

IMPACT OF DOUBLE TAXATION AVOIDANCE AGREEMENTS IN INDIA'S FDI INFLOW

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Abstract :

Foreign Direct Investment (FDI) plays a vital role in India's economic development by promoting growth, employment, and technological advancement. Double Taxation Avoidance Agreements (DTAA) are designed to eliminate double taxation and encourage cross-border investments. This study examines the impact of DTAA on FDI inflows into India, with a focus on Mauritius and Singapore as major investment routes. The research is based on secondary data collected from DPIIT and RBI sources for the period 2010–2023. Analytical tools such as comparative analysis, mean, and CAGR are used to evaluate trends. The findings show that FDI inflows from these countries increased significantly before DTAA amendments due to tax benefits. However, after the amendments, inflows declined, indicating reduced tax-driven investment routing. Despite this, total FDI inflows into India remained stable and showed long-term growth. This suggests that DTAA amendments affected the structure rather than the volume of investment. The study concludes that DTAA plays both a promotional and regulatory role in India's FDI environment.

Keywords :

Foreign Direct Investment (FDI), Double Taxation Avoidance Agreement (DTAA), Capital Gains Tax, Treaty Investment Routing, FDI Trends, International Taxation.

Introduction

Foreign Direct Investment (FDI) has emerged as a key driver of economic growth, especially in developing countries like India. It contributes significantly to capital formation, employment generation, infrastructure development, and technological advancement. With the increasing integration of global economies, cross-border investments have become more common, making international taxation an important area of concern. One of the major challenges faced by investors is the issue of double taxation, where the same income is taxed in more than one country.

To address this issue, countries enter into Double Taxation Avoidance Agreements (DTAA), which aim to eliminate or reduce the burden of double taxation and provide clarity on tax liabilities. India has signed DTAA with several countries to promote foreign investment and strengthen international economic relations. These agreements offer tax benefits and certainty, thereby influencing investment decisions and capital flows. Historically, countries such as Mauritius and Singapore have emerged as major routes for FDI into India due to favorable DTAA provisions, particularly in relation to capital gains taxation. However, concerns regarding treaty shopping and tax avoidance led to amendments in these agreements, altering the tax structure and investment patterns. This has raised important questions about the actual impact of DTAA on FDI inflows.

In this context, the present study aims to analyse the relationship between DTAA and FDI inflows in India by examining trends, growth patterns, and the effects of treaty amendments. The study provides insights into how tax policies influence investment behaviour and the overall attractiveness of India as an investment destination.

Statement of the Problem :

In the globalized economic environment, Foreign Direct Investment (FDI) has become a crucial source of economic growth for countries like India. To promote cross-border investment and avoid double taxation, India has entered into Double Taxation Avoidance Agreements (DTAA) with several countries. While these agreements aim to reduce tax burdens and encourage investment, they have also created opportunities for treaty shopping and tax avoidance. Countries such as Mauritius and Singapore have been widely used as investment routes due to favorable DTAA provisions. This has raised concerns about the misuse of tax treaties and their impact on India's revenue and investment patterns.

To address these issues, India amended its DTAA with key countries, introducing capital gains taxation and anti-avoidance measures. However, these changes have created uncertainty regarding their impact on FDI inflows. While country-specific data suggests a decline in inflows after the amendments, overall FDI into India has remained relatively stable. This creates a research problem in understanding whether DTAA influences the actual volume of FDI or merely the route through which investments are made. Therefore, this study seeks to examine the impact of DTAA on FDI inflows into India and analyze how changes in tax treaties affect investment patterns and economic outcomes.

Review of Literature :

Vasanthagopal (2014) and Lakshmanan (2018) found that DTAA significantly contributed to attracting FDI into India by reducing tax burdens and increasing investor confidence, particularly through countries like Mauritius and Singapore. Similarly, **Anitha (2019)** highlighted that amendments in DTAA improved transparency and reduced tax avoidance, though they initially affected investment flows. **Johannesen and Janský (2021)** observed that tax treaty networks increase FDI inflows but also facilitate profit shifting, indicating that not all investments reflect real economic activity. **Klemm and Pistone (2022)** further noted that anti-abuse measures under DTAA may reduce short-term inflows but enhance the quality and sustainability of long-term investments. Overall, the literature suggests that while DTAA promotes FDI, its impact is influenced by policy changes and global economic conditions.

Objectives :

- To Explore the Meaning and Importance of Double Taxation Avoidance Agreements (i.e. DTAA).
- To investigate the nature, determinants, and trends of Foreign Direct Investment in India.
- To Assess the Relationship between DTAA and Inflows of Foreign Direct Investment into India.
- To Evaluate the how Major Amendments to DTAA affects FDI Inflow.

Methodology :

The study adopts a descriptive research design to examine the impact of Double Taxation Avoidance Agreements (DTAA) on FDI inflows into India. It is based on secondary data collected from official sources such as DPIIT FDI Fact Sheets and RBI Bulletins for the period 2010–2023. The analysis focuses on major treaty partner countries like Mauritius and Singapore. Statistical tools such as comparative analysis, mean, and Compound Annual Growth Rate (CAGR) are used to evaluate trends and growth patterns. The study compares FDI inflows before and after DTAA amendments to identify changes in investment behavior. This approach helps in understanding the relationship between tax treaties and foreign investment inflows into India.

Results and Discussions :

India – Mauritius Comparative analysis

Table 1 : FDI Inflows from Mauritius before Amendment

Year	FDI Inflows from Mauritius (USD Billion)	Impact
2013–14	4.85	-
2014–15	8.34	71.96% ↑
2015–16	9.06	8.63% ↑
2016–17	15.72	73.51% ↑

Source- department for promotion of industry and internal trade, GOI

Table 2 : FDI Inflows from Mauritius after Amendment

Year	FDI Inflows from Mauritius (USD Billion)	Impact
2017–18	13.41	-14.69% ↓
2018–19	8.08	-39.75% ↓
2019–20	8.24	1.98% ↑
2020–21	6.87	-16.63% ↓

Table 1 shows the trend of FDI inflows from Mauritius before the amendment of the DTAA (2013–2017). The data indicates a consistent and significant increase in inflows, rising from **USD 4.85 billion in 2013–14 to USD 15.72 billion in 2016–17**, with high growth rates in certain years. This reflects the strong preference of investors to route investments through Mauritius due to favourable tax provisions, especially the exemption from capital gains tax in India.

In contrast, Table 2 presents the FDI inflows from Mauritius after the DTAA amendment (2017 onwards). The data shows a noticeable decline in inflows, with values dropping and fluctuating between years, reaching lower levels compared to the pre-amendment period. This indicates that

the amendment reduced the tax advantages previously available, leading to a decrease in investment routed through Mauritius. Overall, the comparison of both tables highlights that the DTAA amendment had a significant impact on the pattern and volume of FDI inflows from Mauritius.

India – Singapore Mean analysis

Table 3 : FDI Inflows from Singapore Before Amendment

Year	FDI Inflow (USD Billion)
2013	5.72
2014	7.07
2015	8.05
2016	15.07
2017	16.26

Source- department for promotion of industry and internal trade, GOI

Table 4 : FDI Inflows from Singapore After Amendment

Year	FDI Inflow (USD Billion)
2018	8.62
2019	9.52
2020	4.26
2021	8.74
2022	7.54

Source- department for promotion of industry and internal trade, GOI

Table 3 presents the mean analysis of FDI inflows from Mauritius before the DTAA amendment. The average inflow during this period is calculated as **USD 10.43 billion**, indicating a relatively high level of investment. This reflects the strong inflow of funds during the pre-amendment period, primarily due to favourable tax provisions and the widespread use of Mauritius as an investment route.

Table 4 shows the mean FDI inflows from Mauritius after the amendment, where the average decreases to **USD 7.73 billion**. This decline in mean value indicates a reduction in the overall level of investment from Mauritius following the amendment. The comparison of both tables clearly suggests that the DTAA amendment had a noticeable impact on FDI inflows, reducing the average investment routed through Mauritius and reflecting a shift in investment patterns.

Findings & Recommendations:

The analysis of FDI inflows from Mauritius before and after the DTAA amendment reveals a clear shift in investment patterns. The pre-amendment period showed strong growth in FDI inflows, supported by favorable tax provisions, with both trend and mean values indicating high investment levels. However, after the amendment, there was a noticeable decline and fluctuation in FDI inflows, as reflected in both CAGR and mean analysis. This suggests that the removal of capital

gains tax benefits reduced the attractiveness of Mauritius as an investment route. Despite this decline in country-specific inflows, the overall FDI into India continued to remain stable, indicating that the amendment primarily affected the routing of investments rather than the total volume.

Based on the findings, it is recommended that the government maintain a balanced approach in designing DTAA policies to prevent tax avoidance while still encouraging foreign investment. There is a need to focus on attracting genuine and long-term investments rather than relying on tax-driven routes. Strengthening transparency and coordination between treaty partner countries can further reduce misuse of agreements. Additionally, India should enhance its domestic investment environment by improving ease of doing business and policy stability. Diversifying sources of FDI beyond a few countries like Mauritius can also help reduce dependency and ensure sustainable investment inflows in the long run.

Conclusion:

The study concludes that Double Taxation Avoidance Agreements (DTAA) have played a significant role in shaping FDI inflows into India. The analysis of Mauritius data shows that before the amendment, FDI inflows were high due to favorable tax provisions, while after the amendment, inflows declined and became more fluctuating. This indicates that the removal of tax advantages reduced treaty-based investment routing. However, the overall FDI inflows into India did not decline significantly, showing that India continues to remain an attractive destination for foreign investors. The findings suggest that DTAA amendments impacted the structure and route of investment rather than the total volume. Furthermore, the shift reflects a movement towards more transparent and genuine investment flows. Therefore, DTAA acts as both a facilitator and regulator of FDI. Effective implementation of DTAA policies is essential for maintaining a balance between attracting investment and preventing tax avoidance.

Future Scope of the Study :

The present study focuses on the impact of DTAA on FDI inflows with reference to Mauritius and Singapore; however, its scope can be extended further. Future research can include a larger number of DTAA partner countries to provide a more comprehensive analysis. The study can also be expanded by incorporating more recent data to examine long-term effects of treaty amendments. Further analysis can be done on sector-wise FDI inflows to understand how DTAA influences different industries. Advanced statistical tools and econometric models can be applied to establish a stronger relationship between DTAA and FDI.

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