



CONVERSATIONS
A Global Forum

Dr Ngozi Okonjo- Iweala

in conversation with
Ann Bernstein

Democracy | Markets | Development

A South African resource influencing policy for over 25 years

To mark 25 years since its establishment, in November 2020 CDE initiated a series of discussions with global experts and prominent individuals in South Africa on important questions on democracy, business, markets and development. The series was relaunched in 2022 as CDE Conversations. This was the 18th event in the series.

Ann Bernstein: It is my great privilege to welcome Dr Ngozi Okonjo-Iweala to CDE. She is the first African and the first woman to be Director-General of the World Trade Organisation (WTO). Dr Ngozi has had a remarkable national and international career: managing director of The World Bank, two stints in the Nigerian cabinet as finance minister, and chairperson of several important international bodies.

Do you think increased international trade is good for the world? Many people in the United States or Europe today seem to be saying: "not for me". Many see global trade in terms of winners and losers and would point to China as the big winner. This is the perspective that may have led to Donald Trump's presidency. How do you see the debate about global trade?

Dr Ngozi Okonjo-Iweala: History shows that the welfare effects of world trade are overall net positive. The WTO and its predecessor – the General Agreement on Tariffs and Trade (GATT) - were built 75 years ago to create a more integrated and peaceful world. The idea was that if goods cannot cross borders, guns will.

The system has delivered. It promoted peace and has managed to lift over a billion people out of poverty. Admittedly, a lot of those people were in China, but many others across the world have benefited. There is also no doubt that some people were left behind. There are poor people in rich countries, and also in poorer countries, who have been unable to reap significant benefits. The solution is not to restrict trade. Rather, we must consider how trade can be used as an instrument for inclusion, to bring those who were marginalised in the past into the global trade mainstream.

Those who are left behind often look for something or someone to blame, which makes them susceptible to populism and willing to support politicians who present protectionism as a simple solution. That is why we need to focus on inclusion in the context of trade.

Ann Bernstein: Has your country, Nigeria, benefited from increased global trade, and if they have, how?

Dr Ngozi Okonjo-Iweala: Nigeria has definitely benefited from trade, as without global trade Nigeria would not have been able to export oil and gas, which generate more than 90 percent of the country's foreign exchange revenue. The petro-chemicals industry, with the launch of the largest fertilizer plant in Africa, is also exporting their products as well as producing for the local market.

Not all the outcomes have been positive. Global competition led to Nigeria losing jobs in the textile industry, for instance, which appeared to have developed strong comparative advantages over time but could not survive intense competition. However, there are always costs and benefits when trade expands, and in Nigeria's case we have definitely benefitted more than we have lost.

Ann Bernstein: What is the WTO and why do we need it?

Dr Ngozi Okonjo-Iweala: The WTO is the only global trade body that makes rules to ensure that trade is fair. It makes sure that the multilateral trading system creates a level playing field where there is transparency and predictability. If you did not have these globally applicable rules, there would be far less trade, and trade would be far less fair. It is likely that trade would mostly be based on bilateral deals from which most smaller and poorer countries would lose.

In a multilateral system, smaller, poorer countries have a voice, especially as the WTO follows a consensus-based decision making approach. The WTO is the one place where trade disputes between countries can be handled. It is a unique institution. Ultimately its goals are to enhance living standards, create employment and support sustainable development. What could be more valid than that? The WTO is all about people.

Ann Bernstein: There are some people that would say that over 27 years the WTO has not achieved very much, what's your perspective on that?

Dr Ngozi Okonjo-Iweala: The WTO has achieved a number of important multilateral trade agreements during the past 27 years, including in agriculture¹, trade facilitation and export subsidies, but there are still many areas that require attention. The WTO is a place that has the potential to do more. We also need to become more attuned to 21st century issues. For example, we have to work harder at regulating digital trade. E-commerce boomed during the pandemic and will continue to expand in the future, yet we do not have rules underpinning this trade. This must be addressed urgently, and I am happy to say a group of 86 WTO members are currently negotiating the rules that govern e-commerce. This is one of the areas where the WTO needs to move fast.

Ann Bernstein: If you were negotiating China's succession to the WTO today, would you use the same checks and balances as were introduced then? Are they sufficient for a country as large and powerful as China? When the deal was made it was assumed that China would become a more market-based economy, but today Chinese state intervention in the economy is increasing. Does this require a re-think at the WTO?

Dr Ngozi Okonjo-Iweala: It was, in fact, very tough for China to become a member of the WTO. It took over 15 years until they acceded to the organization in 2001, and they accepted conditions that had not been required of other members. China agreed to a ten-year transitional period, when other members could review how the Chinese were implementing the reforms to which they had committed.

So, anyone who thinks that China got into the WTO easily is making a mistake. Nevertheless, China's economy has grown much faster than many anticipated. At the time of accession, China's global GDP stood at around \$1.3 trillion. The economy has now grown to over \$17 trillion, and China is catching up with the United States whose GDP stands at about \$20 trillion. Now there are definitely concerns expressed by some Members about the levels of state involvement in the Chinese economy, especially with respect to industrial subsidies for state-owned enterprises.

At the WTO we are committed to creating a level playing field. To get there we need a better understanding of the extent and impact of subsidies across the world, not just in China. We need to look at agricultural subsidies, industrial subsidies, harmful fishery subsidies (which we have just dealt with) and others. I have also asked the IMF, the World Bank, the OECD to help us with this work. Once we have evidence of what is really happening with subsidies, then we can see what happens to our rules.

¹This includes in areas such as PSH, export competition, the Ministerial Declaration on the Emergency Response to Food Insecurity and the Ministerial Decision on World Food Programme Food Purchases Exemption from Export Prohibitions and Restrictions

Our members need to accept an evidence-based approach to changing the rules, but that will require a lot more research and understanding.

Ann Bernstein: In an increasingly divided world, will a multilateral WTO survive? Can an organization rooted in the conditions of the late 20th century prevent a 21st century trade war between, for example, China and the US?

Dr Ngozi Okonjo-Iweala: With the significant outcomes at the Twelfth Ministerial Conference, the WTO has just shown that multilateralism is alive, and that multilateralism can be an instrument for global good. And that's remarkable in a time that geopolitical tensions are rising, and the world is an increasingly difficult place to navigate. There are tensions between China and the US, between the EU and China, between the EU and the US, and one of our members, Russia, is at war with another member, Ukraine.

Despite this context we were able to bring everybody around the table and to hammer out ten substantial multilateral agreements including an important compromise on the TRIPS waiver for the manufacturing of vaccines, an agreement to tackle harmful fishery subsidies that had been negotiated for 21 years, a declaration to ensure food trade flows smoothly, a decision to exempt the World Food Program humanitarian food purchases from export restrictions, amongst others. We even brought both Russia and Ukraine to the table to agree on issues that benefit the world. It shows that even in the most difficult times, multilateralism can work and continue to be a force for good. If that ends and all the talk about 'decoupling', 'deglobalization', and the fragmentation of the world into trading blocs becomes reality, the consequences will be dire. Our economists estimate that in such a scenario, global GDP would decrease by about 5 percent in the long run because there would be fewer technology spill overs, opportunities for specialization and economies of scale.

The biggest losers would be developing countries, so we have to be careful. The multilateral trading system is a global public good, and we must protect and invest in it.

Ann Bernstein: We see countries now taking unilateral actions to make trade an increasing part of their foreign policy. For example: increased duties on Chinese products, or the Chinese deciding not to buy coal from Australia in retaliation for Australian foreign policy. Is the WTO up to this kind of challenge, where trade is in service to politics more than perhaps in the recent past? Are your dispute resolution and enforcement mechanisms strong enough for this new world?

Dr Ngozi Okonjo-Iweala: Trade is indeed becoming more and more an instrument of politics. However, the WTO remains a place where a country that feels wronged by another, or feels that rules have been broken, can seek a dispute settlement. If we did not have a dispute settlement system then there would be no place to go to, that could lead to wars breaking out over trade. Unfortunately, the dispute settlement system is not functioning as well as it should since we do not currently have an Appellate Body, although Members continue to bring cases to the dispute panels. So, there is a strong demand and we are determined to reform the dispute settlement system by 2024.

Ann Bernstein: Many developing countries have been wary of international trade talks because they feel that wealthy countries use labour and environmental standards to protect their much richer economies. At the same time, they lecture developing countries to open to more goods from the rich world and say that developing countries should trade more openly with each other. What is your view on these issues?

Dr Ngozi Okonjo-Iweala: One reason I took this job was to see what I could do to improve the way the global trading system could be changed to increase the benefits for developing countries. Developing countries,

especially the least developed countries, have by rights written into the Marrakesh Agreement establishing the WTO, special and differential treatment provision, which gives them additional time to implement disciplines and access capacity building. Developing countries rightfully take this provision very seriously and ask for policy space. I agree that their particular needs should be taken into account, and they should receive support needed in the implementation of WTO agreements.

There are, at the same time, many things developing countries need to do themselves to allow them to benefit more from the global trading system, and to trade more. An element of that is to add more value to their products. This is particularly pertinent to Africa, which accounts for less than three percent of global trade. We should aim to at least double that. To do that African countries need to manufacture more, thereby adding significant value to their products. African countries must develop missing industries and take better advantage of the African Continental Free Trade Area, to trade better together and to trade better with the outside world.

Gone are the days when countries should export raw materials without adding value. We are supporting a group of Members represented by the Cotton-4, comprising of Benin, Burkina Faso, Chad, and Mali, where cotton is vital to export earnings, to compete. Instead of exporting raw cotton, we could add value and turn it into garments, create an African cotton industry for the 1.4 billion people who live on the continent, and to export as the following step.

Another example is the need to develop a pharmaceutical industry that serves the continent and also the world. African countries import 95 percent of their pharmaceuticals and 99 percent of their vaccines. We can create industries that can enhance our exports, but I believe strongly that will be successful only when we add value.

Ann Bernstein: That is a very important topic, and I would love to talk more about manufacturing in South Africa as well as the rest of the continent. I agree that manufacturing for export is essential. However, I want to shift onto the topic of corruption. What did you do as a senior minister in the Nigerian government to try and combat corruption? Apparently, your nickname in Nigeria was "Okonjo Wahala" — "Okonjo the troublemaker." I understand you were very brave in this fight. How did the crooks fight back and how did you deal with that?

Dr Ngozi Okonjo-Iweala: I wrote a book titled *Fighting Corruption Is Dangerous: The story behind the headlines*, by MIT Press and it includes many stories about that fight. Both presidents I served, President Olusegun Obasanjo and President Goodluck Jonathan, supported the fight against corruption, and I never felt held back from doing whatever was necessary. My goal was to bring probity to Nigeria's public finances.

The most dramatic developments happened when I came back to be finance minister for the second time. I noticed an excessive increase in the bill for oil subsidies. The annual bill had risen from \$2 billion to over \$11 billion in a few years. With support from the president, we organised a forensic audit of these subsidies and determined that out of the \$11 billion, at least \$2.5 billion were based on fraudulent claims. We decided not to pay those claims to oil marketers.

This had unfortunate consequences. The most extreme was that my mother was kidnapped by those who had been making these fraudulent claims. We know this because when my mother asked them why she was being held captive, one of the men replied: "your daughter did not pay the oil subsidies". The police, the army and the president himself contributed to a manhunt, but luckily my mother was able to escape on the fifth day of her captivity.

That was one of the worst moments of my life. I asked myself: if I knew that my mother's life was the cost of fighting corruption, would I have been able to do it? No one would want to put their parents' lives in danger.

But I was not doing it alone. There was a brave team working with me, and we must tell ourselves: Fighting corruption in the system begins with you, you have to be willing to say no to a bribe, or to stand up against those who do. This is definitely not an easy task, but it is essential for the battle against corruption to be won.

Ann Bernstein: A remarkable story and so impressive that you and the government did not buckle at that time. You have said that in addition to the indexes that measure the level of corruption in countries, the world should also measure the extent to which countries receive money derived from corruption. "There should be no safe havens," you have argued, "for tax evasion, money laundering, or funds earmarked for terrorism". Can you tell us more about your proposal aimed at countries that receive illegal money?

Dr Ngozi Okonjo-Iweala: Corruption is a two-way street, those who take the money usually take it out of the country to deposit in accounts in other countries. Those countries whose financial systems are recipients of this money, in a way, are equally guilty, and having a corruption index for the receiving countries will bring in a supply and demand perspective on corruption. If we did not have financial systems that provide a haven for illegal funds, then corruption may become less attractive. To put pressure on the receiving countries we should develop an index that shows which country is the "cleanest" and which is accepting large quantities of ill-gotten funds.

Ann Bernstein: Unfortunately, South Africa today is drowning in corruption. You have argued that the fight against corruption in Nigeria and more generally, can succeed. What are the lessons you could share that might be relevant for a country like South Africa?

Dr Ngozi Okonjo-Iweala: Unfortunately we have not yet won the war against corruption in my country. What we have succeeded in doing is to increase the instruments that honest Nigerians can use to fight corruption. These instruments and institutions are crucial. South Africa has had relatively strong institutions, but as in any country more can be done to reduce corruption and the perception of corruption.

To win the fight against corruption you need an independent judiciary trusted by the people, a police force and criminal investigation systems willing to arrest and try corrupt people. You need financial regulations that make it difficult for people to help themselves to public funds. In Nigeria, we put in place an integrated financial management system and a computerised personnel system, which, although they did not completely prevent corruption, at least substantially diminished it.

Another strong source of corruption in Africa is campaign financing. We need to look at our political systems and ask ourselves whether they are fit for purpose. The fight against corruption must go deep and we must all commit to the long-term. Part of that has to be about changing values and attitudes, which starts with what we teach our children in schools.

Ann Bernstein: Were you ever able to get a senior corrupt political figure in jail in Nigeria?

Dr Ngozi Okonjo-Iweala: Yes. There have been senior politicians and former governors who went to jail. Sometimes they did not stay very long, but at least were prosecuted and incarcerated. They are also not very many, I must say. We have a very big fight in my country to get corruption under control. The fight continues. A luta continua.

Ann Bernstein: You are a member of South Africa's Presidential Economic Advisory Council. How is this body functioning in your view? Is it influential, and what impact are you having?

Dr Ngozi Okonjo-Iweala: It was an absolute honour to be asked by President Ramaphosa to join this team. I was a member of the team before I took my current job, and I have unfortunately not been able to be an active member of the council for the past two years since I joined the WTO, so I cannot comment on recent activities. When I was still attending meetings, I saw that we had fine people in that team, and I was impressed by their work. There were young, bright economists there who were not afraid to challenge the prevailing wisdom or to present analyses that may not have been popular. I thought the president did an excellent job in putting the team together.

Ann Bernstein: I understand that not only are you the daughter of a Nigerian king, but also that you love and write poetry.

Dr Ngozi Okonjo-Iweala: One of my children is a poet and I did write poetry when I was young. I love poetry. Nowadays, though, I write non-fiction books. Recently, I wrote my latest book with Julia Gillard, the former Prime Minister of Australia. It is called *Women and Leadership: Real Lives, Real Lessons*, published by Penguin Press. We interviewed exceptional women leaders such as Jacinda Ardern, Hillary Clinton, Christine Lagarde, Ellen Johnson Sirleaf, Joyce Banda and Theresa May, to tap into their life experience. We found that even though we come from different cultures, we can learn from one another and share similar experiences in our leadership journeys.

Ann Bernstein: I look forward to reading it. Thank you for spending time with us. And good luck at the WTO, a vitally important institution that needs strengthening.

Dr Ngozi Okonjo-Iweala: Thank you so much Ann for having me, good luck with all your endeavours.

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Published in August 2022 by The Centre for Development and Enterprise
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