
**THE IMPORTANCE OF INTERNATIONAL FINANCIAL CENTERS
IN ECONOMIC DEVELOPMENT: THE CASE OF ISTANBUL¹**

Mustafa ŞİT²**Haydar KARADAĞ³****Abstract**

With the increase in efficiency that can be achieved in the financial sector by means of international financial centres, there can be positive effects on macroeconomics, such as employment, capital inflows, and rapid establishment of businesses in the markets. This is an asset for developing country economies trying to achieve their economic development. The purpose of this study is to investigate the importance of International Finance Centres in the economic structure of the country, explaining the importance of becoming an International Finance Centre by taking the Istanbul Financial Centre Project as a case, and evaluating the current state of Istanbul by considering the studies conducted since 2009. The assessment was based on data from the Global Finance Centres Index (Global Financial Centres Index-GFCI) prepared by the UK-based financial organisation named London Finance. As a result of the study, Istanbul can be seen as a regional financial centre and it can be predicted that the city can move to a better position with the stable policies. However, adverse cyclical and internal developments are seen as two of the biggest obstacles in front of Istanbul towards becoming an International Finance Centre.

Keywords: Economic Development, International Finance Centre, GFCI Index, Istanbul.

**EKONOMİK GELİŞİMDE ULUSLARARASI FİNANS
MERKEZLERİNİN ÖNEMİ: İSTANBUL ÖRNEĞİ**

Öz

Uluslararası finans merkezleri sayesinde finans sektöründe sağlanabilecek verimlilik artışı ile makroekonomiler üzerinde istihdam, yurtdışından fon akışları ve ticari kurumların piyasalarda hızlı kuruluşu gibi pozitif etkiler oluşabilir. Bu durum ise gelişmekte olan ülke ekonomileri için ekonomik gelişimlerini sağlama adına bir fırsattır. Bu çalışmanın amacı, Uluslararası Finans Merkezlerinin, ülkenin ekonomik yapısı içerisindeki önemini araştırılması, İstanbul Finans Merkezi projesi örneğinde Uluslararası Finans Merkezi olmanın önemini anlatılması, 2009 yılından bu yana yapılan çalışmalar ışığında, İstanbul'un mevcut durumunun değerlendirilmesidir. Değerlendirme İngiltere merkezli London Finance isimli kuruluşun hazırladığı Küresel Finans Merkezleri Endeksi (Global Financial Centres Index-GFCI) verileri üzerinden yapılmıştır. Çalışma sonucunda İstanbul'un bölgesel bir finans merkezi olarak görülebileceği ve istikrarlı politikalarla daha iyi bir noktaya taşınabileceği görülmektedir. Ancak olumsuz konjonktürel ve içsel gelişmeler bir Uluslararası Finans Merkezi olma yolunda İstanbul'un önündeki en büyük engellerden biri olarak görülmektedir.

Anahtar Kelimeler: Ekonomik Gelişim, Uluslararası Finans Merkezi, GFCI Endeksi, İstanbul

¹ This study is an extended version of the oral presentation made in the International Turkish-Georgian Congress on 15-16 December 2017.

² Asst.Prof.Dr., Harran University, Faculty of Economics and Administrative Sciences, Department of Economics, msit@harran.edu.tr, orcid.org/0000-0001-9694-0547

³ Asst.Prof.Dr., Recep Tayyip Erdogan University, Faculty of Economics and Administrative Sciences, Department of Economics, haydar.karadag@erdogan.edu.tr, orcid.org/0000-0003-2398-7314

1. Introduction

The flow of international capital into a certain economy intensifies with the rising globalizing tendency of such economy. Financial markets are getting deeper with the enhanced capital inflow. The deepening financial markets reduces the vulnerabilities of the economy in the face of evident capital outflows (Çevik, 2011: 137). This is an asset for the developing countries in achieving their economic development. Companies would like to get service from the financial institutions existing in the country in which they are operating. Thus, financial centres are generally located in the areas including companies densely (SERPAM, 2012: 4).

International Financial Centres (IFC) provides investors some opportunities, namely low transaction costs, low risks and easy access to the capital. Qualified labour force, political stability and income potential are the other apparent characteristics of the financial centres. The factors such as access to airlines, legal setting, regulatory framework, trade tax regime and infrastructure play a significant role in the success of the financial centres (Apak and Elverici, 2008: 12-13). Besides the existence of certain factors, such as an international service demand, a willingness to meet the international service demand, rule of law, good financial infrastructure and qualified environmental settings are necessary for the formation of an international financial centre (Yılmaz, 2011: 149).

After the Industrial Revolution, London, Amsterdam and Paris gained prominence as trade and financial centres. Despite its falling importance in world trade, Istanbul protected its status as a regional centre till the beginning of 20th century. Istanbul lost the status of financial centre from the mid-19th century with the emergence and proliferation of banks. After the defeat in the World War I, the city also lost its regional centre status during the formation of new state. Dubai and Qatar has risen as new financial centres recently. However, the gap emerged when Istanbul lost its status as a trade and financial centre could not have been compensated yet.

Improvements in the macroeconomic indicators of Turkish economy in line with the growth in all branches of the financial sector thanks to the political and economic stability and the cyclical excess liquidity in the Gulf countries led to the emergence of the debates regarding the formation of a financial centre in Turkey (Apak and Elverici, 2008: 11-12). Accordingly Istanbul International Financial Centre Project put in practice in 2009.

This study explains the importance of the international financial centres by focusing on the Istanbul Financial Centre Project as a case and evaluates the current situation of Istanbul under the light of Global Financial Centre Index. In the first part of the study, international financial centres are dealt with theoretically and the role of international financial centres in economic growth is also stressed. Then the development of Istanbul as a financial centre are elaborated on a year basis together with its current state.

2. Theory of International Financial Centre

The theorization of geographical space and the emergence of the approaches focusing on the environmental advantages of the space over the economy are observed at the international level. This new approach makes a competition power definition at regional and city levels by establishing a link between the success in globalization and local conditions. For this purpose; firms which are mutually dependent in trade, using the advantages of infrastructure and technology provided by the state and acting as whole to produce main and sub-industry products in a branch of industry compatible with the conditions of the geography are labelled as the cluster model (Taşdemir, 2008: 42-43).

This model is the most advanced form of the classical trade and production theories in 21st century. Classical international trade theories argues that the relative advantages can be transferred to the next generations. This factor pools covers the concepts such as the territory, natural resources and population (Taşdemir, 2008: 46).

3. The Importance of International Financial Centres in Economic Growth

The performance of the international financial centres in attracting funds needed for the development of the neighbouring economies is an ample indicator of the depth and width of these financial centres. Thanks to this characteristic, financial centres creates positive externalities for the neighbouring countries (Akyol and Baltacı, 2015: 358).

The development and deepening of the financial services sector play a critical role in the development and economic growth of both developed and developing economies. The existence of an international financial sector in an economy can make significant contributions to the development of financial sector, as well as to the deepening of the markets. By means of the efficiency rise in the financial sector with the international financial centres, some positive effects on the macroeconomic indicators, i.e. employment, capital inflows, rapid establishment of business, can be observed. Concomitantly, the liberalization achieved after the formation of international financial centres can help the economies in becoming more transparent and attracting international investments. By this means, the need for the funds necessary for economic growth is met.

4. The Current State of Istanbul as a Financial Centre

The geographical structure of the area it was located, its positioning as a passage point of different continents, its historical richness, its young, qualified and cosmopolitan population, its convenience to trade and tourism thanks to climatic and natural peculiarities, its business life and trade culture dominated by the private sectors, its big share in the GDP of the country can be listed as the advantages of Istanbul for turning into a global metropolis (Taşdemir, 2008: 41-42).

According to the classification of the businesses operating in Turkey in terms of their size called as Fortune500; 4 of 10 biggest firms are operating in

Istanbul and 7 of 10 firms making the largest amount of sales are also located in Istanbul. The planned IFC in Istanbul will also provide many advantages to those firms existing in the classification. By the way, it will pave the way for economic growth by creating boost both in economy and trade.

The negative influences of the 2008 global crisis on Turkish economy stayed limited thanks to the strengthening regulatory and supervisory structure of the banking sector after 2000-2001 crisis. Hence, the ideas labelling Turkish economy as a safe-haven came to the fora in this era. Besides, it was also argued that a new political economy emerged with the changing global political climate and this new setting was found favourable for Turkish economy (Coşkun, 2011: 527).

Financial organisation named as Long Finance has been publishing the GFCI since 2007 twice per year in March and September. This index compares the existing financial centres or the candidate cities for being a financial centre in terms of their competition capacity in six different fields. These fields are human capital, taxation, business environment, infrastructure, brand value (reputation) and development of financial sectors.

Table 1: Rankings and Scores of the Global Financial Centres Index (GFCI)

IFC	GFCI 8		GFCI 16		GFCI 22	
	Ranking	Score	Ranking	Score	Ranking	Score
London	1	772	2	778	1	780
New York	2	770	1	777	2	756
Hong Kong	3	760	3	756	3	744
Singapore	4	728	4	746	4	742
Tokyo	5	697	6	718	5	725
Shanghai	6	693	20	690	6	711
Chicago	7	678	12	702	24	683
Zurich	8	669	7	717	9	704
Geneva	9	661	13	701	15	694
Sydney	10	660	23	682	8	707
Frankfurt	11	659	16	695	11	701
Toronto	12	656	11	703	7	710
Boston	13	655	9	705	19	690
San Francisco	14	654	5	719	16	693
Beijing	15	653	32	668	10	703
Washington D.C.	16	649	10	704	28	676
Paris	17	645	31	669	26	680
Taipei	18	639	27	677	27	677
Luxembourg	19	634	15	697	14	695
İstanbul	70	496	42	655	78	617

Source: Long Finance, Global Financial Centres Index 8, 16, 22.

Table 1 is reflecting the data about the well-established IFCs top-ranked according to GFCI and Istanbul. The data are evaluated on the basis of GFCI 8-16-22 data. GFCI-8 was published in September 2010, GFCI-16 in September 2014 and GFCI-22 in September 2017. The top-ranked four cities (London, New York, Hong Kong and Singapore) stayed unchanged across these data sets. The competition between these IFCs are is remarkable along the years. The development levels of Shanghai, Sydney and San Francisco showed ups and downs in these years in comparison to other IFCs.

With the launch of IFC project in 2009, Istanbul entered to the list as the 70th IFC with a score of 496 in 2010. With its rapid development, Istanbul ascended to the rank of 42nd. After the adverse developments in the years of 2015 and 2016, Istanbul draw back to the rank of 78th.

Table 2 provides the city profiles of the IFCs. Istanbul is grouped under the title of IFCs in the analysis of financial city profiles. It was indicated that the city has an international diversity in this category.

Table 2: City Profiles of the International Financial Centres

Well-established IFC	International Diversity	International Expertise	Rivals
Boston	Bangkok	British Virginia Islands	Almaty
Chicago	Brussel	Casablanca	Bahamas
Johannesburg	Busan	Cayman Islands	Doha
Los Angeles	Copenhagen	Dalian	Gibraltar
Melbourne	Edinburgh	Guangzhou	Man Island
Montreal	Istanbul	Jersey	
San Francisco	Kuala Lumpur		
Saul	Madrid		
Stockholm	Milan		
Vancouver	Munich		
	Roma		

Source: Long Finance, (Global Financial Centres Index 22, 2017:13)

Istanbul was firstly grouped with the African and Middle Eastern cities under the GFCI. Then, it was added to the group of Eastern Europe and Central Asia with the publication of GFCI-16. Istanbul felt behind of its rivals, such as Warsaw, Tallinn, Riga and Prague, in GFCI-22. However, it got ahead of the rivals, namely Almaty, Moscow and Athens.

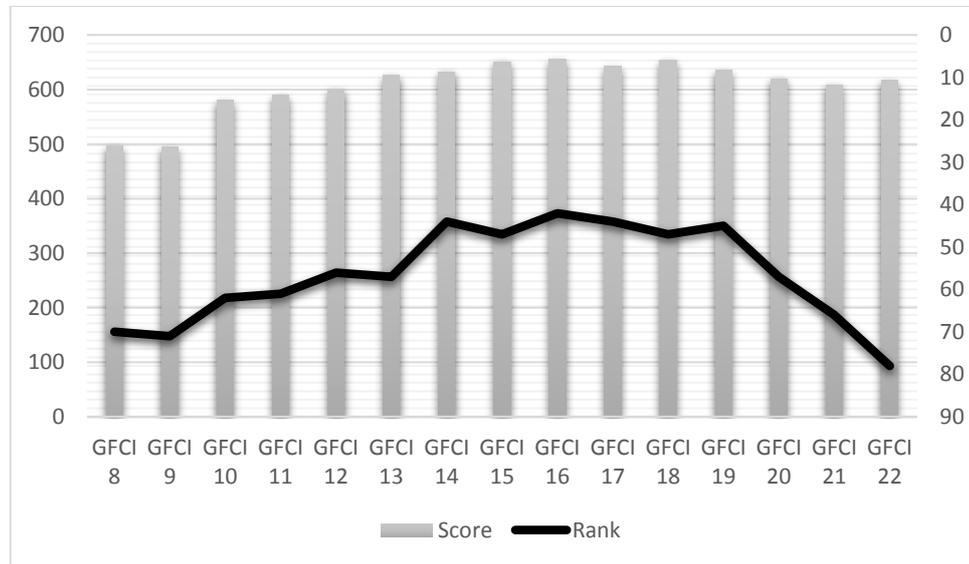
Table 3: IFCs in Eastern Europe and Central Asia

IFC	Ranking	GFCI 22 Score	Ranking	GFCI 22 Score	Change in the Ranking	Change in the Score
Warsaw	36	664	41	645	▲ 5	▲ 19
Tallinn	44	653	42	640	▼2	▲ 13
Riga	53	642	45	631	▼8	▲ 11
Prague	58	637	69	606	▲11	▲ 31
Budapest	72	623	70	604	▼2	▲ 19
Greek Cyprus	76	619	79	590	▲ 3	▲ 29
Istanbul	78	617	66	609	▼12	▲ 8
Almaty	80	615	80	589	---	▲ 26
Athens	84	611	88	522	▲ 4	▲ 89
St. Petersburg	87	603	86	565	▼1	▲ 38
Moscow	89	601	85	566	▼4	▲ 35

Source: Long Finance, (Global Financial Centres Index 22, 2017:2)

Graph 1 provides the data belonging to Istanbul in terms of GFCI on a yearly basis. In the time period starting in 2009 with GFCI-8 data and extending till the publication of GFCI-22 in September 2017, there has been a steady increase in Istanbul’s score as an IFC. Yet, its rank showed a fluctuating course.

Graph 1: The Performance Graph of Istanbul in Terms of GFCI Criteria (2010-2017)



Source: Prepared by the authors with the data in the Long Finance, Global Financial Centres Index.

5. Conclusion

Rising efficiency in the financial sector with the help of IFCs can create positive effects on the macroeconomic indicators such as employment, capital inflows and rapid establishment of business. Owning an IFC is more vital for the developing countries like Turkey. Hence, Istanbul International Financial Centre Project was launched by the designers of the Turkish economy in 2009. The attempts mobilized for transforming Istanbul into an international financial centre in the medium or long term is a sound policy from this perspective.

After explaining the importance of IFCs by focusing on the Istanbul Financial Centre Project, the study evaluated the current state of Istanbul within the light of the steps taken since 2009. The analysis in the study were carried out by using the GFCI data prepared by the UK-based organization named London Finance. Accordingly, it was noticed that the position of the top-ranked four cities (London, New York, Hong Kong and Singapore) didn't change and the position of Shanghai, Sydney and San Francisco showed up and downs in terms of the IFC's development level.

With the launch of IFC project in 2009, Istanbul entered to the list as the 70th IFC with a score of 496 in 2010. With its rapid development, Istanbul ascended to the rank of 42nd. After the adverse developments in the years of 2015 and 2016, Istanbul draw back to the rank of 78th. Istanbul showed better performance in comparison to its rivals between 2012 and 2015. As a result, it was ranked above them. Adverse developments happened in the year of 2016 both within the country and Istanbul, Istanbul lag behind both in score and ranking. Especially the selection of Istanbul as a target in the failed coup attempt in July 2016 has adversely affected the "brand value (reputation)" of the city which constitutes one of criteria taken into consideration by the index. With the recovery in 2017, the score of Istanbul in GFCI increased from 609 to 617. Yet, the city continued to fall behind in the ranking, from the rank of 66 to 78. Better performance of the rivals can also be identified as a reason behind this. Besides, it was also detected that Istanbul has an international diversity under the category of IFCs in the analysis of the financial city profiles.

Istanbul can be seen as a regional financial centre thanks to its advantages, such as historical richness, cosmopolitan diversity, privileged strategic location, easy access to many locations, and size of internal market. Turkish economy can also improve with the stable policies serving to the emergence of Istanbul as an IFC. Finalisation of the ongoing projects like third airport and energy market can bring Istanbul to the highest ranks. However, cyclical and internal developments can emerge as challenging obstacles for the formation of an IFC in Istanbul. Besides, there can be real improvements in the financial markets in Turkey with the emergence of Istanbul as an IFC. If this happens, it is anticipated that new stock market(s) can be formed in Istanbul and new foreign investors can join the Turkish economy.

References

- Akyol, H. ve Baltacı, N. (2015). Uluslararası Bir Finans Merkezi Olarak İstanbul'un Değerlendirilmesi. *Gümüşhane Üniversitesi Sosyal Bilimler Elektronik Dergisi*, 12, 353-387.
- Apak, S. ve Elverici, G. (2008). İstanbul'un Finans Merkezi Olması Projesinin Değerlendirilmesi. *Muhasebe ve Finansman Dergisi*, 38, 9-20.
- Arslan, H. ve Kayhan, T. (2015). Kira Gelirine Dayanan İcare Sukuk İçin Fiyatlama Modeli.
http://bmd.com.tr/content/userfiles/files/Alternatif_Fiyatlama_Modeli.pdf, Erişim Tarihi: 22.04.2016.
- Coşkun, Y. (2011). *Ekonomi Politik ve Düzenlemenin Gücü İstanbul'u Finans Merkezi Yapabilir Mi?*. Ankara: Mülkiyeliler Birliği Armağanlar Dizisi, Yayın No.: 9.
- Çevik, F. (2011). *Uluslararası Finans Merkezleri, Ülke Ekonomilerine Etkileri ve İstanbul'un Potansiyeli*. İstanbul: İstanbul Ticaret Odası Yayınları, Yayın No: 2011-7.
- Global Financial Centres Index 8. (2010). Long Finance Report, Erişim Adresi: <http://www.zyen.com/GFCI/GFCI%208.pdf> (Erişim Tarihi: 21/11/2017)
- Global Financial Centres Index 16. (2014). Long Finance Report, Erişim Adresi: http://longfinance.net/images/GFCI16_22September2014.pdf (Erişim Tarihi: 21/11/2017)
- Global Financial Centres Index 22. (2017). Long Finance Report, Erişim Adresi: http://www.longfinance.net/images/gfci/gfci_22.pdf (Erişim Tarihi: 21/11/2017)
- SERPAM İstanbul Üniversitesi Sermaye Piyasaları Araştırma ve Uygulama Merkezi. (2012). *İstanbul Bölgesel ve Uluslararası Finans Merkezi (İFM)*, Araştırma Dizisi-1.
- Taşdemir, İ. (2008). *Uluslararası Finans Merkezi Olarak İstanbul'un Yapılanması ve Finans Kümelenmesi*. İstanbul: İstanbul Ticaret Odası Yayınları, Yayın No: 2008-51.
- Yılmaz, H. (2011). İstanbul'un Uluslararası Finans Merkezleri ile Rekabet Düzeyinin Saptanmasına Yönelik Bir Çalışma. *İstanbul Üniversitesi İktisat Fakültesi Mecmuası*, 61 (2), 143-163.