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UNBOXING THE 'EXPORT TURNAROUND' IN INDIA'S TOY STORY

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'India's toy industry is minuscule' | Photo Credit: Getty Images/iStockphoto

India has recently turned a net exporter of toys, during 2020-21 and 2021-22, ending decades of import dominance. Between 2018-19 and 2021-22, toy exports increased from $109 million (812 crore) to $177 million (1,237 crore); imports declined from $371 million (2,593 crore) to $110 million (819 crore), official data show. These facts are indisputable. They can be cross-verified by mirror images of trade figures from corresponding importing or exporting countries.

The achievement is widely credited to the 'Make in India' initiative launched in 2014, and related policies, official press releases claim. Moreover, in 2020, the Prime Minister Narendra Modi reportedly spoke of promoting toy manufacturing, in his talk show, 'Mann ki Baat'. What can explain such a sharp turnaround in the toy trade? Does it represent a sustained rise in investment, output and efficiency gains nurtured by policy reforms? Or is it a short-term outcome of protectionism and COVID-19 pandemic-related global disruptions?

India's toy industry is minuscule. In 2015-16 (the latest available figures combined for the organised and unorganised sectors), the industry had about 15,000 enterprises or establishments, producing toys valued at 1,688 crore using fixed capital of 626 crore at current prices and employing 35,000 workers. Registered factories — those employing 10 or more workers on a regular basis — accounted for 1% of the number of factories and enterprises, employed 20% of workers, used 63% of fixed capital, and produced 77% of the value of output. However, during the one and half decades between 2000 and 2016, industry output was halved in real terms (net of inflation) with job losses. Imports accounted for up to 80% of domestic sales until recently. Between 2000 and 2018-19, imports rose by nearly three times as much as exports.

India hardly figures in the global toy trade, with its exports at a mere half-a-percentage point. Between 2014-19, the Indian toy industry witnessed negative productivity growth. So, what explains the sharp turnaround in toy trade in just three years? Imports contracted as the basic custom duty on toys (HS Code-9503) tripled from 20% to 60% in February, 2020. Numerous non-tariff barriers were imposed as well such as production registration orders and safety regulation codes, which contributed to import contraction (Press Information Bureau release July 5, 2022).

The question, therefore, to ask is: do net exports represent sustainable improvements in industrial capability and performance contributing to import contraction, or are these the mere short-term effects of protectionist measures? The question merits attention as toy making, a labour-intensive industry, has all along played a vital (and perhaps outsized) role in policy discourse.

Historically, Asia's successful industrialising nations promoted toy exports for job creation, starting with Japan about a century ago, China since the 1980s, and currently Vietnam following in their footsteps. However, India, followed an inward-oriented industrial policy in the Planning-era, which sheltered domestic production by providing a "double protection" — by imports tariffs and reservation of the product for exclusive production in the small-scale sector — known as the "reservation policy". The outcome? Toy manufacturing remained stagnant, archaic and fragmented, even as imports of modern, safe, and branded toys boomed. The industry is emblematic of all that was wrong with misguided industrial policy, as many critics of India's industrial policy have contended.

In 1997, in the wake of liberal reforms, the reservation policy was abolished. Expectedly, new firms entered the organised sector, but only for a while, and productivity growth improved. But the unorganised sector languished with job losses, even as a majority of workers remained there.

In a recent study (*India's Toy Industry: Production and Trade since 2000*, Economic and Political Weekly, May 6, 2023) we re-examined the industry output and export performance, since about 2000, with a new firm-level dataset from the formal and informal sectors synchronised with a four-digit product-level trade data. In particular, we looked into how more recent policy initiatives, such as 'Make in India', have a bearing on the toy industry.

We found that the annual value of output and fixed investment at constant prices (net of inflation) after peaking in 2007-08, have trended downwards with considerable fluctuations (except for 2019-20). Apparently, there is no evidence of 'Make in India' positively affecting these indicators on a sustained basis. The output of the informal or unorganised sector shrank, though it continues to account for the majority of establishments and employment.

Despite early positive trends, industry de-reservation (though it helped formalise the industry), failed to sustain output, investment, and productivity growth after 2007-08. Contrary to popular perception and official claims, 'Make in India' had a negligible effect in strengthening toy production and exports on a sustained basis.

As the reported turnaround in toy exports is based on data from just two recent years, and during the COVID-19 pandemic, it is perhaps too premature to claim policy success. The potential for sustaining net exports appears slim as the industry has hardly made sustained investment to boost output and exports.

To sum up, India's export surplus in toys during 2020-21 and 2021-22, is a welcome change. However, it seems to be driven by a rise in protectionism, and the exceptional circumstances of the COVID-19 pandemic. The turnaround does not seem to be the outcome of strengthening domestic investment and production on a sustained basis. Since around 2000, the industry has shrunk with rising imports, until two years ago. Though minuscule, as the industry has an outsized role in policy discourse, the study seems to offer valuable lessons. Neither the reservation policy as during the Planning era, nor its abolition after the liberal reforms boosted the industry's performance. One should perhaps look beyond simplistic binaries — planning versus reforms — and examine the ground reality of industrial locations and clusters to tailor policies and institutions to nurture such industries.

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