The Red Cell

Tax Reform and MaxFac: An Example from Africa

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Can Tax Reform Help Bring the Poorest Countries Out of Poverty?

Are There Brexit Lessons From Britain's International Development Experience?

There is no doubt that in the last four decades the world has seen a massive reduction in the number of people living in abject poverty, defined as $1.90 per person per day. At the beginning of the 1980s about 44% of the world's population were living at that level but by 2015 the number had fallen to just 9.6%, even though world population grew by about 60% in the same period.

GDP per capita in real 2010 dollars grew by 15.1 percent between 2005 and 2015. Sub-Saharan Africa saw a 21.8 percent increase, India a 78.3 percent increase and China a 127.3 per cent increase in the same period. Substantial improvements to infant mortality rates, life expectancy and nourishment have all taken place.[1]

This increase in income and reduction in poverty was due largely to the rapid economic expansion of high population countries such as China, India, Indonesia, Bangladesh and Ethiopia whilst, sadly, many other poor countries saw little or no advance in their poverty rates. China saw a 95% reduction in its poverty rate in that period and even low-performing regions such as Sub-Saharan Africa saw extreme poverty rates fall by 38% in the period.[2]

Globalisation and the rapid expansion of trade and investment has fuelled this drop in absolute poverty levels. Life expectancy in poor countries has risen, largely as a result of falling infant mortality rates and better nourishment. The education gap between rich and poor countries has narrowed significantly. In 2000, a little under 2% of Chinese used the internet, compared to 43% of Americans – a gap of 41%. By 2015 that gap had shrunk to 24%[3] and it continues to shrink.

Most of my international working experience was spent working to the Millennium Development Goals (MDGs) and the MDG of halving the world poverty rate was reached some years ahead of schedule. In 2015, emboldened by statistics such as those quoted above, the International Community established a new set of successor goals, called the Sustainable Development Goals (SDGs), one of which was to completely eradicate world poverty by 2030.

But how do we arrive at a strategy to eradicate extreme poverty and ensure that we do not arrive in 2030 with some or many countries still languishing in poverty?

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[1] See Marian L. Tupy, "Human Conditions Improving at a Remarkable Speed", https://humanprogress.org/article.php?p=528

[2] "Globalisation and Poverty's Unprecedented Decline", Marian L Tupy, 22/11/16, on HumanProgress.org website.

[3] "Globalisation is slashing Inequality – Here's How", Chelsea Follett, 30/3/2017, on HumanProgress.org website.

The Brookings Institution, a non-profit independent research body, has produced a paper identifying those countries where it believes that at least 80% of the world's poor will reside by 2030.[4] The paper lists 31 countries facing deep structural challenges which it expects will have extreme poverty headcount ratios of at least 20% in 2030. The 31 countries are mostly in Africa, but they include also Afghanistan, North Korea, Papua New Guinea, The Solomon Islands, Timor-Leste and Yemen and are grouped under the title of Severely Off-Track Countries (SOTCs). The SOTCs are in the main what would normally be termed as "fragile states" but the Brookings Institution characterises them[5] as such due to their Low levels of Government Effectiveness, a Weak Private Sector and their exposure to both high levels of Conflict and Violence and Natural Hazards and Environmental Risks.

I've worked in international development since 1984 and, having lived and worked in 5 of the 31 SOTCs, I can attest that these four characteristics are indeed very apt and describe many SOTCs very well. With the right degree of political will and donor support it is relatively straightforward to address the first two characteristics, low levels of government effectiveness and a weak private sector. The second two, high levels of conflict and violence and exposure to natural hazards and environmental risks are more difficult but are made considerably easier if the first two have been addressed. On the other side of the coin I've watched the political risk materialise and undermine the gains previously made in at least two of the SOTC countries where I worked, Yemen and Burundi.

Domestic revenue mobilisation (DRM) strategies that focus on private sector development whilst promoting trade are essential to strengthening the state and expanding investment. Properly carried out such policies will grow the economy, provide jobs and permit the government to invest in the required infrastructure needed for further growth and expansion. In 2015 the international community promised to double the amount of funding available for such DRM projects as part of the Addis Tax Initiative but, so far, there appears to be little evidence that this promised additional spending has actually materialised. I would certainly advocate the development of strong DRM and private sector development strategies as an early intervention for the SOTC countries.

Whilst discussing the nefarious impact of wars and conflicts the Brookings Institution cites the example of Rwanda where per capita income fell by 49% in 1994, the year of the appalling genocide, and how it took a full decade to regain the pre-conflict levels of income. Today, Rwanda is most certainly not an off-track country having enjoyed high levels of growth and investment in the last twenty years that has resulted in huge improvements in all its poverty indicators.

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4 *Leave No Country Behind – Ending Poverty in the Toughest Places*, Geoffrey Gertz and Homi Kharas, Brookings Institution.

5 See Page 9 for a full list of the SOTCs.

What were the factors that moved Rwanda away from being an SOTC; and what lessons may there be for the current batch of SOTC countries that would drive policy choices for the next dozen years or so?

I had the honour and good fortune to lead the British Government's revenue mobilisation intervention in Rwanda between 2002 and 2010 and I can state categorically that the following characteristics were key to the success of the state building exercise.

Firstly, the government led by Paul Kagame developed a clear vision, called Vision 2020[6], of where they wished to take the country. This was a document that had private sector led development as one of its core pillars. It was presented to a large cross section of Rwandan society by whom it was amended and validated. It was an ambitious and imaginative document that charted a long-term development path for the country and was supported by more detailed sectoral plans. The Singapore economic development model was a big influence on the thinking of the Rwandan leadership at that time.

Secondly, the international community, appalled by the genocide they had just witnessed, were willing to provide financial support. In particular, non-traditional donors such as the UK stepped in and quickly identified domestic revenue mobilisation and the creation of the new Rwanda Revenue Authority (RRA) as a priority area of intervention. The UK's Department for International Development (DFID) made it clear that they would be long term investors in the RRA project, and this turned out to be the case.

Thirdly, the intervention was a partnership between the donor and the recipient with the government taking the lead on all policy matters and DFID providing the technical and financial support. This was very much a real partnership with both partners heavily invested in the agreed and planned outcomes. The government, albeit a very weak and poor one at that time, provided the staffing and accommodation resources, including office accommodation for foreign technical assistants. DFID provided the required technical expertise, which changed over the years as capacity was absorbed, as well as the financing for training, computer systems and so on.

The government showed its determination from the outset by developing a widely-publicised Zero Tolerance Towards Corruption policy backed up by real sanctions. A comprehensive publicity campaign against corruption was introduced and this was backed up by real action against public servants and others, including Government Ministers, where corruption was detected. Many went to jail as a result and there was even a part of Kigali prison that was referred to by the telephone digits that prefaced a post-paid mobile number account – the kind of mobile number used only by wealthy individuals.

The key strategy pillars developed during the programme and implemented over several years were the following:

[6] Rwanda is now developing its 2050 vision and is planning to achieve upper middle income status by 2035 with high income status by 2050.

Revising the entire suite of tax laws so as to broaden the tax base whilst reducing the tax rate for businesses and individuals.

The entire suite of tax laws was re-drafted using legal drafters provided by the Legal Department of the International Monetary Fund (IMF). This meant revising the income tax law, introducing a Value Added Tax, reviewing the Excise law and modernising the Customs law. Every opportunity was taken to simplify and modernise the legislative base. Tax rates were slashed and cuts in the rates were paid for by base broadening measures and improved collections.

Simplification of taxes and modernisation of tax procedures.

Tax structures were made as simple as possible. Multiple personal tax rates were reduced to just two tax bands and one allowance and the corporate tax rate was made the same as the top personal tax rate. Tax procedures were modernised in line with best international practices and all tax forms were redrafted to make them as simple and user-friendly as possible.

Computerisation of the tax and customs systems to ensure full capture of the tax base as well as the speedy provision of tax services to taxpayers.

A lot of effort was put into developing effective computer systems in both tax and customs as well as computerising the back-office procedures of the RRA. On-line filing and tax payment procedures were developed as were systems designed to permit payment by mobile phones. Later systems were developed so that goods in transit could be electronically tracked in real time.

Modernisation of the tax administration due to better HR policies and procedures, improved rewards to tax officials, establishment of a Code of Conduct, easy hire and fire and the strengthening of the Revenue Authority.

The revenue authority law was strengthened, and human resources policies and procedures were modernised. Great attention was paid to capacity development and tax officials were properly trained for the important work that they did. They were also well remunerated to the point that working in the revenue authority became a very good career move, particularly for young ambitious graduates. The strong sense of discipline evident throughout the government of Rwanda was reflected in the RRA's highly developed Code of Conduct. Breaching the Code of Conduct could result in a range of sanctions including dismissal and even civil prosecution for those unlucky enough to have a case taken against them.

Maximisation of trade across borders

Rwanda, along with Burundi, joined the East Africa Community – a customs union – in 2007. This saw a reduction in the number and scale of import duties, the speedier transit of goods across borders by means of one-stop border posts, the introduction of electronic cargo tracking whereby containers could be tracked electronically anywhere in East Africa, the establishment of an Authorised Economic Operation (AEO) scheme (known in the UK as trusted trader schemes), and exemptions for small traders who trade goods across borders, primarily agricultural produce.

Development of a strong taxpayer outreach programme

Rwanda always paid strong attention to educating its population and keeping them informed not only of the pending reforms but the need for these reforms and the likely outcomes, beginning with the comprehensive campaign against corruption. The Taxpayers' Day initiative was rolled out to regional towns and cities and became the focus of town hall style events. The RRA itself gave high priority to setting up regional offices and also developed unique means of interacting with taxpayers, such as by SMS messages, as well as more traditional means of communication such as media notices, billboards and so on.

Infrastructure development

The government of Rwanda made a substantial investment in state of the art buildings for the Rwanda Revenue Authority, that permitted the RRA to be housed in a single building (previously operations were scattered across multiple sites). In keeping with its partnership commitments, DFID financed the outfitting of the new building in terms of its cabling and computer hardware and furniture requirements.

Interconnectivity of the strategies

All of these strategy pillars are shown pictorially in the image below and this demonstrates their interconnectivity and interrelatedness.

So, for example, rewriting and modernising tax laws demands new and improved tax procedures, which are in turn captured in the new computer systems. All of the strategies were undertaken with the objective of maximising revenue but also keeping the taxpayer at the centre whilst developing policies to promote business and, ultimately, to fight poverty.

How did these strategies impact on Revenue Collection, Growth and the Budget?

In 2002, Rwanda's revenue collections were some RWF 95 billion.

By 2016/17, Rwanda's revenue collections were some RWF 1.15 **trillion**[7] (£977 million). This means that over the 14-year period above, revenues grew some 17 times, in a totally sustainable fashion. Essentially the annual tax collections of some 12 years ago, when the revenue reform process began in practice, are now being collected **every three weeks**. Revenues have almost doubled since the 2011/12 tax year with real revenue growth (growth minus inflation) running at between 10 and 14% p.a. in most of those years.

The DFID investment in the RRA in the first 12 years of its existence amounted to some £24 million. Whilst that is not the only investment, as clearly the government of Rwanda also invested in its own staff, the annual running costs of the RRA, its buildings and so on, and other donors played a subsidiary role over the years, plus there was the relatively minor cost of some additional post-2010 mentorship programmes, it is very clear that the revenue collection performance amounts to a tremendous return on the investment for the donors and the government. DFID has commented in one of its annual reports on its entire RRA investment being returned in terms of improved revenue collection every couple of weeks – proof indeed of the old adage that is better to teach a man to fish rather than give him a fish. And it is always worth repeating that the vast share of the credit for this performance is due to the government having the long-term vision and the discipline to see the reforms through to the end.

[7] *RRA Annual Activity Report 2016/17*

Looking at the RRA's annual report for 2016/17, it is also very useful to examine where the revenues came from and it is worthwhile reproducing a portion of the revenue report below.

Categories of tax	Target 2016/17	Actual 2016/17
Total revenue	1,094.3	1,102.8
Non-tax revenue	12.8	16.3
Total tax revenue	1,081.4	1,086.5
* Direct taxes	436.8	450.9
* Taxes on G&S	554.6	544.4
* Taxes on Int'l Trade	90.1	91.2
LGT	49.2	47.

It can be seen that the lion's share of total tax revenue came from direct taxes (income tax on individuals and companies) and taxes on Goods and Services (VAT and Excises), whereas taxes on international trade in that year were just 8.39% of the total taxes collected.

Many countries structure their tax systems on the low-hanging fruit principle i.e. what they deem to be relatively easy and cheap to collect and therefore they often end up with tax structures that rely heavily on the "old reliables" such as customs duties and income taxes that are paid mainly by employees and compliant companies. As a consequence, when additional revenues are needed the policy choices tend to be to raise corporate tax rates, to increase personal taxes or to increase customs tariffs, all of which can be self-defeating as tax evasion and smuggling continues and the tax burden shifts disproportionately on to those who simply cannot evade payment or are too honest to do so.

A much better set of policy choices involves reducing direct tax rates to the lowest possible level, reducing or eliminating customs tariffs completely, and broadening the tax base to the maximum extent possible so that the tax burden is shared more equally, and all taxpayers see a level playing field – not one in which some taxpayers escape paying their fair share.

As Rwanda's reforms began to bear fruit, it's reliance on customs tariffs decreased significantly and its revenue receipts were largely composed of internal direct and indirect tax revenues.

The genocide completely destroyed Rwanda's economic base, but growth began to return in 1996 on the back of stronger tax revenues, the accelerated privatisation of state enterprises and improved food production. By 2007, the economy was growing at a sustained rate of 8% per annum making it one of the fastest growing economies in Africa.

The World Bank has this to say about Rwanda's economic performance in recent years: "Rwanda met most of the Millennium Development Goals (MDGs) by the end of 2015. Strong economic growth was accompanied by substantial improvements in living standards, with a two-thirds drop in child mortality and near-universal primary school enrolment. A strong focus on homegrown policies and initiatives has contributed to significant improvement in access to services and human development indicators. The poverty rate dropped from 44% in 2011 to 39% in 2014, while inequality measured by the Gini coefficient fell from 0.49 to 0.45."[8]

Put simply, by raising its own revenues Rwanda was able to finance greater service delivery. This meant more money for schools, hospitals and infrastructure, all of which helped to stimulate growth in the economy.

It is worth noting here that domestic revenues are far more important than funds provided by international assistance for a number of reasons. First of all, aid can be unpredictable and whimsical as many aid-recipient countries have experienced to their cost. By growing its own revenue base, a government is able to prepare realistic budgets year on year knowing that revenues sourced from domestic taxation will materialise. Governments are also able to plan better and prepare longer term economic development and poverty reduction strategies. Domestic revenues have the advantage of predictability whilst development finance has often been notoriously unpredictable. Secondly, by relying on its own revenues to finance recurrent revenue expenditure, a government can concentrate more on securing development finance or loan capital for needed public capital investment. Donors or lenders are far more willing to provide finance to countries that are serious about raising their own tax revenues. Finally, domestic revenues, properly stimulated, turn out to be much greater than other sources of income such as development assistance, foreign direct investment or emigrants' remittances. And domestic revenues have the great advantage of coming with taxpayer accountability, not to mention the boost to national pride.

It can be seen therefore that one dollar of domestic revenue is indeed far more valuable than a dollar donated through development assistance. In my view, international development assistance should, in the first instance, seek to encourage domestic revenue maximisation.

In the 2015/16 financial year, Rwanda financed 66% of its budget from domestic resources. This was a budget with a value of RWF 1,768.2 billion or US $2.47 billion. However, in 2012/13, the country had only financed 54% of a much smaller budget (RWF 1,300 billion).

The 2015/16 budget included capital investments such as RWF 135 billion for electricity roll-out for Rwanda's special economic zone, RWF128 billion for investment in roads, RWF34 billion for improving access to clear water and RWF 121 billion for agriculture.[9]

These are truly empowering statistics and demonstrate the value and importance of promoting domestic revenue mobilisation. Stimulating domestic revenue production will not obviate the need for international development assistance, at least in the medium term but it is, in my opinion, a necessary part of the development process. Countries that pay attention to growing their domestic revenues and combatting corruption become better equipped to leave poverty behind.

[8] The World Bank website, Rwanda page, Overview.
[9] Rwanda to fund 66% of its budget, by Dan Ngabonziza, KT Press, 11 June 2015.

Improving international trade is essential for economic development

Reducing the time taken to get goods across borders is essential for business development. No trader wants their goods languishing at border posts and this is particularly true for perishables and high value, low volume goods. Reducing time spent at borders is a key factor in the World Bank's *Doing Business* Index as it is both a cost reduction exercise as well as a means of getting goods to market quicker.

Rwanda took the following measures to encourage faster trade across borders:[10]

Setting up One-Stop Border Posts

A one stop border post is a border post staffed by officials of both bordering states. This permits the import and export documentation to be completed at one stop instead of the more usual two stops that occur at the border post of the country of export and again at the border post of the country of import. Not only does this save time and money it also eliminates any possibility of a trader presenting different documentation to different authorities at export or import.

Introduction of the Electronic Single Window (ESW) Concept

The electronic single window is a system that is designed to streamline and improve customs operations and the actions of other border control entities that are responsible for the timely release of goods.

Typically, many other regulatory agencies such as Immigration, Agriculture, Environment, Marine and so on are also involved at borders. The ESW is a common electronic platform that allows for the submission of a single trade declaration containing all the information required by the various cross-border agencies responsible for controlling trade in and out of a country and ensuring a speedy response from them so as to process consignments faster.

In Rwanda the ESW is used to generate electronic certificates of origin, handle data exchange interfaces with other revenue agencies as well as interfaces with Rwanda government Ministries such as Health and Agriculture, the licencing of warehouse operators, the facilitation of small cross-border traders to file customs declarations using mobile phone technology, and so on.

Implementing Authorised Economic Operator (AEO) schemes

The greatest volume of goods crossing borders is usually due to the imports or exports of a relatively small number of larger traders, all of whom are very likely to be already known to the tax authorities and are most probably filers of multiple other tax returns such as VAT, Employee withholding tax

[10] Rwanda of course is not alone, and these measures are in force in all the East African Community countries, although not always to the same extent.

(PAYE), profits tax, and excise tax returns. It makes sense that these registered and trusted taxpayers be permitted to send their goods across borders with little or no physical inspection of the goods at the border post. Risk-based post-declaration audits and inspections (see below) can be done later.

Exemption of small traders

Whilst the greatest volume of trade is down to large traders, the largest number of traders is small businesses dealing in tax exempt value commodities. Such traders can easily be eliminated completely from the need to file declarations at border posts or presented with highly simplified procedures with very little or no loss of revenue. This cuts down considerably on border traffic and allows customs officials to use their time more effectively.

As Commissioner General of the *Office Burundais des Recettes*[11], I negotiated a simplified customs declaration form and procedures with Rwanda to cater for small traders on the Burundi-Rwanda border crossing points.

Electronic declaration and electronic payment of duties

Customs declarations may be filed electronically, and this is rapidly becoming the preferred means of filing customs declarations. In the modern era, traders prefer electronic declarations as these can be done from their own premises at their own convenience.

Customs duties may also be paid on line again providing maximum convenience to traders and revenue authorities alike. This brings the advantage of speed of payment and eliminates any need for payments to take place at border posts, thus reducing the risk of revenue loss.

Post declaration audit and inspection of goods

Goods can easily be inspected after declaration and import. Inspections can take place at the premises of the importer. Inspections can also be conducted along the route of transportation some distance away from the border post. In the modern era, tax authorities prefer to inspect only a very small percentage of importations and they organise their inspections on the basis of risk i.e. inspecting only the riskiest of taxpayers whilst providing a speedy green channel for the most compliant taxpayers.

Electronic cargo tracking

Electronic seals may be placed on containers thus allowing goods to be tracked electronically in real time.

[11] The Revenue Authority of Burundi

Since March 2017, Rwanda has a state of the art tracking system that is connected with partners in Uganda and Kenya. The system connects the three countries' electronic cargo tracking systems and allows them to jointly track cargo from port to destination on a 24-hour basis.

The system enhances cargo security and curbs diversions, thereby speeding up transit times, cutting costs and enhancing transparency, since all stakeholders may access the system in real time.

Economic Impact of the above measures

Rwanda is now ranked 41st in the world on the World Bank's Ease of Doing Business Index which looks at 190 economies. Rwanda achieved this score from a high of 143 in 2008 and is now amongst the best places in Africa for doing business, coming in at second place after Mauritius and first in East Africa.

It is very clear that the tax and trading reforms that were carried out over the years played a significant role in helping the country reach this milestone.

Are there any lessons in the above for Britain as negotiations continue on Brexit?

The UK comes in at 7th place on the World Bank's Ease of Doing Business Index. The top three countries in the world are New Zealand, Singapore and Denmark, and these are followed by Korea, Hong Kong and the United States. Ireland comes in at 17th place, just ahead of Canada. The UK is the world's fifth biggest economy.

No one would possibly compare the UK and Rwandan economies in any meaningful way. The differences are vast in terms of wealth per capita, overall GDP, economic differentiation and geographical location to mention just a few of the most obvious ones.

Nevertheless, the passage of a small landlocked low-income country from a position of despair to being one of the most desirable places to invest in Africa and 41st in the world in a relatively short period of time must be inspirational. The fact that Rwanda reached that point with technical and financial assistance from the UK is surely a matter of the greatest pride and there are some clear lessons to be learned.

The measures described above for speeding the transit of goods across borders that were used in Rwanda and elsewhere (the Electronic Single Window, Authorised Economic Operator [trusted traders] scheme, exemptions for farmers and small traders, electronic filing and electronic payment of duties, post-declaration audits and electronic cargo tracking) are all measures that have applicability across each and every border, although the extent will vary in each case. These measures constitute best international practice and are sometimes collectively referred to in the UK as maximum facilitation, or "MaxFac" for short.

Every country that is serious about economic development seeks to get goods and services across borders as speedily as possible.

The OECD has a number of Trade Facilitation Indicators that it has developed to assist countries to boost trade and reduce their trade costs. It is worthwhile quoting directly from the OECD website, as follows: -

> *International trade is the engine of the global economy. More people, goods and services are crossing borders than ever before. But trade is changing - today, products and the services that go with them are sourced from all over the world.*
>
> *As goods cross borders many times, first as inputs and then as final products, fast and efficient customs and port procedures are essential. Unduly complex processes and documentation raise costs and cause delays, and ultimately, businesses, economies and consumers bear the cost. Conversely, a country where inputs can be imported and goods and services can be exported within quick and reliable timeframes is a more attractive location for foreign firms seeking to invest.*
>
> *To help governments improve their border procedures, reduce trade costs, boost trade flows and reap greater benefits from international trade, OECD has developed a set of Trade Facilitation Indicators (TFIs) that identify areas for action and enable the potential impact of reforms to be assessed. Estimates based on the indicators provide a basis for governments to prioritise trade facilitation actions and mobilise technical assistance and capacity-building efforts for developing countries in a more targeted way.*
>
> *The OECD indicators cover the full spectrum of border procedures for 163 countries across income levels, geographical regions and development stages.*
>
> *The TFIs take values from 0 to 2, where 2 represents the best performance that can be achieved. They are calculated on the basis of information in the TFIs database.*

In summary, trade is global, and it is vital for economic growth, goods cross borders multiple times as components and as final products and speedy transit across borders is essential and must be prioritised by governments if they wish to encourage inward investment.

According to the OECD website, the UK has slipped backwards on some TFIs in the last two years i.e. in both Advance Rulings and Appeal Procedures. It has made gains in Trade Community Involvement, Information Availability and Governance and Impartiality but it still has much to do in terms of improving Automation, Procedures and Internal Border Agency Cooperation. Presumably therefore the UK already has MaxFac strategies in place to address these important TFIs and further investments in improved automation and procedures and better border agency cooperation are due to be made irrespective of the Brexit debate.[12]

[12] Unfortunately, I do not have reliable information of the extent of HMRC's IT strategies and timetables for system updates and rollouts.

Much is written and spoken about the border between Northern Ireland and Ireland. The volumes of trade crossing the Irish border are actually very low in relative terms and certainly so in comparison to the trade volumes between Northern Ireland and Great Britain or between Ireland and Great Britain.

Northern Irish exports to Ireland amount to £3,377 million, or 5% of the total turnover for the Northern Irish Economy whereas exports from Ireland to Northern Ireland were only 1.6% of total Irish exports.[13]

Similarly, 87% of Northern Irish sales are actually within the UK and this is broken down with 66% going to the NI market and 21% going to Great Britain. For that reason, there is little economic argument for making the case that the Irish border is an unresolvable problem.

About 40% of Ireland's food and live animal exports go to the UK. Quite apart from the constitutional impossibility of having a border in the Irish Sea as some have suggested, the trade impacts are much higher by comparison with having the border in Ireland where it legally exists.

The Irish border is of course very important for political, security, cultural and emotional reasons but there is no reason why it cannot continue to be managed after Brexit as it is currently managed.

Given all of the above, it is fairly obvious that the Irish border issue is primarily a political one and is therefore capable of political resolution. With goodwill on both sides there is no doubt that a border without physical infrastructure, as currently exists, is definitely attainable and people living along the border and traders who use it will notice little disruption in the post-Brexit era.

The two factors that are paramount in modern border management are strong, trusting and active cooperation between trading partners and the ever-increasing reliance on automation and better working procedures. In the global economy goods must cross borders seamlessly and speedily. What is rapidly disappearing, and rightly so, are the days of a truck rolling up to a border post to be met by a man with a peaked cap and a torch standing in front of a barrier.

The UK is a services-based economy that trades with the Rest of the World (RoW) more than it does with the European Union, albeit that the EU remains the largest trading partner. According to the Office for National Statistics 79% of the UK's GDP came from the service sector in 2013, up from 46% in 1948. The service sector accounted for 80% of workers in 2011. 91% of London's economy is in the service sector.[14]

In 2016 the value of UK imports was £590.5 bn of which £318 bn came from the EU and £243 bn came from the RoW. UK exports in 2016 amounted to £547.5 bn of which £235.8 bn went to the EU

[13] NI Research and Statistics Agency and Central Statistics Office, Ireland quoted in *Mutual Interest: How the UK and EU Can Resolve the Irish Border Issue after Brexit*, Legatum Institute, page 12.

[14] https://www.ons.gov.uk/economy/economicoutputandproductivity/output/articles/fivefactsabouttheukservicesector/2016-09-29

and £284.1 bn went to the RoW. The proportion of UK exports destined for the EU has dropped from 54.8pc in 1999 to 44.6pc in 2014.[15]

Although the EU economy has grown in size over the years, the economy of the RoW has grown faster and therefore the EU's share of world trade is declining. In the two decades since its formation in 1993, the EU's share of global GDP has declined from 30% to 24% in 2013.[16]

Given the volume of UK trade with the RoW, the fact that this volume is increasing and the fact that the EU itself is declining in terms of world trade, it is hardly surprising that the UK would want to have the freedom to write its own trade deals and to be free of the constraints of the EU Customs Union. It's also worth noting that this dynamic of a services-based economy trading to an increasing extent with the RoW means that the undesired outcome of a failure to negotiate a free trade agreement with the EU would hardly be an unmitigated disaster. Clearly a negotiated free trade agreement with the EU delivering benefits for both sides and providing as much friction free trade as possible is the desired outcome and this of course remains the UK's main goal.

It is perhaps fitting to close with one final piece of inspiration from Rwanda.

What drove and continues to drive the Rwanda results was the development and articulation of a clear vision coupled with the leadership and discipline required to see the vision to fruition.

Although the UK has produced very good and detailed trade and other papers, what seems to be now needed is a clear, detailed and ambitious vision of the UK in the post-Brexit era including articulation of the benefits and opportunities that will arise from Brexit – a vision that will provide hope and confidence to the British public, not to mention some additional oxygen for those making the case for Brexit in Parliament and elsewhere.

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[15] "The EU's Dwindling Importance to UK Trade in 3 Charts", *The Telegraph* 5 May 2018. https://www.telegraph.co.uk/finance/economics/11700443/The-EUs-dwindling-importance-to-UK-trade-in-three-charts.html

[16] Ibid.

About the Author

Kieran Holmes is a tax adviser who has successfully managed significant reforms in the international arena since 1984.

Born in the UK and reared in Ireland, Kieran graduated from Trinity College, Dublin with a degree in Economics. After 7 years with the Irish Revenue as a fully trained Inspector of Taxes he moved overseas, working in the Pacific, Africa and the Middle East.

He spent 8 years working in Rwanda managing the UK's Rwanda Revenue Authority Project. After that he spent 4 years as Commissioner General of the OBR – the revenue authority of Burundi. He has latterly worked in Ethiopia and South Sudan and now lives in Kent.

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