China's Toy Market

I. Market Overview

Toys in the Chinese market can be classified broadly into electronic, mechanical, plastic and wooden toys. In addition to traditional offerings, models, licensed toys (including movie spin-offs, cartoon characters, etc), dolls, high-tech toys, educational toys, internet-connected toys and toys for adult recreation and entertainment have continued to come onto the market.

According to data from market research company Euromonitor, the total retail sales of toys and games in China have soared from RMB111.8 billion in 2012 to RMB276.5 billion in 2017, registering an average annual growth rate of 19.9%. In 2017, retail sales of traditional toys and games increased by 7.4% year-on-year to RMB74.43 billion, representing 26.9% of total market turnover, while retail sales of electronic toys and games increased by 24.1% year-on-year to RMB202.07 billion, accounting for 73.1% of total market turnover.

As urban dwellers’ incomes rise and quality of life improves, toys demands are beginning to change. There is a shift away from traditional, medium- to low-end battery-operated toys, construction sets and decorative toys, towards innovative electronic toys, intelligent toys, up-market plush toys and decorative cloth toys. Nevertheless, industry players believe that many people underestimate the spending power of China’s low-income groups. With average income rising at a rate of 7-10% annually, wage earners are enjoying higher disposable incomes, which should mean an increase in demand for inexpensive toys as well.

As of 2016 there were around 236 million children under the age of 14 on the mainland, the year when China began the full implementation of the two-child policy under the 13th Five-Year Plan (2016-2020). The National Health and Family Planning Commission predicts that the number of newborns will climb to between 17.5 million and 21 million annually during the period. This, along with China’s steady economic growth, should mean that toy market prospects are rosy.

Electronic toys

High-tech electronic toys have become increasingly popular in recent years. Interactive, electronic toys with relatively high technology content have emerged as mainstream items. Another growth area is educational toys inspiring children’s imagination and creativity and enhancing their in-hand coordination skills. Toys that combine learning and fun are well received by children and parents alike.

E-sports games have witnessed rapid growth on the Chinese mainland in recent years and their development has fuelled the growth of the electronic toy market. E-sports games are played using electronic devices, such as computers and video game consoles.
E-sports games typically emphasise players trying to outwit rivals through move and countermove. Figures released by market research company, Newzoo, show that total revenues of the top 25 games distributors around the world reached US$94.1 billion in 2017, with four of them being Chinese companies, namely Tencent, NetEase, Perfect World, and 37Games. Among the market leaders worldwide, Tencent ranked first with a revenue of US$18.1 billion and a growth rate of 51%, accounting for 15% of total global games market revenues. The company also maintained its position as the largest in the sector for five consecutive years.

According to Euromonitor data, children under six are the main consumers of traditional toys and games, accounting for about 48% of retail sales. Parents tend to buy educational toys so that their children can prepare for school as they play. Due to the popularity of electronic games, the percentage of children aged seven to 19 playing with traditional toys and games has dropped from 41.5% in 2016 to 39% in 2017.

Plush toys

Plush toys in novel and unique designs have been much sought after in the past few years, especially popular TV and animation characters. The latest trend in this sector of the toy market niche is integrating electronic toys with plush toys, while plush toys that also double as household ornaments have also gained favour among many households.

Educational toys

Educational toys and toys that can help children learn are most preferred by parents, especially for parents of children aged four to six. Of the JD.com list of most popular toys sold online in the first quarter of 2018, eight of the top 10 items were educational toys. For example, the fact that Lego City Mobile Command Centre took the top slot indicates that educational toys are immensely popular with both parents and children.

Animation and related spin-offs

According to research by Intelligence Research Group, the animation spin-off market in China topped RMB45 billion in 2016, with animation toys accounting for the lion's share. Toy-animation crossover is gradually developing as a profitable business model, with Legend of Qin and Boonie Bears being among the more popular products. To date, the five Boonie Bears films have made RMB1.912 billion in total box office revenue, with sales of licensed animation products reaching RMB2.5 billion. However, most companies still focus on the production of animation characters from the US and Japan such as Doraemon and Chibi Maruko Chan. Animation lovers aged 18-35, who have considerable spending power and are willing to spend on animation toys, are major buyers in the niche.

Toys for adult recreation and entertainment

According to a market survey, the production, design and sales of toys in China mainly targets children, accounting for 99% of the industry, while the toys for adults market is almost negligible. By contrast, in the US, over 40% of toys are specially designed and made for adults. In Japan, toys for adults have a market share of over 65%. Among Japanese adults aged 18 or above, at least 84% have their own toys.

The biggest difference in toys for adults is the greater emphasis on training thought,
memory, resourcefulness and co-ordination, as well as developing personal character. Some consumers of toys for adults said they now have the financial means to buy toys that they could not afford when they were young, with the toys acting as a kind of compensation. According to the China Toy Association, toys for adults have a potential market value of about RMB20 billion.

**China’s 2017 toy imports breakdown:**

<table>
<thead>
<tr>
<th>HS Code</th>
<th>Description</th>
<th>2017 (US$ million)</th>
<th>2017/16 Growth (%)</th>
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<tbody>
<tr>
<td>9503</td>
<td>Tricycles, scooters, pedal cars and similar wheeled toys; carriages; dolls; other toys: reduced-size (“scale”) models and similar recreational models working or not; puzzles of all kinds</td>
<td>558.3</td>
<td>12.7</td>
</tr>
<tr>
<td>9504</td>
<td>Articles for funfair, table or parlour games, including pintables, billiards, special tables for casino games and automatic bowling alley equipment</td>
<td>572.7</td>
<td>-43.8</td>
</tr>
<tr>
<td>9505</td>
<td>Festive, carnival or other entertainment articles, including conjuring tricks and novelty jokes</td>
<td>11.3</td>
<td>-29.8</td>
</tr>
</tbody>
</table>

Source: Global Trade Atlas

**II. Market Competition**

China is a major toy producer. An estimated 80% of all toys produced worldwide are made on the mainland. The primary toy production and export bases are Guangdong, Jiangsu, Shanghai, Shandong, Zhejiang and Fujian. Among these six, Guangdong is the leader, with manufacturing centred around Shenzhen, Dongguan, Guangzhou, Shantou’s Chenghai, and Foshan.

The bulk of toy exports are produced OEM for foreign brands. Although China has for many years occupied an important position in toy production, market pressures are increasing. As production costs on the mainland continue to rise many toy companies opted to relocate production lines to other Asian markets, such as India or Vietnam, where labour wages are lower.

Competition in the Chinese toy market is intensifying. The high-end of the market is dominated by foreign enterprises, while local brands are the mainstay in medium- to low-end segments. Practically all international toy giants have established factories on the mainland or collaborated with local manufacturers for production. Most of the major global toy makers have also made inroads into the mainland market by appointing sales agents or setting up their own marketing operations. Examples include Mattel and Hasbro of the US and Japan’s SEGA.

In light of factors like declining external demand, escalating production costs and changes in the renminbi exchange rate, Chinese toy exporters are coming under tremendous pressure. Many enterprises are increasingly looking to the domestic market for business opportunities. In recent years, many brands have proactively set up sales channels to tap the local market, among which are international brand names such as
Disney and Mattel and local brands like Auldey and Goodbaby. Foreign and Sino-foreign joint venture products make up the lion's share of the domestic toy market.

Competition is keen in the traditional toy market, with few brands commanding significant market share. Alongside famous international brands like Lego and Mattel, which are perennial favourites, domestic brands such as LDCX of Guangzhou and GA Creatives are growing in competitive strength. They mainly seek to attract consumers in second- and third-tier cities, competing on price through diversified sales channels.

In terms of pricing, there is a huge gap between locally made toys and international brands. As such, locally made toys still maintain a strong edge in the medium- to low-end market segments and practically monopolise sales channels such as the wholesale market and independent retailers.

While OEM production remains dominant in China’s toy industry, changes are taking place. Some Chinese toy makers are paying more attention to R&D, while a number of key enterprises with their own proprietary IPR and brand names have emerged, such as Auldey, Lanmao, Goodbaby, Dove and Huawei. In the Pearl River Delta region, toy enterprises have also embarked on transformation and are gradually shifting operations up the value chain, increasing efforts in sales and marketing and product development.

II. Sales Channels

Traditional sales channels for toys include major shopping centres offering mainly mid- to high-end, international brand-name toys; supermarkets and hypermarkets which are important for medium-to-low priced toys; and wholesale markets. Specialty stores and franchise chains such as Toys "R" Us, Édutainment, Leyou and Lijiababy have been expanding in recent years and have become a major toy-buying channel for parents. New sales channels, including online shops, have also flourished. A survey conducted by HKTDC finds that many parents purchase toys online. Their main shopping channels include the websites/apps of domestic mother-and-baby stores/shopping malls (24%), cross-border e-commerce websites (8%), and WeChat commerce (7%).

Toy suppliers have found their way into the fast developing e-commerce platforms in recent years. Major online shopping channels include Tmall, Taobao, JD and Yihaoqian. According to Tmall, a number of toy brands, such as Hasbro, Barbie, Toys "R" Us and Bandai, have gained a foothold in baby.tmall.com. Meanwhile, e-commerce platforms act as an effective channel for foreign brands to tap into the Chinese market.

There are two main ways foreign brands break into the Chinese market – by appointing agents or by making a direct entry into the retail sector. The products offered by foreign toy makers often have high technology content, such as electronic toys, educational toys and game consoles, posing a clear challenge to the traditional toy market.

Selected China toy exhibitions 2018-2019:
<table>
<thead>
<tr>
<th>Date</th>
<th>Exhibition</th>
<th>Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>25-27 July 2018</td>
<td>Children, Baby, Maternity Expo (CBME)</td>
<td>National Exhibition and Convention Center (Shanghai)</td>
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<tr>
<td>16-18 October 2018</td>
<td>China International Toy Fair</td>
<td>Shanghai New International Expo Center</td>
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<tr>
<td>5-7 November 2018</td>
<td>Shenzhen International Maternity Baby Children Products Exhibition</td>
<td>Shenzhen Convention and Exhibition Center</td>
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<tr>
<td>8-10 April 2019</td>
<td>Guangzhou International Toy &amp; Hobby Fair</td>
<td>Poly World Trade Center Expo, Guangzhou</td>
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<tr>
<td>11-13 May 2019</td>
<td>Beijing International Kindergarten Supplies Exhibition</td>
<td>China International Exhibition Center</td>
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IV. Import and Trade Regulations

China implements zero tariffs on toys from countries and regions enjoying the Most Favoured Nation status.

According to Chinese regulations, all products listed in the China Compulsory Certification (CCC) catalogue are subject to testing by designated testing and certification centres. Only products passing CCC certification and granted the CCC mark can be imported. The following six types of toys are subject to CCC certification: children’s vehicles, electronic toys, plastic toys, metal toys, projectile toys, and dolls.

Foreign companies venturing into the mainland toy market should be aware of the relevant standards in the industry. In the Standardisation Law of the People’s Republic of China, which took effect on 1 April 1989, four levels of standards are stipulated: national standards, industry standards, local standards and enterprise standards, in descending order of binding force. National standards are classified into mandatory and recommended standards, represented respectively by standard codes GB and GB/T. For industry standards, there are likewise mandatory standards and recommended standards, with the toy industry deemed a light industry and represented by the standard codes QB and QB/T respectively. Local standards are mandatory within their respective administrative regions, while enterprise standards are applicable to the respective enterprises. For details of the standards, see www.standardcn.com and the Standardisation Administration of China (SAC) website.

On 1 June 2007, the new version of the National Standard on Instructions for Use for Toys (GB 5296.5-2006) was implemented. Compared to the 1996 version, revisions on labelling requirements have been made in aspects like age range, safety warnings, main constituent or material, use methods, and maintenance. New requirements on permanent labelling and positions have also been added. Meanwhile, Appendix A in the 1996 version on the “relevant contents of instructions for use of toys” has been deleted.

In order to further regulate children’s toys recalls, to prevent and eliminate harm that may result from defective toys and to ensure children’s health and safety, the Regulations for the Administration of Recalls for Toys came into effect on 3 September
Since 1 September 2008, China has implemented a new set of standards for plush toys and cloth toys, GB/T 9832-2007, to replace the standards on the safety and quality of plush toys and cloth toys drawn up in 1993. The new standards require that toy fillings should be even and of an appropriate softness, contain no hard objects and can hold the toy’s shape.

In a move to regulate the inspection and supervision of import and export toys, strengthen management over import and export toys, and protect consumers’ health and safety, the Measures for the Administration of Inspection and Supervision of Toy Imports and Exports were implemented on 15 September 2009, setting out provisions governing the market access criteria for import and export toys, inspection of import and export toys, registration of toy exports, as well as the supervision of and legal responsibility for import and export toys.

In order to minimise the effects of wooden toys on the environment and on health when they are manufactured, used or discarded pursuant to the Environmental Protection Law of the PRC, the Requirements for Environmental Certification of Wooden Toys (HJ566-2010) have been implemented since 1 June 2010. The national standards set out requirements for environmental performance associated with the production of wooden toys and their raw materials and packaging.

On 1 December 2010, revisions were made to the CCC scheme implementation regulations on six types of toys, namely children’s vehicles, battery-operated toys, projectile toys, dolls, plastic toys and metal toys. The revisions further clarify the relevant technical requirements for these types of toys and shorten the time limit for certification. The CCC toy standards govern toys’ raw materials, as well as structural and circuit design in a bid to protect children’s safety. The above products which have not been certified or do not carry a certification mark are not allowed to leave the factory, be sold in, imported to, or used in other business activities in China.

The Guidelines for Matching Toys with Children’s Age (GB/T 28022-2011) have been in force since 1 February 2012. The guidelines apply to toys designed for children under 13, and set out the methods of matching toys with children’s age and the relevant terms and definitions.

The Measures for the Administration of Inspection and Supervision of Toy Imports and Exports (Revised) introduced on 23 November 2015 set out provisions for supervision and management of the recall of defective import and export toys that may cause injuries to children. Export toys making a declaration for inspection for the first time must submit a test report issued by the test laboratory for import and export toys, as well as other documents, as required.

The National Technical Requirements for Toy Safety (GB 6675-2003), in force since 1 January 2016, contain four newly added mandatory national standards. Compared with the old standards, the four new requirements have the following three features: (1) the scope of application has been expanded to cover toys and materials designed for play by children aged under 14, as well as products not specifically designed as a toy but possessing features which can be played with by children aged under 14; (2) the requirements for safety indicators, including sound, mechanical parts and combustibility, have been tightened; (3) six plasticisers, including dibutyl phthalate (DBP), have been
listed as restricted substances, with restrictions on the maximum quantities in line with those in EU standards.

To ensure the safety and quality of children’s toys and to protect children’s health and safety, the SAC has revised GB 6675-2003: National Technical Requirements for Toy Safety which was subsequently superseded and replaced by Parts 1 to 4 and 11 to 14 of GB 6675-2014: National Standard for Toy Safety. The requirements are mandatory and have been in force since 1 January 2016.

The revised Catalogue of Entry-Exit Commodities Subject to Inspection and Quarantine (2016) came into effect on 1 September 2016, removing the requirement for inspection and quarantine (Condition “B”) of toys, children’s vehicles and child safety seats for exports (involving commodities under 15 HS codes). Since then, entry-exit inspection and quarantine departments no longer carry out inspection or quarantine of such export commodities.

Determination of Total Lead Content in Materials of Toys and Children’s Products (GB/T 22788-2016) has been implemented since 1 July 2017 to replace the Determination of Total Lead Content in Surface Coating on Toys (GB/T 22788-2008). The new national standards revise the scope of applicability and include metallic and non-metallic materials in the determination of total lead content.

Under the Measures for the Administration of Inspection and Supervision of Toy Imports and Exports, in force from 6 March 2018, toy imports which have passed inspection are not required to affix the inspection and quarantine mark.