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## Competitiveness Analysis of Istanbul Financial Center<sup>a</sup>

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### Abstract

*The main purpose of this article is to compare Istanbul Financial Centre with selected twelve centres taking into consideration the banking system, the financial markets and instruments in micro perspective. These selected financial centres are Dubai, Frankfurt, Hong Kong, Kuala Lumpur, London, Moscow, New York, Paris, Shanghai, Singapore, Tokyo and Toronto. All financial centres are compared with İstanbul based on by using ranking analysis. Various characteristics of the financial system are taken. Nine indicators are used for the banking sector, whereas 13 indicators are used for the financial markets. The indicators are used as the average of the values between 1992 and 2012 in the ranking analysis. Our research question is that: "What is the competitiveness of İstanbul among International Financial Centres. The contribution of this study is analysing competitiveness potential of İstanbul Financial Centre and proving the importance of banking sector and the capital markets on the size of the financial system in financial centres. As a result, İstanbul Financial Centre has not competed yet with compared financial centres. By considering the characteristic of the financial system in global and regional centres, İstanbul will be grown and developed first as a national financial centre and, then as a regional and international financial centre by implementing right strategies.*

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## 1. Introduction

Financial centers have cluster type characteristics. Their competitiveness depends on various factors especially their financial system structure (banking oriented or capital market oriented) and financial activity density in financial centers. The banking sector in Turkey is dominated by a few large domestic banks some of which are state-owned and some private. The main foreign players that are Finansbank (National Bank of Greece), Denizbank (Sberbank of Russia), HSBC (UK), and ING (Netherlands) are considerably smaller. The privatization in the banking sector has been slow in Turkey. Mergers between Turkish banks have been very rare. On the other hand, the degree of concentration is high. The five largest banks consist of nearly three-fifths of the sector's total assets and about 56% of loans. The growth of credit to the private sector is due to low interest rates. Although household and private sector corporate debt rose during the credit boom, they stayed relatively low, around 20% of GDP for households and about 45% of GDP for the corporate sector. Turkish banks have rarely used securitization to fund mortgage lending. Turkish banks have had to expand their branch networks to increase their return on retail banking, particularly credit cards and consumer loans due to low returns on government paper. Turkish residents are minor users of bank accounts. Some 58% of the adult population have an account at a formal financial institution according to survey conducted in late 2011 by the World Bank. The ratio of NPLs, which was lower than previous years, was standing at fewer than 3% of total credit in May 2013 (The Economist Intelligence Unit, 2013t, p.3-6). It is expected that the Islamic finance will grow in near future. Turkey's Islamic banking institutions are known as participation banks that offer a wide range of banking products including pensions. Ziraat Bank, largest state-owned bank, announced that it is planning to establish a separate participation bank conducting Islamic finance activities (The Economist Intelligence Unit., 2013t, p.6). The Borsa Istanbul formerly known as Istanbul Stock Exchange is only stock market. Around 60-70% of the value of the stocks traded on it is conducted by the foreign investors therefore the performance of the stock market is likely to be tied to changes in the global financial markets. The Borsa Istanbul 100 Index represents 90% value of the national market and is very volatile. At the end of 2012, 242 companies were listed in Borsa Istanbul. There were 16 IPO at the same period. In June 2013, the Borsa Istanbul merged with gold and derivatives exchanges. Afterwards, in July 2013 Borsa Istanbul signed a strategic partnership with NASDAQ OMX that is a US-based exchange group, which provides platforms for many exchanges around the world. The derivative exchange established in İzmir in February 2005, which was the single provider of derivatives contracts for commodity and financial products. Turkdex, the Turkish derivatives market merged with Borsa Istanbul Futures & Options Market (VIOP), BIST is also integrating the Istanbul Gold Exchange. All trades, derivatives and listed securities, are cleared and settled through Takasbank (The Economist Intelligence Unit, 2013t, p.10-12). The foreign-exchange market has a highly developed All settlements are made automatically through electronic system connected to a main database at the Central Bank. However, the currency futures market that was launched in 2001 was thin. OTC futures contracts in foreign exchange are traded both between banks and on behalf of customers for one to three month. Most forward contracts traded between individual banks are overnight. Rarely, commercial banks trade forward contracts with the central bank that regulates strictly the market (The Economist Intelligence Unit, 2013t, p.11-12). The article proceeds in the following manner. First, we briefly compare Istanbul Finance Center with other financial centers. Second, we present our findings about ranking analysis. Finally, in conclusion part, we make suggestions for Istanbul Finance Center in order to be an international financial center.

## 2. Benchmarking the Main Competitors of Istanbul Financial Centre

In this part, the benchmarking of financial centers according to their financial system structure and financial products.

### 2.1. Dubai

Dubai has been very rapidly developing as an international financial center providing financial services to markets in the Middle East, Central, and South Asia. The primary focus of Dubai is to become a global hub for Islamic finance and Shariah compliant economic activity (DFIC, 2012, p.33-34). The banking system is considered one of the heaviest capitalized banking systems in the region (Central Bank of the United Arab Emirates, 2012, p.15). However, the foreigner restriction of the entrance to the banking sector is the main drawback in the banking sector. The range of products is limited and technologic development is low in banking sector, such a credit bureau is new subject. The Dubai Financial Market (DFM) and NASDAQ Dubai are the stock exchanges of Dubai in which equities, equities

derivatives, Sukuk and conventional bonds are traded on. Furthermore, NASDAQ Dubai is currently one of the largest Sukuk markets in the world (DFIC, 2012, p.33). Two stock exchanges suffer from low liquidity. In 2012, there was no IPO transaction according to The Securities and Commodities Authority (SCA) (The Economist Intelligence Unit, 2012, p.8-10). Dubai has at the similar position in Turkey, but somehow Istanbul has more opportunity than Dubai. Although two centers have a capital market with low liquidity and market capitalization, the range of financial instruments and the value of IPOs transactions are higher in Istanbul. The volume of Islamic banking activities is larger than Istanbul.

## 2.2. Frankfurt

The German financial center Frankfurt is ranked second in Europe and the symbol of the German financial industry. The Frankfurt Stock Exchange is one of the world's most famous stock exchanges. The European Central Bank is also located in Frankfurt (Xinhua-Dow Jones, 2012, p.16-19). Secondary market of Frankfurt exchange offers liquidity. Frankfurt as a traditional International Financial Center has developed based on domestic capital (*Liu and Strange, 1997, p.654*). The prevention of derivatives trading in Germany until 1990, the Bund-future market, primarily based on German federal bonds, but initially traded and regulated in London. After re-regulation, the Bund-future market trading moved to Frankfurt because of the advantages of the German electronic trading system, especially its cost-efficiency (Faulconbridge *et al.*, 2007, p.284). Complementary functions and interdependence of financial centers are highly emphasized rather than placing the centers in a hierarchical network according to their attributes for instance financial turnover. London and Frankfurt form a network other than hierarchy, nonetheless Frankfurt cannot be a London because of global connectivity, denationalized and offshore structure, and flexible regulation, presence of skilled workforce and capability of financial services to provide (Faulconbridge, 2004, p.235-244). The UK is the largest center for cross-border banking with 19% of the outstanding value lending in September 2012. New York, Paris, and Frankfurt follow the UK (The City of London, 2013, p.7). Stock market virtualization that is a replacement of traditional trading systems by computer based trading system such as NASDAQ has significantly assigned to the decline of Amsterdam and Frankfurt (Engelen and Grote, 2009, p.682).

## 2.3. Hong Kong

Hong Kong is the most sophisticated and important foreign exchange trading center in the world (Pauly, 2011, p.32-33). In Hong Kong, funding costs of banks are likely to increase in the next few years so liquidity becomes tighter in the region. Although local banks are funded through deposits rather than wholesale markets, the loan-deposit ratio for all currencies remained at 71.9% at the end of June 2013. Demand for private banking from high-net-worth individuals is upward trend. The region is an attractive place for mainland China (The Economist Intelligence Unit, 2013h, p.4-5). The Hong Kong Stock Exchange is the center's stock exchange and is one of the leading market place for derivative trading in the Asia and Australasia region. The absence of restrictions on foreign ownership of shares enables that many foreign investors are trading in the local stock market. After the financial crisis, due to the strong growth of China's economy, the interest of foreign companies listed in Hong Kong Stock Exchange has increased. Although Hong Kong was the leading global center for IPOs between 2009 and 2011, the number and value of IPOs dropped in 2012 (The Economist Intelligence Unit, 2013h, p.10). In Hong Kong's derivative markets, options are more active than futures by trading contract volume. Futures on seven equity-index products, a variety of stock options and futures, futures on the one- and three-month Hong Kong Interbank Offered Rate, and three-year Exchange Fund note, gold futures and RENMINBI currency futures are offered. However, futures based on the Hang Seng Index dominate derivatives trading. Additionally, Hong Kong has one of the world's biggest warrant markets by turnover in 2012 (The Economist Intelligence Unit, 2013h, p.11-12). However, commodity futures in Hong Kong have not developed yet. Only gold futures are available in Hong Kong's commodity futures market. No distinctions exist in Hong Kong between onshore and offshore currency trading both in RENMINBI and in foreign currencies (Pauly, 2011, p. 48). Hong Kong is a leading global financial center. Hong Kong performs well in all of the key competitive areas in the financial system. No distinctions exist in Hong Kong between onshore and offshore currency trading both in RENMINBI and in foreign currencies. Hong Kong wants to be a player in Islamic finance sector. Hong Kong's main weaknesses are commodity derivative trading and domestic debt securities trading. On the other hand, efficiency in banking sector is low. Istanbul could not compete with Hong Kong yet.

#### 2.4. Kuala Lumpur

Kuala Lumpur is the main trading hub for Islamic finance. Bursa Malaysia is the stock market in Kuala Lumpur (The Economist Intelligence Unit, 2013m, p.11-12). In Bursa Malaysia, 86% of all listed equities are Shariah compliant. In 1999, Islamic Equity Index known as the Kuala Lumpur Shariah Index was developed. In 2007, Bursa Malaysia introduced two new Shariah Index that are the FTSE Bursa Malaysia EMAS Shariah Index and the FTSE Bursa Malaysia Hijrah Index with the FTSE Group (PricewaterhouseCoopers, 2008, p.23; p.30). All of Malaysia's commercial banks and financially strong investment banks can trade on the foreign-exchange market. Nevertheless, the investment banks are permitted to deal only for their own accounts and for customers with whom the bank has fee-based relationships. The investment banks are not allowed to accept foreign currencies from individuals, to hedge forward contracts for customers or to engage in trade-financing activities engaging letters of credit. The maturity of repos is usually less than four months, mostly up to one month only, though the maximum maturity is one year. Most repos entail certificates of deposit, treasury bills, and Bank Negara Malaysia monetary notes. Commercial paper that is sharia compliant is issued in combination with medium-term notes, and is commonly used as an instrument for corporate financing. In recent years, the ringgit debt market has expanded in size because of revised and enhanced regulation (The Economist Intelligence Unit., 2013m, p.12-13). Privatization of large monopolies such as telecommunication and electricity companies have increased large amount of funds through the equity market. Exchange-traded financial derivatives are little used. To improve accessibility, Bursa Malaysia Derivatives entered into a strategic partnership with the CME in 2010. The presence of foreign investors in the markets is more significant (IMF, 2013). Bursa Malaysia Derivatives (BMD) offers ten products, but three of which have strong trading volumes: crude palm oil futures, KLCI index futures and three-month Kuala Lumpur Interbank Offered Rate (Klibor) futures. Newly popular instruments include "commodity Murabahah" that were initiated by Bank Negara Malaysia (The Central Bank) in 2007 in order to improve the management of short-term liquidity in the local Islamic interbank money market. Commodity Murabahah is a cash-deposit to facilitate liquidity management and investment. As interest payments are not allowed under Islamic law, returns are based on the sale and buy-back of commodities. Bursa Malaysia established the Bursa Suq Al-Sila ("commodities market" in Arabic) in 2009 to facilitate such transactions (The Economist Intelligence Unit, 2013m, p.12-13). Both banking sector and capital markets in Kuala Lumpur are stronger and more developed than İstanbul. The weaknesses of Kuala Lumpur are low volume of exchange traded financial derivative and high NPL ratio in the banking sector. Kuala Lumpur is the biggest rival of İstanbul in Islamic finance, but İstanbul should deeply analyze Kuala Lumpur 's success story.

#### 2.5. London

London is the one of the leading international financial centers in the world and the biggest financial center in Europe (The City of London, 2011, p.6). London is an old and traditional international financial center, also an important city in trans-national bank lending, foreign stock exchange trading, international bond issuance, foreign exchange trading. The UK banking system is centralized and the UK banking system has strongly attracted the foreign banks due to the leading and long-standing role of London as an international financial. London is an important center for commercial, investment, international and private banking. As an international banking center, there were 251 branches and subsidiaries of foreign banks across the UK in March 2011, foreign banks third of which are from euro area manage half of the total UK banking sector assets that are £8.1 trillion at the end of 2011. Nearly half of investment banking activity is conducted in the UK. The UK is also dominant in Islamic banking services, trading 20 banks, five of which are fully Sharia compliant (The City of London, 2011). London capital market is the largest and most developed in the Europe and is very sophisticated. London is also a center an important place for foreign listed companies, trading in international bonds and foreign equity. London is also leading center for IPOs, 10% of worldwide IPOs were raised from London Stock Exchange in 2011. The UK is also a leading center for trading international bonds (The City of London, 2013a). The UK has two derivatives exchanges. The UK is the leading center in exchange traded futures and options. Commodity trading forms an important part of the London financial sector, and London hosts two major derivatives exchanges that account for around 15 % of global trade in commodities (The City of London, 2011). NYSE LIFFE is a subsidiary of NYSE Euronext and Turquoise Derivatives Intercontinental Exchange (ICE) agreed to acquire NYSE Euronext, a large charge of profit comes from LIFFE formerly known as the London International Financial Futures and Options Exchange (The Economist Intelligence Unit, 2013u, p.10). NYSE LIFFE is the biggest exchange for soft commodities and the leading exchange for the trading in short-term interest rate and equity options whereas ICE's main expertise is on energy products, it is an

electronic regulated exchange. Moreover, London Metal exchange is the biggest non-ferrous market in the world (The City of London, 2011, p.6). Besides a large proportion of trading in precious metals takes place on the London OTC market. Gold and silver transactions are cleared at the London Bullion Market Association (The City of London, 2013a, p.13). London is a prominent center for energy brokers and carbon funds. London is a leading center for energy brokers and carbon funds. European Union (EU) Emissions Trading Scheme (ETS) futures and options contracts are traded in the European Climate Exchange in London (IMF, 2011). London is also a main place for OTC derivative trading (The Economist Intelligence Unit, 2013, p.10). The biggest market in the world for interest rate derivatives traded OTC with 46% of global turnover is in the UK as of April 2010 (The City of London, 2011) London is the leading western center for Islamic finance. The government has supportive policies concerning the broadening of the market for Islamic products. 31 Sukuks are issued on London Stock Exchange (The City of London, 2013a, p.15). The foreign exchange market that is named as Euro-market is the largest in the world. Istanbul could not compete with London yet.

## 2.6. *Moscow*

Russia has a relatively large and state dominated banking system that controls almost 60% of the sector, but the banking sector provides an inadequate level of financial intermediation. There are too many small banks; this creates a hurdle to effective supervision. Foreign ownership of the banking sector is lower than in other central and east European countries. Russia joined the World Trade Organization in August 2012. This agreement lowers the barriers to entry for foreign banks, which enters to the local banking market through either newly opened or acquired Russian banks have limited loan exposures or funding sources outside national borders (The Economist Intelligence Unit, 2013r, p.3-6). The Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS) that are the two main exchanges merged to make Moscow a global financial center in December 2011. The name of new exchange group is Moscow Exchange Group in June 2012 MICEX-RTS introduced new online information and trading system that is called IPO Board so as to attract companies for making IPOs and to increase securities trading for corporate bonds (The Economist Intelligence Unit, 2013r, p.11). Moscow is one of the main competitors of Istanbul. Istanbul has a better position in debt securities transactions, the volume of IPO and somehow in banking sector except ROE level The major obstacles of Moscow are dominance of state-owned corporations throughout the financial system, barrier to entry of financial enterprises and personnel, inadequate legal and regulatory framework for the financial system. Istanbul could be better than Moscow if it takes necessary actions.

## 2.7. *New York*

New York is a global leader as a financial center. The United States 'financial system is market-based, few medium-sized and large firms. The NYSE that is also the partner of Euronext in Europe is the country's largest equities market for mature enterprises. NASDAQ is the second-largest US exchange for new and increasing enterprises. The bond markets, especially government bond markets are highly deep and liquid (The Economist Intelligence Unit, 2013a, p.11-13). IPOs market crashed in 2008-2009 period because of financial turmoil. US government Treasury bills issued for 13 or 26 weeks' periods (T-bills) are a leading money-market investment. Moreover, commercial papers issued by corporations with short-term are another important money-market instrument in the US (The Economist Intelligence Unit., 2013a, p.11-13). Foreign-exchange transactions cover spot, forward contracts, foreign exchange swaps, and over-the-counter options. The International Securities Exchange (ISE) that is the largest trader of equity options also operates in New York. ISE is owned EUREX that is a leading global the derivatives exchange (The Economist Intelligence Unit, 2013a, p.12). New York has the dynamic and innovative derivatives market and large well-structured debt market, but in recent years, London has got superior position for innovation, risk management and investment relative to New York (Bloomberg and Schumer, 2007, p.54). New York is also home to the New York Mercantile Exchange, which is the largest commodity futures exchange. The United States banking system is dominated by a few top investment banks, followed by a tier of smaller regional banks. Foreign banks are competing on equal terms primarily with domestic banks (The Economist Intelligence Unit., 2013a., p.3-5). Istanbul could not compete with New York in the near future.

## 2.8. Paris

The French banking and financial system is very open to international markets. France has moved to from a largely bank-based model towards a capital market-based model. Several banks operate in France, after 15 years of consolidation process, some banks consolidated. The big five French banks account for over 75% of all deposits, over 60% of all lending and around 50% of total assets. There are diverse mixes of sub banking activities in the banking sector, for instance retail and commercial banking, consumer credit, leasing and equipment finance, insurance, private banking, asset management, and corporate and investment banking. Domestic institutions will remain dominant within the retail-banking sector. France's stock exchange is Euronext Paris. In September 2000, Paris Stock Exchange merged with Amsterdam, Lisbon, and Brussel and established Euronext NV. Euronext Paris owned by New York Stock Exchange Euronext (NYSE Euronext) is the second largest stock exchange in Europe. The number of new listings has declined sharply in recent years, similar to other global stock markets. In 2012, there were 32 IPOs, which were 54 in 2011 (The Economist Intelligence Unit, 2013f, p.11-12). France is one of the leading countries in Europe for corporate bonds. In addition to this, France has the second highest outstanding value of bonds issued by financial institutions and the fourth highest outstanding value of international bonds in March 2013 (The City UK, 2013, p.17). The public and semi-public sectors dominate the primary bond market. The net daily turnover on the Paris market of foreign-exchange transactions that are spot, outright forwards, foreign-exchange swaps, currency swaps, currency options and other foreign-exchange instruments transaction increased up by 25% compared with the previous triennial international survey conducted by BIS. French has active OTC markets. Foreign-exchange derivatives and credit derivatives, especially CDS are traded. Although swaps are still the most popular form of contract, forward rate agreements raised. The use of securitization and credit derivatives is very common although the market has not been well developed yet (The Economist Intelligence Unit, 2013f, p.12-13). MATIF Futures Exchange is managed by da NYSE Euronext. Interest rate contracts, which are most popular derivatives and Paris is the 3rd place in worldwide ranking during 2010 and commodities derivatives contracts are traded mostly. At MONEP derivatives exchange security, index contracts are traded. In addition to this, at Paris branch of NYSE Euronext LIFFE Derivatives Exchange agriculture derivatives contracts on which Paris's financial center is expertise are traded (The City UK, 2013, p.17). Paris is the largest center in Europe after London. The banking sector is strong and having an international standard. Istanbul could compete with Paris in banking and commodity products trading.

## 2.9. Shanghai

Shanghai provides their services regionally. Shanghai uses export-oriented growth model their produces international savings and needs investments to improve productivity and national competitiveness. The financial system is a bank-dominated one. Foreign banks will go on marginal players, but some have developed operations particularly in private banking. The Chinese are intense users of bank accounts. China's banks usually channel cheap funding to state enterprises and, particularly in recent years, to local governments. NPLs have accelerated steadily in value since the fourth quarter of 2011, but stay 1% of total lending. In banking sector, regulators will gradually relax prudential ratios that are currently very conservative. Foreign banks will go on marginal players, but some have developed operations particularly in private banking. The Chinese are intense users of bank accounts. China's banks usually channel cheap funding to state enterprises and, particularly in recent years, to local governments. NPLs have accelerated steadily in value since the fourth quarter of 2011, but stay 1% of total lending. In banking sector, regulators will gradually relax prudential ratios that are currently very conservative (The Economist Intelligence Unit, 2013c, p.3-5). The Shanghai Stock Exchange (SSE) is Asia's the second-largest exchange after Japan's Tokyo Stock Exchange at end of 2012 in terms of market capitalization. As an emerging stock market, the Shanghai stock market is also highly volatile. The Shanghai stock market is not an efficient market. Herding behavior and speculation are prevailing, which might stimulate from the weak supervision and segmentation of the share ownership. Shanghai is the main competitor of Hong Kong, Tokyo, and Singapore. However, Shanghai suffers from many problems such as an underdeveloped legal framework and weak market institutions. On the other hand, the derivatives markets except commodity trading are less sophisticated than other developed economies and its competitors. In banking sector, NPL's ratio is worse than Istanbul. Chinese government maintain rigid controls on moving and holding RENMINBI and foreign currencies, the international banking activities are behind its competitors. Istanbul could compete with Shanghai in various sub segments of the financial system.

### 2.10. Toronto

The financial system is well developed in Canada. The financial system structure and conditions are the same the US financial market, but the depth and liquidity of financial market is low due to the small size of Canadian economy (The Economist Intelligence Unit, 2013b, p.2). They have sophisticated banking system. Both domestic and foreign-owned bank hold more than 70% of financial sector's assets. There is a concentration in banking sector that bears some risks for financial stability and competition, the big six lenders dominate around 90% of all banking assets (The Economist Intelligence Unit, 2013b, p.3). Canada's five largest domestic banks have their head offices in Toronto. 55 foreign-based banks operating in Canada, 45 of which have their Canadian head offices in the Toronto region (Toronto Financial Services Alliance). The capital position of banks is strong; this provides a buffer against losses. The TSX (formerly Toronto Stock Exchange) is Canada's main share trading arena. It is a subsidiary of the TMX Group. The TSX, in which 1600 companies are listed, has sophisticated trading and settlement systems (The Economist Intelligence Unit, 2013b, p.3; p.5). The secondary market for commercial paper is well developed in Canada. Montreal Exchange, which merged with the TSX in 2008, is the country's primary derivatives exchange. There are developed markets for foreign currency and financial derivatives in which domestic and foreign banks are the primary traders of Canadian dollars, US dollars and other foreign currencies. In addition, over-the-counter futures, options, and swaps are traded. The most actively traded OTC interest rate options are interest-rate caps, floors and collars, and options on swaps (The Economist Intelligence Unit, 2013b, p.12). Toronto has a very powerful financial system, but the liquidity is low due to small size of Canadian economy. The foreigners can easily participate in the financial and the banking sector. However, low motivation of the government and New York stop Toronto positing as global financial center. Istanbul could not compete with Canada in the near future.

### 2.11. Singapore

Singapore is a global financial center after London and New York. Historically, Singapore is the second Asian center just behind Hong Kong but it experiences the strongest rises in the region. Singapore financial center is dominated by a large offshore banking sector that are known as the Asian dollar market (ADM), therefore there is neither exchange control nor restrictions on foreign direct investment flows (Sagaram and Wickramanayake, 2005, p.26). There are lower barriers to entry for foreign banks, as a result of this, the foreign banks dominate the banking sector. Singapore's well-capitalized banks have high levels of liquidity, excellent asset quality, low-level NPLs standing at around 1% of total loans in 2012. Singapore strengthens its position as a regional money hub and is a safe haven for the assets of wealthy people from all across Asia, as a result Singapore benefits from inflow of funds which preciously have been directed to other centers, for example in Switzerland (The Economist Intelligence Units, 2013s, p.2; p.7). Financial markets, i.e. domestic markets for securities, derivatives, and currency are highly developed and the financial markets in Singapore serve for the entire Asian region. The Asian Dollar Market dominated by foreign banks with operations in Singapore, which is the equivalent to the Eurodollar market, intermediates cross-border interbank and non-bank lending flows (The Economist Intelligence Unit, 2013s, p.4). The Singapore Exchange (SGX) allows the domestic and foreign companies to raise long-term capital through equity and debt securities and also allow listed companies to raise additional capital through right issues and private placements of new shares. Overseas companies raise funds through bonds, so Singapore offers different debt securities that are listed on SGX, unlisted bonds and Asia-dollar bonds (The Economist Intelligence Unit, 2013s, p. 9). SGX launched the ASEAN trading linkage with Bursa Malaysia in September 2012. The Stock Exchange of Thailand joined the linkage in October. This linkage is a private-sector initiative driven by seven Asian exchanges, and complements the ASEAN Capital Markets Forum's initiatives. It aims to promote the growth of ASEAN capital markets by creating an infrastructure for more efficient intra-ASEAN trading. The foreign exchange (FX) and OTC derivatives market plays a pivotal role in Singapore's vibrant and international financial markets, underpinned by Singapore's growth as a major global trading hub. Singapore was also ranked the largest OTC interest rate derivatives center in Asia Pacific excluding Japan by turnover (Singapore Monetary Authority, 2012) Singapore is the first economy in the Asia to allow foreign banks to operate off-shore banking units. Foreign banks trade in the Asian Dollar Market (ADM). Asian Dollar Market is an international financial market in which the institutions accept the deposit of hard currency outside their country of origin. An Asian Dollar Market is comprised of financial institutions borrowing, lending dollars, and other currencies outside the country of origin (The City of London, 2008, p.30). Currency and interest swaps are very common in Singapore. Foreign banks have developed an active market in regional currency swaps that are US dollar-baht, US dollar-rupiah and US Dollar-Malaysian dollar (The Economist Intelligence Unit, 2013s, p.9). Singapore also has an

active but small derivatives market. Trading are carried out both over the counter, which operates through the Singapore Exchange Derivatives Trading (SGX-DT) system and the Singapore Mercantile Exchange. Most derivatives transactions are in a foreign currency, futures, and options on stock indices, government bonds, interest rates, and energy. Singapore Commodity Exchange trades commodity contracts such as rubber. Most of the foreign banks in Singapore use complex product such as the exotic options that are caps, floors, collars and swaptions (The Economist Intelligence Unit, 2013s, p.10). Islamic financial services continued to grow. The year also saw renewed interest in Sukuk issuances in Singapore. Two Singapore Dollar Sukuk totaling S\$130 million were issued in 2012 by local entities including the first convertible Sukuk in Singapore. The first half of 2013 saw a further two Sukuk issues amounting to S\$100 million and the launch of an S\$500 million multi-currency corporate Sukuk programmed by a local entity (Singapore Monetary Authority, 2012). Istanbul could not compete with Singapore in the near future.

### *2.12. Tokyo*

Tokyo has behind in Singapore and Hong Kong although Tokyo is a historic financial center. Tokyo provides their services mainly to the domestic economy. The innovation capacity is limited. Tokyo has bank-dominated financial system rather than capital-dominated financial system. This situation makes Tokyo relatively uncompetitive (Sagaram and Wickramanayake, 2005, p. 25-26). In January 2013, the Tokyo Stock Exchange (TSE) and the Osaka Stock Exchange (OSE) merged their operations and they formed the Japan Exchange Group (JPX). Equity trading was integrated in July 2012 and derivative trading will be integrated by March 2014. The number of companies, 10 of which are foreign companies listed on the TSE increased to 3,400 after the merger. The integrated bourse is the world's third largest by number of listed companies. The TSE's dominant position is in equity trading. In 2012, only 48 IPOs were transacted (The Economist Intelligence Unit., 2013j, p.9-10). The TSE and the London Stock Exchange recently established a joint venture called Tokyo AIM, a new Tokyo equity based market for growing companies that is only open to professional investors. Tokyo AIM is also considering a debt securities market for professional investors only. The TSE plans to integrate TOKYO AIM into the Tokyo Stock Exchange effective July 1, 2012, and re-brand the TOKYO AIM market as 'TOKYO PRO Market (IMF, 2012, p. 99). Japan's public debt market is the largest in the world, both in absolute size and relative to GDP. Additionally; Japan has the largest domestic bond market in Asia. Financial futures and options on futures are traded both OTC and at the Tokyo Financial Exchange (TFX). Currency forward contracts and swaps make up a small proportion of OTC derivatives. The TFX consists of Japanese and foreign securities companies, banks, insurance firms, money market brokers and futures brokers as its members. TDEX is the nickname of the TSE's Derivatives Market. The derivative products listed on TDEX offer investors a variety of effective hedging instruments and new opportunities for investment. The TDEX derivative market currently includes not only domestic investors but also many foreign investors. The markets for equity-linked derivatives remain underdeveloped. The JPX offers index futures and options and equity options contracts (The Economist Intelligence Unit., 2013j, p.11-12). Istanbul could compete with Tokyo in the near future. Early research on leader behavior conducted by psychologist in 1950s-60s, much of the studies on leadership behavior has been affected by two pioneering school: The Ohio State Leadership Studies and The Michigan Leadership Studies. Researchers at Ohio State University surveyed leaders have identified two major behaviors, called consideration and initiating structure. Consideration falls in to category of people-oriented behavior and is the extent to which leader is mindful of subordinates, respects their ideas and feelings, and establishes mutual trust. Considerate leaders are friendly, provide open communication, develop teamwork, and are oriented toward their subordinates (Daft, 2008). On the other hand initiating structure is the degree of task behavior that is the extent to which the leader is task oriented and directs subordinate work activities toward goal attainment. Leaders with this style typically give instructions, spend time planning, emphasize deadlines, and provide explicit schedules of work activities (Daft, 2008).

## **3. Methodology**

### *3.1. Research Goal*

In this section, Istanbul and its peers are analyzed considering various characteristics of the financial system. A ranking and percentile analysis is brought out to compare the financial centers.

### 3.2. Sample and Data Collection

The World Bank Global Financial Development Database (GFDD), the World Bank World Development Indicators Database, and World Bank Islamic Banking Database are used to characterize Istanbul's position in banking and financial markets. Nine indicators are used for the banking sector, whereas 13 indicators are used for the financial markets. The indicators are used as the average of the values between 1992 and 2012 in the ranking analysis. Except the number of contracts indicators, all indicators are calculated as a percentage of GDP: Total Assets, Liquid Liabilities, Domestic credits, Return of Equity (ROE), Deposit money banks' assets, cost efficiency, international banking, Islamic banking, bank nonperforming loans to gross loans (%) are used for banking sector analysis. In the financial market side, stock market value traded, stock market capitalization, ETF turnover, IPO value, commodity contracts, currency contracts, interest rate contracts, stock contracts, index contracts, mutual funds, domestic debt securities, international debt securities, OTC foreign exchange are used.

### 3.3. Analyses and Results

The centers are categorized based on the percentile. We use Pajec Program (social network analysis tool) to determine which financial center has the highest density of banking and financial activities. The number of lines in the network, expressed as a proportion of the maximum possible number of lines. Values below the 25<sup>th</sup> percentile is shown in red and named as the fourth developed group. Values equal or greater than the 25<sup>th</sup> percentile and less than the 50<sup>th</sup> percentile are shown in yellow and named as third developed group. Values equal or greater than the 50<sup>th</sup> percentile or less than the 75<sup>th</sup> percentile is shown in green and categorized under the second developed group. Values equal or greater than the 75<sup>th</sup> percentile is shown in red and named as the first developed group. Frankfurt Financial Center has not adequate data to be included in analysis, so it is excluded from analysis.

Table 1: Financial Centers Rankings by Banking Activities

Financial Centers/ Banking and Characteristics	Total Assets	Liquid Liabilities	Domestic Credits	Deposits	Bank ROE	Cost Efficiency	Internatio nal Banking	Islamic Banking	NPL
Dubai	9	10	9	8	1	5	10	1	10
Hong Kong	2	1	5	1	2	8	1	N/A	4
İstanbul	11	11	11	10	11	11	4	3	9
Kuala Lumpur	4	4	6	3	4	6	3	2	11
London	3	6	3	ND	7	7	5	4	3
Moscow	12	12	12	11	5	12	6	N/A	8
New York	10	8	2	6	8	10	2	5	2
Paris	7	9	8	7	9	3	7	N/A	7
Shanghai	6	3	7	9	3	4	11	N/A	12
Singapore	5	5	10	5	6	1	8	N/A	6
Tokyo	1	2	1	2	12	2	ND	N/A	5
Toronto	8	7	4	4	10	9	9	N/A	1

(1) N/A: Criteria are not applicable to the designated center.

(2) ND: Data is not available for designated center.

When İstanbul is compared with its peers, İstanbul is placed at a lower position than its peers. It is clearly seen that Islamic Banking has a competitive potential in İstanbul.

Table 2: Financial Centres Rankings by Financial Market Activities

Financial Centres/ Financial Market and Characteristics	Stock Market Value Traded	Stock Market MARCAP	ETF	IPO	Commodity Contracts	Currency Contracts	Interest Rate Contracts	Stock Contracts	Index Contracts	Mutual Funds	Domestic Debt Securities	International Debt Securities	OTC Foreign Exchange
Dubai	11	11	N/A	10	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6	ND
Hong Kong	1	1	2	1	10	6	7	5	8	1	8	4	5
Istanbul	12	12	8	8	8	3	9	N/A	5	10	10	11	10
Kuala Lumpur	5	3	10	3	7	N/A	8	N/A	10	7	5	8	11
London	3	4	3	5	2	5	1	3	4	6	6	1	1
Moscow	10	9	N/A	12	6	1	6	2	1	11	11	9	8
New York	2	5	1	6	3	4	4	1	6	3	2	7	2
Paris	8	8	5	9	5	N/A	2	4	3	2	3	2	6
Shanghai	9	10	7	7	1	N/A	N/A	N/A	2	9	9	12	9
Singapore	4	2	6	2	9	N/A	5	N/A	7	4	7	5	4
Tokyo	7	7	9	11	4	2	3	6	9	8	1	10	3
Toronto	6	6	4	4	N/A	N/A	N/A	N/A	N/A	5	4	3	7

(1) N/A: Criteria are not applicable to the designated center.

(2) ND: Data is not available for designated center.

When Istanbul is compared with its peers, Istanbul is placed at a lower position than its peers. It is seen that Currency Contracts have a competitive potential in İstanbul.

#### 4. Conclusion

Turkey is categorized under emerging market economies like, China, Malaysia, the Russian Federation and United Arab Emirates, therefore Turkey has a potential to develop financially. Conversely, Istanbul is at an early stage of national financial center. When Istanbul is compared with its peers having similar banking sector and financial markets fundamentals and indicators, Istanbul is placed at a lower position than its peers. Istanbul needs more mature financial markets and banking sector. Istanbul has not already offered a comprehensive range of financial institution and markets, proposing limited numbers of financial products and services comparable to any other international financial centers. The weaknesses of Istanbul lie in the deficiency of the financial structure and financial system. The main obstacles can be summarized as follows: undeveloped capital markets, lack of international and cross-border banking activities, lack of diversified and structured financial products, huge number of unbanked population, lack of educated people, lack of access to financial markets with highest speed, low level of stock market listing, and absence of a broad base of foreign institutional investors. Furthermore, the size of financial activity is also essential, if the size of financial activity is not big enough and the institutions and businesses locate in the center for tax purposes, the institutions, and businesses move on to other financial centers. Turkey has to enlarge the size of the financial system. Turkish financial system should be integrated to global financial system. Linkages between financial centers can help the centers to reap the benefits of integration. Especially, the economic integration with Middle East and Eastern European countries should be prompted. On the growth of financial sector, especially capital market has been focused to attain a better place in the international financial center ranking. The banking sector is at the core of the financial system in Turkey and Turkey has a bank-based financial system. New entry to the banking system should be easier. Foreign banks should not cope with local barriers arose from business practices, cultural aspects. Similarly, the banking sector should grow to take the advantages of scale. A large bank can be better diversified, have better liquidity and a large bank can offer broad range of services. As seen the results of our empirical analysis, the size or depth of stock markets has a greater impact on the size of the financial system in global financial center group. Borsa Istanbul should develop deeper markets for a full range of equity, debt and derivative markets. Borsa Istanbul should attract with liquidity outside investors, particularly for listing. The merger of all exchanges operating in Turkey under the roof of Borsa Istanbul is a signal of success across roadmap of regional financial center. The stock exchanges should be competing with each other to provide superior trading services. However, the listing and trading decisions of firms and investors not only depend on decisions of investors and on characteristics of a specific stock exchange, but also on the institutional features of the country in which the exchange and the financial center are located. The products development and new markets are placed. Kindleberger (1973) supports that financial product innovation play crucial

role in the formation of financial center, for Istanbul new financial products other conventional banking and financial market products should be proposed, especially interest free products. Focusing on just one or financial products are not its first aim. However, like other financial centers. Istanbul should specialize on specific financial instruments and financial services. Islamic finance and interest free financing alternatives should be added to the product bundle. Istanbul can rival Dubai and Malaysia. On the other hand, Turkey's unique geopolitical location is an important asset towards achieving the goal. The country is surrounded by important commodity exporting countries with relatively underdeveloped financial systems. As most of the neighboring countries are transition economies that are learning to play by the capitalist rules. Turkey has more chance to attract new financial resources than those countries such as Russia and Eastern Europe countries. Istanbul offers some advantages in terms of geographical proximity. Istanbul Regional Financial Centre should bring together the strengths of the well-developed banking sector and the capital markets. A deep and efficient capital market will support Turkey's and Istanbul's next stage of financial development and contribute to domestic rebalancing between the banking sector and the capital markets. Moreover, the action plan for the development of derivatives market should be prioritized considering global financial centers are the largest venue for derivatives trading. The objective of Turkey should be to create new opportunities for profit-making activity, to attract new businesses, new international funds, new financial instruments, to encourage efficiency, and to stimulate job, to increase the contribution of financial sector to GDP.

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