India's Outward FDI Trends – Shift Towards Tax Havens

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Outward FDI Latest News

- Nearly 60% of India's outward FDI is now routed through tax havens like Singapore, Mauritius, and the UAE, reflecting both tax advantages and strategic global expansion needs.

Introduction

- India's outward **foreign direct investment** (FDI) has grown significantly over the past two decades, reflecting the ambition of Indian companies to expand their global presence.
- While domestic reforms have supported inbound investment, outward investment trends reveal a distinct preference for low-tax jurisdictions.
- According to **Reserve Bank of India** (RBI) data, nearly 60% of India's outward FDI in 2023-24 was routed through tax havens such as Singapore, Mauritius, and the UAE.
- This pattern highlights not only tax efficiencies but also strategic advantages for Indian companies seeking global expansion.

India’s Outward Investment Trends

- India’s outward FDI has witnessed structural changes in both volume and destination preferences.
- From traditional investments in manufacturing and energy, Indian firms have diversified into IT services, pharmaceuticals, consumer goods, and infrastructure globally. The main objectives driving this trend include:
    - **Access to new markets**: Indian companies are establishing subsidiaries abroad to tap into consumer demand in **Europe**, the **U.S.**, and **Africa**.
    - **Technology acquisition**: Outward investments enable Indian firms to access advanced technologies, particularly in healthcare, automotive, and clean energy.
    - **Strategic partnerships**: Cross-border mergers, acquisitions, and joint ventures strengthen Indian firms’ positioning in global supply chains.
    - **Risk diversification**: By expanding abroad, companies hedge against domestic regulatory and market volatility.
- The government has supported outward FDI by easing regulatory approvals, enhancing bilateral investment treaties, and facilitating credit support through institutions like EXIM Bank.
- However, the heavy reliance on tax havens underscores a complex mix of regulatory arbitrage, strategic structuring, and global investor preferences.

News Summary

- Recent data shows that **56% of India’s outward FDI in 2023–24**, amounting to about Rs. 1,946 crore out of a total of Rs. 3,488 crore, flowed into low-tax jurisdictions such as **Singapore (22.6%), Mauritius (10.9%), and the UAE (9.1%)**.

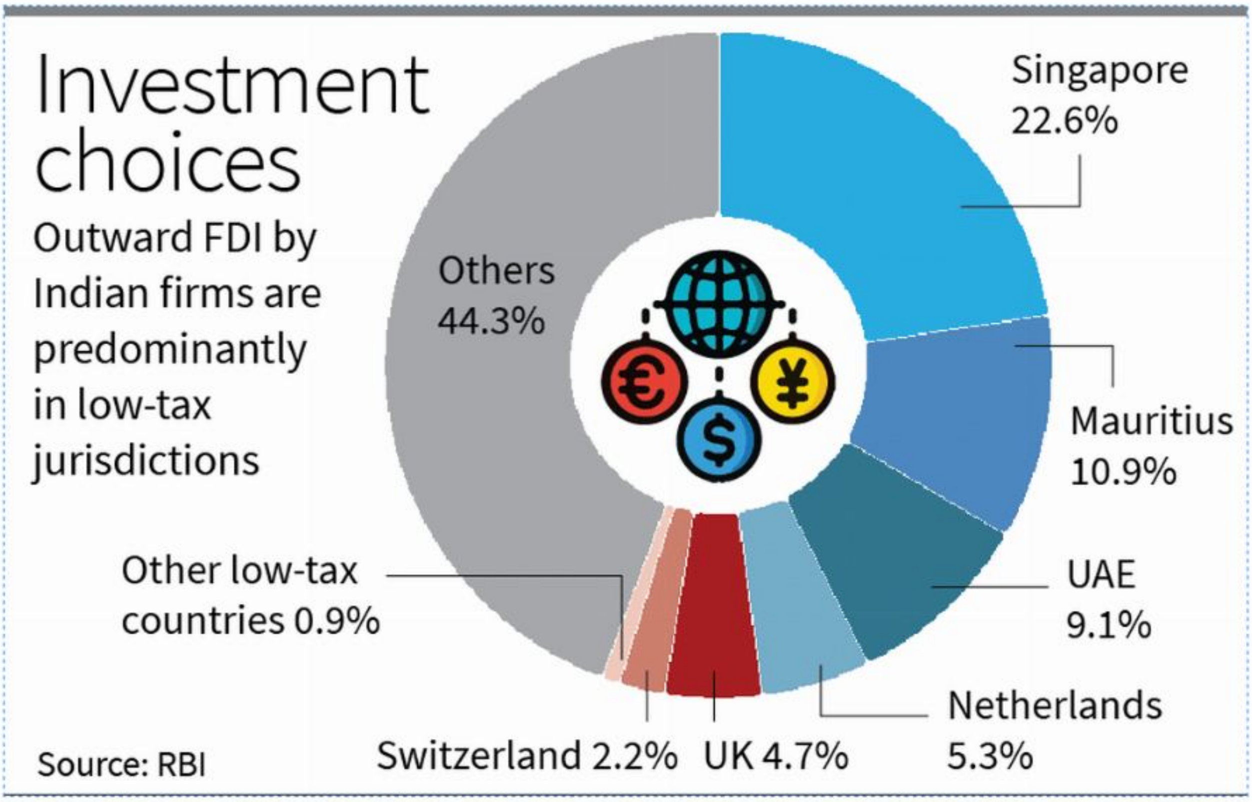

Image Caption: Outward Investment Trends

- In the first quarter of 2024-25, this figure rose further, with 63% of outward FDI routed through these jurisdictions. Experts clarify that this is not solely for tax avoidance but also for strategic reasons:
    - **Global investor comfort**: International partners prefer investing in entities located in jurisdictions with stable tax laws and flexible fund transfer regimes.
    - **Strategic structuring**: Using special-purpose vehicles in hubs like Singapore helps Indian companies attract investors and manage stake dilutions effectively.
    - **Joint ventures**: Almost 60% of outward FDI in these low-tax hubs in July 2025 was in joint ventures, showing their role as neutral platforms for partnerships.
- Experts also note that rising **U.S. tariffs on Indian exports** could push more firms to establish subsidiaries abroad to mitigate trade risks.
- Thus, while India continues efforts to curb profit shifting to tax havens, the outward FDI trend reflects a blend of tax advantages and global business strategy.

Conclusion

- India's outward FDI trajectory highlights a dual narrative: on one hand, concerns about tax revenue leakage and regulatory arbitrage; on the other, the strategic necessity for Indian firms to leverage tax-efficient jurisdictions to expand globally.

- With nearly 60% of investments flowing through tax havens, it is evident that these destinations serve as both gateways for third-country expansion and buffers against global trade risks.
- Going forward, India’s challenge will be to balance regulatory oversight with the need to support its companies’ global ambitions.

Source: TH
