Consistently inconsistent

The US' credibility hangs in the balance

Afia Ibnat
is a political analyst and executive member of Shorolota Foundation. She can be reached at afiaibnatwork@gmail.com

AFIA IBNAT

The US, despite its arsenal of analysts, strategists, and policymakers, frequently has to reverse its foreign policy decisions. Time and again we have observed this phenomenon, with the US having to enforce the Reverse Course policy on its Cold War ally Japan in the late 1940s, pulling out of Afghanistan after 20 years of warfare with little to show for it, and imposing US visa sanctions on those "undermining democracy" prior to the January 7 Bangladesh election. Now, we're seeing the same in the US' paradoxical handling of Palestine. There seems to be a trend. Washington touts human rights, democracy, and peace, but only if achieving these doesn't clash with its main priorities: economics and security.

In the case of Bangladesh, the country is used to the US being vocal about human rights and democratic norms, alongside the occasional chastisement regarding labour laws and unfair elections. However, the recent political climate shows that the US, despite not being happy with the way elections were conducted, remains persistent in pursuing deeper ties with Bangladesh on the economic, geostrategic, and development fronts. The US Press Spokesperson Matthew Miller, despite stating that the January 7 election lacked fairness, emphasised the US' dedication to collaborating with Bangladesh in advancing a joint vision for a free and open Indo-Pacific, supporting human rights and civil society in Bangladesh, and strengthening economic connections. On top of that, US President Joe Biden sent a letter to Prime Minister Sheikh Hasina on February 6 expressing his administration's desire to work with her on numerous fronts, including " global security, economic development, climate change and energy, global health, humanitarian support." The unseasoned eye would suffer from whiplash from the rate at which the US went from an attempt to strong-arm the Bangladeshi government to abide by the US rulebook for elections, to sweeping it all under the rug afterwards. Still, if we look at the US' track record, we can see that its behaviour remains consistently inconsistent and is thus somewhat predictable.

In the past, the US sermonising about human rights was rarely digestible. But these days, it is met with waves of incredulity and ridicule in Dhaka and abroad in light of its actions in the Middle East. Washington claims itself as the champion of human rights and democracy globally, but there is growing apprehension that its reputation may have suffered irreparable damage this time around. The US' actions, including repeatedly vetoing ceasefire resolutions for Gaza in the UN Security Council, leading coalition attacks against the Houthi in the Red Sea, rejecting the South African case at the ICJ accusing Israel of genocide, and maintaining unwavering strategic, financial, military, and diplomatic support for Israel, collectively undermine its calls for upholding human rights, international law, and democratic principles in Bangladesh and beyond. The US has sold weapons worth more than $573.5 million to Israel since October 7, and this is just the amount that was made public. And now, Washington is busy reversing its approach to Gaza, with Biden shoddily airdropping aid and creating a makeshift emergency port to deliver humanitarian assistance in a crisis he continues to fund. Unfortunately, these efforts cannot undo the deaths of thousands of Palestinians and they certainly cannot undo the damage the US' image suffered as a result of supporting Netanyahu's repressive Israel in committing genocide against the Palestinians. Simply reversing its strategy at the last minute, before the elections, does not give the US a free pass to support criminals such as Netanyahu and continue business as usual.

Israeli PM Benjamin Netanyahu (back) greeting US President Joe Biden upon his arrival at Ben Gurion International Airport on October 18, 2023. PHOTO: AFP

Even in South Asia, the US is inconsistent in its advocacy of democracy, particularly in India, Pakistan, and Bangladesh. In the case of India, Washington often overlooks evident instances of Hindu nationalism and related human rights violations, prioritising the US-India geostrategic partnership aimed at containing China's influence in the region. Conversely, in Pakistan, while the US calls for the restoration of democracy, it maintains a relatively soft and accommodating stance, favouring cooperation with military dictatorships rather than elected officials who may want to exit the US orbit. This approach sharply contrasts with the specific actions taken by Washington to support democracy in Bangladesh, which included visa sanctions imposed on individuals undermining the organising of free and fair elections. Despite this attempt at pressuring the ruling party in Bangladesh, the US shifted gears post-election so as not to disturb New Delhi's strategic ally and perturb the geopolitical waters to the point that Dhaka tilts too much towards Beijing or Moscow during turbulent times. These cases exemplify that US foreign policy remains inconsistent in pushing for democratic norms, but it does remain consistent in prioritising strategic interests above all.

Simply reversing its strategy at the last minute, before the elections, does not give the US a free pass to support criminals such as Netanyahu and continue business as usual.

If the US continues to engage in actions which destabilise and undermine the international rules-based order by supporting the egregious crimes of Israel, while at the same time preaching about human rights and noble ideals like fairness, freedom, and inclusivity in Bangladesh and elsewhere, not only is the US shooting itself in the foot by eroding its own credibility, but it also faces the risk of increased isolation on the world stage. This, in the long run, will subsequently encourage other states to challenge US hegemony. Washington must draw practical red lines with Israel instead of throwing around tepid criticisms laced with double standards. The world is watching closely and the time for lip service is over. For the sake of its own national interests, the US must now do its part, as a great power, to reverse the damage it has done in clear, concrete, and consistent terms.

When does a bank fail?

Dr Md Main Uddin
is professor and former chairman in the Department of Banking and Insurance at University of Dhaka. Reach him at mainuddin@du.ac.bd

MD MAIN UDDIN

In an economy, banks facilitate the flow of funds to fuel its growth. The main objective of a bank is to maximise its shareholders' wealth by ensuring that its cash flows are sizeable and regular. But the cash flows are interrupted by various risks, which can make banks susceptible to failure.

There are four main reasons why banks fail: credit risk, interest rate risk, foreign exchange risk, and liquidity risk (bank run). Any loss arising from these risks is adjusted against capital. But when the loss exceeds capital, a bank becomes insolvent. In the face of a serious liquidity crisis, the ultimate result is bank failure.

The Royal Bank of Scotland
The Royal Bank of Scotland (RBS) was established in 1727. Before 2007, the bank grew rapidly and became a major player in the international banking market. Profits grew from £1.8 billion in 2000 to £5.6 billion in 2006. However, its risk appetite was greater than that of its peers. The bank had capital shortage and greater risk concentrations, but these did not cause sufficient concern. The bank appeared solvent due to its sound credit rating.

The RBS also ran a risky and aggressive funding profile, relying heavily on short-term wholesale markets to fund its investments. For instance, it was a net borrower from the interbank market of £72 billion in 2006 versus only £3 billion in 2000. Additionally, RBS bought another risky bank, ABN Amro, with limited due diligence and financed the acquisition with mostly short-term debt rather than capital raising. For example, of the €22.6 billion that RBS paid for the acquired bank, more than half was funded by debt repayable within a year. High levels of risk led to massive losses with the RBS failing in August 2008 and being nationalised in October 2008 when the government injected £45.5 billion of equity capital.

Dexia
Dexia, a Franco-Belgian bank, was formed in 1996. This bank focused on lending to the public sector at very attractive rates, depending on sophisticated financial techniques. It heavily borrowed short-term funding to make long-term loans, and enhanced profitability with cheap funding. With the risk of maturity mismatch between assets and liabilities, Dexia still earned a strong credit rating and expanded its balance sheet from €258 billion in 2000 to €651 billion in 2008, before collapsing after a liquidity crisis in October 2008 and needing to be rescued by the state.

FILE ILLUSTRATION: **BIPLOB CHAKROBORTY**

Dexia purchased the US credit insurer Farm Service Agency (FSA) in 2000, but FSA's exposures and losses caught up with Dexia. It faced a serious liquidity crunch because more than half of its liabilities matured over less than three months. Its cost of risk was only €9 million in 2007, which increased to €716 million in 2008. On September 29, 2008, Dexia applied to the French, Belgian, and Luxembourg governments for support and received funding.

Ironically, Dexia faced a second liquidity crisis due to a fall in interest rates by nearly one percent during the summer of 2011, requiring huge collateral to cover its derivatives positions. There was a substantial increase in its usage of short-term secured funding, which brought about a liquidity problem. In September 2011, Dexia faced yet another liquidity crisis and was rescued again by France, Belgium, and Luxembourg to avoid bankruptcy. The failure at Dexia cost taxpayers over €18 billion.

Halifax Bank of Scotland
Halifax Bank of Scotland (HBOS) was created in 2001 by merging Halifax and the Bank of Scotland. At the time, HBOS was the largest provider of mortgages and loans in the United Kingdom, with £312 billion in assets, £11 billion in equity, annual profits of £1.6 billion, and around 20 percent market share. By 2006, its profits had grown to £5.7 billion and return on equity was strong at 21 percent. International lending was growing at a rate of 24 percent, and its growth in international markets even accelerated in 2007.

HBOS was dominant in all areas of property-related lending and investment, taking equity stakes in addition to traditional banking loans. But it was not cautious when expanding into property lending. Its risk appetite raced ahead of its risk management capabilities. The bank demonstrated incompetence in the riskier areas of its expansion. In late 2008, the capital markets began to lose confidence in HBOS. The stock price collapsed and borrowing in the markets became difficult. Almost all areas of HBOS' business began to face huge losses. By the end of 2008, HBOS failed and was taken over by Lloyds Banking Group on January 19, 2009.

Merrill Lynch
Merrill Lynch was a publicly traded investment bank in the US. It existed independently from 1914 until January 2009 before being acquired by the Bank of America. Its residential mortgage loans rose to $100 billion in 2007, from $58 billion in 2005. After the dotcom boom, Merrill Lynch invested heavily in collateralised debt obligation (CDO)—a complex financial asset backed by a pool of loans and other assets—and its revenues grew from $5 billion in 2004 to $8 billion in 2006. This signalled risks which the company's management was not concerned about mainly because of having strong rating and contribution of CDO to revenue. However, losses began to mount in 2007.

The mortgage assets continued to be under pressure and Merrill Lynch was forced to reduce its risk and sell assets at a loss. The bank reported a $24.7 billion loss related to CDO and subprime in 2007. It faced a record loss of $37.9 billion in 2008, resulting in liquidity shock. It became clear to the management that a rescue by another bank was the only option for survival. Mounting losses at Merrill Lynch led to the acquisition of it by Bank of America and the merger took place officially on January 1, 2009.

The case studies above represent relatively recent failures in the banking industry and how they came about. The RBS case highlights governance and risk management failures in multiple areas. The bank's solvency was weak and maturity mismatch was significant. Its extreme risk appetite was worsened by its acquisition of another risky bank. There was also a lack of supervisory oversight.

Meanwhile, the Dexia case shows how a public sector banking model, which appears low-risk, can be vulnerable to unexpected changes. The situation was not only risky but also proved it was impossible for Dexia to adapt to a volatile market environment.

The HBOS case indicates risk management, governance, and regulatory failures that led to its problems. The management, stock analysts, and rating agencies failed to detect the scale of HBOS' riskiness. And in the case of Merrill Lynch, the management failed to understand the risks accumulated through its business being limited to specific areas. The supervisory response to the abnormal growth of the bank was impractical.

Risks exist in all business models, in all countries, in every institution, and at all times. Hence, risks have to be identified and their scale has to be determined first. Then, these risks must be managed with the right approach so that they are addressed and not accumulated.