

India's problem with tax havens

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My friend and colleague, Raymond Baker of [Global Financial Integrity](#) has [written in the FI](#) about India's hidden offshore cash. He said (in part):

India's opposition party leader L.K. Advani sparked a political conflagration with pre-election campaign remarks that India was losing tens of billions of dollars each year in illicit financial outflows, or "black money". He asserted that the National Democratic Alliance would vigorously pursue recovery of these lost assets if voted into power. With the rolling election now in progress, the issue of India's missing billions has grown progressively thornier, as both sides vie to take the moral high ground.

Whatever the outcome of the election, India's problem has broader implications both for the developing world and for efforts by the Group of 20 developed and developing nations to craft an effective post-crisis economic plan for the global financial system.

In his discussion of black money, Mr Advani cited our estimates of illicit capital flight, which suggest total illicit outflows from the developing world of \$1,000bn (â–766bn, £684bn) a year. India ranked fifth highest at \$22bn-\$27bn a year, coming in behind Russia (\$32bn- \$38bn), Mexico (\$41bn-\$46bn), Saudi Arabia (\$54bn-\$55bn) and China (\$233bn-\$289bn).

The proceeds of criminal activity, corruption and corporate tax evasion, these flows are clandestine in nature and usually end up in financial centres featuring low regulation and high secrecy. This makes it tricky to study illicit financial flows.

India is the latest of several nations to raise the alarm about illicit capital flight. Following high-profile scandals involving Liechtenstein and Switzerland, the Group of 20 nations has demanded greater co-operation in tackling the shadow financial system. Made up of tax havens, jurisdictions allowing secrecy, disguised corporations, anonymous trust accounts, fake foundations and assorted money-laundering mechanisms, it is designed to move money and obscure its sources.

As world leaders and high-level stakeholders meet this weekend in Washington, the question of India's black money should be considered as a sign of what lies ahead. The

global recession is expected to have a severe impact on developing economies and undo years of poverty alleviation efforts and economic gains. The desire to offset this predicted impact is sincere. But until efforts are made to dismantle the shadow financial system and mandate more co-operative and rigorous reporting, success will remain as elusive as India's missing black money.

India has shown that this issue resonates with voters. Politicians in other developing country democracies would be wise to take note.

Raymond is right. This is not just an academic issue, or a technical issue. It is a political issue, for developing and developed countries alike.

A hope the world leaders take note. The G20 was but step one.