



TOY RECALL IMPACTS HOW U.S. COMPANIES DO BUSINESS IN CHINA

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Following a massive recall by the world's largest toymaker Mattel, toymakers and other manufacturers are reexamining whether the benefits of inexpensively creating products in China outweigh the risks.

Mattel voluntarily recalled more than 18 million Chinese-made toys earlier this month after the company discovered "impermissible levels of lead paint" and the use of loose magnets that children could swallow. This follows an earlier recall for other toys with lead paint by the company.

As a result Mattel has said it will increase testing of toys and the materials, especially paint, used to make them.

"We're reaching out to people today and, particularly parents. We've changed our own testing procedures, so we'll be extra vigilant in this area," Robert Eckert, the chairman and chief executive of Mattel, said in a conference call, the New York Times reported.

But it remains to be seen if the lead paint problem -- and Mattel's response -- will impact the company's bottom line.

China responds

Chinese government officials responsible for product safety have said that the current criticisms are exaggerated and unfair. They say that in general their toys are safe and that other producers are jealous of their hold on the manufacturing market.

"More than 99 percent of our goods meet standards," Li Changjiang, China's quality watchdog chief, said on state television, Reuters reported. "Demonizing Chinese products, or talking of the Chinese product threat, I think is simply a new kind of trade protectionism."

Despite the public statements, many in China linked to the scandal have lost their jobs and one of the factories that used the tainted paint, the Lee Der toy company, has closed. The company's head committed suicide, the BBC reported.

"We're staying until the boss' funeral -- he paid us everything we were due -- then we'll go and find new work," one worker told the BBC.

Manufacturing in China

Over 80 percent of all toys are manufactured in China. The main reason is the Asian country's cheap labor costs allow toy companies to meet retailer and consumer demand for cheap products.

When adjusted for inflation, many of today's toys may be less expensive than toys sold decades ago, even as the price of materials like plastic have increased, according to independent toy industry consultant Chris Byrne.

"We can't have ever-decreasing prices without something eventually being squeezed," Byrne told MSNBC.

Part of the challenge for toymakers will be to ensure that the companies they contract with in China are using reputable subcontractors.

"The transparency at the back-end of these operations is hazy," Eric Johnson, professor of operations management at Dartmouth's Tuck School of Business who has studied Chinese manufacturing, told MSNBC. "Each layer becomes harder and harder to manage and control."

Some experts believe tighter safety standards will help.

"Standards are a piece of the solution," John Frisbie, president of the U.S.-China Business Council, a group of American companies that do business with China, told the San Francisco Chronicle. "Enforcement is another piece. And we need criminal penalties in China."

According to U.S. law, toy manufacturers are responsible for determining the safety of their toys. Toys imported into the country are expected to meet U.S. safety standards.

Unexpected winners

But not all toymakers are on the defensive over the scandal. Some small toy manufacturers in the United States and Europe have seen a windfall since the scandal.

One is Maple Landmark Woodcraft in Middlebury, Vt., which makes wooden toys. Since the recall announcement traffic to the toy maker's Web site has increased dramatically, according to the company.

"We think we're going to be really relevant again," company co-owner Mike Rainville told the Rutland Herald.

Although "the toy business has left our shores long ago," according to Rainville, he is hopeful that consumers will demand that toys are made in the United States again.

But one barrier to capturing the lucrative toy market is that these small manufacturers have to charge more for their products and it's unclear if consumers are willing to pay the higher prices.

But not all companies strive to be the biggest.

"We are not interested in the mass market," Christian Vollmer, who is responsible for selling German toys made by Haba in the United States, told the Boston Herald. "That is not our clientele."

-- *Compiled by Annie Schleicher for NewsHour Extra*

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