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Megacity with ambitions to match

If Istanbul addresses its infrastructure problems and mitigates earthquake risk, it can rank among the world's great centres, writes **Daniel Dombey**

Grand design: the vision of the government of Recep Tayyip Erdogan, Turkey's powerful, Istanbul-born prime minister, is to transform the city still further Dreamstime

Standing between the tramline and the Grand Bazaar, with no plaque to mark it out, a forlorn column bears witness to Istanbul's long history as a world city.

This ancient mass of porphyry, once topped by a statue of the emperor Constantine, was built to mark the inauguration of the new centre of the Roman empire in 330AD. Only in 1923, after 16 centuries of triumphs and defeats under Byzantines and Ottomans, did the city lose its status as a capital.

But today Istanbul is at the forefront of the world stage once again. Kadir Topbas, mayor, argues that Istanbul's "increasing prestige, brand value and economic power" is more than a match for the challenges it faces in infrastructure and other areas. "Istanbul is a city the world looks at with envy," he claims.

Home to the biggest banks and companies of a self-confident Turkey, Istanbul is a multitude of cities crammed into one – an industrial hub; a centre of financial activity; a diplomatic and conference meeting point with a backdrop beyond compare; a megacity whose 15m-strong population makes it Europe's largest.

"If you are thinking about the world that is taking shape today, with the current geopolitical evolution, Turkey is becoming more of a centre," says Karim Karti, chief executive of the Istanbul-based regional operations of GE Healthcare, the medical technologies subsidiary of General Electric. His comments allude to the country's push to take a leading role in the Middle East and beyond.

Mr Karti's argument – and that of many other businesspeople – is that a headquarters in Istanbul makes the most of that new prominence.

The governments of both the city and the country have still greater ambitions. One is to make Istanbul an international financial centre with a base on the Asian side, where construction work is at fever pitch. Another is a series of grand infrastructure projects, including a third bridge over the strait and, possibly, a canal to run parallel to the Bosphorus waterway that links the Sea of Marmara and the Black Sea.

Besides these far from uncontroversial projects, Istanbul has to wrestle with many daunting challenges, such as managing its sheer size, attracting higher value-added investment and protecting itself against earthquakes. In this vast city with its limited public transport and concentration of industrial and economic activity that represents more than 25 per cent of Turkey's gross domestic product, congestion is a serious problem.

But for all that, Istanbul's re-emergence as one of the world's indispensable cities is gathering speed.

"Istanbul has come to prominence again, particularly over the last decade," says Michael O'Neill, chief executive of Coca-Cola Içecek, the soft-drink company's Istanbul-based bottler, who after six years of international expansion presides over operations in 10 countries, including Jordan, Pakistan and Kazakhstan.

"It has become a more and more attractive point of location, more and more of a hub, not just for us, but for many other multinationals who are operating in central Asia, the Middle East and some of the Balkan countries," he says.

Indeed, in 2000 Microsoft, the technology company, chose Istanbul as the headquarters for its 79-country Middle East and African operations and in 2008 GE Healthcare decided to base regional operations in the city, covering 85 countries, including Saudi Arabia, Russia, South Africa, Nigeria and Pakistan.

One perennial advantage is location. The tankers and container ships that push their way through the Bosphorus show that Istanbul remains, as it has been for centuries, a key crossing point between north and south, as well as east and west.

Today, there are also direct flights to much of the wider region – including all the countries where Mr O'Neill's company operates. Mr Karti says many of the countries he is responsible for are four hours or fewer away and enthuses about the Turkish government's success in establishing visa-free travel to many of its neighbours.

The country's internal market of more than 70m people is unlikely to repeat the 10 per cent year-on-year growth it achieved in the first half of the year, at least in the near future. But, fuelled by favourable demography, its prospects of further expansion in the medium term dazzle in comparison with western Europe.

The city also has a unique pull. Mr O'Neill remarks that it has become "almost the congress capital of the world", so many conventions gather at its hotels. The monuments, gastronomy and nightlife continue to attract throngs of tourists; and, as visits by dignitaries such as Joe Biden, the US vice-president, attest, Istanbul threatens to eclipse Ankara, the capital, as a hub for diplomatic activity.

But the grand vision of the government of Recep Tayyip Erdogan, Turkey's powerful, Istanbul-born prime minister, is to transform the city still further.

Part of that is the goal to make Istanbul an international financial centre by 2023 – a place between London, Frankfurt and Hong Kong where big investment decisions are made and large banks are based.

Years after the idea was first mooted, halfway through the last decade, it faces a series of tests.

The government is in the process of shifting financial regulatory agencies and big state-owned banks from Ankara to a new campus in the Asian part of Istanbul, although the central bank has so far resisted the move.

Mr Erdogan's team has also asserted more control over the Istanbul stock exchange, with a view to modernising and privatising it.

"We want to turn Istanbul into a global financial centre and we need the stock exchange to modernise," Ali Babacan, the deputy prime minister responsible for the economy, told the FT in a recent interview.

"We will turn it into a corporation with shareholders and then do an initial public offering. Today, it's a state body run by member dealers and a structure where there really is no competition."

Even more important is a long-promised legislative package, supposedly due out early next year, that would seek to ease the way for the development of the financial centre through tax and regulatory changes, specialised courts, and an arbitration chamber, as a much-anticipated commercial code is implemented.

Meanwhile, the infrastructure plans – which include the proposed new $6bn bridge over the Bosphorus and election-time talk by Mr Erdogan of the canal and two new cities to the west and east of Istanbul – augur further big change.

The bridge, in particular, inspires strong emotions. Its backers defend it as a means of reducing the city's crushing traffic jams. Its opponents decry it as a threat to the few green areas remaining north of the city, the harbinger of more urban sprawl and, ultimately, more traffic.

Yet even this project – and similar ones such as new road and rail tunnels under the Bosphorus – is far from the main infrastructure problem facing Istanbul. That title belongs to the essential, yet enormously difficult, work of reducing the damage likely to be inflicted by the big earthquake widely expected to hit the city in the next 20 or so years.

Istanbul still has too many substandard buildings, and anxiety has increased after the recent deadly earthquake in the eastern province of Van. Mr Topbas has declared that the only solution is to "build a new city" – but the cost of doing so in a megalopolis of 1.6m buildings is prohibitive.

"It's a very expensive process to take measures to reduce this risk," says Ali Pamir, an Istanbul property adviser.

Of course, failing to prepare for such a disaster could be more expensive still; Constantine's battered column is testimony to the frailty of even the greatest of achievements.

But if this monumental and dynamic city can escape, or at least manage, such threats in the years ahead, its allure is only likely to grow. Istanbul's rise in the past decade has been impressive; its prospects could be even better.

Inside this issue

Ankara weighs in with shake-up of exchanges

Capital markets

One 'multi-asset' bourse based in Istanbul could aid competitiveness, says **Jeremy Grant**

There are few – if any – exchanges that can claim to have built schools in the countries where they are based. Istanbul Stock Exchange is an exception.

Since 1998, it has spent $1bn building 400 schools across Turkey.

The origin of the ISE's largesse lies in a budget surplus that it enjoyed in 1997 and which it agreed with the government could be used to help plug a gap in educational spending at the time.

Now, the relationship between the ISE and the government is expressing itself in a different way, with the administration in Ankara, the capital, asserting greater control over the exchange.

Last month, the government passed a decree that aims to consolidate the two main exchanges, the ISE and TurkDex, the Izmir-based derivatives exchange, into one "multi-asset" bourse.

The ultimate ambition is to base the combined exchange at a new location in Istanbul, on the Asian side of the Bosphorus.

Ankara wants to develop Istanbul into a regional financial centre and draw a line under years in which Turkey operated more than 100 exchanges – most of them small and engaged in commodity trading.

The development is a recognition on the part of the government that countries with multiple exchanges need to consolidate their trading infrastructure to aid the competitiveness of their capital markets.

The same trend is seen in Russia, where the Micex and RTS exchanges are due to merge by year-end, as part of a Kremlin plan to

Consolidate to accumulate

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Investors look beyond tough conditions

Banking

The sector has been well insulated from global crises, says **David O'Byrne**

Everyone associated with the Turkish banking sector is happy to admit that this year has been a challenging one.

Not to say one of importance for Istanbul, home to Turkey's stock market, commodity exchanges and private-sector banks – and one day perhaps to become home, too, to the remaining state banks and, possibly even, the Turkish central bank.

Having emerged from the global economic crisis a picture of rude health, thanks to a combination of good regulation and avoidance of toxic financial instruments, Turkey's banks have had the eurozone crisis to contend with.

Faced with "hot money" flooding in to the stock exchange and a growing domestic credit boom that caused the economy to overheat, the central bank has employed what have been dubbed "unorthodox measures" – including adjusting interest rates on a daily basis, increasing reserve requirements, calling for a voluntary cap on loan growth and periodically forcing banks to borrow at overnight repo rates of up to 12.5 per cent instead of the benchmark week rate of 5.75 per cent.

"[The central bank] needs to be more reactive to what's happening in Europe" says Can Demir, banking analyst at Ekspres Invest, an Istanbul brokerage. "So instead of a rate cut/rate rise cycle, it is adjusting on a daily basis.

As a result, it has been very hard for banks to fix loan rates, he says.

Given the continuing dynamism of the Turkish economy, rate volatility has not unduly affected loan growth. This is expected to hit the voluntary 25 per cent annual cap, based on the combined loan books of the whole banking sector, despite the central bank imposing three increases in reserve requirements aimed at containing credit expansion.

"The banks had thick margins so could sacrifice a bit to maintain lending rates," explains Tolga Egemen, deputy chief executive of Garanti Bank, Turkey's biggest private-sector bank. He points out that, with economists predicting that GDP growth will fall to 2-3 per cent, a cap on loan growth will not be necessary in 2012.

"Anything below 6 per cent feels like a slowdown in Turkey," he explains.

That slowdown is already apparent.

"Loan books are flattish this quarter – that's very unusual for Turkey," says Mr Demir, cautioning that, despite the expected downturn, he does not expect a big rise in non-performing loans. While 2012 may prove difficult, the underlying strength of the sector will see it through.

As with 2011, the main preoccupation in 2012 will be the long-running eurozone crisis, which is expected to damage Turkey's export-driven manufacturing sector, an important source of loan growth.

But even a crisis can present opportunities, says Suzan Sabanci Dincer, chairperson of Akbank, Turkey's second largest private-sector bank.

"The eurozone problems will accelerate the geographical diversification of Turkish exports," she says.

She points out that although the European Union is still Turkey's biggest trading partner, only 48 per cent of Turkey's exports now head west, a decline from 56 per cent a decade ago.

Specifically, with European lenders being the first port of call for most Turkish banks, many are concerned about the effect eurozone instability will have on the cost of borrowing.

Europe's banks feel comfortable in Turkey, says Tolga Egemen

But, points out Mr Egemen at Garanti Bank, the total value of syndicated loans that the sector needs to roll over in 2012 stands at only about $16bn.

"That's not more than 2-3 per cent of total liabilities," he says, explaining that with a loan-to-deposit ratio still under 100 per cent, Turkish banks could fund themselves sufficiently from the local deposit market, even if foreign funds were to dry up entirely – which he considers highly unlikely.

"European banks are going to have to continue to do business and Turkey is one of the few areas where they feel comfortable," he says.

Despite the turbulent global conditions, Turkish banks are still attracting international investors.

The past year has seen Spain's BBVA complete the $5.8bn purchase of a 24.9 per cent stake in Garanti, while Dexia's sale of its DenizBank subsidiary, Turkey's ninth largest by assets, has attracted interest from bidders in Europe and the Gulf.

And potential bidders are already reported to be lining up for the country's eighth biggest bank, Finansbank, whose current owner, National Bank of Greece, is expected to offer it for sale next year.

"These are probably the last opportunities for a foreign bank looking to acquire a sizeable retail bank in Turkey," says Mr Demir at Ekspres Invest, pointing out that at least two other smaller banks are also expected to be sold next year.

And further growth is expected, with Turkey's banking regulator encouraging greater competition. It recently licensed Lebanon's Bank Audi to operate in the country and signalled that it would allow the tiny Adabank to convert itself into an "Islamic" participation bank.

All this before the long-awaited public offerings of the country's three remaining state banks Halk, Ziraat and Vakif – on hold until market conditions improve.

What is the underlying attraction? Simple, says Mr Egemen: "While banks all over the world were dealing with 'mumbo jumbo' products, Turkish banks were generating sustainable revenues from their customers with basic banking products," he says.

These basic products still have a long way to grow before reaching the market penetration levels of, say, Europe.

"Housing loans in Turkey equal just 5 per cent of GDP; in the EU the figure is eight times that," notes Ms Sabanci Dincer at Akbank. "That points to a lot of room for manoeuvre."

New law puts emphasis on transparency

Commercial Code

The regime will apply to unlisted companies too, says **Anthony Skinner**

Istanbul's business community, the backbone of Turkey's economy, is bracing itself for the arrival of a new Turkish Commercial Code (TCC), which promises a virtual revolution in corporate transparency and governance.

Due to be implemented on July 1 next year, the long-awaited law has been triggering strong praise – and in some cases robust criticism – from accounting firms and the Turkish business community. This is largely due to its scope and ambition.

Comprising more than 1,500 articles, the code aims to replace Turkey's weak corporate governance profile with one on a par with – if not superior to – best practice in the most sophisticated markets.

Transparency, fairness, responsibility and accountability for all companies are the key principles that underpin the law.

"We are going from one extreme to the other. It is a game changer for Turkish business," says Mustafa Çamlıca, Ernst & Young's Turkey country leader.

The high level of transparency demanded by the code is expected to spur investment in non-listed Turkish companies, hitherto black boxes. Many of these businesses offer little or no reliable information to prospective investors.

Now, all companies, irrespective of size, will have to disclose all their financial statements, and auditor and director reports, on their websites.

Significantly, company accounts will have to be prepared to meet International Financial Reporting Standards (IFRS). "The requirements are clearly very positive for investors and bank lenders," says Anthony Wilson, a partner at Deloitte Turkey.

Tough auditing standards are a hallmark of the code. The law includes conditions that are similar to those of the US Sarbanes-Oxley Act of 2002 and which seek to ensure the independence of company auditors.

Accounting firms are rubbing their hands, because hundreds of thousands of Turkish companies will be required to comply.

Ali Çiçekli, a TCC business development partner at Deloitte Turkey, says he expects accounting firms' revenues and number of employees in the country to expand five- or sixfold over the next 10 years.

In addition to promoting greater competitiveness and market efficiency, the new code will increase protection for both majority and minority company shareholders.

Minority shareholders, for instance, will have the right to demand full transparency and a replacement of company auditors if they are deemed to be partial.

Conversely, a majority shareholder that holds 90 per cent or more of a company's shares may buy out an uncooperative minority shareholder that does not act in the company's interests.

Yet the new TCC has not been universally welcomed in Turkey, with small and medium-sized enterprises (SMEs) especially unprepared for the shift that the code will bring.

"I doubt that a large number of SMEs will be able to adapt," says Cüneyt Yüksel, regional managing partner at DLA Piper, a business law firm. "I would not be surprised if the implementation of the code were delayed. We can expect amendments to a number of its articles."

Small enterprises may become increasingly vocal in demanding exemptions and/or a longer phasing-in process to implement the new TCC's requirements.

Unsurprisingly, a common refrain among Istanbul's business community is that the stringent disclosure requirements are appropriate only for listed companies. While not necessarily negative, companies with limited activity and growth prospects will be forced to merge or close, critics say.

This has sparked debate on the implications of the code for employment levels and registered, taxed entities. Although intended to reduce the size of Turkey's unregistered economy – which accounts for between 45 and 60 per cent of the active labour force – opinion is divided as to whether the code will achieve this.

As pointed out by Ernst & Young's Mr Çamlıca, limited liability companies are required to have only TL5,000 (€2,000, $2,700) of capital to set up shop. Many financially-stretched minnows can ill afford to increase their fixed costs as a result of TCC regulations. "I think the law might even increase the size of the unregistered economy," Mr Çamlıca says.

> Accounting firms are rubbing their hands, because so many companies will have to comply

While companies are threatened with penalties and sanctions if they fail to comply with obligations laid out by the TCC, it is unclear how effectively the code will be enforced.

"In view of the cost, the main challenge is how to persuade people to apply the code," says Vehbi Karabıyık, a managing partner at Karden Yeminli Mali Müsavirlik, a member of RSM Kapital Karden group. "We can expect resistance from many in the business community."

As reflected in the size of its unregistered economy, Turkey has struggled to collect direct taxes over the years. This has raised doubts as to whether the authorities will take an aggressive and uncompromising approach in enforcing the new code.

Providing the right incentives and streamlining tax legislation would, without doubt, help. "If the code is supported by other new laws as part of parallel changes in Turkey's tax law, then it will be implemented more adequately," says Deloitte's Mr Wilson.

Irrespective of such challenges, the new code could represent a quantum leap for corporate governance standards in a country where relationships within the business world, and between the public and private sectors, are often hard to fathom.

Anthony Skinner is a director of Maplecroft, the risk advisory company

Yachtmakers cruise ahead as shipyards feel the pinch

Maritime industry

An extremely wealthy clientele has insulated some manufacturers from the sector's woes, writes **Daniel Dombey**

Catch a boat from the old heart of Istanbul, cross to the Asian side, past where the Bosphorus meets the sea of Marmara and where tankers line up to go through the strait. Then drive along the coast, keeping the sea to your right. In little more than half an hour you will come to a bay that is a world of its own.

Tuzla Bay is crammed with shipyards. Ships of all sorts are produced, repaired and serviced here. Out on the water a tanker rests on a drydock. Nearby are a cattle carrier, a coastguard cutter, a tug and a great number of yachts.

This is one of Istanbul's near hidden areas of expertise. Among its other activities, Tuzla Bay has become a specialist producer of luxury yachts, including both sailing ships and motor boats.

Indeed the business has become one of Istanbul's clusters of industrial excellence, along with specialisations such as autoparts, jewellery and, in shipbuilding, small tankers.

"In recent years, Turkey has increasingly tapped into niche markets, which in turn has led to a growing participation by Turkish shipyards in the international trade in new ships," the Organisation for Economic Co-operation and Development concluded in a recent report.

"These developments reflect in part the strategic location of the yards, the experienced workforce, the quality of production and Turkey's significant role as a political, cultural and economic bridge between Europe and central Asian and Middle Eastern economies." Still, Turkey's shipbuilding sector as a whole has been badly hit by the international financial crisis.

Between 2008 and 2010, production fell by more than 40 per cent. Exports tumbled from $2.7bn in 2008 to little more than $1bn two years later.

The sector's workforce, much of which is concentrated in Tuzla Bay, mushroomed from 2,800 in 1998 to more than 34,000 a decade later – but then almost halved to 19,000 in 2009, recovering a little to 22,000 this year.

Meanwhile, Turkey lost its status as one of the world's five biggest shipmakers, falling to eighth place, with only the 11th biggest order book.

But the yacht sector, with its extremely wealthy clientele, can be insulated from such trends to a certain extent.

According to Camper & Nicholsons, the luxury yacht group, Turkey built 25 "superyachts" of at least 100ft in length last year, making it the world's third biggest producer of such vessels, after Italy and the Netherlands. It was also third in the number of new orders taken during the year.

"It is cost-related," Zihni Bilgehan, a leading Turkish shipping lawyer, says of Istanbul's success in the business.

"The majority of people who placed orders for yachts have been Turkish, but as those yachts sailed in Turkish waters and around Europe and owners chatted to each other about price and cost, it became clear that Turkish yards were able to produce very good quality yachts at a very good price."

A reasonable price is of course a relative concept. In Tuzla Bay, RMK Marine, part of Turkey's Koc Group of companies, is building superyachts for Oyster Marine of the UK. The price-tag for the end-consumer is about €8m-€10m for a 100ft ship and about €16m for a 125-footer, reflecting up to 250,000 hours of labour.

Next door, Yildiz shipyard is building the hull of a much bigger superyacht for Perini Navi, based in Viareggio, Italy. Yildiz has traditionally sent such ships abroad to be completed by the Italian group, but it can also produce enormous yachts on its own – as it did with the 289ft Maltese Falcon, which Camper & Nicholsons classifies as the world's third biggest sailing yacht.

RMK Marine's facility in Tuzla Bay: the company does its design work in a warren of offices in the shipyard

> Turkey has lost its status as one of the world's five biggest shipmakers, falling to eighth place

Meanwhile, the 600-person RMK Marine carries out design work in a warren of offices in the shipyard itself. After the hull has been made for its ships, and the basic electrics have been installed, all the other features are slipped into position. Workmen pad about gingerly in slippers on a nearly completed yacht; it will continue to be taken for test sails in the bay until ready for delivery.

RMK Marine is also building ships for the Turkish coast guard, part of the country's attempts to become more self-sufficient in producing military hardware.

Still, not all the ships are new-builds. Also undergoing work at the yard is a steam yacht that is more than 100 years old, an exuberant mix of cream and blue with old-fashioned brass portholes.

It will soon be taken back to a museum on the Golden Horn, the stretch of water that served as the city's shipbuilding centre for centuries before the development of Tuzla Bay. Istanbul may be up and coming where producing big yachts is concerned, but as the Ottoman navy proved in its day, it has a shipbuilding tradition that stretches back to even before the great age of seafaring began.

Ankara weighs in with shake-up of country's stock exchanges

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build up Moscow as a financial centre.

Hüseyin Erkan, chief executive of ISE, says: "The government thinks the capital markets of Turkey are not as large as the country deserves – and that means full support by the government and a re-evaluation of all the regulations.

"It is keen to bring the capital markets into full compatibility with other countries from a competitive standpoint and that means speeding up the process and combining everything under one structure."

ISE will be turned into a joint stock company ahead of a probable privatisation.

The government's intervention is in some ways well-timed.

The ISE and TurkDex had been in talks for months about the possibility of ISE taking a controlling stake in the derivatives exchange, in which it already has an 18 per cent stake.

But the talks had become complicated amid rivalry between the two, which both want to launch trading in lucrative equity derivatives contracts based on the ISE stock index.

The government had said TurkDex could launch equity derivatives on condition that ISE became its majority shareholder, building on its existing stake.

But negotiations on this point became complicated, involving the main TurkDex shareholder – the Union of Chambers and Commodity Exchanges of Turkey, a politically powerful organisation.

The ISE, meanwhile, has an opaque ownership structure that is sometimes described as a hybrid of a non-profit and a government-owned entity.

Mr Erkan had been working on a plan to turn the ISE into a regional hub, a move that appears to chime with the government's wider ambitions.

Mr Erkan believes the ISE would benefit from building alliances with other exchanges in the Balkans, the Middle East.

Investors who wished to access such exchanges could then route their orders through ISE.

That would provide the means to overcome the access difficulties – as a result of legal and technical barriers – that foreigners sometimes encounter when they try to place orders on smaller emerging market exchanges.

Mr Erkan says he prefers to forge alliances this way rather than offering the ISE as a dual-listing platform.

"A lot of other exchanges [globally] are trying to take liquidity from other exchanges. I don't believe that dual listings is the right way," he says.

Revenues would be shared between the ISE and participating bourses. "This way everyone wins," Mr Erkan says.

In addition, the ISE is looking at whether it can help regional exchanges develop such post-trade infrastructure as clearing and settlement systems.

Mr Erkan, a respected exchange operator and ex-chairman of the working committee of the World Federation of Exchanges, is to step down a year earlier than expected, as part of an expansion of the ISE board.

Ankara has the power to appoint a new chief executive and chairman.

Asked if he wants to be a candidate for ISE chief executive under the new rules, Mr Erkan says: "We have made a lot of preparations, we have invested in technology and we are planning to invest more and to continue to make Istanbul a financial hub for a lot of the flows going in and out of this region.

"I'd like to see that realised, but whether I would be part of that or not depends on the government."

City's construction boom is a mixed blessing

Infrastructure

Leyla Boulton says the government is keen to tackle big transport projects

Going nowhere fast: completion of the Marmaray railway tunnel under the Bosphorus has been delayed by the discovery of an ancient Byzantine port
Science Photo Library

Recep Tayyip Erdogan, the prime minister, defended "the greatest project of the century" – his plan to build an Istanbul canal in time for the 2023 centenary of the Turkish republic – as "crazy and magnificent".

A visitor to the country's commercial capital cannot help but notice – and in some cases, enjoy – the mushrooming infrastructure of an economy that grew 9 per cent last year.

Both before and after coming to power in 2002, Mr Erdogan, previously the city's mayor, prided himself on delivering big projects. The $30bn proposal to direct oil tankers on to a route running parallel to the shipping lanes of the Bosphorus is only the most ambitious to date.

Speaking in April, three months ahead of his Justice and Development party's (AKP) re-election to a third term in office, Mr Erdogan likened himself to Osman, founder of the Ottoman Empire, who foresaw his life's work in a dream where a colossal tree sprouted from within himself and spread across the region.

"At the foundation of a great civilisation, there is, foremost, a dream. We too have established a dream for our country," said the former Islamist firebrand.

Other recent announcements for Istanbul include a bid to host the 2020 summer Olympics, a decision to build a third airport, and an invitation to register interest in building a third bridge across the Bosphorus.

"The sector we will see growing out of proportion is infrastructure," says Mehmet Sami, executive board member at Ata Invest, an Istanbul brokerage. "First, the government's macroeconomic success means it can restart investment in certain types of infrastructure and open the way for the private sector to invest. Second, everything it does will eventually lead to privatisation."

"Infrastructure is the fastest-growing part of our portfolio," agrees a senior Istanbul banker.

The benefits of an expanded underground railway network are clear in a city whose population has grown to 15m at a rate close to 3 per cent a year.

Along with other improvements to public services, transport projects have enabled Mr Erdogan to claim tangible achievements that eluded a succession of weak and impoverished coalition governments that preceded the AKP.

Yet critics say the costs of the infrastructure boom are unacceptably high in some cases.

Environmentalists, planners and local residents alike worry that urban sprawl stemming from a third bridge (*see map, right, of proposed route*) will threaten the city's greenbelt and water reservoirs without resolving congestion.

Andrew Finkel, a journalist and longstanding Istanbul resident (*see his Visitor's Guide, Page 4*), recalls that when Mr Erdogan was mayor, he said a third bridge would be "murder" for the environment.

That view prompted the construction of a more environmentally friendly metro tunnel to ferry 1m passengers a day underneath the Bosphorus. The tunnel, however, has been delayed by the discovery of the remains of a fourth century port.

The rush to build has provided cover for a move to shift decision-making in planning from local authorities to the central government. Ankara has decreed, for example, that the third bridge does not require the approval of local planners.

In anticipation, some investors have begun buying up land along the proposed approach roads, complains the Istanbul planners' branch of the Union of Chambers of Turkish Engineers and Architects.

In a highly critical report, it says the plan for the third bridge already lays the ground for a fourth.

In spite of this, "there is growing environmental consciousness in Turkey", says Umit Boyner, the outgoing president of Tusiad, the lobby group for big business.

"I'm glad we have tree huggers. If we don't put that priority somewhere, we might find we have all these [power generating] turbines, but no agriculture [as a result of farmland loss]," she says.

Projects have been altered before when they have attracted international attention. A case in point was a metro bridge across the Golden Horn. Modifications to lessen its detrimental effects on the historic skyline were agreed after Unesco, the UN cultural body, threatened to move Istanbul's World Heritage areas to its endangered list.

Even so, the watchdog complained that a detailed visual impact assessment report "was conducted in difficult circumstances, some five years after the location of the bridge was agreed and after work on its construction had started. In recognising its adverse impact, there was little room for manoeuvre within which mitigation measures could be identified."

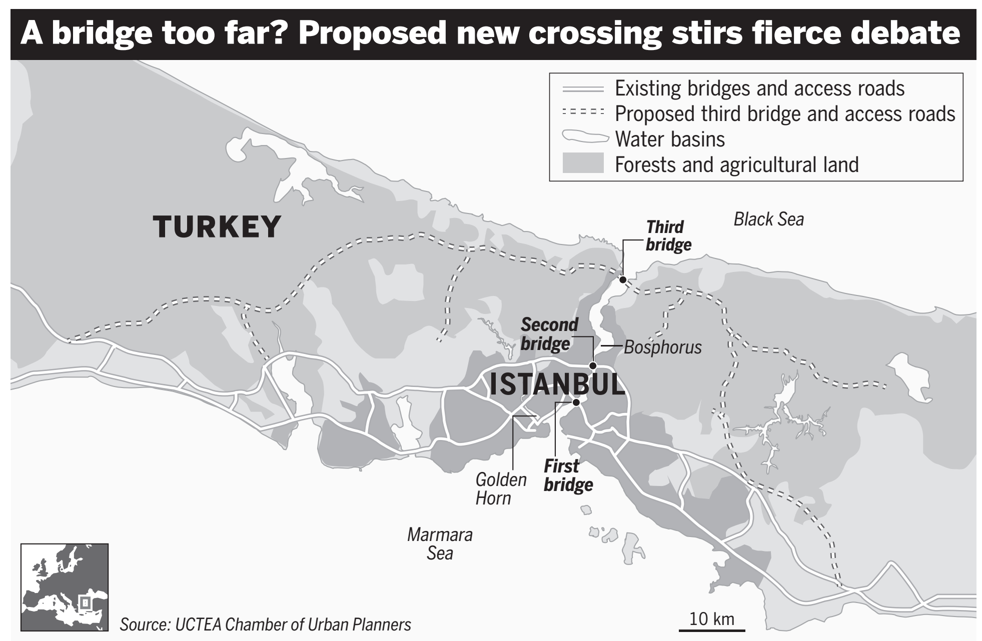
For years, cash-strapped Turkish governments were at the mercy of non-governmental organisations that could mobilise international opposition even to the financing of projects that were economically beneficial to less developed parts of the country.

Now a strong one-party government appears to have gone to the other extreme of pushing through schemes that threaten the historic city's sustainable development.

However, Ishak Alaton, chairman of Alarko, a diversified conglomerate that plans to bid for the third bridge, is confident the project will go ahead whatever the economic weather.

"There will simply be a price adjustment if the bridge cannot achieve a certain number of vehicles," he says.

A bridge too far? Proposed new crossing stirs fierce debate



Source: UCTEA Chamber of Urban Planners

Projects keep rolling despite slowing growth

Property

Increased interest from overseas is keeping prices high, says **Michael Kuser**

Istanbul has experienced innumerable booms and busts over the centuries, and the property market is going through one of its periodic booms.

That is not to say a bust is imminent, but with growth slowing, there are one or two clouds on the horizon, although a soft landing looks likelier than a bumpy end to the good times of the past decade.

The economic cycle is clearly relevant to real estate, as busts in Spain and Ireland attest. But Turkey's property market had paused for a breather in mid-decade, just when the US subprime mortgage crisis was coming to a head.

Turkey gained a macroeconomic advantage over the more developed world after its domestic financial crisis of 2001 – the banking reforms which followed enabled it to survive the more recent global crisis without any bank bail-outs.

The economy may be winding down, but development projects continue to spill out of the pipeline. New malls pop up as fast as action figures in a video game; apartment buildings shoot skyward from abandoned breweries and old factory sites; and each new premier office tower vies to outclass its predecessor in services and amenities.

Prices and rents in all categories are broadly stable or rising, although yields are coming under pressure from rising prices, themselves partly reflecting increased interest from foreign investors.

"Istanbul still has a lack of sufficient A-class office space, so I'm not expecting a downturn there," says Kurthan Atmaca, an equity analyst at Ekspres Invest, the brokerage arm of DenizBank, which is owned by Dexia. "I see it as more stable, with a potential upside of a $3 to $4 increase in rents per square metre.

"On retail, some places in Istanbul have reached saturation, or more than saturation, with fierce competition on the European side. The Anatolian side has further to go, but may reach saturation by 2014."

The most visible project to go up this year, the 54-storey Sapphire, took the record as Istanbul's tallest building. The sleek tower rises in the premier business district of Levent, on the European side, and

The 54-floor Sapphire building is valued at nearly $400m

Prime Minister Recep Tayyip Erdogan officiated at its opening in March. Analysts value the retail, residential and office property at close to $400m.

The government in Ankara influences the city's growth in several ways, having resolved to make Istanbul one of the world's 10 leading financial centres by 2023, which will be the centennial of the founding of the Turkish Republic.

The national government also is a huge contractor in its own right. The newly completed Palace of Justice in Caglayan, on the European side, is the largest non-residential building in the city at more than 300,000 sq m. At about half the size of the Pentagon, it is also one of the largest buildings on earth.

One rain cloud at this county fair is interest rates. A rise in mortgage rates will slow the residential market in 2012, but branded projects for upper income levels are countering that trend by offering financing at below-market rates, says Mr Atmaca.

Another possible damper on housing sales is a move by the finance ministry on capital gains tax on property sales. The ministry is drafting a law to extend liability to perpetuity from today's five-year limit.

The crisis in the eurozone is a further worry.

Turks by their nature provide a counterweight to the uncertainty and turmoil in global markets. Averse to risk, they love two investments above all others: gold and real estate.

A property developers' association in October reported a 20-month supply of residential newbuilds, and days later Ankara announced a goal of tearing down half the housing stock in Istanbul and replacing it with earthquake-resistant homes. The minister in charge estimated the cost at $400bn.

Conspiracy-minded media commentators at first hinted at a giant boondoggle, but consensus emerged on a more plausible scenario: the realisation has sunk in that the city is seriously exposed to the risk of a catastrophic earthquake, and that the scale of the challenge is practically beyond the reach of preventive measures.

Alistair Seaton, head of European strategy for LaSalle Investment Management in London, says: "What's pushing investor interest in markets such as Moscow and Istanbul is the desire to tap into growth potential and obtain a yield higher than they can get in more mature developed markets.

"Istanbul has seen strong growth and is expected to see more, driven by a young demographic and a trend toward urbanisation."

In the thick of it: with all the distractions of a world commercial centre, Istanbul can sometimes feel a bit overwhelming for the visitor Dreamstime

From the buzz of the bazaar to the beauty of the Bosphorus

Visitor guide

The city is simply intoxicating, says **Andrew Finkel**

With a gross domestic product greater than Hungary's and a population larger than that of Greece, Istanbul feels as much a country as a city.

It possesses the gravitas of having been the capital of the Byzantine and Ottoman empires.

Yet driving past a townscape of alternating brand-new shopping malls and construction sites on the way in from the airport, you could be forgiven for thinking the city was born only yesterday.

It has all the buzz and distractions of a world commercial centre, the natural allure of a city set among arms of the sea – and motorway tailbacks that can reduce a hardened cabby to tears. It can all feel a bit overwhelming.

If you are in Istanbul for sightseeing, then by all means stay in Sultanahmet on the historic peninsula, or away from the tourist hubbub at a boutique hotel nearby.

However, this may not be an option for the business traveller with a morning appointment on the far side of town. Traffic and distance are the great enemies, and for those on a tight schedule the challenge is to get the job done but still find time to grab a sense of what makes Istanbul unique.

The best place is from your hotel window. For those on a well-fleshed budget, a room with a view of the Bosphorus is a justified expense. Many of the city's five-star hotels enjoy a commanding view of this seascape of lights and passing ships.

Jason and his Argonauts passed through these narrow straits that separate Europe and Asia, as did Soviet submarines. Today, the straits are busy with merchant ships.

Istanbul is built on hills and is a city of views, but even if you find yourself with a humbler aspect, do not despair – there is always dinner.

A visit to the grand bazaar can feel exotic and an afternoon spent gazing up at the great dome of Hagia Sophia, once Byzantine church, then a mosque, now a museum, is time well spent – but some of the most rewarding sightseeing can be done with the involvement of a knife and fork.

This is because of the large number of restaurants that hug the shores, affording an intimate glimpse at this evocative waterway.

The Bosphorus meal is the great Istanbul tradition and is a ritual in its way as precise as a Japanese tea ceremony.

You first decide what to drink. Raki, the anise-scented spirit diluted with water and ice, is traditional, but there is now a growing range of carefully produced Turkish wines. These include not just merlot and sauvignon blanc, but ancient Anatolian varieties such as emir or *öküzgözü* that you just won't find elsewhere.

Next comes the cold meze, then the hot hors d'oeuvre, to be followed by the perfectly cooked piece of fresh fish.

> As seductive as the minarets on the skyline is the intangible way people interact

However, the not-so-secret ingredient is the view of the Bosphorus itself.

Punctuality is not one of Istanbul's virtues – the traffic sees to that. However, it is good to think tactically.

For a start, try to schedule your flights to avoid the rush hour, which in the evening can last until 9pm.

There also is a metro line that takes 40 minutes from the European airport, but the last stop is not in the most convenient part of the old city and the chances are that you will have to continue your journey by taxi.

Cabs from the airport are strictly controlled. All cabs in the city run on a meter and are reasonably priced. To avoid the odd bad apple out to "take you for a ride", get one from a rank rather than on the street.

If you can reach your destination by ferry or hydrofoil, leap at the chance. It is the best way to see the city and the boats run on time. The maritime line has a fleet of water taxis that have to be ordered well in advance, but they can be an ultra-convenient luxury.

Expatriates working in Turkey commonly report that their colleagues who visit on business end up coming straight back on holiday.

There is a quality and civility to everyday life that is rare for a city of Istanbul's size. As seductive as the minarets on the skyline or aroma of a pistachio-laced kebab grilling on an open hearth is the intangible way people interact.

Of course, one has to be sensible, but there is very little crime against the person, according to Interpol statistics.

Turks are tremendously hospitable. You can try fighting your host for the bill, but be prepared to lose. And, of course, charm can have its price.

"Never lend anyone $500m while cruising down the Bosphorus on their powerboat," a foreign banker in Istanbul warns – and it is probably good advice.

Andrew Finkel is the author of Turkey: What Everyone Needs to Know, to be published by Oxford University Press. For his reviews of Istanbul hotels go to www.cornucopiahotels.com

Pockets of history cast intriguing shadows

Historic Istanbul

Daniel Dombey escapes from the biggest tourist sites to find some medieval marvels

Hidden gem: the church of St Saviour in Chora, noted for its 14th-century mosaics and frescoes

Up on the Golden Horn, the curving estuary that has always been a glory of Istanbul, a small Greek church gives thanks every week for the city's salvation from barbarian hordes – in 626AD.

The church of St Mary Blachernae was originally built on the site of a holy spring in 450AD and waters still burble in the recesses of the 19th century building. The image of the Virgin Mary once kept here is credited with having repelled not only the Avars in 626AD, but also the Arabs a century later.

Today the church and the area around it are a reminder that modern Istanbul is full of neighbourhoods and monuments that can transport one to the past.

"The modern world has caught up with Istanbul, but it is only a veneer, because, underneath, the old world is still there," says John Freely, a long time inhabitant of the city, who has written more than 30 books about it.

The places that reveal the past are not just the most famous sights of the city – the Blue Mosque, Hagia Sophia, the Grand Bazaar, and so on. Nor are they all thronging with tourists.

Outside St Mary Blachernae wind narrow streets where recent arrivals from Anatolia hawk a thousand products at their stalls amid old Ottoman water fountains and ancient rubble.

Looming above the scene are the 5th-century land walls that protected the city from invaders for a thousand years and which remain its biggest and perhaps most glorious ancient monument.

They run through the ruins of the palace of Blachernae, where Byzantine emperors lived, and past the huge, miraculously preserved façade now known as Tekfur Saray.

A few minutes walk away is the church of St Saviour in Chora, whose 14th-century mosaics and frescoes are one of the great masterpieces of medieval art.

The district, which seems part Anatolian, part Byzantine, is not the most accessible: the streets are narrow, the area is poor and it can be a 20 minute taxi ride from the old city centre and at least twice that from some business hotels.

But there are countless other places in the city that can be worked into all but the most flying of visits and which offer an atmosphere that the biggest tourist sites sometimes do not deliver.

Just below the most visited sites in the historic quarter is St Sergius and Bacchus, a church that predates Hagia Sophia and is now converted into a mosque.

You can visit its exquisite space, where the carved name of Justinian, the emperor who had it built, is still legible and if you are lucky, you will be alone.

If you are staying north of the historic centre at the Conrad Hotel, you can wander into Yildiz Park, formerly a hunting ground for sultans, and inspect the Yildiz Chalet – a 60-room extravaganza built for a visit by Kaiser Wilhelm II.

The nearby Kempinski hotel incorporates an Ottoman palace – the 19th century Ciragan Sarayi – offering heartbreaking views of the Bosphorus.

Mr Freely, who some four decades ago co-authored a guidebook, *Strolling through Istanbul,* that is still in print, recommends that visitors go to the district of Samatya on the Marmara shore.

There, in a village-like atmosphere, they can see the ruins of St John of Studius, the oldest Byzantine church in the city, and Koca Mustafa Camii, a 1,000-year-old church that is now a mosque.

"It is incredibly charming – you find Greeks and Armenians and Turks all living there," he says, while lamenting that other parts of the city no longer have the ethnic minorities that once made them their own.

"Samatya's more like the old Istanbul."

Modern Istanbul is not Turkey – and it is certainly neither Byzantium nor Constantinople, the two cities that came before it. And yet sometimes it can embody the country beyond the city limits as well as the past that never quite came to an end.

Lobbyist for business pulls few punches

Profile
Umit Boyner

Leyla Boulton meets the forthright president of Tusiad

She sweeps out of the black limousine, in sunglasses and high heels, into the anonymous building in central Istanbul that houses the HQ of Turkey's lobby group for big business. The blonde former retail executive seems a forbidding presence – until she is sitting across the table with a broad, girlish smile.

Umit Boyner, whose first name means hope, has for the past two years been president of Tusiad, the Turkish Industry and Business Association whose members include Turkish blue-chips such as Koc and Sabanci.

In that role she has been an effective ambassador for Turkish business. At home, she has proved an outspoken advocate of good governance, both corporate and political.

Ms Boyner has also had to contend with increasing competition from Musiad, the Independent Industry and Business Association, which is seen as close to the ruling Justice and Development Party (AKP) and is supported by provincial businesses that have resented the power of Istanbul-based conglomerates.

A veteran western banker in Istanbul points out that the shift in their relative influence was reflected in a recent US congressional delegation's decision to visit Musiad before Tusiad.

When the AKP first appeared on the horizon at the start of the decade, it received a warm welcome from Ms Boyner and her husband, Cem, who runs Boyner Holding, a family-controlled clothing retailer.

In contrast to much of Istanbul's business elite, which fretted about the party's roots in political Islam, the Boyners were more interested in the party's liberal agenda on issues such as membership of the European Union.

Yet more recently, Boyner Holding's former vice-president for finance has faced attack from some AKP politicians, both as a woman and in her role as Tusiad chief. In May, Bulent Arinc, deputy prime minister, accused her of supporting pornography when she spoke out against government curbs on the internet.

Ms Boyner dismissed the accusations during this spring's election campaign as cheap political shots "at a time when we are all trying to make Turkey a more democratic country".

She also chided Mr Arinc for bringing her children into the debate, when he said that, as a mother, she should welcome restrictions.

Bahadir Kaleagasi, international co-ordinator for Tusiad, says the 40-year-old organisation is in one of its "post-honeymoon" periods in which it criticises the government.

"Politicians don't get that," he says. "They think you are either with them or against them," he says.

Asked about the rise of Musiad, Ms Boyner says she likes it, while pointing out that membership of Tusiad is not reserved for big companies in Istanbul.

On the contrary, she says the association, which accounts for 80 per cent of Turkish exports, includes "more and more" businesses of all sizes from across the country.

Moreover, "the more civil [society] organisations we have in this country, the better," she says, before adding, in an apparent reference to Musiad's perceived cheerleading for the government, "I think it is important for business organisations to uphold principles of independence."

The 48-year-old businesswoman has become an expert at subtle warnings, especially when dealing with a government that has become less and less tolerant of criticism.

"The latest election results show people in this country yearn for good [public] services. That's what the AKP has provided for low and middle income people and they've done a good job," she says. "They've raised expectations [and how the party continues] depends on whether they fulfil those expectations."

On the business front, she talks of the need for Ankara to boost competitiveness and attract foreign investment.

Ms Boyner is hopeful a long-awaited commercial code will go into effect in July, despite last-minute lobbying by some small and medium-sized businesses that fear new transparency requirements.

Asked whether such lobbying involves the likes of Musiad members, she says even SMEs can see that publishing accounts helps them attract finance and expand abroad.

'I don't see potential for myself in politics,' says Tusiad's Umit Boyner

She is unafraid to speak her mind on more emotive subjects, such as Kurdish terror attacks. The day after Kurdish guerrillas killed 24 soldiers in the south-east, Ms Boyner said it was up to the politicians – both the AKP and the Kurdish BHP – to "do their job" and negotiate an end to the violence.

When she steps down in January, hers will join a gallery of portraits of previous Tusiad presidents, including Cem, who occupied the post in 1989-90 before trying his hand at politics. Although his liberal New Democracy Movement failed at the ballot box in 1995, it was a rare instance of the Turkish business elite acting on dissatisfaction with the political class.

As the main Republican People's Party (CHP) opposition has stalled while the economy has boomed and the AKP has gone from one success to another, Turkey appears set for domination by one party for the foreseeable future. That makes brave voices such as Ms Boyner's all the more valuable at a time when large chunks of the media are also fearful of irritating the government, particularly if they are owned by diversified conglomerates that typically belong to Tusiad.

Asked whether she might follow in her husband's footsteps, Ms Boyner says modestly: "I don't see potential for myself in politics."

But she stresses the importance of "independent non-governmental organisations" such as Tusiad speaking their mind.

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