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## Potential of Istanbul as an International Financial Center: A Comparison with Shanghai and Dubai

Xin Zhao<sup>a\*</sup>, Murat Karagoz<sup>b</sup>

<sup>a</sup>*Istanbul Aydın University, Faculty of Economics and Administrative Sciences, Küçükçekmece, Istanbul, 34929, Turkey*

<sup>b</sup>*Yildiz Technical University, Faculty of Economics and Administrative Sciences, Istanbul, 34349, Turkey.*

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### Abstract

Istanbul as one of the newly emerging financial centers as well as Shanghai and Dubai, rushed up to the world stage after the financial crises of the last two decades. This article developed two level instrumental factors by summarized preconditions and theories of International financial center to evaluate potential powers of Istanbul by comparative analysis with Shanghai and Dubai. It investigates the best practiced official indexes and reports along with books and articles. Finally conclude with the strengths and weaknesses of Istanbul, looking into its feasibility and competitiveness position as well.

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### 1. Introduction

Financial centers have always been in the center of very hot debates in the world, and emerging financial centers have enhanced their competitive power and gained more power to rush up the league tables. Istanbul, Turkey; Shanghai, China; and Dubai, United Arab Emirates (UAE) as three particular emerging economies in the world, have attracted attention in the financial press for incorporating IFC aspirations into their development agendas. Their

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\* Corresponding author. Tel.: +90 5452271506; fax: +90 212 4441428.  
E-mail address: [carozhao@gmail.com](mailto:carozhao@gmail.com)

financial potential competitiveness rating has made a strong improvement since 2007, rising by 51.4%, 21.6% and 33.7% respectively.

Istanbul, Shanghai and Dubai share several features that make such research important to undertake. In addition, China, Turkey, and UAE have great ambitions to turn these three cities into regional international financial centers (IFC) and, eventually global financial centers, and they incorporate the project into a national strategy and take a lot of measures to improve from all aspects to achieve their aims. Therefore, it is very meaningful to make a comparative analysis of the three cities to evaluate their potential strengths to develop into an IFC and find the weaknesses and rooms for further improvement.

This paper uses comparative analysis and takes Istanbul, Shanghai and Dubai as the examples of emerging financial centers. The main methodology is instrumental factors analysis by investigating the best practiced official indexes and reports along with books and articles. Through analyzing the three cities 'economic conditions, historical factors, potential abilities, post-crisis opportunities and so on, we will conclude with the strengths and weaknesses of Istanbul, looking into its feasibility and competitiveness position as well.

The structure of the paper is as follows. Section 2 theories basis summarize the theories and precondition of international financial center. Section 3 is methodology issue which established the two level instrument frames which has 4 major indicators in the first level, namely, human capital, business environment, regulation and legislation, and financial potential and eight more indicators in the second level. The next section makes comparative analysis of the three cities, using the same instrumental factors. Finally, a conclusion stated for comparison analysis.

## **2. The theoretical basis**

There are many different way to define a financial center (Xin, 2013). Basically by function, a financial center is a regional hub that has an important gathering of financial institutions that plays a financial intermediary function of financial flow, facility financial service, offers a highly developed commercial and communication infrastructure, and where a great number of domestic and international trading transactions are conducted. Therefore, the development of financial centers cannot be considered as a self-inflicted random event, but rather their emergences are supported by theories such as section-chosen, economics of scales, finance geography and global cities theory and so on. These theories are not divergent but related with each other.

Davis' section-chosen theory is related to industrial place chosen theory and financial area, using the demand-supply microeconomic way and economic externality to explain the inner decision of the formation of the financial centers. Place theory, presented by Walter Christaller, says that the spatial inequities are the outcome of urban hierarchies. Suppliers consider that the boundary of the demand should be at the minimum scale which meets the normal profit because the range of the market has geographical limitations: the consumer and producer prefer to close the place, so the hierarchy range of the market depends on the distance and size.

Scale Economics Theory suggests that the financial center result from financial activities clustering. It could increase the efficiency gains and reduce transaction costs due to agglomeration of the finance, and create information symmetries as well as knowledge economies. The main ideas about the financial geography focus on information hinterland and information center. Porteous (1995) defines information hinterland as 'a region for which a particular core city, acting as that regional center, provides the best access point for the profitable exploitation of valuably information flows.'

However, the new technologies, telecommunications and information technology have led to both decentralization and agglomeration of economic activities. All of these intensified the international metropolis to play an increasingly important role in control and management of the center of global economic activities. Therefore, since 1980s many scholars have done extensive research on the world or global cities in the background

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