# Inbound and Outbound Investments: A Detailed Guide

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The Government has become liberal in the past few years regarding inbound and outbound investment regimes. The **Industrial Policy Resolution of 1956 and Industrial Policy of 1991** provide the basic structure for the overall introduction of liberalization and Globalization in the Indian Economy. Until the 1980's foreign investment was permitted only where the desired Technology was not available. Every single country has its own set of issues, the regulatory framework in terms of the legal and judicial system, tax structure and business dynamics. The economy has experienced a rapid economic growth rate, more foreign investment, and a boom in the Information Technology sector. This can also be referred to as cross-border Taxation policy were the countries. The categories of various investments are Inbound and outbound policy.

**What is Inbound Investment?**

Investment done in India by other countries in any sector is termed as Inbound Investment. The Government has simplified and eased out policies for Foreign Investment in India. Different sectors such as telecommunications, power services, automobiles, food processing, oil & Natural gas, chemicals have attracted investments. India in current time has introduced many attractive policies for Foreign Investment in India. Information Technology (IT) and Information Technology Enabled Service (ITES) are the most benefitted sector by Inbound Investment.

**Why Consider Inbound Investments?**

**India is an emerging superpower**

India is ranked the seventh-largest economy, and third largest in terms of Purchasing Power Parity (PPP). There are immense opportunities for foreign investors who want to engage in business in India. Both the business houses and entities have the freedom to make their own investment decisions in India. The Industrial policy brought out several reforms in Foreign Direct Investments in India.

**Benefits in Investing In India for Foreign Business**

Many countries have started investing due to the change in FDI Policies. Foreign Investment is accepted in all sectors except for a few sectors like defense and atomic energy. Many incentives are announced to boost investments. These include:

- Subject to the fulfillment of certain export obligations import of capital goods at concessional customs duty.
- Liberalization of commercial borrowing norms.
- Tax holiday
- Concessional tax treatment for certain sectors.

Several State governments also offer incentives such as loans at concessional rates of interest, subsidy on fixed capital, foreign companies can also negotiate with state Government regarding other benefits.

**The Economy and Business Environment in India**

In a survey, it was shown that most of the countries feel that the investment mode is in better condition in the current time. The introduction of the Government's new FDI policies is bringing down good investments in the market. The business climate in India is very profitable for investors due to liberal Industrial Policy.

**Employment Opportunities**

The most important benefit is to more employment generation. If there are more industries, factories, and farms set up then people can get employment there.

**The flow of Foreign Currency**

By making foreign investors invest money in the market there will be more flow of Foreign Currency.

**Types of Foreign Investment In India**

Shares, properties, ownership /management or collaboration are basic fundraising firms where investment is made through foreign countries. Foreign Investments are classified as below:

**Foreign Direct Investment (FDI)**

When a foreign country makes investment in a business situated in the country it leads to FDI. The investors can be an individual, firm or company.FDI could be in the form of business operations, joint ventures, etc.

**Foreign Portfolio Investment (FPI)**

Foreign Portfolio Investments refers to Qualified Foreign Investors who can hold at least a 10% stake in the company. The investment is done by foreign entities and non-residents in Indian securities including shares, Government

Bonds, Corporate Bonds, Convertible Securities, and infrastructure securities.

**Foreign Institutional Investment (FII)**

Developing economies have Foreign Institutional Investment. The investment in securities, real property and other investment assets by investors who are usually mutual Fund Companies, hedge Fund Companies, etc.

**What is Outbound Investment from India?**

Most of the important sectors of commerce and economy due to liberal FDI policies have opened the doors for extensive investments in various profitable and financially secure sectors. Some of the preferable destinations for investment are the United States, United Kingdom, France. Germany, Hong Kong, Belgium, Spain, Canada, and the Gulf Countries. Latin American and African Countries have huge investment opportunities in the fields of mining, manufacturing, and agriculture. Indian firm's basic investment in foreign countries through Mergers and Acquisition (M&A) activity. Investment by Indian companies is expected to increase backed by stable market conditions and considerable impact of the investments on local economies.

**Benefits of Outbound Investment**

Investments in Foreign Companies can be very beneficial to the economy of both countries. For investing the benefits are as follows:

- **Access to foreign Markets:**

Acquiring or starting a business in foreign markets can gain access to the market for investors. More business opportunities will arise.

- **Access to resources**

Important natural resources such as precious metals and fossil fuels are available in Tanzania and Gulf Countries. It can be easily available at low prices by investing there.

- **Cost Savings**

The cost of Production will be saved if the labor or production cost is less in another country.

**Modes of Making Investment outside India**

An Indian Company can make investments abroad out of the following sources:

- Exchange Earners Foreign Currency ("EEFC") account
- Withdrawl of balance not exceeding 50% of the net worth of the Indian Company as on the date of the last audited balance sheet.
- Utilization of amount raised by the issue American Depository Receipt (ADR) and Global Depository Receipt (GDR) by the Indian company.

There is no specified rule or structure for outbound investments as it basically depends on the country in which the investment is made.

**Conclusion**

The permission granted by the Indian Regulations to permit inbound and outbound investments from India into overseas companies, Government Bonds, Branch Offices, joint ventures, etc. The overseas business entities to settle in India and overseas need to understand the concept of cross-border taxes and Regulatory challenges. The Government in almost all sectors provides tax benefits to attract foreign investors for the development of our economy. The business and legal environment in India differs from the environment overseas. The reform process has deregulated the economy and encouraged domestic and foreign investment destinations.

# Thank You

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