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Critical Trends

Part 1: How Round-Tripping will Surge in the next 9 Months (April-December 2025) due to Tariff Tensions

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1.0 What is round tripping?

In finance, "round tripping" refers to a practice where funds are moved out of a country, often through an intermediary entity, and then brought back in as foreign investment, potentially to inflate the volume of foreign investment or evade taxes or capital controls.

Round tripping involves a series of transactions where funds are moved from one entity to another, often in a different country, and then returned to the original entity or a related party.

The primary goal of round tripping is to create an appearance of legitimate foreign investment, which can be used to:

1. **Inflate Foreign Investment Figures:** Companies might engage in round tripping to artificially increase their reported foreign investment, which can be used to gain a competitive advantage or appear more attractive to investors.
2. **Evade Taxes or Capital Controls:** Round tripping can be used to circumvent tax obligations or capital controls by moving funds out of a country and then back in under the guise of foreign investment.
3. **Money Laundering:** Round tripping can be used as a method to disguise the origin of illicit funds and make them appear legitimate.

Examples:

a. A company sells assets to a related party in another country and then buys them back at a similar price, creating the appearance of a sale and purchase.
b. Funds are moved to a shell company in a tax haven and then brought back to the original country as foreign investment.

Legality and Concerns:

- Round tripping is considered a form of financial fraud and can lead to legal consequences.
- It is a concern for regulators and financial intelligence units, as it can be used to facilitate tax evasion, money laundering, and other illicit activities.

Other Names:

Round tripping is also known as "round-trip transactions" or "circular trading".

2.0 Multiple forms of round tripping

Round-tripping practices globally take on multiple forms—some are strategic tax planning methods, while others are outright illicit schemes. These practices vary by industry, regulatory environment, and intent (e.g. tax evasion, trade misinvoicing, money laundering, or export subsidy abuse).

See below a comprehensive breakdown of the main types of round-tripping (also see figure) seen across the globe:

1. Capital Round-Tripping (FDI/Tax Avoidance)

Definition:

Domestic entities send capital abroad (usually to offshore jurisdictions) and reinvest it back into the domestic economy disguised as Foreign Direct Investment (FDI).

Motivations:

a. Tax benefits or exemptions for foreign investors
b. Access to special economic zones or sector incentives
c. Legitimizing black money as clean FDI

Examples:

a. India–Mauritius–India loop for equity investments
b. China–Hong Kong–China reinvestments under "foreign investor" status
c. Russia–Cyprus–Russia for real estate and banking

2. Trade-Based Round-Tripping (Goods/Commodities)

Definition:

The same goods or raw materials are exported and re-imported (sometimes *via* third countries) under different invoices, HS codes, or entity names.

Motivations:

a. Claiming export incentives or GST/VAT refunds
b. Money laundering or over/under-invoicing
c. Creating artificial trade volumes for financing

Examples:

a. Gold shipped from India to UAE, then re-imported with new paperwork

b. Steel scrap exported from South Asia, then returned as value-added alloyed metal

c. Electronics from China exported to Vietnam, relabeled, and sent to the US to dodge tariffs

3. Resource-Based Round-Tripping

Definition:

Natural resources (metals, minerals, oil) are exported and re-imported, often with minor processing to change their customs code or origin label.

Motivations:

a. Avoiding export bans or sanctions

b. Accessing tax holidays on "processed" goods
c. Increasing declared asset value on balance sheets

Examples:

a. Gold round-tripped via Uganda–Dubai–DRC
b. Lithium from Zimbabwe re-entering as processed materials from China
c. Crude oil derivatives exported and returned as refined lubricants to exploit duty differential

4. Invoicing & Phantom Trade Round-Tripping

Definition:

No actual goods or capital move. Instead, **only invoices and paper trails are generated** to simulate trade or investment.

Motivations:

a. Laundering money across jurisdictions
b. Claiming false tax rebates
c. Pumping up company valuation or turnover artificially

Examples:

a. Shell companies in UAE invoicing ghost shipments to African or South Asian firms
b. Circular invoices between related-party entities in low-tax and high-tax countries

5. Human Resource/Service Round-Tripping

Definition:

Service-based firms cycle contracts and billing across multiple countries, often routing payments via tax havens or intermediary firms.

Motivations:

a. Lower effective corporate tax
b. Shifting profits to lower-cost or less-regulated jurisdictions
c. Masking beneficial ownership or ultimate recipients

Examples:

a. Indian IT firms routing billing via Ireland or Singapore before repatriation
b. Film production and digital services via shell firms in Malta, Luxembourg, or Mauritius

6. Automotive & Machinery Round-Tripping

Definition:

Export of used vehicles, machinery, or parts which are then re-imported under different conditions or states.

Motivations:

a. Avoid depreciation write-offs
b. Insurance fraud or duty evasion
c. Claiming import subsidies or incentives

Examples:

a. Used cars exported from Europe to Africa, refurbished, and sent back with inflated value
b. Machinery leased to offshore units and returned as "new" import

7. Energy & Carbon Credit Round-Tripping

Definition:

Carbon credits, energy certificates, or renewable energy components are traded between entities and re-bought to manipulate sustainability goals or tax offsets.

Motivations:

a. Claiming green subsidies
b. Evading carbon tariffs
c. Boosting ESG score without real activity



Figure. Types of round tripping.

Examples:

a. European firms cycling carbon credits via shell companies in Eastern Europe
b. Solar panel exports/imports with changed country-of-origin for tariff circumvention

8. Intellectual Property (IP) & Royalty Round-Tripping

Definition:

IP is registered or sold to offshore entities, then leased back to the parent company through royalty payments.

Motivations:

a. Shift profits to tax havens
b. Avoid local corporate income tax
c. Reduce taxable income through deductible royalties

Examples:

a. Big Tech and Pharma firms using Ireland–Netherlands–Bermuda ("Double Irish with a Dutch Sandwich")
b. Software licensing via Singapore, BVI, or Luxembourg

Quantifying Round tripping

Quantifying the exact value of global round-tripping is challenging due to its often opaque and illicit nature. However, available data and studies provide insights into its scale and impact on national economies.

3.0 Global Perspective

- **Indirect FDI Flows**: Indirect foreign direct investment (FDI), which includes round-tripping, accounts for nearly 30% of global FDI flows. These are funds channeled through offshore centers back to the local economy, often for tax benefits or regulatory arbitrage.
- **Global Capital Flows**: In 2007, gross international capital flows peaked at US$12 trillion, representing over 20% of world GDP. Although not all of this is due to round-tripping, the figure underscores the magnitude of cross-border financial movements. So, about 6% of US$12 trillion or US $ 720 billion is the figure for round tripping.

Country-Specific Insights

Ukraine

- Between 2010 and 2017, round-tripping transactions were estimated at $7.5 billion, constituting 21.3% of direct investment inflows. Notably, during 2010–2013, these transactions averaged 32% of total FDI inflow.

United Kingdom

- In 2020, round-tripping accounted for 3.0% of the UK's total inward FDI position, up from 2.0% in 2019. The United States was the primary conduit, accounting for one-fifth of the UK's round-tripping value.

India

- Round-tripping has been a persistent issue, particularly involving funds routed through Mauritius and other offshore centers. While exact figures are elusive, the Reserve Bank of India has been monitoring and implementing measures to curb this practice since the 1990s.

Economic Implications

a. **Distorted Economic Indicators**: Round-tripping can inflate FDI statistics, misrepresenting the actual investment climate and potentially leading to misguided policy decisions.
b. **Tax Revenue Loss**: By channeling funds through low-tax jurisdictions and then reinvesting them domestically, entities can exploit tax benefits, leading to significant revenue losses for governments.
c. **Regulatory Challenges**: The complexity and opacity of round-tripping transactions pose significant challenges for regulators aiming to maintain financial integrity and transparency.

How countries behave

Some countries tolerate or even tacitly encourage round-tripping of gold for strategic, economic, or political reasons — even though it's a gray area. Here's why they might do it:

1. Inflated Trade Figures and Economic Optics

a. **Boosting export stats:** Countries may appear to have higher export volumes, improving GDP figures and attracting investment.
b. **Showcase of strong trade networks:** Encouraging round-tripping can create the illusion of a vibrant, connected economy.

Example: China may appear to be exporting high-value goods (gold), strengthening its image as a global trade hub — even if that gold is just circulating.

2. **Capital Control Loopholes**
   - **a.** Countries like China and India have tight capital controls to stop money from leaving.
   - **b.** Round-tripping lets domestic players move funds abroad "legally", masked as trade flows.
   - **c.** Governments might turn a blind eye, especially if it supports influential corporate or banking sectors.

3. **Liquidity and Credit Boost**
   - a. Gold can be used as collateral for loans.
   - b. Round-tripping lets companies use the same gold multiple times to raise capital or inflate balance sheets.
   - c. This can stimulate lending, especially in systems where traditional credit is restricted.

4. **Soft Power *via* Gold Trade**
   - a. Some nations (e.g., UAE, Switzerland) benefit from being seen as neutral, stable gold hubs.
   - b. Tolerating round-tripping enhances their role in global finance, increasing trust and usage of their refineries, free zones, and trade systems.

5. **Revenue from Re-Exporting & Refining**
   - a. Gold is taxed, refined, insured, or logged at every step.
   - b. Countries in the middle (like Switzerland, Dubai, or Singapore) profit from fees, services, and taxes related to each gold movement.
   - c. Even if the gold is round-tripped, economic activity is generated.

6. **Strategic Hoarding or Shadow Reserves**
   - a. In some cases, gold round-tripping is used to secretly build reserves or reroute gold through trusted channels.
   - b. **State-backed firms** may engage in round-tripping for financial engineering or political motives, such as hiding reserve accumulation or helping allies.

7. **Regulatory Arbitrage**
   - Some countries quietly allow regulatory gaps that make them attractive for gold movement.
   - These gaps can be intentional to attract foreign gold trade, even if it includes questionable practices.

(End of Part-1)