Afro Eurasian Studies, Vol. 2, Issues 1&2, Spring & Fall 2013, 315-319

Turkey's Potential Role as a Global Leader in Islamic Banking and Finance

Humayon Dar*

Turkey possesses all the basic ingredients essential for becoming a global hub for Islamic banking and finance, which is known with a better term in the context of Turkey, i.e., participation banking. It has historical legacy of leadership of the Muslim world, has gone through a period of secularism, and has vibrant and growing economy that has a unique position of being part European and part Asian. By virtue of its geographical location, it enjoys the status of a bridge between Asia and Europe, and hence can serve as a bridge between the Islamic world and European continent. As other attempts in Europe to become a regional hub for Islamic banking and finance have seen only limited success, a window of opportunity has opened for Turkey to not only become a regional leader but also a global leader in Islamic banking and finance.

The biggest advantage that Turkey has over its competitors in Islamic banking and finance is in terms of the size of Muslim population and hence a potential domestic market. While Malaysia has emerged as a global leader in Islamic banking and finance, its growth potential is limited by its relatively small domestic market. Out of about 28 million people in Malaysia, only around 60% are Muslim. Another potential contender for global leadership in Islamic banking and finance, i.e., Saudi Arabia, has similar demographic credentials, with about 19 million Saudi nationals out of around 28 million people who live in the country. Again, domestic market size is rather limited. Other Gulf states also do not enjoy the benefits of large domestic markets, and hence can only serve as "off-shore" centres for Islamic banking and finance.

Other two countries that have potential to lead the global Islamic financial services industry are Pakistan and Indonesia, with huge domestic markets of about 190 million and 237 million people, respectively. With their populations being predominantly Muslim, Pakistan and Indonesia

* Chairman Edbiz Corporation, London, UK; Email: hdar@edbizconsulting.com

can assume global leadership in Islamic banking and finance, if other aspects of their economies are developed strategically. Indonesia is a declared secular country like Turkey, while Pakistan is an Islamic state, with the religion of Islam enshrined in its constitution. In both the countries, however, there is growing recognition of importance of Islamic banking and finance and its relevance to economic growth and development.

In the backdrop of all this, Turkey is on track to becoming the next hub for Islamic banking and finance. Turkey can very easily assume a leadership role in the global Islamic financial services industry by forming and leading a group of I-5, the top 5 countries with the potential of leading the global Islamic financial services industries. These countries may include: Saudi Arabia, Malaysia, Pakistan, Indonesia and Turkey. These countries are not necessarily the top ranked countries in the Islamic Finance Country Index (IFCI), developed and published annually by the London-based Edbiz Consulting. Nevertheless, they can be knitted together strategically to form a block that may be used for developing Islamic banking and finance as a tool for integration of financial sectors in these countries. Table below lists top 10 countries ranked by IFCI.

Countries	**IFCI Ranking**
Iran	1
Malaysia	2
Saudi Arabia	3
United Arab Emirates	4
Indonesia	5
Bahrain	6
Kuwait	7
Pakistan	8
Sudan	9
Banghladesh	10
Turkey	13

I-5 Group
Malaysia
Saudi Arabia
Indonesia
Pakistan
Turkey

The successful dollar-denominated $ 1.5 billion sovereign Sukuk issue, followed by a lira-denominated $ 900 million sovereign Sukuk in 2012 put Turkey on the global platform of Islamic banking and finance. This has generated a lot of vibes in Islamic banking and finance internationally, and it is expected that many Middle Eastern Islamic banks and financial institutions will enter the Turkish market in the future. Turkey has always been a country of interest in Islamic banking and finance. Kuwait Finance House (KFH) entered Turkey in 1989, even without an explicit commitment from the then Turkish government to provide a level playing field to Islamic banking. It is interesting to note that KFH's entry into Turkey long preceded its move into other markets like Malaysia, Bahrain and Jordan.

Despite personal encouragement by the then governor of State Bank of Pakistan (SBP), Dr Ishrat Husain, KFH did not enter the Pakistan market and remains reluctant. On the other hand, Albaraka Bank has been operating in Turkey since 1984, well before it entered the Pakistani market in 1991. This preference tells a story, which policymakers in Turkey must read before delineating a comprehensive framework for developing the country into a global player and eventually an international centre of excellence in Islamic banking and finance.

In the absence of a platform like I-5, the major contenders for the role of global leadership may enter into an unhealthy competition to attract Islamic capital. Admittedly, only a fraction of US$ 1.63 trillion under management of Islamic financial institutions is mobile in terms of cross-border flows. Independent national approaches to Islamic banking, without an effective international coordination, are sub-optimal. Without a well-thought-of global strategy, it will not be surprising if Pakistan or Malaysia start feeling threatened by Turkey that is better suited in terms of becoming a destination of preference for many Middle Eastern investors who currently invest in Pakistan and Malaysia. This is particularly important as for many institutions in the Middle East it makes more logistic sense to do business in Turkey rather than travelling to the Far East.

The proposed member states of I-5 possess unique value propositions. Pakistan, for example, presents arguably the most conservative model of Islamic banking in the world, based predominantly on Hanafi school of Islamic jurisprudence, which takes a rather conservative view in matters related to business and finance. There is a definite value proposition that Pakistan may offer to other members of the proposed I-5. Indonesian economy, being one of the fastest emerging markets in the world, must offer an array of economic opportunities to the Islamic financial institutions seeking Islamic financial assets. Malaysia is now in a position to share its expertise and experience in developing the most comprehensive regulatory framework for Islamic banking and finance. It is proposed that Malaysia should play a lead role to develop a comprehensive framework for an IBF (Islamic Banking and Finance) Passport for the Islamic financial institutions to operate freely in the member states of the proposed I-5. Saudi Arabia is in need of liberalisation of economy and the proposed I-5 offers it an opportunity to adopt an Islamic approach to liberalisation of financial sector. Turkey's leadership role in the I-5 can be maintained if the secretariat of the proposed group is located in Istanbul.

It is important for all the five countries to show more commitment to Islamic banking and finance and use it as a strategic tool to attract funding for a number of infrastructural projects (e.g., Jakarta Metro, electricity projects in Pakistan, etc.) that need external financing. Through adopting a combined leadership role in Islamic banking and finance, the proposed I-5 can serve as a financial powerhouse in the Organisation of Islamic Cooperation (OIC) block. Previously, a number of the OIC-level projects came to Pakistan, e.g., International Islamic Chamber of Commerce and Industry, which either failed or moved to other countries because of lack of support and commitment from the Pakistan government. Hence, it is important that the such new projects are initiated on the I-5 level so that right kind of support could be solicited from the member states, in case a host country faces some problems in implementing and operating such projects.

Given the growing interest in Islamic banking and finance in Turkey, it is perhaps a good opportunity for Pakistan, Indonesia, Malaysia and Saudi Arabia to bring the government of Turkey on board to form the proposed alliance. The more experienced members of the group can share their expertise in the field of Islamic banking and finance with those who lack such experiences and expertise. While the likes of Malaysia have invested millions of dollars to set up institutions like INCEIF to develop required human resources for Islamic banking, Pakistan can develop a state-of-the-art centre of excellence for Islamic finance by investing a small amount in Darul Uloom Karachi, developing it into a teaching and research university specialising in Islamic banking and finance. If Turkey and Saudi Arabia can also play a role in this project, it would be a fantastic way of starting an everlasting collaboration in Islamic banking and finance amongst the countries involved.

The Darul Uloom model of education is certainly more cost effective as compared with INCEIF, which has a huge annual budget. Close cooperation between Pakistan, Malaysia and Turkey can prove to be an efficient way of producing talent for the global Islamic financial services industry if right channels are created and maintained amongst respective parties. In fact, INCEIF could be developed an I-5 level project, which could be more cost effective and efficient than the existing structure of INCEIF.

Education is only one area for cooperation. The real benefits will accrue if the IBF Passport is developed for unrestricted operations for Islamic financial institutions across the I-5 block.