Outward FDI Trend of INDIA

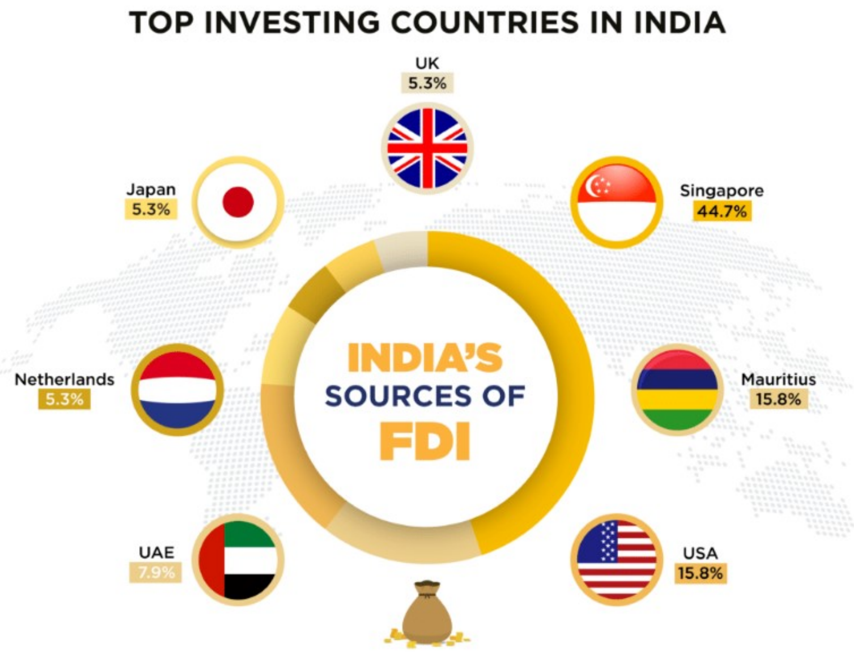
Mains: *GS III – Effects of Liberalization on the Economy, Changes in Industrial Policy and their Effects on Industrial Growth*

Why in News?

Recently, An analysis of RBI data by The Hindu shows that nearly 56% of such investments in 2024-25 were in low tax jurisdictions such as Singapore, Mauritius, UAE, the Netherlands, U.K. and Switzerland.

What is FDI?

- **FDI** – Foreign Direct Investment, is when an individual or business from one country invests in a business located in another country, with the goal of gaining a significant degree of influence or control over its operations.
- **Types of FDI** – It is differentiated into
  - Inward FDI
  - Outward FDI
- **Inward FDI** – It is when foreign companies or investors make direct investments into country's economy.
  - It brings foreign capital and can create jobs and wealth.



- **Outward FDI** – It is when a country's domestic companies invest in foreign economies.

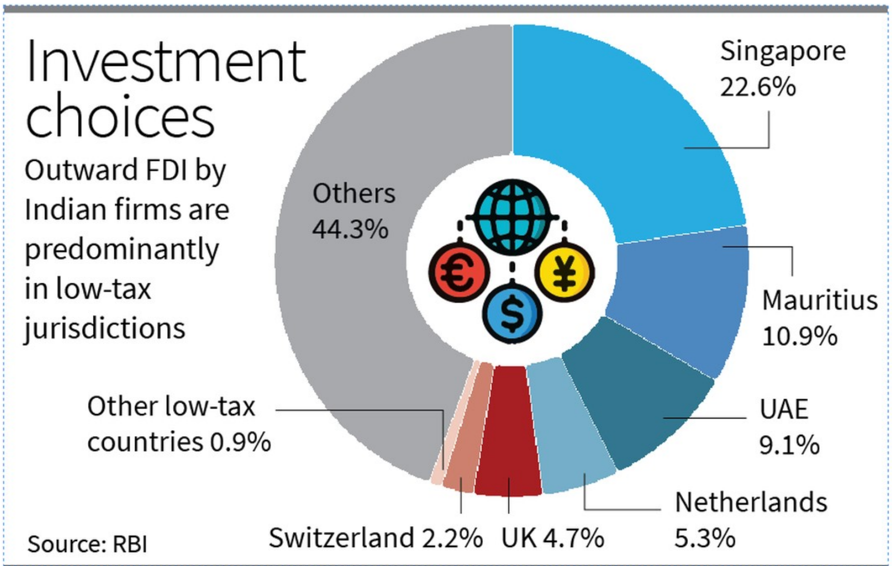
- It expands a country's companies globally, allowing for risk diversification and access to new markets and resources.

What are the trends in outward FDI of India?

- **Investing in tax havens** – Indian companies are increasingly *leveraging tax havens*, abroad to channel their foreign investments.
- This is done to increase their global presence, according to data as well as tax and investment experts.

***A tax haven** refers to a country or jurisdiction that offers foreign individuals and businesses little to no tax liability in a politically and economically stable environment.*

- Tax haven countries typically impose low or no taxes on foreign income and provide financial secrecy for foreign investors.



- Total FDI investment – ₹3,488.5 crore of outward foreign direct investment (FDI) by India in 2023-24.
- Out of these about *₹1,946 crore went to these low tax jurisdictions*.
- **Top three destinations** – Just three of these countries accounted for more than 40% of India's outward FDI in 2023-24.
  - Singapore (22.6%),
  - Mauritius (10.9%)
  - UAE (9.1%)
- Further, this trend seems to have increased in intensity in the current financial year.
- In the first quarter, these low tax jurisdictions accounted for 63% of India's total outward FDI.

Why investors choose these tax havens?

- **Strategic imperative** – Countries around the world, including India, have sought to crack down on the trend of companies shifting profits to these tax havens.
- But experts have said that choosing these low tax jurisdictions is also a strategic imperative for Indian companies.
  - **For example**, If an Indian company is looking to set up a subsidiary in Europe, the U.S., or any other country, then doing it through a special purpose vehicle in Singapore or a similar jurisdiction will help them in getting strategic investors, and in providing better tax positioning at the time of stake dilution.
- **Increased flexibility** – These jurisdictions are also more flexible in transferring funds and investments on a day-to-day basis.
- So, very often, these investments are not being made only to evade, avoid or reduce tax.
- **Platform for further investment** – They are often made because these jurisdictions form platforms for investment in third countries.
- **Provides tax stability** – These low-tax or tax efficient jurisdictions not only provide a tax advantage, but also offer tax stability.
- **Assists in fund raising** – For things like fund raising, or for an investor coming in, they usually like coming in at these intermediate jurisdictions.
- **Protects parent company** – Having an entity in the middle also protects the Indian parent company.
- **Preference for joint ventures** – The tendency of foreign companies to choose a low-tax jurisdiction is to form a joint venture rather than in India.
  - **For example**, a strategic partner from any other country will be happier investing into the Singapore entity, or one in a similar jurisdiction, than into the Indian entity because of our FDI regulations, our taxation and various other elements.
- The data of RBI for July 2025, shows that joint ventures accounted for almost 60% of the investments made by Indian companies in the low-tax jurisdictions.
- **Escaping higher tariffs** – The high tariffs imposed by the U.S. on imports from India could induce Indian companies to invest abroad, if they continue.
- There could be a lot of companies who will set up subsidiaries and other entities outside India, where the value addition is done, and accordingly escape the harsher tariffs on India.

Reference

[The Hindu| Outward FDI of India]