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Islamic Finance as a Means to Make Istanbul an International Financial Centre[1]

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Abstract

This paper discusses and assesses Istanbul as an international finance centre within the context of its position in the sector of Islamic finance. No doubt, Istanbul is a centre of business and culture of Turkey and the Turkish government is at present endeavouring to turn Istanbul into a regional finance centre in ten years and ,furthermore, into one of the top international financial centre in thirty years. In this context we evaluate Istanbul's potential and position to assume the role of a hub for Islamic finance. Our main conclusions are as follows; the current image, legal and regulatory infrastructure and human capacity of Istanbul do not presently allow it to become an international finance centre. In contrast, if we consider its strategic location standing between the Middle East, Eurasia and Africa as well as its strong relations with Muslim countries, and ,last but not least, its strong banking system, Istanbul has the potential to serve as a centre for Islamic finance provided that the government's ambitions remain focused in this direction.

Keywords: *Islamic Bank, Turkish Financial System,*

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Introduction and Motivation

For much of the world, the word "Istanbul" has always been a synonym for the "centre" of business, culture, and politics during a period spanning from its emergence as the seat of the Roman Empire in 330AD to the collapse of the Ottoman Empire in 1923. Over a period of 16 centuries Istanbul did not lose its status a capital and has been a key bridge between east and west as well as between north and south for almost two milennia.

There is no doubt Istanbul is the capital city of business in Turkey. Its dynamic population, standing presently at over 15m, constitutes 20% of the Turkey's population. Almost 30 per cent of economic output and 40 per cent of tax revenues of Turkey are generated in Istanbul and the city also is home to nearly 50 per cent of export-related industries. Istanbul also is a centre of cultural activity, diplomatic and international conferences. With a view to elevate the city from the position it already plays as the hub of the nation, the government of Recep Tayyip Erdogan, Turkey's Istanbul-born prime minister, has plans to make the city a regional financial centre within ten years and to transform it into one of the most important international financial centres within thirty years (IFC-Istanbul, 2009).

To make Istanbul an international financial centre is an attractive challenge. Wherever one looks, one witnesses the rapid change that has consumed the city in so varied areas as financial and legislative reform, transformations in business legislation and urban infrastructure, changes to its historic centres or alterations its coastline, Istanbul is in the throes of change. The construction of Istanbul International Financial Centre project on the Asian side of the city, that will be given the name, IFC-Istanbul encompasses the aim of creating modern offices and residential buildings alongside each other in a super-complex. The IFC-Istanbul has been envisaged to eventually house the headquarters of three state-owned banks, the Central Bank and other financial authorities. Moreover, there is a series of grand infrastructure projects such as a third bridge linking Asia and Europe and a canal to run parallel to the Bosporus Straights which divide the two sides of the city. (FT Special Report, 2010)

Istanbul has already become an international corporate hub for the likes of Coca-Cola, Microsoft, General Electric and Unilever. For instance, Microsoft selected Istanbul as the headquarters for its operations spanning 180-countries in 2000, and General Electric Healthcare chose Istanbul to control its operations encompassing 85 countries. Last but not least, the World Bank's private sector financing institution, the International Finance Corporation, opened its second biggest office outside Washington D.C in Istanbul. The International Finance Corporation directs business with 52 countries ranging from Europe to the Middle East and Africa (FT Special Report, 2011).

Istanbul has become a more and more convenient strategic location for business and more and more of an international travel hub for many international conglomerate firms who wish to operate in Eastern Europe, central Asia, Middle East, the Balkans and Africa. Turkish Airlines flies to more countries than any other airlines in the world, whereas just a generation ago there were no direct flights to even New York.

According to the Global Financial Center Index 2013 report, a city that aspires to become an international financial centre must have three key features, namely: connectivity, speciality and diversity (GFCI, 2013). Through its geographic position and airlines network capacity, Istanbul offers high-volume connectivity opportunities that serve in favour of becoming an international financial centre. For example, it is possible to fly to almost all of the capital cities in Europe, Asia, Africa via a single direct flight from Istanbul in a very short time (see Table-3). However, this is not the same case for speciality and diversity. Istanbul suffers lack of speciality and diversity in her finance sector. In this regard, this paper will focus on how "Islamic Finance" can be used as a key tool to increase Istanbul's speciality and as a lever to enhance its diversity in the finance sector on the road to becoming an International [Islamic] Financial Centre.

Many studies have found that financial improvement causes economic growth, increases employment and secures the inflow of international funds into the country (see Levine and Zervos. 1998; Calderon and Liu, 2002). In this respect, the financial sector started to play dominant and increasingly role in the economic growth of Turkey (Kansoy, 2012). However, Islamic finance has until recently played little part in Turkey financial system on account of the historically secular identity of its ruling bureaucracy and military (Ogutcu and Syed, 2013). From 2002 onwards, Turkey has undergone a fundamental shift with the emergence of the government of the Justice and Development (AK) Party. To encourage Islamic finance, new banking legislation was accepted and currently Islamic banking is accepted as a legitimate form of banking in its banking law. By enacting these changes, Istanbul has gained the potential to become a centre for international Islamic finance through the gathering of sharia-compliant funds from the region and allocating them to the rest of the world.

The rest of this study will be organised as follows; Section II reviews the existing literature. Section III provides an overview of the main features of Islamic finance. Section IV gives a historical background of Islamic finance in Turkey. Section V provides some factual features of an international financial centre. Section VI discusses the fundamental challenge facing Istanbul on the way to its becoming an international financial centre. Section VII offers concluding remarks.

Literature Review

Islamic finance is a recent phenomenon, not only in Turkey, but also in the world. For this reason, the contemporary literature of the determinations of characteristics of an International Financial Centre is still in its embryonic stage. Regarding Islamic finance in Turkey, some studies have dealt with the performance and efficiency of Islamic finance in Turkey (Cevik and Charap, 2011). Also, certain Turkish Islamic finance institutions have been included in several cross-country studies to analyse and compare systems and institutions in terms of international perspective (Beck et al. 2010; Hasan and Dridi, 2010).

Although other academic studies have investigated the potential of Istanbul to become an international financial centre (for example Sarigul, 2012; Dizkirici, 2012) and a number of newspaper and magazine articles (see Ogutcu and Syed, 2013; FT Special Report, 2012) have offered advice on the IFC-Istanbul project, no special research has analysed Islamic finance as a key element in helping the city to become a major international financial centre. Therefore, the principal motivation of this study is to fill this gap. This paper, to the best of our knowledge, will be the first investigation into the development of the Istanbul international finance centre project to look at the undertaking from the aspect of Islamic finance.

The Global Financial Centres Index (GFCI) is a bi-annual report that has assessed and ranked global financial centres in terms of different parameters such as their reputation, tax system and infrastructure from 2007 onwards. The GFCI 2013 report states that London, New York, Hong Kong and Singapore constitute the top four international financial centres in the world while Istanbul stands 57th in the list out of 79 cities. The full list can be seen from the Table 2. Furthermore, Istanbul is considered among the top ten cities likely to become more significant over the next few years (see Table 1).

Table 1. The Ten Centres Likely to Become More Significant

Cities	Number of mentions
Singapore	99
Shanghai	85
Hong Kong	68
Seoul	66
Toronto	45
Sao Paulo	32
Luxembourg	31
Istanbul	30
Beijing	27
Moscow	19

Source: GFCI-13

According to the assessment of the GFCI 2013 report, Istanbul is well supported by investors based in Middle East/Africa, Asia/Africa and North America yet has a lower reputation amongst European and Latin American investors (GFCI, 2013). Dizkirici (2012) claimed that the current position of Istanbul (as regards its international reputation) does not prove sufficient to render it an international financial centre but rather a regional one through its specialisation in the fields of interest-free financing, private equity and carbon finance. The study of Sarigul (2012) carried out a SWOT analysis of the potential of IFC-Istanbul and concluded that Istanbul has the advantage of flight-network connectivity, geographic position, a strong banking system and a young and increasingly educated and skilled labour force residing in Istanbul. Moreover, Sarigul (2012) argued that the low levels of English-language skills in the workforce, a complicated tax system and lack of specialist arbitration courts and lawyers are some of the weak points of Istanbul with regard to its ambitions to become an international financial centre.

Table 2. Global Financial Centres Index-13 Ranks and Ratings

	GFCI 13		GFCI 12		CHANGES	
CENTER	**RANK**	**RATING**	**RANK**	**RATING**	**RANK**	**RATING**
London	1	807	1	785		22
New York	2	787	2	765		22
Hong Kong	3	761	3	733		28
Singapore	4	759	4	725		34
Zurich	5	723	5	691		32
Tokyo	6	718	7	684	1	34
Geneva	7	712	9	682	2	30
Boston	8	711	11	680	3	31
Seoul	9	710	6	685	-3	25
Frankfurt	10	703	13	677	3	26
Chicago	11	698	8	683	-3	15
Toronto	12	696	10	681	-2	15
San Francisco	13	695	12	678	-1	17
Washington D.C.	14	692	14	672		20
Vancouver	15	690	16	668	1	22
Montreal	16	689	17	667	1	22
Calgary	17	688	23	647	6	41
Luxembourg	18	687	24	646	6	41
Sydney	19	686	15	670	-4	16
Vienna	20	685	36	633	16	52
Kuala Lumpur	21	681	26	644	5	37
Osaka	22	676	21	650	-1	26
Dubai	23	675	22	648	-1	27
Shanghai	24	674	19	656	-5	18
Melbourne	25	672	18	657	-7	15
Paris	26	670	29	640	3	30
Munich	27	669	25	645	-2	24
Jersey	28	668	20	654	-8	14
Oslo	29	667	33	636	4	31
Qatar	30	661	35	634	5	27
Guernsey	31	660	28	641	-3	19
Stockholm	32	657	27	642	-5	15
Riyadh	33	656	65	584	32	72
Amsterdam	34	655	31	638	-3	17
Monaco	35	654	60	597	25	57
Taipei	36	653	41	628	5	25
Milan	37	652	51	612	14	40
Shenzhen	38	650	32	637	6	13
Abu Dhabi	39	649	38	631	1	18

Rome	40	648	62	590	22	58
Cayman Islands	41	647	44	625	3	22
Wellington	42	646	30	639	12	7
Isle of Man	43	645	40	629	-3	16
Sao Paulo	44	644	48	619	4	25
Copenhagen	45	643	34	635	11	8
Brussels	46	641	47	620	1	21
British Virgin Islands	47	640	45	624	2	16
Rio de Janerio	48	639	52	608	4	31
Hamilton	49	638	46	621	-3	17
Glasgow	50	636	39	630	11	6
Madrid	51	635	50	614	1	21
Helsinki	52	634	42	627	10	7
Buenos Aires	53	633	68	578	15	55
Edinburgh	54	632	37	632	-27	0
Mexico City	55	628	55	602		26
Dublin	56	627	49	618	7	9
Istanbul	57	626	56	601	-1	25
Beijing	58	622	43	626	15	4
Bangkok	59	619	57	600	-2	1
Gibraltar	60	615	58	599	-2	16
Prague	61	611	53	604	-8	7
Johannesburg	62	610	54	603	-8	7
Warsaw	63	608	59	598	-4	10
Bahrain	64	607	61	596	-3	11
Moscow	65	606	64	585	-1	21
Mumbai	66	605	63	586	-3	19
Panama	67	597			New	New
Malta	68	595	69	575	1	20
Jakarta	69	592	71	573	2	19
Mauritius	70	590	67	579	3	11
Tallinn	71	589	66	583	5	6
Manila	72	588	73	570	1	18
Bahamas	73	587	72	572	1	15
St. Petersburg	74	585	70	574	-4	11
Cyprus	75	576			New	New
Lisbon	76	552	74	554	2	2
Reykjavik	77	546	76	539	1	7
Budapest	78	541			-3	-3
Athens	79	473			-2	10

Source: GFCI-13

Islamic Finance

Islamic banking and finance, as a main alternative to conventional counterpart, has gained an increasingly prominent presence in the international finance world. Even though Islamic finance dates back to the 15th century; the modern Islamic finance institutions emerged three decades ago and now represent one of the fastest growing asset-holding groups in global financial services. Currently, Islamic finance has spread to almost 80 countries and encompasses more than 300 institutions. Moreover, it is accepted that Islamic banking and finance has become systematically important in many countries and has a non-negligible (too big to be ignored) share on the finance industry in many countries (FT Special Report, 2010).

Even though, at first glance the Islamic banking industry seems tiny compared to the conventional banking sector, incorporating a mere 1 per cent of the international banking system, it harbours huge potential for further growth and one witnesses a growing interest in Islamic banking institutions and products in financial industry. Assets in Islamic banking increased from $ 150 billion in 1990 to over $ 1 trillion in 2012. According to the estimation of Standard & Poor's, international Islamic financial assets will grow to as much as $ 3 trillion by 2015 and $ 6 trillion by 2020 with a growth varying between 25 and 40 per cent annually for the next ten years (Ogutcu and Syed, 2013).

Using the expression "Islamic finance" does not mean that this kind of finance is merely used by strictly religious Muslims or that Islamic banks only operate in the Muslim countries. In contrast, Islamic banks and its instruments are used by both Muslim and non-Muslim customers whether in Islamic or non-Islamic world.

For instance, Malaysia is a country with only about a 60 per cent Muslim population that has a long tradition of Islamic banking, in a state in which almost 50% of clients of Islamic financial institutions are in fact non-Muslims. Furthermore, even in a country where Islamic banking is still at its rudimentary level, such as the United Kingdom, many non-Muslim investors in London accept Islamic finance as a way to diversify portfolios particularly in the context of the financial turmoil provoked by the recent financial crises in the Eurozone (Aldohni, 2011).

Outside Europe, China is increasingly looking at Islamic banking finance as a different method of investment. China has granted its first

Islamic- banking licence and a number of important banks are reported to be considering how they can create Sharia-compliant financial instruments. Singapore has modified laws to create a market in Islamic property investment trusts. Furthermore, Australia is also hinting at legal reforms to encourage Sukuk- Islamic bond- issuance (FT Special Report, 2010).

Islamic Banking in Turkey

Turgut Ozal, the Prime Minister, started the economic transformation from a tightly state-controlled economy to an open-market based economy during 1980s. Thanks to these years of reform, there emerged real efforts to attract national saving into the real economy and more foreign direct investment from Muslims Countries and Islamic Banks were permitted by government decree to operate in 1983 under the name of "Special Finance Houses" without any direct reference to "Islam" or any "religion- based terms".

Albaraka-Turk was the first participant in the sector in 1984, by Faisal Financ, established in 1985. Another prominent player, Kuveyt-Turk, a Gulf oriented bank, entered the sector in 1998. The number of special finance houses remained at three till 1991. In 1991 the first fully domestic capital-focused special finance house, namely Anadolu Finance (afterwards Anadolu Finance its name to Turkiye Finance), started business in the sector. Ihlas Finance began operations in 1995. Lastly Asya Finance joined the sector in 1996.

On one hand, the Islamic banks or "Special Finance Houses" were highly regulated by a secular and therefore sceptical bureaucracy; on the other hand, they did not enjoy the same status as their conventional counterparts. For instance, Special Finance The houses were not covered by the Central Bank's insurance scheme and they were also not allowed to invest in government securities.

Banking Law No.5411 officially replaced the ambiguous term "Special Finance House" with the moniker "participation bank" in 2006. As a result of this fundamental change, Islamic banks or 'participation banks' began to be accepted as real "banks" like their conventional counterparts. Also changes in the title and the status of Islamic banks increased the recognisability of Islamic banking institutions in the international finance world. Currently, both Islamic banks and conventional banks operate according to the same laws and there are four participation banks in Turkey presently operating.

These changes can be interpreted as a shifting paradigm in the level of tolerance and acceptance for Islamic banking in Turkey. The position of the Islamic banking system has been strengthened with new legislation that allows Sukuk, Islamic bonds, and a Halal Index a presence at the Istanbul Stock Exchange. The Central Bank of Turkey guarantees all of these innovations. Up to this moment in time, the Halal Index has not yet come into operation.

Conventional banks currently own a lion share of the banking sector in Turkey and interest-free banking remains a small part of the sector. This state of affairs will probably continue so due to lack of penetration in the market through tough competition from the conventional banking system unless the government takes action in favour of Islamic banks.

Istanbul as an International Islamic Finance Centre: Discussion and Advices

In present literature, there are many different definitions of an international financial centre. In short, an international financial centre is a city that provides customers with an environment for meeting, receiving and conduction financial services that is international in scale and outlook and is independent of limiting factors of its host country. Generally, the major features of an international financial centre are; the *business environment, people, taxation, reputation, infrastructure and market access.* The *business environment* means that the city has a high quality of rule of law, a low rate of corruption and a high rate of trust among clients. The term *People* represents the increasingly educated, high quality and skilled labour force employed in the field of finance industry. The parameter of *Taxation* indicates that the city that wishes to become an international financial centre should have a simple and stable tax system. *Reputation* signifies that the city must have a high reputation amongst national and international clients and investors. *Infrastructure* means that high-quality and fast telecommunication and IT facilities should be provided by the home country at a low cost. *Market Access* highlights that the city should be well-connected to other regional and international financial centres. Also, in terms of geographical perspective the city should be able to easily access many growing markets.

According to these benchmarks, London, New York, Hong Kong, Singapore and Zurich currently constitute the top five financial centres. Thanks to the quantity of distinguished and complex financial products and the great number of transactions operated, it is not possible to compare the other financial centres with London and New York. Rather than London and New York, most financial centres focus on some special sectors of the economy and geographical regions that might present them with a comparative advantage. For example, Hong Kong has emerged as a regional financial centre by focusing on the supply of financial services in the Asia-Pacific region for several decades. Currently, Hong Kong is known as a centre of syndicated loans for its region. Singapore has become a finance centre for low-cost management, marketing and R&D services and manufacture sector in the region. Other examples can be mentioned. For instance, for investment banking the right address is Luxembourg while Zurich enjoys a comparative advantage for private banking, Brussels is a centre for legal affairs such as arbitrage. Lastly, Dublin is accepted as a back office of the finance sector thanks to the advantage of technological infrastructure.

Therefore, it follows that Istanbul should specialize in some specific areas of the economy as the other regional financial centres mentioned above have done. The striking potential and position of Istanbul such as its prominence in the flight network (see table 3), its qualified and skilled labour force, its strategic geographical location between Eurasia, the Middle East and Africa render Istanbul able to play the significant role of a regional hub for Islamic economic enterprise (see table 4).

Table 3. Flights Distance and Times From Istanbul to Other Financial Centres

City	Flight Distance	Time (hour)
Bahrain	1700	4
Dublin	1600	4.25
London	1400	4
Moscow	1000	3
New York	4500	11
Paris	1300	3.5
Tokyo	5300	11.5
Warsaw	850	2.5
Zurich	1000	3

Source: The Banks Association of Turkey Report, 2009

Furthermore, its economic, social and demographic structure, developed financial markets, distinguished financial institutions and instruments are the cooperative advantages features of Istanbul that potentially allow it to become a centre of Islamic Finance in the region. Moreover, according to Ozsoy and Yabanli (2010), the Islamic banking system of Turkey is one of the most developed in the world in terms of laws, regulations and banking.

Table 4. Top Ranked Cities in the International Financial Services City In Islamic Finance

Rank	City	Total connectivity	Site service status	No. Head offices
1	Manama	1	23	15
2	Tehran	0.84	14	12
3	London	0.78	13	2
4	Dubai	0.68	12	5
5	Amman	0.45	5	2
6	Beirut	0.44	6	1
7	Paris	0.42	5	0
8	Istanbul	0.38	6	3
9	Abu Dhabi	0.36	3	1
10	Cairo	0.35	4	2
11	Tunis	0.34	5	1
12	Kuala Lumpur	0.32	10	10
13	Alger	0.26	4	1
14	Baghdad	0.26	2	0
15	Jeddah	0.23	4	2
16	Al Ain	0.22	2	0
17	Karachi	0.22	10	6
18	Muscat	0.22	2	0
19	Ras-Al-Khaimah	0.22	2	0
20	New York	0.21	2	0

Source: Bassens et al. 2009

Issues to be Addressed for an Islamic Financial Centre

There are some principal features that must exist in every city that desires to become an international or a regional financial centre.

Image and Perception

A good "image" or "perception" of the investor with regard to the city has a crucial role in attracting finance corporations. The first step that must be taken is changing the current constitution that was adopted 1982 after military coup. Naturally, the current constitution remains far from international standards in terms of liberality, flexibility and diversity. Hence, it is likely to create a negative impact on personal and collective images of Turkey internationally. For example, according to the Economist Intelligence Unit's 2012 democracy index, Turkey is ranked 88th out of 169 countries. Turkey was also ranked 33rd out of 50 countries assessed in the Anholt National Brand Index that surveys consumers from around the world on their 'brand perceptions' of countries in 2011. Therefore, the initial strategy must be to rapidly and effectively promote the image of Istanbul as a financial centre by identifying the target audience, especially in Middle Eastern and Gulf countries, and determining the weak points of the current perception. After taking these steps, an effective promotion strategy should be determined. Another important point to consider is that there is no single Sharia Supervisory Board, namely a single main organ able to assess, approve , contract, document and supervise all transactions of Islamic banks in parallel with principle of Islamic law. The lack of an overseeing authority varies with regard to he participation banks (Aldohni, 2011).

The board is allowed to cancel, change or terminate any operations that contradict Islamic law according to their interpretation. Such potential differences on the Sharia Supervisory Board do not allow the emergence and continuation of effective corporate governance in the Islamic banking industry in Turkey. For example, incoherent decisions made by the Board in different Islamic Banks would create the loss of consumer confidence in Islamic banks and so lead to potential systematic failure. If the decisions of different Sharia Board were to contradict each other, the lack of coordination would most likely lead to a sudden withdrawal of deposits from Islamic banks.

Such reactions may be dissimilar from those present in conventional banking that are motivated largely by the fear of customers of simply losing their money. Rather, the main reason for withdrawal of deposits may be Islamic sensitiveness in this context. The depositors may think thank their investment is used in non-Islamic operations; that in fact represents the principal factor that they preferred not to use conventional banks. In other words, when the Islamic character of the bank is called into question, the Islamic banking sector may lose its validity and confidence. For these reasons, there should be a common authority to assess and regulate Islamic banking operations. Also, the creation of an institution that standardizes and increases the validity of the sector may help to bring international Islamic funds into the Islamic banking sector in Turkey.

Human Resources

Malaysia, a relatively small country of about 30million people of whom 60% are Muslim, has registered great achievements in the field of Islamic finance. According to The Economist (2013), Malaysia dominates the global Sukuk, that is the Islamic bond market with responsibility for approximately 75% of total international Sukuk. By creating a centre for training the leadership in international Islamic banking and finance rendered it able to register such successes in the field of international Islamic economic activity. The International Centre for Education in Islamic Finance, INCIEF, was established in 2005 by the Central Bank in order to provide highly qualified and educated people for the Islamic banking sector and so far almost 2000 students from 80 different countries have graduated from this school. There also exists a Sharia Research Academy to produce and determine the international standards of Islamic banking. All of these have ensured the dominant status of Malaysia in Islamic finance (The Economist, 2013).

However, there is no government policy or action plan to deal with the weak relationship between the [Islamic] finance sector and universities. To date, there were no post-graduate programs that specialise in Islamic finance to an international standard. Turkey has a considerable number of high quality education institutions and academics as well as a young and increasingly educated dynamic human capital. Therefore, there needs to be a consortium established consisting of the Ministry of Education, the Higher Education Council, the Turkish Banking Association, the Participatory Banks Association of Turkey, the Central Bank, the Banking Regulation and Supervision Agency, the Capital Market Board and a number of prestigious Universities to set up a post-graduate level school similar to that at London School of Economics, Paris School of Economics, INCIEF to provide an international level education with a specialisation in [Islamic] finance and banking. Hence, the name of school might be Istanbul School of Economics in order to take advantage of the 'brand name' of Istanbul.

Legal Framework

Regarding the tax system, the general perceptions with reference to the banking and finance sector in Turkey are quite sceptical as to whether the current tax system has the potentioal to turn Istanbul into an attractive centre in the region for Islamic investment. The current tax system in Turkey is far from being a simple, transparent, effective, sustainable, predictable and applicable one. Due to the frequent changes in tax law, feelings of uncertainty have risen and the tax mortality has decreased. As a result, the tax system needs a massive tax adjustment to attract foreign Islamic capital. It also requires radical reform to eradicate comparative disadvantages on the road to becoming international [Islamic] finance centre for Turkey. The reforms must target tax incentives to enable Islamic finance to realise its potential to become a key financial sector in Turkey in the near future.

Probably the weakest point of Istanbul in its endeavours to become an international [Islamic] financial center is the absence of specialised courts and qualified judges, lawyers able to serve within the international financial center framework. According to report of the Turkish Banking Association, only 50-100 legal professionals, out of about 60.000 professionals, are able to serve within an international financial framework and furthermore, only a limited number of legal professionals are aware of few people aware what Islamic finance actually constitutes, so as to solve a problem within the context of Islamic law. Therefore, the government needs to set up new specialized courts that are experts in financial disputes concerning Islamic financial practices.

Regulation and Standardisation

Due to an increasingly globalised world, there have emerged many different types of economic crises, and the financial industry and related institutions have been forced to change rapidly. For that reason a well-founded regulatory and supervisory system must prove itself flexible to respond to the mentioned changes.

In the context of becoming an international Islamic financial centre, there is lack of harmonisation with other international Islamic norms. For example the confusion of recent new regulations that allow investment in Islamic finance instruments including *Murabaha, Mudaraba, Istisna, Musharaka* and *Sukuk,* but which force different names in official statements such as the name of a given participation bank, which is known as an Islamic bank in the rest of the world except Turkey because of secular identity. To attract more funding, especially from the Middle East, Gulf and both other Muslim and Non-Muslim countries, the Turkish government authorities should reinforce an effective and sustainable coordination between regulatory and supervisory authorities and harmonise its Islamic finance framework on an international level. Last but not least, in order to increase the competition and validity of the sector the government should enter the Islamic finance centre in Turkey.

Conclusions

Both the development Islamic finance and the efforts to become an international financial centre in Turkey have been recent phenomena that have attracted great attention. The secular identity of state and military consistently and routinely resisted the Islamic influence on the business and finance sectors. For that reason, up to just a decade ago it was almost unimaginable that a government would be able to issue Sukuk, Islamic bonds, since it was believed that such activities may destroy Turkey's strong secular identity. Through the fundamental change in approach to politics by Erdogan's Government the Islamic banking sector has grown year by year the share of Islamic banks has increased from 2 per cent to 6 per cent as regards total banking assets over the last ten years. Also, the trust in conventional banking sector has fallen due to recent financial crises in 2001 and 2009. As one of the plans to celebrate the 100th anniversary of the modern Turkey in 2023, the government targets to turn Istanbul into an international financial centre. In this regard, they are planning to invest $350 billion in infrastructure and carry out many different types of reform and regulation with respect to the realisation of the international finance centre project.

As part of the effort to make Turkey a regionally important centre, in the short term, the government wishes to see Istanbul become an international Islamic financial centre. Historically and geographically Istanbul has always been a key link between east and west as well as north and south for centuries. Istanbul was technically ready to be an international Islamic finance centre ten years ago however did not want to be take part in Islamic finance because of its secular sensitiveness. For that reason, it was questioned whether Istanbul had already left it too late to catch up with other financial centres such as Kuala Lumpur. Nevertheless, the government and the Islamic banking sector in Turkey are optimistic with regard to Istanbul's long term objective to achieve its goal and aim to contribute to its legal and regulatory environment, human resources, image, and infrastructure.

Istanbul still has a long way to go to create an Islamic financial centre. For example, regarding the legal environment, the government must increase the efficiency of courts, establish new specialised courts that concentrate Islamic finance disputes and Turkey also needs to have a stable, transparent and predictable tax system. Moreover, the coordination and cooperation between regulators and market participants must be enhanced. To compete with other financial centres Istanbul has to improve its image regarding Islamic financial services. The government has already identified these issues and others not mentioned here in its 2009 plan. However, these have not been addressed fully and ,as a natural result, Istanbul still has a long way to realise its dream.

Endnotes

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