What next for Istanbul as an international financial centre?

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Submitted in January 2016, published in French as "Quel avenir pour Istanbul en tant que centre financier international?" in *Istanbul, capitale régionale et ville-monde*, *Anatoli* n°7 (Autumn 2016) edited by Jean-François PÉROUSE, pp 63-82

Abstract

Istanbul's place in the global financial system has become regionally prominent as Turkey has opened up to a globalizing economy since the 1980s. The AKP government now wants to not only entrench Istanbul's status as an attractive emerging market but also make Istanbul a globally important financial services centre. For this, a project of reforms, initiatives and building work has recently been put in motion. The article contextualizes this project by looking at the politics, economy and markets nexus in Turkey since the 1980s. It then reviews the project's progress in various domains and comments on its future by taking cues from recent political turns in the AKP leadership concerning economy and financial system.

Introduction

This article discusses recent Turkish economic and financial history to make sense of an ongoing initiative to turn Istanbul into an international financial centre. The Istanbul Financial Center project (IFCP) is a state approved and run project since 2009 that aims to turn Istanbul into first a regional and then global financial centre.[1] Currently, the IFCP involves ongoing building work in Istanbul's Atasehir district. Several state-owned financial organisations and regulatory institutions plan to move their Ankara-based headquarters to the IFCP campus. It is not clear whether the project, which according to the IFCP's website involves substantial reforms and initiatives in legal, regulatory, technological, human resources and other domains has made as much progress as the building work in Atasehir.

A careful examination of the IFCP website gives the reader the impression that Istanbul's transformation into a global financial centre is believed to be possible by state sponsorship and intervention. The IFCP is aware of the competition from already strong regional and global alternatives to Istanbul and Istanbul's recent fall from the 42nd to the 44th place in the Global Financial Centre Index (GFCI) of 82 centres.[2] This index is based firstly on the standings of all 82 centres in many of the domains the IFCP set to make progress, and secondly on global finance

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[1] IFCP, "Istanbul International Financial Center," no date, available at http://www.ifcturkey.com/istanbul-international-financial-center/ , last accessed 19 Sep. 15.
[2] IFCP-Initiative, "İstanbul, Finans Merkezleri Endeksi´nde geriledi - 23.03.2015", available at http://www.istanbulfinansmerkezigirisimi.com/en/News, last accessed 19 Sep. 15.

professionals' rankings of these centres. The index currently places Istanbul into the transnational and diversified financial centres category and as the leader of the ten Eastern European and Central Asian centres above centres like Almaty, Moscow, Prague, and Athens.[3]

The article argues that the current state of politics, economy and financial markets in Turkey makes the IFCP, like other so called "crazy projects" of the ruling AKP, a project that is in the short and medium term poised to be conspicuous mainly in physical presence and relevant at best to Turkey's eastern hinterland, including the Middle East. The article is organized as follows. In the first section, a brief history of the Turkish politics, economy and financial markets in recent decades is attempted to contextualize the IFCP. The subsequent section presents insights from local and international actors in the Turkish financial system. These insights provide another backdrop for future trajectories for the IFCP. The article concludes with observations about the current state of progress in the IFCP and what these signal for the future in light of the existing political and economic dynamics in Turkey and the world.

Politics, economy and markets since the 1980s

The Turkish economy in recent decades has gone through some dramatic transformations. The import substitution model of the late 1950s had helped Turkey's industrial base into broader production and consumption goods. In the early 1980s, the country entered the gradual liberalization of consumer, production and financial markets (Kazgan 2005). This liberalization era, which has helped Turkey become an important regional economic hub, unfortunately started on the back of major economic and political crises in Turkey in the late 1970s. These crises were taken as a justification by the country's military for yet another coup in 1980. With the military's crushing power over democratic processes, the early liberalization reforms, devised by technocrats were passed unopposed (Alper and Onis 2003). The introduction of a capital markets code in those years and the subsequent opening of the Istanbul Stock Exchange (ISE) in December 1985 were major steps to nurture a market based people's capitalism in the country (Kazgan 1995; Denizer et al., 2000). Privatization of state-owned enterprises were initiated with selling off shares in the nascent ISE. In 1989, the Turkish capital account was liberalized and foreign investors were allowed to invest freely in the country's assets.

The entry of foreign investors to the ISE in the 1990s was characterized by a sense of financial adventure on the part of those several dozen pioneering investors (Yildirim 1995; Chambers 2006). The main reason behind this characterization is that the Turkish economy and thus markets were prone to extreme gains and losses. The underlying reasons of these volatilities were firstly Turkish savers' unwavering interest in the stock market, which led to sustained rallies owing to lack of supply (Yildirim 1995). Secondly and more importantly, such major rallies were reversed by major significant political and economic events such as the Gulf War in 1991, the 1994 Turkish currency

[3] The index is compiled by Z/Yen Group and sponsored by Qatari Financial Authority. See http://www.zyen.com/research/gfci.html for details and latest index reports.

crisis, and the contagion of the 1997/8 East Asian and Russian crises to Turkey. The defining feature of the Turkish economy that underpinned these homegrown or imported crises was a profligate state that drove the Turkish fiscal and current account deficits. These twin deficits made the country very dependent on foreign capital, mainly brought to the country by Turkish public and private banks. Any sudden reversals of these capital flows owing to local or international events meant runs on the Turkish currency, balance of payments issues, and bank failures (Alper and Onis, 2003; Alper and Yilmaz, 2004).

Erturk (2003) describes the 1990s as an era of coupon capitalism in which successive Turkish governments financed their profligate expenditure by crowding out private actors in the Turkish financial markets. Another consequence of this type of spending was very high inflation levels, which bordered three digits. The IMF credit and reform programmes in the 1990s kept the Turkish economy solvent but a durable structural change never seemed to be achieved as proven by yet another homegrown financial crisis in 2001. While the 1990s' macroeconomic environment was characterized by volatility, the bourgeoning financial markets suffered also from gaps in regulatory environment, especially in relation to investor rights and institutional actors' accountability (Yildirim 1995). Regulatory weaknesses in these areas coupled with lack of robust monitoring and accounting technologies led to financial losses for investors. The market regulators and legislators had gradually managed to address these gaps by introducing new technologies and regulatory standards. By the late 1990s, the ISE for instance enjoyed real time digital technologies for price discovery and dissemination, custodian services, and market surveillance. Despite these improvements, the ISE remained a market that was driven by local market actors and agendas (Tarim 2010). Foreign investors remained rather insignificant in numbers and ownership, and strategically managed their exposure to the ISE depending on major local and international crises (Chambers 2006).

Despite the turmoil of the East Asian and Russian crises, and the Turkish military's toppling of the Islamic leaning coalition government by memorandum in 1998, the 1990s ended on a high note in terms of economic and political stability. The IMF's structural reform programme stipulated a fixed currency regime and gradual exit of the state from economy and financial markets. The programme started to reduce interest rates and inflation, and led to another boom in the Turkish investor numbers in the rallying markets (Akyurek, 2006; Capoglu, 2004; Tarim 2010). However, disagreements within the centre left and centre right coalition and slow down in the reform process underpinned yet another sudden capital reversal. This in 2001 paved way to the biggest economic and financial meltdown of the republican history (Capoglu 2004). The coalition government brought in Mr Kemal Dervis, a renowned international economist as the minister in charge of economy (Akyurek 2006). Facing insolvency as a country on the one hand and annihilation as political parties on the other, the coalition partners decided to press ahead with very comprehensive and painful structural reforms supervised by the IMF.

The rise of AKP as a new political party happened in this post-crisis and painful structural reform contexts. A few months after Mr Dervis' appointment, the Turkish economy and the now free floating currency started to stabilize. Nevertheless, the coalition parties went for a snap election in November 2002. The AKP cadres that contested the elections consisted of younger Islamist politicians who broke away from their toppled and banned Islamist parties of the late 1990s. They were eager to show their moderate and mainstream political views. Such eagerness was understandable as the secular establishment in Turkey, foremost member of it being the Turkish army was still very suspicious of any Islamist political movement, not to mention legitimate Islamist political parties (Dagi 2008). AKP won a landslide victory in the 2002 elections and oversaw the electoral ousting of the coalition parties from the parliament. The most peculiar aspect of this victory was that AKP continued the structural reform programme of Mr Dervis and the IMF (Dufour and Orhangazi 2009).

This was the first practical sign of AKP's break away from their Islamist roots. The structural reforms started to bear fruit in the form of falling interest and inflation rates, increasing economic growth, and a new wave of direct and portfolio investments to the country (Dufour and Orhangazi 2009). The loose monetary policies of developed countries in the early years of the millennium to address the post dot.com crash and 9/11 shocks also underpinned these capital flows. Maybe the most significant and unlikely fruit of these reforms and changes in the Turkish economy and politics was the start of the EU accession negotiations in 2005. Unlikely because AKP's predecessors always labelled the EU a "Christian club", something Turkey, a Muslim country should never be part of (Dagi 2008). This new phase also signalled gradual convergence of the Turkish economic and political standards towards those of European Union members. Such a convergence process was something moderate Turkish political parties on both sides of the political spectrum could not meaningfully start in previous decades (Patton 2007).

While Turkey seemed to be firmly on the convergence path, AKP also consolidated its power by successive local and national election victories. Nevertheless, the secular establishment, still suspicious of the ruling party's Islamist roots seemed intent on undermining the party by judicial and otherwise moves, which included anti-government rallies and alleged conspiracies to topple it. Despite the rising secular parliamentary and otherwise opposition to the AKP rule in 2007 and 2008, the party managed to survive the biggest threats-namely, the presidential election and the so-called e-memorandum confrontation in 2007, and the Constitutional Court's party ban case in 2008 (Gumuscu and Sert 2010; Atay 2013). During these secular challenges, AKP enjoyed the widespread support of Western governments, intellectuals and press because of their perception of a democratic deficit in Turkey caused by an ever present military tutelage. Interestingly, AKP, a party with Islamist roots was seen as a real democratizing and normalizing force in a secular country like Turkey (Haynes 2009; Gunter and Yavuz 2007).

While AKP survived these challenges, the Turkish economy and markets remained rather strong. The interest of foreign investors in Turkish assets underpinned the ongoing privatizations and soaring foreign ownership figures in the ISE stocks, which reached 72 % in 2008 (Tarim 2010). Nevertheless, the 2008 global crisis adversely affected the Turkish economic growth. It also reduced AKP's share in votes in the 2009 elections (Gumuscu and Sert 2010). The economic growth however recovered with a spectacular rate of 9 % in 2010 and 2011 but slowed down to less than 3 % in 2013 on the back of measures to control the overheating economy and reduce the ballooning current account deficit.[4] In the meantime, the AKP government in cooperation with its allies in the Turkish bureaucracy, judiciary and media started a major crackdown on a large number of figures from the military, media, civil society and business allegedly conspiring to overthrow the AKP government since 2002 (Gumuscu and Sert 2010; Gursoy 2012). The court cases brought against these figures and the constitutional and judiciary reforms were mostly positively welcomed among the liberal Turkish circles and in the West as a sign of further normalization in a post-military tutelage era in Turkey.

As successive AKP governments and Mr Recep Tayyip Erdogan as the prime minister consolidated their electoral and legislative power, they also enjoyed a peculiarly loose global monetary policy environment after the 2008 global crisis. This was similar to AKP's early years in power in the post dot.com and 9/11 shocks. This time, however, the peculiarity came from the fact that it was not just close-to-zero monetary policy rates. Major central banks such as the FED and the Bank of England pumped several trillion US dollars into their economies, which created unprecedented global credit largesse (Fawley and Neely 2013). These government funds also found their way to the high yielding but high risk markets like Turkey (Eichengreen and Gupta 2014). The high point of this credit largesse and relatively sound Turkish economy and politics came when major credit rating agencies upgraded Turkey to investment grade status. In the early months of 2013, the spreads on Turkish bonds and Turkey's credit default premiums in relation to benchmark US rates reached historical lows.

Unsurprisingly, several grand infrastructure and investment projects for Istanbul and its hinterland emerged or made progress in this global credit largesse, including the IFCP. These projects also include a new airport in Istanbul that would have the highest passenger capacity in Europe and the Middle East; and an artificial water way west of the Bosporus, which is one of the busiest international shipping lanes in the world. These so called "crazy projects" by AKP and its supporters have since polarized the public opinion in Turkey on the basis of environmental, demographic, social and cultural concerns. These concerns and concomitant legal challenges have been addressed by AKP and its supporters by a combined strategy of rhetorical attacks and fast-tracking projects with minimum judicial overview. The latter has been possible thanks to AKP's increasing control over checks and balances on its executive and legislative power. The rhetorical attacks on the other hand are broad-brushed and generally characterize any local opposition as part of an unwavering international conspiracy against the AKP rule.

In fact, the crystallisation of this type of rhetorical response happened around the Gezi Park protests in May-June 2013. As widely publicized in the global media, the Gezi protests started after another "crazy project"-namely, the restitution of a late Ottoman era building in one of the few remaining green spaces in central Istanbul was initiated. Localized protests by green activists quickly turned

[4] The Economist, "Strong but vulnerable. Turkey remains highly exposed to loss of confidence by foreign investors", 15 June 2013, available at http://www.economist.com/node/21579491/print , last accessed 19 Sep. 15

into nation-wide protests against AKP and Mr Erdogan. Mr Erdogan and his close allies in media labelled the protests as part of a "failed coup" orchestrated by national and international conspirators against Mr Erdogan and his party. This was an interesting label on the protesters as they came from different social and political backgrounds and could not be easily linked to parts of the secular establishment that were implicated in alleged coup attempts and conspiracies of previous years (Gole 2013; Atay 2013). Irrespective of these social and political nuances, given Mr Erdogan's rhetoric, there have been unsurprisingly a few court cases brought against protestors. Various sentences have so far been handed over to protestors mainly on the grounds of violating the code on protest and marches. On the other hand, Taksim Solidarity, one of the leading protest organisers have been acquitted from much more serious charges of conspiring to overthrow the government. Some members of a famous football fan group –namely, Carsi of Besiktas Gymnasium Club are nevertheless still being tried for such serious charges.

One interesting aspect of the AKP's reaction to the Gezi protests was Mr Erdogan's efforts to bring in international financial actors into his discourse. The early days of Gezi protests at the end of May 2013 coincided with what is now called the Tapering Tantrum- namely, the initial flight of capital from emerging countries when the FED signalled its intention to finalize its several trillion USD worth credit programme on the US economy- the very programme that underpinned the existing global credit glut (Eichengreen and Gupta 2014). Unsurprisingly, the Turkish markets also suffered from this knee-jerk reaction of international investors. The significant losses in the Turkish equity and bond markets were also compounded by the unprecedented street level protests against the AKP rule and Mr Erdogan's uncompromising stance. Some commentators even talked of a "Turkish spring", inspired by mass protests and revolts in North Africa and the Middle East (Samaan 2013; Taspinar 2014). Mr Erdogan not only dismissed the protests as the work of "riff raff" but also pointed squarely to a coalition of international conspirators, including what Mr Erdogan calls the "interest lobby" against Turkey under his rule (Atay 2013, Kilic 2014).

The interest lobby basically refers to international fixed-income investors in Turkey who aim to earn higher returns on their exposure to the Turkish government's debt. In Mr Erdogan's view, as he voiced it ever more strongly during the Gezi events, this lobby is prone to destabilize Turkey by manipulating the Turkish markets and using their economic power for political ends. Mr Erdogan used this term in previous years when he referred to his government's success in reducing the persistently high inflation and interest rates of the 1990s and early 2000s. In such occasions or any time the Turkish markets suffered from losses because of local or international reasons, Mr Erdogan hardly associated international capital with any malign intent of toppling a democratically elected government in Turkey. Instead, he generally framed international capital investing in Turkey as a force that appreciated strong political will and stability brought by the AKP rule and his leadership. With the Gezi protests coinciding with the Tapering Tantrum and leading to a major crash in the Turkish markets, Mr Erdogan's rhetoric on international capital nevertheless made a dramatic turn.

Mr Erdogan's discursive attack on international investors actually turned into a very substantial and unprecedented regulatory investigation of international investors and Turkish brokers who served them. As of 2015, there has been no official declaration as to whether such a lobby, intent on overthrowing the government by economic means exists and what measures would be taken to deal with it. Though unofficial, the Turkish market regulator seems to have basically given up the investigation at the end of 2013 after finding no meaningful evidence of market manipulation.[5] Despite their outcome, these investigations have given Turkish and international finance professionals and investors a firm message that they are being watched by Mr Erdogan's state apparatus for what they advise and do in the Turkish markets.

Views from Turkish markets

Looking at the contemporary market cultures in Turkey, one can expect that Mr Erdogan's rhetoric and actions on the interest lobby would not struggle to find resonance and support, especially among the Turkish retail investors. Since the deregulation of markets in the 1980s, the gradually increasing presence of foreign investors in the Turkish markets has engendered culturally intriguing imaginations and behaviour on the part of the Turkish investors figure. These have included trading opportunism against the unsuspecting foreign investors in the form of fronting orders –namely, buying before foreigners buy and then selling to them at profit. Another one is the "moustached foreigners", which basically referred to Turkish investors setting up off-shore accounts to benefit from the tax exemptions given to the foreign investors in the 1990s. These off-shore funds were generally associated with notable Turkish investors who amassed significant amount of financial assets and day-traded in the markets and influenced market values. Majority of market actors including regulators generally saw this type of activity as market manipulation at the expense of other Turkish and foreign investors but some saw it as unofficial market making for the sake of upholding liquidity and fair values in a volatile market like the ISE (Tarim 2010).

After the 2001 crisis, many of these notable Turkish investors lost their power in the ISE. Some finance professionals close to these investors lamented the lack of government support to this type of investor and associated brokerage firms when they faced financial difficulties. For them, this demonstrated the successive Turkish governments' unabated love for anything that was "Western". One could see the point my interlocutors tried to make as in the post-2001 structural reform era there had been a great international investor interest in Turkish assets. In 2007, the share of the foreign investors in the Turkish equities rose to 72 %, which was more than double their share in the 1990s. On the other hand, the automation and digitization of the Turkish markets also meant that access to market information became much easier than ever, including what foreign investors were

[5] According to undisclosed CMB sources cited in a news report "Faiz Lobisi Bulunamadi" by Hulya Guler of Hurriyet (30 December 2013), the ongoing investigation was not expected to produce any conclusive evidence of market manipulation on the part of international investors and their Turkish brokers. The news is available at http://www.hurriyet.com.tr/ekonomi/25467161.asp (In Turkish), last accessed 20 Sep. 15

doing in the ISE. This helped retail investors and their brokers generate a few theories about the foreigners and their manipulation of the Turkish markets (Tarim 2009).

The peak point of national publicity for these theories came when the Constitutional Court was to decide on the AKP ban case in 2008. While many expected a ban under the guidance of the ever powerful secular establishment, this did not happen after a very close vote of 6 to 5 in favour of lighter penalties to AKP. Many investors cried insider information leaked to the foreigners before the decision. These claims did not lead to a separate and thorough investigation by the regulators. They also sternly dismissed these manipulation claims on the grounds that foreign investors invariably made financial decisions based on sound economic analysis, which demonstrated the Turkish economy's strong growth prospects (Tarim 2012). As mentioned before, on Mr Erdogan's and AKP's front, markets' gyrations including international investors' exposure to the Turkish markets had generally been a rhetorical trope to demonstrate how great AKP's economic management was – when markets were rallying, and how the secular establishment were destabilizing the country – when markets were jittery about uncertainty, political or otherwise.

So what has changed since the summer of 2008 that would explain not only Mr Erdogan's new rhetoric about international investors but also the regulators' changing stance against them? The above mentioned consolidation of AKP's and Mr Erdogan's power against the secular establishment's legal and otherwise challenges was almost completed in 2013. In a dramatic turn of events in 2014, Mr Erdogan saw off another challenge, this time from his allies in judiciary and police, in the form of graft probes on his then cabinet ministers. As a response, the AKP government undertook a major uprooting of the state cadres allegedly associated with Mr Fettullah Gulen's so-called "Hizmet Movement", a close ally of Mr Erdogan during the secular challenges in previous years (Taspinar 2014).

It is in this context of increasingly unrivalled and unchecked legislative and executive power of Mr Erdogan, one can better understand his discourse about everything and anything ranging from what is wrong with abortion (Atay 2013), to why higher interest rates lead to higher inflation- contrary to what the economics science theorizes and generally finds sound long-term evidence for (Mishkin 1992). As Mr Erdogan is now the first elected president of the country- a position that has constitutionally limited powers, he does not make it secret that Turkey should have a presidential system a la Turca. This implies de facto control by Mr Erdogan over all branches and institutions of the state. This includes the Turkish central bank, which has enjoyed autonomy in its management of the inflation targeting monetary policy since 2002.

For several years now, the central bank's interest rate policy has attracted criticism by the AKP ministers and Mr Erdogan for being too high to sustain the Turkish economic growth – an area of achievement that many see as the key to AKP's election victories. These criticisms have in 2014 and 2015 taken a much more severe form. At one point the central bank governor and his very few supporters in the cabinet were indirectly accused of treason by Mr Erdogan.[6] The stalling economic growth rates, down to less than 3 % from a republican average right around 5 %, coupled with the persistently high inflation must have been a worry to Mr Erdogan and AKP as their electoral performance in successive elections since 2002 is shown to be closely associated with the Turkish economy's growth and employment performance (Onis 2012). AKP is now facing another election challenge after failing to win in June 2015 a majority for the first time in an election since 2002. The forthcoming re-elections are very important for the Turkish president because if AKP reaches over 330 seats out of 550, they could take the country to a presidential system referendum in no time. Yet, according to opinion polls, it is unlikely that AKP would reach such a majority.

In a context of slowing economic growth, high inflation and relatively low policy rates set by the Turkish central bank, the Turkish assets have become comparatively less attractive to international investors. One consequence of this is the slowdown in the capital flows to Turkey, which have been essential to balance Turkey's persistent current account deficit. Moreover, the FED's impending policy rate hike on the back of stronger US economy has been highly anticipated in global financial markets. This anticipation has come with significant capital flight from emerging countries, including Turkey. Despite these unfavourable credit conditions for emerging countries in the world, there has been no significant issue for the Turkish government to raise capital and service its budget deficit and outstanding debt. These actually enjoy very low levels in comparison to the EU countries (Akin 2015). The post-2001 structural reforms in Turkey and AKP's commitment to them have finished off the coupon capitalism of the 1990s in Turkey. For the other success story of AKP- namely, the start of the EU accession negotiations; this seems to be unfortunately frozen thanks to a combination of old and new factors such as Cyprus issue and rising cultural and political opposition to EU enlargement. Mr Erdogan's increasingly authoritarian control over the Turkish bureaucracy, judiciary and media does not seem to help Turkey's EU cause either (Akser and Baybars-Hawks 2011; Taspinar 2014).

In this new era of global credit contraction and high policy rates, difficulties of raising finance are mainly expected for private Turkish debtors, including banks which are exposed to fast growing consumer credit markets and issue of consumer debt in Turkey. The "crazy projects" are also expected to face difficulty in raising credit and refinancing. Interestingly, Turkey has been enjoying the spectre of a sort in these circumstances – namely, the net omissions and errors in its balance of payments statistics. Recently, Turkey has been enjoying billions of dollars of inflows of the sort, which cannot be traced back to specific transactions such as exports, foreign direct and/or portfolio investment.[7]In the meantime, Mr Erdogan does not seem to relent in his discursive attacks on the interest lobby and their local accomplices in his frequent and televised speeches to various audiences.

[6] Reuters, "Turkey's Erdogan to talk to central bank governor, warns of 'treason'", by Daren Butler and Nevzat Devranoglu, 02 March 15, available at http://uk.reuters.com/article/2015/03/02/uk-turkey-cenbank-erdogan-idUKKBN0LY0WT20150302 , last accessed 19 Sep. 15

[7] Bloomberg Business, "Turkey's Vanishing $8 Billion. No one knows where this money is coming from", by Onur Ant, 29 Jan. 2015, available at http://www.bloomberg.com/news/articles/2015-01-29/the-7-9-billion-in-turkey-s-mystery-money-that-later-disappeared , last accessed 19 Sep. 15

On the other hand, these attacks seem not to resonate with Turkish retail investors and their brokers as much as they would do in the pre-2008 period. When asked in 2014, many of my interlocutors in the Turkish retail investor scene were of the view that the spectre that has helped Turkey balance its books in this recent phase of credit contraction might have regularly found its way into the Turkish financial markets and kept them buoyant despite the lacklustre economic fundamentals. Another view about this spectre is that its colour is green, which refers to beliefs about its origins in the Middle East among Mr Erdogan's close allies. As for foreign investors in the ISE, according to industry statistics, their ownership levels in the ISE have seemed to ebb and flow around a 62 % and 67 % bracket between 2009 and 2014, after their peak of 72 % in 2007. [8] While these movements of entry and exit seemed to coincide with major local and international events such as AKP's election victories, Gezi Park protests, and relapsing Eurozone crisis ; the lower end of the bracket signal a dedicated foreign investor base that have a continuous exposure to the Turkish assets. Geographically, despite recently emerging market chatter about the flow of Middle Eastern capital to the Turkish economy, this dedicated foreign investor base, according to industry figures, mainly originate from North America and Europe.[9] It is also these geographical regions where recent political interventions in and pressures on the Turkish markets and institutions are closely monitored as cues for a potential paradigm shift in the management of the Turkish economy.

What is the state of progress in the IFCP?

As shown above, the state of Turkish economy and markets have been closely linked to global economic cycles and local political dynamics. Although in the new millennium, the effect of politics on the Turkish economy seems to have stabilized around macroeconomic reform and prudence, recent political events in Turkey have given cues of change. If Mr Erdogan and AKP succeed in their plan to shift to a presidential system, this hints an economy that is much more open to Mr Erdogan's and his allies' influence in a globally contracting credit environment. The latter coupled with ongoing political uncertainty in Turkey might have contributed to Istanbul's recent drop in the GFCI too.

In the meantime, the IFCP's building work is poised to be completed in several years. The physical heart of IFCP in Atasehir, built by a contractor with very close links to AKP, is designed as not only a financial centre but also a residential and shopping area. On the other hand, there is no clear rationale for the regulators and state owned banks to move their Ankara headquarters to Atasehir in an era of digitization and instant communication. In this vein, the ISE announced that it will stay put in its current headquarters in Istinye, situated some 20 kilometres northwest of the IFCP. Nevertheless, the addition of IFCP campus to Atasehir district will surely increase the property values and traffic loads in this very vertical and popular residential area of Istanbul.

[8] These figures are compiled from the Turkish Capital Markets Association's (TCMA) annual reports on the Turkish markets. The TCMA's members consist of the Turkish brokerage firms and banks. The reports (in Turkish and English) are accessible at http://www.tspakb.org.tr/tr/

[9] See footnote 8.

Irrespective of the ISE's decision, the stock market itself has recently gone through some changes, which are related to various IFCP objectives. Now called Borsa Istanbul, the ISE is now part-owned by a leading US exchange NASDAQ, and is poised to be privatized via public offering.[10] The organized markets for bonds, derivatives and metals, some of which operated independently before are all brought together under the roof of Borsa Istanbul. Moreover, the number of financial instruments traded in Borsa Istanbul has increased. This product diversification provides local and international investors better opportunities to manage their risks in the Turkish market. Direct market access to investors, which reduces reliance on brokers is now offered by Borsa Istanbul. This will also pave way for high frequency trading - a new form of financial activity that is increasingly becoming the norm in developed markets.

Other notable developments in the Turkish markets are the significant growth in the corporate bond issuances and the increasing investment by Turkish households in a bourgeoning private pension system, made very attractive by a 25 % extra state contribution to their annual savings (World Bank 2012). All these developments signal deepening and widening of the Turkish markets, which will in the long run make these markets more stable and attractive to not only new international investors but also Turkish savers. The latter group on average prefer to avoid investing their savings into organized markets and instead prefer bank deposits, real estate, gold and foreign currency as savings vehicles (World Bank 2012). A transformation of Turkish savers into investors in the Turkish markets seems to be essential to expand the currently negligible domestic assets under professional management within the Turkish markets. Such an expansionary transformation will also make Istanbul and the IFCP more attractive to international finance firms, professionals and investors.

As for the substantial reforms and initiatives planned in legal, regulatory, technological, human resources and other domains for the IFCP, some of these will surely take time to bear fruit. For instance in the domain of human resources where a workforce that can fulfil the diverse needs of global economic and financial organisations is trained in and/or attracted to Istanbul is surely a no easy feat to achieve in the short-run. This is even more so given that existing global workforce is easily attracted to major global financial centres in Western Europe, North America and East Asia thanks to advanced technological, legal, social and service structures these centres are embedded in (Sassen 2005). The alternative of training homegrown workforce to global standards prevalent in major global hubs on the other hand will surely take time and major investment by public and private agents in Turkey.

On the other hand, the above mentioned changes in Borsa Istanbul in terms of technology, product diversity, and convergence to global market standards are relatively easier to achieve, especially in cooperation with global partners such as NASDAQ. Nevertheless, another area of difficulty can be

[10] Reuters, "Nasdaq to acquire 5 percent in Borsa Istanbul", by Can Sezer, 31 Dec. 13, available at http://www.reuters.com/article/2013/12/31/us-turkey-stock-nasdaq-idUSBRE9BU05C20131231 , last accessed 19 Sep. 15

expected in the legal domain. Market regulations in Turkey are increasingly brought to prevalent standards thanks to the autonomy of Borsa Istanbul and the Capital Market Boards of Turkey, which both enjoy long-standing expertise in financial market theory and practice. Nonetheless, one major obstacle before the effective functioning of Turkish markets as a regional and/or global financial centre will be the compatibility of the existing Turkish commercial, tax and civil codes with evolving Turkish markets and global best practices in business and finance. The latter area is very competitive and sometimes proves controversial in terms of the balance between global investor rights and accountability and transparency of global business and finance in national contexts. A strong and consensual political will is necessary to bring the existing codes and the 1982 constitution itself to the written and practical standards widely held in the West, which also happens to host most of the global financial centres. Given the current impasse of the Turkish politics revolving around Mr Erdogan's ambition to shift the country to a presidential system, any comprehensive reform on any parts or the whole of the Turkish legal system seems highly unlikely, at least in the short run.

Given these mixed dynamics over the future of the IFCP, one peculiar objective of this project should be noted here, namely that of making Istanbul a major centre for Islamic banking and finance in the world.[11] In the IFCP website, the exact term used for this type of banking is "participatory banking and interest rate free finance", perhaps not to evoke suspicions from secular-minded observers. There are several such banks, operating in Turkey for several decades now. Nevertheless, for such banking and financial services from the IFCP to be competitive in a fast populated regional and global market, an internationally recognized fatwa board issuing orders for complex needs of Islamic finance users might be essential (Valdez and Molyneux 2013). Some of Mr Erdogan's close allies have long advocated the necessity of such a fatwa board to expand the reach of Turkish markets nationally and regionally.[12] In fact, the current chairman of the board of Borsa Istanbul, a recent AKP government appointee has remarked that stock markets should become a platform where Islamic finance principals should prevail across all markets and instruments instead of only offering some sharia-complaint products. [13] Such remarks and visions for the future of Borsa Istanbul and the ICFP are probably also close to Mr Erdogan's heart. Nevertheless, such a vision also significantly narrows the geographical target in relation to future users of the IFCP, away from a global user base involved in mainstream banking and finance.

Conclusion

This article attempted to demonstrate the links between national and global dynamics that have combined to pave way for the AKP's rise and transforming rule in Turkey. The IFCP has some

[11] See footnote 1

[12] The most prominent example is Mr Yigit Bulut, previously a staunch critique of Mr Erdogan in the early years of AKP and now a presidential economic advisor. In a column he wrote for Star Gazetesi on 19 Aug. 15, he reiterated his "fatwa vision" for Islamic finance in Turkey. The column is available in Turkish at http://haber.star.com.tr/yazar/ic-piyasalarda-10-kat-fazla-varligimiz-var/yazi-1050998 , last accessed 19 Sep. 15

[13] Hurriyet Daily News, "Borsa Istanbul chair says all stocks exchanges should be run in Islamic way" 10 Sep. 15 http://www.hurriyetdailynews.com/borsa-istanbul-chair-says-all-stocks-exchanges-should-be-run-in-islamic-way.aspx?pageID=238&nID=88282&NewsCatID=346 , last accessed 19 Sep. 15

commendable and much needed objectives to expand the current scope and reach of financial markets in Turkey. Nevertheless, without progress in macro level reforms and initiatives necessary to reach such objectives, the IFCP will remain as one of the many infrastructure and building projects that Mr Erdogan and his AKP government have pushed for in the post-2008 global credit glut. Current political dynamics in Turkey squarely point to an impasse around Mr Erdogan's rather authoritarian presidential vision for Turkey. The deterioration in political stability and certainty, coupled with the gradual reversal in global credit conditions has underpinned the slowdown and capital flight in the Turkish economy. Despite the perceived influence of Middle Eastern capital and politics in Turkey in recent years, market statistics paint a picture of dominance by a dedicated Western investor base, at least in Borsa Istanbul. On the other hand, Mr Erdogan and his supporters in bureaucracy, business and media seem to be seeing solutions in a gradual cultural, political and economic turn to Turkey's eastern hinterland. Such a political preference also hints at certain trajectories for not only the IFCP but also the Turkish economy.

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