Indian Economy · GS - III

Assess the potential of GIFT City to emerge as a global financial and commodity trading hub. What institutional and market-related reforms are necessary to achieve this objective?

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
15	~250 words

Answer Hint

International Financial Services Centre, GIFT City, IFSCA, global commodity markets, trade finance, derivatives market, liquidity, taxation, regulatory framework, financial infrastructure, skilled workforce, Singapore and Dubai, ease of doing business.

Model Answer

Introduction

Gujarat International Finance Tec-City (GIFT City) is India's initiative to develop an internationally competitive financial services hub. Its International Financial Services Centre (IFSC) seeks to attract global financial activities, including banking, insurance, capital markets and commodity trading.

Potential of GIFT City

1. **Global Financial Integration:** It can attract international financial institutions and facilitate cross-border financial transactions.

2. **Commodity Trading:** Recognition of commodity trading contracts as financial products can expand opportunities in derivatives, hedging and international trade.

3. **Capital Retention:** It can encourage Indian financial institutions and trading desks to operate from India rather than established overseas centres.

4. **Employment and Investment:** Expansion of financial services can generate skilled employment and attract foreign investment.

Major Challenges

- **Trade Finance:** Commodity trading requires specialised financing, insurance, warehousing and settlement infrastructure.
- **Market Liquidity:** Deep and liquid derivatives markets are essential for price discovery and efficient risk management.
- **Tax Competitiveness:** Regulatory and taxation frameworks must remain competitive with established financial centres such as Singapore and Dubai.
- **Institutional Capacity:** Availability of skilled professionals, global connectivity and investor confidence is equally important.

Way Forward

India should strengthen trade finance institutions, deepen commodity derivatives markets, simplify regulatory procedures and maintain predictable taxation policies. International partnerships and robust dispute-resolution mechanisms can further improve investor confidence.

Conclusion

GIFT City offers an opportunity to strengthen India's position in global finance and commodity markets. Its success will depend not merely on regulatory incentives but also on liquidity, financial infrastructure and sustained international competitiveness.

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