The 2016 Economic and Product Market Databook for Baotou, China

Description: This study covers the outlook for products and services in Baotou. Estimates reported are given for the latent demand, or potential industry earnings (P.I.E.), for Baotou across hundreds of categories (in millions of U.S. dollars) and of the region and of the globe. These comparative benchmarks allow the reader to quickly gauge a Baotou vis-à-vis the world. Using econometric models which project fundamental economic dynamics, latent demand estimates are created. This report does not discuss the specific players in the market serving the latent demand, nor specific details at the product level. The study also does not consider short-term cyclicals that might affect realized sales. The study, therefore, is strategic in nature, taking an aggregate and long-run view, irrespective of the players or products involved.

This study does not report actual sales data, but give, however, my estimates for the latent demand, or the P.I.E. for a variety of categories. In order to make these estimates, a multi-stage methodology was employed that is often taught in courses on international strategic planning at graduate schools of business.

What is Latent Demand and the P.I.E.? The concept of latent demand is rather subtle. The term latent typically refers to something that is dormant, not observable, or not yet realized. Demand is the notion of an economic quantity that a target population or market requires under different assumptions of price, quality, and distribution, among other factors. Latent demand, therefore, is commonly defined by economists as the industry earnings of a market when that market becomes accessible and attractive to serve by competing firms. It is a measure, therefore, of potential industry earnings (P.I.E.) or total revenues (not profit) if a market is served in an efficient manner. It is typically expressed as the total revenues potentially extracted by firms. The "market" is defined at a given level in the value chain. There can be latent demand at the retail level, at the wholesale level, the manufacturing level, and the raw materials level (the P.I.E. of higher levels of the value chain being always smaller than the P.I.E. of levels at lower levels of the same value chain, assuming all levels maintain minimum profitability).

The latent demand is not actual or historic sales. Nor is latent demand future sales. In fact, latent demand can be lower either lower or higher than actual sales if a market is inefficient (i.e., not representative of relatively competitive levels). Inefficiencies arise from a number of factors, including the lack of international openness, cultural barriers to consumption, regulations, and cartel-like behavior on the part of firms. In general, however, latent demand is typically larger than actual sales in a country market. It should be noted that the estimates are “culture blind” and “climate blind”, meaning that sales may in fact be lower than the latent demand due to cultural or exogenous factors, such as religion or climate (e.g., the presence of certain religions can effect the actual sales of certain food and beverage products, in the same way that climatic conditions can affect the actual sales of clothing and/or heating products). The estimates of latent demand do not explicitly control for either these long-run exogenous factors or shot-run exogenous factors that may be present from year to year (e.g. the effects of war, SARS, terrorist activities, civil wars, natural disasters, elections, or similar events).

Another reason why sales do not equate to latent demand is exchange rates. In this report, all figures assume the long-run efficiency of currency markets. Figures, therefore, equate values based on purchasing power parities across countries. Short-run distortions in the value of the dollar, therefore, do not figure into the estimates. Purchasing power parity estimates of country income were collected from official sources, and extrapolated using standard econometric models. The report uses the dollar as the currency of comparison, but not as a measure of transaction volume. The units used in this report are: uuuu.

For reasons discussed later, this report does not consider the notion of “unit quantities”, only total latent revenues (i.e., a calculation of price times quantity is never made, though one is implied). The units used in this report are U.S. dollars not adjusted for inflation (i.e., the figures incorporate inflationary trends) and not adjusted for future dynamics in exchange rates (i.e., the figures reflect average exchange rates over recent history). If inflation rates or exchange rates vary in a substantial way compared to recent experience, actually sales can also exceed latent demand (when expressed in U.S. dollars, not adjusted for inflation). On the other hand, latent demand can be typically higher than actual sales as there are often distribution inefficiencies that reduce actual sales below the level of latent demand.

As mentioned in the introduction, this study is strategic in nature, taking an aggregate and long-run view,
income can be operationalized in a number of ways, including gross domestic product (for industrial
has high aggregate income, but low income per capita and can not assumed to be efficient). Aggregate
markets reflect the best standards for “efficiency”. High aggregate income alone is not sufficient (i.e., China
have found the assumption that the world’s highest aggregate income and highest income-per-capita
of latent demand compared to others for which no known data are available. Of the many alternatives, I
near efficiency than others. These countries and cities are given greater weight than others in the estimation
of consumption function is show as “B” in the figure below (note the higher slope and zero-zero intercept). The average propensity to consume is constant.

Is it declining or is it constant? A number of other economists, notably Franco Modigliani and Milton Friedman, in the 1950s (and Irving Fisher earlier), explained why the two functions were different using various assumptions on intertemporal budget constraints, savings, and wealth. The shorter the time horizon, the more consumption can depend on wealth (earned in previous years) and business cycles. In the long-run, however, the propensity to consume is more constant. Similarly, in the long run, households, industries or countries with no income eventually have no consumption (wealth is depleted). While the debate surrounding beliefs about how income and consumption are related and interesting, in this study a very particular school of thought is adopted. In particular, we are considering the latent demand across some 230 countries. The smallest have fewer than 10,000 inhabitants. I assume that all of these counties fall along a “long-run” aggregate consumption function. This long-run function applies despite some of these countries having wealth, current income dominates the latent demand for products and services. So, latent demand in the long-run has a zero intercept. However, I allow firms to have different propensities to consume (including being on consumption functions with differing slopes, which can account for differences in industrial organization, and end-user preferences).

Given this overriding philosophy, I will now describe the methodology used to create the latent demand estimates for this study. Since the author has asked me to apply this methodology to a large number of categories, the rather academic discussion below is general and can be applied to a wide variety of categories and cities.

Step 1. Product Definition and Data Collection
Any study of latent demand across countries requires that some standard be established to define “efficiently served”. Having implemented various alternatives and matched these with market outcomes, I have found that the optimal approach is to assume that certain key countries are more likely to be at or near efficiency than others. These countries and cities are given greater weight than others in the estimation of latent demand compared to others for which no known data are available. Of the many alternatives, I have found the assumption that the world’s highest aggregate income and highest income-per-capita markets reflect the best standards for “efficiency”. High aggregate income alone is not sufficient (i.e., China has high aggregate income, but low income per capita and can not assumed to be efficient). Aggregate income can be operationalized in a number of ways, including gross domestic product (for industrial
city's contribution to global latent demand and may never be realized in the form of local sales. For certain
This approach is useful across cities for which some notion of non-linearity exists in the aggregate cross-city
have similar characteristics in terms of economic development (i.e., African cities will have similar latent
at this is to say that latent demand for products and services is more likely to be similar across cities that
aggregate consumption function, but also over time (i.e., not all cities are perceived to have the same
is assumed to be constant unless there is empirical evidence to suggest that this effect varies (i.e., the slope
parameter cross-sectionally pooled time series model”. Simply stated, the effect of income on latent demand
Given the data available from the first three steps, the latent demand is estimated using a “varying-
the whole in the first place). All figures in this report are for sales resulting from retail channels.
Latent demand is therefore estimated using data collected for relatively efficient markets from independent
data sources (e.g. Euromonitor, Mintel, Thomson Financial Services, the U.S. Industrial Outlook, the World
Resources Institute, the Organization for Economic Cooperation and Development, various agencies from
the United Nations, industry trade associations, the International Monetary Fund, and the World Bank).
Depending on original data sources used, the definition of a category is established. In the case of this
report, the data were reported at the aggregate level, with no further breakdown or definition. In other
words, any potential product or service that might be incorporated within the category falls under the
broadest definition of category. Public sources rarely report data at the disaggregated level in order to
protect private information from individual firms that might dominate a specific product-market. These
sources will therefore aggregate across components of a category and report only the aggregate to the
public. While private data are certainly available, this report only relies on public data at the aggregate level
without reliance on the summation of various category components. In other words, this report does not
aggregate a number of components to arrive at the “whole”. Rather, it starts with the “whole”, and estimates
the whole for all countries and the world at large (without needing to know the specific parts that went into
the whole in the first place). All figures in this report are for sales resulting from retail channels.
Step 2. Filtering and Smoothing
Based on the aggregate view of products and services as defined above, data were then collected for as
many similar countries as possible for that same definition, at the same level of the value chain. This
generates a convenience sample of countries from which comparable figures are available. If the series in
question do not reflect the same accounting period, then adjustments are made. In order to eliminate short-
term effects of business cycles, the series are smoothed using an 2 year moving average weighting scheme
(longer weighting schemes do not substantially change the results). If data are available for a country or a
city, but these reflect short-run aberrations due to exogenous shocks (such as would be the case of beef
sales in a country stricken with foot and mouth disease), these observations were dropped or "filtered" from
the analysis.
Step 3. Filling in Missing Values
In some cases, data are available for countries or cities on a sporadic basis. In other cases, data may be
available for only one year. From a Bayesian perspective, these observations should be given greatest
weight in estimating missing years. Assuming that other factors are held constant, the missing years are
extrapolated using changes and growth in aggregate national income. Based on the overriding philosophy of
a long-run consumption function (defined earlier), countries which have missing data for any given year, are
estimated based on historical dynamics of aggregate income.
Step 4. Varying Parameter, Non-linear Estimation
Given the data available from the first three steps, the latent demand is estimated using a “varying-
parameter cross-sectionally pooled time series model”. Simply stated, the effect of income on latent demand
is assumed to be constant unless there is empirical evidence to suggest that this effect varies (i.e., the slope
of the income effect is not necessarily same for all cities). This assumption applies across cities along the
aggregate consumption function, but also over time (i.e., not all cities are perceived to have the same
income growth prospects over time and this effect can vary from city to city as well). Another way of looking
at this is to say that latent demand for products and services is more likely to be similar across cities that
have similar characteristics in terms of economic development (i.e., African cities will have similar latent
demand structures controlling for the income variation across the pool of African cities).
This approach is useful across cities for which some notion of non-linearity exists in the aggregate cross-city
consumption function. For some categories, however, the reader must realize that the numbers will reflect a
city's contribution to global latent demand and may never be realized in the form of local sales. For certain
category combinations this will result in what at first glance will be odd results. For example, the latent
demand for the category “space vehicles” will exist for “Togo” even though they have no space program. The
assumption is that if the economies in these countries did not exist, the world aggregate for these categories
would be lower. The share attributed to these countries is based on a proportion of their income (however
small) being used to consume the category in question (i.e., perhaps via resellers).

Step 5. Fixed-Parameter Linear Estimation
Nonlinearities are assumed in cases where filtered data exist along the aggregate consumption function.
There will always be those cities, especially toward the bottom of the consumption function, where non-
linear estimation is simply not possible. For these cities, equilibrium latent demand is assumed to be
perfectly parametric and not a function of wealth (i.e., a city’s stock of income), but a function of current
income (a city’s flow of income). In the long run, if a city has no current income, the latent demand is
assumed to approach zero. The assumption is that wealth stocks fall rapidly to zero if flow income falls to
zero (i.e., cities which earn low levels of income will not use their savings, in the long run, to purchase goods
and services). In a graphical sense, for low income cities, latent demand approaches zero in a parametric
linear fashion with a zero-zero intercept. In this stage of the estimation procedure, low-income cities are
assumed to have a latent demand proportional to their income, based on the city closest to it on the
aggregate consumption function.

Step 6. Aggregation and Benchmarking
Based on the models described above, latent demand figures are estimated for all countries and cities of the
world, including for the smallest economies. These are then aggregated to get world totals and regional
totals. To make the numbers more meaningful, regional and global demand averages are presented. Figures
are rounded, so minor inconsistencies may exist across tables.
Fax Order Form
To place an order via fax simply print this form, fill in the information below and fax the completed form to 646-607-1907 (from USA) or +353-1-481-1716 (from Rest of World). If you have any questions please visit
http://www.researchandmarkets.com/contact/

Order Information
Please verify that the product information is correct.

Product Name: The 2016 Economic and Product Market Databook for Baotou, China
Web Address: http://www.researchandmarkets.com/reports/3470844/
Office Code: SCDKY5YV

Product Format
Please select the product format and quantity you require:

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronic (PDF) -</td>
<td>USD 295</td>
</tr>
<tr>
<td>Single User:</td>
<td></td>
</tr>
</tbody>
</table>

Contact Information
Please enter all the information below in BLOCK CAPITALS

Title: Mr □ Mrs □ Dr □ Miss □ Ms □ Prof □
First Name: ___________________________ Last Name: ___________________________
Email Address: * ___________________________
Job Title: ___________________________
Organisation: ___________________________
Address: ___________________________
City: ___________________________
Postal / Zip Code: ___________________________
Country: ___________________________
Phone Number: ___________________________
Fax Number: ___________________________

* Please refrain from using free email accounts when ordering (e.g. Yahoo, Hotmail, AOL)
Payment Information

Please indicate the payment method you would like to use by selecting the appropriate box.

☐ Pay by credit card: You will receive an email with a link to a secure webpage to enter your credit card details.

☐ Pay by check: Please post the check, accompanied by this form, to:
Research and Markets,
Guinness Center,
Taylors Lane,
Dublin 8,
Ireland.

☐ Pay by wire transfer: Please transfer funds to:
Account number 833 130 83
Sort code 98-53-30
Swift code ULSBIE2D
IBAN number IE78ULSB98533083313083
Bank Address Ulster Bank,
27-35 Main Street,
Blackrock,
Co. Dublin,
Ireland.

If you have a Marketing Code please enter it below:

Marketing Code: ____________________________

Please note that by ordering from Research and Markets you are agreeing to our Terms and Conditions at http://www.researchandmarkets.com/info/terms.asp

Please fax this form to:
(646) 607-1907 or (646) 964-6609 - From USA
+353-1-481-1716 or +353-1-653-1571 - From Rest of World