

Istanbul Financial Center

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Abstract: This study addresses the financial centers, which have a significant role in the global economy, and in which financial service providers such as banks, investment managers, financial advisors, stock markets and all kinds of financial institutions intensely take place. International financial centers such as London and Frankfurt have turned into financial centers where the most popular financial institutions of the world are located and therefore financial instruments are used the most. As a result of the change and the transformation in Turkey especially for the last twenty years, in 2009, the developments of Istanbul Financial Center (IFC) have started with the aim to increase value added in the economy and the economic growth and within the scope of these developments Istanbul will be an important financial center in a few years.

Keywords: International Financial Center, Istanbul Financial Center, City of London, Frankfurt as a Financial Center, Financial and Legal Privileges

1. Introduction

Financial Centres have become a center of attraction in different regions, countries, or some parts of them in parallel with the development of commercial life. Some centers, large and small, located in many cities or regions have managed to stand out from the past to the present. Especially with the industrial revolution that took place in the 19th century, these centers started to change with the increase in globalization, new financial centers also emerged.

As one of the cities that are occurred firstly when the financial center is mentioned, London has managed to stand out among financial centers with its structure that keeps up with innovations and trends in both its past and modern times.

The Frankfurt has always maintained its place and importance as one of the most economically respected countries of the European Union (EU) and the most important financial center in Europe after London. However, Frankfurt has become the EU's most important financial center, especially after London's Brexit process.

Turkey has been found attractive by the international financial windows by becoming a regional political centre as much as it draws attention globally with its considerably growing economy for the last twenty years. In addition, Istanbul, as the financial and commercial city of the country, has become a more prominent with the commence of the Istanbul International Financial Center Project (IFC). Indeed, the project in question has the potential to affect Turkey's financial system and the financial sector and to become a driving factor in the economic growth of the country.

Due to Turkey's being a Muslim country, so allow the Islamic banking and finance services, but also other countries which attribute importance to Islamic banking will become the center of attraction in a short time. In this context, first, the definition and classification of financial centers will be included for the city of Istanbul to become a regional and international financial center. Then, the City of London and the Frankfurt as a Financial Center and the privileges that highlight these centers will be touched upon. Finally, the IFC will be reviewed by giving information about the exercises of the IFC.

2. Financial Centers

2.1. The Definition of Financial Centers

Financial centers may be defined as regions where many local and international commercial transactions take place, generally have the most developed trade and communication infrastructures, and where transportation services are differentiated. Financial centers may appear as a region inside the city, a designated area outside the city, sometimes a city itself, and rarely larger than regions. However, within the scope of the doctrine, there is not a single definition accepted by everyone on the subject.

Financial centers may also be defined as centers where financial transactions take place in a region, country, or a specific geography where financial service providers such as banks, investment managers, financial advisors and stock exchanges and all kinds of financial institutions intensively coexist (Cassis, 2005, p.1).

According to a different definition, financial centers are generally defined as cities or geographical areas where important roles in the local economy are played, the place in the gross national product or the ratio of employment in the national income and/or financial services class to the employment of the country is significantly higher (Lannoo, 2007, p.1).

The financial center is also defined as a region where financial concepts converge, local and international banks and institutions operate in largely common, and securities are bought and sold (Gündoğdu and Dizman, 2003, p.2).

2.2. Types of Financial Centers and Classification

Financial centers are generally classified according to the financial size of the city or country or center. Today, financial centers have been classified (Lannoo, 2007, p.1) by the International Monetary Fund (IMF) and this analysis was also included in the Mumbai International Finance Center study conducted by the Ministry of Finance of the Government of India (Balachandran, 2007, p.7-8).

Accordingly, it is possible to categorize the financial centers *as international financial centers, regional financial centers, off-shore financial centers and product-based financial centers.*

International Financial Centers (IFC) are international and fully equipped centers that support their large and local economies with voluminous liquid markets, have different resources and funds, enhanced settlement plans and advanced payment systems, legal and regulatory framework to protect the relation between the owners and financial institutions and to control mechanisms. Examples given by IMF on this issue are as follows: London, New York, and Tokyo.

The markets and infrastructures of the regional financial centers (RFC) have developed as in international financial centers, but to a more limited extent. These centers provide an average amount of money in and out of their region, but unlike IFCs, they have smaller local economies compared to them (Öztangut, 2007, p.2). Examples given by the IMF on this issue are as follows: Hong Kong, Singapur, and Lüksemburg.

Off-shore financial centers (OFC) are generally small centers that provide private and exclusive services. In 2000, 46 OFC was listed by IMF. The largest of these are, the Caribbean (including the Cayman Islands and the British Virgin Islands), Hong Kong and Singapore.

The product-based markets appear as financial centres that is not included in the studies of the IMF but exercised in practice. These types of structures focus on specific operations and services due to their status. Examples given on this issue are as follows: Zürich, Dublin, and Lüksemburg.

The national financial centers are particularly situated where international transactions of the country are intensive and where the cross-border transaction scale is much higher than other cities of the country. Riga, Warsaw, and Budapest are examples of these financial centers.

3. The City of London and Frankfurt as a Financial Center

3.1. The City of London

London is highly developed in terms of business and finance sectors due to its important location. Although the first concept of banking field emerged in Italy, London was one of the places where the first examples of modern banking were established. Since the 17th century, the superiority of the United Kingdom in maritime has been reflected in trade and economy. Thus, London has become a substantial center in the world, especially in the field of commerce.

Regarding the competitiveness of financial centers, the Global Financial Centers Index, which is described as a highly recognizable and prestigious assessment study index, listed the criteria under 5 distinct major titles, such as business environment, human resources, infrastructure, development level of financial sector, and the reputation of the city/center (Z/Yen – China Development Institute, 2019).

However, the study of “Evaluation of Potential Istanbul International Financial Center” which is prepared by the Banks Association of Turkey in October 2007, addresses the situation of Istanbul as a financial center against its possible competitors based on the factors listed below (Türkiye Bankalar Birliği, 2019):

- 1) The Capacity of Revenue-Generating,
- 2) Qualified Workforce,
- 3) Public Opinion,
- 4) Legislative Framework,
- 5) Stabilization of Policy and Economy,
- 6) Financial Conditions,
- 7) Regulatory Framework,
- 8) Economic Infrastructure,

9) Simplicity of Doing Business,

10) Life-style,

11) Cost of Doing Business.

Thus, it is understood that the evaluations made at international and national level contain some common criteria. Criteria such as regulations, legal environment, qualified workforce, access to customers to international financial markets, financial environment, infrastructure, access to professional service providers, culture, language, quality of life, quality and number of corporate offices should be emphasized specifically for London. It stands out compared to other financial centers.

3.2. Frankfurt as a Financial Centre

Financial centers may be composed of more than one institution and/or organization and/or company. Frankfurt as a Financial Center is also subject to this definition and includes organizations or companies such as Central Bank, Banks, Stock Exchange, Economic Operators, Supervisory Boards, FinTech's, Regulatory Committee of Capital Market, European Insurance Authority, European Systemic Risk Board, Audit Companies, Fund Companies, Rating Agencies, Law Offices.

The competence of the Frankfurt as a Financial Center in matters such as its location, sociological structure, the events that took place in history, the simplicity of capital market regulations in Germany, the importance of capital flow, the use of new financial instruments in developed countries, know-how, monetary stability, innovations, retirement market, Capital Markets Incentive Law, technology, qualified workforce, expansion of the product range, give it the right to status as an international financial center. However, it must be stated that Frankfurt as a Financial Center still has shortcomings to able to be an international financial center due to its not being a metropole because of population, the abstention in financial services and stock markets, and the division of the leadership of the financial center since Berlin was the leading financial center at a time in German history.

In addition, due to the large number of companies operating in the branch of finance, Frankfurt as a Financial Center has taken its place as the leading financial center in Germany and among the most important international financial centers worldwide.

Due to the large number of new instruments in Frankfurt, the product range has also expanded significantly. And moreover, the liquidity of investments is increasing due to

the constant renewal of the market volume. The required infrastructure in terms of backers such as qualified workforce or international law offices are provided by the regulations in the fields of technical and organic and the increase of efficiency (Landesbank Hessen–Thüringen, 1994, p.15).

4. Istanbul Financial Center

4.1. Developments of Istanbul Financial Center

Istanbul is one of the ancient cities, which was the capital of Ottoman Empire and on which there are trade routes such as SilkRoad. As a result of the change and the transformation in Turkey especially for the last twenty years, in 2009, the developments of Istanbul Financial Center have started with the aim to increase value added in the economy and the economic growth (Kalkınma Bakanlığı, Onuncu Kalkınma Planı, p.1). IFC Strategy and Action Plan was entered into force through the publication in the Official Gazette dated 2 October 2009. Following this date, the construction has started in Istanbul's Umraniye district to construct a symbolic building. This building will take place on an area of 2.5 million square meters and will consist of four zones. In these four zones, especially buildings which belong to private institutions and audit institutions; a culture and congress center and hotels and residences; school, mosque, police, and fire stations which are support and service units will be constructed (İstanbul Üniversitesi Sermaye Piyasaları Araştırma ve Uygulama Merkezi, 2012, p.3).

Afterwards in Tenth Development Plan (2014–2018), Istanbul International Financial Center Program Action Plan has been prepared, accepted, and accelerated. The construction of the symbolic building of IFC is continuing and is planned to due by 2022. Especially Action Plan in Tenth Development Plan has aimed at acceleration and completion of both legal and infrastructure reforms of IFC. The aim of the IFC project is both Istanbul and Turkey to have an important role in leading the regional and global capital (Karagöl, Koç and Kızılkaya, 2017, p.12).

4.2. General Structure of Istanbul Financial Center and Assessment

The importance of political stability for countries is to ensure predictability to the economic investments. The rule of law in democratic countries and the political stability especially secure foreigners' investments to the country and the increase in the number of foreign corporations.

The economic growth as much as political environment in Istanbul and Turkey fell behind compared to European countries due to the governance of coalition governments and the failure of ensuring the consistency and persistency of policies between coalition

governments before the 2000s. Following the economic crisis of 2001, Istanbul has become an important center especially for the banking sector because of the economic growth of Turkey with the strict precautions taken and improvements regarding the economy and banking sector (Gündoğdu and Dizman, 2003, p.5). Since the political development is a phenomenon which leads to an economic growth, IFC will be able to compete with other financial centers soon because Turkey considerably has ensured the political stability and the improvements such as justice taxation.

Banking Regulation and Supervision Agency (BRSA) in banking sector, Capital Markets Board (CMB) in capital markets, Public Oversight Accounting and Auditing Standards Authority in accounting and Competition Authority in competition are the regulatory and supervisory authorities in Turkey. These authorities which improves and prepares the secondary legislation lead the sectors and lawmakers in regulations. Furthermore, since Turkey's application for EU membership is still valid, as a candidate the process of Turkey's internal legislation's compliance with EU legislation is still in progress. As a result of this, Turkey follows the developments at international level and especially the EU legislation. However it is important to note that Turkey aims to follow the international developments in financial sector to catch up with the trends which matters a lot for Istanbul. With the recent fintech and crowdfunding developments, Turkey's fintech ecosystem has the tendency to grow and the amount invested in fintech has increased from 4.6 million dollars in 2012 to 29 million dollars in 2016 (Deloitte Türkiye, 2020).

To ensure justice in taxation and to enhance the predictability in taxation legislation is particularly important for foreign investors. Turkey's double taxation agreements with more than one country is a positive factor for Istanbul. However, in practice it is believed that financial sector will progress more with the product-based taxation legislation (Karagöl, Koç and Kızılkaya, 2017, p.12).

Turkey has more youth population compared to EU countries. The population of Turkey in the 15–64 age bracket was increased from 66,5 % in 2007 to 67,8 % in 2019 and median age of Turkey has become 32,4. As it is seen Turkey has a large working-age population and a dynamic population (TÜİK, 2020). The existence of workforce, especially the youth workforce in Turkey hinder the cost of transferring the workforce from other countries (Biri, 2013, p.63).

Extending and cheapening the internet and other technological services throughout Istanbul within the scope of technological infrastructure activities will result in positive outcome (TSPAKB, 2020, p.36). In this technology age, the internet's slowness or it is

being at the non-expected value will cause the loss of competition. As a result of this within the scope of IFC, the works to supply cheap and fast internet including fiber internet must be carried out.

The public transportation infrastructure has considerably accelerated in the recent past and there are a lot of projects which are completed and to be completed. The acceleration of subway investments and enhancing public transportation is an important factor for working people. In the recent past, completion of a lot of transportation projects such as Marmaray, Kadıköy- Tavşantepe Subway Line, Üsküdar- Çekmeköy Subway Line is an important development for IFC. As a result of this, the increase of subway and public transportation investments in a planned way would contribute IFC in a considerable amount.

Istanbul has been developed in the areas of construction and zoning in the recent years. Especially the districts and neighborhoods such as Levent, Maslak, Ataşehir and Ümraniye are the regions in which the construction of offices and the headquarters of corporations intensely take place. Especially Ümraniye has a big importance due to its hosting the symbolic building of IFC.

According to “The Strategy and Action Plan of Istanbul International Financial Center” which was prepared by the High Planning Council (“HPC”), Istanbul will be regional financial center in 10 years, global financial center in 30 years. Pursuant to the Strategy and Action Plan, IFC is a long termed and continuous project. Enhancing the legal infrastructure, increasing the diversity of financial product and services, developing simple and efficient taxation system, advancing regulatory and supervisory framework, enhancing physical infrastructure, establishing organization structure, and improving the human resources lay under the success of this project.

To clarify, Turkey’s competition power’s increase must be ensured by enhancing the judicial system regarding the disputes to be solved fast and efficiently; establishing an arbitration center which has an independent and autonomous structure and can compete at international level and using mediation effectively; accelerating the legislation of draft laws which can contribute to IFC; ensuring the compliance of legal infrastructure with EU and international legislations and applications in financial regulations through the adoption of principle based view; increasing the transparency in financial markets and in investors’ informative mechanisms; determining the products and services which exist in Turkey but of which competition precedence belongs to foreign markets and as a result of this taking precautions; establishing necessary infrastructure for the products

and services which were not presented to Turkey's markets or did not reach the adequate trading volume and have the ability to make Istanbul an attractive financial center and have high potential to grow; making taxation and secondary legislation simple, understandable, predictable and sustainable; making new legislation in the area of taxation (İstanbul Üniversitesi Sermaye Piyasaları Araştırma ve Uygulama Merkezi, p.10–11).

Conclusion

London, as global financial center has the first place with New York and is a center which came into an existence by the concept of international financial center. London and Frankfurt are the most important financial centers of Europe in which the financial sector has considerably developed, offshore financial transactions used frequently, the markets are extensive and massive. These centers are one step ahead in the competition especially with the regulations and qualified workforce compared to other centers. Important and long termed plans must be prepared to make Istanbul competitive with London and Frankfurt. It is necessary to point out that London and Frankfurt as Financial Centers has many privileges such as regulations, infrastructure, and qualified work force.

The Action Plan which started with IFC Project has not completed yet. Even though Istanbul has positive sides such as location, transportation, cultural diversity and the number of offices, there are many steps to take as regards regulations and qualified work force and education compared to London and Frankfurt. As a result of this, necessary planning in legal, technical, and economic areas through the determination of a roadmap and new and serious improvements must be made by preventing the perception of IFC project as a zoning plan. Within this scope, on the use of Islamic financial transactions must be focused and it must be ensured that Istanbul to become Islamic financial center.

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