custom and Regulatory Duty on Imports of Tricycles (HS-950300) by Pakistan

Table 7
Custom and Regulatory Duty on Imports of Tricycles

Duty	Applicable Rate
Custom Duty (CD)	20%
Regulatory Duty (RD)	25%

Source: Federal Board of Revenue

Imports of tricycles are subject to a 20 percent customs duty and a 25% regulatory duty, respectively. Although it is true that such high duty rates protect our domestic industry, the domestic industry is still not flourishing at a significant level. Because our domestic economy is highly reliant on imports, and high-end toy manufacture is virtually non-existent in the country, such high duty rates make importers' and domestic consumers' prices unaffordable.

Children's toys are subject to a 35 percent import charge, but corporations involved in their import have been misdeclaring the commodities and paying only a 5% duty. To deceive Customs, tyers were removed from the toy unit. The Pakistan Customs Tariff classifies Goods as "parts" under category 9503.0040 (toy components), with a 5% customs charge. While the real customs duty under the Pakistan Customs Tariff Codes (PCT) heading IS9503.0010 is 20%, there is also a 15% regulatory duty. The toys are declared as spare for toys by the importers to dodge the lawful customs and regulatory charge, according to the violation report filed by customs (Business Recorder, 2018).

Chapter 8-Global Perspective of Toys Trade

8.1- Top Import and Export Destinations of (HS-950300)

China is the top exporter of the category (HS-950300), with a value of \$28,639 million, followed by the Czech Republic (\$ 2,643 million), Germany (\$ 2,269 million), and Hong Kong (\$ 2,472 million). The United States, Germany, the United Kingdom, and France are the top importers of the product, followed by Japan. The United States, Germany, and the United Kingdom, on the other hand, are the top importers, followed by France and Japan. (See table 9).

Table8
Top Import and Export Destinations (HS-950300)

Exporters	Average value exported 2017-20 (\$ million)	Importers	Average imported value 2017-20 (\$million)
China	28,639	USA	14,869
Czech Republic	2,643	Germany	3,305
Germany	2,269	UK	2,755
Hong Kong	2,472	France	2,218
Netherlands	1,232	Japan	2,190
USA	1,178	Canada	1,463
Viet Nam	938	Poland	1,149
Poland	737	Czech Republic	1,136
UK	878	Netherlands	1,235
France	714	Hong Kong	1,605

Source: ITC Trade Map

8.1.1-Analysis at 8 Digit Level (HS-95030090)

Our further analysis is at the 8-digit level, to be more specific.

8.1.2-Comparison between Top Export and Import Destinations of Pakistan (HS-95030090)

Table 9
Top Import and Export Destinations of Pakistan (HS-95030090)

Top 5 Importing Countries			Top 5 Exporting Countries		
Importers	Average Exported value(2017-20) \$ million	Tariff (%)	Exporters	Average Imported value(2017-20) \$ million	Average Tariff Applied by Pakistan (%)
Germany	0.053	0	China	32.476	10
UAE	0.02	5	UK	0.13	13
USA	0.011	0	USA	0.203	13
Madagascar	0.005	20	UAE	0.167	13
Nigeria	0.002	20	Germany	0.114	13

Source: ITC Trade Map

Based on the average exported and imported values, the top 5 importing and exporting countries are given above. Germany, UAE, USA, Madagascar, and Nigeria are among the top importers of Pakistani toys product tricycles (HS-95030090). Some of the top importers, such as the United Arab Emirates and the United States, are also among the top five exporting countries to Pakistan. China is the biggest exporter of tricycles to Pakistan, with \$32.47 million in imports. Pakistan imposes a ten percent duty on tricycle imports from China, while the remaining exporters of the product face a 13 percent tariff.

8.2-Price Comparison between Imported and Domestic Tricycles

Table10
Comparison between Imported Price and Domestic Price of (HS-95030090)

Exporters	Average Import Price 2017-20 (\$)	Average Import Price 2017-20 in PKR	On Average Domestic Price
China	12.4	2,067	\$US21/ Rs3300
UAE	14.7	2,351	
UK	18	3,023	
USA	10.3	1,679	
Germany	12.2	2,015	

Source: Calculations based on ITC Trade Map

The table above compares the prices of tricycles (HS-95030090). Based on the value and quantity imported, we computed average import prices from 2017 to 2020. Imported tricycles cost between \$12 and \$15, whereas locally made tricycles cost around \$21. As previously said, China is our major exporter; nevertheless, Pakistan has imposed a 10% duty on China, despite the fact that an imported tricycle from China costs \$12. The United States, on the other hand, is subject to a 13 percent duty, and the cost of an imported tricycle in the United States is \$10. The import bill might be cut by \$0.05 million if Pakistan lowers its tariff on the United States to 10%. Furthermore, Pakistani importers believe that Chinese tricycles are not that good quality compared to their prices.

Chapter 9- India's Toy Industry

The toy industry is worth \$100 billion worldwide. China, Japan, and the United States have risen to the top of the toy market on a global scale. India's toy exports totaled \$130 million in 2019-20, with the United Kingdom and the United States constituting as main export destinations. Despite the fact that India only accounts for \$1.5 billion or 0.5 percent of the global toy market, this trend is changing, as the Indian market share is expanding at a rate of 15% per year, indicating a huge potential for bringing the local industry on the map (Trade Promotion Council of India, 2021).

India's domestic demand is around \$1 billion, and about 80 percent of this demand is met by importing from other countries, majorly from China, which indicates that just 20 percent is fulfilled locally. At the moment, India is spending \$600 million on the import of electronic and plastic-molded toys from China (industries, International council of toys industries, 2020).

Table 11

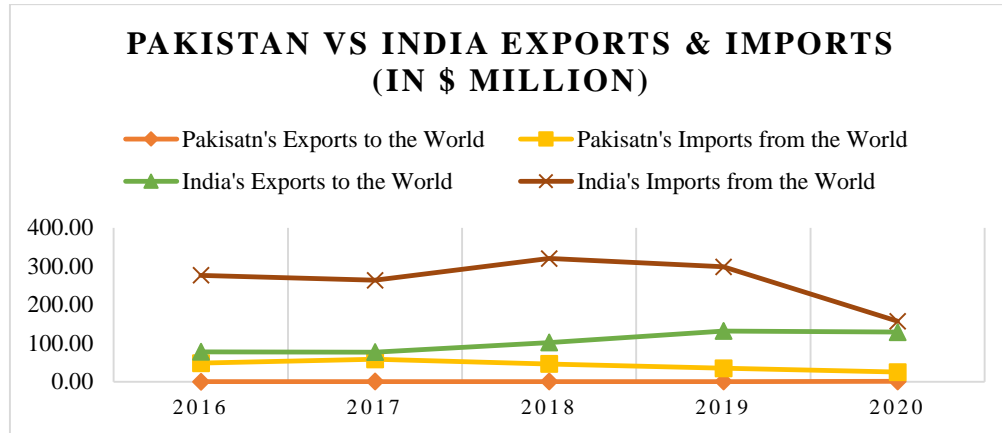
Pakistan & India Trade of (HS-9503) Tricycles, scooters, pedal cars, and similar wheeled toys; dolls' carriages; dolls; other toys

Year	Pakistan's Exports to the World (in \$ million)	Pakistan's Imports from the world (in \$ million)	Trade Ratio (Export/Import) of Pakistan with World	India's Exports to the World (in \$ million)	India's Imports from the world (in \$ million)	Trade Ratio (Export/Import) of India with World
2016	0.006	48.13	0.00012	77.61	276.30	0.281
2017	0.032	57.83	0.00055	76.58	263.45	0.291
2018	0.08	45.79	0.00175	101.61	319.89	0.318
2019	0.1	34.73	0.00288	131.49	298.57	0.440
2020	0.45	24.96	0.01835	128.51	156.86	0.819

Source: ITC Trade Map

From 2016 to 2020, table 12 compares the toy trade between Pakistan and India. In comparison to India, Pakistan's exports of (HS-9503) are insignificant. The trade ratio for Pakistan is unfavorable during the entire period as compared to India. The COVID-19 pandemic, which has struck the world economy as a whole, has resulted in a decrease in trade volume for both countries in 2020. (See fig 10). To protect the domestic sector, the Indian government has raised the customs charge on (HS-9503) imports from 20% to 60% by 2020.

Figure 10: Pakistan & India Trade of 9503 Tricycles, scooters, pedal cars, and similar wheeled toys; dolls' carriages; dolls; other toys



Source: ITC Trade Map

9.1-Comparison of Pakistan and India Top Exporters of (HS-950300)

The following table shows the top 5 exporters of toys at six-digit level to India and Pakistan. On average imported value of both countries has been taken from 2016-20. The second column of the table represents the Tariff applied by India, whereas the third column shows the price per unit. The following columns show the exact data for Pakistan. China is the top exporter to both countries; India's imported value is 17 times more than Pakistan. If we look at the tariff structure, India has applied an 8.9% tariff on China, and Pakistan's Tariff is 10%. It is interesting to note here that in the year 2020 government of India has increased import duty on toys from 20% to 60%.¹

Toys exports of India stood at \$100 million, and there are 4000 small and medium manufacturing units in India. 85% of the toys are imported from China, followed by Sri Lanka, Hong Kong, China, and Malaysia. Indian Government has taken these steps to protect the domestic industry.

¹ <https://economictimes.indiatimes.com/news/economy/policy/government-may-announce-formulation-of-policy-for-toys-sector-in-budget-2021/articleshow/80432018.cms?from=mdr>



Table 12
Pakistan and India Top Exporters of (HS-950300)

Exporters to India	Value imported in 2020 (\$ million)	Average Tariff applied by India (%)	Price per Unit	Exporters to Pakistan	Value imported in 2020 (\$ million)	Average Tariff applied by Pakistan (%)	Price per Unit
China	235.31	8.9	15	China	40.72	10	12.4
Sri Lanka	4.85	0	6	UAE	0.23	13	14.7
Hong Kong	6.56	12.5	45	UK	0.2	13	18
Malaysia	3.2	0	5	USA	0.15	13	10.3
Thailand	1.51	0	27	France	0.08	13	12.2

Source: ITC Trade Map



Chapter 10- Conclusion and Policy Recommendations

10.1- Conclusion

In the light of foregoing analysis, it is concluded that Pakistan's toy industry is highly unorganized, as some small and medium manufacturers producing poor quality toys. The toy industry of Pakistan is divided among organized and unorganized sector. There is no one manufacturer at national level, small clusters which produce toys often price at 20 to 50 Rs for lower end of market.

There is no study on the value or the volume of domestic toy market. However estimates about demand and potential of market can be analyzed from the fact that according to Karachi Port Trust 15-16 containers of Chinese toys (worth \$15,000-\$20,000) found their way into the port city while 20-22 containers were procured by Lahore-based importers monthly. The wholesalers import directly from international market that distributes them to retail stores that spread over to all over the country. Now toys are starting to become lifestyle commodities, propelled by higher disposable incomes and affordable prices.

Pakistan imports toys from China to meet domestic demand, followed by the UAE, the United Kingdom, and the United States. The "Dragon Effect" has inundated 80 to 90 percent of the local toy market with Chinese toys. Because of the quality and finish of the products, China has a competitive advantage in the toy industry. Low pricing and a wide range of products have also caught the interest of buyers. Despite massive demand, Pakistan's toy industry is mostly ignored, in spite of the fact that children under the age of 15 account for 34.8 percent of the country's population.

Pakistan's locally manufactured toys are made from plastic scrap, which is neither user-friendly nor eco-friendly. It is pertinent to mention that many domestic industries have been shut down due to stiff competition faced by the influx of low-cost Chinese toys. The lack of recognition of the significance of this sector and the inadequate infrastructure has never allowed the sector to flourish.

10.2-Policy Recommendations

- Formulation of a comprehensive import substitution policy is the dire need of the hour, for which the first crucial part of the strategy is to find areas for investment in manufacturing, which can cater to domestic needs that are currently being met by imports.



- To stop flow of sub-standard toys into domestic market, a quality control order should be issued by the concerned department. Quality control orders would help in boosting the local industry.
- For local toy production, advanced machinery and equipment can be imported from countries like South Korea and Japan.

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