International Journal of Innovations & Research Analysis (IJIRA)
ISSN :2583-0295, Impact Factor: 5.449, Volume 03, No. 03(I), July- September, 2023, pp 79-85

ROLE OF TAX HAVENS (MAURITIUS ETC) IN GLOBAL ECONOMY WITH SPECIAL REFERENCE TO FDI INFLOW IN INDIA

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ABSTRACT

Tax havens, exemplified by jurisdictions like Mauritius, have played a pivotal role in the global economy, particularly concerning Overseas Capital Flows (FDI) inflows into India. These offshore financial centers offer tax advantages and financial confidentiality, attracting multinational corporations and investors alike. Mauritius, through its Double Taxation Avoidance Agreement (DTAA) with India, has become a prominent conduit for FDI into the country. This abstract provides a concise overview of the multifaceted role of tax havens in the global economy and their impact on FDI inflows in India. It touches upon how tax havens facilitate investment, round-tripping, and wealth management, while also highlighting concerns about tax avoidance and the evolving international efforts to address these issues. The future role of tax havens is shaped by ongoing reforms and global tax standards, making them a subject of continuous significance in the world of finance and investment.

Keywords: *Tax Havens, Global Economy, FDI, Inflow in India.*

Introduction

When discussing FDI into India, it is important to consider the role that tax havens like Mauritius have played in the global economy. These offshore financial centers have become increasingly important hubs for individuals and multinational organizations to conduct cross-border investments, tax planning, and wealth management. This essay looks at the influence of tax havens like Mauritius on Overseas Capital Flows (FDI) into India and the world economy as a whole. In order to entice foreign investments and capital, "tax havens" provide enticements such as lax or nonexistent taxation, financial anonymity, and minimal regulation. Due to their ability to guarantee tax efficiency and privacy, they have become indispensable to the international financial system. Among these tax havens, Mauritius stands out for the attention it has received for its role in facilitating the flow of capital into India.[1]

There are many facets to the connection between tax havens and FDI into India. The Double Taxation Avoidance Agreement (DTAA) between Mauritius and India has proven particularly important in attracting FDI into India. Investments made by Mauritius-based companies in India will be subject to a much lower rate of capital gains tax as a result of this agreement. Overseas Capital Flows (FDI) flows through tax havens like Mauritius, which benefits the Indian economy. Because of the advantageous tax treaties, investors from countries with higher tax rates often invest through Mauritius. With this setup, they are able to reduce their tax burden in both the United States and India, which boosts their ROI. As a result, India has seen a massive increase in FDI, especially in areas like the tech industry, the banking sector, and the construction industry.[2]

Round-tripping is made easier by tax havens; this is when Indian citizens use offshore companies to invest money in India and then return the profits to themselves. Overseas Capital Flows (FDI) into India has expanded as a result of this trend since Indian money is channeled through tax

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havens to receive advantageous tax treatment. Multinational corporations (MNCs) are often enticed to set up regional headquarters or subsidiaries in tax havens because of ease of doing business can be conducted there and the privacy it affords its participants. Multinational corporations can efficiently manage their global operations, reduce their tax liabilities, and repatriate their profits from these offshore headquarters. The landscape in India is significantly changed through a global tax optimization approach adopted by multinational firms.[3] which can be seen.

Private wealth management and asset security are facilitated by tax havens. Those with significant wealth will try to often use these offshore havens to avoid paying taxes in their native nations. Capital stashed away in tax havens were diverted towards the Indian investments, boosting the country's Overseas Capital Flows numbers. offshore financial center is a country where there is minimum tax to facilitate Overseas Capital Flows into India is a contentious topic, and this must be recognized. Tax avoidance and evasion are allegedly made easier in these countries as there are minimal tax rate in these countries, which deprives the Indian government of funds. Misuse of tax treaties, "round-tripping," and financial transactions involving open trade countries which are been sources of concern. India has renegotiated its multi-national taxation with countries like Mauritius to solve these problems, including restrictions to prevent treaty abuse and guarantee that only legitimate economic activity qualifies for tax benefits.[4]

The international climate around tax havens is changing. Initiatives like Common Reporting Standard (CRS) and Base Erosion and Profit Shifting (BEPS) have been implemented by international organizations such as the G20 countries which now include African countries also to combat tax avoidance and increase transparency. As a result of these measures, tax havens are becoming less appealing and less attractive places to engage in tax avoidance and evasion by the business people trying to indulge in it.[5]

Role of Overseas Infusion in Capital Formation

Overseas Capital Flows is important to India's economy. Overseas Capital Flows are commonly recognized as having a beneficial effect on economies in transition. Overseas Capital Flows is crucial to transition economies since it helps to close the gap in local resource gaps, fund ownership transition and capital development, and balance the budget (in the case of privatization-related FDI). Overseas Capital Flows (FDI) helps domestic businesses penetrate new international markets, and it speeds up the transfer of technological know-how and expertise over alternative forms of funding. Having established the significance of capital, this section provides a glimpse into the procedure of accumulating said capital. There are three phases of capital creation. The first is greater real savings, which allows for a reallocation of resources away from consumption and into investment in capital producing items. The second is the financial credit mechanism that allows the investor to access the necessary resources (the process of converting savings into investment by the financial intermediaries), and the third is the actual act of investment that allows the producer to put those savings to use for generating capital goods (the producer investing among the available opportunities in the most profitable projects).[6]

Current Scenario of Overseas Infusion in India

Our Country has attempted several initiatives for external inflows since opening and liberating of economy was addressed in 1991. Countries like India as well as other fast-growing economies are so eager to attract Overseas Capital Flows is so they can boost production efficiency and ultimately their exports. An increase in foreign investors' equity interest in existing joint ventures or the purchase of shares by them in domestic enterprises would not, however, necessarily result in a shift in management strategy. That is, "Overseas Capital Flows (FDI) investors would hope to gain from the Indian market's profits. As a result, there is no requirement for a considerable rise in exports to accompany external money infusion these situations, regardless of whether or not the investment modernizes domestic capacity. Therefore, it is out of bound for developing country like India to convert its influx of money through FDI into a source of productivity improvement for local businesses.[7]

Literature review

Chopra, C. (2020) discovered that benefits may be unfavorable in place of favorable linked with FDI in environments where ownership and internalization are uncertain. In general, FDI is more delayable when ownership advantages are present, whereas internalization advantages make it less reversible. By answering the when question, this method improves upon the traditional "who, where, and why" of FDI theory.[8]

Hong, Q., & Smart, M. (2019) Highlighted distinction between the primary reasons for companies plough money into in AINs and DCs. The cumulative effect of these divergent ideas appears on trade surpluses and deficits between countries. Overseas Capital Flows in AINs is typically used by businesses for market access and penetration, which raises import. To boost motivation in export markets, many Industries uses Overseas Capital Flows (FDI) in DCs.[9]

Dharmapala, D. (2018) We looked at the economies of India and China side by side. It wasn't until the development train picked up speed in China 30 years ago and foreign investment started to pick up speed in the country. In 1995, after United States, China was the country that drew the most amount of Overseas Capital Flows. It is impossible for domestic initiatives to take the place of the Indian tale, but if investment resources are increased by more than 90 percent, it will go along more swiftly.[10]

Buckley, P. J., & Casson, M. (2017) Investigated the impact of Overseas Capital Flows on the development of technical innovation and human resource capacity of the country. They hypothesized that the different rates of development achieved by FDI across nations might be explained by absorptive ability of a country's technical capabilities and Progress. In contrary a nation whose labor force is not competent enough to meet predetermine targets, the quantity of FDI flowing into a country with a bigger endowment of human capital will drive stronger growth rates. They also explored that there must be floor below which nations needing better productivity from FDI must have in their human capital pool.[11]

Boisot, M., & Meyer, M. W. (2016) observed that FDI in the real intrinsic aspect of capital formation and is the primary source of external flow of resources for developing nations. It found that determining the effects of FDI is difficult. Overseas Capital Flows (FDI) frequently displaces or reduces domestic investment. Overseas Capital Flows (FDI) may boost domestic investment by fostering a more welcoming investment climate and spreading useful managerial and technological know-how. To increase their share of FDIs, less developed countries have adopted increasingly inventive and alluring policies.[12]

Methodology

Methods used for countries where there are Minimal taxes on Overseas Capital Flows in India will be dissected in detail. Research rigor and credibility depend on a well-planned process.

Data Collection

- **FDI Statistics**

Comprehensive FDI data was collected to evaluate outcome of tax havens on investment into India. Reserve Bank of India (RBI) publications, the Ministry of Finance data, and the World Bank's Growth Metrics database taken as key sources for FDI data. Overseas Capital Flows (FDI) into India from these nations and industries during a certain time period is thoroughly documented in these sources.

- **Tax Haven Regulations**

Data on Overseas Capital Flows (FDI) was gathered, and so was data on tax havens, with a particular emphasis on Mauritius. This data included the existing legal and tax frameworks, such as tax rates, double taxation avoidance agreements (DTAAs), and other legislation that affect the way FDI is routed through tax havens. Therefore to compile this information, we looked at official government publications, tax treaties, and legal papers.

- **Economic Indicators**

Economists gathered a Comprehensive point to take care of any confounding factors. Among these were the expansion of India's gross domestic product (GDP), inflation rates, currency rates, and other macroeconomic factors. These indicators used data from various sources, such as government papers, international organizations, and economic think tanks.

- **Limitations**

The data collecting is a course of action where constraints must be taken into account. Data gaps, discrepancies, and inaccurate information are all examples of such restrictions. Furthermore, the study's reliance on publicly available data raises the possibility of bias or scope limits.

Data Analysis

- **Quantitative Analysis**

Logical thinking were used for the bulk of the data analysis to look at the connection between tax havens and FDI into India. Overseas Capital Flows (FDI) flow served being reliant variable for the set

of being control variables (such as economic indicators) and tax haven-related characteristics (such as the currently exercised tax treaties and tax rates). The strength of statistically significant associations might then be determined.

- **Control Variables**

The inclusion of the control variables allowed for the examination of potential determinants regarding Money infusion in the country tax havens. Economic research informed the selection of these factors, which included GDP growth, inflation rates, currency rates, and the Condition of the global economy.

- **Statistical Software**

Statistical programs like R and Stata were used to run regression analyses and create charts and graphs for the analysis. The program was used because it could do complex statistical calculations.

- **Robustness Checks**

The results were verified by doing sensitivity analysis and robustness tests. To do this, we subjected the model to a battery of tests that varied different independent variables and the length of time we looked at the data.

The study's overarching goal was to give a thorough examination of tax havens' function in connection with external outflow into India, with a particular emphasis on Mauritius and other such countries. Results were considered reliable and legitimate as efforts were made to get the quantitative analysis, control variables, and sensitivity analyses in pure and right sense.

Results

- **Tax Havens and FDI Inflow in India**

We analysed FDI patterns over the previous decade, with an emphasis on the contributions from tax havens, to get a thorough comprehension of the effect that tax havens have on FDI influx into India. Tables below show important information on Overseas Capital Flows (FDI), its sources, and the part played by tax havens.

Table 1: Overseas Capital Inflows by Year (2010-2020)

Year	Overseas Capital Inflows (USD Billion)
2010	25.2
2011	35.8
2012	29.4
2013	24.3
2014	30.9
2015	40.0
201 6	43.5
201 7	44.9
201 8	62.0
2019	49.7
2020	58.6

Overseas Capital Flows (FDI) into India from 2010 to 2020 is shown in Table 1.

Table 2: FDI Inflow from Tax Havens into India (2010-2020)

Year	FDI Inflow from Tax Havens (USD billion)
2010	6.5
2011	8.7
2012	7.1
2013	5.8
2014	6.9
2015	8.3
201 6	7.6
201 7	7.2
201 8	9.4
2019	8.0
2020	7.5

Overseas Capital Flows (FDI) into India is broken down by source in Table 2.

Table 3: Percentage of FDI from Tax Havens Relative to Total FDI (2010-2020)

Year	Percentage of FDI from Tax Havens
2010	25.8%
2011	24.3%
2012	24.2%
2013	23.8%
2014	22.3%
2015	20.8%
201 6	17.5%
201 7	16.0%
201 8	15.2%
2019	16.1%
2020	12.8%

Table 3 shows the annual proportion of total external inflow (input) into India through tax havens from 2010 to 2020.

These statistics show the ten-year trends of Overseas Capital Flows (FDI) into India which were enacted by various tax havens, such as Mauritius. Table 1 shows the total increase in FDI flows, whereas Table 2 highlights the unique contributions made by tax havens. Changes in India's FDI landscape are shown in Table 3, which emphasizes the increasing share of FDI from tax havens as a percentage of overall FDI.

These results establish a Stone starting from beginning for further know how with the effect of tax laws and treaties on India's FDI scenario by highlighting the central role of tax havens in this process.

- **Impact of Tax Policies**

We did in-depth research to determine how much of an impact change to accord alliance regarding taxes with nations like Mauritius have on Overseas Capital Flows into India. The following tables provide essential information for accord alliance treaty revisions affect various scenarios.

Table 4: Impact regarding accord alliance Amendment with Mauritius on FDI Inflow (2016-2018)

Year	Tax Treaty Amendment	Impact on FDI from Mauritius (USD Billion)	Impact on FDI from Other Sources (USD Billion)
2016	Yes	-0.3	+2.1
2017	No	-0.2	+0.8
2018	No	-0.1	+1.1

The effect relating to treaty revisions with Mauritius on FDI into India can be seen though above tabular number 4. Changes in Overseas Capital Flows (FDI) from Mauritius and other countries which are depicted underneath as an indication of whether or not a tax treaty revision occurred in that year (under "Tax Treaty Amendment").

Table 5: FDI Inflow from Mauritius vs. Other Sources (2016-2018)

Year	FDI Inflow from Mauritius (USD billion)	FDI Inflow from Other Sources (USD billion)
2016	4.5	39.0
2017	4.0	40.9
2018	5.7	56.3

Overseas Capital Flows (FDI) input from Mauritius is compared to FDI inflow from other sources for the years 2016-2018 in the tabular Presentation number 4.5 to illustrate Repercussion tax treaty revisions on FDI routing.

These statistics shed light on how recent changes to India’s tax treaties with Mauritius showed change in Overseas Capital Flows inside our Naton. The Repercussion tax treaty revisions on Overseas Capital Flows (FDI) from Mauritius and other countries is shown in Table 4. Overseas Capital Flows (FDI) input from Mauritius stands out from external infusion in Table 5.

These results demonstrate the relevance of taking into account tax treaties when assessing FDI trends and emphasize the role of tax policy modifications in altering the patterns of FDI influx into India.

Discussion

Interpreting the Findings

The previous sections' findings illuminate the complex interplay of tax havens, FDI into India, and tax policy impact. This section provides a more in-depth analysis of the significance of these results.

Role of Tax Havens External Infusion

Overseas Capital Flows (FDI) into India has followed a clear pattern over the previous decade, which is depicted in Table 1. Overseas Capital Flows has been on the rise, and by 2020 it will have reached a whopping USD 58.6 billion. Table 2 shows, however, that tax havens are a major factor in this FDI influx. USD 7.5 billion, or 12.8% of total FDI, went to tax havens in 2020. This discovery highlights the continuing significance of tax havens, with Mauritius in the forefront, in the flow of Overseas Capital Flows into India.

Impact of Tax Treaty with Mauritius

Tables 2 and 3 display resultant of the tax treaty between India and Mauritius on the flow of FDI. This treaty has traditionally let investors avoid paying a significant amount of tax by routing their money via Mauritius. As indicated in Table 4, however, Overseas Capital Flows (FDI) from Mauritius fell sharply (-0.3 billion) when the treaty was updated in 2016, whereas FDI from other nations rose sharply (+2.1 billion). It would appear that efforts to curb treaty abuse and encourage free exchange of capital have been fruitful.

Policy Recommendations

According to the results, policy suggestions should be made to help India make better decisions about tax havens and Overseas Capital Flows in the future.

Strengthening Tax Policies

India should keep working to improve its tax policies and keep its laws clear and stable and continue to attract FDI and maintain a favorable investment climate. However, a balance must be found between providing tax incentives and monitoring for noncompliance. Table 4 displays how adjustments to tax treaties might assist bring tax policy in line with the changing demands of a growing nation rapidly.

Diversification of FDI Sources

While tax havens have played a significant role in attracting Overseas Capital Flows (FDI) to India, other channels for attracting FDI are needed. Table 2 depicts that showing extra faith on just a few tax havens might be risky in the event that tax treaties are revised. India should actively encourage investments from a wider variety of nations in hope of lessen its reliance on few countries deemed to be tax havens.

Monitoring and Evaluation

India's policymakers should make it a priority to regularly assess how tax laws and treaties affect the Infusion of Overseas Capital Flows. By doing so, we may prevent unintentional policy endorsement of tax avoidance or treaty abuse and keep economic goals consistent with implementation.

Broader Implications

There are wider ramifications of this study's findings for developing countries like India. Policymakers may better foster an environment favorable to investment if they are aware of the act of these type of countries effect of tax regulations on Overseas Capital Flows (FDI). These outcomes are pertinent to the ongoing debates throughout the world about how to increase tax transparency and strengthen international collaboration to combat tax evasion and advance equitable taxation.

Conclusion

It's a global trend that governments, especially those of emerging nations, are actively courting FDI to invest in their country. The advantages of Overseas Capital Flows (FDI), such as increased production capacity, new investments, new jobs created, new management innovations, and new technology transferred, are the rationale for this emphasis. Countries provide a wide variety of incentives help and other benefits to foreign investors, both straight and roundabout, in order to attract FDI. DTAAs' primary function is to facilitate international commerce and investment by removing obstacles such as double taxation and ensuring that all relevant tax regulations are uniform. Recent evidence, however, suggests that DTAAs, and notably those with nations recognized as tax havens, are being misused for treaty shopping, which in turn leads to tax evasion in the host/destination countries.

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