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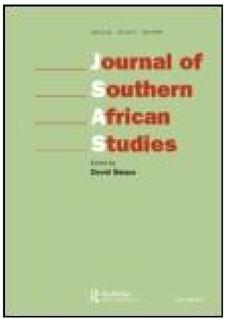

Amnesty International? The Nature, Scale and Impact of Capital Flight from South Africa

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Sam Ashman[a], Ben Fine[b] & Susan Newman[c]

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Abstract

The South African Reserve Bank (SARB) announced in July 2010 its intention to introduce a new amnesty for illegal capital flight. For a flat rate fee of 10 per cent of the value of the assets, corporations and individuals disclosing their illegal expatriation of capital prior to February 2010 would receive no further penalties and be allowed to keep their assets offshore under the 'Voluntary Disclosure Programme' (VDP). SARB sees this as a first step towards the complete liberalisation of outflows. Such capital flight is not new but it has worsened significantly since the defeat of apartheid. As a percentage of GDP, it increased from an average of 5.4 per cent per year between 1980 and 1993 to 9.2 per cent between 1994 and 2000, and averaged 12 per cent between 2001 and 2007, finally peaking at a staggering 20 per cent in 2007. The vast majority of (illegal) capital flight arises out of transfer pricing by conglomerates, especially in and around mining, and forms part and parcel of a more general adjustment of such conglomerates to the imperatives of financialisation and globalisation in the wake of an apartheid backlog. In this sense, capital flight has been the most important form taken by the post-apartheid dividend, and has dictated and conformed with other less than satisfactory economic and social developments attached to the post-apartheid era, including elite Black Economic Empowerment. The impact has been to intensify falling domestic investment in productive activities, declining capital stock across almost all productive sectors, macroeconomic austerity and vulnerability, and de-industrialisation of the economy, further entrenching unemployment, poverty and extreme inequality in the provision of basic services. Rather than focusing on the motives of individuals, our approach emphasises that capital flight is a consequence of broader shifts in the global economy and the historical trajectory of South African economic development.

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*Amnesty International? The Nature, Scale and Impact of Capital Flight from South Africa**

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The South African Reserve Bank (SARB) announced in July 2010 its intention to introduce a new amnesty for illegal capital flight. For a flat rate fee of 10 per cent of the value of the assets, corporations and individuals disclosing their illegal expatriation of capital prior to February 2010 would receive no further penalties and be allowed to keep their assets offshore under the 'Voluntary Disclosure Programme' (VDP). SARB sees this as a first step towards the complete liberalisation of outflows. Such capital flight is not new but it has worsened significantly since the defeat of apartheid. As a percentage of GDP, it increased from an average of 5.4 per cent per year between 1980 and 1993 to 9.2 per cent between 1994 and 2000, and averaged 12 per cent between 2001 and 2007, finally peaking at a staggering 20 per cent in 2007. The vast majority of (illegal) capital flight arises out of transfer pricing by conglomerates, especially in and around mining, and forms part and parcel of a more general adjustment of such conglomerates to the imperatives of financialisation and globalisation in the wake of an apartheid backlog. In this sense, capital flight has been the most important form taken by the post-apartheid dividend, and has dictated and conformed with other less than satisfactory economic and social developments attached to the post-apartheid era, including elite Black Economic Empowerment. The impact has been to intensify falling domestic investment in productive activities, declining capital stock across almost all productive sectors, macroeconomic austerity and vulnerability, and de-industrialisation of the economy, further entrenching unemployment, poverty and extreme inequality in the provision of basic services. Rather than focusing on the motives of individuals, our approach emphasises that capital flight is a consequence of broader shifts in the global economy and the historical trajectory of South African economic development.

Introduction

How can South Africa attempt to pursue a new economic development trajectory that breaks from constraints of the old? That question was posed by some during the economic policy debate towards the end of 2010 as the Cabinet announced a 'New Growth Path' for the country that would 'place employment at the centre of government economic policy' and put the economy on a 'production-led trajectory' rather than the consumption-led growth of

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