Mapping China's Trade with Sub Saharan, Africa: A Financing Mechanism

Ghirmai T. Kefela*

ABSTRACT

Attempt has been made to examine China's trade with sub-Saharan countries and its impact on African's development as a financing mechanism. To achieve this main objective a systematic literature review is carried out. Literature review reveals that China's financing in Africa is based on bilateral cooperation. China's aid makes the African continent more attractive: Firstly because like any other western agencies China's aid does not impose political and economically conditional requirements. Secondly China is investing in the areas because western aid-giving agencies and private investors have since long neglected to provide this region with like physical infra-structure, industry and agriculture. In 2006, China formulated its African Policy Paper, wherein China-Africa bilateral cooperation was focused on: (i) political and economical development, which covers high level visits for trade, investment, finance and natural resources, (ii) human resource developments with focus on education, science, and technology, and (iii) peace and security focusing on military, and conflict settlement. Africa represents an enormous market and urgently needs infrastructure development, which is one of it's main concentrated objective in aid relations. As a result, their relation is expected to achieve lasting impact on the continent's development and would transform the commercial engagement between the region and the Asian economic giant.

JEL Classification: A13, J24, F42, F02

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1. INTRODUCTION

Sub Saharan countries, Africa, have nearly 8% of the world's oil reserves, which prompted Beijing to spend billions of dollars to secure drilling rights in Nigeria, Sudan and Angola, as well as negotiating for exploration contracts with Chad, Gabon, Mauritania, Kenya, Equatorial Guinea, Ethiopia and the Republic of the Congo. The continent now accounts for 25% of China's oil. As global demand for energy continues to rise, China turned to Africa, an oil-producing source, whose risks and challenges have often caused it to be overlooked economically by other developed countries. China's intention is to avail the resources needed to sustain its rapid growth, and therefore, it is striving to lock down sources of oil and other necessary raw materials across the globe (Macha Ndesang. 2006).

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* Operations Manager, DTAG Inc. 2300 Airport Blvd. San Jose, CA 95110, USA 95110, USA.
Gtesfai@hotmail.com, Ghirmai.Kefela@DTAG.com - 510 793 9732, 408 422 2248

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China's booming economy, with an average 9 percent annual growth for the last two decades, requires massive levels of energy to sustain its growth. Though China, for most of its energy needs, relies mainly on coal, it is the second-largest consumer of oil in the world, after the United States. The African continent's current balance of trade accounts for only 2.3% of China's exports, and 2% of its imports. In 2003, exports earnings of Africa from China amounted to US$438 billion and imports were US$412 billion. The Sino-African trade consists predominantly with South Africa, which represents 20% of the trade with the continent as a whole. This situation is perfectly normal, since the South African economy is still the most dynamic in the region, with a GNP equivalent to that of all the other sub-Saharan African states. China's second major customers are Nigeria, Egypt, Morocco and Algeria, followed by Sudan and Benin (Hall 2005).

Trade between China and Africa may still be modest, but it has grown significantly. In 2003 the total value of the transactions between the two was US$18.5 billion, as compared to US$12.39 billion the previous year. Africa holds a fraction of the World's proven oil reserves—9 percent compared to Middle East's nearly 62 percent—but industry analysts believe it holds significant undiscovered reserves. As a result, China is seeking to increase its oil imports from that continent. It now receives about one-third of its oil imports from Africa, 9 percent of the continent's total exports in 2006 by contrast, the United States purchased 33 percent of that year's exports from Africa Hansen 2008). Currently, China is one of the major trading partners of most of African countries - (Gabon's second largest client after the United States, second largest supplier of goods to Benin, fifth largest to South Africa, sixth largest to Algeria, etc.). Chinese companies in the field of Building and Public Works (BPW) have become competitors with French conglomerates like Dumez and Bouygues. In recent years China has vastly increased its infrastructural building projects. These projects include building a telephone network in Ethiopia, an airport terminal in Algeria, the Méroé dam in the Sudan, the Imbouli hydro-electric dam on the Congo river in Congo-Brazzaville, the Yaoundé Congress Hall, the Lagdo dam in Cameroon, the Palace of Culture in Abidjan, the National Assembly building in Libreville, etc. This being a sector in which it has undeniable expertise and competitive ability. Despite all this, Africa is still terra incognita for China (Lafargue 2005).

By 2003, Chinese investors had already established 602 businesses in 49 African countries, covering such areas as trade, industry, and agriculture. Chinese firms have been investing in African infrastructure (hydropower plants, pipelines, factories and hospitals). Chinese firms are competitive in countries where political situations, sanctions or other potential liabilities keep multinationals from investing in countries presenting such risks. Chinese companies have been active in the mineral rich countries of central and southern Africa. Chinese expatriates were helping their firms to overcome information costs in doing business with China (Plaza 2009).

2. China's Active Role in SSA

One crucial foreign policy goal is to fulfill the needs of China's economic modernization and the economy's growing hunger for natural resources and access to export markets. China seeks to portray itself as an attractive partner for the developing countries. Energy security, in particular, has emerged as a basic parameter of Chinese foreign policy. China has launched an active diplomatic program on oil. It is increasingly skeptical about the prospects of satisfying its soaring energy demands in the international energy market. In fact, it had insight on establishing stable bilateral relations with the world's most important oil-producing countries. Based on "strategic oil partnerships", China seeks to secure long-term supply agreements with the world's leading oil producers, and acquisitions of concessions and capital stakes in relevant energy corporations (Tjonneland 2006). China is enhancing its traditional third world ideology and long-standing political relationship but presently wish to become attractive as a trade partner, an investor, a technology supplier, a provider of credit and development assistance, and as a political friend based on the Chinese principle of "non-interference" in internal affairs. China has come to see globalization as a way of transforming great power politics and to enhance more co-operative forms of inter-state competitions that could increase the prospects for China's peaceful evolution.

Table-1 Percentage Share of China's Main Oil Suppliers, 2003

Country	Percent	Country	Percent
Saudi Arabia	15.6	Iran	15
Oman	11.3	Angola	09
Sudan	7.7	Yemen	5.2
Russia	4.5	Indonesia	04
Malaysia	2.3	Equatorial guinea	2.2
Congo	1.5	Gabon	1.2
Cameroon	1.1	Algeria	0.75
Nigeria	0.6	Egypt	0.3
Others	17.75		

Source: United Nations statistics division

Chinese assistance is channeled to a variety of sectors and areas. There is an emphasis on various projects to promote trade and investment with a strong focus on the provision of physical infrastructure, but also on agriculture. A second significant area is capacity building in the social sector, especially as related to science, health and education. This is mainly focused on training of individuals but there is growing focus also on providing assistance to strengthen management and institutional capacities. It can also be closely linked to securing access to major resources (linked to Chinese oil interests) China has cancelled a significant portion of African debt to China. In 2003, it announced that it would cancel nearly USD 1.3 billion owed by 31 African countries (Tjønneland 2006).

Angola has become China's number one source for imported oil, having surpassed Saudi Arabia in 2006. Sudan is also a leading energy partner. Mozambique and Zambia provide timber and copper. As China seeks to play in the Middle East, Egypt is an essential political ally, while in eastern Africa, Kenya and Ethiopia are important hubs for commerce and foreign relations. In May 2008, the Chinese announced a $5 billion "Afro-Chinese development fund," and, along with it, their aspirations to push the continent-wide trade volume past $100 billion in 2010. The rapid escalation of Chinese development in the Democratic Republic of the Congo (DRC) is a fine case study. In 1997, China established a partnership with Gécamines, the Congolese mining company. China and the Congolese government recently negotiated a $9 billion deal that would fund construction of the DRC's major development needs—water, roads, electrification, a health and educational infrastructure—to be completed in the next decade. In return for its investment, China will gain near-monopolistic access to the DRC's copper, cobalt and coltan mineral reserves. Keep in mind that cobalt and coltan are key components in any mobile phone, and that the iPhone hasn't even hit mainland China yet.

President Bush's Millennium Challenge Account focused on infrastructure (though stringent eligibility requirements have allowed only 19 of 57 African countries to participate, while Chinese allowed 48 countries out of 53). The U.S.-run Overseas Private Investment Corporation (OPIC) is providing $2 billion in equity for African businesses and individuals, while Chinese aspirations is to push the continent-wide trade volume past $100 billion in 2010. If the West wants to push back China's undemocratic influence across Africa, it will have to match China's economic commitments on the continent (Olopade 2008).

3. China and Sub Saharan Future Economic Relations

The new Chinese commitment with Africa is essential and it will have a lasting impact on African development. It opens up new opportunities and new challenges. Many outside observers have been highly vocal and critical of the growing China-Africa relationship. A recent study captures many sentiments by disputing that China's return to Africa has mixed economic consequences at best and that the political consequences are bound to prove deleterious (Tull 2006). Others have focused on "opportunities" (Alden 2006 and Shelton and le Pere (2006). In 2004, China secured its biggest international contract so far – Chinese contractors won a USD 650 million bid for the Nile River's Merowe Dam in Sudan (Goldstein, Andra, Nicola Pinaud, Helmut Reisen and Xiaobao 2006: 85). In addition to this trend there are a rapidly growing number of Chinese companies linked to the arrival of entrepreneurial migrants; these companies are mainly found in the retail and service sectors. By importing Africa's raw commodities, and more recently, African-manufactured value-added goods such as processed foods and household consumer goods; China has helped integrate the continent further into the global economy. Chinese companies have very smartly sought to expand in places where international competition is relatively weak and Africa is just an example of such an environment.

According to the Chinese government statistics, in 2008, China-Africa trade volume reached 106.8 billion dollars, up 45.1 percent from a year earlier. This year, the trade volume is likely to continue to expand. "The Chinese are doing more than the G8 to make poverty elimination history. If a G8 country proposes a project for Sierra Leone, there is an environmental assessment and evaluation of the human rights and governance situation. The Chinese just come and do it." Sahr Johnny, the Sierra Leonean ambassador in Beijing, was quoted as saying the following regarding China's projects in Africa: While this lack of social and environmental benchmarks may worry some, others praise the fact that much-needed investment has been able to flow freely into Africa. Some of the key areas of Chinese investment, which align with improving the efficiency of resource extraction, telecommunications, energy, and physical infrastructure have traditionally been ignored by donors in Africa, who have instead favored social development programs such as education and health. The assistance from China is purely aimed at promoting trade and development for China. China has lifted 300 million people out of poverty with unimaginable speed. China certainly did not achieve this success through a dependence on Western aid and structural adjustments (Augustine *2008).*

The World Bank estimates that African elites keep some 40 percent of their wealth outside the continent, far more than the Asian average of only 6 percent. Chinese firms as catalysts and models could offer incentives for some of that wealth to return to a capital-starved region, such as Japan did when its firms began to relocate to Southeast Asia. China's penetration into Africa's natural resource sector will continue. African resources will be playing a central role in helping China carry out its industrial policy, which aims at making the country a global mover and shaker in the automotive and construction sectors, as well as in information technology (Gaye, Brautigam, 2008).

3.1 Significance of China-Zambia Relations

The Forum on China-Africa Cooperation (FOCAC) has created new opportunities and challenges in the country's development effort. The opportunity being created by China to tap on its experience in acquiring technology and financial resources needed to scale up the country's development effort and move rapidly towards the achievement of the Millennium Development Goals. However, there is great concern that Zambia may fold its arms, sit back and watch this opportunity slide away. As a study by the Centre for Global development points out that the rise in China Export-Import (EXIM) bank is a potentially important trend for African development by providing a new source of capital, especially for much-needed infrastructure investment. The growing operations of Chinese official banks also present a number of challenges to policymakers to mitigate the impact of Chinese lending practices on efforts to promote better governance, standards, and debt sustainability. (Naidu and Davies 2006) examined critically China's acquisition of and investment in Africa's natural resource sector and the short to medium term political, economic, social and environmental implications. The main findings are that China's engagement with Africa is full of contradictions. For example, African producers have been marginalized and displaced from the market because of the influx of Chinese goods. At the same time, as consumers, these same individuals have benefited because of the affordability of Chinese goods. However, as China entrenches itself within production of high-tech white goods, these same consumers will not be able to afford to purchase such goods as their livelihoods would be eroded by Chinese goods.

The China-Zambia economic relationship has been identified to benefit traders and households who benefit from cheaper Chinese products. Chinese exporters will benefit from increased African market in Zambia. The Zambian government is expected to lose and benefit at the same time. The loss is on account of foregone income tax revenue due the loss of employment opportunities at both the firm and household levels while the gain is in the form of increased revenues from trade taxes. The key losers are local producers who stand to gain from cheap inputs from China but at the same time unable to compete with China's cheaper products on the local market with a negative long term effect. Chinese investment arrived in 1997 to re-open the Mulungushi factory, when an agreement was reached between the Chinese and Zambian Governments. Qingdao, a Chinese State Owned Enterprise (SOE), rehabilitate the site (Alden 2007). The Zambia-China Mulungushi Textiles Joint Venture Ltd (ZCMT) was formed, and was jointly owned by Qingdao (66%) and the Zambian Ministry of Defense (34%) (RPAC 2006).

3.2 Economic Interaction Between China and Kenya

China's trade, investment and aid activities in Africa have been growing rapidly over the past decade. Chinese aid to Africa totaled $5.75 billion in 2006, and China the world's third largest food aid contributor. Trade between China and Africa has grown tenfold since 1999, reaching $56 billion in 2006. China's export credit and guarantee agencies—China Exim Bank in particular—have played an important role in fostering the rapid expansion of Chinese trade and investment in Africa Exim Bank 2007). The most important component of the economic cooperation agreement, however, was the Moi International Sports Center in a suburb just outside of Nairobi's central business district. It was built at the cost of 930 million Kenya shillings (approximately $52 million), 48 percent of which was financed by Kenya, and China's contribution to the construction costs (52 percent) was funded by an interest-free loan from China. Under the economic cooperation grant, China also constructed a new teaching hospital at the brand new Moi University in Eldoret, the Gambogi-Serem highway, and provided teaching equipment at Egerton University. China committed itself to providing 10 scholarships annually to Kenya and two top-level military exchanges per year. But it was not all a one-way affair. Keen to develop its own tourist industry, China in 1980 requested Kenya to train Chinese students in tourist management at Utalii College in Nairobi, Kenya's flagship training institution for skills in the tourism industry. Chinese officials also seemed interested to learn from Kenya's tea and coffee sectors—products that were to feature two decades later in its agricultural modernization drive—Kenya replied positively to both requests (Chege 007:23). Kenya's real GDP grew at an average of 1.9 percent between 1990 and 2003, while income per head declined by 0.6 percent over the same period. The rapid increase in Kenya's imports from China (or elsewhere) in the second half of the 1990s therefore did not originate from rising incomes in Kenya. It originated from two other sources (Chege 2007:25). China's industrial modernization, using domestic and foreign capital (Asian and Western) was turning out products that Kenyan's (and Kenyan industries) desired at more competitive prices than other suppliers, including those based in Kenya. What was happening was displacement of import sources and local suppliers in favor of China.

Chinese exports to Kenya now consisted of household electrical appliances, capital goods, agricultural tools, textiles, drugs, building materials and equipment, and machinery. Despite repeated efforts by both governments to boost the volume of Kenya's exports to China, the balance remained still overwhelmingly in favor of China. By 2007, General Electric, Virgin Atlantic, Google, Hewlett-Packard, Cisco, and Tata of India (among others) had opened offices in Kenya. The spectacular rise of Chinese trade and investment in Kenya during the Kibaki years followed similar profit-seeking motives (Chege 2007:25). As a result of new investment and trading opportunities in Kenya's expanding economy, Kenya's imports from China continued to rise along the lines we observed in the 1990s, but this time the pace was even faster. Imported Chinese goods to Kenya rose by a factor of three between 2001 and 2005, from $139 million to $457 million. In May 2004, China designated Kenya as "an approved tourist destination," thereby opening the way for Chinese citizens to gain hard currency for visiting Kenya as tourists. Kenya Airways began planning flights to mainland China in addition to the already existing ones to Hong Kong. Critics of the growing China-Africa relations immediately balked at this development as a threat from Chinese tourists "flooding" Kenya's famed game parks and other attractions (Chege 2007). The occupation of hotel bed-nights by visitors from China to Kenya was, in fact, put at only 25,000 in 2006, a mere 0.4 percent of the total. Kenya and China have found other ways to mutual gain that were wholly unanticipated by the fixation on international tourist travel in 2004.

3.3 China's Investment in Sudan

To help meet this demand China has invested in oil exploration, extraction, transport and processing in Africa in order to "lock up barrels" at their source. China's largest international investment in the energy sector was made through the China National Petroleum Corporation (CNPC) and is the most visible and significant investment in Sudan's oil exploration, transportation and production infrastructure. China's investment in Sudanese oil production capacity has resulted in Sudan's output now amounting to five percent of China's total imports. Significantly, China is Sudan's single largest customer for oil, consuming over half of Sudan's exports in 2003. China has not only partially satisfied its energy needs by securing access to Sudanese oil. CNPC and the Chinese government have gained considerable operational experience in international markets from their operations in Sudan. However, China's active quest for energy has not been matched by concern for promoting good governance and sustainable economic growth. African countries also represent a significant market for cheap as well as higher technology (Thomson 2005); for Chinese-made products, which help China to maintain a favorable global balance of trade and create jobs in China. Chinese companies have been very active investors in African infrastructure, including telecommunications, hydropower plants, pipelines, factories, hospitals, stadiums, railways and roads. Lastly, Chinese companies are attracted to the potential for large profits in markets with less competition from multinational firms.

3.4 Gabon and China Economic Relations

The year of 2002 witnessed a bilateral trade value to reach US$237 million between the two countries, of which the Chinese exports occupied US$4.7 million (China.org, 2006). The major exports from China to Gabon are: textile, mechanic and electric products, while the imports mainly include timbers, petroleum and manganese ores. The two countries signed an Agreement on Investment Protection between the Government of the People's Republic of China and the Government of the Republic of Gabon. As a result, two-way trade amounted to 300 million US dollars in 2003, compared with 88 million dollars in 1994, making Gabon China's second largest trading partner in central and western Africa. The major projects aided by China for Gabon include: health-work center, primary schools and National Assembly building. In 1975, China started to provide Gabon with scholarship for higher education and recently a quota of 11 scholarships is provided every year with a total of 48 students from Gabon to study at present in China. In April 1986, the two countries signed a protocol for China to send teachers to teach in Gabon, in line of which China has now sent 5 teachers to teach in the high schools in Gabon (China.Org. 2006; Lyda 2008).

4. CONCLUSION

China's involvement, as per experts opinion, could jump-start changes in the continent, if African governments become more assertive partners in their dealings with China. Currently it is possible to talk about Chinese soft power and its effects in Africa, Latin America, and mainly in Asian countries. There are so many reasons for the spread of Chinese soft power particularly in these regions, but economic matter is in the first place among those reasons. China's overall trade with Africa rose from $10.6 billion in 2000 to $40 billion in 2004 and continues to increase, according to Chinese government statistics.

China's oil purchases have been the cause of raise in oil prices, boosting government revenues of oil exporting countries like Angola, Gabon or Nigeria, while hurting all other oil importing African countries. But China's raw material purchases have increased the price of raw materials such as copper, timber, nickel, which is helping many other countries. This lead to a new kind of manufacturers in Africa, managed by Chinese, hiring African workers, and later exporting to Chineses, European, American and Japanese customers. Certainly, China's increasing involvement in Africa, and its financial muscle, may further reduce the already damaged legitimacy of institutions like the World Bank and the International Monetary Fund. If Africa does not set its house in order first then there is no way it will achieve anything. China will end up taking advantage of its resources before leaving it dry under the sun. Chinese factories offer not only jobs—they also use production technologies that African entrepreneurs can easily adopt. The World Bank estimates that African elites keep some 40 percent of their wealth outside the continent, far more than the Asian average of only 6 percent. Chinese firms as catalysts and models could offer incentives for some of that wealth to return to a capital-starved region, such as Japan did when its firms began to relocate to Southeast Asia. China's penetration into Africa's natural resource sector will continue. African resources will be playing a central role in helping China carry out its industrial policy, which aims at making the country a global mover and shaker in the automotive and construction sectors, as well as in information technology.

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