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Yildirim, Tansu; Mullineux, Andy

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An empirical assessment of the Istanbul International Financial Centre Project

Tansu Yıldırım [a,*], Andrew Mullineux [b]

[a] Citibank, Tekfen Tower Büyükdere Caddesi No: 209 Levent, 34394 İstanbul, Turkey
[b] University of Birmingham Business School, University House, 116 Edgbaston Park Road, Birmingham, B15 2TY, UK

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ABSTRACT

This paper tests the determinants of establishing a financial centre in the city of Istanbul by analyzing the results of a questionnaire survey which was conducted to elicit the perceptions of people working in the Turkish financial industry. We find that Istanbul has the potential to become a regional financial centre; however, the city, though improving, does not yet meet the criteria of being a financial centre. The city has a long list of issues to address, from Economic Conditions to Public Services and Social Environment, before its problems are solved. Until completion of all these tasks, the Istanbul International Financial Centre Project announced by the government will end up only being a much-publicized prestige project.
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1. Introduction

Cities have been at the centre of urban studies since the early twentieth century. Early studies in urbanization (Gras, 1922; McKenzie, 1927) have analyzed the influence of cities and the concept of dominance by focusing on the social and geographical facets of world cities. Subsequent studies have theorized about the factors which give rise to a city's influence and the forces behind city growth (Hall, 1966). During the 1970s and 1980s the conceptualization of city systems emerged, as a major shift moved the world towards a global structure. The focus moved to the nature of world cities and the emergence of financial centres, with consideration of their relationships with each other and with the world economy. This was evidenced in the study of Friedmann and Wolff (1982), who saw world cities as the control centres of the global economy; of Friedmann (1986), who first proposed the world city hypothesis; and of Sassen (1991), who posited a triad of global cities. One of the main themes of these studies was to identify the taxonomy of cities, and it was argued that the world system and cities are interlocked by global flows of capital, information and telecommunication. In recent years, studies have instead analyzed specific cities and their influence in the world economy: e.g. New York, Chicago and Los Angeles (Abu-Lughod, 1999); Paris (Higonnet, 2002); London (Hamnett, 2003); Shanghai (Cai & Sit, 2003); Hong Kong (Meyer, 2006); and Tokyo (Waley, 2007).

One aspect of urban studies has been competition, with inquiries into whether cities do indeed compete. According to Buck, Gordon, Hall, Harloe, and Kleiman (2002), city competition is not new, but has become more severe and widespread because of the globalization which has accompanied the emergence of financial centres. In this new economic era, competition between cities has been more open and it is obvious that cities increasingly tend to compete and market themselves as attractive locations for inward investment. They compete to promote themselves as financial centres able to attract consequent advantages, in terms of new jobs, high incomes and wealth concentration. Cassis (2006) refers to growing competition between cities, in particular in Europe, where Paris and Frankfurt, while competing against each other, have long endeavoured to also supplant London. In Asia, both Hong Kong and Singapore are rivals of Tokyo. Cities such as Istanbul, Moscow and Johannesburg, which have important representation within a host country in terms of economic power, financial and services industries, manufacturing, contributions to the national GDP and hosting of the largest stock exchanges in the country as well as the headquarters of the largest banks and companies, are in competition to become regional hubs, since being a financial centre has come to be their dominant project in pursuing their aims.

In this paper, we first define the forms of International Financial Centres (IFCs) for the purpose of our analysis. Second, the vision, strategy and action plan of The Istanbul IFC Project (The Project)

* Corresponding author.
E-mail addresses: tansu.yildirim@yahoo.com (T. Yıldırım), a.w.mullineux@bham.ac.uk (A. Mullineux).

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declared by the Turkish government are reviewed. In the main, we aim to be in a position to assess if Istanbul meets the criteria of being a financial centre by analyzing the perceptions of the people working in the Turkish financial industry. The paper concludes with the main outcomes of the analysis and proposals to encourage the success of Istanbul as a financial centre.

2. International financial centres

An IFC is a hub where financial transactions of considerable volume and variety take place. It could be a city, or a district within one, which has heavy concentrations of financial institutions offering products on a regional level or globally. The term has been used by several scholars; e.g. Johnson (1976), Heenan (1977), Reed (1981), Gorostiaga (1984), Jones (1992) and Cassis (2006). Financial centres for Reed (1981) mean centralization: such places contain concentrations of institutions which are capable of easing the flow of financial services and capital between their national economy and those of other countries. An IFC is assumed to have major stock exchanges, capital markets, financial institutions and to be the main host of regulators and central banks. With regard to their impact, a striking point is made by Jacobs (1984), who argues that the key drivers of global economies are not nations, but cities with financial centres.

Bearing in mind that not all cities are the same and that there are varieties and different types of cities in the development of IFCs, for the purpose of this paper we classify IFCs as Global Financial Centres (GFCs) and Regional Financial Centres (RFCs). For instance, cities in a third group are neither global nor regional centres, since this category consists of urban areas in national economies, such as Istanbul in Turkey and Moscow in Russia. In this paper, we do not refer to more specific debates within urban studies on categorizing different types of cities, as we solely aim to focus on whether Istanbul can be an RFC.

GFCs are key sites for economic and financial industries serving as market places. These hubs are characterized as command and control centres in the global economy and of banking, finance and other services, such as accounting and consulting. Among others, the increase of transnational corporations (TNCs) and global financial institutions is considered to be evidence for a city as a GFC (Saito & Thornley, 2003). Shin and Timberlake (2000) support the argument that GFCs serve as the nodes through which capital and information circulate and in which multinational corporations are concentrated. Knox (1995) illustrates these hubs as centres of transnational corporate headquarters, of their business services, international finance and telecommunications and of information processing. London and New York are widely seen as the only GFCs. They function as key locations for finance and service companies, for the production of innovations and as markets for these products, in addition to managing huge amounts of funds.

RFCs are defined by their concentration of broad financial services and transactions; they interact vigorously either with GFCs or their counterparts. RFCs are distinguished from GFCs in that a centre is called regional if it derives its main role from its geographical proximity to the combination of countries in which its customers operate (Johnson, 1976). They are hosts to foreign financial institutions which have found them convenient for locating offices, rather than magnets of financial power. GFCs, on the other hand, serve as hubs for TNCs with worldwide financial activities. RFCs have developed markets with good infrastructures and intermediate funds in and out of their region, where they provide favourable regulations, an enhanced legal framework and secure conditions for doing business. They have become globally more prominent as their relations with other cities have extended. Singapore and Hong Kong are mere RFCs compared to London and New York. Frankfurt, Paris and Amsterdam in Europe and Chicago in North America are other examples of RFCs. Hong Kong has one of the largest stock exchanges in Asia by market capitalization and the world's second-highest value of initial public offerings. Singapore is a significant market in foreign exchange and derivatives trading and real estate investment trusts; however, there are definite differences between the GFCs and the second group. As argued by Sassen (1999), only a few cities have the resources to be dominant within the international network of financial centres and first among them are London and New York, with their enormous concentrations of capital and financial flows. GFCs function as hubs where huge volumes of transactions are managed between TNCs across the world by using financial instruments, whereas the RFCs are the spokes in these complicated transactions with financial flows going through these centres from the global hubs.

3. The Istanbul IFC Project

The Turkish government wants to pour resources into Istanbul to allow it to become an IFC, rather than into the capital city, Ankara. This is because Istanbul is the premier city in Turkey in terms of its economic power, financial and services industries and manufacturing. There are also other reasons; Istanbul has a rich cultural and historical background and is a cosmopolitan city. With its lifestyle and culture, it meets the expectations of people from many different countries.

A new central business district is under construction in Atasehir–Istanbul and will host the headquarters of various financial institutions upon completion. In addition, the Turkish government has decided to move the banking regulator and state-owned banks from the capital city to Istanbul as part of a strategy to promote the latter as an RFC. However, the government had to put the Central Bank of Turkey's (CBT) move on hold in the face of resentment and resistance from political opponents and some public institutions. It is argued that the CBT should be located in the capital city, close to the government and the treasury, to better coordinate the monetary policy in times of economic crisis. Political opponents, on the other hand, see relocating the CBT as a first step in a bid by the government to move the capital from Ankara to Istanbul, since the CBT is seen as a symbol of national sovereignty and some consider that moving it out of the capital city of the country could damage the Republic. Such opposition is seen as ideological, as it has no basis in economic realities.

Istanbul is the command and control centre of the country, having huge revenue-generating potential. It generates 27% of the country's GDP, 47% of its total exports and 54% of its imports, and handles 46% of its air traffic (TurkStat, 2013). With a population of 14.1 million, 18.5% of the national total, Istanbul is the largest city in Turkey and with its significant contribution to the Turkish economy, it is responsible for 40% of the nation's total tax revenue.

Playing host to the largest banks and headquarters of companies and the Borsa Istanbul (BIST), the sole exchange entity of the country, which combined the former Istanbul Stock Exchange, the Istanbul Gold Exchange, and the Derivatives Exchange of Turkey, in addition to the fixed income, foreign exchange and money markets, the city's command and control status is unequalled in the country. Among the emerging markets, BIST has the 7th largest traded value in equities, with a total of USD 419 billion, and is the world's 8th largest bond market, with USD 521 billion as of 2013. Equity portfolio holdings by international investors represent 62.5% of free float capitalization. Non-residents' share in the government bond market stands at around 25%. The total trading value of the debt securities market was USD 3.62 trillion as of 2013. Among the 57 exchanges registered in the World Federation of Exchanges (WEF), BIST is ranked between 20 and 25 in terms of trading volume; and between 35 and 40 in terms of listed companies, with a market cap of USD 238 billion (WFE, 2013).

For the last five years, the development of Istanbul as a financial centre has become one of the main concerns of the Turkish government, which has been actively working to better understand the actions needed to achieve such status. In fact, the role of national governments and their support are among the key factors in the development of IFCs, such as in the cities of London, New York, Frankfurt and Paris, which have strong economies behind them. The Project will remain on the country's agenda, since the commitment in the Turkish government programme is to promote Istanbul as an RFC until 2023.

The vision of a city is a long-term view, which adumbrates what it wants to be. The first pre-condition of successful place advertising is to develop a vision of what the city is to become and what it wants to achieve (Fretter, 1993), which, in order to secure support, should be shared with all the parties who have a stake in the outcome. The vision of The Project was officially declared by the government in 2009: '*Istanbul, at first, will be a regional and subsequently global financial centre*' (Istanbul International Finance Centre Strategy and Action Plan, 2009). It was consequently transformed into The Istanbul IFC Strategy and Action Plan (The Plan) by identifying 71 actions defined in 10 categories: enhancing the legal framework; augmenting the diversification of financial products; implementing an effective tax regime; improving the regulatory environment; remedial work on the city's infrastructure; improving the technological infrastructure; establishing the organization of The Project; developing human resources; advertising and image creation; and tracking The Plan.

The institutional framework of The Project is composed of the Supreme Council, the Advisory Board, the Working Committees and the Coordinator. The Supreme Council acts as the high-level decision maker; it consists of the relevant ministers, chaired by the Deputy Prime Minister. Though there are representations from the Istanbul Metropolitan Municipality, the financial sector and the banking associations of Turkey at the level of the Advisory Board and the Working Committees, The Project is being coordinated and implemented centrally by the governmental authorities. The Advisory Board is a consultation platform of senior bureaucrats and representatives of private sector and trade organizations. Eight committees have been established in the areas of law, financial markets, tax, regulation, infrastructure, technology, advertising, and human resources. The State Planning Organization is responsible for coordinating the work of the Supreme Council, the Advisory Board and the Working Committees.

4. Methodology

Various factors are suggested in defining the determinants of city competitiveness. Lee and Schmidt-Marwede (1993), for instance, refer to the financial markets and physical infrastructure of the city. According to Frost and Spence (1993), the way to elevate cities is to ensure a satisfactory operating environment. From this perspective, infrastructural improvements provide cities with competitive advantage, comprising a variety of components ranging from transportation to entertainment facilities. Castells (1996) adds informational technology and quality of life to the list, while Yeung, Poon, and Perry (2001) refer to host country variables, including government incentives. The attributes of a financial centre can also be grouped into areas, of which there are numerous indicators, in particular when the scope of competition widens. For instance, Cai and Sit (2003) define six dimensions, from the politico-economic system to the urban image, which are considered capable of attracting international institutions to a city. Another classification is proposed by Kresl (1995), who defines urban competitiveness as a duality of economic and strategic determinants.

The methodology of this article is designed to examine empirically the determinants of establishing a financial centre in Istanbul by analyzing the results from a questionnaire survey which sought to elicit the perceptions of people working in the financial industry. To evaluate the capacity of Istanbul to become an RFC, we use numerous indicators, which are correlated with each other. The indicators used in the analysis fall into two basic groups: those for competitiveness and those for infrastructure (Table 1). All the variables in the questionnaire survey were measured on a Likert scale. We asked 200 individuals, from senior management to officers, working in banking, equities, consultancy and research companies, including both Turkish financial institutions and the subsidiaries of European and non-European banks which are operating in the country, to weigh the competitiveness criteria on a scale from strongly disagree (1) to strongly agree (5). Respondents were also asked to rate the infrastructure conditions in Istanbul on a scale from weak (1) to exceptional (5). In conclusion, 107 questionnaires were completed and returned, which represents a return ratio of 54%.

As the first step of the empirical study, we used factor analysis since it reduces the dimensions and clarifies latent variables by using the original indicators to improve understanding. Factor analysis is also found especially suitable for quantifying unobservable variables such as stability and ease of doing business; it eliminates high correlation between the variables and thus prevents possible statistical problems. During the analysis, we made separate and joint analyses to test the stability of the results. First, we reviewed the suitability of the indicators for factor analysis using the Kaiser–Meyer–Olkin (KMO) test. The test results evidence that all the groups and subgroups are suitable for factor analysis since the value of KMO measured 0.59, 0.85 and 0.79 for competitiveness, infrastructure and overall variables respectively. As the second step, we determined the number of factors and estimations of the factor loading coefficients to create new dimensions as latent variables. In the final step, relying on ordinary least squares (OLS) and ordinal logit estimations, we set out to understand the main determinants of the evaluations of Istanbul as an RFC.

5. Results

Table 1 summarizes the results of the factor analysis. The first panel indicates the dimensions derived from a separate analysis of the competitiveness indicators. The first factor was here loaded principally by [r2] the Regulatory Environment and [r6] Ease of Doing Business, which we define as the 'Business Environment' for companies in any location.

Cities cannot be viewed as virtually stateless and they do not become independent of their state merely by virtue of functioning through worldwide networks. This makes the regulatory environment a crucial component of city competitiveness for a successful IFC project. Countries need good, but not necessarily strong regulation. Over-regulation and the plugging of all loopholes might lead to a safe environment, but it limits the opportunities for entrepreneurs. Thus, a favourable regulatory environment should be in place, which is judged to contribute to the growth of financial centres. Regulators should also be flexible and able to accommodate changes, since lack of certainty about future conditions worries financial institutions and businesses, so a fair degree of feedback should be provided by governments before they implement major

Table 1
The results of factor analysis. *Source:* Survey data.

	Competitiveness				Infrastructure			All items				
	Factor 1	Factor 2	Factor 3	Uniqueness	Factor 1	Factor 2	Uniqueness	Factor 1	Factor 2	Factor 3	Factor 4	Uniqueness
r1 'Economic and Political Stability'			0.687	0.387						0.744		0.392
r2 'Regulatory Environment'	0.731			0.447					0.758			0.354
r3 'Legal Framework'				0.764								0.742
r4 'Tax Policy'			0.648	0.437						0.658		0.478
r5 'Financial Markets'			0.747	0.295								0.473
r6 'Ease of Doing Business'	0.697			0.395								0.511
r7 'Human Capital'		0.696		0.428							0.626	0.511
r8 'Geographical Location'		0.791		0.336							0.762	0.409
r9 'Publicity'		0.507		0.533								0.785
a1 'Urban Transportation'						0.511	0.617					0.520
a2 'Telecommunication'						0.820	0.328		0.554			0.427
a3 'Airline Hubs and Facilities'						0.734	0.349					0.432
a4 'Office Spaces'						0.591	0.438	0.655				0.404
a5 'Accommodation'						0.609	0.508	0.531				0.490
a6 'Housing (framework)'							0.560	0.660				0.475
a7 'Education System'					0.821		0.306	0.805				0.306
a8 'Medical Services'					0.880		0.197	0.848				0.262
a9 'Safety/Security'					0.673		0.442	0.636				0.403
a10 'Lifestyle'					0.754		0.410	0.737				0.448

changes in regulations. Sim, Ong, Agarwal, Parsa, and Keivani (2003) illustrate the accessibility of governmental bodies as one of the key reasons for establishing significant operations in a city.

A financial centre is a primary business locus in which bankers, customers and others can manage their relationships. Being close to markets, access to customers and other companies is seen to be important; thus, financial centres where business operation is secure will continue to dominate the world economy. A favourable business environment results from a combination of political, economic, social and environmental factors and is sometimes paired with city infrastructure. Begg (1999) supports the argument that the business environment is related to a city infrastructure that contains factors which are beyond the control of companies. These factors have significant influence on the attractions of the city as a place to locate because of their effect on the ease of doing business; they include access to global markets, customers, suppliers, licences and permits, in addition to ease of entry to or exit from any business.

Important items for the second factor are [r7] Human Capital, [r8] Geographical Location, and [r9] Publicity. The second factor represents essentially 'Business Location'.

Human capital means availability of skilled labour, well-performing workers and people of high capacity. In a comparable study of the role of human capital in an urban system's structure, Pompili (1992) argues that skilled labour is a strong factor in attracting certain activities, including economic and financial ones, not only to individual cities but also to the nation as a whole. A city can positively enhance its competitiveness by improving the level of its education (Kresl, 1995). Financial institutions function mostly through human-based factors and cannot compete with others unless their human capital can swiftly untangle the complexities of financial products. The accumulation of skilled staff in GFCs makes it hard for other cities to compete with them. Jakobsen and Onsager (2005) point out that these centres are far ahead of other cities in terms of human capital. However, many skilled people are now willing to go to other financial centres, since they are increasingly needed in these locations and are offered attractive compensation packages. For instance, Yeoh and Chang (2001) define Singapore as a meeting place of skilled managerial elites and talents, alluding to the government policies to attract them into the city.

Geographical location has always been at the centre of urban studies. Some argue that globalization and developments in technology and telecommunication have reduced the importance of centre over periphery, now that information can be transferred over longer distances and markets can be accessed from anywhere, regardless of distance. Others, however, still prize location, arguing that these developments are unlikely to eliminate locational advantages. Park (1989) supports the latter, arguing that the location of a city is one of the key requirements for its development as a financial centre.

The 'image' is a set of beliefs and ideas about an object or place, since people's attitudes towards something are highly conditioned by their beliefs (Haider, 1992); image is tenacious and cannot quickly be changed. One of the primary goals of urban publicity is to construct a new image of the city to replace either vague or negative images previously held (Holcomb, 1993). Without advertising themselves, cities will risk losing their image. Short, Breitbach, Buckman, and Essex (2000) point out that publicity is unavoidable, arguing that financial centres need to reposition themselves in urban imagery, since the promotion of their status as RFCs has come to be the dominant project for many competing cities in recent years. To attract and retain business, cities advertise that they have a suitable business environment, an ideal workforce, solid infrastructure and a high quality of life (Short & Kim, 1999). In fact, urban publicity in recent years has increasingly referred to the quality of life, including a healthier, greener environment and cultural and recreational facilities.

The third and final factor for separate analysis among the competitiveness indicators is determined by [r1] Economic and Politic Stability, [r4] Tax Policies and [r5] Financial Markets. This third factor can be labelled 'Economic Conditions' and implicitly sums up the economic performance of the city.

The rise of a financial centre cannot be independent of the economic and political environment of the country in which it is experienced. New York, London, Paris and Amsterdam have successively ranked top in the world economy since the eighteenth century. The same goes for Tokyo and Frankfurt, with the emergence of Japan and Germany in the aftermath of World War II (Cassis, 2006). Businesses and markets can work better in stable conditions and capital prefers not to be surrounded by instability. Apart from stability, strong political will and government responsiveness are key factors, since an IFC project is likely to take many years to accomplish; its success should hence be pursued at the country level, albeit invisible to some. Nevertheless, the commitment to build an IFC requires full community endorsement from all parties, including the private and public sectors, labour unions and even religious institutions (Heenan, 1977).

The weight of economic activities since the 1980s has shifted from manufacturing sites to the centres of finance and services, where globalization has led to drastic changes. Thrift (1994) describes the basic characteristics of financial markets as size, rapid deployment of information, speculation and volatility. Markets in GFCs and RFCs are indeed very large and liquid, which makes it easy for investors to enter and leave as required. The existence of sophisticated products has also been one of the criteria that most distinguishes financial markets (Simon, 1995); the rise of a financial centre therefore becomes more dependent on developing its markets. In addition, differentiation is a key factor and financial institutions should look for ways to develop niche products to attract customers to the city. Cassis (2006) dwells on the importance of diversified products in making a financial centre attractive. He points out that, after London, several markets in Europe play a key role. For instance, the strength of Swiss financial centres continues to lie in a few niches, the most important of which is wealth management for private clients, showing that any city aiming to be a financial centre should find individual points of difference to offer.

Taxation, the third determinant of Economic Conditions is the only criterion that has a direct impact on the profit of any corporation and hence on the decision to establish business in one locus and not another. Uncertainty over taxation has been a major concern for institutions, because neither financial institutions nor consumers relish complicated procedures. The corporate tax rate, for instance, naturally has an impact on any decision by a financial institution to set up business, as do taxes, and the charges levied by the authorities also affect the attractiveness of financial centres (Begg, 1999). In a study on the competitiveness of regional centres, Ho (2000) describes the importance of tax exemptions provided to companies, in particular by Singapore. He illustrates that Australian corporate tax rates are quite high, standing at 33%, compared to 16.5% in Hong Kong and 10% in Singapore – applied to those within the regional headquarters scheme – while other companies are taxed at 22%.

The items for city infrastructure are reduced to two dimensions, which are indicated in the second panel of Table 1. The first dimension here represents 'Public Services and Social Environment', which is loaded by [a7] Education System, [a8] Medical Services, [a9] Safety, and [a10] Lifestyle.

The quality and quantity of educational institutions count a great deal in making a city competitive, for they impact on human capital. In addition, the existence of a good education system for expatriate families encourages them to move into financial centres. For example, Singapore has the largest US and Japanese school system in its region, capable of offering education up to pre-university level (Ho, 2000). There are also personal concerns, such as medical services and security, on which foreigners need particularly to be reassured when they contemplate working there. Lifestyle is arguably the most subjective condition of any. However, there is one fact to consider: urban amenities, in supporting the quality of life, become key assets for a city. The concentration of financial institutions in world cities cannot be fully explained by economic and financial determinants, since social and cultural factors are crucial for the success of an urban area (Short & Kim, 1999). A rich historical and cultural background, cosmopolitanism, even architecture, all contribute to a city's value. Savitch (2010) argues that cosmopolitanism is one of the criteria clarifying the question of what makes a city great. London, for instance, has huge numbers of immigrants, including skilled staff from different parts of the world, which is one of the reasons why it contains many financial institutions from such countries.

The second dimension here can be interpreted as 'Resources for Business Networking', principally loaded by [a1] Urban Transportation, [a2] Telecommunication, [a3] Airline Hubs and Facilities, [a4] Office Spaces and [a5] Accommodations.

Developments in telecommunication and technology have changed the meaning of location and diminished time differences and the concept of space, rendering geographic location almost meaningless. Warf (1989) illustrates how financial services have been revolutionized by telecommunication and technology, which have encouraged the formation of worldwide markets, banking in particular. Financial institutions are highly information-intensive and without extensive systems and advanced telecommunication it would be impossible for them to provide their services. An ideal centre should have extensive facilities, including good city transportation and air links, with high frequency and connections to major cities. The availability of good office space is also among the factors to consider when choosing to locate business in an urban area. Similarly, the quality of real estate and cost of renting houses and accommodation are important when people look to move to a city.

The results for the factor analysis for all items are indicated in the third panel of Table 1. The first factor contains the infrastructure items, which include Office Spaces, Accommodations, Housing, Education System, Medical Services, Safety, and Lifestyle. The first factor can thus be said to represent the 'Social Dimension of Business Activities'. Two components of the second factor are Regulatory Environment and Telecommunication. Taking the difference between the two factor loadings into consideration, we find that the second factor reflects mostly the 'Regulatory Framework', which has the higher loading coefficient. Economic and Political Stability and Tax Policies determine the third factor, which indicates the 'Economic Conditions'. Finally, the fourth factor of the analysis for all items is loaded here by Human Capital and Geographical Location, which represent the 'Business Location'.

Using the factor analysis results and the demographic variables of respondents, we have attempted to understand the main determinants of the respondents' opinions about the possibility of Istanbul being an RFC. Table 2 displays the results of the OLS and ordinal logit analysis (OLA). Demographic variables are statistically insignificant in general, for all three panels and for the two different estimation methods, which means that the decisions of the respondents are not differentiated according to their demographic characteristics.

Two factors from the infrastructure, Public Services and Social Environment [a7, a8, a9, a10] and Resources for Business Networking [a1, a2, a3, a4, a5] are significant for separate estimation; however, they lose their explicative power in joint estimations because of the correlation between the factor variables (Table 2). According to the respondents, health services, education and security are among the areas for improvement, which will need a considerable amount of investment in Istanbul.

City transportation is obviously the most important issue in the city, requiring major redevelopment projects to make the poor system effective. But air transportation tells a different story. The city has a 24-h international airport with good facilities and frequent flights to major cities throughout the world, supported by a public airline company. Istanbul is a relatively cheap city in terms of office space and housing. Thus the prohibitive costs of rents in other cities could support the competitiveness of Istanbul. However, one fear in Istanbul is that the city is located in a seismic belt. Most of the buildings are old and at high risk, which entails considerable planning and reconstruction costs. As a result, city infrastructure conditions, transportation and traffic, security and medical and other services should all be developed. The city has indeed a long list of things to do to tackle its infrastructure issues.

Table 2
The results of regression analysis. *Source:* Survey data.

s1 Grade for RFC	Model 1 Coef.	Model 2 Coef.	Model 3 Coef.	Model 4 Coef.	Model 5 Coef.	Model 6 Coef.	Model 7 Coef.	Model 8 Coef.	Model 9 Coef.	Model 10 Coef.	Model 11 Coef.	Model 12 Coef.
rf1 Fac 1 competitiveness	0.128	1.504	0.101	1.392					0.105	1.442	0.051	1.241
rf2 Fac 2 competitiveness	0.412***	2.753***	0.336***	2.375***					0.399***	2.683***	0.299***	2.158***
rf3 Fac 3 competitiveness	0.370***	2.621***	0.366***	2.818***					0.365***	2.591***	0.351***	2.740***
af1 Fac. 1 infrastructure					0.170**	1.458**	0.178**	1.628**	0.016	1.059	0.062	1.226
af2 Fac. 2 infrastructure					0.190**	1.462*	0.204**	1.602**	0.053	1.099	0.100	1.300
x1_2 Sector (1 = Banking)			−0.107	0.523			−0.203	0.506			−0.156	0.452
x2_2 Management level												
Middle			0.164	1.907			0.288	2.185			0.190	2.078
First and officer			0.347	5.107			0.743**	9.289**			0.462	7.117**
x4_2 Age												
30–40 Years Old			0.113	1.589			0.032	0.929			0.090	1.523
40+ Years Old			0.433	3.890			0.452	2.422			0.405	3.777
Education (1 = M and PhD)			0.031	1.269			0.174	1.498			0.020	1.204
Experience												
10–20 Years			0.280	3.504			0.575	5.637**			0.382	4.674
20+ Years			0.539	8.651			1.043**	19.222***			0.664	11.416
/cut1		−4.985		−3.102		−4.093		−1.98584		−4.964		−2.882
/cut2		−1.824		0.273		−1.416		0.878		−1.828		0.414
/cut3		−0.164		2.075		−0.157		2.335		−0.164		2.257
/cut4		3.258		5.838		2.644		5.580		3.271		6.077
_cons	3.392*		2.783***		3.392***		2.379*		3.393***		2.723***	
R2	0.758		0.749		0.913		0.859		0.764		0.440	
Pseudo R2		0.172		0.222		0.030		0.114		0.173		0.228

* Significant at 90%.
** Significant at 95%.
*** Significant at 99%.

Latent variables, in particular the second factor, Business Location [r7, r8, r9] and the third factor, Economic Conditions [r1, r4, r5], of the competitiveness group are significant in both separate and joint estimations (Table 2). This means that the perceptions of the respondents with regard to the possibility of Istanbul becoming an RFC increase with the rise in their ratings on the determinants of Economic Conditions and Business Location.

With regard to Economic Conditions, Turkey has shown an acceptable level of stability in recent years. GDP per capita has tripled since 2002 and now exceeds $10,000. The country is the seventeenth largest economy in the world and the sixth largest in Europe, maintaining a 5.2% average rate of GDP growth between 2002 and 2012. The 2023 goals of the Turkish government, apart from promoting Istanbul as an RFC, include an economy which amounts to $2,000 billion GDP and $25,000 GDP per capita and the target of joining the group of the ten largest economies. On the political front, the country is more stable than ever. However, the conflicts over the country's known issues, including human rights, freedom of expression, impunity and unfair trials, have yet to be resolved and continue to create uncertainties, which could impair The Project. In addition to the geopolitical risks in the Middle East that are being felt in the Turkish economy, the country is in the middle of the unfolding crises in Syria and Iraq, which could negatively impact trade in the region and its ability to attract foreign investments and capital flows.

Financial markets in cities such as Istanbul are limited in terms of size, depth and liquidity; moreover, derivatives and other complex products are little developed and their trade volumes are not as sizeable as those of GFCs and RFCs; we do, however, accept that the city has potential. One can ask whether, since London, New York and one or more RFCs may be all that are required in today's globalized financial system, there is any basis for demanding yet another RFC in Istanbul. The city should give a simple reason why it, rather than others, should be the one to be chosen as an RFC and should evidence that it has comparative advantage compared to its peers in particular trading in markets.

Taxation, like the legal framework, needs considerable efforts to make it effective throughout the country. Reducing the corporate tax rates could persuade businesses to operate in Istanbul, at least those which want to establish themselves within the IFC scheme. Increased predictability, enhanced competitiveness and a broad-based tax regime, the gradual abolition of transaction-based taxes and equalizing taxation on similar transactions are among the factors for implementation of an effective taxation in Turkey. It is also critical to have stable and clear tax regulations in operation.

Istanbul has significant locational advantages in its region, located as it is between Europe, the Middle East, North Africa and Asia. Moreover, it maintains a special relationship with the countries of Central Asia, to which it is a strategic gateway. Istanbul, extending a network between the Central Asian countries and Europe, should benefit equally from its location for the success of The Project.

Publicity highlights one of the concerns in the survey, which requires an advertising strategy to be determined and public opinion to be managed positively both within and outside the country. To ensure the success of The Project, we suggest intense advertising and image creation for Istanbul. During the advertising activities, the accomplishments and developments completed within the scope of The Project should be publicized, together with information about financial markets, the regulatory environment and the legal and tax arrangements in the city. Similarly, well-defined policies are required both to increase the human capital of the city and to attract skilled talents into Istanbul.

6. Conclusion

The success of an IFC project rests on the basis of articulating a clear vision, well-defined strategy and action plan and an effective institutional framework. Despite defining a clear vision and transforming it into The Plan, we find that promoting Istanbul as an RFC until 2023 excessive as a commitment. Moreover, the institutional framework of The Project is more like that of a bureaucratic working group than an active and independent organization. Thus, in addition to the existing framework, we advocate the establishment of a dedicated institution which will have full accountability for The Project and handle the concerns of both local and international businesses from all sectors; this could be either the city council or an independent institution. Besides, a well-coordinated and healthy dialogue between public and private sectors is indispensable for implementing the actions with a coordinated approach rather than a series of discrete attempts.

Most of the respondents optimistically believe that Istanbul can be an RFC within 10–20 years; the mean of the overall grade is 3.30/5.00 and the median is 4.00/5.00. The results of the regression analysis and OLA indicate that this belief is based mainly on the 'Economic Conditions' and the 'Business Location' factors. Thus, according to the perceptions of the respondents these are the most important factors for the conversion of Istanbul into a financial centre. Therefore, to increase the likelihood of this event, the city should improve its performance, including [r1] Economic and Political Stability, [r4] Tax Policies and [r5] Financial Markets. In addition, the Business Location conditions, including [r7] Human Capital, [r8] Geographical Location, and [r9] Publicity, are the key determinants by which The Project could be assessed to be successful, according to the financial sector workers.

Istanbul needs to attract corporations by providing favourable conditions for doing business in the city. This will require fiscal and non-fiscal incentives, tax exemptions and more freedom. With its historical and cultural background, the city has been linked with Europe from the eighteenth century onwards; it is a cosmopolitan city, which has accommodated different cultures and religions over the centuries. Istanbul has advantages in terms of accessibility, proximity and centrality, so it should exploit its location and network. However, without an adequate level of human capital, as well as publicity and a strong image, Istanbul cannot position itself as an RFC.

The analysis of The Project in this paper reveals that Istanbul has the potential to be an RFC, but it does not yet meet the criteria for being a financial centre. Its success will depend on gaining the determinants of city competitiveness in accordance with its own strengths and weaknesses. The city still has a long list of issues to address, from economic and political stability to the city infrastructure, before its problems are solved; if it fails to complete all these tasks, Istanbul's IFC Project will end up as no more than a publicized prestige project.

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