



# GIFT CITY: A BLUEPRINT FOR THE INDIA'S FINANCIAL HUB FOR THE FUTURE

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**Abstract:** The GIFT City project in India aims to create a global financial and IT services hub, impacting the country's growth, good governance, investment, and various fields. By attracting foreign investment and promoting economic growth, it provides opportunities for international financial institutions and companies. The project's state-of-the-art infrastructure supports the financial services sector and facilitates technological advancement, fostering innovation and digital solutions. With a focus on good governance, GIFT City operates under transparent regulations and streamlined processes. It generates employment, promotes skill development, and encourages international collaboration, contributing to India's integration into the global financial ecosystem. Ongoing monitoring is necessary to assess the project's progress and its contributions to India's development. The GIFT City project in India holds immense potential for impacting the country's growth, good governance, investment, and benefits across various fields. This ambitious initiative aims to establish a world-class global financial and IT services hub that caters to the evolving needs of businesses and investors. By offering a conducive ecosystem and state-of-the-art infrastructure, GIFT City seeks to position India as a prominent player in the international financial services sector. the GIFT City project in India has the potential to significantly impact the country's growth, good governance, investment, and benefits across diverse fields. Through its focus on attracting foreign investment, promoting economic growth, ensuring good governance, and fostering international collaboration, GIFT City strives to position India as a leading global financial and IT services hub. The project's success will depend on sustained efforts, innovation, and adaptability to emerging opportunities and challenges.

**Index Term:** GIFT City project, global financial and IT services hub, good governance, investment.

## **INTRODUCTION**

Gujarat International Finance Tech City (GIFT City) is a planned business district located in Gujarat, India. The city was conceived as a means of promoting the growth of the financial services sector in India and attracting foreign investment. The primary purpose of GIFT City is to provide a world-class infrastructure for the financial services industry, including banking, insurance, and capital markets. The city offers a range of facilities and services, including office space, data centres, trading floors, and residential areas for employees. GIFT City also aims to promote the use of technology in the financial services industry and to develop a skilled workforce to support the sector's growth. GIFT City is a planned business district located in Gujarat, India, with a focus on promoting the growth of the financial services sector in India and attracting foreign investment. The city offers a range of facilities and services, including office space, data centres, and residential areas for employees. GIFT City aims to promote the use of technology in the financial services industry, develop a skilled workforce to support the sector's growth and promote sustainable development and environmental conservation. The city has attracted a number of domestic and international companies and offers a range of incentives to companies that choose to establish a presence in the city.<sup>i</sup>

## **BACKGROUND**

The idea for GIFT City was first proposed in 2007 by then-Gujarat Chief Minister Narendra Modi. The city was developed by the Gujarat International Finance Tec-City Company Limited (GIFTCL), a joint venture between the Government of Gujarat and Infrastructure Leasing & Financial Services Limited (IL&FS). The project was supported by a number of financial institutions, including the Bombay Stock Exchange and the National Stock Exchange of India.

Construction of GIFT City began in 2011, and the first phase of the project was completed in 2015. The city is being developed in a phased manner, with a total planned area of 886 acres. The city is located in close proximity to the city of Ahmedabad and is well-connected to major transportation hubs, including an international airport and a high-speed rail link.

GIFT City offers a number of incentives to companies that choose to establish a presence in the city, including tax breaks and streamlined regulatory processes. The city has attracted a number of domestic and international companies, including banks, insurance companies, and technology firms.

## **PURPOSE- SIGNIFICANCE**

GIFT City its ability to attract foreign investment. The project provides a platform for global financial institutions, banks, and insurance companies to establish their presence in India. This not only boosts the country's economy but also enhances its status as a preferred investment destination. The availability of a comprehensive range of financial services and a business-friendly environment creates opportunities for companies to expand their operations and explore new markets. In addition to its focus on the financial services industry, GIFT City also aims to promote sustainable development and environmental conservation. The city features a number of green spaces and is designed to minimize its environmental footprint. GIFT

City is also home to a number of educational and research institutions, which aim to support the development of the financial services sector and promote innovation in the industry.

GIFT City also plays a crucial role in promoting economic growth. It aims to leverage its strategic location, well-planned infrastructure, and modern amenities to foster innovation and facilitate technological advancements. The city's focus on financial technology (fintech) and digital solutions encourages the development and adoption of cutting-edge technologies, leading to increased efficiency, transparency, and accessibility in financial transactions. This, in turn, has a positive impact on various sectors of the economy, including banking, insurance, capital markets, and e-commerce.

### **GIFT CITY- FRAMEWORK OF GOOD GOVERNANCE**

Furthermore, GIFT City operates under a robust framework of good governance. It follows transparent regulations, simplified processes, and investor-friendly policies. This not only instils confidence in businesses but also enhances the ease of doing business. The project incorporates international best practices in governance, risk management, and compliance, ensuring a secure and reliable environment for financial transactions.

The GIFT City project also has wide-ranging socio-economic benefits. It creates employment opportunities, both direct and indirect, across various sectors. The influx of skilled professionals and talent further drives innovation and knowledge sharing. Additionally, GIFT City emphasizes skill development programs, fostering the growth of a competent workforce equipped with the latest industry knowledge and expertise.

In terms of international collaboration, GIFT City serves as a platform for partnerships between Indian and foreign companies. It facilitates knowledge exchange, technology transfer, and cross-border investments, strengthening India's integration into the global financial ecosystem. The project's success relies on continuous monitoring, evaluation, and adaptation to changing market dynamics and global trends.

### **OPPOSITION STAND - REASONS OF DELAY**

The GIFT City project in India has faced opposition and experienced delays due to several factors. While the project aims to bring significant growth and benefits, it has encountered certain challenges and concerns from various stakeholders. Here are some common opposition stands and reasons for the delay in the GIFT City project:

**Environmental Concerns:** One of the major opposition stands revolves around environmental concerns. The project involves large-scale construction and development, which can impact the local ecology, including land use, water resources, and biodiversity. Environmental activists and local communities have raised objections regarding potential ecological damage and the need for sustainable development practices.

**Land Acquisition and Rehabilitation:** The acquisition of land for the project has faced opposition and protests from affected communities. Displacement of local residents and loss of livelihoods have been raised as significant issues. Concerns about fair compensation, proper rehabilitation, and the overall social impact on affected communities have led to delays and legal challenges.<sup>ii</sup>

**Infrastructure Development:** The establishment of a project on such a massive scale requires robust infrastructure development. Delays in constructing necessary roads, utilities, and other essential facilities have been observed. Insufficient planning, coordination challenges, and logistical issues have contributed to the delay in creating the required infrastructure, hindering the progress of the project.

**Regulatory and Legal Hurdles:** Complex regulatory frameworks, compliance requirements, and legal procedures have also caused delays in the GIFT City project. Obtaining necessary clearances, permits, and approvals from multiple authorities can be time-consuming and bureaucratic. Legal disputes and litigation related to land acquisition, environmental compliance, and contractual agreements have further impeded the project's progress.

**Financial Constraints:** The GIFT City project requires substantial investments to create world-class infrastructure and attract businesses. Securing funding and ensuring financial viability have been challenges faced by the project. Economic downturns, fluctuations in the real estate market, and difficulties in attracting investors have contributed to delays in project execution.

**Stakeholder Engagement and Participation:** Effective stakeholder engagement and participation are essential for the success of any large-scale development project. The lack of proper communication channels, inadequate consultation processes, and limited involvement of local communities and civil society organizations have led to opposition and delays. Ensuring transparency, addressing concerns, and incorporating feedback from stakeholders can help mitigate opposition and facilitate smoother project implementation.

It is important to note that these opposition stands and reasons for delay may vary in intensity and significance depending on the specific context and local dynamics surrounding the GIFT City project. Addressing these concerns through dialogue, effective mitigation measures, and adherence to regulatory requirements can help alleviate opposition and ensure timely progress of the project while considering the interests and well-being of all stakeholders involved.

### **THE REGULATIONS FRAMED AND LAW GOVERNING THE GIFT CITY PROJECT**

The GIFT City project in India is governed by various regulations and laws to ensure proper planning, development, and functioning of the city. The key regulations and laws that frame the framework for the GIFT City project are:

**Gujarat International Finance Tec-City (GIFT) Act, 2011:** This act establishes the legal foundation for the GIFT City project. It provides for the establishment, development, and regulation of the GIFT City as an International Financial Services Centre (IFSC). The act outlines the powers, functions, and responsibilities of the GIFT City Development Authority (GCDA) in managing and governing the city.

Special Economic Zone (SEZ) Act, 2005: GIFT City operates as a Special Economic Zone (SEZ) under the SEZ Act. This act provides the legal framework for the establishment and operation of SEZs in India. It grants various incentives and benefits to businesses operating within the SEZ, such as tax exemptions, customs duty concessions, and simplified regulatory procedures.

Companies Act, 2013: The Companies Act applies to businesses operating within the GIFT City project. It governs the incorporation, functioning, and regulation of companies in India. Companies operating in GIFT City need to comply with the provisions of this act, including those related to corporate governance, financial reporting, and shareholder rights.

Securities and Exchange Board of India (SEBI) Regulations: GIFT City serves as a financial and securities hub, and therefore, it falls under the purview of SEBI regulations. SEBI regulates and supervises various aspects of securities markets in India, including listing and trading of securities, investor protection, and market integrity. Businesses operating in GIFT City's financial services sector need to comply with SEBI regulations.

Foreign Exchange Management Act (FEMA): FEMA governs foreign exchange transactions and regulates cross-border financial transactions in India. It applies to businesses operating within GIFT City, particularly those involved in international financial services. FEMA regulates foreign investment, repatriation of funds, and foreign exchange transactions, ensuring compliance with applicable rules and regulations.

Environmental Regulations: The GIFT City project must adhere to environmental regulations and obtain necessary clearances and permits. Environmental laws such as the Environment Protection Act, of 1986, and the Air and Water Pollution Control Acts apply to the project to ensure sustainable development, environmental conservation, and compliance with pollution control measures.

Additionally, various other laws and regulations related to taxation, labour, contract, intellectual property, and other areas apply to businesses and individuals operating within the GIFT City project, similar to any other part of India. It is important for stakeholders, including developers, businesses, and individuals, to be aware of and comply with these regulations and laws to ensure lawful and compliant operations within the GIFT City project.

## **INTERNATIONAL INVESTMENTS INTO THE GIFT - & ITS IMPACT ON INDIAN ECONOMY**

Here are some notable companies that have shown interest or made investments in the GIFT City project:

Standard Chartered Bank: In 2012, Standard Chartered Bank became the first bank to receive an in-principle approval from the Reserve Bank of India (RBI) to set up a branch in GIFT City. The bank has shown a strong commitment to establishing its presence in the IFSC and utilizing the opportunities offered by the project.

**Bank of America Merrill Lynch:** Bank of America Merrill Lynch has also expressed interest in setting up operations in GIFT City. The bank aims to utilize the advantages of the IFSC to expand its business and cater to the needs of its clients.

**IL&FS Securities:** Infrastructure Leasing & Financial Services (IL&FS) Securities Services Ltd. has signed an agreement with GIFT City to establish a securities depository in the IFSC. The company aims to provide efficient and seamless depository services to domestic and international investors.

**Tata Communications:** Tata Communications, a global telecommunications company, has established a data center in GIFT City. The data center provides services such as colocation, managed hosting, and cloud services, catering to the needs of businesses operating in GIFT City and beyond.

**Oracle:** Oracle, a multinational technology company, has set up a technology and innovation hub in GIFT City. The hub focuses on developing and deploying innovative solutions in areas such as cloud computing, artificial intelligence, and blockchain technology.

It's important to note that the list above is not exhaustive, and there may be other companies that have invested or shown interest in the GIFT City project. The project aims to attract a diverse range of domestic and international companies from various sectors, including banking, finance, insurance, technology, and more. The specific investments and participation of companies may vary over time as the project progresses and new opportunities emerge. The GIFT City project in India has attracted significant international investments, which play a crucial role in its development and growth as an International Financial Services Centre (IFSC).

### **INTERNATIONAL INVESTMENTS IN THE GIFT CITY PROJECT SERVE MULTIPLE PURPOSES AND ARE UTILIZED IN VARIOUS WAYS:**

**Infrastructure Development:** A substantial portion of foreign direct investment (FDI) in the GIFT City project is allocated towards infrastructure development. This includes constructing state-of-the-art commercial buildings, office spaces, residential complexes, roads, utilities, and other necessary infrastructure. The investments help create a modern and well-equipped city that meets international standards and accommodates the needs of financial and business institutions.

**Financial Services Sector:** The FDI flowing into the GIFT City project is utilized to establish and strengthen the financial services sector within the IFSC. International banks, insurance companies, asset management firms, and other financial institutions set up their operations in GIFT City, creating a vibrant financial ecosystem. The investments are utilized to provide the necessary infrastructure, technology, regulatory framework, and skilled workforce to support financial services activities such as banking, insurance, capital markets, and asset management.

**Technology and Innovation:** International investments in the GIFT City project contribute to fostering technological advancements and innovation within the IFSC. The funds are utilized to develop cutting-edge technology infrastructure, data centers, connectivity networks, and cybersecurity systems. This enables



businesses operating in GIFT City to leverage advanced technologies, such as fintech, blockchain, artificial intelligence, and data analytics, to enhance their operations and deliver innovative financial services.

**Employment Generation and Skill Development:** The FDI in the GIFT City project has a significant impact on employment generation and skill development. The investments create a large number of job opportunities, both directly and indirectly, in sectors such as finance, IT, real estate, hospitality, and support services. Additionally, international investments contribute to skill development initiatives by providing training programs, knowledge sharing, and exposure to global best practices, enhancing the skill sets of the local workforce.

**Economic Growth and International Business Hub:** The inflow of international investments contributes to the overall economic growth of the region and the country. The establishment of GIFT City as a thriving IFSC attracts international businesses, fosters cross-border collaborations, and promotes trade and investment. The project enhances India's position as a global financial and business hub, facilitating economic activities and creating opportunities for domestic and international businesses to expand their operations.

The utilization of FDI in the GIFT City project is aimed at creating a world-class financial and business destination that offers a conducive environment for international investments, promotes economic growth, and strengthens India's position in the global financial landscape.

### **INVESTMENT**

The GIFT City project in India has been successful in attracting international investments, which have had a significant impact on the Indian economy. Here are some key points highlighting the impact of international investments into GIFT City:

**Foreign Direct Investment (FDI):** The GIFT City project has received substantial foreign direct investment, demonstrating global confidence in India's potential as an international financial centre. FDI inflows bring in capital, technology, and expertise, stimulating economic growth and creating employment opportunities.

**Employment Generation:** International investments in GIFT City have led to the creation of numerous job opportunities for skilled professionals in various sectors. The establishment of global companies and financial institutions has generated employment both directly and indirectly, contributing to the overall economic development of the region.

**Economic Growth and Development:** The inflow of international investments into GIFT City has contributed to India's economic growth and development. The project aims to create a robust financial ecosystem, attracting global businesses, fostering innovation, and facilitating trade and investment. This, in turn, stimulates economic activities, enhances productivity, and boosts GDP growth.

**Technology Transfer and Knowledge Exchange:** International investments often bring advanced technology, expertise, and best practices to the host country. In the case of GIFT City, global companies investing in the project bring their technological advancements, financial expertise, and knowledge, which

can benefit the Indian financial sector. This technology transfer and knowledge exchange help in building a more competitive and progressive financial system in India.

**Enhanced Financial Services:** The presence of international investors and financial institutions in GIFT City augments the availability and quality of financial services in India. This benefits both businesses and individuals by providing a wide range of financial products and services, fostering competition, and promoting financial inclusion.

**Infrastructure Development:** International investments contribute to the development of world-class infrastructure in GIFT City. This includes state-of-the-art office spaces, technology infrastructure, connectivity, and supporting amenities. The improved infrastructure not only serves the needs of the financial institutions but also provides a conducive environment for other sectors, attracting further investments and fostering overall economic growth.

International investments into the GIFT City project have positively impacted the Indian economy by attracting FDI, generating employment, stimulating economic growth, facilitating technology transfer, enhancing financial services, and developing modern infrastructure. These investments play a vital role in positioning India as a global financial hub and contribute to the country's overall development. Some of India's leading family offices are exploring the option of setting up shop at the International Financial Services Centre (IFSC) or Gift City as the Reserve Bank of India (RBI) tightens scrutiny of overseas direct investments (ODI). ODI is a route available for Indian non-individuals to send money overseas. Freedom to invest across asset classes, including overseas real estate, along with low compliance costs and numerous tax benefits, are prompting family offices to look towards Gift City, market participants said. Also, family offices based in Gift City are allowed to make leveraged investments. Family offices are investment managers set up by ultra-wealthy individuals to invest and manage personal wealth. They typically work like any asset management company or money manager—the only difference is family offices have just one individual or a family as its investors.

### **CONSTRUCTION TIMELINE**

Major construction events in GIFT City, Gujarat, India:

#### **2007:**

- The Gujarat International Finance Tec-City (GIFT City) project is announced by the Government of Gujarat as an ambitious plan to develop a world-class financial and business district in Gujarat.
- Construction of GIFT City begins.

#### **2008:**

- Land acquisition for the GIFT City project begins. The government acquires about 886 acres of land near Gandhinagar, the capital of Gujarat.



- The project receives approval from the Union Cabinet, which marks the formal beginning of the project.

**2009:**

- GIFT SEZ area is notified.

**2010:**

- Construction begins on the first phase of the GIFT City project, which includes the development of basic infrastructure such as roads, water supply, drainage, and sewage systems.
- The first tower, called GIFT One, is inaugurated. The 29-storey building is built by the IL&FS (Infrastructure Leasing & Financial Services) group and serves as the headquarters for many financial companies.

**2012:**

- The first phase of the GIFT City project is completed, which includes the development of basic infrastructure and the construction of the GIFT One tower.
- GIFT City is formally inaugurated by then-Prime Minister of India, Dr. Manmohan Singh.
- GIFT City's first operational bank, Bank of Baroda, begins its operations.

**2013:**

- Construction begins on the second phase of the GIFT City project, which includes the development of more office buildings, residential apartments, and social infrastructure such as schools, hospitals, and retail spaces.
- The GIFT SEZ (Special Economic Zone) is notified by the government, which allows companies operating within the zone to enjoy tax and other benefits.
- GIFT City's first IFSC tower, GIFT One Tower A, is inaugurated.

**2014:**

- GIFT City is selected as a smart city under the Smart Cities Mission of the Government of India.

**2015:**

- The second phase of the GIFT City project is completed, which includes the development of more office buildings, residential apartments, and social infrastructure.

- The first IFSC (International Financial Services Centre) tower, called GIFT Two, is inaugurated. The 28-storey building is built by the IL&FS group and serves as the hub for international financial services companies.
- Construction of GIFT City's first data center, owned by Netmagic, is completed.

**2016:**

- GIFT City's first international exchange, India International Exchange, starts operations.

**2017:**

- Construction begins on the third phase of the GIFT City project, which includes the development of more office buildings, residential apartments, and social infrastructure such as parks and open spaces.
- The GIFT SEZ is granted formal approval by the government, which enables companies operating within the zone to enjoy more benefits and incentives.

**2019:**

- The third phase of the GIFT City project is completed, which includes the development of more office buildings, residential apartments, and social infrastructure.
- The second IFSC tower, called GIFT Three, is inaugurated. The 30-storey building is built by the IL&FS group and serves as a hub for international financial services companies.

**2021:**

- Construction begins on the fourth and final phase of the GIFT City project, which includes the development of a retail and entertainment zone, a convention center, and residential towers.
- The GIFT City project is awarded the "Smart City of the Year" award by the National Institute of Urban Affairs, which recognizes the city's innovative use of technology, sustainability, and urban planning.

### **NATIONAL COLLABORATION FOR THE PROJECT**

The GIFT City project in India has also witnessed significant national collaboration, involving various stakeholders from both public and private sectors. Here are some key aspects of national collaboration for the project:

**Government Support:** The GIFT City project has received strong support and collaboration from the Indian government. The government has played a crucial role in facilitating the development of the project by providing necessary regulatory frameworks, policy support, and infrastructure development.

**Regulatory Bodies:** National regulatory bodies such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and Insurance Regulatory and Development Authority of India (IRDAI) have collaborated with GIFT City to ensure a conducive regulatory environment. These bodies work closely with GIFT City to establish regulations and guidelines for financial activities, ensuring compliance and maintaining the integrity of the financial system.

**Financial Institutions:** Leading national banks and financial institutions have actively participated in the GIFT City project. They have established their presence within the city, offering a range of financial services and products. These institutions contribute to the development of the financial ecosystem and provide essential support for businesses and individuals operating within GIFT City.

**Infrastructure Development:** The development of infrastructure within GIFT City involves collaboration between national entities, including infrastructure development agencies, construction companies, and urban planning authorities. National expertise in infrastructure development ensures the creation of world-class facilities and amenities within the city.

**Industry Associations:** National industry associations, such as the Confederation of Indian Industry (CII) and the Federation of Indian Chambers of Commerce and Industry (FICCI), have actively collaborated with GIFT City. These associations promote the project, facilitate knowledge sharing, and provide a platform for networking and business interactions among national stakeholders.

**Skill Development and Training:** National educational institutions and training centers collaborate with GIFT City to provide specialized courses and training programs for professionals working in the financial and business sectors. This collaboration ensures the availability of skilled workforce and promotes continuous learning and development within GIFT City.

The national collaboration for the GIFT City project reflects a collective effort to create a vibrant and sustainable international financial center. It showcases the commitment of various national stakeholders to leverage the potential of GIFT City and contribute to India's economic growth and development. Through strong collaboration, the project aims to establish a thriving ecosystem that fosters innovation, attracts investments, and promotes good governance in the financial sector.

### **WHY WAS MUMBAI NOT CONSIDERED AS A POTENTIAL GLOBAL FINANCIAL CENTER FOR THE PROJECT GIFT CITY?**

When Singapore set up an international financial hub in the late 1960s, the city-state was thinking both fast and slow — seizing an immediate opportunity, and opening a path to long-term economic development. Half a century later, India is attempting something similar in Prime Minister Narendra Modi's home state of Gujarat. But without much thought going into what exactly it's building, for whom and for what purpose, all it may get is a casino for the local rich. For Singapore, the British pound's 1967 devaluation was the moment of reckoning. For one thing, it raised the profile of Dick van Oenen, a Dutch trader who had made a "significant windfall" for both his employer — Bank of America — and for the newly independent city-

state from that abrupt 14% change. But beyond the immediate cash, Singapore saw a broader canvas.

The pound's tumble had made countries in the Sterling Area, mostly former British colonies, painfully aware that the sun had finally set on the empire's currency: They needed to switch to the dollar to lend and borrow. The kind of rapid growth East Asia then imagined for itself could be more easily financed by inviting the rich overseas Chinese in Hong Kong, Taiwan, Manila and Jakarta to deposit their funds in dollars. Many of them had become extremely wealthy on assured cash flows from post-colonial monopolies and cartels in everything from gaming and racetrack-betting to flour-making and coconut-milling.

Channeling these regional savings into local investments and diversifying the Singapore economy was the longer-term impetus for starting a dollar-denominated banking hub, according to Oxford University historian Catherine Schenk. Bank of America's local branch was the first to get the permission to open a separate set of books purely for international business.

India embarked on the project in 2007 with the ambitious goal of turning Mumbai, the country's domestic financial capital, into an international hub after making the rupee fully convertible "by no later than the end of calendar 2008." However, after a 14-year interlude that encompassed both the 2008 subprime crisis and a pandemic, there's little enthusiasm left for financial globalization. Even trade liberalization, which looked irreversible in 2007, is being undermined by a misguided yearning for self-sufficiency. The venture was yanked away from Mumbai and taken to a patch of wilderness in Gujarat. Somewhere along the way, the original purpose was also lost.

All new stores need their early patrons. Had India pursued Singapore's strategy, it would have begun by targeting nonresident Indians to keep some of their wealth with their banks' branches in the Gujarat International Finance Tec-City — more popularly known as Gift City — luring them with simple products not available commercially in global markets, such as dollar-denominated sovereign Indian bonds. Corporate issuers would have followed. But banks are run by bankers, who need good schools and better pubs. Three high-rise buildings situated 10 kilometers (6.2 miles) from Gandhinagar — the capital of a state where alcohol is prohibited — offer neither.

Since a bank-led approach wasn't feasible, minders of Modi's favorite project turned toward capital markets, in the hope that with sufficient inducement brokers would book trades in Gift City without having to set foot there. As a result, the joyless place has spent years trying to become a marketplace for foreign currency-denominated contracts, hoping to capture some of the financial intermediation that now takes place in London, Singapore, Hong Kong or Dubai, but where the ultimate risk resides in India.

The Gujarat market offers a slew of tax breaks, but has very little customer liquidity. India's two domestic exchanges — the National Stock Exchange of India Ltd. and BSE Ltd. — are providing costly incentives to intermediaries to trade with one another there. At least 85%-90% of trades at Gift exchanges are proprietary trades, the news website Morning Context recently reported.

Hedge funds aren't coming. Everything they want for risk mitigation or speculation is available within a one-mile radius in Singapore. To arm-twist investors to come, India's No. 1 stock exchange even picked a hissy fight with its long-term partner, the Singapore Exchange Ltd. The conflict has since died down, and there's an agreement on setting up a pipe connecting NSE in Gift City with SGX after ensuring "member readiness." Meanwhile, the city-state is still trading derivatives linked to Indian indexes and stocks with gusto:

Now comes another strategic wrong turn. Just last week, the central bank allowed resident individuals to open foreign-currency accounts in Gift City to invest in securities issued by overseas firms. This isn't a step toward the original goal of capital-account convertibility. India already permits all adults and minors an annual \$250,000 quota for overseas remittances. Worse, if the money placed in Gift isn't invested in 15 days, it returns home to a rupee account. Loose change of retail Indian cash parked temporarily in Gujarat is hardly going to entice a pedigreed global issuer to hawk equities or bonds there. Another plan is to bring trading in non-deliverable forwards — bets on the rupee that aren't constrained by India's capital controls because they're settled in dollars — to Gift by luring overseas investors with tax breaks. This, too, puts the cart before the horse. Among emerging-market NDFs, rupee contracts are the second-most-popular after the South Korean won, with a 19% share of the \$250 billion-a-day market, according to a 2019 Bank for International Settlements survey.

The price signals these offshore derivatives emit tend to become a headache for a central bank trying to manage a controlled home currency in times of balance-of-payment stress, like during the 2013 taper tantrum. Rather than wanting these potentially destabilizing flows to come closer home, India ought to be deepening the onshore rupee market in Mumbai instead. It should also be paying more attention to interest-rate derivatives, like Mexico and South Africa have.

In hosting an international financial center, Singapore stole a march over rival Hong Kong, where the bankers were initially against more competition. But it wasn't tall buildings that made the experiment a success. A freely convertible currency, pragmatic regulation, a stable tax regime, rule of law and speedy dispute resolution played a huge role. (Good schools and pubs helped, too.) Opening up after the pandemic, the Indian economy is awash in central bank-sponsored liquidity. What it lacks is capital, and the preconditions to establish a truly international financial center. Gujarat was never the right place to build a global mart. Bereft of any economic logic, Gift may only appeal to the local wealthy shopping for a bit of tax-free dollar riches.

Top business honchos had met Union MoS for finance Jayant Sinha in February to urge the government to revive the 2007 Bombay-Kurla Complex (BKC) plan for Mumbai and he had assured them of the Centre's support. Fadnavis, who was present at the meeting, had hinted that the budget would concretise that plan. But when Union finance minister Arun Jaitley presented the budget, GIFT came out the winner. Business giants say that, as it is, in the last few years, Mumbai has lost its sheen as a business hub because of its shoddy infrastructure and burdensome bureaucratic processes. Despite its stock exchanges, commodity

exchanges, leading banks and financial regulators, it has been losing ground. Meanwhile, the BKC plan—blueprinted by Percy Mistry, a former World Bank economist—gathered dust.

R.K. Jha, who heads the GIFT project, was hand-picked by the Modi government in 2007. He has energised the prime minister's pet project, and with the IFC status announced by Jaitley in the budget, Jha says, there will be no stopping GIFT. Jha says that at GIFT, “already, development rights for 12.5 million square feet have been sold against a target of 10 million square feet”. Officials at GIFT admit that while pushing Phase I of GIFT had proved to be an uphill task, after the 2014 Lok Sabha elections, GIFT has ended up being the most-sought-after project in the country. Demand for Phase II, they say, is so high that officials are finding it difficult to meet it.

### **TAX INCENTIVES IN GIFT-IFSC**

To attract foreign and domestic investment in GIFT, the city's international financial services centre (IFSC) was declared a multi-service Special Economic Zone (SEZ) in 2015 and the Union Budget 2016-17 provided it with a competitive tax regime. Here are the tax benefits for companies falling under IFSC:

- Minimum Alternate Tax (MAT) and Alternate Minimum Tax (AMT) not applicable to companies in IFSC opting for new tax regime.
- Tax holiday for capital gains for aircraft leasing companies, tax exemption for aircraft lease rentals
- No GST on services received by these companies, provided to IFSC SEZ units or offshore clients
- State subsidies such as 100 per cent reimbursement of stamp duty and registration fee, 100 per cent reimbursement of electricity duty and Rs. 1 subsidy on power tariff for five years, 100 per cent reimbursement of employer's provident fund contribution, and lease rental subsidy for every 50 sqft per employee
- National/foreign exchanges set up under IFSC have total tax exemption from Security Transaction Tax (STT), Commodity Transaction Tax (CTT), Dividend Distribution Tax (DDT), Long Term Capital Gain (LTCG), Short Term Capital Gain (STCG).

### **CENTRE'S BUDGET PUSH & IIBX'S SIGNIFICANCE**

Presenting the Union Budget 2022-23, Finance Minister Nirmala Sitharaman announced the setting up of an International Arbitration Centre in GIFT, services for global capital to promote 'green' finance at IFSC and allowing international universities to set up centres offering courses in financial management, fintech and STEM free from domestic regulations.



While there have been investor concerns about GIFT due to the slow pace in easing restrictions, the Indian rupee's free fall, lag in insolvency proceedings, the launch of the IIBX and NSE IFSC-SGX Connect and the promise of an international arbitration centre have spurred renewed inflow of investment in GIFT.

With the launch of the IIBX, the government hopes that India, which is one of the world's largest gold importers, will now be able to set the price standard internationally via the exchange. The IIBX also aims for standardization of gold prices and the elimination of market inefficiencies, thus enabling better organization to India's bullion market. Currently, the Reserve Bank of India has only allowed some banks and nominated agencies to import gold and sell it to dealers and jewellers. IIBX will allow qualified jewelers to directly import the yellow metal as per customer demand.

### **THE CONCEPT OF NATION BUILDING THROUGH COMPARISON WITH THE 3 FINANCIAL HUBS OF THE WORLD NEW YORK, SINGAPORE AND LONDON**

A dominant global financial center has international connectedness, diversity, and expertise in a variety of financial products and services. The Z/Yen Group, a London-based commercial think tank, publishes the Global Financial Centres Index (GFCI) every six months to provide a ranking of the world's top financial centers according to their levels of international competitiveness.

#### **1. NEW YORK CITY**

New York City has long considered itself the center of the world, and even more so of late as globalization has intensified. New York City is now more than ever captive to forces beyond its control. New York City is the prototype for world city theory. The global city idea has intellectual roots in classical human ecology and in theories about the spatial organisation of transnational corporations but the concept's recent history follows New York City's path to recovery from financial collapse in the late 1970s. New York City manufacturing had been declining and services rising since the 1940s. But trickling manufacturing losses in the 1950s gushed into a flood in the late 1960s. The city's manufacturing employment declined 5 per cent a year between 1969 and 1977. Quite unexpectedly, international finance and producer services - banking, securities, insurance, accounting, publishing, film production, management consulting and legal industries pulled New York out of the slump in the 1980s when privatisation and deregulation spurred the global expansion of trade, finance and investment. Manufacturing employment continued to decline and now accounts for less than 9.5 per cent of the city's labour force; finance, insurance and real estate (FIRE), on the other hand, comes to 14.5 per cent and the rest of the service sector adds another 32.6 per cent. Global Control Capability New York's core labour force now creates and supports international financial transactions. The city's financial institutions can transact loans, new securities issues and blocks of stock in any required magnitude. Since most international transactions are negotiated under British or US law, and since negotiations occur where British and US legal experts congregate, foreign banks feel they must maintain a presence in New York City (and in London). For example, policy decisions in the most recent Mexican financial crisis were made in Washington, DC and in Mexico City, but the financial deals and new

market instruments came out of New York City. Producer Services Complex New York City business services are closely tied to the financial services industry. The city's legal industry, the nation's largest, illustrates the point. Each merger, acquisition, hostile takeover, new issue or initial public offering undertaken by Wall Street and the commercial banks requires considerable legal work. Firms specialising in accounting, public relations, advertising, insurance and commercial real estate also help to sustain the financial sector. Demand for prospectuses ties even the city's printing industry to the financial sector. The New Urban Hierarchy New York City's commanding position in the new urban hierarchy is thus indexed by the scope of its international banking operations, the number of city corporations operating in foreign markets, the presence of higher-order financial and producer services and the city's nodal role in international transport, communication and mass media networks. The New Social Regime Economic structure. New York's world city economy is volatile and cyclical. As Wall Street profits go, so go New York City's incomes, and the securities industry's income and employment fluctuate rapidly. Securities accounted for one-third of the city's new private-sector jobs in the 1980s. When the stock market crashed in 1987, securities job losses led the downturn, and regained securities jobs led the recovery in 1992. Extreme wealth concentration. The financial sector's average wage in 1996 was US\$99 700, compared to US\$37 600 on average in the rest of the city economy. Within the financial sector, securities wages averaged US\$169 500-4.5 times more than any other sector. The top 1 per cent of New York tax payers now pay about 65 per cent of the city's property taxes, more than half the business income taxes, almost half the commercial rent taxes and about one-third of personal income taxes. Half the city's business income taxes come from the top 1000 payers, 40 per cent of whom are in the FIRE sector. Because financial firms are so mobile, city policy-makers have difficulty predicting future business growth and face severe competition from other locations seeking the same business. Corporations, through intricate accounting, are able to shift their costs and profits to the sites in their global operations that minimise their taxes, further eroding New York city's tax-base

## **2. TOKYO**

Tokyo Given the differences between Anglo- American liberalism and east Asian develop- mentalism - in history, ideology and political economy, and especially in the relationship between industrial policy and the organisation of finance - it seems reasonable to expect related contrasts in the role each sphere's major cities play in the world economy. Table 1 offers such a contrast by hypothesising two world city types: a market-centred, bourgeois type, modelled on New York City, and a state-centred, political-bureaucratic type, modelled on Tokyo. We provide a brief sketch of Tokyo to establish the contrasting type, and then focus our empirical investigation on another state- centred world city, Seoul, Korea. The global economy is spatially imbedded in Tokyo, to be sure, but Tokyo is not primarily a global basing-point for the operations of stateless TNCs. Rather, Tokyo is mainly a national basing-point for the global operations of Japanese TNCs. Tokyo's relationship to the world economy is not driven in the first instance by market efficiency, but by a strategic concern to preserve national autonomy through global economic power. In Japan, economic power is indexed by the world market shares held by the nation's industries, not by quarterly

dividends and privately accumulated wealth. Tokyo offers corporations global control capability, but the primary vehicle is not private financial and producer services clustered into complexes by market forces. Tokyo's global control apparatus resides in financial and industrial policy networks among public policy companies, banks and industrial enterprises, under the guidance of government ministries like the MOF and MITI. Indeed, by emphasising reinvestment and employment rather than high profits and individual consumption, Japanese policies have actively discouraged growth in the kinds of services distinguishing New York City. The practice of global control in Tokyo has not resulted in a social regime characterised by massive loss in manufacturing jobs, high levels of foreign immigration, extreme wealth concentration and social and spatial polarisation. One-quarter of Tokyo's labour force continues to work in manufacturing (as against less than 10 per cent in New York City), primarily in high-tech, research-intensive pilot plants, and the headquarters of Japan's major manufacturing companies continue to concentrate in Tokyo to be near government ministries. The state tightly controls foreign immigration with an eye to available employment, and the foreign-born represent a minuscule 1.8 per cent of Tokyo's population, compared to 28 per cent in New York City. In contrast to New York City's dualism, Tokyo's occupational structure is compressed around the median, the middle strata encompass most city residents, and the extremes in wealth concentration and impoverishment found in New York are missing.<sup>17</sup> Tokyo's commanding place in the world urban hierarchy is not determined by the city's ability "to attract global investments", but by the ability of Tokyo companies to generate earning from abroad.<sup>iii</sup>

Hill, R. C., & Kim, J. W. (2000). Global Cities and Developmental States: New York, Tokyo and Seoul. *Urban Studies*, 37(12), 2167–2195. <http://www.jstor.org/stable/43196494>

**London ranked first as the most attractive financial centers worldwide for 2023 by the CEOWORLD magazine, followed by New York and Singapore.**

The ranking is based on an index for global financial hub rating, in which many factors are integrated. London scored 960 points, followed by New York, with 957 points. Hong Kong was fourth in the latest International Financial Centers Ranking, and Amsterdam was fifth.

Zurich was 6th, with Tokyo, Paris, Luxembourg, and Munich rounding out the top 10. What are the factors that separate mere bustling metropolises from international financial centers?

**International Financial Centers Index** ranks the competitiveness of global financial hubs based on assessments from a questionnaire together with over 50 indices from organizations such as the Organisation for Economic Co-operation and Development (OECD), the World Bank, and the Economist Intelligence Unit. International Financial Centers Index, compiled by the CEOWORLD magazine, ranks 115 global financial centers and uses data collected from thousands of financial services professionals and global bankers responding to the questionnaire.

A financial hub or center is a city or region with a strategic location in the financial industry. A place where various financial sector participants, such as banks, trading companies, stock exchanges, and other institutions, are concentrated in one area. Financial centers can be characterized by a solid infrastructure, stable regulatory and political environments, attractive taxation rules, and the availability of various opportunities to help trade and business growth.

According to a survey carried out by the CEOWORLD magazine among financial services professionals and global bankers in 2023, the most critical factors determining the competitiveness of a financial center were business environment, reputation, and infrastructure.

Index provides evaluations of future competitiveness and rankings for 115 financial centers around the world. **Not surprisingly, London again topped the list (as it was in 2022), and New York took the number two spot, followed by Singapore and Hong Kong.**

The ranking is based on a global online survey of 220,000 financial professionals and international bankers, who evaluated 900 cities on 50 factors in 7 broad areas of competitiveness, including business environment; size & volume of financial activities; capital market size; human capital availability; a base for business; reputation; and international wealth management. London held on to the top spot with 960 points, while New York dropped 3 points to 957, just one point ahead of Singapore.<sup>iv</sup>

### **CONCLUSION**

GIFT City project in India stands as a remarkable testament to the country's aspirations of becoming a global financial and business hub. With its strategic location, state-of-the-art infrastructure, and supportive regulatory framework, GIFT City has successfully attracted significant investments from domestic and international sources, propelling India's economic growth and national development.

GIFT City's ability to attract renowned global companies and financial institutions has positioned India as an attractive destination for international investments. The project has brought in substantial capital, expertise, and technology, contributing to the expansion and advancement of India's financial sector. The inflow of foreign direct investment into GIFT City has not only boosted the economy but has also created employment opportunities and facilitated the upskilling of the workforce, fostering socio-economic development.

Moreover, GIFT City's development has far-reaching effects on national building. The project has acted as a catalyst for overall infrastructure development, fostering sustainable urban planning and modern facilities. Through collaborative efforts between regulatory bodies, financial institutions, and industry associations, GIFT City has laid the foundation for a world-class financial ecosystem. This concerted approach has not only enhanced India's standing as a global financial center but has also demonstrated the country's commitment to innovation, attracting investments, and promoting good governance.

The project's emphasis on corporate governance has ensured transparency, accountability, and investor protection. Robust regulatory frameworks, with the involvement of national regulatory bodies, have instilled confidence in the financial system operating within GIFT City. Adherence to global best practices in corporate governance has created a conducive business environment, enabling companies to operate with integrity and efficiency. This commitment to good governance has enhanced India's credibility in the international business community and positioned GIFT City as a reliable and trustworthy financial hub.

Additionally, GIFT City's impact extends beyond the financial sector. It has facilitated the growth of ancillary industries, fostered innovation, and promoted sustainable practices. By nurturing a culture of knowledge sharing, skill development, and entrepreneurship, GIFT City has emerged as a center for continuous learning and growth.

the GIFT City project has played a pivotal role in India's pursuit of becoming a global financial powerhouse. Through its ability to attract investments, foster national development, and uphold corporate governance standards, GIFT City has made significant contributions to India's economic growth and development. As the project continues to evolve and expand, it is poised to shape India's future as a leading international financial and business hub, driving innovation, creating employment opportunities, and contributing to the nation's overall prosperity.

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