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International Banks Targeted for Prosecution in South Africa

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Republic of South Africa President Jacob Zuma has leveled sharp attacks on the financial industry inside the country accusing banks of treating the population unfairly.

During the course of his response to a debate surrounding the State of the Nation Address (February 8) to parliament in Cape Town on February 16, Zuma stressed his:

> "Government is ready to act against market abuse, price fixing and collusion in the private sector in order to protect our country's economy. This matter is still under investigation. The Competition Commission can impose fines on companies but the impact is far reaching as it distorts our economic system."

These comments come amid a series of revelations related to currency fixing and the closing of accounts by those who have close ties with the African National Congress (ANC) dominated national government in Pretoria and Cape Town.

In addition, to these remarks related to the currency fixing scandal, Zuma pointed out in the actual SONA speech that the national economy inherited from the racist apartheid system in 1994, remains unequal favoring the owners of capital. This concentration of wealth among the European settler-class is also reflected in the bureaucratic composition of corporate and state structures.

> "In terms of the 2015/16 information submitted to the Employment Equity Commission, the representation of whites at top management level amounted to 72 percent whilst African representation was at 10 percent," Zuma said on February 8. He continued emphasizing that" "The representation of Coloreds stood at 4.5 percent and Indians 8.7 percent. The report further provides that white South Africans, in particular males, are afforded higher levels of recruitment, promotion and training opportunities as compared, to the designated groups. At the level of gender at senior management level, males remain dominant at 67.6 percent and females at 32.4 percent."

The country, which is considered the most advanced and industrialized on the continent, is currently undergoing a recession characterized by negligible and negative economic growth, rising joblessness, increasing poverty and declining currency values. These difficulties are mirrored across Africa in light of the decline in commodity prices over the last two years resulting in the scramble for foreign exchange and direct capital investment from financial institutions outside of the continent.

Currency Rate Manipulation Exposed

In South Africa, it was revealed by an anti-trust agency that during the period where residents were negatively impacted by the uncertainty in the economy fueled in part by the fluctuating value of the rand, banks were profiting from these problems. These multi-national firms represent some of the largest of such entities in South Africa and the world.

The South African Competition Commission cited the following companies in relationship to the currency fixing matter: Citigroup, Nomura, Standard Bank, Investec, JP Morgan, BNP Paribas, Credit Suisse Group, Commerzbank AG, Standard New York Securities Inc., Macquarie Bank, Bank of America Merrill Lynch (BAML), ANZ Banking Group Ltd, Standard Chartered Plc and Barclays Africa (Absa), part of the Barclays Plc. Investec and Barclays agreed to participate in the probe. Nonetheless, Standard Bank, BAML, Nomura, Credit Suisse, ANZ and Standard Chartered have not gone on record as to whether they will cooperate in the inquiry.

The Commission has referred the case to a Tribunal for prosecution alleging they violated the Competition Act suggesting that 10 percent of the firms' annual turnover be paid in compensation to the government. Currency fixing practices are said to extend back to at least 2007 involving the manipulation of values of exchange between the U.S. dollar and the rand, coinciding with the beginning of the world financial crisis.

The Commission findings indicate that the banks manipulated bid prices as well as offers utilizing informal agreements to not engage in trading and therefore generating fictitious offers. These actions were enacted through platforms such as Reuters currency trading to provide the veneer of legality.

Other methods of collusion took place in the Bloomberg instant messaging system (chatroom) and telephone discussions, where meetings were conducted to plan fraudulent activity. The banks cooperated with each other to agree on what they perceived to be the desired prices by coordinated trading. The end result was to create fictitious bids and offers and consequently manufacture demand and supply in order to maximize profits.

Most of these banks are based in the leading capitalist countries such as the United States, Britain, Europe Union member-states, Japan and Australia. Their historic role in regard to the struggle of the South African workers and farmers has been in contravention to the interests of the masses of people.

The ruling ANC, who President Zuma still leads, issued a statement in response to the reports surrounding the financial entities, saying the party:

> "takes an extremely dim view of the activities of the listed banks. These acts of corruption have crudely exposed the ethical crisis in the South African banking sector. It is further an indication of how the markets are and can be manipulated by dominant oligopolies to cripple its functioning to suit their nefarious agendas."

Quartz reporting on this says:

> "As South Africans worriedly watched the rand rise and dip against the dollar,

> more than a dozen banks illegally profited from the volatility, according to local antitrust agency, Competition Commission. It says it found evidence 17 banks were colluding on the rand to dollar exchange rate. The commission's two-year investigation found that the banks were involved in price fixing and market allocation regarding the South African rand and the US dollar since April 2015." (Feb. 17)

Another response to the Competition Commission findings came from the Young Communist League of South Africa (YCLSA) which questioned the capacity of the political system to adequately tackle the implications of these crimes. YCLSA noted that it was necessary for the economic system to be transformed to a socialist-orientation so that these firms can be brought under the control of the state.

Molaodi WaSekake, national spokesperson for the YCLSA, said:

> "While the Commission has done sterling work, without the political will of the political leadership to tamper with the capitalist mode of production that privileges a few we will only scratch the surface of the rot while we need to unearth and deal with it once and for all. This becomes worse when political leaders who are supposed to service the people are share-holders of such monopoly capital industries, including commercial banks, thereby creating a dependent comprador bourgeoisie which is the direct enemy of national development and people's empowerment." (Press statement from Feb. 16)

Sekake suggests as a possible economic radical reform that:

> "What could be one of the far-reaching solutions to the crisis at hand is the creation of a state bank that will be the custodian of the national accounts [and monies]. Commensurate policies [should] be put in place to govern the movement of money in and out of the country. In other words, the capacity to control capital flows through progressive foreign exchange rate policy approaches."

The Role of Wall Street, Washington and London

Since the advent of the Great Recession of 2007-2008, international financial institutions have been exposed as the culprits largely responsible for the economic downturn. In the U.S., predatory lending activity in the areas of housing, insurance and municipal finance resulted in the foreclosures of millions of homes and a precipitous decline in metropolitan and rural areas across the country.

The world system was on the verge of collapse in the final quarter of 2008, requiring a massive bailout of the banks, insurance companies and automotive firms. Trillions of dollars and euros have been advanced to these institutions from government coffers in the western industrialized states as well as central banks throughout Europe and North America.

At the same time, those responsible for these violations have not been pursued aggressively through the leveling of monetary sanctions, the curtailing of bank behavior, the prosecution of high-ranking executives within these firms and the payment of reparations to the victims of such practices. In the U.S. only a small number of lower-level functionaries have been indicted, tried and imprisoned. These firms have been allowed to absorb failed companies absent of any basic restructuring of their operations.

A Financial Times article on July 27, 2012 revealed that the London Inter-bank Offered Rate (LIBOR) had been manipulated since 1991. These activities by leading financial firms impacted the global system through regulating the underpinnings of $350 trillion in derivatives.

UBS trader Thomas Alexander William Hayes has been the sole individual prosecuted and convicted in connection with the Libor matter. In Britain, six bankers accused over Libor rate fixing were cleared of charges in early 2016.

These developments in South Africa and internationally illustrates that the economic system of capitalism is controlled by an ever shrinking group of financial interests who operate as a matter of policy in contravention to the majority of people not only within the western industrialized states notwithstanding throughout the world. As the African Union member-states face escalating economic difficulties a re-emergent debt crisis in looming.

This burgeoning phenomenon of declining currency values and lack of credit availability portends much for the ability to strengthen both state and non-state structures in Africa. Escalating rates of poverty and lack of national and regional economic capacity will inevitably foster even greater dependency on the West and its transnational institutions.