Gulshan massacre tears at fabric of Bangladesh's garment sector

REUTERS, *Dhaka*

EMDADUL Islam's three-decade career in Bangladesh's garment trade has seen the industry hit by riots, labour unrest, power shortages and safety scandals, but he had never lost faith in its ability to weather the latest crisis and continue to grow.

Now, after a group of radicalised young Bangladeshis killed about 20 people, including 18 foreigners, in an attack on an upscale Dhaka restaurant claimed by Islamic State, he fears for the future of the $28 billion sector.

"I thought it impossible for this to happen in Bangladesh," said Islam, a director of Babylon Group, which makes garments for the likes of H&M and Tesco. "It was just a nightmare. This is not Afghanistan, or Pakistan, or something."

Bangladesh relies on garments for more than 80 percent of its exports and roughly 4 million jobs. It ranks behind only China as a clothing supplier to developed markets in Europe and the United States.

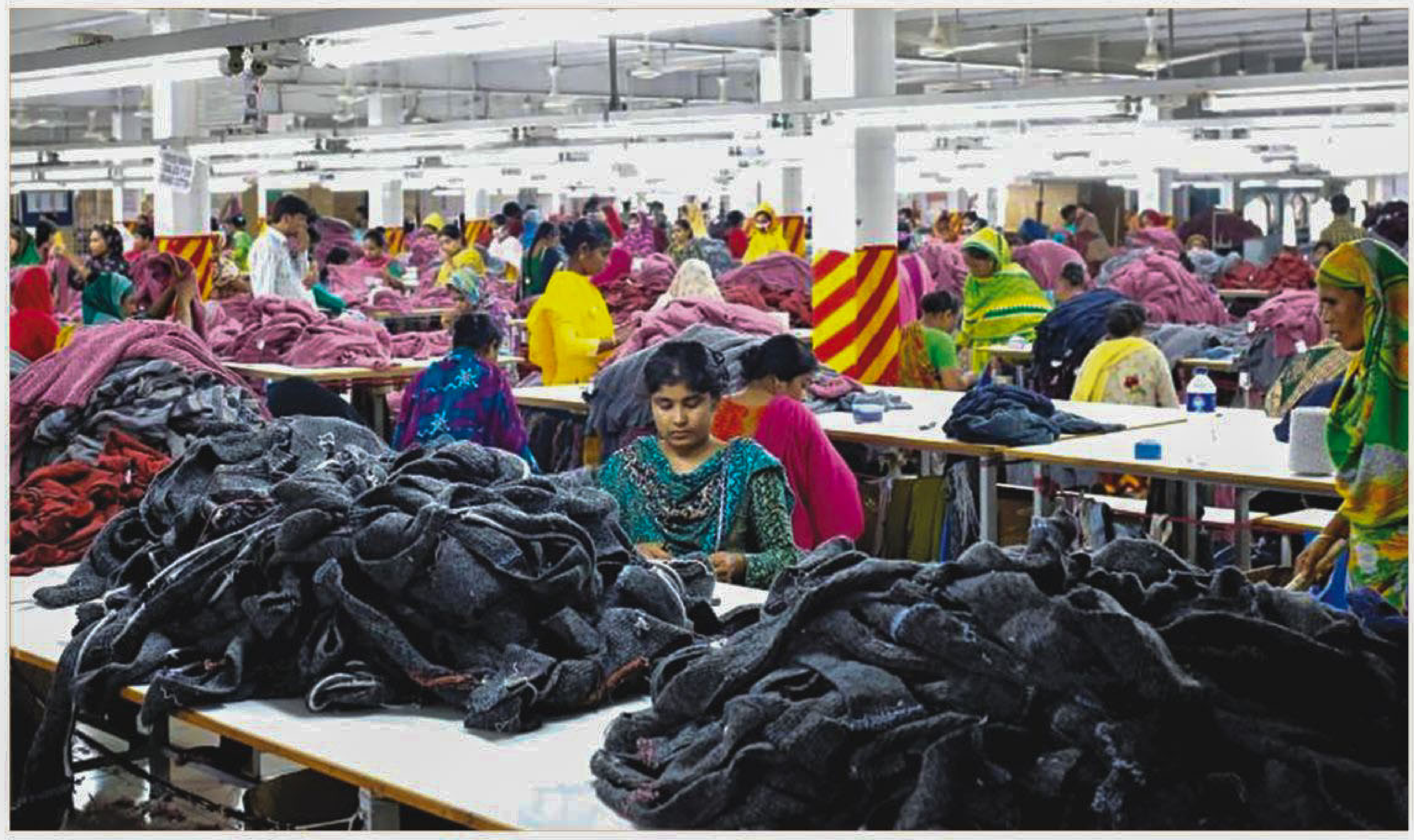
But the July 1 attack has confronted the industry with its biggest image crisis since the collapse of the Rana Plaza factory building in 2013, with some fearing security worries could cripple a sector that is the lifeblood of the economy.

"I never thought Islamic extremism would be a big threat to the industry directly, and I never thought it would happen quite like this," said Rubana Huq, managing director at the Mohammadi Group, which owns a string of garment factories and other businesses.

Foreign companies, including Japan's Uniqlo, have suspended all but critical travel to the country since the attack, although there are no signs yet of big players moving orders elsewhere. The government says it has stepped up security for foreign business travellers, investors and diplomats.

Despite a long history of turbulent domestic politics that often spills onto the streets, Islam said the relative stability of Bangladesh compared with rival manufacturing bases had been an important factor in the rise of its garment sector.

"When we started in the 1980s, Sri Lanka at that time was in a very volatile situation, so companies came to us. They wanted Bangladesh to produce - that's how we grew," said Islam, 60, one of the founding partners of garment maker Babylon Group back in 1986.



REUTERS

Women work at a sweater factory of Wega Group, in Dhaka.

Islamic State and al Qaeda have made competing claims for a series of killings of liberals and members of Bangladesh's religious minorities in the past year.

But the July 1 attack signalled a far more sophisticated threat from those seeking to replace the mainly Muslim country's secular democracy with strict Islamic rule.

"On that night, we lost the identity of our country," said Mesbha Uddin Ali, chairman of garment maker Wega Group.

What has been particularly shocking to many middle class Bangladeshis is that the attackers mostly came from well-to-do backgrounds and appear to have been radicalised only recently.

"One of my friends called it 'Black Friday', which I think was pretty accurate," said an American in the garment industry, who has been living in Bangladesh for seven years.

"Bangladesh has such a strong family culture, and yet the fact that these young, educated boys chose to leave that and do something like this is shocking."

Many of the victims of the latest attack worked in the garment trade, and the U.S. executive, who declined to be identified due to personal safety concerns, said it had prompted him to take extra precautions.

"I don't walk anymore," he said. "I don't take the rickshaws anymore. And I'm not a man who likes to waste time, or money, so I did take a rickshaw for short distances. Now I just lay low."

Some local executives have taken more robust measures.

"Earlier I had this pistol, but it was never loaded and I did not carry it," said Mohsin Uddin Ahmed Niru, a director of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA). "Now I carry it every day."

There had been warning signs that the radicalisation threat in Bangladesh was growing.

An Italian aid worker was shot dead in Dhaka's diplomatic quarter in September 2015, in the same week masked gunmen killed a Japanese farmer in northern Bangladesh.

In response, the government deployed paramilitary soldiers on night-time patrols in the diplomatic quarter and a number of companies stepped up security for visiting executives.

More protection has been promised in the wake of the July 1 killings.

"We have already re-arranged security measures all over the country after the terror attack," said Industries Minister Amir Hossain Amu, who also heads the cabinet committee on law and order.

"All foreigners including diplomats, business travellers, garment buyers, investors and development partners are all covered by extra security."

Industry sources say H&M last week sent an email to all its vendors informing them about a series of upgraded security norms at its office in Bangladesh.

"We are in contact with our office in Dhaka, and none of H&M's company workers are affected," a spokesman for the Swedish fashion retailer said in an email.

"We have safety routines to assure our co-workers safety on-site. Regarding our sourcing, there are no plans in changing any sourcing, but we are following developments closely."

An official at El Corte Ingles, one of Europe's largest department store chains, said the company had moved all eight of its foreign staff out of the country and was observing a two-month "hold period" before deciding whether they would return.

All of the company's meetings in Dhaka have been cancelled, and would be rescheduled in Hong Kong, said the official, who declined to be identified. El Corte did not respond to a request for comment.

One garment exporter, who also declined to be named, said he had already lost a $3.6 million order from privately-held French retailer Celio.

"They were supposed to come to Dhaka on July 13, but after the attack they cancelled the visit," he said. "This meeting was vital for me. I tried to convince them to meet somewhere else, but they said they had already shifted the order to China."

Celio did not respond to a request for comment.

There are no signs yet of major buyers shifting orders away from Bangladesh, not least because the production cycle has entered the busy Christmas season and pulling out business now would be expensive and logistically challenging.

But industry players fear that, over time, security worries may prompt buyers to look to up-and-coming garment centres such as Myanmar and Ethiopia that offer similar cost advantages to Bangladesh.

"There may not be any short-term impact, but medium-to-longer term, for sure," said Mohammadi Group's Huq.

"Buyers have a right to go wherever they feel their business is more secure, and most importantly - their lives. They do not want to die in Bangladesh."

Export curbs in line with WTO rules: China

AFP, *Beijing*

China insisted its controls over some raw materials exports were legal, after the European Union followed the United States to take it to the World Trade Organisation over the restrictions.

The EU lodged the legal challenge on Tuesday, accusing China -- the world's largest trader in goods -- of violating WTO rules with duties and quotas on 11 key materials.

In a similar filing last week, the US alleged China failed to live up to a commitment made when it joined the WTO in 2001 to eliminate such export duties. Washington said Tuesday it had expanded its complaint to include all the same materials covered in the European action.

The substances -- including graphite, cobalt, chromium and magnesia -- are essential in a broad range of industries, from aerospace and car manufacturing to electronics and chemicals.

But China's trade authorities defended the curbs, saying they were meant to protect the environment and comply with WTO rules.

"China's controls such as export duties and quotas over relevant raw materials are based on the need to protect the resources and the environment," Beijing's commerce ministry said in a statement Tuesday.

"They are part of the comprehensive measures to strengthen the protection of the ecological environment and are in line with WTO rules," it said.

Gold is not all that glisters - diamonds act as hedge for the rich

REUTERS, *Geneva/London*

IN a packed Christie's auction room in Geneva, one could hear a pin drop as two anonymous bidders slugged it out in their quest to own the world's most exquisite blue diamond.

The room in the Four Seasons Hotel des Bergues was filled with multi-millionaire collectors and diamond dealers, listening intently as the bidders, each speaking by phone to a Christie's representative, took turns adding a few hundred thousand dollars in a tense struggle dragging on for more than half an hour.

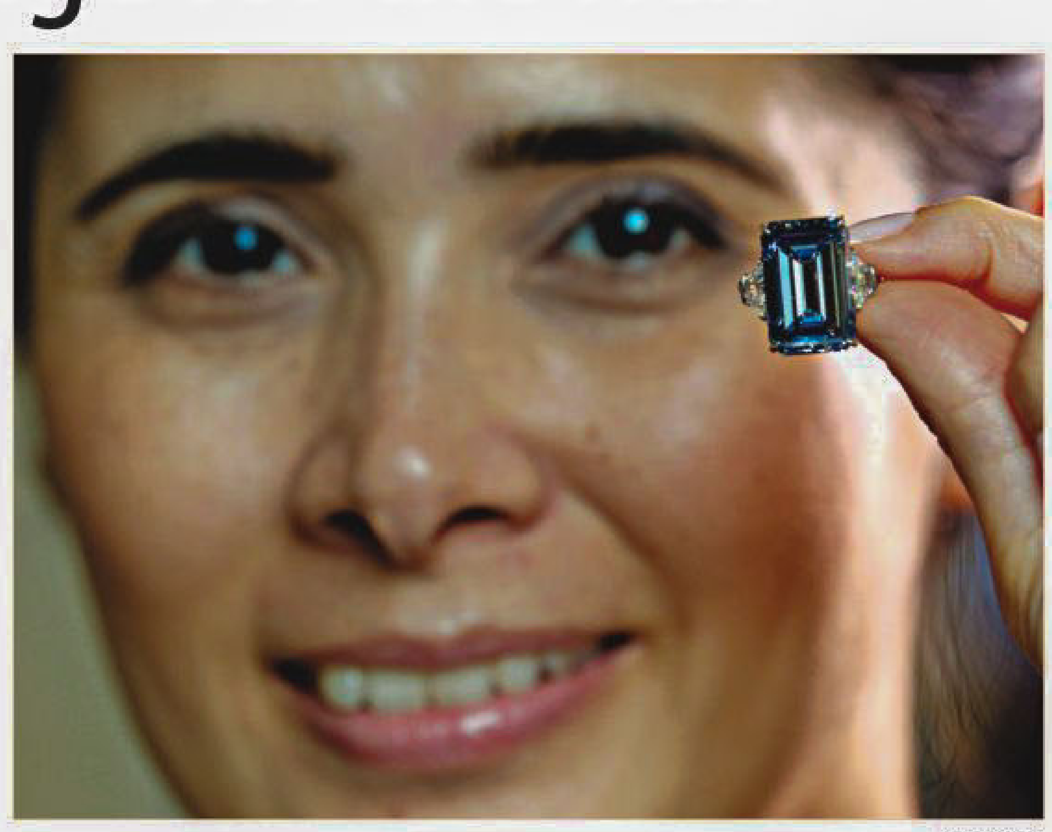
When the auctioneer's hammer came down, spontaneous applause broke out as the winner, who retained anonymity, bought the 14.62-carat Oppenheimer Blue for a world record $57.5 million for any jewel sold at auction. The sale some weeks ago was the latest in a series of world record prices per carat paid at auction for extraordinarily magnificent and rare diamonds.

With new fortunes being created around the world faster than at any time in history, more of this expanding elite of wealthy investors are looking at different ways of protecting cash that now earns close to zero percent interest in bank accounts, while asset market turbulence can wipe out millions in hours.

Some are eyeing rare diamonds as a best friend, or long-term haven at least. And it's no longer just a top table of "super rich" billionaires who are gravitating to this arcane world.

A second division of wealthy is emerging. They can't afford the Oppenheimer Blue, perhaps, but they can take a stake in rare diamonds via specialist investment funds.

These gem specialists are keen to play up rare diamonds as "safety" investments, or at least a



REUTERS

A Christie's employee poses with the 14.62 carats Oppenheimer Blue diamond during a preview in Geneva.

way to hedge against currency, stock and bond market volatility at a time of political and economic uncertainty. Britain's shock vote last month to leave the European Union underlines their point.

"The big players are looking at diamonds in a different way," said Ehud Laniado, chief executive of Cora International, which sold the 12.03-carat Blue Moon diamond for $48.4 million at a Sotheby's Geneva sale in November, a world record for any jewel sold at auction at the time.

"They are not looking at them just as a jewel, but as an asset that has a resale value."

Citigroup said the outlook for gold remained uncertain partly due to concerns about a possible increase in U.S. interest rates. In such a scenario, investors may look at a next-best alternative such as diamonds.

However, the diamond investors' club is shut to most ordinary savers due to its complicated, insider nature - characterised by poor liquidity, a lack of price transparency and high fees. While some are making efforts to create a liquid market, the process has been slow.

Entry level for Sciens Coloured Diamond Fund II, one of the more established closed-end funds now shut to new investors, is $1 million. It invests in diamonds in rare colours such as red.

The fund, which manages around $50 million, uses trading and buy-and-hold strategies for long-term appreciation. One of its strategies is to improve the value of stones by finding a rare matching pair in the same colour, size and shape. They are eventually sold to buyers such as jewellers and collectors.

Some funds also loan diamonds to jewellers who wish not to maintain a large inventory. If the jeweller decides to make a unique ring for a client, he can buy a diamond from the fund.

The Sciens fund, launched in 2014, rose in value by about 5 percent in the second quarter of 2016, said Philip Baldwin, managing director of Sciens Diamond Management BV. He and Mahyar Makhzani run the fund, based on the Caribbean island of Curacao.

"Colour diamonds are considered a safe haven," he said. "Colour diamonds are a hedge against inflation, currency risk, market fluctuations and political uncertainty."

Solitaire Diamond Co, another diamond-backed fund now closed to new investors, is backed by an assortment of white diamonds of high-grade clarity and cut weighing under 5 carats, which are certified by international laboratories such as the Gemological Institute of America.

Fred Sinclair-Brown, Solitaire fund manager, said it made a gross margin of 20 percent over the past 12 months, above expectations of 14 to 16 percent. He said he was planning another diamond fund for professional investors, this time possibly backed by coloured gems.

Prices of vivid and intense colour diamonds have risen 10 to 12 percent a year on average since 1959, according to Baldwin. However, dealers said white diamond prices had not gained as quickly in recent years and were largely flat in 2016.

The most prominent white diamond to come to auction recently, the 1,109-carat Lesedi la Rona, failed to sell at Sotheby's in London last month, highlighting that diamond markets are not bulletproof.

Diamond markets slowed in the second quarter as selective buyers pushed for deeper discounts. Polished inventory continued to rise and prices came under pressure, while rough trading remained resilient.

Despite a handful of diamond-backed initiatives, fund managers have struggled over the years to find the right investment vehicles for diamonds due to illiquidity, a lack of price transparency and high transaction fees.

Netflix plan to conquer world stumbles, for now

AFP, *San Francisco*

The plan by Netflix to conquer the world with its streaming video service is moving slower than expected.

Netflix shares skidded 13 percent to close at $85.84 Tuesday, a day after reporting weaker-than-expected growth in its subscriber base.

The company said it ended the second quarter with 83 million subscribers, adding 1.7 million. That was well below Netflix's own forecast of 2.5 million additions and lower than many analyst forecasts.

Netflix said growth was hurt, especially in the United States, when it raised rates on many long-time subscribers who had been "grandfathered" in when it hiked most prices. Netflix's market value has dropped by around one-third from its peak late last year to some $37 billion, sparking speculation by some analysts that it could become a takeover target.

Analysts said Netflix is still showing growth, but not at the breakneck pace expected when the company announced it had expanded its global footprint to 190 countries, making its streaming service available in 130 new markets.

The company effectively raised its price for many customers, which provided a boost to revenue but hurt new subscriptions and may have caused some customers to turn to rivals such as Hulu or Amazon.

"These price hikes now place Netflix into a similar price category as it competitors," said Jonathan Broughton at IHS Technology in a note to clients.

Broughton said growth in new markets was disappointing, adding that Netflix may need to do more to connect with viewers around the world.

"Netflix has been slow to invest in international content, even in larger countries, and this has stalled growth," he said.

"Local content has been cited as key to expansion in international markets and pulling back from this may be detrimental to the company outlook outside the US and UK." Daniel Salmon at BMO Capital Markets said Netflix faces "a period of challenging visibility" as it seeks to expand globally.