

## Impact case study (REF3b)

<b>Institution:</b> Bournemouth University
<b>Unit of Assessment:</b> UOA19
<b>Title of case study:</b> Impact on Maxwell Stamp PLC, its Government Clients and the Government of Azerbaijan.
<b>1. Summary of the impact</b> (indicative maximum 100 words)

BU economic modelling research has driven increased profits for leading international consultants Maxwell Stamp PLC, to the tune of £12 million to date. Simultaneously, the research has benefited the company's clients, including several governments. For example, the research was used to provide advice critical in helping Namibia safeguard revenues of US\$700 million annually from the Southern African Customs Union (SACU).

Independent of Maxwell Stamp, the same techniques have been used to strengthen the research capabilities of the Institute for Scientific Research on Economic Reforms, Azerbaijan. This has been integral in the successful development of new, internationally competitive industries and the World Bank naming Azerbaijan one of the top 10 economic reformers.

<b>2. Underpinning research</b> (indicative maximum 500 words)
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A group of BU researchers, including Webster (BU 2002 to present), Hardwick (BU 2013 to present), Fletcher (BU 1996 to present), Morakobati (BU 2012 to present), Miller (BU 1996 to present) and more recently Hölscher (BU 2013 to present) have conducted research around two particular economic problems:

- 1) Competitiveness in international trade and attracting inward foreign direct investment (FDI).
- 2) Identifying how taxes and other government policies affect this underlying competitiveness.

Both are very important for policy analysis.

A common problem facing economists analysing trade competitiveness is missing data. In 2005, Webster and Hardwick examined the different techniques used in different sectors of different countries. They made significant developments to the techniques, including the method of using information from one country to analyse trade data from another (P5). In 2006–7, this was applied to the tourism sector under the expertise of Fletcher (P1). In 2013, Hölscher studied this within the context of emerging markets and transition economies, specifically examining the knock-on effect of opening foreign trade of a rather closed economy to the rest of the world (P6).

This research was extended by Webster to examine the advantages of international foreign investment and which factors influence it, such as having a skilled, educated work force in the US, for example (P3).

From 2009 to date, Webster and Miller have analysed the effect of government policies (and taxes in particular) on underlying profit incentives. This was originally in the context of FDI taxation, which was presented in a number of significant forums including the Tax Research Network Conference in 2009 (P2). More recently, research has centred around taxes on fossil fuels and other environmental taxes and the effect this has on the UK economy (P4).

This research specifically made significant methodological advances in quantitative analysis of the effects of taxes on incentives to invest in one sector rather than another. It also identified the importance of indirect taxes in determining inward FDI and analysed the hidden complexities of the effects of taxes on corporate income on profitability.

### 3. References to the research (indicative maximum of six references)

**P1.** Webster, A., Fletcher, J., Hardwick, P. and Morakabati, Y. (2007). Tourism and Empirical Applications of International Trade Theory: A Multi- Country Analysis. *Tourism Economics*, 13(4), 657–674. DOI: 10.5367/000000007782696041.

**P2.** Miller, A. and Webster, A (2009). *The Significance of Indirect Taxes in the Overall Effect of Taxation on Foreign Direct Investment: Evidence from the UK*. Paper presented at the Tax Research Network Conference.

**P3.** Webster, A. (2013). The location of inward investment, technical change and skilled labour: Evidence from the United States. *International Business Review*, 22(6), 981–993. DOI: 10.1016/j.ibusrev.2013.02.002.

**P4.** Webster, A. and Ayatakshi, S. (2013). The effect of fossil energy and other environmental taxes on profit incentives for change in an open economy: Evidence from the UK. *Energy Policy*, 61, 1422–1431. DOI: 10.1016/j.enpol.2013.05.016.

**P5.** Webster, A. and Hardwick, P. (2005). International Trade in Financial Services. *The Services Industries Journal*, 25, 721–746. DOI: 10.1080/02642060500103266.

**P6.** Hölscher, J., Nulsch, N., Stephan, S. (2013). Unabhängige Subventionskontrolle und staatliche Beihilfen in der erweiterten Europäischen Union. In: Theurl (Ed.), *Unabhängige staatliche Organisationen in der Demokratie*. Berlin: Duncker und Humblodt, pp. 273–296. [Trans: Independent subsidy control and state aid in the enlarged European Union in Independent government organisations in democracy.]

### 4. Details of the impact (indicative maximum 750 words)

Maxwell Stamp PLC is an economic consultancy company based in London with offices in Washington DC, Riyadh, Abu Dhabi, Dhaka and Nairobi. The company currently employs about 2,000 people globally and, founded in 1959, is one of the longest established economics consultancies with a global reputation. Past clients include the World Bank, the European Union, the United Nations, various development banks and governments throughout the world.

As a former employee, Webster has maintained the unpaid position of Associate Director for Maxwell Stamp and provides academic consultancy on economic problems for global clients. Webster has used the quantitative analysis methods developed in the research (P1, P2, P5 & P6 specifically) on a range of projects, including analysing the effects of import tariffs and business taxes on international trade and inward FDI. This has had significant economic impacts for Maxwell Stamp, as well as policy implications for governments, including Namibia.

#### Organisational impact on Maxwell Stamp

Specific research findings used by Maxwell Stamp in recent years include: (a) the analysis of underlying patterns of advantage in international trade; and (b) the analysis of the overall effect of different taxes, subsidies and similar measures on profitability at the sector level.

In a letter dated 22 February 2013, the Global CEO of Maxwell Stamp stated: “The paper by Webster (2007) extended existing techniques for the analysis of specialisation and advantage in international trade which allowed them to be applied to developing countries and, subsequently, in a number of our projects. This was further developed to apply to the analysis of inward foreign direct investment (FDI) by the research, which ultimately resulted in the Webster (2013) paper. The research by Miller and Webster (2009) created a methodology by which the effects of a variety of different policies such as customs duties, national insurance contributions, fuel and property taxes could be combined into a single overall effect on profits at the firm or industry level” (R1).

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Using this research methodology strengthened Maxwell Stamp PLC's capacity to deliver high quality advice to its clients through identifying current and potential advantages in trade, in attracting inward investment and in identifying the effects of government policies, individually and collectively, on competitiveness. The Global CEO acknowledges that the research knowledge and methodology significantly contributed to the company winning and successfully undertaking three large consultancy projects for the governments of Abu Dhabi (2010), Namibia (2011) and Saudi Arabia (2010). The combined turnover was around £12 million (R1).

### Namibia

Namibia is a member of the SACU. The country's annual share of the combined customs revenues in 2011 amounted to US\$710 million, which equates to around 27% of the country's entire budget. The South African government commissioned a report for a firm of Australian consultants on the sharing of Customs Revenues. Their 2011 report recommended reductions in Namibia's share of revenues from 28% of the current SACU total to 15% initially and later to 9%. The Central Bank of Namibia considered this report to be based on flawed analysis (R2) and contracted Maxwell Stamp to produce a report based on sound quantitative economic research, of which the techniques in P1 and P2 were at the heart. Webster himself advised on this report, while Maxwell Stamp staff applied the techniques.

Since the completion of the Maxwell Stamp report, there has been no further discussion of this issue. There is no further record of South Africa pursuing the proposal to re-allocate revenues in its favour. This outcome is worth US\$300-400 million each year to the country, which is equivalent to about 13% of its national budget.

### Government of Azerbaijan

Azerbaijan's plan to invest a portion of their oil revenues into developing new, internationally competitive industries carried the risk that major changes would affect other areas of the economy. Independent of Maxwell Stamp, the UN Development Programme in Baku, Azerbaijan, contacted Webster to work with their Institute for Scientific Research on Economic Reforms on how best to develop these industries. From 2007–9, Webster adapted his research methods to analyse the effects of taxation in the UK (P2 specifically) into a model that calculated economic consequences of changes in Azerbaijan. Ordinarily this process would be carried out using input-outputs tables showing the different components required or generated from an industry. Azerbaijan and other countries in a similar economic position do not have this information so Webster devised a model that allows economists to 'borrow' data on production techniques from other countries. In order to account for the considerable variants in costs of labour, Webster developed a mathematical formula using comparable labour and capital data, alongside the Western input-output model to calculate the risk.

This information was integral to the country's economic strategy based on skilled and educated labour in sectors such as tourism. This is confirmed in two letters from the Ministry of Economic Development, Republic of Azerbaijan. The first (R3) also confirms the contribution this research had in the World Bank naming Azerbaijan as one of the top 10 economic reformers in the world in 2008 (R3). The second specifically references the use of P1 & P2 in the country's economic strategy (R4).

The reforms were presented at a major international conference, which included representatives of the oil and financial industry as well as policy makers in Rome in 2012 (R5). The continuing impact of this work is further evidence in letter R3, informing BU that the techniques have proved so useful that they are continuing and extending their research in this area. Dr Valiyev said: "Since 2008 the Institute has continued to use the techniques and skills which Prof Webster and his colleagues helped develop. The results of this research continue to provide an important part of Azerbaijan's economic policy making." He continued, "Recent economic reforms, to which the work of the Institute has directly contributed, using the techniques of Prof Webster and his colleagues, have focused on the long term competitiveness of Azerbaijan's economy. These include strengthening

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the economic potential of the non-oil sector of the economy by developing labour skills, providing better access to finance and development of particular sectors, such as tourism” (R3).

To summarise, the research by Webster has been applied to economic policy making in a range of countries, both directly and through the consultancy Maxwell Stamp, for whom the research has driven increased profits of £12 million to date. In Namibia, it has been applied to safeguard revenues of US\$700 million annually from SACU and in Azerbaijan the economic modelling techniques have been integral in the successful development of new, internationally competitive industries.

**5. Sources to corroborate the impact** (indicative maximum of 10 references)

**R1.** Letter from Global CEO of Maxwell Stamp, 22 February 2013 (available on request).

**R2.** Fight over Sacu revenue. *The Namibian*, 1 February 2011. Available from:  
<http://www.tralac.org/2011/02/01/fight-over-sacu-revenue/>

**R3.** Letter from the Institute for Scientific Research on Economic Reforms, Ministry of Economic Development, Azerbaijan (available on request).

**R4.** Letter from the Ministry of Economic Development, Republic of Azerbaijan, 28 June 2013 (available on request).

**R5.** Programme of Rome conference hosted by UniCredit (available on request).