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Sent Tuesday, May 19, 2015 3:36 pm

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Subject Textiles cooperation - reg

Attachments Textiles cooperation - reg.PDF

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asean india  
PROGRESS THROUGH COOPERATION

**No. HAN/230/1/2015**

**19<sup>th</sup> May 2015**

Dear Shri Panda,

Reference your letters No. 12014/25/2005-IT dated 26 March and 27 April regarding the proposed blueprint prepared by the Indian industry representatives (TEXPROCIL and SRTEPC) for setting up textile processing units in Vietnam. The incentives sought by the Indian industry to set up processing units and the available tax structure which you have asked for, are contained in the attached note.

2. After examining the Indian industry's proposal and also the Vietnamese proposal, which was sent to you vide my letter of even number dated 27 February 2015, we held detailed discussions with the visiting Exim Bank team led by Shri Debasish Mallick, Deputy Managing Director, which was in Vietnam from 12-18 May 2015. We also discussed the various options before us to utilize the \$ 300 million offered to the Vietnamese side, during their Prime Minister's visit to India in October 2014. When we compare the Vietnamese proposal with the one made by TEXPROCIL and SRTEPC, we find there are differing perceptions and expectations from our offer of financing the textiles sector.

3. [The Vietnamese side want to use this credit to source textile machinery from India and expand the production capacity in accordance with their Master Plan, prepared by VINATEX and sent with my letter dated 27 February. They are, however, reluctant to provide any sovereign guarantee which is a necessary condition for our LOCs. Moreover, the Vietnamese side seek credit terms of 2% fixed interest rate, 15 years repayment period with a 3 year grace period, which we have so far not offered to Vietnam.]

4. [The Indian industry's proposal on the other hand wants the "LOC" to be split into two components: US\$200 million to provide concessional credit to Indian companies for setting up processing units in Vietnam and a US\$100 million short term credit for enhancing trade and skill development. It is presumed that this will be used for (i) training local workers to be hired by the Indian companies and (ii)



for short term trade finance for Indian exporters. Clearly, this proposal does not fit into the format of an LOC as it currently exists. Moreover, the possibility of getting the Vietnamese government's sovereign guarantee for this purpose does not arise. At a stretch, what might perhaps be possible is that a part of this LOC is given to a Vietnamese company (public or private), for basic site development in a textile park, from their Master Plan, where Indian companies are invited to set up their units. I understand that around US\$40-50 million is needed for basic site development of a 100 hectare area. In such a scenario, we would still need to negotiate the "sovereign guarantee" and terms of the LOC with the Vietnamese side. Given their current interest in using the LOC for their own Master Plan, it is doubtful that we would be able to conclude anything meaningful, within the timeframe that our industry envisages.

5. The "Line of Credit" route, therefore, for cooperation in the textiles sector may not be the most workable solution. That leaves us with the option to pursue FDI, where we facilitate an Indian company or a group of Indian companies to set up units in an existing textile park in Vietnam, without any direct financial incentives from the Government of India. This would also perhaps be the quickest possible path, as some of the textile parks in Vietnam are "ready to use" and do not require any site development.

6. I therefore propose that we identify Indian companies that are keen to invest in Vietnam and send a delegation of these interested companies to visit some of the textile parks shortlisted by Exim Bank during their recent visit in May 2015. The final selection of the textile park location would naturally have to be done by the companies themselves, but we would assist them in obtaining the best possible terms from the central and provincial governments.

7. Following the Joint Trade Sub-Commission meeting in January that was led by Commerce Secretary and after my letter dated 27 February, Government of India has announced a proposal for setting up a Project Development Company (PDC) to facilitate Indian investments into Cambodia, Laos, Myanmar and Vietnam (CLMV). This was announced by the Finance Minister in his Budget Speech. I understand that the PDC will involve establishment of separate Special Purpose Vehicles (SPV) for each of the CLMV countries, to facilitate Indian investments. Although the contours of this proposal are still being formulated, I understand that Exim Bank will again be involved in the PDC proposal. There is, therefore, potential for using the PDC to facilitate the Indian industry's blueprint. We can explore this possibility further as the situation evolves.

8. Meanwhile, I would request that Ministry of Textiles, in consultation with our industry, shortlist a group of Indian companies that are keen to invest in Vietnam. A delegation of such companies should visit Vietnam to take these discussions forward. We can then consider government to government level assistance, once a clearer picture emerges on the scale of investment, location, etc. Separately, if there are some Indian companies who wish to collaborate with VINATEX in implementing their Master Plan for investment, we will certainly facilitate their discussions.

9. I look forward to receiving your response to my suggestion.

Warm regards,

Yours sincerely,

Sd/-  
(Preeti Saran)

Shri Sanjay Kumar Panda,  
Secretary  
Ministry of Textiles  
New Delhi

Copy to:

1. Shri Nripendra Misra, Principal Secretary to PM, PMO, New Delhi
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4. Shri Rajeev Kher, Commerce Secretary, Ministry of Commerce, New Delhi
5. Ms. Sujata Mehta, Secretary (M & ER), Ministry of External Affairs, New Delhi.
6. Ms. Monika Kapil Mohta, Joint Secretary (South), Ministry of External Affairs, New Delhi
7. Shri Alok Kumar Sinha, Joint Secretary (DPA-1), Ministry of External Affairs, New Delhi
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