

GIFT CITY-INDIA'S ANSWER TO AN OFFSHORE FINANCIAL HUB- A CASE STUDY**Dr. (Mrs.) Sadhana Singh¹ and Dr. (Mrs.) Archana Nair²**¹Assistant Professor, Vivekanand Education Society's College of Arts, Science & Commerce (Autonomous),
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Thane¹sadhana.singh@ves.ac.in and ²asnair@vpmthane.org**ABSTRACT**

At its most basic level, offshore finance is the delivery of financial services to non-residents by banks and other agencies. These services consist of lending to and borrowing money from non-residents. Lending to businesses and other financial institutions that are financed by obligations owed to branches of the lending bank located abroad or to market players can be one way to do this. It can also take the form of receiving deposits from people and using the money to make investments in other financial markets. Gujarat International Finance Tec -City (GIFT) is India's answer to the global financial hub and markets. Nestled in Gujarat, GIFT City is an experiment in free markets for a country like India that has long been hesitant to allow its national currency, the rupee, to be fully convertible. The objective is to provide an inviting location where India-centric trade that has relocated to Dubai, Mauritius, or Singapore can return. GIFT City offers many incentives like 100 per cent tax holiday for a decade to businesses that set up within the hub's International Financial Services Centre, (IFSC). Also, with NSE shifting SGX NIFY to its International Exchange here and renaming it as GIFT NIFTY, the prospects for cross border trade and finance has increased. In this background, the researchers propose to analyse the concept, infrastructure, and prospects of GIFT City making India an International Finance HUB. An exploratory Case Analysis Method is used to study the role and impact of GIFT City on Indian Economy and its presence in the World Markets.

Keywords: GIFT City, Offshore Finance, IFSC, GIFT NIFTY, Indian Economy

1. INTRODUCTION

Gujarat International Finance Tech-city (GIFT) SEZ is India's first International Financial Services Centre (IFSC) under Special Economic Zone Act, 2005 ("SEZ Act 2005"). It is being developed as a global financial services hub. GIFT IFSC is a Multi Services Special Economic Zone with 105 hectares of land and commenced its business in April 2015.

Government of India operationalized International Financial Services Centre (IFSC) at GIFT Multi Services SEZ in April 2015. The Union Budget 2016 provided a competitive tax regime for the IFSC at GIFT SEZ. It is the vision of the Hon'ble Prime Minister that GIFT IFSC emerges as a hub for international financial services activities. The key advantages in the creation of GIFT city are as listed below:

- Creation of an estimated 500,000 direct jobs and an equal number of indirect jobs.
- Providing financial incentives, regulatory freedom and world-class infrastructure.
- World class infrastructure and unparalleled connectivity and transportation access.
- Strict adherence to environmental norms, with built-in technologies for a sustainable ecosystem.
- National and international hub of IT and ITeS companies, finance companies, commodity exchange, global trading, insurance, offshore banking and data centres among others.

The present research paper is an attempt to illustrate the role and impact of GIFT City in catering to global and domestic business enterprises. The future prospect of setting an international benchmark for finance and

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technology hubs worldwide and being Indian flag bearer for smart cities and global business is the key element of study.

2. STATEMENT OF THE PROBLEM

The research paper aims to probe into the significance of Cutting-edge technology combined with global practices in infrastructure service delivery at GIFT City making it a smart city with international standards. The researcher has tried to analyse the role and importance of GIFT SEZ and International Financial Service Centre (IFSC) on the Indian economy and global markets.

3. OBJECTIVE OF THE STUDY

The present study aims to highlight the significance of GIFT city in the economic and financial development of Indian markets. In this broader framework, an attempt is made to achieve the following specific objectives:

- To analyse the areas of business and prospects at GIFT City making India an International Finance HUB
- To identify the similarity and differences of GIFT City IFSC with other financial centers like Singapore on the basis of certain parameters
- To understand the significance of establishing a corporate entity in GIFT City
- To identify the growth in volume of Eco-system and business operations at GIFT City IFSC since its inception

4. SCOPE OF THE STUDY

GIFT City has a multi-service Special Economic Zone (SEZ) housing the country's first International Financial Services Centre (IFSC) that provides corporations with easier access to global financial markets and caters to the requirements of international financial services. It also has a Domestic Tariff Area (DTA) which refers to areas outside the SEZ within the country. GIFT hosts India's first and only IFSC which is eligible for special tax benefits apart from regular SEZ benefits like - 100% tax exemption for 10 consecutive years out of 15 years. An exploratory Case Analysis Method is used to study the role and impact of GIFT City on Indian Economy and its presence in the World Markets.

5. LIMITATIONS OF THE STUDY:

1. The current paper is based on secondary data and an attempt has been made to evaluate the GIFT City based on only few selected parameters
2. A detailed sector wise study was not done due to time constraint
3. The inferences made are based on the current infrastructure and available data as per the present period.

6. REVIEW OF LITERATURE

Parmar et.al. (2018) describes the impact of GIFT City and its key physical infrastructure. The paper aims to study the various infrastructure facilities which could be further incorporated into the many smart city projects in India. The research paper defines a suitable framework for the current status of infrastructure, parameters and impact for a financial and technological hub like GIFT city.

Mathur et.al. (2019) aims to study the Gift City Infrastructure, the public and private institutional goals and governance. The research paper highlights the new institutional forms, for example those in the Sabarmati Riverfront Development Project and the GIFT City, have become instruments of public decision, exerting control over Ahmedabad's budgets, and therefore manifestations of elite capture of public resources.

Desai Nithin and Associates (2020), in their detailed study explored the opportunities in the Gift City in terms of offshore funding. They examined the scope of setting up funds in this new offshore financial centre. In their legal research an in-depth analysis is done on the Legal and taxation regime in the GIFT City. They have also explored the scope for Alternative Investment Funds and the SEBI guidelines of IFSC.

7. RESEARCH METHODOLOGY

An exploratory Case Analysis Method is used to study the role and impact of GIFT City on Indian Economy and its presence in the World Markets. The secondary data is gathered from relevant research journals, websites, published and unpublished sources etc. Some ideas have been taken from the ministry of commerce website and tweets of Union Minister of Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles, Shri Piyush Goyal about the the functioning of the GIFT Special Economic Zone and issues with respect to regulatory aspects of operation of SEZ and the office of the DC GIFT in Gujarat.

8. CASE STUDY

Gujarat International Financial Technology City (GIFT City) is an 886-acre multi-service Special Economic Zone (SEZ) that includes India's first notified International Financial Services Center (IFSC) and an exclusive Domestic Tariff Area (DTA). It is positioned as a financial and technical centre aimed at customers outside of Indian territory.

GIFT City was conceived in 2007 with the primary goal of creating a world-class zone for the long-term provision of office/service accommodation as well as high technological, economic, and commercial infrastructure. GIFT City provides cutting-edge connectivity, infrastructure, and transportation access.

Legally, the IFSC is a distinct jurisdiction that conducts foreign currency financial services. Entities operating in the GIFT City benefit from a strong regulatory framework, a business-friendly climate, tax breaks, liberalized cross-border transaction services, and simple access to currency conversion services, among other things.

The IFSC entity (IFSCA) was founded in 2019 as a unified entity for regulating financial services in the IFSC. The IFSCA now serves as a uniform regulator for the development and regulation of financial products, financial services, and financial institutions in India's IFSC.

8.1 Areas of business at GIFT City

GIFT City provides advantages to a variety of enterprises, which can be divided into two categories: financial services and allied services. GIFT City hosts the following financial services:

8.1.1 Banking: GIFT City provides advantages to a variety of enterprises, which can be divided into two categories: financial services and allied services. GIFT City hosts the following financial services:

- Open foreign currency accounts of persons resident in India and persons resident outside India.
- Accept deposits from Qualified Individuals (QIs), Qualified Resident Individuals (QRIs) and other entities.
- Lend in the form of loans, trade finance and acceptances, commitments and guarantees, credit enhancement, credit insurance, and portfolio sale and purchase.
- Undertake inter-bank borrowings and lending.
- Undertake investments, including subscribing, acquiring, holding, underwriting or transferring securities or such other instruments, as may be specified by the Authority, as principal or agent.

8.1.2 Capital Market: GIFT City also provides capital market solutions to clients all around the world. It also provides institutional and high-net-worth individuals with direct access to equities, commodity, and currency derivatives markets. In GIFT City, the following types of capital market intermediaries are permitted to operate. Stock Exchanges, Commodity Exchanges, Clearing Corporations, Depository, Stockbrokers, Investment Advisors, Portfolio Managers, Mutual Funds, AIFs and other financial services are permitted to operate in GIFT City. IFSCA has authorized the establishment and provision of these services by broker-dealers, clearing members, investment bankers, and portfolio managers, among others.

International Journal of Applied Engineering & Technology

8.1.3 Fund management: Another financial service housed at GIFT City is Fund management. The Fund Management Entity (FME) can launch any of the following schemes at the IFSC, depending on the category of license it holds.

- Venture Capital Scheme
- Restricted Schemes (Non-Retail Schemes) offered under a private placement
- Retail Schemes of a minimum size over \$ 5 million.
- Special Situation Funds

8.1.4 Insurance: Foreign insurers and Indian insurance businesses possessing a No-Objection Certificate from their home authority can open an insurance office in the IFSC. These insurance offices can provide direct insurance for offshore direct insurance business, including direct insurance business from global subsidiaries of Indian conglomerate companies/individuals located anywhere in the world. It can also provide offshore reinsurance business for insurers located in any offshore location, insurers in the IFSC, and business emerging from India according to Insurance Regulatory and Development Authority of India regulations.

8.1.5 Financial Company: A finance company or financial unit is also permitted to operate in IFSC to provide core activities and non-core activities. Some of such activities are listed below.

Core activities

- Lend in the form of loans, commitments and guarantees, securitisation, and sale and purchase of portfolios
- Factoring and forfeiting of receivables
- Undertake investments, including subscribing, acquiring, holding, or transferring securities
- Buy or sell derivatives
- Global/Regional Corporate Treasury Centres

Non-Core activities

- Merchant Banking
- Registrar and Share Transfer Agent
- Trusteeship services
- Investment Advisory services
- Portfolio Management services

Global In-House Centres, airplane leasing and financing, bullion exchange, foreign universities, and ship leasing are among the linked services hosted in GIFT City.

8.2 GIFT City vs Singapore

GIFT City IFSC is at par with other financial centres in terms of *Unified regulatory authority, Competitive tax regime comparable to treaty jurisdictions like Singapore and Mauritius, Relaxed company law, Strategic time zone, international arbitration centre*. The essential question remains whether GIFT City can replace Singapore as the next sought after global financial hub. A comparison is made between the two for further analysis on the parameters of:

8.2.1 Market access is an important consideration for stockbrokers while choosing a location. Singapore and GIFT City IFSC possess distinct markets characterized by varying regulatory frameworks and market structures. Singapore boasts well-established financial market supported by an advanced regulatory structure and the ability to reach international markets. In Singapore, stockbrokers have the opportunity to engage in trading various

financial instruments such as equities, fixed income, derivatives, creating a market with diverse options. However, Singapore's financial market is comparatively limited when compared with larger global financial hubs like New York and London.

On the other hand, GIFT City IFSC provides access to India's financial market, which is recognized as one of the world's rapidly expanding economies. With an expanding middle-income population, India experiences an increased need for financial products like insurance, mutual funds, and equities. Stockbrokers within GIFT City IFSC have the opportunity to enter the Indian market through the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). Furthermore, due to the substantial population in India without access to banking services opens doors for inventive financial solutions. Consequently, stockbrokers aiming to leverage India's market expansion prospects might find GIFT City IFSC more appealing than Singapore.

8.2.2 Regulatory Framework

An essential aspect stockbrokers need to take into consideration when choosing a location is the regulatory structure. Singapore is recognized for its rigorous regulatory system, which provides extensive safeguards for investors. The Monetary Authority of Singapore (MAS) considers all financial entities in the country, ensuring their maintenance to stringent guidelines regarding risk control, safeguarding consumers, and upholding market credibility. Moreover, the MAS has introduced measures to combat money laundering and the financing of terrorism, thereby reducing the potential for fraudulent activities within the financial domain.

On the other hand, the regulatory system in GIFT City IFSC is quite flexible compared to Singapore. The anticipation of financial entities within GIFT City IFSC is carried out by the International Financial Services Centre Authority (IFSCA), which has adopted a more adaptable regulatory structure aimed at enticing foreign investors. Additionally, the IFSCA has introduced fiscal advantages such as tax incentives, including exemptions from taxes on earnings stemming from global transactions, thereby alleviating the tax responsibilities for stockbrokers.

8.2.3 Tax Incentives

A significant benefit of GIFT City IFSC in comparison to Singapore is the tax perks. The Indian government has introduced multiple tax incentives to allure foreign investors to GIFT City IFSC. As an illustration, enterprises functioning within GIFT City IFSC are not subject to taxes on earnings developing from global transactions. Additionally, the Indian government has introduced a low tax rate of 9% for businesses operating in GIFT City IFSC, lower than the tax rates prevailing in Singapore.

On the contrary, Singapore levy a greater tax rate compared to GIFT City IFSC. Singapore's corporate tax rate stands at 17%, surpassing the tax rate in GIFT City IFSC. Additionally, Singapore enforces a Goods and Services Tax (GST) of 8% on goods and services vended within the country.

8.3 The significance of establishing a corporate entity in GIFT City

Financial companies, investors, and service providers will benefit from the area's planned infrastructure, streamlined bureaucracy, and digitized ecosystem in the following ways:

- **Ease of doing business:** Single window clearance, all approvals under one umbrella allotment / planning / construction / occupancy
- **Duty relaxation:** Gujarat state exemption from stamp duty and registration charges
- **Incentives:** Gujarat state's provision of development incentives; payment schedule linked to development
- **Setting up:** Plug & play infrastructure
- **Comparable cost efficiency:** 20 percent reduction in operating costs and sustainable development model
- **Gujarat IT/ITeS Policy incentives:** EPF reimbursement, lease rental subsidy, power subsidy, etc.

International Journal of Applied Engineering & Technology

- **Talent sourcing:** Premier institutions in Gujarat include IIM Ahmedabad, MICA, CEPT University, GMU, Entrepreneurship Development Institute of India, National Institute of Design, NIRMA University, NIFT, Gujarat National Law University, Pandit Deendayal Energy University (PDU), Lalbhai Dalpatbhai College of Engineering, NIPER-A (National Institute of Pharmaceutical Education and Research), etc.

8.4 Growth in volume of Eco-system and business activity at GIFT City IFSC

<i>Sr no.</i>	<i>Participants</i>	<i>Key business activities and features</i>	<i>Volume and No. of players</i>
1	International Stock exchanges and Bullion Exchange	<ul style="list-style-type: none"> • Dollar denominated products. • No transaction cost (other than brokerage) • Trading-22 hours 	<ul style="list-style-type: none"> • India INX and NSE IFSC stock exchange • Avg. Daily volume crossed USD 14 Bn+ • Bullion vaults
2	IFSC Banking units	<ul style="list-style-type: none"> • External Commercial Borrowing (ECB) Lending • Loan syndication and trade finance 	<ul style="list-style-type: none"> • 23 IBUS • Banking Asset size - USD 22 Bn+
3	Brokers & Intermediaries	<ul style="list-style-type: none"> • Broking services • Proprietary trading 	<ul style="list-style-type: none"> • 50+ brokers, Depository • Clearing corporations, Custodian
4	Insurers & Intermediaries	<ul style="list-style-type: none"> • Non-life, Reinsurance business • Insurance intermediaries 	<ul style="list-style-type: none"> • 20+ Insurance and Reinsurance Firms • Sum insured - USD 30 Bn+
5	Ancillary Service providers	<ul style="list-style-type: none"> • Legal & consultancy firm • IT companies 	<ul style="list-style-type: none"> • 30+ Accounting, Legal and Consultancy Firms
6	Leasing activities	<ul style="list-style-type: none"> • Aircraft leasing 	<ul style="list-style-type: none"> • 15+ Firms
7	Fund Management	<ul style="list-style-type: none"> • Alternative Investment Funds 	<ul style="list-style-type: none"> • 40+ AIF
8	IT	<ul style="list-style-type: none"> • Fintech 	<ul style="list-style-type: none"> • 20+ Fintech Entities

Source: <https://wirc-icai.org/images/material/GIFT-City-Vipul.pdf>

9. OBSERVATIONS & CONCLUSION

9.1 OBSERVATIONS

9.1.1 *Unwrapping GIFT City:*

Business activity in India's offshore financial hub has surged after the IFSCA took charge as its unified regulator in October 2020

Particulars	September 2020	February 2023
No. of registered firms	129	450
Employment in GIFT SEZ	8000	20000
No. of banks	14	23
Asset size of banks (in \$ br)	14	36
Cumulative banking transactions (in \$ bn)	45	407

Source: <https://wirc-icai.org/images/material/GIFT-City-Vipul.pdf>

9.1.2 Gateway of Foreign Capital

The presence of GIFT City answers the questions well Why should the ecosystem to invest in India sit outside India? It should sit inside India. Ease of access to the financial set up at GIFT has resulted in as many as 140 entities having registered at the International Financial Services Centre (IFSC) in fiscal 2023, including financial majors like Morgan Stanley, MUFG Bank, BNP Paribas, JP Morgan, and Deutsche Bank.

9.1.3 Impact on the Indian Start-up economy:

Significant foreign investments can be attracted which can help provide Indian startups and access to much needed funding for growth and expansion. Tax incentives, Streamlined Regulatory procedures, single window clearance system which can help in doing business easier for startups. Highly skilled professional pools can fulfil the requirements of searching for talent pools for the start-ups.

Exposure in International Markets, Environmental sustainability and energy efficiency, Financial Incentives, World - class infrastructure, skilled workforce, large consumer markets provides a favourable environment with access to grow and succeed.

9.1.4 Tax Heaven:

The intention of the Government is to make GIFT City a tax haven of India so that investors from all over the world can turn to India. Companies and institutions all over the world investing in GIFT City have exemptions in terms of:

- Range registration fees & GST benefits
- 100% tax exemption
- Minimum alternate Tax at 9%
- No CTT/STT/GST/ Stamp Duty
- No capital Gains Tax

9.2 CONCLUSION

GIFT City, the green field project of the country, is a gateway to connect India with global opportunities. Vision to create a financial centre that can compete with London, Tokyo Shanghai etc. It Consists of a multi service SEZ and an exclusive Domestic Tariff Area. SEZ houses India's 1st International Financial Service Centre, treated as an offshore jurisdiction having Unified regulation framework and cost advantages for the financial players interested in administering international financial operations.

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