DETERMINANTS OF CAPITAL FLIGHT IN ZAMBIA

BY

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DECLARATION

I, EMILY MUKUMBWA KAUSENI, declare that this dissertation:

(a) Represents my own work

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This dissertation of EMILY MUKUMBWA KAUSENI has been approved as partial fulfillment of the requirements for the award of Masters of Arts in Economics by the University of Zambia.

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While Zambia remains steep in poverty, it is also simultaneously witnessing a large outflow of domestic capital which if, retained and returned would assist in boosting financial resources utilization and improve in social-economical developmental programmes. Capital flight from Zambia was $16 billion in the 1970s, $36 billion in the 1980s, and $43 billion in the 1990 using the Residual Approach Method. Indeed these figures are significant amounts of lost resources that could have been utilized in Zambia to generate additional output and jobs and promote economic development. This scenario possesses serious policy concerns for development. Capital flight is the movement of capital from a resource-scarce developing country to avoid social controls, and measured as net unrecorded capital outflow.

The study investigates the determinants of capital flight in Zambia from 1970 to 2004 utilizing Ordinary Least Square and 2 Stage Least Square Technique after the application of co-integration Error Correction Mechanism of Engle and Granger (1987), using time series data from 1970 to 2004. The main objective of the study was to analyse the levels and trends of capital flight in Zambia and to investigate the key economic and political factors that influence capital flight.

The quantitative results from the study reveal that unfavourable macroeconomic factors, huge external debt, political and policy uncertainty are the significant causes of capital flight from Zambia. Capital flight also reported a negative impact on economic growth. Therefore, economic growth in Zambia can greatly improve and be sustained through alleviation of capital flight. Hence, the combination of maintaining stable and predictable economic environment, good governance, and fiscal discipline are recommended to minimize capital flight in Zambia.
Based on this study, it is also recommended that non-financial aspects of fiscal policy, trade and corruption be investigated as some of the determinants of capital flight in Zambia.
DEDICATION

To the, Late Geoffrey Mulenga Kauseni, who unselfishly shared with me his divine wisdom in the fourteen years we were married
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ACRONYMS

SSA      Sub-Saharan African
US       United States of America
$        Dollar
GDP      Gross Development Product
HIPC     Highly Indebted Poor Countries
LDCs     Less Developed Countries
FDI      Foreign Direct Investment
GNP      Gross National product
%        percentage
NERP     National Economic Reform Programme
IMF      International Monetary Fund
SAP      Structural Adjustment Programme
BLUE     Best Linear Unbiased Estimators
OLS      Ordinary Least Squares
DW       Durbin-Watson
i.e.     That is