INVESTOR'S GUIDE TO RUSSIA

10 ARGUMENTS
25 CASE STUDIES

Nejat Özsimen

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Moscow 2026

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EDITORIAL INTRODUCTION

In a global economic climate questioning neoliberal models, this work is a comprehensive projection that blends "State Capitalism" doctrines of the Russian and Chinese type with the author's professional journey and field anecdotes. While the "10 Arguments" in the first part of the book outline a broad strategic framework, ranging from the financial expectations of banks to the investor-state relationship, the "25 Case Studies" in the second part examine investor psychology and strategic management through real-world scenarios in sectors such as energy, food, construction, and textiles. Presenting the cold data of financial models through simplified narrative, the work focuses on the "human" and "story" elements behind the numbers. Enriched with a glossary and practical information added at the end of the book, this study serves as a comprehensive guide for all professionals working in or targeting the Russian geography.

LEGAL DISCLAIMER

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DIGITAL VERSION

Nejat Özçimen

In Russia for many years…

Has resided in numerous cities from Astrakhan to Kaliningrad, from Sochi to Ivanovo.

Has managed projects from the perspectives of the contractor, investor, and bank.

Married with three children. Speaks three languages. Loves literature..

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Prelude

The young man turned his gaze upward at the corner where Leningradsky and Tverskaya meet. How majestic everything was. The buildings whispered the secrets of the metropolis. As the hum of vehicles drew him like a vacuum toward the Kremlin, suddenly, as if on an invisible carpet, he found himself placed in Aleksandrovsky Garden, hands in pockets, head in a haze.

His mind only settled there...

The moment he turned his head, the Hotel National and beneath it, Dr. Jivago, greeted him with Omar Sharif's large eyes. In the steam of his coffee, caught between a passion for control and nonchalance, the young man dreamed not of the meaning of life, but of the streetcar that would carry him to his desires.

**

This book, which began technically and evolved into a professional 'memoir', was penned in this very city, in that pleasant room pictured, in a very short time.



In this work, looking at the city precisely from this window, we will discuss the intricacies and maneuvering spaces of managing that challenging process called "high-stakes piloting."

We hope you find it useful.

Moscow, January 2026

Nejat Özsimen

Scope

In this book, we used theory not as an end, but as a tool. We stayed away from synthetic knowledge. Speculative investments are not our business. Gold, dollars, real estate, the stock market, bitcoin, and high-tech; these are EBITDA monsters, they disrupt our scales.

The subject matter of this book is investments in the manufacturing sector. Its audience is industrialists. That is to say, tangible, practically-oriented investments. And, of course, their interface with the state and banks...

However, it is also a reality that: Theory always precedes practice, it is always more prestigious. The only valid way to get ahead of our competitors through legal means is our theoretical mastery of the subjects.

But theory requires effort, burns calories, and is a test of patience. However, when it hits the right place, at the right time, and the right people, it drops the bird of fortune—which we might only encounter a handful of times in life—right into our palms.

Therefore, while handling the topics, we have meticulously and aesthetically embedded theory within practice. We avoided being mere chroniclers. In the process of explanation and persuasion, we took care not to deviate from Aristotle's rhetorical principles[1], to use a reliable and sharp language, and to support every argument with data.

Within this spectrum, we opened 10 basic theses (arguments) and tried to concretize them with 25 different cases. In each case, we provided a 7-criteria investor scorecard that has become a classic set of questions. We tried to keep it brief. Our aim was not to exceed a total of 16 academic hours.

The contents of the texts have no bias towards any place, time, individuals, or nationality, just as the events and names are entirely coincidental.

—

[1] Aristotle defines the balanced mix of three elements for effective persuasion and rhetoric: Ethos (Credibility): Persuading the audience through the speaker's character and reliability. The listener seeks the answer to "Why should I believe this person?" Pathos (Emotion): Persuading by arousing emotions in the listener—love, fear, anger, hope. Logos (Logic) is persuasion through reasoning, logical arguments, statistics, data, and evidence.

Acknowledgements

Life gains value through the presence of friends who support our decisions unconditionally and unquestioningly. These precious people, few in number but as unique as diamonds, continue to illuminate my path.

Throughout this process, my brother, with his endless patience and tolerance, was one of the strongest links in this chain of support.

Perhaps the greatest gift in a man's life is receiving such support from his wife as well. In every decision I made, Lilya, with her unconditional motivation, not only stood by me; with her proficiency in Russian, she also ensured this book came to life for Russian readers with the same fluidity.

The vast majority of the illustrations in the book were prepared by my daughter Yasemin and my son Evren. The English translation of the book was prepared by my son Deniz, who studies economics in international relations.

In this book, my valuable professional friends also made significant contributions. Utku Abay, with his broad vision, provided emphasis on cultural and historical events and offered quality critiques on their impact on the economy.

Architect Serdar Turan is a rare name who can skillfully use technological instruments in many fields in Moscow. He performed the final proofreading of the book and directed its visual design.

Without all these people, this book would lack any coherence. I am indebted to them and my other friends for their support.

Thank you all.

Part 1

10 Arguments

1

What Does an Investor Aim For?

The image on the right depicts commerce in its purest form. It represents a transaction that has remained unchanged for 4000 years. A buyer, using money or credit in hand, purchases goods or services from a seller.



In other words, one person's expenditure is another's income.

In an economy, we refer to the sum of all cash and all credits as "total expenditure." When we divide total expenditure by total production, the concept of "price" emerges. Price is the value at which a good or service, with profit added, changes hands and reaches the end consumer.

Every business, much like individuals, aims to achieve the highest profit with the lowest cost. However, the concept we call 'profit' may not always present an appetizing picture. For example, today, businesses in manufacturers operate with an average gross profit margin of 10-15%, which corresponds to a net profit of approximately 8-12% after taxes. These rates, which fall below even deposit interest rates, rightly raise the question: *'Then why take on so much risk?'*

To overcome this paradox that leads many investors to dismissively ask, *'Why should we invest at all?'*, financial theories come into play.

And when mathematics becomes our companion, simple calculations are replaced by a professional method: the Internal Rate of Return (IRR). Because IRR is much more than a simple profit rate; it considers all cash inflows and outflows from the start to the end of a project while also incorporating the effects of market fluctuations into the analysis. It is a profound and strategic indicator that evaluates an investment's success based on the entire cash flow process.

The Investor's Psychology

Investor psychology, however, is an entirely different realm. It is fluid like water; it takes shape depending on *with whom, where, and in which state of mind* one is. "An investor has no country and loves murky waters." [1]

A nice saying, isn't it?

At this point, it seems as if intuition takes over, and underlying this is mankind's tendency to never be fully satisfied with their goals—those optimistic, perhaps emotional, inclinations.

It is said that even Freud himself did not believe in the exaggeration of psychology as a science.[2] Nevertheless, this psychological state is the first step taken to set an intention into motion. That initial impulse at point t=0 triggers the long process that begins with a "yes" or "no." Humans are peculiar. Instead of trusting the mind that analyzes hundreds of mathematical parameters, they always proceed based on that initial moment of motivation.

Economics, on the other hand, consists of debating a set of social and mathematical assumptions built upon expectations. While it never achieves the definitive results found in the positive sciences, it continually argues over chains of random events. Thus, the assumptions from our initial decision start to move not in a concrete, but in an abstract plane.

—

[1] Thomas Jefferson, author of the 1776 Declaration of Independence and 3rd President of the USA, defended the argument in political economy that "Capital is fluid and does not recognize national borders" with his saying, *"Merchants have no country."*

[2] Neurologist Sigmund Freud (1856–1939), the founder of psychoanalysis, the most influential and controversial school of modern psychology, contrary to popular belief, strove throughout his life for psychoanalysis to be recognized as a positive science, like physics or chemistry.



I call the courage shown in this decision made at point t=0 the "ability to take risks." When the initial intention, the picture in our minds, and what passes through our hearts are translated into numbers and charts, the *"process of grappling with risk management"* begins. We now start to pour those fuzzy, floating data points into formulas.

What makes us human is our randomness, unpredictability, and serendipity. It is the courage to make decisions amidst all this uncertainty. Investment begins with precisely this courage.

From this point on, *"Short-term uncertainties do not prevent us from being optimistic in the long term..."*

**

Of course, the most important expectation is for the investment to return as quickly and safely as possible. At this point, the well-known three fundamental principles come into play: The project must be completed in the cheapest, fastest, and safest way possible. The common ground where these three intersect is the *"cost of time."*

An experienced entrepreneur, when starting a business, first examines the 'Doing Business' criteria. However, after quickly filtering through these official data, their primary focus shifts to the realities of the field—the kitchen of the operation. At this point, the conditions of raw materials in the chosen location are of vital importance. If in the agricultural sector, they look at soil fertility; if dealing with forestry products, proximity to raw materials; if working in the automotive industry, they check if suppliers are right next to the factory.

Undoubtedly, this does not mean ignoring the legal infrastructure of the business. On the contrary, neglecting corporate structure and relying solely on field conditions jeopardizes the long-term sustainability of the venture.

Setting aside all operational processes, it is only mathematics that offers us the clear truth about our decisions. When we begin to concretely harness the power of those seemingly complex symbols, numbers, and data, mathematics transforms into a true science.

Financial models are the clear reflection of an investment in the mirror, and to read this reflection, we need four main parameters. These are: the *Payback Period (PB)*, which shows when the investment will return; the *Net Present Value (NPV)*, which accounts for the time value of money; the *Internal Rate of Return (IRR)*, which measures the project's yield; and the *Break-Even Point*, which marks the moment of reaching profitability. These parameters have now become a global standard, and when calculated correctly, things are likely to proceed smoothly. This data is so crucial that it serves as a reference not only for investors but also for bank loans and state incentives.

So, do investors make decisions solely based on these criteria? Of course not, but this is the most common shared language for a standard evaluation. The entrepreneur's initial "practical reflex" must, as the business grows, inevitably give way to these universal and standard practices. Development and growth lie in the synthesis of the field's reality with these calculations.



One of the best graphs summarizing this situation in the business world is the S-Curve. This curve shows the typical growth stages of a firm. Companies that can climb the initial steep slope gain experience and then reach a maturity period. Eventually, the investment pays for itself. However, in the final stage, if the necessary measures are not taken, revenues begin to erode, and the company faces the risk of disappearing. In the market, it is observed that 90% of newly established companies close down within the first 2, 5, and 10 years by failing to successfully follow this curve.

These statistics point to a critical truth: If there is an opportunity for a leap in a growth trajectory, immediate action must be taken; because if we don't do it, our competitor will. For an effective leap, we must manage our existing resources correctly. If our competitor grows aggressively using external financing while we try to advance using only internal resources, we fall behind in the competition. During the maturity period, two paths generally appear before a company: Either find strategic partnerships and financing – or transition to a corporate structure and go public.

The immutable rule of the free market is the scarcity of resources. While growing a company solely with its own capital may seem like a safe harbor, it can sometimes slow down the company's ability to reach its potential. For fast and scalable growth, the use of external resources, i.e., financial leverage, serves as a powerful accelerator. In finance theory, equity is often considered a more costly resource than a bank loan due to the return rate expected by the shareholder.

While establishing this balance of external financing, there are some generally accepted approaches in the market. For example, a business that can consistently maintain a 15% operating profit (EBITDA) [3] is considered able to borrow up to 6 times that amount (Debt/EBITDA) in the eyes of financial institutions. In an ideal scenario, the entrepreneur shoulders the majority of the risk with their own equity at the outset, but as operations stabilize and cash flow strengthens, they can allocate a greater role to bank loans in financing growth. Starting with a higher equity ratio and gradually increasing the share of external financing as the company matures is a common strategy that accelerates growth.

In short, the issue is not about taking on debt; it is about managing *"smart growth"* by using the right resources at the right time.

—

[3] These abbreviations and terms frequently encountered in the banking and finance world—as well as some practical information—are presented in the "Business Glossary" section at the end of the book.



What Do Banks Want? What Do They Expect?

When we hear the word "bank," most of us assume a cautious and distant position in our minds. We feel as if there's a cold debt network in front of us, trying to trap us immediately. The origin of this reflex likely lies in the anxiety of *"losing control"* over one's own life when borrowing from others.

However, when we strip away the emotionality and look at the issue from a broader perspective, we see that banks play a vital role in the functioning of the modern economy.

If we think of banks as the "arteries" of the economy, then capital is the oxygen circulating in those tissues, keeping the organs (companies) alive. Just as organs fail when circulation stops or gets blocked in the body, companies become breathless, production halts, and trade falters when capital flow is cut off in the market. Therefore, for a company, the relationship with banks is more than a necessity; it is a strategic partnership for the continuation of its vitality.

**

Recently, I received a call from a friend whose work revolves entirely around numbers and accounts. He had examined the payment schedule of his mortgage loan and was furious, seeing that the principal barely moved in the early months and almost the entire installment went toward interest. With that familiar Black Sea anger, he was fuming at the bank, saying, *'They tricked us again!'*

> Now, banks have become tax authorities, and tax collectors have become banks.

'No one is tricking anyone, calm down,' I said. *'Open an Excel table immediately and calculate the interest on the loan through the period.'*

The rule was simple: The higher the debt, the greater the cost of money and the risk; that's why the interest burden is heavy at the beginning. As the debt is repaid, the risk decreases, and principal payments gain speed. This is a straightforward rule of financial mathematics and risk management.

Although my friend's anger didn't subside immediately, the pieces fell into place…



To better understand and internalize this situation, i.e., the effect of interest, I use the metaphor of *"Renting Money."* Just as we pay a rental fee when we borrow a friend's car or house for a year, we also pay a fee when we use money. Interest is simply a reflection of the time value of money, i.e., the rent for having that money with us for that period. If the bank hadn't lent us that money, it would have invested it elsewhere and earned a return; interest is the compensation for that opportunity cost. However, we sometimes overlook these mathematical truths with our emotional reactions.

When starting a business, most of us struggle to find resources. It's inherent in the nature of the endeavor. In economics, the first lesson is *"limited resources."* As often said in the finance world, at the very beginning, when we only have an idea, only our friends, family, and risk-hungry "fools"[1] believe in us. Because there's no track record of success yet, all doors are closed in our faces. Gaining that commercial reputation and trust, which the Russians call *"Репутация" (Reputation)*, takes time.

—

[1] The "3F Rule": Friends, Family, and Fools. At the start of a business, when no one trusts us, only our friends, family, and fools invest.



Trust is like growing a magnificent plane tree. Creating that tree's shade (commercial reputation), allowing its roots to take hold, requires years, decades of effort. Every timely payment, every honest communication is life-giving water poured onto that tree.

However, to fell that centuries-old tree, it's enough to take a dull axe (lack of communication, inconsistent statements) and strike its trunk a few times. The chill that starts with our finance managers ceasing to visit the bank, the verbal commitments made but not kept with a 'we'll handle it,' and finally, not answering calls and sinking into "silence" can instantly topple that tree nurtured for years. Uncertainty is more destructive than bad news. Therefore, we should view banks not merely as a source of money but also as a kind of mirror reflecting our discipline and risks to us.

No insurance has ever been invented against irresponsibility.

Of course, using a bank loan is not the only way on the growth journey. We can also choose to progress with our own equity, with slower but steadier, less stressful steps. This is an extremely respectable and secure stance for investors who prioritize peace of mind, complete independence, and *"cutting your coat according to your cloth."* However, if our goal is rapid growth, gaining a competitive edge, or benefiting from economies of scale, credit is a powerful lever.

The most practical way to get a loan from a bank is to convince the bank that you don't need one.



Like a pole vaulter, we can jump to a certain height with our own leg strength (equity); this is safe, and if we fall, we won't get too hurt. But if our goal is to break an Olympic record, i.e., to reach much greater heights (large market share, huge facilities), we need a flexible and sturdy pole (credit) in hand. That pole launches us five times our own height, vaults us over our competitors. However, if we plant the pole incorrectly or lose our balance in the air, our fall will be equally hard. Wisely used credit is that propulsive power that carries us far beyond our own stature. The relationship we build with banks is actually not so much about being "in the same boat," but more like two climbers scaling a steep cliff, roped together. The bank generally asks us to cover a specific portion of the project (like 20%-30%) with our own equity. The lead climber (investor) opens the path, takes risks, and is the first to reach the summit (success). The one behind (the bank) provides security, holds the rope. If the lead climber falls, the rope tightens and both are shaken. The mortgages and collateral the bank wants are like the safety hooks and pitons on that arduous climb. Even if they seem to slow us down or add weight, they are the only things that prevent us from falling into the void if our foot slips. When we act with a sense of responsibility, the bank becomes not an obstacle, but our partner whose back we rely on during the summit journey.





On the other hand, for those of us who do not wish to work with an interest-based system or are in search of different financial avenues, alternatives are developing and diversifying worldwide and in our immediate region. Islamic banking or participation banking is based on the principle of sharing trade and risk, instead of money making money from money. In this system, the bank is not just a cold creditor lending money, but akin to a business partner sharing in the success or failure of the project, i.e., profit and loss. In this model, transactions are conducted not on abstract interest rates, but on concrete assets and trade. Although this field is still very new in markets like Russia, significant legal developments are taking place. Recently, through laws it has enacted, Russia has initiated pilot applications of Islamic banking in regions like Tatarstan, Dagestan, Chechnya, and Bashkortostan. This is progressing as a strong alternative to the classical banking system for investors with interest sensitivity or those wanting to diversify their portfolios.

Therefore, there isn't a single path or a single truth before us; whether we climb with our own strength, vault high with a pole (credit), or progress with partnership-based models... The essential thing is to know the characteristics of the tool we choose well and to reach the goal safely.

However, when moving at such high altitudes and risky turns, every potential investor must have an experienced guide by their side. Banks are intolerant. Taking the right steps in the strategic relationship with them sometimes requires not just mathematics, but also experience.

That's why, at the end of our book, we have summarized the critical issues to pay attention to when working with banks in a simple and understandable manner for you.



The Symbiotic Relationship Between State and Investor

In a country's sustainable/healthy development architecture, there exists a delicate balance between state authority and the investor, based on mutual benefit and rational cooperation. At its core, this relationship is no different from the symbiotic partnerships organisms develop in nature to survive. The parties nourish each other's existence, complement one another, and thereby grow stronger together. At the center of this strategic equation lies the famous saying inherited from ancient Roman law, which questions the ultimate purpose of every action: *"Cui bono?"*[1] meaning *"Who benefits from this?"*

I believe the most concrete and visible form of this principle of mutual benefit comes to life in special economic zones, considered the laboratories of modern economies. In these strategic areas, the state does not merely offer the investor a physical plot of land; it also prepares the *"turnkey"* infrastructure essential for the wheels of production to turn: roads, water, electricity, gas, and fiber-optic communication. Additionally, to attract the investor, it grants strategic tax exemptions such as on income, VAT, and customs, and provides low-interest credit facilities that ease access to finance. In other words, the state's primary goal is to create an efficient, safe, and predictable "micro-investment climate" for the investor by minimizing cumbersome bureaucratic obstacles.

—

[1] Cui bono? (Latin): "Whose interest does this serve? / Who benefits from this?"

The investor, attracted by these incentives offered by the state, takes action; risks capital, builds the factory, starts production, and provides vital employment for the region. But the economic impact created is not limited to this. Every major investment creates a *"beehive"* that generates a *"positive spillover effect"* with new suppliers, logistics service providers, and supporting industries clustering around it.

In the long term, the state obtains stable and sustainable tax revenue from this vibrant ecosystem it has nurtured with its own hand. More importantly, the increased value-added production and export volume make a direct and strong contribution to the country's national income. In short, every investment is the most critical cog in a massive economic engine operating under the regulations and incentives set by the state. When the investor steps into this special zone, the provided low-cost financing, ready infrastructure, and fast permitting processes that bypass bureaucracy minimize the investment's *"dead time."* Time, the scarcest resource in the modern economy, is cash for the investor, and in this model, time operates with the highest efficiency.



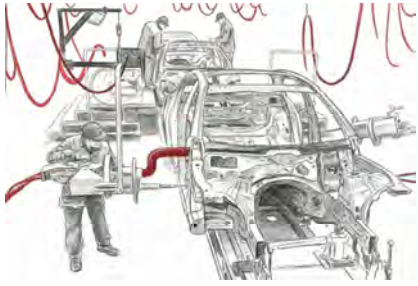
This complex and multi-layered relationship can only be sustained on a foundation of transparent and robust legal ground. The rights, responsibilities, and obligations of the parties are secured through meticulously drafted contracts based on the classic 5W1H[2] logic, leaving no room for ambiguity. That is, the investor commits in its detailed feasibility and business plan *what* will be implemented, *when* (on which schedule), and *how*. The state, by legally guaranteeing the promised incentives and advantages, provides the investor with *"legal security."*

—

[2] 5W1H is a comprehensive analysis method that reveals all dimensions of a topic or event, especially used in strategic planning and journalism. It is a basic checklist that allows us to see the "big picture" by answering the questions: What, Why, How, Where, When, and Who.

In summary, while the state says, *"I will provide you with the necessary infrastructure, land, and financial incentives; just produce with these opportunities, create employment, and contribute to the country's exports;"* the investor responds by saying, *"I will utilize these strategic advantages to start production within the committed timeframe and fully implement the determined roadmap."*

This contract is not merely a commercial and economic text; it is also a deep ethical bond. Because the state, using public power, has extended credit and placed trust in the investor on behalf of society. The investor repays this trust with concrete production, exports, and the created social welfare (employment).



Now, under the pressure of international sanctions, which have become a geopolitical weapon, Russia has had to fundamentally and forcibly reshape its economic architecture in recent years. The blockage of external financing and borrowing channels forced the country to turn to its own internal dynamics and resources. To reduce its vulnerability based solely on energy revenues, it diversified its production structure; aggressively incentivizing strategically important domestic industry and agriculture. During this challenging period, the economy's de-dollarization[3] process was successfully carried out, and macro-financial stability was achieved. Thus, despite all external pressures and isolation, the country's GDP growth managed to approach the world average. In this process, it was experienced that real economic resilience can be built not only with capital accumulation but also with deep structural reforms.

—

[3] The de-dollarization policy initiated in Russia in the multi-zero years of the 2000s is a state strategy implemented to reduce the country's economy's dependence on the US dollar and developed as a "financial defense shield" against Western sanctions in particular.

On a global scale, the pandemic disrupted that classic, interdependent capitalist cycle operating on the principle that "one person's expenditure is another's income." When income flows were cut, production lines also halted. Countries like Russia, aiming to escape the risks of external dependence and fortify the domestic market during this crisis, turned toward policies of *"strategic autonomy"* and self-sufficiency.

The tight monetary policies decisively implemented over the last five years proved to the entire world that a rationally designed macroeconomic financial system can succeed in keeping the economy on a stable, predictable, and cautious course even under the heaviest isolation conditions.

However, the reality is this: no economy can exist by completely closing its doors to the world with the dream of self-sufficiency. Even in the production journey of the simplest product—for instance, a T-shirt we put on—there is an immense and intricate network of global cooperation, stretching from British design to the chemistry of Indian dye, from the Chinese button to the labor of Turkish craftsmanship, from the technology of Italian machinery to Spanish logistics. Avoiding this integration entirely is a utopian approach in today's world.

Yet it is also an undeniable fact that the pandemic, by creating a "butterfly effect" that suddenly stopped that mad consumption cycle, has pushed the world towards a more sustainable and questioning order. While the understanding of unlimited free markets that characterized the last 30-40 years seems to have run its course, the boundaries of the new paradigm that will replace it have not yet been clarified.

Although global supply networks still exist, they are evolving from *"growth at any cost"* towards a more balanced, sustainable, *"Win-Win*" model of interdependence—long-term, de-risked from political risks, and healthier.

Although it will take time for the wheels of industry to regain their former speed, companies and individuals have rapidly begun adapting to these new "new normals." As goals and vision become clearer, the solution paths for this new era will also become evident.



Monetary and Economic Policy

Let's start with central banks. The often-heard concept of 'independence,' which at first glance might seem like mere political autonomy, is actually based on instrument independence. It means the central bank can use the tools at its disposal to achieve set economic goals without any external interference. The ultimate aim is to manage monetary policy, ensure economic stability, and thus strike a balance between government policies and market realities.

When macroeconomics is discussed, we frequently hear about certain indicators. The most important among these are *inflation, the unemployment rate, and the Central Bank's rate.* Understanding this trio is akin to deciphering the general workings of the economy.

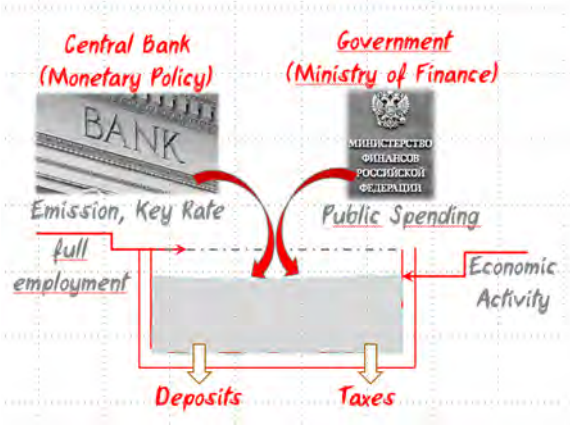
Interest, the time cost of money, is the reward for saving, or in other words, the price for postponing today's consumption. The 'key rate' set by the central bank acts as a compass shaping commercial banks' credit costs. Even the smallest fluctuation in this rate plays a decisive role on household budgets.



Let's assume an average / typical family today wants to buy a house worth 7,500,000 rubles at current interest rates. Based on the *'installment amount should not exceed 50% of household income'* rule applied by banks, a household income of at least 200,000 rubles is required to

qualify for a loan of this amount. However, in cities outside Moscow, reaching this income level is often impossible. In such a scenario, just a 1% change in the interest rate creates a difference of approximately 4,700 rubles in the monthly payment. This difference can cause the credit score (scoring) of a family whose creditworthiness is already on the edge to be insufficient, leading to their request being denied. This situation shows that interest is not just a number on paper; it is of such vital importance in the bazaar, the market, and the street—the very heart of the real economy.

To explain the other two fundamental issues of macroeconomics, *unemployment and inflation*, let's visualize a pool in our minds. This pool and the water in it represent the total economic activity in the country.



At the top level of the pool, there is a "full employment" line. When the water reaches this line, it means the economy is operating at full capacity and unemployment is at a minimum. However, when the water overflows this line, the danger of hyperinflation knocks at our door.

There are two main actors managing this delicate water level: the *Government (Ministry of Finance) and the Central Bank.* Each has different valves to fill or drain the pool. The filling tap in the government's hand is "public spending." When this tap is opened, the state builds roads, bridges, and increases investment expenditures.

Research shows that during recession periods, every 1 ruble increase in public spending can increase national income by approximately 1.5 rubles through the multiplier effect. In such a situation, money becomes abundant in the economy, the pool fills, and unemployment decreases. However, the government also has a draining valve, and that is "taxes." When taxes are increased, the water in the pool begins to decrease, and unemployment is triggered.

Similarly, the Central Bank has its own valves. The Bank's filling tap is lowering interest rates and increasing the money supply. When interest rates fall, people direct their money towards investment rather than keeping it in the bank. This activity fills the market and reduces unemployment. This chain of relationship, known as Okun's Law[1] in economic literature, is like a golden rule in states' fiscal and monetary policies. However, when the draining valve of "savings tendency" kicks in, i.e., when the Central Bank raises interest rates, the process reverses; everyone invests their money in interest-bearing accounts, investments decrease, and unemployment increases.

The phenomenon we call inflation is the overflowing of this pool, i.e., the increase in the general price level. One of its main causes is governments' expenditures exceeding the taxes they collect. This resulting deficit is attempted to be closed either by borrowing or by printing money without backing. However, when money is printed beyond its market value, prices inevitably rise. Nonetheless, inflation is not limited only to the amount of money printed; factors such as sudden increases in production costs, rising energy prices, and foreign exchange pressure stemming from the trade deficit also squeeze the supply side, creating severe pressure on prices.

—

[1] Okun's Law argues that when a country's economy grows rapidly, the unemployment rate falls, and when it slows, it rises. To keep unemployment constant, the economy needs to reach a certain "potential growth" rate. For every 1 percentage point by which real GDP exceeds this potential, it calculates an approximately 0.5% drop in unemployment. This law, by formulating the direct link between production increase and employment, helps policymakers determine growth targets.

The coordinated management of these valves and taps in the hands of the Government and the Central Bank is of vital importance for the health of the economy. If the water gets too low, unemployment rises; if it increases excessively, inflation explodes. When interest rates fall, investments increase and unemployment decreases, while if interest rates rise uncontrollably, investments stop. Without investment, production does not increase; without production, growth does not occur, and society's welfare does not rise. Moreover, in an inflationary environment, the purchasing power of the money in people's pockets erodes, and they become poorer compared to previous periods.

Even with a simple calculation, an annual inflation rate of 10% is enough to halve the purchasing power of the money in our pocket in just 7 years. In contrast, economic growth stands as the cornerstone of a country's prosperity; approximately every 1% of growth creates direct employment opportunities for 100,000 people each year. With growth, existing capacity is fully utilized, new investment decisions are taken, and a revival begins in all sectors. This chain reaction leads to rising incomes, an improvement in the standard of living, and positive development in social indicators such as marriage and birth rates.

It should not be forgotten that inflation is not merely a change in the price tag; it has destructive effects on society. In an environment of uncontrolled high inflation, both the state's and citizens' debt repayment capacity weakens. Economic uncertainty breeds political instability, which in turn fosters social unrest. In a highuncertainty environment, companies' investment planning horizon can drop from 5-10 years to as low as 6 months, which mortgages the country's future. People turn to land, foreign exchange, or gold to preserve the value of their money instead of productive investments. This speculative economy leads to erosion in the country's real production capacity, stealing from its future prosperity.



What Happens If a Manager Doesn't Understand Macroeconomics?

On the day they were to bid farewell to a young engineer friend of ours, the Brazilian manager of the project management firm for a giant shopping mall project in Moscow gave him an interesting tour at their central office on Kutuzovsky Prospekt. First, he showed him 25-30 architects and engineers on the ground floor of a two-story building, working under stress with technical drawings and calculations.

Then they go upstairs. There, he lets him observe the calm, confident, and somewhat arrogant atmosphere of engineers dealing with the same project's budget, financing, and cash flow.

While sipping coffee in the office, the manager asks: *'What did you see?'*

Our young engineer friend eagerly responds as expected: *"The same project, but why is the second floor so relaxed?"*

Smiling, the manager imparts the life lesson: *'Take it from me, always focus on the financial side of projects. The people on the second floor work half as much and earn twice as much as those on the first. You can always find someone to solve the technical work; the real issue is managing the money for that work.'*

This brief dialogue was a turning point for our friend in his business life. The next year, he started an MBA in Beijing. Today, he is a senior executive in a large firm and a passionate macroeconomics enthusiast.



I receive such impressive commentary from him on the macroeconomy, I can't describe it!

**

Today, every professional group is intertwined with financial processes. The general workings of the economy, accounting principles, and basic legal knowledge are no longer 'additional' expertise

but inevitable necessities of professional life. Engineers, in every activity they undertake, are actually interacting with money at all times. Inflation data, unemployment rates, or the Central Bank's interest rate decisions are of critical importance, enough to affect our immediate business strategies. The trend of any economic indicator over the last four years and its projection for the next four can determine the fate of a project and give us a chance to take the right position.

Excluding a small minority, technical people tend to keep their distance from the financial world. Reasons for this include *unfamiliarity with financial jargon, always a time issue due to workload, and the misconception of 'what's the need.'* However, we must remember that every decision we make at the construction site, production facility, or at the computer has a monetary equivalent. 70% to 80% of a product's total cost is determined while it's still in the design phase. In other words, even before a single nail is driven on-site, we, with our technical decisions, are signing the project's future.

Acting with cost awareness elevates an engineer from being just a 'technical element' to a 'strategic decision-maker.'

So, what about engineers who claim they never touch money in their work?

The answer is both "yes" and "no."

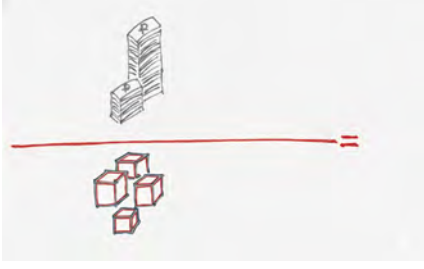
Let's recall the three basic principles of engineering: A project must be completed in the safest, fastest, and most economical way. Within this definition, there's actually a very critical and hidden variable: *the time cost of money.*

Every project has a predetermined budget and schedule. If we live in a geography where crises are a constant, keeping that budget under control is not just a matter of mathematics but of macroeconomic foresight. Global research shows that 60% of large construction and infrastructure projects exceed their budget limits because they fail to correctly anticipate macroeconomic changes and cost increases.

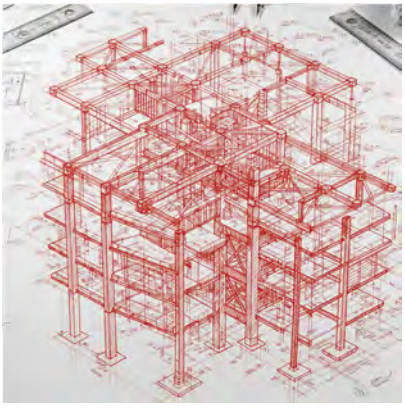
Practical reflections of this appear at every stage of our lives. For example, if the economy is performing weakly, thousands of items in our budget swell daily under inflationary pressure; if we use credit to support the project or cover a cash shortfall, the Central Bank's interest rate decisions can directly erode our profit. If we import equipment from abroad, exchange rates become our biggest source of concern.

As volumes grow, these risks also reach colossal proportions. For instance, even a standard apartment renovation uses over 250 different materials. Manufacturing a single automobile requires over 30,000 parts. In industrial projects, more than 60% of the budget typically consists of imported equipment. In a world where just exchange rate fluctuations can skew supply costs by 15-20% on an annual basis, the wheels of the economy turn right at the heart of our business.

We are not underestimating the effort of cost and planning engineers here; their fidelity to the budget is certainly very valuable. However, we are suggesting that their job descriptions should not be limited to a simple Excel file. Even a small 'checklist' would be sufficient for us to monitor the country's economy and see its effects on our project's cash flow and the budgets we grapple with daily.



To grasp the basic workings of macroeconomics, one must first understand the *"spending rule"* principle: Every penny someone spends inevitably constitutes someone else's income. In this cycle, dividing the total spending in a country by the quantity of goods and services purchased gives us the concept of *"price."* The invisible but omnipresent real economy encompasses the entire supply chain, from a package of food in the market to cement on a construction site. In fact, that famous "chronic distrust" between official inflation figures and street prices is hidden in these complex veins taking the pulse of the system.



These economic veins are so delicate that a disruption in a single link of the chain—like a port strike, natural disaster, or cyber attack—can instantly lock down an entire city and its projects. Situations such as the delay of imported equipment or a subcontractor going bankrupt due to exchange rate fluctuations often have the potential to derail work schedules for which there is usually no real *"Plan B."* This fragility of the system resembles city traffic, where millions of drivers progress with their own solutions; this structure, flowing with its own internal dynamics, is quite vulnerable to external shocks. This is why, for a project manager, making the supply chain resilient to such economic shocks is no longer a luxury but a professional necessity.

At the base of every kind of commercial agreement in the market lies a cash flow and payment plan that an engineer or economist necessarily touches upon. However, at this point, the fine line between the engineer and the economist lies in how the project is defined.

Economists define a project as a financial package consisting of *Salary, Capital, Resources, and Technology components*; whereas engineers read the same picture through *Man-Hours, Material, Machine, and Method*. In fact, both disciplines are looking at the same reality, just through different windows. A professional who can fuse these two perspectives in the same pot can lead their project to success not just technically, but also financially.

Every investment, from the moment it is born, possesses the nature of a project, and every project progresses on that delicate balance between the time axis and the budget curve. At the end of the day, that rising building or facility is the massive output of hundreds of interconnected strategic decisions.

Ownership Mentality

In budget discipline, there is a matrix known as 2x2 *"whose money / for whom"* for people who, in every decision, put themselves in the investor's place and act feeling as if the bill will come from their own pocket. It categorizes government officials or people in general into four groups when making decisions:

- *"Someone Else's Money, Someone Else's Project" (The least efficient type).*
- *"My Own Money, Someone Else's Project" (Cautious but with low sense of belonging).*
- *"Someone Else's Money, My Project" (Ambitious but reckless with costs).*
- *"Both My Money, and My Project."*

A smart investor always wants to work with people in the fourth category, i.e., those who own the project as if it were their own equity. True success lies in the vision that can unite money and the project in the same mind.

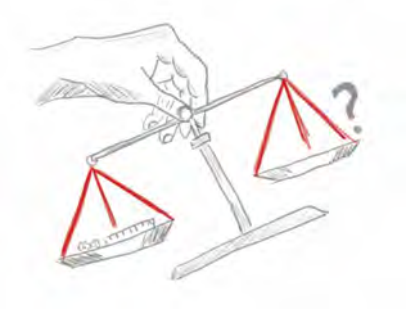
When financial engineering is mentioned, complex derivative products from Wall Street usually come to mind; however, our focus is nothing other than the financial literacy an engineer needs while managing their project.

Today, disciplines are so intertwined that technical excellence alone is no longer sufficient. For a modern manager to make decisions without basic accounting and legal knowledge is akin to playing with fire. Especially for leaders in the construction and industrial sectors, being able to read the income statement (P&L), balance sheet, and cash flow is a strategic necessity.

Cash flow is the most powerful tool that allows us to have the wind at our backs. Statistics show that 82% of businesses that go bankrupt close not due to unprofitability, but because of poorly managed cash flow. Even when we reduce this awareness to our personal lives, even to a

simple salary-expenditure table, we gain a striking perspective. The real shocks that will catch us unprepared are not technical glitches, but financial fluctuations.

By combining our technical confidence with financial awareness, we must become an effective figure who can get involved and even *"lecture"* at decision-making tables. Indicators like EBITDA and cash flow, which may seem like "the financiers' job," are actually the economic return on engineering effort. Accounting statements are an X-ray of a business; the sustainability of a project is hidden in these *"gray*" areas.



However, mathematics alone is not enough. There are countless cases of projects with great financial models turning into *"garbage"* due to legal loopholes or unforeseen political risks. Financial models show the way, but a broader vision is needed to overcome obstacles.



The End of Neoliberal Economics?

Black-and-white images on the screen, chaos in the squares, a world deluge-apocalypse... We were lost in thought...

Those were our childhood years... The spirit of the times was also a child... On one side, a man from Hollywood who became president; on the opposite shore of the ocean, a woman shaking Britain. China's name and reputation were not yet heard, the Soviet Union was grappling with its own crises.

The oil crises and political shocks of the 1970s had shaken the existing economic order, forcing it to give way to a new system not yet fully named. That man and that woman were repeating this new free-market order called *"neoliberalism"* to weary peoples with ornate words, like a sermon.

Maybe this economic revolution was unavoidable, compelled by the zeitgeist. Who can say… We had started to believe that humanity was on the verge of transitioning into a more modern, more liberated economic and ideological age.

Looking back from today, we can clearly see how the ideal of homogenizing society by making everyone a homeowner, a car owner, and a washing machine owner sowed the seeds of its own end, yet everything arrived in a chronological sequence.

The 1973 Oil Crisis, following the rebellious spirit of the '68 generation, not only punctuated that magnificent 'Golden Age'; it also opened the

door to the deep economic pains, energy bottlenecks, and soul-crushing inflationary pressures that would last until 1979. In this process, states crushed under heavy burdens were ultimately pushed to the brink of bankruptcy.

**

On the other side of the Berlin Wall, in the Soviet Union, even the ruling elites had long lost faith in their own system.

History's clock was ticking, masses were in search of something new; nations writhed in the tension of a bipolar world. It was the early eighties: *"It was the best of times, it was the worst of times"*[1]*...*

The new order-makers were saying, *"Enough! Let's immediately lighten the tax burden on the rich, set them free to invest!"* They called this Latin liberalism (freedom, liberalis). Because the potential benefit to society from the income of the rich and the poor was not the same; wealth had to accumulate so it could turn into investment.

The free-market system emerged precisely in such a period. According to prevailing opinion, the goal was for entrepreneurs to move freely in a market with minimal state intervention and, through the attraction they created, for the economy to grow. The system assumed that capital owners, by making a profit, would distribute this gain to their fateful partners who labored on the same gear. By its nature, it constantly focused on present and future prosperity, predicting that society would thus develop. And again, by its nature, it constantly tried to make a profit at any cost and to increase this profit.

—

[1] The opening sentence of Charles Dickens's "A Tale of Two Cities," perhaps the most famous first line in literary history, perfectly reflects both the mood of the book and the contradictions of the era (the French Revolution). *"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity, it was the season of Light, it was the season of Darkness, it was the spring of hope, it was the winter of despair, we had everything before us, we had nothing before us, we were all going direct to Heaven, we were all going direct the other way..."*

In the early days of November 1989, one evening, the people of East Germany surged towards the Berlin Wall and crossed over. The fall of the Wall was one of the most important events of the 20th century. It was the symbolic end of the Cold War.



Exactly two years later, the USSR withdrew from many Eastern European countries with unprecedented magnanimity, expecting nothing in return. They had a single and naive political request: *"Include us in your new order as well. Let's build a new world together, from West to East."* Because the new order made many promises: equality, freedom, openness, capital, rights, growth, prosperity, comfort, modern life... All this appealed to humanity's most basic desires.

> Let's build a new world together, **from West to East.**

Soon after, on a cold winter day in 1991, the Soviet Union officially dissolved.[2]

> **Two truly colossal, unexpected events occurred in the century:** the collapse of the Russian Empire and the Soviet Union..[2]

Was a Cold Peace replacing the Cold War?

China, meanwhile, was in the background, even in those years, continuing its extraordinary rapid growth, single-handedly accounting for 30% of the world's manufacturing industry output...

—

[2] George F. Kennan, American diplomat, historian, and political scientist. Considered one of the most important and influential strategists of the Cold War. In addition to his quote above, his observation that "The greatest surprise of the second half of the twentieth century was the sudden collapse of such a vast Soviet power, and moreover, its peaceful occurrence at the hands of its own people," is one of the most striking commentaries on the 20th century.

The West, with the same full enthusiasm, was saying, *"No, everything is changing! Open your eyes! New opportunities, happiness, and prosperity will overflow for entrepreneurs."* However, they had failed to account for something important: unlimited and uncontrolled growth had actually already begun to impoverish us.

An increase in per capita income did not mean enrichment as believed, but quite the opposite, it meant impoverishment. For example, bottling and selling water that once flowed freely from the mountains, while seemingly adding economic value, actually meant we now had to pay for water we once drank for free.



Today, a salaried citizen is forced to buy everything, from electricity and water to transportation and food, from shelter to clothing. While incomes seem to rise, expenses rise at the same pace. The need for shelter is its most painful example; over the last 20 years, housing prices globally have risen at about 3 times the rate of average income growth, turning shelter into the greatest luxury.

Someone who used to produce and sell chickpeas for 5,000 rubles now earns a salary of 50,000 rubles; have they truly become richer? No, on the contrary, they have become poorer! The fact that in the last forty years, while productivity increased by 60%, real wages increased by only 15% summarizes how labor's share of the pie has shrunk. People clearly regressed in terms of access to basic services that add value to their lives.

Even as national income figures rose from 1,000 USD to 10,000 USD, we were impoverishing as a society. We became unable to produce in the lands where we had produced for centuries. Because importing was cheaper! While the local population bought imported products more cheaply, the culture, economy, and social infrastructure built over centuries collapsed. This inevitably led to migration.

The libertarian policies rising in the 80s and 90s and the claim of including everyone in the same economic model also did not yield the expected result. Initially, great opportunities emerged for small businesses and investors, everything seemed positive. However, over time, the neoliberal system drove wealth towards a severe chasm. Investments shifted to poor countries in the name of free trade, deindustrialization emerged, and unemployment increased. So much so that in developed economies, the share of manufacturing in total employment, which was in the 25-30% range in the 1970s, has now declined to around 10% levels.

Accumulated wealth turned more towards luxury consumption than investment. The savings-focused capitalist model of the 50s and 60s became dysfunctional. Luxury housing, restaurants, rents rapidly increased. This model might have seemed logical in the late 70s, but it is now evident that change is imperative, a new solution is needed.

Accumulated wealth was directed more towards luxury consumption than investment.

**

So, is neoliberalism ending? Yes, there is a consensus on this. Those who in 1991 thought neoliberalism was the only alternative believed the nation-state had served its time. According to them, the free market, by promoting innovation and efficiency, would provide unprecedented economic growth and increased prosperity; global integration would replace the nation-state. However, this was an unrealistic and quite "touristic" perspective.

Global dominance means the concentration of power in a single center. Yet this is contrary to human nature. Mankind is full of flaws and tends to abuse power. Starting from the 2010s and into the 2020s, they revealed in all its nakedness how naive this idea was.

Today we face two fundamental truths. First, it is now clearly seen that neoliberal policies have brought disaster to many regions of the world. In an environment where borders disappeared and wage differences became pronounced, industry and production inevitably shifted to low-

wage regions. This process led neoliberalism to transform into neocolonialism over time.

Therefore, weak countries were hit first. Societal catastrophes occurred in regions labeled the "old world." Traditional structures formed over centuries collapsed. These societies lost their production capabilities and fell into a consumer position.

The real shock emerged later in the West. Advanced industries in their own countries, in the UK, EU, the US, almost stopped. Production that first fled to China then shifted this time to countries like Malaysia, Vietnam. This hot money, which could *enter and -unexpectedly- exit* developing countries, destabilized them too. It made their economic policies dependent on the expectations of foreign capital.

One of the most fundamental problems caused by neoliberal policies is the deepening of income inequality and social injustice. Free market and deregulation practices placed capital owners in a much stronger position compared to working classes. Companies keep wages under pressure to maximize profits, weaken unions, and try to reduce tax burdens. The halving of unionization rates across the OECD since the 1980s to around 16% levels is proof that labor has been left vulnerable. This situation causes the rich to become richer and the poor poorer, while wealth concentrates in a small minority at the very top of society. Social mobility is greatly reduced, and individuals' opportunities to rise from their class narrow.

Another serious problem is the excessive financialization of the economy. The prominence of financial speculation over real production created a system operating on the principle of *"money making money."* The burden created by this system became so heavy that global debt broke records, exceeding 300 trillion dollars. The severity of the situation can be understood when we grasp that this figure corresponds to more than 3 times the total size of the world economy. Large funds and investment banks preferred to turn to financial bubbles rather than contributing to the real economy.

Excessive deregulation of financial markets encouraged speculation and the uncontrolled growth of risky financial products. The 1997 Asian Financial Crisis, the 2001 Dot-Com Bubble, and especially the 2008 Global Financial Crisis painfully showed us that financial markets cannot self-regulate and that excessive freedom leads to systemic crises. The cost of these crises was mostly borne by taxpayers through state-led bank bailouts.

The reduction of the state's role in the economy and the privatization of public services made access to basic services like health, education, and social security measurable by money. Quality health and education became a privilege accessible only to those with money; this deepened social inequality and undermined the ideal of equal opportunity. At the same time, the increased influence of large corporations and financial interests on politics damaged democracy. Lobbying activities, donations to election campaigns, and pressure on politicians led to laws being designed to watch over corporate profits rather than the public interest.

Neoliberalism deeply transformed not only the economic structure but also social relations. With market logic permeating every area of life, even human values like friendship, love, education, health, and even clean air turned into products with price tags. This process weakened social bonds; it established an understanding that defined individuals not as citizens or subjects but merely as *"customers" and "consumers."*

Today, it is said that this transformation has evolved into a new stage reminiscent of old feudalism: *Techno-feudalism.* Now, those ruling the world are not the owners of the means of production, but the technology giants holding big data. In classical feudalism, the basic resource was land, and production was done by peasants; today, the "land" is platforms, and the producers are content creators. However, what is produced does not belong to the producers. Platforms take a cut from everything, starting with ads and commissions, and most importantly from data; they not only mediate but earn much more than the producer. This situation creates a relationship reminiscent of a tribute system while also leading to serious unfair competition: as collected data

increases, algorithms start making more accurate predictions, and this cycle turns into a self-perpetuating digital property system favoring technology giants. In the end, while products seem free, the real price is paid with users' data.

These sharp and chaotic turbulences bring other questions with them. It often happens to all of us: Is the person you're talking to on the phone a real human, or am I talking to AI? Questions of robot or human have begun to prompt the thought, "Will the luxury of the future be analog?"

On the other hand, it is believed that AI could play a significant role in cutting government spending. A large part of a *state project's cost goes to lawyers, environmental impact assessments, planning applications, and all sorts of work unrelated to actually digging tunnels or laying rails.* If the government reduces costs, it can put this money back into people's pockets and stimulate growth; which seems like one way out of the tax vicious cycle.

On a global scale, neoliberal policies created a structural system of exploitation. Companies from developed countries established a structural dependency relationship by exploiting cheap labor and natural resources in developing countries. Developing countries were condemned to remain raw material exporters or cheap assembly lines, while high value-added products continued to be produced in technologically advanced countries. The austerity policies imposed by institutions like the IMF and the World Bank also posed a serious obstacle to the development of these poor countries.

While destined to remain a cheap assembly line, high-value-added products continued to be manufactured in developed countries.

**

Then in 2020, the COVID pandemic erupted. Such things that happen once in 100 years coincided with our generation this time.

This time, those deep-rooted clichés like *"The state is cumbersome, inefficient; it should withdraw its hand from the economy"* began to be

profoundly questioned. It was claimed that privatization would increase service quality and efficiency, but the result was the opposite. In the end, we all witnessed how the supply chain could be paralyzed even over a roll of toilet paper. When the chain broke in real markets, barbers couldn't access their scissors, towels, razors; restaurateurs couldn't access their plates and cutlery.

In a short time, anxiety gave way to a strong sense of solidarity. Economic management this time followed a different path from the "1929 Great Depression": Money was printed much faster, basic needs were provided free of charge, and people were given a deep breath. At the cost of heavy inflation and fictitious borrowings, the masses attained temporary relief.

However, this process evolved us into a new and different world. Contrary to expectations, quality dropped; excessive control and bureaucratic oversight in the system escalated. That "hysterical" tracking system, where every individual is monitored in a dystopian manner, completely enveloped the financial and economic structure. Data science and data analytics gained power at a logarithmic speed. While this control and monitoring mechanism provided stability to the state in strategic sectors, it made small businesses more fragile. Banks began to behave almost like tax offices.

Consequently, merchants had to abandon trade's 5000-year-old oral culture and traditions to cold digital traces.

Now, everyone is in search of a new order where the name isn't so important, but monetary policies will radically change. Structural and class-based opposition also forms a serious front.

The first lesson of economics is scarcity: there is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics. — Thomas Sowell

Now, there is a massive university graduate class, which was relatively small before. In recent years, this is a class that works hard but whose expectations are not met, seeking excitement. The class of small

capitalists (not workers), the anger of these salaried segments, faith in capitalism is also breaking. The fact that 56% of participants in global surveys stated that "capitalism now does more harm than good to humanity" is the statistical manifestation of this faith breaking. Problems in America like young people being worse off than their parents, inability to own a home, inability to accumulate meaningful wealth, render the promise of *"if you work hard you will succeed*" void.

**

In the past, there was no Nobel Prize in Economics, because it was claimed that economics was not a science. It was a social matter. There was a perception of a monetary order based on expectations, that's all.

In the new doctrine, numbers and facts became so dazzling that economics began to be seen as a science like mathematics. In 2024, a Turkish economist received the Nobel Prize for his economic theories supported by democracy and rule of law arguments from the 90s.[3] The awarding of this prize in a period when neoliberalism is pejoratively losing its reputation, does make us think.

Demanding for a more humane, more sustainable, and more just economic model...

So, should we blame all the fault on neoliberalism? No, we are not looking for a culprit here. There is no clear winner or loser. Ultimately, there is no pure system. The system we live in is a complex model containing elements from both capitalism and socialism. It progresses in shades of gray, like life itself. It is not black and white. Sometimes freedom, sometimes equality, sometimes security may come to the fore.

Neither the rigid planning of socialism nor the wild inequality of unregulated capitalism is sustainable. The future should be sought in hybrid and humane models that take into account the criticisms of these two poles and try to answer the chronic questions of the youth.

—

[3] Prof. Dr. Daron Acemoğlu, currently working at MIT. He, along with Prof. Simon Johnson and Prof. James Robinson, was awarded the 2024 Nobel Prize in Economics for his studies on the formation of institutions and their effects on prosperity.

Today, the 2008 global crisis and rising inequalities have brought criticisms of the current economic model to the agenda louder than ever. The mathematics of tax policies now establishes a common opinion that the system disproportionately crushes low-income earners and deepens the chasm among the masses. Faced with this picture, humanity has entered the search for "a more humane, more sustainable, and fairer" economic model.

In these new doctrines being advocated, hybrid models stand out where the state retains control in strategic areas like food, education, health, and defense, but simultaneously encourages small and medium-sized enterprises and creates value-added through technological leaps.

China, which has achieved sustainable success harmoniously across much of Asia, represents the power of central planning; while North America champions a more libertarian and liberal model. While "corporatocracy" and the relative weakness of state authority are debated in the Western world; in China, a powerful bureaucracy appointed by the state and an absolute planning authority prevail.

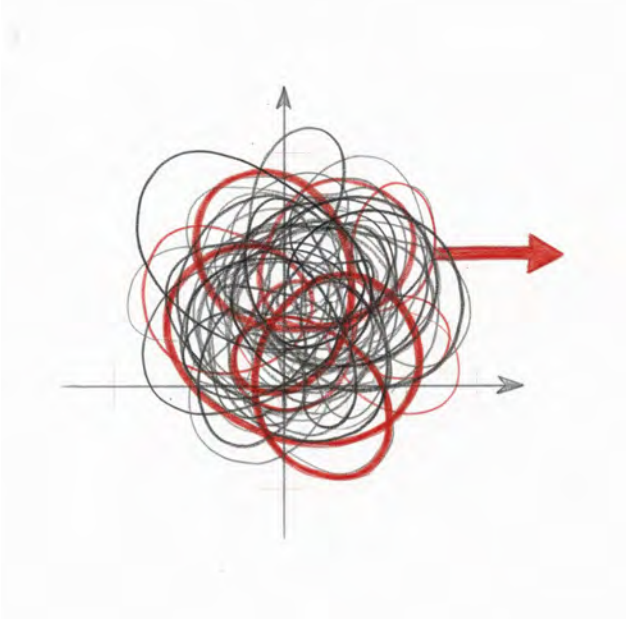
The real paradox here is this: Even for a truly "free" market to function, strong state regulation is actually needed. From this perspective, "freedom" should be redefined not as the absence of the state, but on the contrary, as the state protecting the weak and the individual by regulating gigantic corporations and powerful actors.

From another perspective, when we look at today, technology and its strategic raw materials lie at the heart of trade wars. While rare earth elements and chip production are concentrated in China, the West still has cumulative advanced production facilities. In fact, the fact that over 80% of the global refining of Rare Earth Elements, the building blocks of critical technologies, is under China's control today is the most concrete evidence of this power imbalance. Rare elements and technology have become new-generation strategic weapons.

On the other hand, some companies are now larger than states and are managed by algorithms. Today, a single technology company's market

value exceeding 3 trillion dollars surpasses the entire gross domestic product of established countries like France or Brazil.

In the future, the deepening conflict between states' regional interests and global companies' strategies is expected. I clearly see that from this turbulent environment, new liberal understandings like *"state capitalism"* or *"digital mercantilism"* will emerge.





China Tearing Up the West's Economic Rulebook

My brother recently returned from a business trip to Shanghai. Before he left, I asked him for five interesting observations. His response was immediate: *"Five? I only need one. Seeing the chairmen of massive conglomerates bowing deeply at the door out of sheer respect—I can't even explain it."*

A brief silence followed. To be honest, I didn't know what to say either.

For years, China's success has been viewed as a post-2000s miracle that appeared out of nowhere. However, understanding the historical infrastructure and the continuity behind this success is essential to dismantling deep-seated biases.

What exactly has China done over the last century?

"National trauma is the most potent fuel for global ambition..."

Today, China evokes images of megacities, endless production lines, and global trade dominance. But this is not an overnight phenomenon. China's story is the product of a century of national ambition, ideological shifts, economic experimentation, and profound "mental engineering."

Understanding this narrative is vital for grasping the trajectory of the modern world. China rejected the Western *"modernization prescriptions"* and established a unique model born from its own historical scars. It authored a development doctrine that blends central planning with pragmatism, and authority with innovation.

The Historical Awakening (1920–1978)

At the dawn of the 20th century, China was caught in a whirlpool of foreign provocation, civil war, and fragmentation. When the People's Republic was established in 1949 under Mao Zedong, the narrative of the "The Belittled Nation" became the cornerstone of state ideology. This *"The Era of National Hardship"* provided both historical memory and political legitimacy.

While the *"Great Leap Forward"* and the *"Cultural Revolution"* exacted immense social costs, Mao succeeded in one thing: he redrew China's mental map. The objective was no longer just development; it was to ensure that the nation would "never be vulnerable again."

When examining these transitions, global context is key. Post-WWII, the capitalist world saw rapid growth. However, the collapse of the fixed exchange rate system and the oil shocks of the early 1970s ended this "Golden Age." This forced states to invest not just in military might, but in technological and industrial capacity—an anomaly that did not escape China's notice.[1]

1978–1988: The Pragmatic Revolution

After Mao, Deng Xiaoping changed the historical course. His revolution was pragmatic, not ideological. His famous mantra remains a household phrase: *"It doesn't matter if a cat is black or white, so long as it catches mice."*

—

[1] The years between 1950 and 1971 marked a period in which production and growth accelerated in advanced capitalist countries, and social peace was strengthened through the concept of the "Social State." However, toward the end of this process, falling profit rates and productivity issues began to shake this "Golden Age."

The paradox of the 1970s, characterized by the simultaneous occurrence of stagnation and high inflation, rendered classical economic models ineffective. Rising energy costs and weakening competitiveness laid the groundwork for economic ruptures and the subsequent rise of neoliberal policies in the following years.

Deng invented the *"Socialist Market Economy"*, stretching the rigid framework of Marxism. By declaring that *"to get rich is glorious"*, he broke from Maoist rhetoric. Land use was liberalized, and Special Economic Zones (SEZs) like Shenzhen and Zhuhai became laboratories for systematically attracting foreign capital.

"Ideological dogmas were quietly sacrificed at the altar of economic development..."

The results were unprecedented. According to World Bank data, over 800 million people were lifted out of absolute poverty - the fastest and largest mass increase in wealth in human history.[2] Yet, this created a new consciousness. An educated, urban generation began demanding not just prosperity, but freedom of expression and justice.

Stability for Prosperity: The Post-Tiananmen Era

In the spring of 1989, students at Tiananmen Square demanded more than just "bread"; they wanted liberty. Following these events, the Chinese state pivoted. Legitimacy would no longer be derived from ideological purity, but from economic performance. The new social contract was born: stability in exchange for loyalty, and prosperity in exchange for stability.

"A century of Western industrialization was compressed into a single Chinese generation..."[3]

Under Xi Jinping, this has evolved further. Patriotism is no longer just an emotion; it is state policy. In universities today, ideological alignment and political loyalty are as critical as academic achievement.

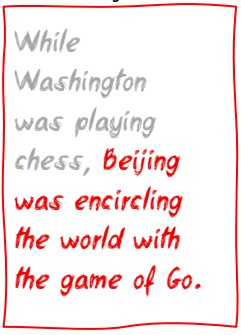
—

[2] The fact that it alone possesses over 70% (approximately 45,000 km) of the world's total high-speed rail network is the most concrete evidence of this physical transformation.

[3] Between just 2011 and 2013—a mere three-year period—China consumed more cement than the United States did throughout the entire 20th century (100 years).

China's modernization rests on education. Initiatives like Project 211 and Project 985 restructured elite universities.[4] Producing over 3.5 million STEM graduates annually, China has built the world's largest technical human capital. This has transformed the country from a *"workshop" into an "innovation hub"*, leading the world in international patent applications (PCT).

In the 1990s, China viewed technology transfers from the West not just as assembly instructions, but as a learning process. They adapted Japan's lean manufacturing, Germany's Industry 4.0, and Silicon Valley's culture to their own conditions, culminating in the *"Made in China 2025"* program.



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[4] China's strategic ascent in education is a deliberate, three-stage process aimed at achieving global leadership. The foundation of this process is *Project 211*, which elevated the infrastructure of 100 universities above standard levels. At the pinnacle of this pyramid sit 39 elite institutions (*Project 985*), known as *"China's Ivy League"*, selected from within this group. Today, the *Double First-Class* initiative further refines this focus, targeting world-class standards through performance-based and competitive funding.

These strategic investments have borne fruit, particularly in technical and engineering fields. In global rankings, Tsinghua University often competes with MIT for the top spot in engineering and artificial intelligence, while Tongji University is an undisputed leader in civil engineering, and the Harbin Institute of Technology excels in instrumentation science. Universities like Shanghai Jiao Tong, Zhejiang, and Peking also rank within the global top 5 in strategic fields such as maritime studies, energy, and nanotechnology.

Rather than distributing funds indiscriminately, the Chinese government has channeled them directly into departments aligned with the nation's strategic needs (infrastructure, space, AI, manufacturing). Thanks to this deliberate choice, Chinese universities have become global power centers in the technical sciences rather than the social sciences.

An Analysis of China's Rise in Numbers

The picture that emerges is quite striking. In terms of economic growth, the Chinese economy, which was at 191 billion dollars in 1980, has now grown nominally by 100 times, exceeding 19 trillion dollars. Considering that the US economy grew 10-fold during the same period, China's performance is literally an "incredible" success. This growth also triggered urbanization; while only 18% of the population lived in cities in 1978, this rate now exceeds 65%. Looking at real, i.e., inflation-adjusted growth, there is a 14-fold increase compared to 1989; this rate is far above the 4.5-fold growth of the S&P 500 and the 1.68-fold growth of the European economy.



The expansion in trade volume also supports this growth. The current account surplus, which was only 100 billion dollars in 2002, now exceeds 1 trillion dollars. While export figures rose from 300 billion dollars to 3.5 trillion dollars, China has now become the largest trading partner of Africa, the USA, and many European countries. Today, bearing approximately 30% of global manufacturing alone, China is the world's undisputed factory.

This economic power is also reflected in military and technological fields. Military expenditures have reached around 300 billion dollars today, up from 20 billion dollars in 2002. Although its military expenditures as a ratio of GDP (1.6-2%) appear lower than the USA's, it should not be forgotten that China gets more output for the same budget thanks to its cheap labor. In terms of technological leadership, China stands out by controlling 80% of lithium-ion battery production. Furthermore, with brands like BYD and NIO, it holds world leadership in the electric vehicle sector and solar energy technologies.

The Competition of the Future and Its Outcome

The US, citing China's technology transfers and intellectual property rights violations, is moving to restrict high-tech exports. This competition is concentrated in the strategic sectors of the future, such as artificial intelligence, 5G, chip technology, and renewable energy. While resource scenarios were once built on 19th-century coal (Britain) and 20th-century oil (USA), the 21st century could be built on solar energy and battery technologies—that is, on China.



Although China is often labeled "capitalist" today, it is more accurate to describe it as a state practicing *"Chinese-style socialism"*, utilizing the market economy as a tool.

However, this strategy has also brought China face-to-face with debt traps and transparency criticisms. According to some observers, due to its demographic crisis, China cannot become a hegemon. According to others, the West's liberal model is now exhausted. The West has weakened with its internal contradictions. China's model of "authoritarian efficiency" and "state capitalism" is becoming increasingly attractive to more countries. Per-haps the truth lies somewhere in between, between free dispersion and planned authoritarianism...

*The only thing we know about China is that **we know almost nothing about it.***

I think the answer to the question *'Why didn't socialism collapse in China as it disintegrated in the Soviet Union?'* lies in taking Hong Kong as a reference, in inclusive methods permeating all tissues of the economy, and in strategies that do not allow class chasms.

China achieved this transformation by blending it with the famous 'Three Represents' theory.[5] This picture reminds us once again of the vital importance of shedding nationalist patterns and not ignoring sociological structures when analyzing economies.



Looking back after Russia's thirty-five-year journey, we see that the judgment *"communism was bad and collapsed!"* is very superficial. This phenomenon should be examined within the specific context of Russian history. In Russia today, the legacy of communism is neither entirely bad nor entirely good in minds; it remains as a historical lesson. And the constant remembrance of this lesson is a conscientious responsibility. What happened to the commendable public assets and factories, labored over like embroidery over half a century, should be told to the new generation as a monument.

The Chinese Century, or Nobody's

In conclusion, the 21st century will no longer be the century of a single country. Competition will not be among countries, but among forms of governance. And China will be one of the most important centers of this multipolar era.

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[5] In China, the widespread popular teaching *"Confucian at work, Taoist in solitude, Buddhist on the deathbed"* is known as *"The Tasters of Vinegar"*. In this famous philosophical and religious allegorical story, Confucius, Buddha, and Laozi (founder of Taoism) are tasting the vinegar from a large barrel. Each one's facial expression represents their outlook on life. Confucius (face soured, believing life needs correction), Buddha (face pained, believing life is suffering), Laozi (Taoism) (smiling, believing life should be accepted as it is).

7

Russian-Style State Capitalism

One of my favorite places in Moscow is Kievskaya Square.[1] Here, time and space seem to be in a single frame within the flowing life...



Kievskaya Train Station, like the city's other stations, is a monument to farewells and reunions for a passenger with its grandeur. Its tracks stretch into the depths of the city like an imperial legacy. No matter from which angle you look at the square, its panorama is always extraordinary.

It was the early 2000s, those *"multi-zero"* years. I was living in another city back then. Since my official matters had become chronic and unresolved, I had to frequently come and go to Moscow, to the embassy. I would arrive at Paveletskaya on the night train in the early morning light, take the metro to Kievskaya, and have my breakfast at the now-renamed McDonald's while waiting for the consulate to open.

I remember once being there with a scattered mind, gazing at the square from the window for a long time. Morning traffic flowed from Kutuzovsky Prospekt over the bridge, then upwards towards Sadovaya.

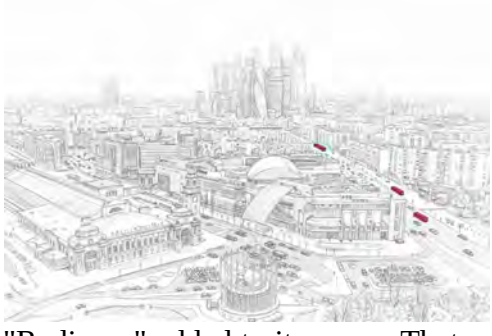
—

[1] Photographs before Illustrations of Kievskaya Square, Oleg Leonov

Before me stretched a vast marketplace, immediately behind it that magnificent station building, and beyond them, the Slavyanskaya Hotel. The newly opened romantic bridge connected pedestrians to the Turkish Consulate on the opposite bank of the river, while a little higher up, the Foreign Ministry building rose with all its splendor. The hotels from the Soviet era on both sides of the road never failed to give their *"handsome"* greetings to passersby.

**

Kievskaya Square never lost this embracing texture where history and culture are intertwined. Over time, the square blossomed. In place of the marketplace, one of Russia's most successful shopping centers had risen, connected directly underground to metro lines.[2] The Slavyanskaya underwent an elegant renovation, with "Radisson" added to its name. That exquisite view in front of the Turkish Consulate was now blocked by a building.



The spirit of the Soviets was dying with the opening of the first shopping malls.

Those were times when economies around the world were heating up with liquidity...

The square was the portrait of the country. Russia was undergoing a major economic transformation. It had just emerged from political and economic crises. As in all corners of the world, while shopping malls were quietly sweeping away the Soviet spirit; the Foreign Ministry building challenged the spirit of the times with its grandeur like a king on a chessboard, while on the other side, giant skyscrapers began to sprout, competing with each other.

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[2] "Evropeyskiy" Shopping Center is Russia's busiest and, after Dubai Mall, the world's second most visited shopping center, with 140,000 visitors per day.

So, how far back should we go?

Early Reforms | From the Petrine Era to Industrialization

There are certain investments that are human-centered; they do not yield immediate results, nor do they provide an immediate return. They require the patience of several generations. That is why such activities in nations amidst scarcity have always evoked great respect in me. It is an admirable abstract sacrifice; it winks at a secure future.



The adoption of art forms such as literature, poetry, painting, architecture, ballet, and opera in Russia dates back to the 18th century. Peter I (1682–1725) and Catherine II (1762–1796) fundamentally restructured Russian society, which appeared as a backward, semi-feudal community, through deep reforms. Through transformations in every field from the military to law, from science to art, from attire to education, Russia became a productive, wealthy, and developed world power; by the end of the century, it had extended beyond the Urals to Japan, establishing the name of a "Russian Empire."

The strong state tradition, whose foundations were laid in the 18th century, made Russia one of Europe's main powers with the victory over Napoleon in 1812. However, this success increased the tendency to preserve the country's traditional structure despite the Industrial Revolution. The Crimean War in the 1850s demonstrated the necessity of modernizing technical infrastructure, initiating a reform process to close the gap with the West. The painful transformation that began with the abolition of serfdom at the end of the 19th

The Soviet Union is the only state in world history whose **name was not derived from any specific geography or nationality.**

century created a deep social chasm between liberated peasants and privileged nobles.

Back then, literature was the mirror of life. As history carried them into an irreversible phase, people saw the reflections of this process in literature in all its nakedness. In *War and Peace* and *Anna Karenina*, Tolstoy criticized the artificiality of the aristocracy while exalting the purity and wisdom of the Russian peasant; Dostoevsky examined the shocks caused by rapid urbanization and new ideas (nihilism, atheism) in the Russian soul in *Notes from Underground*, and showed the destruction radical ideas wrought on the individual through Raskolnikov in *Crime and Punishment*. Turgenev, with *Fathers and Sons*, introduced the concept of "Nihilism" into the literature; he clearly described the chasm and gap between the old landowning traditionalist generation and the new radical youth who rejected everything.

History was turning its wheel harshly. The heavy devastation brought by the First World War, the final collapse of the Tsarist order with the revolutions of 1905 and 1917, dragged the Russian peoples into a radical human experiment that would go down in history as the *"Soviets"*. After the bloody legacy of the civil war, the period of 1920-25 introduced the broad masses, who had preserved their traditionalist structure for centuries, to educational campaigns, industrialization mobilization, and the ideal of a *"new man"*. The state had combined its autocratic character with an experimental totalitarianism. This new society, blended with a surprising collective idealism, would face one of modernity's harshest tests on the stage of history with the construction of massive industrial cities and new forms of social organization.

The Soviet Human Project[3]

In my view, the Soviet Union was a civilization that attempted to base its ideological claim not solely on economics or class, but on a human foundation. This ideology was shaped by the belief that humanity could be re-engineered. At the beginning of the century, it was a multi-layered and contoured model established with its own unique economic principles. It was utopian enough to believe its resources were infinite. It was a chilling courage. It was an ideological and economic experiment built on human capital. It was a clear *"humanity project"*. In the 20th century, it made significant contributions to the moral and cultural development of humanity.

They were imaginative enough to believe their resources were infinite. It was a breathtaking audacity.

The regime reached geographies that had previously had very limited contact with civilization; it brought railways, gas, water, electricity, built facilities and factories there; in places where people lived in mud caves, it gave them livable homes with solid foundations that wouldn't collapse in earthquakes, with walls, water, a kitchen, and a clean toilet. Moreover, it did this without compensation within its own economic mathematics. Its true claim was to solve humanity's fundamental problems. Without a hint of doubt and without blinking, it was building housing for 100 million people.[4] "As long as it's proper, solid, and clean, no need for creativity," it said. This was a model that even the US has not been able to implement for years.

—

[3] The inspiration and source of ideas in this section is Sevan Nişanyan.

[4] The Soviet Union systematically met the housing need and completely solved the *"housing problem"*. Compared to rest the world, it almost never experienced a housing crisis. However, today the issue is not so much housing, but the need for a "quality housing stock." The massive, recent large-scale projects are precisely a result of this search for more modern living spaces. The data on usable floor space per household is quite striking. While Japan and Russia rank at the bottom of the list, the US and, surprisingly, Turkey are at the top. Japan offers 37 m² per household, Russia 47 m², while in the US this figure is around 200 m², and in Turkey, approximately 130 m².

Especially on the eastern axis, the 2000–3000-year-old invasion-prone behavioral codes of peoples were being broken. It educated restless peoples; first defining each one separately through a common policy, encouraging the national identities of peoples, their own music, language, and culture. Then, uniting them within the envelope of a common ideology, providing education, uniting them all within a common *"Soviet culture"*. This claim is a great integration success.

Between 1950 and 1970, approximately 22 million new housing units were built by the state in the USSR. By 1960, over 2 million families were moving into new, free apartments each year—a world record for per capita housing production at the time.

It didn't just govern; it had built cities, brought all the theater, concert, gymnastics, chess, university, and scientific research opportunities of European civilization to every village and town in these lands. To peoples living in the depths of Asia, in the grip of the Middle Ages, they brought culture, painting, sculpture, music, architecture, chess, and sports. To talented children who had no other options beyond horseback riding, they offered new opportunities: *"Come, be a writer! Be a ballet dancer, a gymnast."* They opened different life paths beyond their traditional customs. This was a priceless gift for humanity. They minimized class differences. Poor peasants had risen to the middle class through education.



From Riga to Vladivostok, in tens of thousands of villages and towns, Soviet peoples were living their own Renaissance in a sense. They had built massive social and housing projects to display the splendor of the Russian state. They had enthusiastically built brand new cities from scratch. Anyone who travels a bit through Russia can see, even in the most remote places of the former Soviet territories, towns and cities that were extremely

modern and well-planned according to the conditions of that era. Even in the smallest town, schools, libraries, parks, museums, statues, theaters, exhibition halls, and cinema/concert halls, standing almost like a utopia, are the memory of this civilization built from scratch.

Time will tell how sustainable this heritage in Central Asia will be. However, in history, Russia has a mission of serving neighboring nations personally and through its own labor, compared to other hegemons.

Yes... There had been a period where everyone smiled more or less, where a minimum level of courtesy and culture was established. Idealism, like a kind of obsession, consistently and sensitively saw uplifting the lower strata as a collective sacrifice and a national cause. Goals were set like: *"Not just me, let everyone approach the middle class; have at least a home worthy of human dignity, a job, an income to make a decent living; not worry about the future, be able to educate their children."*

They took young people from the dead coffeehouses of the provinces, from villages, to Leningrad, transporting them to a new life. *"A young person from a mountain village can also get somewhere on the world stage; can rise in science, art, sport"*, they said. Georgians, Armenians, Azerbaijanis, Tatars, Uzbeks, Jews - every people could rise to the highest echelons of the state.

The literacy rate, only 28% in Tsarist Russia (1897), reached 87% by 1939 and a record 98.5% by 1959 thanks to the Soviet "Likbez" (liquidation of illiteracy) campaign, setting world records.

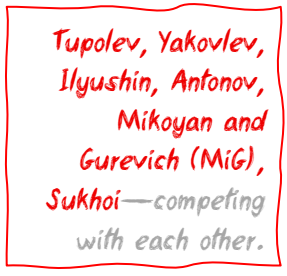
And indeed, a few generations later, from the peoples living in this backstage of global culture, world-class Olympic champions, scientists, writers, opera singers, chess masters, figure skaters, and ballet dancers had emerged. If today the academic discipline and strict traditions of classical ballet, opera, and theater are still so strongly alive, the Soviet Union's conservative art policy of that period and its meticulous preservation of this heritage after the 90s play a very significant role.

Analysis of the 1929-1955 Miracle in Numbers[5]

The development drive pointed to miraculous numbers. By the time 1939–40s arrived, in just 20 years, it had created one of the world's most advanced military infrastructures. The population, which was 46 million in 1929, had reached 100 million by 1955. During the same period, 57 new cities and 1884 urban-type settlements were built. By 1955, the ideal of wage equality was beginning to bear fruit. 7.1 million people were receiving salaries over 1000 rubles per month, and 1 million people's salaries exceeded 2000 rubles. There were even official millionaires among designers, inventors, scientists, and cultural figures.

The Soviet Union, except for the WWII years, still holds the world record with an average growth rate of 13.8% during this period.[6]

State support for the development of competition had begun in all fields, including enterprises, scientific and educational institutions, healthcare services, industries, industrial equipment, and individual workers. In the aviation industry, there were design bureaus competing with each other like Tupolev, Yakovlev, Ilyushin, Antonov, Mikoyan and Gurevich (MiG), Sukhoi. Between 1929-1932, technical cooperation was undertaken with the best manufacturers like Ford, Siemens, General Electric, and the world's leading experts like Albert Kahn from the USA and Ernst May from Germany. The world's best architects were working in Russia to design 521 new factories and 20 new cities. In 1932, over 30,000 highly qualified foreign experts were working in Russia.



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[5] Galuşka A.S., Niyazmetov A.K., Okulov M.O., The Crystal of Growth: Towards the Russian Economic Miracle (Кристалл роста к русскому экономическому чуду), 2021.

[6] 22-year average growth records in the World Economy: Russia/USSR (13.8%, 1929-1955), Botswana (13.5%, 1968-1989), UAE (13.2%, 1959-1980), Taiwan (11.5%, 1947-1973), China (10.4%, 1983-2007), South Korea (10.2%, 1966-1988), Japan (9.7%, 1948-1970), Singapore (9.2%, 1966-1989)

By the mid-1950s, the Russian economy had the world's youngest production machinery in electrical equipment, chemical, and machine tool manufacturing. With 100% technical independence in industrial output; ranked 1st in the world in agricultural machinery; 1st in Europe in industrial production; and 1st in Europe and 2nd in the world in terms of industrial labor productivity.

During the first three "Five-Year Plan" periods between 1928 and 1940, Soviet industrial production grew at an average annual rate of 12% to 14%. This is one of the fastest industrialization rates recorded in world economic history (before the Japanese and Chinese miracles).

Between 1946-1955, it was breaking new ground with the offensive of nuclear, rocket and space, and radio-electronics projects. In the energy sector, it was ranked 3rd in the world in 1935, but became Europe's number 1 in 1947. In the five-year period between 1951-1955, the capacity of power plants nearly doubled that of the entire previous period.

We didn't provide these numbers just as mere data. Because this massive heritage, which rose with the accumulation of that era, rests on such unshakable foundations that, even today, it has turned into a living monument touching the lives of all generations with every one of its bricks.

This generous memory, resisting the erosive power of time, continues to nourish the future.

**

On the other hand, the system had begun to give signals. The growth of the period was an *"extensive"* model. It grew the economy by increasing the amount of resources, i.e., by using more workers, more coal, and more iron. Starting from the mid-1950s, these easy raw material resources and simple labor began to diminish. The system now needed to produce *"more efficient technology" (intensive), not "more resources."*

As the spirit of the times changed, central planning could not adapt to this new rhythm. The system had created massive capacity in heavy industry like steel, tanks, and tractors, but as the economy deepened, it became impossible for central planners to coordinate the technology and production of millions of different products.

The success between 1929-1955 was actually a miracle of *"resource mobilization."* As the economy grew and became more complex, because this command economy model couldn't give way to flexible efficiency and innovation, the system entered a structural deadlock.

The unraveling had begun...

Khrushchev Period (1955-1964) | The Thaw (De-Stalinization)

Khrushchev initiated a period of "thaw" by moving away from Stalin's heavy industry and repressive policies. Decentralization in the planning system was attempted. Instead of ministries in Moscow, regional economic councils called Sovnarkhoz were established. However, this chaos would end up disrupting efficiency rather than improving it.

The fundamental struggle of industry is limited resources. Resources are either human, material, or capital. It was clear that a system unable to compete with the West in capital could not be flexible. Factories, with their limited resources, aimed to meet quotas rather than focus on quality.

It is a rule that unnatural interventions in the economy immediately find other avenues for themselves, like a *"black market"*. People had begun to prefer other products over those coming from their own factories. The only way to overcome this was to solve the inefficiency. But by then, there was no longer any opportunity for that. It was now accepted that they had fallen behind in industrial technology.

"Panel buildings" (Khrushchyovkas) were very cheap, but their uncontrolled distribution led to wasteful production. Agricultural

revitalization initiatives like the "Virgin Lands" project, though initially productive, failed in the long term due to erosion, inefficient planning, and drought. For the first time, the USSR fell into a chronic situation, having to import grain. This caused a serious loss of foreign currency. Additionally, the space race and nuclear arms race with the US placed a huge burden on the economy. Resources were directed to the defense industry instead of consumer goods and infrastructure.

After Khrushchev, it felt as if time had stopped...

(1964-1982) The Brezhnev Era | "The Era of Stagn

The search for reforms gave way over time to a long period of inertia, later to be known as the *"Great Stagnation"*, quietly shaking the system's foundations. Economic decisions based on central planning structurally constrained innovation processes and rapid decision-making mechanisms. Despite successes in space technology, the Soviet system failed to adapt to the "Third Industrial Revolution," computer and microchip technologies, deepening the gap with the West.

> The air was as heavy as steam in flour; breathing was a habit that had to be remembered..[1]

With the hardening of bureaucratic structures, economic problems became entrenched. As decision-making processes slowed, the privileges of the ruling class (*nomenklatura*) eroded social trust. The inability of official channels to meet consumer demand, spreading *"gray markets"*, undermined the legitimacy of the central authority. During the same period, a large portion of GDP, around 15-25%, was allocated to military spending, shrinking resources for the civilian sector. Agricultural inefficiency forced the state into food imports and foreign exchange expenditures.

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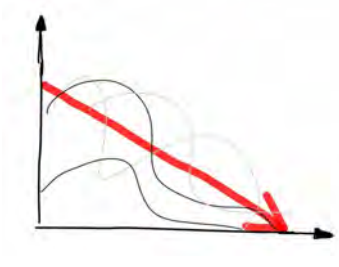
[7] The founding scene of Macondo at the beginning of Gabriel García Márquez's (1927–2014) novel *One Hundred Years of Solitude* is the pinnacle of descriptive power. Márquez describes this moment when José Arcadio and his wife Úrsula arrive at a new town through the mists...

While rising oil prices in the 1970s created a temporary mask of prosperity, leading to the postponement of structural reforms, energy prices would soon collapse again. The leaders' demographic inertia and resistance to reform trapped the system in both political and economic stagnation.



By 1982, the Soviet Union, like a silent giant appearing massive from the outside but unable to determine its direction from within, stood on the threshold of an approaching storm of radical transformation. Unlike China, which faced similar crises, the Soviet system failed to achieve an intra-regime transformation; as the people's living standards declined, the system seemed frozen. The country drifted toward uncertainty like a great ship with a mutinous crew and its course out of control.

(1985-1991) | The Gorbachev Era



Upon taking office, Mikhail Gorbachev asked himself, *"In a country that has reached the end of the road, what must be done without plunging the country into chaos?"* and launched two major reforms.

Perestroika (Перестро́йка, Restructuring): Market elements were partially introduced into the economy. State enterprises were granted more autonomy, and some private initiatives were permitted. However, this clashed with the planned system, creating chaos. Production fell, shortages emerged.

Glasnost (Гла́сность, Openness, Transparency): The increase in freedom of expression laid bare economic failures, corruption, and system flaws before the public. This fundamentally shook faith in the regime, paving the way for the dissolution of the USSR.

The sharp decline in oil prices in the mid-1980s paralyzed the USSR's foreign exchange earnings, weakening its capacity to pay for imports and debts. These were years when growth had nearly stopped. Something had to be done. Whatever that *"something"* was, Gorbachev failed to achieve it.

The system ultimately collapsed under its own weight in 1991.

(1991 - 1998) | The Chaotic Transition Period

Following the dissolution, Russia experienced a rapid and painful transition from a centrally planned economy to a free-market economy. In this process, known as "shock therapy," price controls were removed and subsidies were cut. In exchange for cheap vouchers given to the public, the rapid privatization and transfer of state-owned enterprises began.

With the lifting of price controls, prices skyrocketed. This sudden transition led to a collapse in production, hyperinflation, and widespread impoverishment. People's lifelong savings evaporated overnight. In 1992, inflation exceeded 2500%. GDP contracted by approximately 40% throughout the 1990s. Industrial production collapsed. Wages went unpaid, social systems ceased to function. With the impact of the 1998 financial crisis, the state treasury defaulted on its debts. The ruble was devalued.

The system had collapsed, institutions had disintegrated, the economy was bankrupt...

**

Let's return to the Berlin Wall.

During those chaotic years, Russia made a naive proposal to Europe: "*We, too, are part of European cultural and economic history. Come, let's open up to the entire Soviet geography together. Let's build a great Europe stretching from Hamburg to the Pacific."*

There is a world map below with railways added. Looking more closely at the map, special attention should be paid to Europe.



Within the proposed Europe-Russian economic structure, Russia would have been a founding element. This was a major opportunity for Europe, as the entire Russian geography was a virgin market, not only in terms of oil and gas but also the world's largest producer of minerals and rare elements. Rational intellectual leaders all over the world considered this proposal a rare opportunity that world and human history might never offer again.

During this transformation process, the United States provided significant support to China by transferring a major portion of its industry there. The Soviets had no such possibility of external support, yet they could still have transformed without going bankrupt.

After 1991, the country was fragmented and society experienced deep trauma. The actual rock bottom was the year 2000. The population had declined, and all remaining assets/capital from the economy and industry had undervalued like water.

Yes... The idea didn't catch on. The geography was almost left to its fate.

The calendar was showing the final years of the century.

From 1999 to the Present | Recovery, Stability

Vladimir Putin's rise to power was structured around critical steps aimed at reconsolidating central authority and controlling the oligarchs, who had become unregulated power centers. In the years following these moves, the implementation of tax reforms and the establishment of strict budget discipline initiated a period of lasting macroeconomic stability in the country. Between 1999 and 2008, the Russian economy grew at an average annual rate of 7%, while GDP showed a striking increase of 83%.



For a foreigner curious about Putin's image in the eyes of the Russian people, I would recommend three striking video images a decade apart. In terms of understanding how much composing society is linked to leader perception today and how the leader image has ossified over a 25-year process in modern Russia, these images are a lesson for public administration students.[8]

> Not to miss the Soviet Union is heartless and conscienceless; to want to rebuild it is mindless.[8]

—

[8] This observation, attributed to Russia expert and author Hazal Yalın, refers to the following three moments:

2001, Putin's difficult speech to the grieving families during the Kursk submarine disaster.

2009, The Pikalyovo Crisis moment when, in front of the people, he told Deripaska 'Give the pen back,' forcing the signature for the three factories that kept the city alive, an image etched in memory.

2019, During a TV program, an elderly woman from a poor, ruined settlement came forward and told him she had given him a note to read. The facial expression at the end of the event is one of the most memorable moments regarding why Putin's reputation has hardly diminished, especially in the provinces.

Putin is a witty, humble, and intelligent leader... Listening to one of his lengthy speeches reveals that, with his reasonable arguments, command of numbers, and strategic perspective, he is far from the portrait of an average leader; only stubborn prejudice cannot notice this.

Putin has not only economically but also strategically, culturally, morally, and militarily, moved the country to dazzling places over 25 years. Anarchy has ended, unjust images in memories have been left behind. Uncontrolled oligarchs were first persuaded, then brought under control through regulations, and state dominance was established.

Russia set a historic record by increasing its foreign currency and gold reserves from $12 billion in 2000 to $630 billion in early 2022, employing an "economic fortress" strategy against Western sanctions.

When the conjunctural preferences of foreign affairs, the military, and intelligence are added to the transformation, Russia gradually regained its natural potential over 25 years. The state re-established strong control over strategic sectors such as energy, defense, and finance. External debts were repaid, foreign exchange reserves and a stability fund were created. Economic growth, especially in major cities, allowed for an increase in consumption. Living standards rose, the middle class expanded. Morale recovered. The people's faith in the future became much stronger compared to the past. The country's capital, Moscow, today became one of Europe's most vibrant and cultural cities.

Russia's modern economy drew profound lessons from the chaos of the 1990s, the energy-based growth of the 2000s, and then the drop in oil prices during the 2008-2009 global financial crisis. The most striking of these was the understanding of how dependent the economy was on the energy sector. Thanks to this, it transitioned to a *"closed but resilient*" economic model, aiming for self-sufficiency in energy, defense, agriculture, and digital infrastructure.

Russian-Style Economy | State Capitalism

"The world was so recent that many things lacked names; to refer to them, one had to point."[9]

From a broad historical perspective, neither Tsarist Russia nor Soviet Russia ever accepted what is commonly known as capitalism. Moreover, the USSR also helped many countries break free from peripheral capitalism.[10]

Today, the Russian economy has the character of a *"geo-economic resilience economy."* In this sense, it is not a full market economy; it is a model between state capitalism and geopolitical pragmatism. The weight of the state is very pronounced in strategic sectors (energy, defense, transportation). Companies affiliated with the state, like Gazprom and Rosneft, form the backbone of the economy. The current doctrine of Russian economists synthesizes public services like civil aviation, agriculture, education, and health, which must function 'at any cost,' on one hand, and an economic logic based on efficiency, profitability, and cost-benefit balance that gives spontaneous responses to market dynamics, on the other.

The advantages offered by this model are undeniable. However, the *"spirit of innovation" and "competitive dynamism"* needed to become a true global player have not yet penetrated the system. At this point, an investor vision that has mastered the codes of many parts of the world appears to be the sole strategic mind capable of instilling the missing dynamics the system needs and the key to modern transformation.

—

[9] Gabriel G. Márquez, the legendary opening sentence of the novel *One Hundred Years of Solitude*

[10] In the post-WWII order, the Soviet Union was defined not as a rival but as a complementary force. A world at peace was envisioned under the oversight of the "Four Policemen" (the USA, the United Kingdom, the Soviet Union, and China). Later, with the addition of France, this quintet would become the five permanent, veto-wielding privileged members of the UN Security Council.

For me, the best example explaining the algorithm behind the functioning order in Russia is the Moscow Metro. This system inherited from the Soviet Union, while appearing old in places, is a mirror of the state order with its always clean and smoothly functioning structure. The visible antiquity never hinders operational discipline; on the contrary, it represents the ability of a deep-rooted system to stand under all conditions. A thousand locomotives moving simultaneously underground and a flawless 90-second rhythm symbolize Russia's systemic power. In this mechanism flawlessly transporting 10 million people daily; a male voice (discipline) is used for morning commutes to the center, and a female voice (compassion) for evening returns home. This psychological algorithm cleanses society of chaos and focuses it on a common goal. The system blends speed with authority and deep-rooted heritage with efficiency, transforming society's scattered energy from a static mass into pure mechanical work that ceaselessly propels the state forward.

**

The world is now built on three main axes of power: the USA, China, and Russia. Militarily, it's unthinkable for any one of these three to defeat the others. In terms of financial power, the USA and China are stronger than Russia. In terms of technology, the USA and China are again ahead of Russia, and in terms of cultural influence, the USA is clearly ahead of China and Russia. In terms of natural resources, Russia and the USA appear more advantaged than China. While Russia may seem economically disadvantaged, its resources, nuclear capacity, and strategic position eliminate this weakness.

In our era, state governance is exercised within a country's land, internal waters, sea up to 22 km from land, air up to 100 km from the ground, and mobile spaces like ships, aircraft, and spacecraft carrying its flag. Beyond drawn borders, there are other countries with the same rights for their own areas. In this sense, the North Sea constitutes the main axis of China-Russia-US relations.

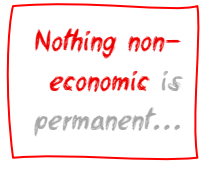
On the other hand, the main arenas of competition are no longer just armed conflict. Economic areas like technology, logistics, software, and

mining are also becoming stages for geopolitical rivalry. The traditional polarization model (two major blocs) is giving way to more variable "multi-aligned" relations. For example, some countries, while officially belonging to the Western bloc, can also maintain close economic relations with Russia or China, taking flexible positions according to their own interests rather than adhering to fixed blocs. The world order has become more complex than simple competition between classic blocs.

In today's complex geopolitical climate, the fundamental issue for countries is not just deciding which bloc to belong to; it is protecting national interests among rapidly changing balances and managing the process proactively. For actors positioned in a strategic *'transit zone'* like Turkey, this dynamic structure brings great opportunities alongside serious risks. Turkey, which, despite being part of Western institutions like NATO, can also develop close relations with Russia, highlights its pragmatic choices in this process.

The trial of "early period" post-Soviet Russia with the West is noteworthy. Russia's state tradition is based on a historical legacy encompassing empire and former neighboring states; this system still retains the reflex of bringing the most talented to the highest echelons. In Russia, it is still possible to see, at every level, highly qualified technocratic cadres and intellectual vision that we do not encounter in Western diplomacy today.

Recently, it has also been observed that the Western bloc is not as homogeneous and integrated as it appears. Countries like the USA, the European Union, Japan, and South Korea have various economic ties with China, and these ties complicate geopolitical decisions. Today, capital and technology can cross borders much more easily. The nature of competition is more complex. Technology and logistics are becoming not just economic but geopolitical weapons. Nothing non-economic is lasting. Even military and ideological power cannot be sustained without an economic infrastructure.



Today in Russia, the state intervenes vertically in strategic areas. It appears to have paid the price to learn that managing resources requires people with creativity and courage; otherwise, bureaucracy suffocates society.

**

While the collapse of the Soviet Union was expected to give momentum to freedoms worldwide, a different dynamic has unfolded. Today the rest of the world is facing as well a significant test, both materially and spiritually, within its own geography.

On the material level, we face the reality that post-1980s modern democracies have turned into a *'borrowing mechanism'* that transfers future prosperity to today to meet voter demands, rather than a sustainable financial structure. The low-interest and high-liquidity environment of the last 20 years has led states to postpone problems through borrowing instead of implementing structural reforms; this situation has created a financial dead end where debt has reached a mathematically unrepayable magnitude. It is argued that the astronomical public debt stock of developed countries, being unsalvageable through normal means, will eventually lead states to erode debt by devaluing money, i.e., creating inflation, and that this process may damage societies and social institutions.[11]

In moral values shares a similar quality with this financial collapse. So much so that if one were to search for an actor to sustain *classical arts*, in the modern world, ironically, it appears it, most probably, would be Russia. Just as the Soviets once undertook this cultural and historical responsibility with their unique discipline...

At this point, dismissing Soviet legacies as *'gloomy and depressing'* is, in my opinion, ungrateful.

—

[11] Eren Cerrahoğlu's thesis on the *"astronomical public debt"* dead end that has ballooned in "democratic" societies over the last 20 years is built on the clash between the incentive structure of democracy and financial mathematics. It questions the *"Unlimited Promise, Limited Resources"* contradiction.



Current Macroeconomic Direction

Tolstoy at the Central Bank...

Macroeconomic data, when viewed from the outside, are usually perceived as a pile of cold, soulless numbers disconnected from everyday reality. However, stress tests and simulations conducted with these statistics are early warning systems that protect us from real crises. This process requires both a multifaceted, social perspective and a broad academic vision. Numbers only gain societal meaning when combined with the vision of a strategist.



I can explain what I mean by recounting a memory I had with a famous figure directly related to the topic.

A few years ago, Russia's Central Bank Governor Elvira Nabiullina[1] was invited as a speaker to the year-end meeting of the Association of European Businesses in Russia. Since my time working in the bank, I had followed her closely and listened carefully to her statements. She is known for her command of subjects, calm and confident. Moreover,

I had heard she had an interest in literature. I couldn't miss this opportunity; I immediately took my seat at the meeting.

That day, Nabiullina, as always, gave a very well-structured, data-supported, analytical presentation. At the end of her speech, she said time was up but she could take a few questions. I actually hadn't planned to ask a question. I had read that she was particularly an admirer of Tolstoy. My hand suddenly went up. My wife was sitting next to me; surprising her too, Tolstoy's famous sentence flowed from my mouth with refined excitement: *"Happy families are all alike; each unhappy family..."* [2]

As I tried to complete the sentence in my broken Russian, Nabiullina smiled; without hesitation, without missing a single word, she perfectly completed the sentence. Or rather, we completed it together. The hall immediately filled with applause. It was a tremendous emotional moment for me as the axis of the atmosphere shifted.

—

[1] Elvira Sakhipzadovna Nabiullina, Russian economist and Central Bank Governor. Born in October 1963 in Ufa to a Tatar family. Her father was a driver, her mother a manager in a factory. She graduated from Moscow State University in 1986. She trained at Yale University in 2007. She moved to the Ministry of Economic Development in 1994. She rose to deputy minister in 1997. In 2000, she became CEO of Sberbank. In 2007, Putin appointed Nabiullina to the Ministry of Economic Development in place of Gref, and in 2013 to the Central Bank governorship. The English magazine Euromoney named her Central Bank Governor of the Year in 2015. In 2019, Forbes counted her among the world's most powerful women.

[2] The opening sentence of the novel *Anna Karenina*, one of the most recognized novel beginnings in literary history. *"Happy families are all alike; each unhappy family is unhappy in its own way." (Все счастливые семьи похожи друг на друга, каждая несчастливая семья несчастлива по-своему).* It summarizes all its themes—family, society, morality, and individual tragedy—in the very first line.

Then she turned to me and looked at me calmly, as if saying, *"Yes, I'm listening to your question."*

My question was short but clear: *"Your data is good, your goals are promising. But if every country has its own unique prescription, what is your prescription for possible economic unhappiness, unexpected shocks?"*

Sanctions were on the agenda even then; although their effects were not yet fully felt, signs had begun that they would increase geometrically.

She answered with the same composure. She neither resorted to populism nor hid behind theory...

Nabiullina is a rare monetary politician who can remain calm and consistent under all conditions without ever detaching from her theoretical foundation; most importantly, one who can present the course of events with a style that goes beyond the data.

Current Macroeconomic Situation[3]

Today, while political economy is moving the world towards a multipolar order, it is paradoxically also deepening globalization. In this dynamic process, having a fundamental command of the disciplines of tax, accounting, and banking has become unavoidable for a modern manager. The complexity of the global structure makes it imperative to meticulously monitor every piece of macroeconomic data, from tax legislation to geopolitical developments.



Especially in the case of Russia, the intertwined structure of the economy and strategic policies has reached a much more critical dimension in recent years. Analyzing the structural realities of the market, its internal balances, and its points of resilience against potential shocks is not just foresight but a strategic survival skill.

—

[3] Sources used in this section: MonDef Monthly Macroeconomic Bulletins (www.mondef.ru/publications.html)

In the world of investment, the way to understand the macroeconomic outlook lies in grasping the balance between the economy's "price, risk, and health." The three fundamental variables representing this balance are: the Central Bank's key rate[4], which determines the cost of money; inflation; and unemployment data, which indicates the economy's production capacity. The intersection point of these three parameters forms the most powerful set of indicators determining which direction an economy will evolve. For investors, the key to success is not merely tracking this data but deciphering the causal links between them.

Let us recall once again the fact that Russia, despite representing only 3% of world GDP, is a colossal *'strategic game player'* in the global system. Now, without ignoring this critical role, let's together interpret some standard data from this perspective.

Purchasing Power Parity (PPP)

As of 2025, despite the global tensions, Russia, thanks to its determined and tight monetary policy, managed to position the Ruble as one of the world's most appreciating currencies. Coupled with the reflection of this financial stability on household purchasing power, Russia today is not only the cheapest country in Europe in terms of industrial natural gas prices, but also the cheapest in gasoline and kWh electricity costs among Europe, its neighboring region, and G20 countries with exchange rate-adjusted data. The cumulative effect of low raw material and energy costs, particularly in agriculture, livestock, and food manufacturing, keeps Russia as Europe's largest and the world's fourth-largest economy based on Purchasing Power Parity (PPP).

However, reading this picture only as a periodic *"performance success"* would be incomplete. It must be considered that the current situation is fueled by deep structural dynamics of the monetary and fiscal policy of the government. This is why I call this resilient, cautious, and far-from-superficial noise structure Russia's *"Modest economic power."*

—

[4] Abbreviations and financial terms frequently encountered in the banking and finance world are added in the "Business Glossary" section at the end of the book.

Let's not get lost in the complex world of macroeconomic data. However, to accurately read a country's investment climate, it is necessary to focus on basic market dynamics. In Russia, the perceived inflationary pressures make it imperative for the Central Bank to maintain its tight monetary policy stance and high-interest-rate environment. While official data presents the pace of price increases on a certain path; alternative indices based on broader datasets prove that the real burden on households is much more palpable.

Yet, contrary to belief, the situation is not evolving in a disheartening direction. On the contrary; the correlation between basic necessities and general price levels shows a remarkable consistency between the cost of living felt by the people and the macro data. This transparent balance provides a kind of *"realistic foundation"* to the investment atmosphere by keeping market risks predictable.

Looking at monetary policy projections; expectations for a disinflation process are maintained for future periods, while approaching the price stability target over time is anticipated. Parallel to this process, the policy interest rate is also expected to enter a gradual easing trend in line with the downward trend in inflation. If we define low inflation as *"a threshold where price increases are not felt by society in daily life*"; Russia is currently operating above this economic comfort zone but aims to move towards this equilibrium point in the medium term.

"Deposits will remain attractive because interest rate cuts will be gradual, and **deposit rates will be kept above inflation.**"

Year	Infl. (%)	'Real' CBR Rate (%)	Growth (%, YoY)	Exports (USD bn)	Imports (USD bn)	Real Wage Increase (2021=100)	Unemployment (%)	Budget Balance (% of
2024	9,5	8,0	4,3	477	383	119,1	2,5	−1,6
2025	6,6	12,5	1,0	451	385	123,8	2,3	−3,0
2026	5,1	8,6	1,2	455	392	127,1	2,5	−1,7

Expectations in commodity and foreign exchange markets paint a relatively stable picture. While the main items in global energy markets

and strategic resources are expected to remain within a certain price band; the local currency is predicted to follow a balanced course against major reserve currencies. However, the long-term sustainability of the recent performance of the local currency remains one of the most debated and closely monitored topics in economic circles.



Russia, maintaining its weight in the world economy, exhibits a rare discipline in public finance. The ratio of public debt to national income is among the lowest levels among developed economies. The high share of physical gold in reserves reinforces resilience against external shocks.

The banking sector maintains a strong capital structure and profitability. Thanks to asset quality and collateral structure, banks have the capacity to sustain operations without needing external support in possible stress scenarios. While growth momentum leaves neighboring geographies behind, this trend is expected to continue. Employment is at historical lows, while hiring appetite remains lively despite structural imbalances. In monetary policy, maintaining positive real deposit returns will continue to be the primary strategy. Although a limited budget deficit is observed, this situation is at a sustainable and manageable level on a global scale. The current discipline is far from being a vulnerability factor for the Russian economy.

Capacity utilization in industry

The capacity utilization rate is of critical importance as a fundamental determinant of inflation and monetary policies. If it is above 85%, demand growth and economic expansion increase, while if it is below 70%, companies cut back on investment. In Russian manufacturing, the 75% level is considered the "full capacity" limit; the inability to exceed this threshold indicates not a lack of demand, but that the workforce and machinery needed to increase production have been exhausted.

A certain saturation threshold in the manufacturing industry is considered "full capacity." The inability to rise above this ceiling stems

not from insufficient market demand; on the contrary, it results from physical resources such as labor and machinery being used to their absolute limit to increase production further.

While overall industrial capacity follows a relatively stagnant trend, in defense-focused manufacturing branches this intensity has climbed to the highest levels. Mining activities remain at a weak pace; while a noticeable loss of momentum is observed in the automotive and energy sectors, upward activity is seen in areas such as agriculture, logistics, retail, and construction.

Russian industry today is undergoing a risky process defined in economic literature as "heating." Behind this picture lies the demand for local production focused on "import substitution," which gained momentum with sanctions, and the uninterrupted operation of the military industry. However, because industry is reaching its capacity limits, it is struggling to increase production further despite demand.

The absolute full employment achieved as a result of historically low unemployment rates, combined with the shift of labor to strategic areas, makes investment difficult due to personnel shortages and financing costs in civilian sectors. In its current state, industry resembles a vehicle with its engine at high RPM.

Manufacturing (PMI)

The pulse of the economy lies in the manufacturing industry. The PMI is the best parameter showing the real situation in the manufacturing and service sectors. A reading above 50 indicates expansion, below 50 indicates contraction. The index, which followed a horizontal trend in the latter part of the year, shows that activity remained balanced on average; this was shaped by the slowdown in manufacturing being compensated by activity in the service sector. While stable strong demand in the service sector and new orders increasing for the first time since mid-year mask the loss in manufacturing, the decrease in employment in both sectors and the increasing pressure on capacity from accumulated orders prove this. On a global scale, the fact that major economies like the US, the Eurozone, and China, like Russia,

also remain below the 50 threshold according to PPP-weighted data at year-end, indicates that global business activity is entering a negative contraction trend. Here, we must also remind that Russia's data needs to be adjusted for regional and sectoral heterogeneity (imbalance).

Sanctions

Despite SWIFT restrictions and a decrease in foreign investment, the Russian economy has developed strong "immunity" against sanctions. As a result of sanctions, intermediary systems used in exports and new fleets have shifted payment and logistics routes to the Middle and Far East, minimizing the impact of sanctions.

From Laboratory to Field: Technology in Russia

The appeal of high technology[5] lies in its extremely high rate of diffusion into the technologically advanced economy. However, in Russia, these are topics that fall more into the direct responsibility of the state rather than being at the "forefront of science." The state focuses more on areas like space infrastructure, defense industry, and nuclear energy. What is truly important here is the necessity to build the infrastructure needed by the business 10-15 years from starting today.

Under these conditions, Russia has no choice but to stimulate the economy. The Central Bank is expected to rapidly lower interest rates to increase credit volume and thus stimulate domestic demand, i.e., spending. However, at the end of the day, if the government is forced to choose between "economic contraction" and "high inflation," it will most likely choose inflation.

The political prestige Russia possesses gives it the flexibility to make the moves it wants on the international chessboard, while making it one of the strongest strategic actors in its region.

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[5] High technology: AI chips, big data centers, nanometric electronics, industrial robotics, genome editing tools, quantum computing, and fuel cells.



Investment Climate in Russia

I remember a day we went to listen to the then Minister of Economic Development, Oreshkin, at one of the year-end briefings of the Association of European Businesses. The minister was speaking at length about how bureaucratic obstacles were being removed, that the state was always on the investor's side, and about trust in state-investor relations. Thinking back now, I wish I had asked him these questions then: *"Why does the state exist? What does it really guarantee? To what extent is the investor's security insulated from political risks?"*

Perhaps the atmosphere wasn't like it is today back then, but the fundamental issue actually never changes. What was truly not discussed in that briefing was the spirit of the matter. That psychological threshold we feel when making a decision... That starting moment when we say, *"Yes, let's go!"* The moment we press the button. Everything after that is merely technical risk management.

In this section, we will not overwhelm you with *"Doing Business"* information. We will present a "series of methods."

For an investor entering Russia for the first time, a three-item "checklist" is of vital importance: sanctions, local partners, and an exit plan. Immediately afterwards, a financial risk plan should be made, including cash flow scenarios for floating exchange rates against the ruble. It must not be forgotten that every nation acts according to its

own cultural codes. Japanese people with their discipline, Italians with their brand, and Turkish investors seek a niche in the market with its practical intelligence, flexibility, and our unique "know-how."

Now, let's try to give a basic framework in 10 steps for each sector.

10 Steps for Due Diligence

1. Sanction and legal compliance review: of the product, raw materials, and suppliers; import-export restrictions.
2. Market and demand analysis: Domestic demand, population, income level, shopping habits, local competitors, imported competing products, and price advantages.
3. Supply chain and logistics: Raw materials, component parts, equipment supply lead times, and logistics costs. Cold chain, perishable product risks.
4. Equipment and technology infrastructure: The cost of machinery renewals. Whether local or imported equipment, customs duties, and import timing risks.
5. Quality standards and certification.
6. Financial model & profitability: Revenue-expense projections (optimistic, moderate, pessimistic scenarios). Exchange rate, inflation, interest rate risks, cash flows.
7. Tax, government incentives: Tax regime, customs duties, import-export taxes, government incentives.
8. Foreign partner / local cooperation: A reliable local partner; intellectual property rights; clear definition of responsibilities.
9. Geopolitical risks: Current and possible new sanction scenarios; the country's foreign relations. Internal risks (regulatory changes, permit revocations).
10. Exit strategy: Business transfer; guarantee mechanisms (arbitration, international law, insurance, etc.).

Sectoral Opportunities for Investors

Navigating the Russian market in 2026 requires a blend of strategic patience and a keen eye for the "vacuum" left by departing Western firms. While the geopolitical landscape remains complex, the shift toward import substitution and pivoting to Eastern markets has opened specific niches for investors, particularly those from the BRICS+ block and "friendly" jurisdictions.

It is important to remember that the market is currently split into "friendly" and "unfriendly" jurisdictions. Investors from "friendly" nations (such as China, India, UAE, and Turkey) enjoy a smoother regulatory path, easier profit repatriation, and more favorable tax treatments. We can make a breakdown of the sectoral opportunities currently shaping the Russian economy with high potential for foreign investors in Russia:

Agribusiness and Food Processing

This is currently the highest-priority sector, highlighted by the launch of a pilot project for a Russian-Chinese agro-industrial park in Primorsky Krai. The goal is to create a full-fledged industrial cluster, including opportunities in crop farming, food processing plants, and associated infrastructure like grain terminals. While Russia is already a global leader in raw grain exports, the real opportunity now lies in value-added processing, such as converting crops into oils, starches, and animal feed components. Additionally, the Ag-Tech sector is seeking innovations in automated farming and genetic seed research to increase yields. To support this growth, there is substantial demand for cold chain logistics, including modern refrigerated warehouses and transportation networks to reduce waste across the country's vast geography.

High-Tech Manufacturing / Machinery and Industrial Import Substitution

Russia is actively seeking partners to move beyond raw material exports and develop its manufacturing base. There is a specific call from the

government for collaboration in high-tech manufacturing, with joint projects to manufacture equipment for the mining industry and agriculture explicitly mentioned as desirable. This aligns with Russia's goal of turning the Far East into a manufacturing hub for the Asia-Pacific region. Furthermore, the withdrawal of Western industrial giants has created a significant "localization" vacuum. Foreign investors now have the opportunity to establish production facilities for automotive components, ranging from electronic control units to specialized engine parts, which are essential for keeping the domestic fleet operational. Beyond automotive, there is a critical need for industrial machinery and precision tools that were once sourced from Europe. The chemical sector is equally ripe for investment, specifically in the production of high-grade catalysts, polymers, and specialty reagents that serve as the foundation for other manufacturing processes.

The Digital Frontier and Sovereign Technology

Russia is currently undergoing a massive migration toward technological sovereignty. This has created a high-growth environment for software developers who can provide robust ERP and CRM solutions to replace Western platforms. As the digital infrastructure becomes more localized, cybersecurity has become a top-tier priority, offering opportunities for firms that specialize in threat detection and data protection. Furthermore, the fintech sector continues to innovate rapidly, with a specific focus on developing cross-border payment systems and blockchain-based financial tools that can operate independently of global traditional banking networks.

Resource Extraction and Processing

Traditional sectors continue to attract the largest foreign capital flows. There are continued opportunities in oil and gas extraction and processing. Rich mineral deposits in the Far East present opportunities for extraction and, ideally, local deep processing to create higher-value products. Investment in chemical industry projects is also a major area of focus.

Logistics / Transportation and New Trade Corridors

Sector development is heavily supported by Russia's geographical proximity to major Asian markets, and the fundamental shift in trade routes from West to East and South has necessitated a complete overhaul of the country's logistical infrastructure. With the growth in trade, there is strong demand for investment in transportation and logistics projects to move goods efficiently. Significant capital is being directed toward the International North-South Transport Corridor (INSTC), which links Russia to Indian and Middle Eastern markets via Iran. There are also growing opportunities in developing the Northern Sea Route, which requires Arctic-grade equipment and port infrastructure. Domestically, there is a persistent shortage of Class A warehouse real estate in regional hubs, making the construction of modern distribution centers a high-yield prospect for real estate investors.

The Consumer Market and Retail Transition

The Russian consumer landscape has been completely reshaped, leaving "prime real estate" in shopping malls available for new entrants. Fashion and apparel brands from friendly jurisdictions can capture market share by filling the mid-to-high-end niches previously held by European labels. Similarly, the cosmetics and personal care industry is seeing a surge in demand for locally manufactured products that offer high quality without the logistical hurdles of parallel imports. Investors who can establish local branding and reliable supply chains for fast-moving consumer goods (FMCG) are finding an audience that is eager for new, reliable alternatives.

"Butterfly Effects" on the Axis of Investment and Time



In today's business world, the "butterfly effect" has become one of the fundamental realities of management science; a decision made in China can determine the future of a tech startup in California, while an attack on energy infrastructure in the Middle East can directly impact industrial production in Europe. This chain reaction, which requires companies to make their strategic planning not only profit-focused but also "resilience-focused," results in a constantly changing global risk list, yet the fundamental dynamic remains the same: It is no longer possible to read the world from a single center.

In this new order, where every crisis triggers another and every regional tension creates a global wave, the 21st-century businessperson must read not only their own market but the entire world like a chessboard. Because that butterfly is no longer just flapping its wings; it's creating hurricanes.

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As one of the largest oil, natural gas, and mineral producers, Russia is a world leader in hydrocarbons and rare elements. With a population exceeding 140 million and a growing middle class, Russia is creating a strong market, especially in cities like Moscow and St. Petersburg, and offers attractive opportunities to investors in consumer goods and service sectors, alongside the rapid growth experienced in recent years in technology, agriculture, and manufacturing sectors.

The geopolitical tensions we are in require looking at the past, present, and future from a political spectrum. In the 2000s, major producers like Ford from the US, French Renault, German Volkswagen and Mercedes-Benz, Japan's Toyota and Nissan, and South Korea's Hyundai established local production facilities in Russia with great confidence. They were exuberant years. The 2010s saw import substitution, a mortgage, housing, and infrastructure construction boom, international

sports events (Universiade, Olympics, World Cup), and major regional developments.

It was on the eve of the pandemic and hysterical sanctions...

The electric vehicle sector was developing at a dizzying pace, with everyone trying to secure their place in the game. They were the years when China's price/benefit and technological superiority began to dominate not only Russia but Europe itself.

Then, the Russia-NATO conflict escalated...

This time, while the defense industry came to the fore, regions like Kurgan and Sverdlovsk gained momentum; regions like Kemerovo faced crises as coal exports declined. Who could have predicted in 2017, when Chinese Haval established a factory in Tula, next to the automotive giants in Kaluga, that it would dominate the Russian market in 2024?

Who could have known that when Chinese Haval started its factory in Tula, it would become number two in Russia?

Dossiers like Europe, the US, Syria, Crimea, Abkhazia, and Ukraine, along with oil, gas, and pipeline projects developed with China, Turkey, the Middle East, Shanghai, BRICS, and Iran, were reshaping the country's monetary, budgetary, and economic policies alongside its diplomatic choices.

Let's come to today... Moscow's modernization over the last decade has become a vital symbol for the country's international image. Among the new generation, under the influence of a local culture contrary to the global mainstream; revival in education, internet, cinema, animation industry, and show business has gained dizzying speed. A strong reading habit and a powerful wave of patriotism (patriotism) have also risen as a new social trend.

Structural reforms continue in areas like education, health, and banking; the tax office, ministries, and the Central Bank are developing new strategies with the courage to question themselves. Digital legal reforms simplifying bureaucratic processes for foreign investors have become a

frequent topic. Despite the constant debate about its objectivity, Russia ranks 35th in the World Bank's "Doing Business" index.

Ruble fluctuations (Volatility) appear to be under control. While monetary policy receives criticism in some heterogeneous segments, it positively affects the risk perception of both local and international investors.



Since 2014, and especially after 2022, the presence of China, India, and Turkey has increased remarkably along the line of mutual benefit, and the trade volume between Turkey and Russia has challenged record levels, proving the economic integration of the two countries.

As a result of e-commerce and supply chain needs, as in the whole world, the tendency towards warehouse and logistics areas in Russia is also notable.

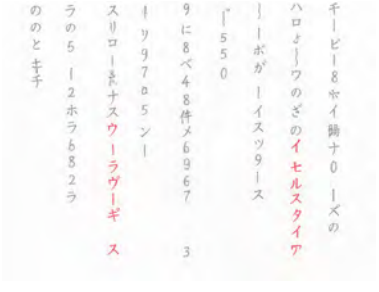
Among active foreign investors in Russia, China, Germany, France, Turkey, and Middle Eastern countries stand out. China is making investments, particularly in energy, infrastructure, and technology sectors.

Germany focuses on construction materials, equipment, chemicals, and the automotive sector. While France is active in retail, Turkey has taken on a strong role in the construction and trade sectors. Middle Eastern countries, meanwhile, have shown increasing interest in tourism and agricultural investments alongside energy projects in recent years. According to Forbes, Russia managed to rebuild its tourism sector despite sanctions; especially tourists from Asia and the Middle East. It became a vehicle for Russia's "soft power" policy. Considering the chasm in scale, if tourism revenues soon reach Turkey's values from massive China and the high-income Arab world, it should not be surprising at all.



China, India, and Middle Eastern countries, whose interest in the oil and gas sector increases every day, concentrate their activities primarily on upstream (extraction) and downstream (refining) processes. The most concrete example of this strategic orientation is China's critical investments in the 'Power of Siberia' gas pipeline, a massive step in ensuring its energy supply security.

Russia, with the world's richest reserves in gold, diamonds, and rare earth metals, has always been an active area of interest for mining companies from the USA, South Africa, and Canada. We must admit that this interest continues today despite all political tensions.



China and Turkey are the two prominent countries in the supply of industrial machinery and heavy equipment. Similarly, although firms of German origin played a decisive role in the construction materials sector in the past, Russian, Chinese, and Turkish firms have become increasingly active in this field recently.

The chemical and fertilizer industry is one of the areas where Russia is traditionally strong. Investments from the Middle East have been directed particularly towards petrochemical and fertilizer production facilities. This sector holds a significant share in the country's export revenues and shows a stable growth trend thanks to its close relationship with energy.

In information technology and software sectors, US-based firms held a strong position for a long period before sanctions, while today Russia has shifted towards its own solutions and cooperation with Asian companies with its high-quality engineering capacity. Firms from China and South Korea, in particular, are increasing their investments in artificial intelligence, cybersecurity, and big data. The maturation of e-commerce and the Russian digital trade ecosystem within itself appears to be complete. While foreign participation is limited in the

telecommunications field due to national security reasons, infrastructure development and equipment production collaborations with Europe and Asia continue.



Agriculture and the food industry are another area where foreign capital shows long-term interest. Russia's vast and fertile lands offer attractive opportunities for Chinese and Middle Eastern investors. Grain, meat, and dairy processing plants are the focus of foreign investments. While the initiatives of Turkish entrepreneurs in flour and sunflower oil fields haven't yielded the desired results, firms from Canada, France, and the USA still hold an effective position in deep processing technologies. Italian investments stand out in pasta production, while there are still gaps in dairy culture production.



The real estate sector is also an area where foreign investment is lively in Russia. Investors from Turkey, the UAE, and South Korea play active roles in real estate projects, particularly in shopping malls, office complexes, and hotel investments. Firms from China and Europe participate as strategic partners in railway construction and airport modernization projects.

In the financial services sector, Austrian, Italian, Dutch, Hungarian, and Turkish banks hold shares directly or through partnerships in Russian financial institutions and the banking sector. In the fintech field, Russia is considered one of the most developed countries in the world on its own.

In the retail sector, before the 2022 sanctions, Western chains like IKEA, Auchan, and Metro were very active; while some have become politicized, many German and French retailers continue their activities in different formats despite the hurdles. Chinese brands in electronics, especially Huawei and Xiaomi, have risen to a clear leading position in Russia.

Foreign investments in Russia show great variations depending on resource accessibility, industrial specialization, and regional economic strategies. The Central Federal District (Moscow and Surroundings) is the focus of finance, technology, real estate, and consumer goods; in this economic heart attracting the headquarters of international companies, European banks, Chinese tech companies, and Middle Eastern real estate investors are making keen investments.



For example, the Kaluga Regional administration was willing to forego 15% of its annual budget to persuade the "star" investor (Volkswagen) to come. Additionally, Volkswagen was exempted from the portions of land tax, property tax, and income tax that would normally be transferred to the regional budget.

State Supports in Industry

Realizing that it was impossible to present this broad subject comprehensively with our limited resources in one go, we decided we had no other chance but to unfold the topic step by step and systematically. At times, it would even be necessary to touch upon the socioeconomic and sometimes cultural aspects of the matter.

There is a famous anecdote: Someone once asked the American director Woody Allen, *"Have you read Tolstoy's famous 'War and Peace'?"*
Allen, in his characteristic style, said, *"I read it... I read it in 20 minutes... It was about Russia."*



This example is extremely important; because even today —whether from America, the East, or the West— the perspective on Russia has unfortunately changed little, it does not change. That immense depth is often not perceived.

Undoubtedly, the hardest task in the world is breaking prejudices. As someone who closely knows how these preconceptions create a great pathology in decision-making mechanisms, I think Russia now needs a meticulous public relations (PR) effort more than ever before.

The most difficult job in the world is **breaking prejudice.**

Still, I believe the ways to correct misconceptions pass through examining such deep issues.

Once, I was discussing early 20th-century writers with a friend. The conversation lengthened, moving to books that evoked each other, and from there to some existentialists remembered more for their philosopher identities than their literary work. As topics deepened, we noticed how these names influenced each other: Dostoevsky deeply influenced Kafka, Kafka influenced Camus, and Camus influenced Sartre. Our chat continued with other surprising links in this chain... The observations were so interesting that we reached this conclusion: *"Russia has a direct influence on the establishment of Europe's 20th-century political and economic structure, on the writing of modern European history; it is even one of the lead actors."*



Even if we were to leave the answer to these difficult questions to sociologists, we couldn't help ourselves; we decided, as representatives of a generation that has passed 20 years, to also make a video on this interesting topic.[3]

Russia is a vast geography; a country as large as it is deep. The most important diplomatic player on the Pacific-Baltic axis. Although it does

—

[3] Russian Literature and Dostoevsky in Today's Russia: youtu.be/pIy-m5D0MUg

not appear to be a massive economic power mathematically, it is an extremely strategic and effective *"game player."*

Now, let's talk a bit about the changing world and economic policy specifically regarding Russia.

Global accounting and financial standards were shaped by the post-1946 world order. However, the oil crisis of the late 1970s pushed countries to search for a new model, giving birth to "neoliberal economy" policies in the 1980s. With the impact of digitization, these rules were turning into an unshakeable status quo, beyond debate by the early 2000s.

But something was going wrong. The shocks following the liquidity abundance of the 2000s, especially from 2010 onwards, clearly revealed that this system was no longer functional. As the problem became chronic, turning into a societal *'learned helplessness*', it created deep unrest among the masses. Fighting these structures without alternatives and living with endless crises had become the 'new normal.' This pathology enveloping the entire world economy over time transformed our habits unquestioningly. I always explain its most striking example: "While a European citizen could once purchase a vacation package three years in advance, today they cannot even plan a month ahead."

Global pains were now intensifying every decade. There were two large countries carefully watching what was happening from the East, with binoculars in hand... China and Russia developed their own economic policies aiming to turn the embargoes brought by trade wars into opportunities. We will call this controlled and cautious "state capitalism" under the state umbrella. It didn't resemble those fragile experiments post-1945 at all.

The success of these new actors, growing quietly but decisively, was also strikingly evident in the numbers: Between 2000-2024, within G20 countries, the top six positions in per capita GDP increase were achieved by: China with 1273%, Russia with 740%, Indonesia with 545%, India with 509%, Turkey with 269%, and S. Arabia with 199%.[4]

Where Do Industrial Projects Fit Into This?

States' policies of increasing industrial capacity through incentives are a traditional method dating back to ancient times. It is similar in almost all countries worldwide.

The fundamental aim of these incentives is actually quite clear: to create employment, to increase the volume of the economy. In other words, to grow GDP, to increase tax revenues, and to establish organized, planned, tidy industrial zones.

These seemingly complex incentive programs in Russia are applied in three main forms:

1. Infrastructure and Land Support — The state builds the infrastructure the investor needs or virtually grants the land.
2. Low-Interest Loans — Especially provides liquidity ease in the initial phase of the investment.
3. Tax Advantages — Exemption or reduction from certain taxes is granted for a specific period after production begins.

The most popular investment zones and platforms in Russia are Special Economic Zones (ОЭЗ), Industrial Parks (Endüstri Parkları), and Territories of Advanced Socio-Economic Development (ТОСЭР).

Russia recently launched the International Advanced Development Zones (IADs) on January 1, 2026. The first IADs are being established in five regions: Primorsky Krai, Khabarovsk Krai, Amur Oblast, Zabaikalsky Krai, and the Jewish Autonomous Oblast. These zones are specifically designed for foreign investors and offer a highly competitive benefits package with a 0% corporate profit tax benefits for the first 10 years, which the tax and regulatory conditions are guaranteed to remain unchanged for the entire project lifecycle, up to 15 years.

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[4] World Bank data. data.worldbank.org/country

Special Economic Zones (ОЭЗ)

In Russia, there are four types of Special Economic Zones: tourism, port, technical innovation, and industrial. Since our subject is industrial investments, we will focus on industrial (endüstriyel) type special zones. There are currently 9 industrial-type special economic zones in Russia. Among the most popular, i.e., the most in-demand, are Alabuga, Kaluga, Lipetsk, Tula, and a few newly opened SEZs around Moscow (e.g. 'Technopolis Moscow'). Of course, it's not limited to these. The right zone should be chosen based on the supply chain and customer structure of the business. These zones offer "ready-to-go" infrastructure and significant tax holidays that can drastically lower the entry barrier.

Industrial Parks (Индустриальный парк)

Industrial parks are production zones with prepared infrastructure under the Ministry of Industry and Trade. Tax advantages and investment facilities are also provided here, but the difference from special economic zones is this: These are not customs areas; they primarily target local investors and suppliers focused on production.

ТОСЭР, Regional Investment Projects, and Monogorod Regions

Another type of incentivized area is ТОСЭР zones, meaning "Territories of Priority Socio-Economic Development." Therefore, firms investing here benefit from very special and surprisingly significant advantages, including tax, insurance, credit, and infrastructure facilities.

First, we should mention tax rates, which are the determinant of the financial model, i.e., the mathematics of the investment.

Tax Incentives

Tax incentives are one of the most critical elements directly affecting our investment's payback period. These items are very important, and we don't need to be expert financiers to calculate them. Because, at the end of the day, these incentives determine the net cash amount coming out of our pocket.

The Tax System is basically grouped under five main headings: VAT (22%), Corporate Tax (25%), Property and Land Taxes, Social Security Contributions, and Transportation and Customs Duties.

VAT, when operating in an incentivized zone; import transactions are carried out without VAT payment, regardless of whether equipment is sourced from the local market or abroad. Additionally, VAT exemption is applied for sales made within the boundaries of the special economic zone.

Special advantages like fast, simplified customs procedures and reduced bureaucracy are offered for raw materials, equipment, and components imported into Free Zones.

Corporate Tax, normally applied at 25%, can be reduced to as low as 2% depending on the chosen zone and the incentive program joined. For strategic and long-term investments, the possibility of complete exemption from this tax for a certain period is provided.

Social Insurance and Other Incentives, especially in specially statused zones like TOSER (ТОСЭР), the social insurance contribution burden of 30% is reduced to as low as 7.6%. This situation is considered a significant cost advantage for investors, especially in labor-intensive sectors with high personnel numbers.

Special Incentive Agreements

Actually, the functioning of all these incentives is based on special agreements made between the state and the investor. Some of these are signed directly with special economic zones (ОЭЗ), while others like RIP, FRP, Made in Russia, SZPK, KPPK, MSP, or the Agriculture Ministry's low-interest loan programs are applied at the regional or sectoral level.

Companies in technology-focused SEZs can benefit from R&D subsidies along with state grants and funds. Russian financial institutions offer investors low-interest, long-term machinery leasing or construction and infrastructure financing options.

Also, subsidizing logistics costs in exports is a widely used method. For example, it supports up to 80% of transportation expenses and 25% of the export goods' value. Depending on the goods and route, most firms use rates of 60% and 25% from the state, respectively.

SPIC (Специальный инвестиционный контракт)

This system, whose second version (2.0) also entered into force in recent years, aims to bring modern production technologies to the country. It provides long-term tax exemptions and customs facilities to investors operating in certain sectors and product groups. The closest example is the German - Mercedes-Benz factory successfully completed by a Turkish construction contractor in Moscow / Esipovo.

Made in Russia: Provides priority in public tenders and supply chains by granting local producer status.

KPPK: Offers low-interest financing support down to 4.5% for export-oriented projects.

MSP: Provides guarantee and low-interest loan support for SMEs.

FRP (Industry Development Fund): Finances not construction, but equipment purchases at interest rates between 1–5%.

SZPK: Protects against geopolitical uncertainties by legally guaranteeing investor rights.

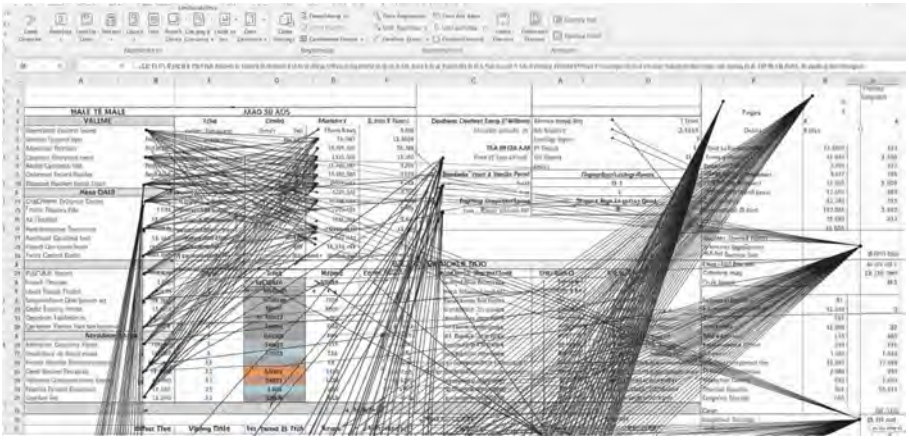
A sharp and striking business plan and its financial model presented to the state are the key to all these incentives. Although this complex picture and files may seem a bit distant to some of us, we must not forget: "The devil is in the details."

**

I never forget, once a Colombian investor for his project in Russia had a financial model prepared by one of the world's famous five consulting firms, which he would proudly mention at every opportunity, having paid 300,000 euros for it...

When the model came before us for loan analysis, we understood we couldn't navigate the labyrinth of Excel cells, we couldn't grasp the project and the essence of the business. Finally, we couldn't resist and gave up. We contacted them. We listed our questions.

The next day, expecting a reasonable answer to our questions, a confession like black humor came from the other side! "Believe me, even we can't fully solve and control those formulas anymore."



Then, upon hearing a global PwC research, we learned a hidden rule about the consulting sector: They say, "The thicker the report and the more complex the financial model, the higher the price." And they added: "90% of financial models and budget studies are seriously and fatally flawed, 60% are built on wrong data, and 70% have no one checking them within the firm!"

Yet the basic purpose of these tables was to benefit us. In the end, what the state, banks, and we as investors would look at when making decisions was very simple: "Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period."

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Financial modeling is a critical matter in the business world that should not be underestimated. From bank loans to state incentives, even to the auditing of our contractual obligations, these tables are accepted as the

fundamental reference point at every stage. A "performance commitment" is a roadmap for our own business.

Some current state audit reports show that only 33% of investors in special economic zones today remain faithful to the model they initially presented. Failure to fulfill given commitments carries the risk of facing judicial authorities like the Audit Office, tax offices, and even the prosecutor's office in the future.[5]

The state and tax offices are hunters of weaknesses in the system. They know us better than we know ourselves. They don't immediately exploit these weaknesses but keep the cards in their hands. There's nothing wrong with this; the nature of the state has been so from ancient Rome to today. I liken it to the initiative a traffic police officer can find in a driver if they wish.

**

Recently, I asked a question to a friend who is the executive manager of one of Russia's oldest and largest construction firms:

"For years, we've both been here", I said.

"Despite the culture of paying advances before receiving a service or goods here, have you ever seen a Russian subcontractor or supplier not keep their word?... It has never happened to me", I said.

He looked up, thought long and hard. *"Yeah, it really never has"* he said. After a brief pause, he corrected one exception: *"It happened once; but that wasn't from the other side, it was entirely due to our own negligence"*.

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[5] The state periodically monitors (monitors) the incentives it provides with execution bodies in a strict discipline.

From the early 2000s until 2008, when liquidity was abundant, Turkish entrepreneurs sympathetic to Russia showed great interest, especially in the part of Russia considered European geography, specifically the Alabuga Special Economic Zone in the Republic of Tataristan. The initial emotional preferences over time aimed to strengthen with real industrial investments and transform into a *"cluster" structure*.[6] The region grew, developed, and enriched with strong socio-cultural bonds over time. Political and economic defense mechanisms during crises gave confidence to investors. For a long time, it was among the "top three most successful Special Economic Zones" in Russia.

The investor becomes a part and guarantor not only at the beginning but throughout the entire life of the process. Looking from this perspective, we lean back in our chairs and realize that the state also sees the investor not as a *"short-term guest"* but as an *"economic partner."*

When experts talk about the increase or decrease of foreign investments in a country, they often mislead those around them by speaking in terms of amount or money. Actually, the two basic indicators to look at are the number of projects and the average project size. That is, the total investment amount should be divided by the average project budget. Otherwise, an expression like "last year it was 3 billion dollars, this year it's 4 billion dollars" could mean a 33% increase, but upon closer inspection, perhaps there were 10 projects last year and only 2 projects this year.

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[6] In industry, a "Cluster" is a network or ecosystem formed by interconnected companies, specialized suppliers, service providers, research institutions (universities), and related organizations (associations, foundations) concentrated in the same geographical region, operating in a specific sector, both in competition and cooperation with each other. The basic idea is that being together will create much more competitive advantage and efficiency than being separate.

Small and medium-scale Turkish investors in Russia have over time presented successful examples, especially in food processing, packaging, construction materials, machine parts, and plastic sectors. Today, it is seen that the number of active Turkish firms in Russia does not lag behind the French and German firms expressed in thousands.

It was the final months of 2019. Friends from the Association of European Businesses requested that we organize a seminar on *"Osobaya Ekonomicheskaya Zona"* — meaning Special Economic Zones — a topic frequently discussed in the market but not fully understood. Their only request: The subject should be stripped of technical details and presented in a popular language that everyone could understand.

"Good is simple, while evil is multifaceted."
— Aristotle

I was excited... Motivated at that moment, I said, *"Okay! I'll even sponsor the event."*

Within a few weeks, we quickly took action. We included the official managing this process on the state side and our business partner providing legal support to foreign investors in the team. As the date approached and interest, participant numbers, and diversity increased, it became clear we needed to make the content even simpler. We wouldn't exceed one academic hour in total...



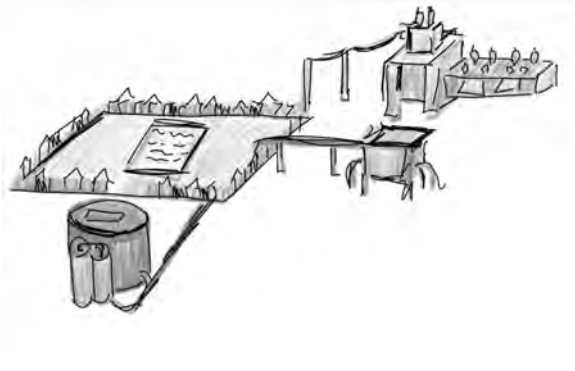
Finally, the day came. They were months when the pandemic hadn't yet halted life, and face-to-face communication was still possible. Participation was excellent; moreover, leading names in the sector, whom we hadn't predicted, were also in the hall. Before the presentation, I was motivating myself in my mind: *"Simple is good, complexity tires."*

For a person to explain a technical subject in a simplified manner in a language that is

not their mother tongue is a serious test. Moreover, the presentation language was not Russian, but English.

Despite all these difficulties, the result was great. What remained in my memory from that day: Instead of a boring format merely giving information, to keep attention alive, I explained the matter entirely through "investor psychology" and with examples.[7] In fact, this is also the inspiration and method of this book.

Special Economic Zones are the same as their counterparts in the world. They provide investors with customs, tax, infrastructure, and land advantages, and offer exporters VAT exemptions and supply chain facilities.



However, there is a frequent conceptual confusion: Is it *"Free" or "Special"?* Free Zones are a type of Special Economic Zones. Actually, "Free Zone" is the commercial name of the business. Its English is Special Economic Zone (SEZ), its Russian is Osobaya Ekonomicheskaya Zona (ОЭЗ), in the simplest definition, it refers to zones that provide tax advantages especially to increase exports. The pioneers of the model are Manchester, Singapore, and Munich.

So, the state's gain in return for incentives is employment, tax revenue, and regional development. The investor's gain is benefiting from the surrounding supplier-customer chain. This creates a beehive effect. They benefit from low-interest loans, improve cash flow thanks to income tax and customs exemptions, and increase competitiveness.

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[7] For the video: Special Economic Zones: A to Z https://youtu.be/qJNIFYj6X2Q

The state says, *"I am allocating the land and infrastructure free of charge. I am exempting you from income tax, VAT, and customs duties; just produce."*

The investor, responding, *"Okay, I want to benefit from these exemptions"*, applies for resident status. In the Business plan, they specify what and how they will produce.

What if the Investor Doesn't Keep Their Word? As in every commercial interaction, the basis of the process in special economic zones is a contract signed by the parties. Production begins and the mutual benefit process goes into effect. Generally, in industrial investment projects, the payback period varies between 5 and 7 years in an average scenario. Throughout this entire period, the investor is expected to fulfill the obligations initially agreed upon.

As an engineer who knows from experience the importance of seeing things in the field, I stubbornly visited almost all major free zones at one time. That wasn't enough; I also compared them on-site with their counterparts in Turkey, Uzbekistan, and Kazakhstan. My fundamental observation in all the free zones I visited was that clustering (cluster) was the primary motivation source for investors. That is, reliable suppliers, buyers, sellers, personnel, and administrative harmony were very important. The state was enticing investors with the ideas of "Neighbor buys from neighbor" and a "comfort zone." That's why in this section, we addressed the "where" and "why" questions.

Now, let's try to transition from theoretical knowledge to field practice by mentioning a very striking place with a special place in Turkish-Russian industrialist practice.

A Strong Example from Turkey - Gebze

Years ago, an urgent request came to one of my former managers. The request was coming from what is today President Putin's primary economic advisor. They were asked to tour and explain Turkey's most developed organized industrial zone.

Gebze was a star back then too...

He still tells how they were impressed with the good impressions from that enjoyable tour I couldn't attend. Yes, the Gebze Organized Industrial Zone (GOSB) holds special importance for Russia. Later, in different periods, delegations consisting of Russia's highest-level officials frequently visited this zone.

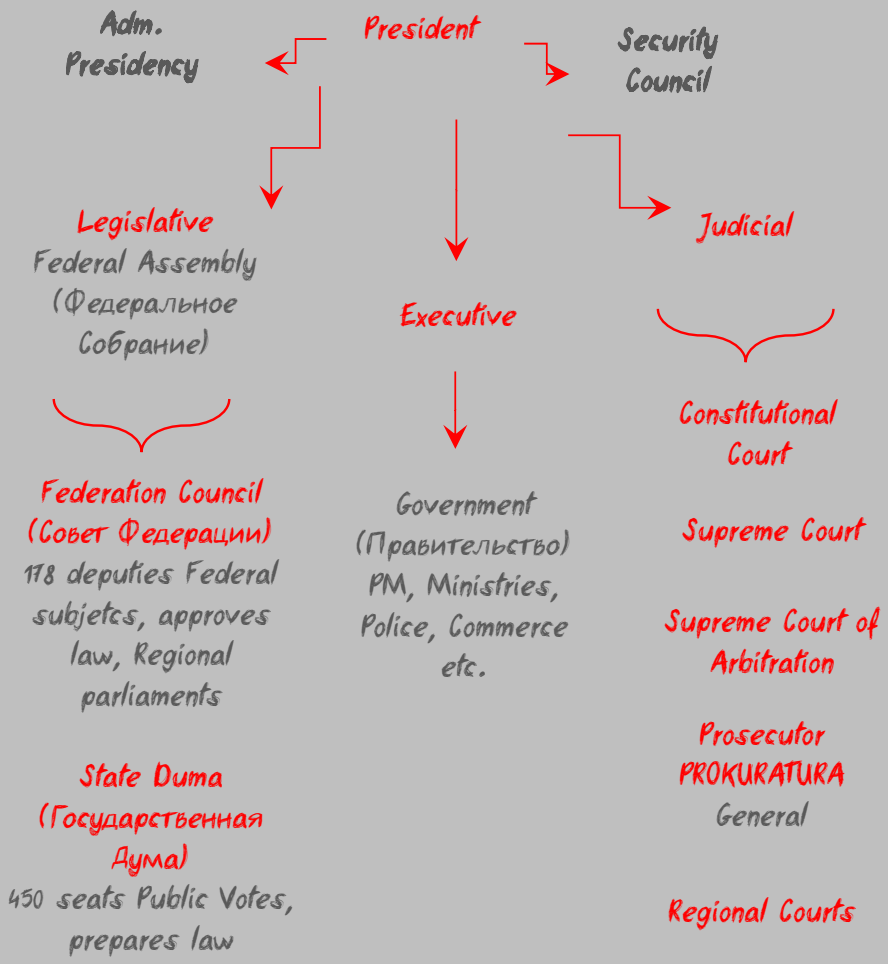
Established in 1986, GOSB is one of Turkey's most important and largest organized industrial zones. The total investment amount of firms in the region is 30 billion USD, and the annual export volume exceeds 15 billion USD.

GOSB, providing employment to over 60,000 people, is located right in the middle of two giant industrial and population centers like Istanbul and Kocaeli. In addition to road advantages, it is also at a reasonable distance from Istanbul Airport and Sabiha Gökçen Airport.

One of the region's most striking features is providing firms with uninterrupted, cheap electrical energy thanks to the GOSB Natural Gas Combined Cycle Power Plant. It has an installed capacity of 157 MW. It alone uses approximately 2.5% of Turkey's total industrial electricity consumption.

Over 300 firms from many sectors such as automotive, chemicals, plastics, machine manufacturing, food, electronics, and pharmaceuticals operate in the zone. Leading Turkish and world companies like Ford Otosan, BASF, Aygaz, Brisa, Coca-Cola, Ülker, and Pakmaya are located in GOSB.

RUSSIAN FEDERATION STATE





From Theory to Practice

Technology genius Steve Jobs has a legendary two-minute speech about consultants who intervene with a 'know-it-all' attitude from the outside regarding company operations or the future of an investment.[1] Jobs vehemently criticizes getting involved in a process without fully engaging in the work, taking responsibility for the results, and most importantly, without getting *'scar tissue'*. Without being personally inside a job, without ever tasting it, without feeling its three-dimensional depth, like just a picture of a banana or a peach hanging on the wall, you can never know the real texture and the bitter-sweet experience of that work. Real value can only be created by owning it for years; by falling and getting up in the process and with every scar incurred. "Superficial advice given from the outside can never reach this depth," he says.

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[1] In his famous 1995 speech at MIT where he argued that "the nature of the consulting profession is inherently deficient," Steve Jobs says, "You learn a very tiny fraction of what you can learn without truly taking ownership of the results, without being the owner of the implementation, and without living the consequences of the advice for years." He champions the idea that "Real learning develops by learning from mistakes, getting up after falling, and accumulating that 'scar tissue'."

Going into the Field... Now it's time to transition to a new section.

Industrialists prefer to talk real and concrete. While we know the vital importance of field matters; we advocate that we must also shoulder law and mathematics on our other shoulder, and never detach from this approach throughout the entire process.

This situation brings to mind that famous story circulating from tongue to tongue: That factory, whose foundations were laid with great excitement, construction work completed rapidly within a few years, ribbons cut, but then submerged in a strange and suffocating silence... Those facilities waiting for a natural gas line to be extended to their factory for years instead of flipping the switch for production...

Unfortunately, the only solution to such infrastructure problems often encountered in the end is to make multilateral, solid, and binding agreements with all relevant institutions (energy, water, road, etc.) when the project is still at its earliest stages. Success comes not only from building but from ensuring, within the framework of laws and rules from the start, the infrastructure that will give life to that construction.



Today, tensions along the vertical axis stretching from the Baltics to the Mediterranean undoubtedly challenge every sector. This situation pushes companies into new searches to minimize the effects of the crisis. While companies that can adapt their management systems and supply chains to *"new normals"* survive; the daily operations of an overwhelming majority are spent trying to put out fires.

This giant group of businessmen and industrialists in question today needs a strategic and real perspective more than ever. With the addition of post-pandemic logistics crises, protectionist policies, and nationalist economic reflexes, the equation before the investor becomes even more complex. Our fundamental aim in this book was precisely to fill the gap arising for these reasons.

Let's clear the blurriness of our lens a bit.

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As we said at the beginning of the book, our counterpart is the industrialist who processes raw materials to produce finished goods. When production is mentioned, the first concept that comes to mind is, of course, *"cost inputs"*. In the manufacturing sector, these inputs are grouped under three main headings: Raw Materials. Energy and Labor.

> *Contracts on paper are important, but without execution, they are worthless. What leads projects to success is not just good planning, but the capacity to implement these plans in a flexible, realistic, and meticulous manner.*



As an example, let's look at the main focus area being the food sector, specifically sunflower oil or wheat flour. These items are typical products of the integrated state strategy that, with agricultural modernization and farmer funding, has propelled Russia to world leadership in many crops. This successful agricultural policy implemented by Russia over the last 15 years has made the country an export champion, especially in wheat and sunflower oil. Approximately 40% of wheat production in Russia takes place in the southwestern regions of Krasnodar, Rostov, and Stavropol.

Ah, the Black Sea…[2]

The recent tensions in the region have clearly shown us that Russia's two lifelines to the world are the Baltic and the Black Sea. The Black Sea is Turkey's gateway to the north and Russia's gateway to the world.

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[2] This text is a largely updated and adapted version of our article published in "Miller" magazine in January 2023. millermagazine.com/dergi/sayi134/

More importantly, while 60% of general grain exports are provided from these regions; 87% of total grain is exported by sea, and 81% of this volume is handled by Black Sea ports.



Therefore, the vital importance of the Black Sea for Russia has increased manifold. In this multi-variable equation, the performance Turkey displays with its mediator role is of a nature that will change the medium-term conjuncture.

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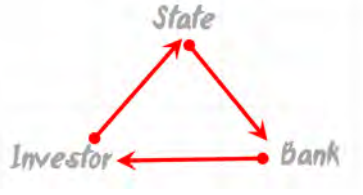
In the triangle of State, Investor, and Bank, the success of an investment depends on the management of the following 7 fundamental risks:



1. Technical: Equipment and technology.
2. Legal: Corporate structure, permits, and legal obstacles.
3. Budget: Soundness of projected costs.
4. Financial Model: Balance of cost and sales.
5. Macroeconomics: Exchange rates and economic fluctuations.
6. Raw Materials: Supply security.
7. Sales: Guarantee of buyer channels.

If an industrialist wants to see the final product as soon as possible, they must personally follow these risks within Russian realities through "high-level piloting." As for us, since we claim to guide, we are obliged to chart the route of this piloting clearly in advance.

A few years ago, noticing the deficiency on this topic in the annually published *"How To Invest in Russia"* magazine, we developed a simplified analysis model we called *"Four Squares."*[3] Our aim was to break down complex elements like location, tax, interest, and infrastructure into parts and bring together the practical counterparts of indicators like PI, IRR, and NPV in one graph.

To give flesh and bones to this theoretical framework, we prepared a simulation of a medium-sized production facility with a 10 million USD budget, on a 2 Ha land plot with a 10,000 m² area, consuming 1.5 MWt of power. In this model structured with 25-75% equity/bank credit, we analyzed feasibility assuming 15% EBITDA.

This study, highlighting the massive effects small manipulations in Excel had on the financial model, made a big impact at the time. It still remains the only example in its field.





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[3] This article was published in the prestigious annual publication of the Association of European Businesses (AEB), 'How to Invest in Russia' magazine.

mondef.ru/publications.html

The most striking result of our simulations, however, is: Instead of drowning in complex procedures, focusing on "Income Tax Reduction" and "Low Interest" are the two main factors that most accelerate the investment's payback. Especially when the interest rate effect is so critical, for an investor to lose focus in secondary details is a mathematical error.

**

Today, putting aside the geopolitical veil of fog we hope will dissipate soon, we must ask ourselves the question, *"What do mathematics and time indicate to us?"* The customs and logistics burden of importing raw materials from Russia, combined with other cost inputs in other countries, clarifies the picture: *Producing at the source.*

Waiting at this historic turning point in relations creates an *"opportunity cost" (opportunity loss)* that is difficult to compensate for.

Now, it's time to see with stories how these theoretical and mathematical inferences come to life in the field…

Part II

25 Case Studies



I Produce Electricity, But I Can't Sell It.

We were working with a Bolivian investor who produced plastic interior parts and complex components for the automotive and white goods sectors, holding a dominant market share. The firm, having already proven itself over the years with its reputation and product range, had decided to expand its facilities.

A few months later, equipment design for high-tonnage plastic injection lines from an US global manufacturer were on our desk. We immediately began technical analyses and planning processes.

However, as the analyses deepened, an insurmountable infrastructure obstacle appeared before the project: Our existing installed electrical power could not handle the capacity required by this new equipment, and no such energy surplus existed in the region in general. Bringing electricity from the nearest line 2 kilometers away cost almost as much as the equipment themselves.

At this very point, that famous "Russian reflex" kicked in: *Instead of bringing electricity from outside, to generate our own energy from our existing high-pressure natural gas line.* The plan seemed quite rational and profitable. The produced energy would feed the factory's injection lines during the day, and at night, it would be sold to the local population, which was already suffering from energy shortages. Our preliminary feasibility calculations were flawless on paper. Profitability

was so good that this investment would pay for itself quickly. Now we would have our *"own electricity"* too.

We contacted manufacturers offering turnkey solutions for a power need around 800 kW. A few quick comparisons and references directed us to an Argentine firm with a 4 million Euro budget.

Our Russian solution partner quickly prepared a preliminary design. He personally obtained the necessary pre-approvals from the gas and electricity administrations. After a hefty advance payment, the four-month production process was completed, and the *"ready for shipment"* news arrived. Meanwhile, we were feverishly preparing the construction site where the massive generators and control panels would be placed.

Finally, as promised, four truckloads of power plant equipment arrived at the site. To be honest, the system we faced was much bigger and more advanced than we expected.

After a three-week intensive installation process, the commission for approvals was invited. Permits were obtained, and the gas line was connected to the system. After successfully completed tests, the ribbon was cut; our plant was now producing its own energy.

Our financial model was clear: It would be used in energy production lines during the 12-hour daytime shift; during the night hours when the machines were idle, electricity would be sold to the surrounding population at a reasonable profit margin. Prices for the local population were more favorable than the existing grid, so we had no concerns on the demand side.

However, when operations started, we hit an unexpected bureaucratic wall: The local administration simply would not give official approval for electricity sales.

The legal framework and cumbersome bureaucracy couldn't be overcome. Despite months passing, our energy station, a multi-million investment, was *"resting"* with idle capacity at night, spending its potential payback hours empty.

In a normal industrial investment, machinery-equipment constitutes 60% of the budget. Similarly, this power plant had cost 20% of our total project budget, excluding the other manufacturing machines. We had aimed to recover half of this cost quickly through night sales. But the scenario wasn't going as planned, and we were making no progress.

At the end of nine months, we faced the bitter truth: *Because of this idle capacity (10%), the model had collapsed.*

Why hadn't we initially signed an investment contract with every detail guaranteed by the state?

Who knows...

INVESTOR'S REPORT CARD

☑ Technical: Equipment installation and assembly successfully completed.

❌ Legal: Energy sales license and legal permits could not be obtained.

⚠ Budget: Equipment cost was projected, but idle capacity cost could not be calculated.

❌ Financial Model: Based on an unrealized "electricity sales" assumption.

— Macroeconomics: Neutral.

— Resource: Natural gas connection was available.

❌ Sales: Commercial sale of the generated electricity was not legally possible.

💡 Golden Rule: **"Don't flip the switch before you have the government's permit in your pocket."**



Hospital Medical Supplies

The world was bewildered under the shadow of the Covid-19 pandemic. Country economies had come to a standstill, the logistics networks of massive supply chains were paralyzed. As cities became acquainted with an unprecedented isolation in history; the words *"epidemic*" and *"pandemic"* had become ordinary words in daily language. Factories had shut down, demand had virtually evaporated. The balances of the market had changed so much that neither the buyer was the old buyer nor the seller the seller we knew...

In this environment where production had been cut off sharply, irregular demands that economists call *"heterogeneous"* had emerged, and a strange inflationary heating had begun in local markets. While states distributed social aid to their citizens on the condition they *"stay home"*, people had turned their backs on everything except food and basic necessities.

However, you can never tell who or when history's billiard balls will hit. Surprisingly, Turkey had shown a silent but massive performance in medical supply production over the last 20 years. It was breaking export records in many products, from syringes to medical sutures, from surgical scissors to serum; leaving its competitors behind with the *price/quality ratio* it achieved.

During that period, the health sector was in complete uncertainty. It was unknown how the virus would evolve in the human organism, and governments trying to create excess capacity were on alert for any demand shock.

It was summer months. Russian distributors, anticipating a major explosion in the domestic market after a slight relaxation, knocked on our door to find reliable suppliers from Turkey.

Without wasting time, we embarked on in-depth research. We contacted high-capacity and competent manufacturers in the cities like Trabzon, Konya, and Ankara, whose portfolios contained over 150 different products. Lists were obtained; compared with the price and quality specifications demanded in Russian state hospital tenders. The picture seemed flawless; everything was suitable for the nature of trade and extremely attractive.

Until we delved into the details with the Russian importers...

As the discussions deepened, the main obstacle came to light: The rigid bureaucracy of the Ministry of Health, which scrutinized each product as if with a magnifying glass. The necessary certification processes reached inaccessible levels both in terms of time and cost. Moreover, the state granted serious priority and price advantages to local producers in tenders. The prices of Turkish manufacturers mass-producing for the world were defeated by the mathematics of this protectionist equation. Although switching to a *"Made in Russia"* label was put on the table as an option, this was also far above the costs in Turkey.

Apparently, Russia was still keeping alive a doctrine from the Soviet era: To break external dependence in a strategic field like health, the system had already armored itself.

Furthermore, products from China had already "backed up" the region with both price and logistical advantages.

Racing against time was not possible.

While we were dealing with these logistical and bureaucratic labyrinths, a few months later, Russia would *announce to the world that it had found the first Covid-19 vaccine.* Immediately after, Europe and other countries made similar announcements one after another, as if waiting for this signal. The world had defeated the virus, at least psychologically.

And Russia announces its Covid vaccine to the world.

The market calmed down, the excitement subsided...

We were giving the bad news to the suppliers we were meeting with. Unfortunately, all attention had turned to the COVID vaccine. The preliminary agreements were being cancelled.

This time, everyone's eyes had turned to another unknown: *"vaccine mathematics."*



How to Take the Pulse of the Market...

Some believe the most intellectual actress in Hollywood is Natalie Portman, whom we've known from her films since her younger years. She shows a surprising performance with her selectivity and lifestyle. Once she said something like: *"My managers are constantly sending me to various seminars, trainings, courses. But over the years, I've noticed that the information and insight I get from people I meet at a cocktail party one evening gives me much more important information than a month-long training course I follow."*

**

Now, let's turn our gaze from New York to Moscow..

Whenever I recall the above quote, a friend of mine from here comes to mind. Our friend is unique in his own way, a smart person busy with his work. He has a successful growth curve. His most striking feature is that he spends almost all of his working hours sniffing out markets through acquaintances. Every time we meet, he constantly develops business like a walking newspaper with the gossip of who, where, when, how, what is doing what, and why. Then, he somehow connects those projects to himself. Let it be a lesson for those who neglect marketplace chats...

Communication and information networks are of vital importance, especially for state-supported loans. An investor aware of the importance of this intelligence for banks must also chase all kinds of market rumors to avoid giving any openings.

The most important of these for banks comes to the fore at the construction permit stage. Because the permit confirms that the project has passed many stages.[1] The zoning of the land, the details of the project, and the budget have been confirmed by many experts. The investor has taken a risk with his own equity resources and has had his trusted project approved by the state. This means the most crucial part of the famous 7 criteria the bank looks at has been completed.

The adventure of an Indian friend of ours in Russia is a lesson in this chain. He has been living in Russia for a long time. He is a well-known and liked person in the textile sector. He decides to transform his business, which deals in fabric trade, into button and zipper production, which he has been observing for a long time.

Our constant recommendation to investors undecided about location is that if they live in Moscow and love this city very much, they should not go more than 20 km beyond the MKAD (Moscow Ring Road). When we met, they had already found an attractive plot in an industrial park east of Moscow that precisely fit this criterion. The administration was bringing the infrastructure to the land boundary free of charge, with the condition of completion within 3 years. During this process, a symbolic rent was paid, and upon the opening of the facility, the land deed was transferred to the investor.

Our project, initially a 5,000 m² area, reached 10,000 m² as needs increased. Only three months had passed since the land agreement; for this capacity increase, we made a new application to the administration for additional power and allocation of the neighboring parcel. The permitting processes started from scratch, and another three months of ours melted away in this bureaucratic labyrinth.

During the preparation phase, we handed over the sketches and equipment layouts decided in India to a local designer we had agreed

with. Thinking all critical decisions had already been made, our belief that we would obtain the construction permit within six months was complete. *Hope dies last*.[2]

However, the calculations didn't match the reality. Although the design studio completed the basic drawings in three months, when it came to the technical details of the equipment lineup, things got stuck. These systems, which had no previous example in Russia; caused a technical traffic jam in vital issues like ventilation, fire safety, and treatment. A common language couldn't be found between Indian experts and Russian engineers; insistence on the details of every equipment in communication conducted through translators was driving the process to a deadlock.

Japanese and Turkish brands in machinery were in fierce competition. While Japanese equipment were 1.5 times more expensive, Turkish equipment stood out with flexibility and after-sales service advantages. Finally, we followed a hybrid strategy: From about 20 machinery items, we selected the best solutions from both countries. Dyes would come from India, polymers from Russia, semi-finished metal from Turkey.

While the technical deadlock continued, we initiated loan procedures. Meticulously prepared business plans with *"pessimistic, moderate, optimistic"* scenarios were presented to banks and administrations for subsidized loans, receiving very positive feedback. Market research was being conducted, experts were confirming our calculations.

"A brilliant idea, once everyone starts talking about it, means you've missed the train."

However, when we reached the 9th month, the project designer still hadn't adapted the equipment to Russian norms. The issue had turned into a tangled knot. While everyone was celebrating during the New Year holiday, we were plunged into deep thought with uncertainty. We had left a year behind. Land lease payments continued to be paid, and the banks were constantly questioning when the construction permit

would be issued. Our confidence was so high that we had already started preliminary preparations on-site and had even spent 10% of the budget.

In February, we made a radical decision. We decided to risk it and submit it for expert examination approval in its current state. When we reached the 15th month, the examination returned with a *"conditional approval"* for the equipment; it had serious criticisms, particularly regarding the treatment system. At the cost of increasing the budget by 20%, we transferred the treatment project to a local firm. In the end; with the area increase and treatment revision, our total budget exceeded the beginning by 50%.

Finally, in the 18th month, we obtained the construction permit. Our on-site expenditures had reached 15% of the budget. The banks' 30% equity requirement was on the table. Equipment manufacturers were waiting for advances, the construction company was waiting for news to sign. Everyone's eyes and ears were on the bank loan.

Right at this critical threshold, one morning we received shocking news. In another industrial park east of Moscow, an Italian investor had quietly set up a factory a bit smaller than ours but doing the same work, and had brought it to the opening stage.

When had they started, how had they obtained their permits so quickly? What had we missed?

Indeed, they took the first place in this niche sector. Moreover, since they manufactured their own equipment, they had easily eliminated technological and logistical risks and completed the investment entirely with equity. Our *"market gap"* argument, which we had convinced with great difficulty, disappeared with the first smoke from our competitors' factory chimney.

The factory opened and they became the market leader from day one. And we, in the 24th month, were watching this destruction with our limited capital exhausted. We had paid a very heavy price for neglecting to take the pulse of the sector not just at the desk; but in the field, in the bazaar, and in administrative corridors.

—

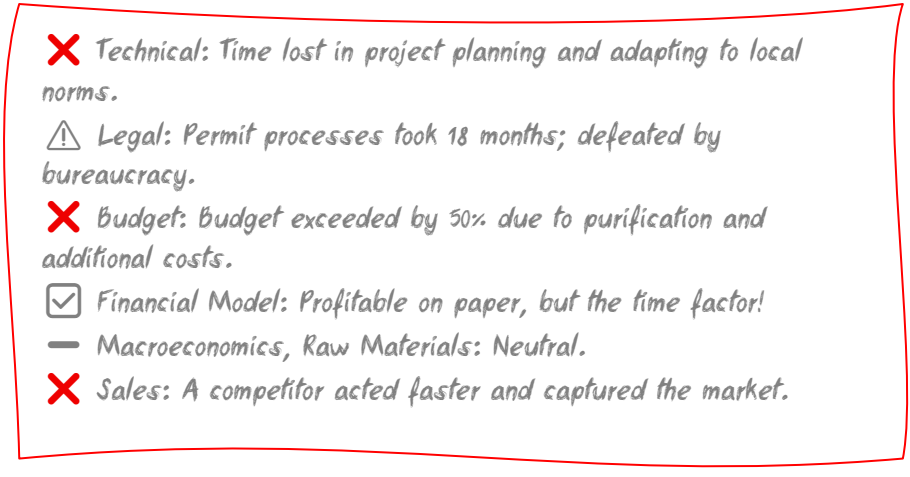
[1] In Russia, the standard procedure for the construction permit process consists of three main stages:

* Zoning Plan (GPZU): This is the city zoning plan information for the project. It explains what type of construction is permitted on the land and the restrictions. It is the most critical document before design.

* Project Approval (Expertise): Specialized or state experts review and approve the prepared projects (architectural, engineering, technical specifications, etc.).

* Construction Permit: With the approved projects, an application for a construction permit is made to the local government or city planning committee. The permit document is obtained. Only after this can construction begin.

[2] The Russian saying *"Надежда умирает последней"* (Hope dies last) is, according to some, an old Argentine proverb.





The Fatal Mathematics of a Construction Company

A global statistic shared by a friend, concerning the life spans of construction companies worldwide, was quite astonishing. Regardless of country, nation, or conditions, the data was the same everywhere. 50% of companies completed their lifespan within the first 2 years, and the remaining 45% within 5 years. The proportion of those able to operate in the sector for over 10 years was only around 5%.

The construction sector differs from other fields in many ways. It is a service sector. *"Customer satisfaction*" is fundamental. It is the first to react positively or negatively to the country's economy. It is the area with the most heterogeneous level of employee education. At its core lies *"the technical struggle against physical challenges."* Production on-site cannot stop. The cost of time is man-hours.

Construction is a service sector. Satisfaction is essential.

Indeed, in the past in Russia, winter months were allocated to design, and on-site activities were carried out in summer and spring; however, today, thanks to technological possibilities, although the pace slows in winter, production can be sustained year-round.

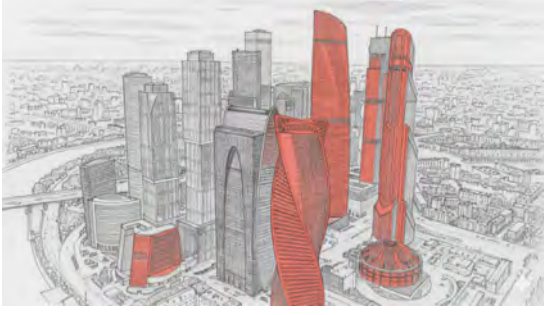
Recently, in Moscow, we visited one of the projects likely having the highest monthly progress amount in the city. It was dazzling, like a beehive, with work on every conceivable item.

However, this physical progress on-site is only one side of the coin. The truly critical process is hidden in the financial *"progress payment cycle."*

In an average 18-month project, payments are made by the employer according to a *"bell curve"* logic. Initially, since work items are few, amounts are low; they peak around the middle of the project (around month 9) and the graph descends again towards the end. To understand the industry's immutable rule that *"an advance is not income, it is debt,"* let's do a simple mathematical check:

Advance payment is a debt.[1]

In an average project, a contractor performs work amounting to an average of 5.6% of the budget per month (1/18). The employer, under ideal conditions, only approves and pays for this work 45 days later. This means that the return on a major expenditure made at the beginning of the month is collected approximately 1.5 months later. Mathematically, this situation creates a continuous financing burden of 8.4% (5.6 x 1.5) on the company.



Due to the nature of the sector, no matter how professionally contracts are prepared, the employer's side is always in the *"rightful"* position. Of course, no one desires *force majeure*[2] situations; but in times of crisis, the good old days are not remembered either.

Let's consider a scenario where an unexpected situation occurs and the employer terminates the contract. The total financial risk at this *"force majeure"* moment is calculated as follows: 5% performance bond +

advance not yet deducted from progress payments around the middle of the work (~15% / 9 months = 7.5%) + 8.4% (unpaid progress payment) = 20.9%.

In today's market realities, it is questionable which construction company operates at a net profit margin that allows it to set aside a cash reserve of 20.9% already in its 9th month. The reason financial analysts are so cautious the moment they see lists of *receivables and payables* constantly swelling in construction balance sheets is hidden in this high-risk picture. While personnel and suppliers wait at the door, no one is interested in the firm's emotional relations with the employer or payment delays; a cold legal process for debt collection quickly kicks in.

It is precisely in these stress tests that one can more clearly understand how a single project's disruption can drag even giant firms into a *"spiral collapse."* If the volume of work is large, if payments have stopped, and if performance bonds have been cashed, an irreversible cycle of destruction has begun.

So, why do large firms take on these high risks? The answer lies in their belief that they can manage the risk, their ability to control cash flow, and their capacity *to price the risk*. Furthermore, large scale offers the possibility to offset a loss in one project with profit from another. For reputation and market share, this risk is accepted as the *cost of growth*.

However, the system's real fragility reveals itself when chain reactions begin.

Just a few months after these theoretical risks were discussed, in a major project of one of the sector's giants, the employer had unconditionally cashed all performance bonds. Hearing this development, other guarantor banks, as if in a state of *"psychosis,"* made similar demands, and when other technically flawless projects were caught in this liquidity turbulence, it became inevitable for the huge firm to declare concordat.[3]

—

[1] Another classic event in the world of project finance is the disappearance of the contractor/subcontractor with the first advance payment received. This is talked about so often that it's like a rule: "The subcontractor who gets the first advance soon appears from within a black Land Cruiser dressed head-to-toe in Lacoste". That's why banks and employers keep the project under tight control with advances, either paid in installments or against independent monitored guarantee letters.

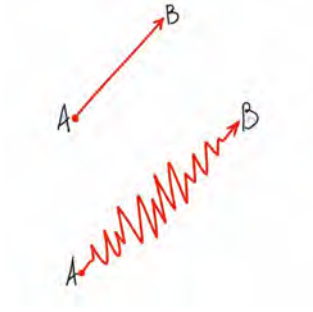
[2] The main *force-majeure* causes accepted in construction contracts under international standards like FIDIC are natural disasters, political and social events, legal and administrative obstacles, health and pandemics, and technical reasons. For an event to be legally considered *force majeure*, it is not enough for it to be merely "bad"; it must also meet the criteria of unforeseeability, externality, inevitability, and causality.

[3] *Concordat* is the legal process where a company unable to pay its debts, before declaring bankruptcy, reaches an agreement with its creditors to restructure or reduce its debts.



If a task is urgent, it is already late.

When dissecting the anatomy of a success story of a person or institution, one must ask the following fair question, the answers to which lie deep: From which point A did he reach this point, and what route did he follow? With what ideals did he set out on the journey, and to what extent were opportunities decisive in weaving the webs of fate?



And at the end of the day; did dreams and realities, desires and possibilities align?

**

There is a magnificent scene in a Soviet film I love that summarizes this existential contradiction.[1] Glasses are raised at the table and an unforgettable toast is made to "*Wants and Means*": *"My grandfather used to say: 'I have the desire to buy a house, but I lack the means. I have the means to buy a goat, but I lack the desire.' So let us raise our glasses to the honor of our desires always matchng with our means!"*

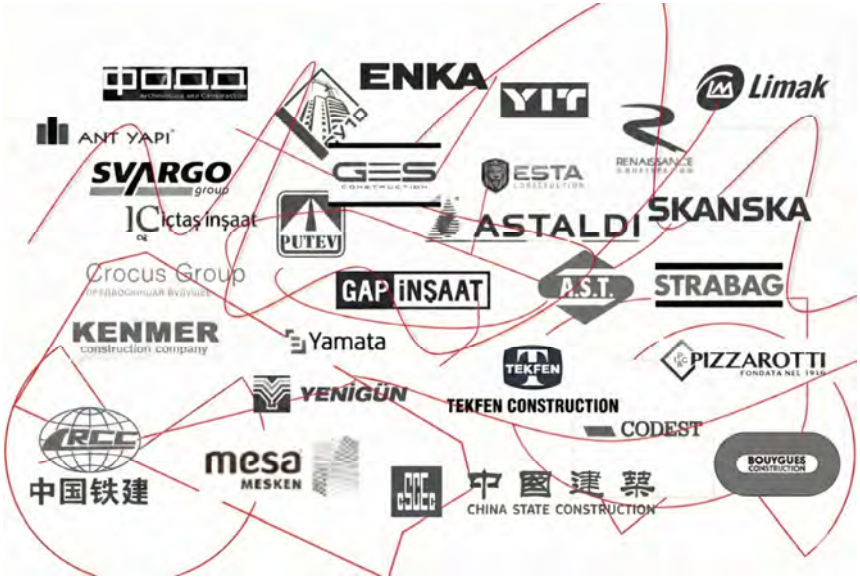
**

The roots of that famous Russian adventure, where Turkish construction companies pushed their limits to make history, stretch back to the second half of the 1980s, to the *"Natural Gas Agreement"* made with the USSR, which was based on repaying part of the

commodity (natural gas) with construction services. Over time, this commercial necessity transformed into mutual affection; Russians grew fond of Turks, Turks grew fond of Russians, and hundreds of qualified, monumental works emerged.

Perhaps the greatest advantage of the Turks in this process was their ability to transform their traditional hierarchical structures—often criticized in modern management science as *"cumbersome"* for hindering innovation and initiative-taking, labeled as *"chain of command"* and seen as *doing-focused* rather than *thinking-focused*—into a weapon for managing on-site chaos. This rigid structure evolved into an unexpected advantage on construction sites.

Thus, they stood out from among their Serbian, Finnish, Chinese, Austrian, and Italian competitors, demonstrating a uniquely superior performance. The know-how gained from Turkey's joint-ventures with Western companies in the 1980s, the support of small suppliers backing larger ones like a *"supplier army,"* the practical intelligence born from the synthesis of East and West, and the rapid decision-making ability were lifesavers in the difficult moments on the construction sites.



It is accepted that when the *dose of conservatism is exceeded, corporate blindness begins.* However, there is a universal and merciless rule in construction: The project must be completed in the *shortest time, fastest, and most economical way possible*. Turkish contractors skillfully managed that fine line; thanks to that *"semi-military"* discipline and *"absolute obedience"* culture on sites, they accelerated decision-making processes incredibly. Where Western firms got bogged down in bureaucracy, ours got the job done with *"military order."*

The market's allure also fueled this high performance. The Russian market was vast; the geography extensive, the opportunities diverse. The economy shrank, then grew again; crises came and went, but demand never decreased. The sector continued to fill its sails with the wind it created itself.

However, contracting work, after reaching a certain size, requires a very delicate balance to maintain its momentum: preserving the core team, the strength of the machinery fleet, operating credit lines with banks, and most importantly, customer satisfaction...

While everything was going well, then something happened.

That undisputed success graph changed direction with a bloody competition that began in the late 2010s, and the sector entered a deep crisis period.

Globally, a safe net profit margin in the construction sector is considered 10%. If a contractor agrees to work below this, they must either have a magic wand or possess superior talents. Moreover, if they enter a job with a profit margin below 5%, that person enjoys walking that fine line between genius and madness.

The service sector, by its nature, is focused more on *"value creation*" than production. However, a contractor's ultimate dream is clear: "To move on from building someone else's building, to accumulate capital and reach a point where they can build their own building." We had visionary companies that skillfully made this transition from

"contracting to investing." The fruit of this endeavor was much sweeter and yielded higher returns. Those who tasted this pleasure didn't even look back at classic contracting jobs anymore, except for very specific and highly profitable ones.

But this transformation has one indispensable condition: a strong capital structure. If income and capital sources stagnate, the system becomes clogged. Throughout human history, the greatest economic dilemma has been the *"resource problem."* The solution lies in two paths: Either we mobilize our own equity, or we knock on the door of an external partner or banks we find.

At this very point, that magical mechanism enabling banks to distribute multiples of their capital as loans comes into play. This system virtually multiplies the initial money within the system through the *"money multiplier"* effect. For our contracting companies, however, the search for capital in this system will unfortunately turn into a *"vicious cycle*" (loop).

The story is familiar: The contracting company, having obtained preliminary permits for the land it found and rolled up its sleeves with fancy designs, immediately catches its breath at the bank. The bank's language is simple and cold: *"If you want a loan, show your profit, let your turnover be high, let your staff count be attractive."*

As can be noticed, the *"critical"* point of the system here is *turnover*. This pressure pushes the contractor into the necessity of winning every tender "at all costs." When the company's existential purpose becomes merely inflating turnover, every tender turns into a stress test. It drives the company towards various unethical behaviors against competitors, like last-minute price undercutting. Contracts are signed without regard to the quality or profitability of the job. With nightmare-like budgets, one project tries to finance another; the new advance received plugs the hole of another project. Management, which sees increasing turnover as its sole goal, finds itself, its personnel, and its machinery fleet constantly feeding on the system itself, inside a monster eating its own tail, a "loop."

"In a construction company, turnover satisfies the ego; what keeps the company alive is profit. A contractor who mistakes an advance for revenue is financing their own bankruptcy."

Thus, like the character Chichikov[2] in Gogol's novel "Dead Souls," an illusion, a blindness is created for the banks with hollow, unqualified jobs. The bank opens its credit taps to the company with a hypnotic passion to the fullest. Employer disputes in the background, delayed deliveries, crushed and bankrupted subcontractors are not on the bank's radar; they are ignored. After all, the bank's job is not these details; it looks at the numbers.

When seeing the picture caused by this turnover gluttony and savage competition, that old scene always comes to my mind: There used to be the famous Tinkoff Cafe/Bar in Moscow, with its chick-yellow color, opposite the British Consulate. When our path led there, we would chat with friends. Once we came across a large group; they were all British. It was their regular haunt, and on the night we happened to be there, a ritual was taking place again. Competing design&management companies would gather every week, and whoever won the tender entered that week would be chivalrously celebrated, and at the end of the night, the entire bill would be paid by the company that won the tender.

The elegance of competition...

Unfortunately, despite our superior on-site successes and technical skills, we cannot reach higher bars because we cannot change our *"behavioral codes."* This parallel personality of our own holds back our dreams, our desires, and ultimately, ourselves.

We still cannot escape this turnover trap, shoulder every burden with low margins, and on top of that, we load ourselves with a panic atmosphere by telling ourselves *"Very urgent!"*

So, does the concept of "speed" become meaningless in this equation? Actually, the issue is not agility; it is our use of the word "urgent" to

cover up the time loss caused by past procrastinations. However, experience says, *"If a task is 'urgent,' that task is already late."*

The summary of the day for Turkish contracting companies is this: *"Perhaps we can earn back the money we lost, we can replace it; but we will never get back the time we lost in this process."*

"Haste invites both the devil and bureaucracy."

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[1] "Кавказская пленница, или Новые приключения Шурика" (translated as "Prisoner of the Caucasus, or Shurik's New Adventures") is one of the most beloved cult comedy films by legendary Soviet director Leonid Gaidai.

[2] Gogol, along with Pushkin, is the most important writer who carried 19th-century Russian literature to the classics. He is considered a pioneer in social criticism and humor. In his novel "Dead Souls," the cunning clerk Chichikov, traveling from town to town, aims to buy from their owners, at a cheap price, peasants (serfs) who have died but still appear "alive" in state records. By collecting these "dead souls," who remain visible for a long time in the slowly updated population records of that era, he plans to present himself as a wealthy landowner, obtain state support or credit, and later amass a great fortune.



Mehmet Yorgunoğlu's Dreams

Mehmet Yorgunoğlu is a family man, married to a Russian wife and father of three children. He is a veteran who dedicated fifteen years of his life to Russia.. A master mechanical foreman, skilled at any task, who sweated as a team leader on over thirty projects... Five years ago, he and an electrical engineer friend mustered their courage and founded their own private company. With support from friends and family who knew his expertise, their turnover reached significant figures within a few years. The story had begun wonderfully; until he hit that hard wall.

In Turkish contracting firms, project managers are typically civil engineers or architects by background, while on the other side of the table, with the Russian employer, we most often find a manager with a background in finance or law. Cultural codes come into play here. While we struggle within a military hierarchy of *"absolute obedience,"* we find across from us a carefree, cool-headed diplomat.

In this sector, engaged in a relentless race against time, no project—as if it were "programmed destiny"—is ever completed on time. No matter how hard the contractor strives, at the end of the day, they are in the

wrong. Because Turkish firms embed the word *"service"* into every process and exaggerate the principle that "*the customer is always right,"* the employer, in the final 30% of the project, suddenly declares their once-beloved contractor *"responsible for everything."* Using their financial leverage, they subject them to a kind of degradation.

Unfortunately, the charismatic old-guard doyens who *"mastered everything"* have been replaced by a new generation lacking vision.

A classic trap that managers in construction companies fall into is equating success solely with concrete pouring works. In the enthusiastic early months, the teams are happy; the concrete and rebar work is flowing. The numbers are big, the progress payments are substantial. Those are the honeymoon months on site, filled with festivities and abundant "surprises." Yet, an invisible crisis is quietly knocking at the door.

By the middle of the project, the months when finishing works and engineering systems begin to be installed, relations become strained. Mistakes come to light, demands change, and on-site disagreements begin to strain budgets. A scapegoat is sought. First, the finishing works team gets tired, upset, resentful, and flees.

In this painful process, the greatest weakness of project managers is underestimating electro-mechanical works, and indeed, having almost no knowledge about them. In their view, the electro-mechanical engineer comes, calculates those complex pipes and calories, and somehow gets the job done.

The real tragedy begins in the background. The electro-mechanical subcontractor, who installs the systems that give the building life, make it breathe like a living organism—heating, cooling, fire safety, and ventilation—struggles to explain his issues with his calculations in hand but cannot even get an appointment with the project manager. These critical items, which the Russians value and refer to as "*engineering systems,"* are arrogantly and ignorantly relegated to the subcontractor in our case, inviting massive problems that grow in the background.

The result? Finishing works drag on, costs multiply; those 10%, 15% disputes give rise to endless fights. Ultimately, the bill is footed by the underestimated subcontractors. One leaves, another is tried; but the real problem is never seen.

In Moscow alone, there are around a hundred major projects actively managed by Turkish contractors. In each project, averaging 10 billion rubles, at least five subcontractors and five suppliers go bankrupt every single time. Every few years, thousands of dreams are shattered. This pattern of professional chaos, which matches one-to-one the number of Turkish-origin firms officially opened and closed, now carries an unerring certainty.

So, what happened to our hero, Mehmet, you ask?

He too became part of this painful statistic. His capital melted away, the dreams he built remained unfinished. He had to take his family and quietly return to Turkey…

7

Visiting the Hermitage for 7 Years

A friend's son grew up. After finishing his fine arts degree, which he loved, in Moscow, he landed in Istanbul. He knows both the classics and the progressive, experimental schools well… He must be combining them skillfully, as his name has already started to be mentioned in exhibitions in Kadıköy.



His father and I were going to travel to another city for work. We decided to stay in Istanbul for a night. In the evening, we managed to invite ourselves to dinner with this young painter. A warm and humid Istanbul evening…

We sat at the table. The ambiance was dim. On the couch, a hairless cat was part of all conversations. As luck would have it, right in the middle of dinner, the electricity started cutting out in series.

Thank goodness it happened that way. The taste of spontaneous conversation is unparalleled. As the candles kept rhythm with the breeze from the window, the conversation deepened.

At one point in the conversation, as if I knew a lot about visual arts, I said, *"They say you need 3 full days to properly see the Hermitage Museum."*

The young painter said, *"No, it takes 7 years."* [1]

Seeing my surprise, he began to explain the reason meticulously, one by one, with numbers and names.

**

I experienced a similar *"difference in magnitude"* topic with a friend from the construction sector.

I had said, "There are over 200 industrial items in an apartment construction, and the overwhelming majority are of German origin." My friend said, what you said second is correct, but the number of items is not 200, it could be around 10,000. I was saying to myself, *"Another logarithmic error."*

"No, it's very natural for you to think that, because each has its own brands and models, so the number grows," he said. *"Don't look at it as structural products and main materials; there are many more fixtures, electrical materials, finishing works, and interior products. There are thousands of small screws, nuts, bolts, dowels, and mounting elements,"* he said. On top of that, he added white goods, electronic devices, furniture and kitchen utensils, home textile products (clothing, curtains, carpets). I was convinced of the scale.

In recent years, probably due to a shift in the economic climate, local brands have started to produce good alternatives to products of German origin. Russia has now reached the capability to produce almost every

industrial product. That's why I don't agree with the criticism that "we even get screws from China."

Once, while consulting with a few friends providing contracting services on these topics, I heard that each of them had ventured into producing some products they frequently used themselves. One was opening a steel fabrication workshop, another was producing aerated concrete blocks, another was preparing facade materials himself, and yet another was starting to make electric motors. Moreover, they had started doing the application projects for the jobs they took within their own organizations, skillfully managing the persuasion processes to change the type, brand, and models of materials to their own through *"Value Engineering."*

Hearing this trend frequently, I showed them the list of import substitution products recently issued by the Ministry of Industry and Trade (Minpromtorg), which accepts them in place of foreign brands.[2] The state was offering very attractive incentives for the manufacture in Russia of products on this list that were still coming from abroad. All that needed to be done was to prepare a market research and business plan analyzing supply/demand and competitors during a 6-month loan application process. The state subsidized 2/3 of the Central Bank key rate from its own pocket. At that time, I was patiently explaining this model to each of them. And the list contained hundreds of materials to choose from, including the very ones they constantly used…

Strangely, although each was individually convinced, none of them could take concrete steps.

We were returning to Freud again: *The most difficult thing in the world is to transform mistaken perceptions*.[3]

Who knows how to explain it...The transition from a service sector, to the manufacturing sector, was as difficult as a tiny mutation in nature.

—

[1] The Hermitage Museum is considered the world's second-largest art museum after the Louvre in Paris in terms of collection size. The museum houses over 3 million

works of art and cultural objects. But only a small portion of them (around 5%) are on display. It is said the length of the museum's corridors is 25 km.

[2] The Ministry of Industry and Trade (Minpromtorg) has made the "Import Substitution" policy a priority state strategy after the sanctions. It covers thousands of products encouraging domestic production to reduce Russian industry's dependence on foreign goods. Current data and product-based lists can be accessed at gisp.gov.ru.

[3] The quote attributed to Sigmund Freud, "Breaking a person's prejudice is harder than splitting the atom," is used to emphasize how deep-rooted, emotional, and resistant overcoming preconceptions is.



Send Us Your Biggest Ones

It was my wife's mother calling. "*Turn on the news!"* she said. *"Putin is talking about your projects and the Turks to the Agriculture Minister."*

We turned it on curiously. Indeed, Putin was asking the minister, *"Why are they buying our raw materials cheaply and selling them to the whole world with added value? Why aren't we doing this?"*

**

Russia ranks first in the world in grain exports. Furthermore, it is a market-setter, a game-changer on a vertical axis stretching all the way to Africa.

On the other hand, Turkey is the world leader in the export of pasta, flour, and biscuits, the raw material for which is Russian wheat.

On average, Turkey exports the wheat it buys for 1 unit as: 1.5 units of flour, 2 units of pasta, and 2.5 units of biscuits. While it faces difficulties in Europe and the USA due to quotas aimed at protecting the market share of Italian companies, it is unrivaled in exports to about 200 countries, particularly those facing food and population problems.

In such "primitive" manufacturing, there are three basic cost inputs: raw material, energy, and labor. Russia was the country where the raw material, namely wheat, was cheapest. By im-posing export qu-otas on the raw material, it was collecting a fee per ton. Then the wheat would come by ship to Turkey's southern ports; be transported by road to flour mills; converted into flour and returned to the port; and sold to target countries. In this process, approximately 30% additional cost was added to the product's price. Moreover, energy and labor costs in Russia were almost half.



So the numbers were appetizing. The difference in the final selling price between a flour mill in Mersin, Turkey, and its equivalent in Russia reached around 50%.

We later learned that in this sector in Turkey, there was fierce competition, with net profit margins per firm hovering around 5% levels. When margins are very high, we can tolerate risks.



We were very confident in ourselves. *"The right time,"* we said.

**

The next morning, we wrote a formally signed, stamped, and serious-tone letter to the Agriculture Minister. We proposed bringing Turkish companies' machinery-equipment infrastructure, the know-how of recipes in the target countries' cuisines, and sales capability to Russia.

After three silent weeks, a phone call came: *"Okay. Explain your model."*

To systematize the verbal explanation, we immediately prepared a financial model. At the end of a follow-up meeting with a presentation full of slides of the type Americans love, the reactions were fantastic.

With typical Russian coolness, they said, *"Find us the top five firms in Turkey in these sectors. Let them come, and we'll support them with low-interest export credit programs."*

Our luck held; our friends quickly brought us together with the sector's biggest players, who also had high vision. We presented it to them as well. The sensible path was one. The plan was simple: Production would start immediately; equipment from Turkey would be installed in a ready building (brownfield); and exports would be made to the same target countries via the Black Sea.

Seventy-five percent of Russia's agricultural output is produced in the southern regions of Stavropol, Krasnodar, and Rostov. Eighty-one percent of this is exported by sea. To minimize domestic transportation costs, we began examining industrial buildings near the sea. We settled on one out of 10 alternatives. After due diligence, even the subsidized loan package was ready.

When profit margins are very high, we can tolerate risks.

These were the months when tension in the region was just beginning. Uncertainty and risks were increasing with escalatory statements.

One morning, in the small port city we had chosen for the project—unrelated to these events—an unfortunate plane crash

occurred. This unexpected event had severely dampened morale. The next morning, the call this time came from Turkey:

"We were undecided between Russia and another country in this year's investment plans. Unfortunately, after this plane incident, we had to choose the other side."

**

A year later, they indeed opened a similar factory in that other country they mentioned.

It must be an irony of fate. Shortly after, this time a revolution (Coup d'état) occurred in that country.

INVESTOR'S REPORT CARD

- ☑ Technical: Know-how and technical capacity were excellent.
- ☑ Legal: High-level invitation and support from the state.
- ☑ Budget: Advantage of source access to raw materials (Russian wheat).
- ☑ Financial Model: High margins with low logistics costs.
- ❌ Macroeconomics/Political: Wrong country choice and political risk analysis error.
- ☑ Raw Materials: Production in the world's grain breadbasket.
- ❌ Decision: A single event changing strategy and psychology.



The Arab Merchant Who Came to Konya

We had a friend who came regularly every month for potential projects in Russia. He had a successful business exporting all over the world. He intended to crown this model now with a similar facility he would establish in Russia. He was successfully carrying the flag he inherited from his father; he was recycling textile waste to produce polypropylene yarn. However, while things were going full steam ahead, those exciting trips were suddenly cut short like a knife. Curious about the reason for this sudden withdrawal, when we met at his facility in Turkey a short while later, he explained in detail why he had closed the Russia chapter.

We had accepted it... But we didn't find it reasonable,

A few months ago, while he was abroad, a completely unexpected guest had shown up at the door. Out of habit, the staff had hosted the guest, offered tea-coffee-lokum, and seen him off. Upon leaving, without fully explaining what he wanted, like in the movies, he left his business card and said, *"Have your boss meet with me when he returns."*

The friends, caught up in the busyness, had left the card on the table and forgotten about the matter.

When our friend returned to Turkey, while sorting through the papers on his desk, he noticed it, and after researching a bit about who the person was, he said, "Urgent! Arrange a plane ticket." It turned out the mysterious guest, who hadn't been taken seriously, was a famous Arab tent structures investor.[1]



The coincidence had unfolded like this: The Arab guest, while driving around the industrial estate on asphalt to visit those doing similar work, had told his driver to stop in front of our friend's factory. While carefully examining the building from across the street, he liked its aesthetics so much that, as he later told our friend, he said, *"No matter what the product is like inside, I had already decided to work with you at that moment."*

Our friend still recounts, like a lesson, that he has achieved the total turnover of the last 5 years from this one client, boasting about it.

**

Actually, talking about aesthetics would be presumptuous for me!. First of all, I didn't study art history or architecture.

However, when working with my clients, I always see a tendency to *"avoid aesthetics."* That's why this story also affected me, and I had given him examples of Krasnaya Rosa (KR)[2], a historic building in a city in Russia whose aesthetics I admire, converted into a "loft style" office complex, and the Bosco Manifactura[3] in Kaluga.

We later even talked about a similar design for his investment in Russia. I was saying, "The Ministry of Industry likes environmentally friendly projects, and even though recycling is not clearly regulated yet, we have received extraordinary incentive promises from the authorities."

The 8 million euro project was paying for itself in 3.5 years. Electricity was our biggest expense and we had agreed with the authorities on a 50% discount, at 4 rubles/kWh. We had submitted a 5 mil euro pre-feasibility report to the Industrial Development Fund (FRP) for the machines. Our promotional video explaining recycling with animations attracted everyone's interest; they somehow wanted to be part of the project.

Except for a few dissatisfied competitors...

A few oddly-styled phone calls had been enough to demotivate our investor. For those of us who had long been trying to break down prejudices about Russia, experiencing these *"old school"* street rules once again had been a disappointment.

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[1] Tent culture, known in Saudi Arabia both as a tradition and a cultural need, is quite developed.

[2] https://krasnaja-roza.ru/ The name Krasnaya Rosa. It is a former textile factory built in the 19th century and dedicated to Rosa Luxemburg, a close friend of the renowned Clara Zetkin in Russia.

[3] Bosco building www.bosco.ru/mall/6504927/#KALUGA

* Picture: The Atelier Tropical House, designed by Yemail Arquitectura, is located in Bogotá, the capital of Colombia.

INVESTOR'S REPORT CARD

- ☑ Technical: Production lines and solutions were standard.
- — Legal: Neutral.
- ☑ Budget: Costs reduced through recycling and energy incentives.
- ☑ Financial Model: 3.5-year payback period (ROI).
- — Macroeconomics: Neutral.
- — Raw Material: Product recycled from waste material.
- ☑ Sales/Marketing: Existing customers were waiting in line...



Dmitri Petrov was a man born and raised on the streets of Moscow. He worked as a manager at a small logistics company. He knew the passenger and heavy vehicle markets inside out, from A to Z. It was the early 2010s. One day, looking out his office window at the never-ending river of traffic below, he set his sights on a new sector: Taxi service...

He told his friends, *"In Moscow, for 100 years, everyone has taken taxis and will continue to take them."*

He took action that fall. He was going to catch the New Year's wind. He made a deal with a bank. He bought 50 Hyundai Solaris taxis on lease. Each one a new model, fuel-efficient, comfortable. He would pay in monthly installments at a 15% annual interest rate. This was a bit high for a period when the market rate was 10%, but Dmitri had already decided to take risks for rapid growth. He gathered drivers – old acquaintances, immigrants, retired police officers. Each would work 12 hours a day. He branded his fleet as *"Petrov Taxi."* He installed GPS in the vehicles, set up a simple call center. Customers hailing on the streets, tourists from the airport... Things were going well.

In the first year, while the 50-vehicle fleet operated at high occupancy using traditional methods, the expectation of 25% net profitability was working.

Dmitri was satisfied with this balance. He had financed his total investment of 60 million rubles (each vehicle averaging 1.2 million rubles) with a 5-year, 15% interest lease. The 5% interest difference was somewhat expensive, but the profit margin compensated for it. It was a risky but fast model. Moreover, he was deducting lease payments

from corporate tax, offsetting VAT each month, and even using accelerated depreciation.

The first year's picture was bright: Revenue per vehicle per day: 10,000 rubles, Monthly turnover: 300,000 rubles, Net profit ratio (after all expenses): 25% i.e., 75,000 rubles/month, Total net profit with 50 vehicles: 3.75 million rubles/month, Annual net profit: 45 million rubles, Net earnings after lease payments: approximately 20 million rubles.

Revenue and Expense Item	Ratio	Comment
Gross Operating Revenue	100%	Total revenue from drivers and vehicles.
Operating Expenses (Fuel, Maintenance.	60%	The operational cost of the taxi business.
Operating Profit (EBITDA)	40%	Profit before financing cost.
Leasing Interest Expense	15%	Annual 16% interest (15% used for illustration purposes).
Net Profit Margin	25%	The profitability Dimitri expected and initially observed.

Troubles were beginning... The following year, Dmitri expanded his fleet and the number of vehicles reached 200. With new lease agreements, the total debt rose to 80 million rubles (an additional 60 million rubles for 150 more vehicles), and the interest rate remained fixed at 15%. The market rate was still around 10%, meaning Dmitri had missed lower-interest refinancing options – this meant an extra annual interest burden of 4 million rubles (if it had dropped to 10%, interest would have been 8 million rubles, but at 15% he was paying 12 million).

Revenue and Expense Item	Growth Stage	Collapse Stage	Comment
Operating Profit (EBITDA)	40%	10%	Price pressure from digital competition and idle waiting times significantly reduced Operating Profit by 30 percentage points.
Leasing Interest Expense	15%	15%	An unchanging fixed cost whose absolute value increased exponentially due to the 200-vehicle fleet. Being 5% higher than the market interest rate (10%) eliminated any cost advantage.
Net Profit Margin	25%	-5%	The profit from operations (10%) could not cover the fixed and high interest expense (15%), pushing the business into a loss.

Moreover, the world was changing rapidly, and the wind was beginning to turn. Moscow's taxi market had been taken over by giant digital platforms like Yandex Taxi. Yandex had merged with Uber in 2018 and captured 61% of the market. This platform was changing everything with its smartphone application. Customers no longer hailed taxis on the street corner; they entered their location via the "app," called the nearest vehicle, and saw the price in advance. Yandex kept prices incredibly low – sometimes the minimum fare dropped to 100 rubles, which didn't even cover Dmitri's fleet costs.

Dmitri didn't take it seriously at first. *"We are traditional, we are reliable,"* he said. But he was losing drivers one by one. Drivers switching to Yandex said, *"Boss, the work doesn't run out on the app, they give bonuses, there are fuel discounts."* Customers had also gotten

used to the app: *"Why should I wait on the street? I track it on Yandex, I pay cashless."* Dmitri's fleet began to sit idle. Vehicles gathered dust in the garage, lease installments piled up. The competition was so fierce that even antitrust investigations had been opened due to Yandex's dominance – it was alleged the company was using its search engine advantage to eliminate competitors.

In the winter of 2019, things collapsed. Dmitri couldn't find drivers; the remaining ones complained about low wages. Customers flocked to Yandex because the platform kept millions of users in its database, binding them with promotions. Dmitri's call center fell silent, revenues dropped by half. Lease debts with interest burdens reached 30 million rubles, and the bank pressured him to repossess the vehicles. As a last resort, he offered a partnership to Yandex, but the giant platform was already swallowing the small ones – like many small fleets, Petrov Taxi was forgotten.

In the end, Dmitri sold his fleet for a pittance and returned to his old logistics job.

One evening, telling this cautionary tale to his friends, he concluded: *"I trusted the math. I underestimated technology…"*

INVESTOR'S REPORT CARD

❌ Technical: Digital transformation (App technology) was missed.
➖ Legal: No issues.
⚠ Budget: Initial cost was correct but not sustainable.
❌ Financial Model: High-interest leasing and falling unit prices disrupted cash flow.
➖ Macroeconomics: Interest rates were high.
❌ Sales: Traditional customer habits were defeated by digital.

11

If You Have a Mine, You Have a Fortune

Our youth years... Knowledge didn't have the limitless version it does today or another verification on every street corner. We had either official information or one or two pieces of parallel information attached to them. In those days, the gaps in knowledge were filled by urban legends more powerful than the facts. Those were the years before the internet had entered our lives, when we wandered the streets of Istanbul with our hands in our pockets and our heads in the clouds.

We were studying civil engineering. I remember stories of Berlin being rebuilt almost from scratch with thousands of cranes. And so much more... It was said that Arabs had bought half of Berlin, that the Japanese were the secret owners of Taksim of Istanbul, and that, unable to restrain themselves, they had even bought Hollywoods' big producers. Perhaps capital was so scarce in the country that we were never truly taught what money and capital really meant. We pictured money as a monster in our minds.



**

Chromium ore is one of the most important elements of the automotive industry. The durable structure of many metal parts in vehicles relies on various components of chromium.

The COVID pandemic had just ended, and markets had returned to their old feverish days. A chromium mine operation of rare appeal in Turkey

had been put up for sale due to some personal preferences. It had extraordinary data. Without wasting any time, we started due diligence with a few Russian investors. As we delved into the details and the figures were confirmed, even among the Russians, a fierce competition began. With serious buyers, we went to the mine sites in the mountains, conducted on-site inspections. Core samples taken from the ore veins, only 5% of which had been processed, were flawless. We were conducting endless cross-examinations with consultants.

The workable amount had been determined as: net visible reserve of 2.5 million tons, probable 5 million tons, and possible reserves of 7.5 million tons.[1] Data, analyses, and scenarios were flying around. The figures were dazzling in every scenario. With a 430,000-ton concentrated chromium reserve, it promised a reserve worth 150 million USD at the then-price of 350 USD/ton.

Assumption	Reserves (t)	Coefficient	Total (t)	Concentrate (t)
Proven	2,500,000	100%	2,500,000	167
Probable	5,000,000	50%	2,500,000	167
Possible	7,500,000	20%	1,500,000	100
TOTAL			6,500,000	433

The operation was on the negotiating table with a very small EBITDA multiple. Its proximity to the port further eased logistical risks, and customers from all over the world, like China and India, were already waiting at the door.

But there was a fixed resistance we hadn't been able to overcome for months. The Russians were cautious about another country's mining *legislation, bureaucracy, and state mining policies.*

**

A few months later, one day, while we were drowning in these enormous figures, the awaited news came. Suddenly, an Indian investor had appeared. With a boldness reminiscent of the law of the jungle, without even feeling the need to examine the data, he had taken all the risks, made his decision, and purchased the facilities.

The seller, in a voice both excited and somewhat apologetic, said, *"Unfortunately, we shook hands with them swiftly and closed the deal."*

"If you have a factory, you only become rich, but if you have a mine, you have a fortune."

Our Indian friend knew this very well...

—

[1] When estimating mining reserves, the terms proven, probable, and possible are used. When calculating the ore amount, it is generally multiplied by 100%, 50%, and 10% respectively. After processing, concentrated ore is obtained at a ratio like 1/15.

INVESTOR'S REPORT CARD

- ☑ Technical: Reserves and core sample results were perfect.
- ➖ Legal: The Russian investor was deterred by regulations; the Indian acted boldly.
- ☑ Budget: There was a purchase opportunity at a very low multiple.
- ☑ Financial Model: EBITDA multiple and payback period were phenomenal.
- ☑ Macroeconomics: Commodity prices were on a fantastic rise.
- ☑ Raw Material: 2.5 million tons of processable reserves.
- ☑ Sales: Global demand (China, India) was ready.
- 💡 Golden Rule: "Opportunity dislikes over-analysis. Sometimes courage is the best feasibility report."

12

The Right Place, The Right Person, The Wrong Time

The retail business world is so complex and unpredictable that if they published the turnover rates of tenants in shopping malls, probably no one would be motivated to open a store anymore.

So, what fuels this circulation? The main reason, I think, lies in catching niches. That is, the real issue is catching the right item, in the right location, at the right time. In that case, it's immensely successful. Otherwise, it's doomed to close within 6 months under high rental pressure.

**



The Danube River in Europe is a very interesting line. While constituting the northern border of the Roman Empire for a thousand years, it has been seen as the line dividing East and West, both geographically and historically. Since the Middle Ages, Western Europe has been identified with Catholic and Protestant Christianity, and Eastern Europe with Orthodox Christianity. During the Cold War, this division became much more pronounced, and the

political border called the *"Iron Curtain"* became the symbolic line dividing Western and Eastern Europe.

It was the early 90s. With the dissolution of the Iron Curtain, modern Western European colonialism immediately stepped in with its typical hegemonic cadre, and began to color Eastern European cities with its hotel chains, automobiles, banks, supermarket chains, and shopping malls.

Turkey was also getting acquainted with major German and French retail chains during that period. For some reason, perhaps due to security concerns or market hesitation, this *"magnificent team"* had not yet established a presence in Russia.

On the other hand, Turkish-Russian relations were progressing on an unexpected axis; trade was booming with the Turks' *price/utility pragmatism*, and the two peoples were rapidly mingling. The relationship was escalating to the level of governments and contracting construction works. According to some, *Turkey was extending a kind of helping hand to Russia during this chaotic transition period*.

This bridging role brought various benefits. It was the early 2000s. The Turks began introducing the modern shopping mall concept, which they were both investing in and building, to the Russians, almost like ambassadors. The first well-organized shopping malls and their indispensable premium/anchor tenants, the supermarkets, would be brought by Turkish investors.[1]



The people quickly loved this comfort. A secure market was forming. Those were the years of abundant liquidity. The Germans, French, and Swedes liked this atmosphere and the customer traffic data. The retail market boomed and boomed, breaking records. Hotels, offices, shopping malls were springing up. Commercial real estate was euphoric. Every shopping mall reported a positive occupancy rate.[2]

During that period, a Swedish investor opened Russia's largest shopping mall with great fanfare in the west of greater Moscow. At one of the prime spots inside, a Turkish retailer took its place. It was very experienced. It had no capital problem at all. It sourced most of its products from Turkey, through its existing network.

It was fantastic... It had made a splash with innovation, experience, supply network, and price/utility...

In shopping mall retail, sales revenues are generally divided into three main items: 1/3 is the product's own cost, 1/3 is rent, and 1/6 is shared among staff and other expenses. So, in the profit-loss statement, if the product's price is 100 units, with 34 units product cost, 34 units rent, and operating expenses (OPEX) at 17 units, the pre-tax profit (EBITDA) is approximately 15%.

**

About 6 months later, surprising news came. Our brand, having just entered Russia for the first time, was going to bid farewell.

The unexpected had happened; the large group couldn't withstand the rental pressure, and the half-year customer traffic didn't match financial expectations.

Those were the years when not gaps, but fierce competition was beginning.

It was not the right time...

—

[1] A short while later, a French retailer would buy all these supermarkets and the properties they were in, in a single session.

[2] A positive occupancy rate refers to a situation where rents are constantly increasing, and despite this, there are others waiting in line for current tenants to vacate.

"The best show, if it goes on stage at the 'wrong time,' won't get applause."



The Turkish Adventure of an Olympic Champion

Like the whole world, generations were changing in Turkey, and parents' expectations and plans for their children were undergoing a radical transformation. While the education system was constantly being renewed, parents, bewildered by the uncertainty brought by new formations, were rushing their children from one course to another, with the claim of leaving no free time, treating them like racehorses.

As a reflection of this transformation, perhaps due to the cultural diffusion of Russians settling in Turkey, art and sports disciplines taught by Russians began to become popular in almost every major city. The experiences of Northern countries—such as ballet, dance, fine arts, ice hockey, gymnastics, swimming, and skiing—were knocking on the doors of Turkish families. For the previous generation's traditional Turkish families, these were not just a whim but, ironically, were turning into a struggle.

We met Sergey Volkov around 2018. Sergey was not just a businessman but had also previously served as an advisor to the Soviet Union Olympic Committee. The walls of his office in Moscow, a holdover from the Soviet era, were proudly filled with gold-medal photos of the young athletes he had trained.

He was determined to bring Russia's always full-throttle, strong sports tradition to the dynamic Turkish market. His goal was to combine the discipline of Moscow's strict Soviet school with Turkey's young potential.

Sergey's right hand was his daughter Elena, a former figure skater and coach. In our first meeting, she told me they planned to establish sports complexes in prime locations of a major city in southern Turkey that would operate year-round. The Russian side would bring technical equipment, coaches, and the system, while Turkish partners would secure land, local connections, and support for government incentives.



In his dream was a modern *"Mixed Olympic Preparation Center"* that would house Russia's best ice hockey coaches and gymnastics methodologies.

**

The initial meetings were enthusiastic. The emphasis on *"Russian sports discipline"* had drawn intense admiration and interest from local officials; phrases like *"we are absolutely with you, we will support you*" were constantly heard in the meetings.

Sergey, having meticulously prepared his plans, experienced team, and feasibility reports, quickly concretized the project within a few months.

The total project cost was set at 5 million USD: The Russian investor's equity was 3 million USD (60%), Investor/Government support expectation was 2 million USD (40%), and other requested government supports included rent reduction, tax exemption, customs exemption, and energy cost discounts. Sergey planned to recover part of the investment through government support and incentives.

The targeted revenue model was simple: Total of 600 students for ice skating, hockey, swimming, and gymnastics courses at an average monthly fee of 100 USD per student; 1,000 students for adult fitness, group dance, and other classes; staffing included 4 Russian expert coaches, 10 Turkish coaches, and auxiliary administrative and security personnel. There would also be additional revenues from private lessons, birthday event organization, school leagues, and café operation.

Sergey had also prepared a plan to increase the student count to 1,500 in the second year and to expand to different cities in Turkey through a franchise system in the third year. According to his calculations, the investment would pay for itself within 5 years.

The most critical leg of the project was the promised government incentives. Initially, promises were obtained for customs duty exemption for imported equipment, amounting to up to 40% of the total budget, and for very low-interest loans.

However, after eight months had passed, following a management change at the ministry, talk began of a new sports strategy. The new administration would now focus on youth centers and football infrastructure instead of costly niche areas. Overnight, our project was removed from the scope of the incentives we expected. Then, as costs soared by 40%, all the calculations shifted negatively on the margin.

**

Sergey was saying to his frail interpreter, *"Please! Explain to them again":*
"We want to invest in your future through sports. But you are stuck in the habits of the past. Even the Soviets never skimped on sports for the sake of an ideal. For generations, Russia has been living with this legacy."

While Sergey explained that each facility would train at least 5 Olympic athletes in 5 years, he received disappointing reactions from the mayor. Even the Turkish partner was now tired. The constant changes in

regulations and the local authorities' effort to turn this visionary project into something 'traditional' had deeply demotivated Sergey.

Still, we didn't give up. We were going to make our official applications anyway. We submitted our documents. But the invisible brutal wall called *"Regulations"* rose before us in all its might. The project got stuck in a bureaucratic labyrinth, being redirected from the Ministry of Sports to Culture, from there to Tourism, and from there to the Ministry of Economy. Dozens of documents, signatures, and stamps were required for *"strategic investment"* status. In every office, the project had to be explained from scratch, each time encountering a new *"Yes, but..."*

With answers like bureaucracy and a change in sports strategy, the entire 40% incentive we were expecting was canceled.

We were making the following note in our ledger regarding the project: *"Good Idea + Bitter Bureaucracy = Zero Result."*

No matter how profitable the numbers looked on paper, the uncertain gray shades of the investment climate had swallowed the project's bright future.

Despite all its potential, the project was shelved.

Sergey and Elena quietly returned to Moscow. The ice skating and hockey champions they dreamed of remained only on drawn-up plans.

"One should not tie fate and success to government incentives... bread should be able to bake in the oven without incentives too."

14

How to Become a Brand

Among the "retail business" investments I've been able to follow in Moscow to this day, the most successful project is DEPO. When they started, they were unique in their field. They completed it very quickly. Their capital was very strong. Its location and timing were excellent. The managers were perfect.



Belorusskaya Square, where DEPO is located, holds another special significance for me. It's also the place where I worked when I first came to Moscow. At that time, ENKA was both constructing

the exquisite project next to the church and dealing with infrastructure works in the deep foundations beneath the square.

Who knows how long it lasted, but eventually, the square, with the statue of Maxim Gorky, the former namesake of the street, placed right in the center, opened for service, taking a breath of fresh air.

Now, the way the train station seems to embrace the square and the incredible harmony created by those three buildings with the white church on the opposite side, separated by Leningradsky, leaves everyone in awe. No one looking at this magnificent scene remembers the square's past tribulations anymore.

A little further on, if we take the tram around the statue and head towards Lesnaya for 5 minutes, we can't take our eyes off DEPO.



The investment involved a long-term investment agreement with the municipality for an old tram depot, which was then renovated and converted into a *"gastro-market."*

The main depot building, which had served the city as Moscow's first electric tram depot (Миусское трамвайное депо) for over a hundred years, was built in 1874. Starting from around 2005, with commercial real estate becoming highly valued, the idea of combining Moscow's historical industrial areas with a modern concept, like examples in New York or London, had become fashionable.

At that time, I was working at a bank. I was following the financing of this project and the on-site activities step by step. The first thing that caught my eye in the project management was the 'vertical hierarchy' that immediately excluded those who didn't adhere to time and words...

On one hand, advertising work continued at full speed, tenants whose locations weren't even determined yet started touring the site, and the technical team on-site was finding spontaneous solutions to all sorts of unforeseen problems of this very old building. The tram depot's original high ceilings, large windows, and steel beams were repeatedly worked on; the details seemed endless.

They said it would be ready by New Year's, but to be honest, we didn't really believe it. We, accustomed to 30% deviations in construction processes, were watching the team's astonishing performance with admiration. Acting on the principle *"The more important comes before the important"*[1], they were turning a blind eye and deaf ear to everything else. In the end, this team produced a marvelous work, surpassing even the conceptual designs, in a record time of about one year.



Opening its doors at the beginning of 2019 as a giant Gastronomic Food Mall with an area of 11,000 m², seating 2,000 people, DEPO housed 140 stalls and 70 restaurants with different concepts. The venue, offering options for every budget from affordable street food priced between 500 and 5,000 rubles to luxury restaurant kitchens, quickly achieved a very high visitor density. It made such a splash that the daily visitor count of 8,000 in the first months soon rose to 30,000... Then it began regularly hosting festivals, concerts, Sunday events, and other cultural organizations.

The investor determined its income from tenants as a base-level rent fee and a percentage share from a system where sales were accounted for openly.

The record-breaking return on investment was very clear. No one was mistaken...

DEPO added both cultural and touristic value to the site's history. It is considered one of the pioneers of the "gastro-market" and "food-mall" concepts in Moscow.

Becoming a city's brand is not easy. DEPO achieved it.

—

[1] The phrase, "The more important thing is done/comes before the important thing," frequently used in Ottoman Turkish jurisprudence terminology, directly corresponds to the Eisenhower "Urgent-Important" matrix in modern management.

INVESTOR'S REPORT CARD

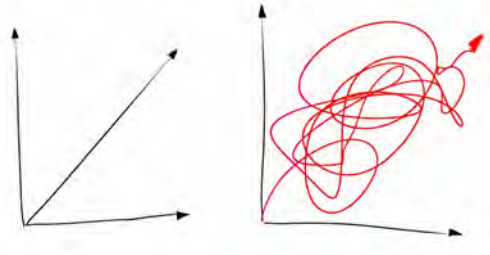
- ☑ Technical / Concept: Historical texture perfectly combined with a modern concept.
- ☑ Legal: Long-term agreement secured with the municipality.
- ☑ Budget: Strong capital structure.
- ☑ Financial Model: Record-breaking payback speed with Rent + Revenue Share model.
- ☑ Macroeconomics: Rising income levels and dining trends were captured.
- ☑ Sales: Daily traffic of 30,000 visitors. Location was unique.
- 💡 Golden Rule: "The city rewards the brand."



Good Luck to Those Left Behind

Private sector banks have a short checklist when evaluating construction sector companies: *"Which projects have they officially handed over in the last 2 years, what ongoing projects do they have, and with how many different employers do they work?"...*[1]

A friend of mine once knocked on my door with a rather interesting request. He was doing contracting work in electro-mechanical fields. Thanks to his theoretical knowledge and mastery of his work, he had quickly become a recognized and well-liked expert. However, despite working with solid data and being in control of his projects, he could never quite organize the legal, tax, accounting, and financial processes. He couldn't collect the payments he deserved on time, and couldn't get signatures/approvals for recently completed works. His personal involvement in every stage of the operation unfortunately prevented him from finding time for these accumulating administrative problems that were sending danger signals.



When we examined the situation, we realized he was working with only one employer, and that employer was handing over all its work to this firm almost as a rule. Moreover, communication was conducted through a single person on the employer's side.

The source of the problem was exactly here; as Sherlock Holmes said: *"How could we have failed to see the issue right under our noses?"*

We immediately rolled up our sleeves and started with the contractual obligations. Our aim was to create a chronology of the existing problems and document them together with the employer. Then, we converted the monthly standard current transactions into a long-term cash flow table. When project budgets were compared with actual expenditures, the cash flow was practically giving a *"red alert."* This chart became the strongest argument to strengthen our hand when making new demands from the employer. After an express finance and accounting audit, we combined all this data and sat down with the employer at the solution table.

The employer was an Italian construction firm. Here, the *"cultural codes"* we always emphasize came into play. One shouldn't generalize, but Mediterranean societies tend to conduct their business with verbal communication and are always somewhat distant from written rules. As we delved deeper, we saw that almost none of the issues had any official documentation. For most transactions, action was either too late or no records were kept at all; everything relied on the word of a single person.

This situation reminded me of investors who receive promises of personal support from local officials. A few years later, when those officials are dismissed or transferred, investors learn the cost of trusting personal relationships over institutional guarantees, each time as a painful lesson.

Of course, it may not be possible to put everything on paper. Benefit relationships spread over time create an invisible *"contract history."* But when the key person suddenly leaves, they take that history with

them. This situation is a serious corporate trauma, akin to a company's archives burning to ashes.

So, does every construction firm, by its nature, have to operate this way?

I don't think so at all. Another friend of mine corrected this misconception of mine when he started working for a Russian construction firm: *"I have never encountered such a flawless system before; everything from the tender stage to manufacturing is transparent and archive-focused,"* he said. I wouldn't have guessed that digital infrastructure and contracting services could be so intertwined. Today, that firm has become a giant through massive acquisitions.

Then I understood that we should also criticize ourselves a bit. Unfortunately, Turkish companies—no matter the sector—*lack an archival tradition.* It's like a cultural code...

Returning to our friend... What's gone goes with the person. Indeed, a few months later, the employer's *'sole contact person'* for these matters announced he was leaving the job, wishing *"Good Luck to Those Left Behind…"*

—

[1] In Russia, 2 state banks and 2 private banks working in close contact with the real sectors represent the overwhelming asset size and trends of the banking sector. We have summarized the primary and typical demands of these banks in the appendices of the book.

"Don't put all your eggs in one basket. A business model reliant on a single customer is a gamble at the mercy of that customer's 'conscience'."



Borrow in the Currency You Earn

Those were the years when international hotel chains were fiercely competing with each other. A major American hotel chain had decided to grow in Russia, particularly in Moscow and St. Petersburg.

Isabella, the hotel's Eurasia regional representative, and Sergey from Moscow signed a local partnership agreement to build three 4-star hotels in Moscow and St. Petersburg. As is common in such partnerships, the structure was set up with the local partner taking on the construction and building risks, while the international chain provided the operations and brand name rights.

Projects started. Those were the years when the dollar still dominated conversations. Loans in foreign currency were used just as frequently as ruble loans in the markets. The local partner was a group with strong relationships with banks in Russia and high credibility. Loans from the bank were taken in dollars...

Indeed, about six months later, the partner quickly got the packages containing the specifications, capacity, and concept of each hotel through bank committees and started each project simultaneously in two cities.

Apart from a few minor hiccups, they managed to complete the constructions in a very short time. Since the system had hundreds of examples worldwide, the hotels were set up very agilely, backed by experience. The staff was ideal. Hotel managers, menus, rooms, furniture, carpets, chairs, halls were progressing at a dazzling speed. Finally, the interiors were also completed.

Openings were announced to the surroundings with promotions. Distinguished guests—Russian, American, European—cut the ribbons in a stylish ceremony.

The hotels were turning everyone's heads. Each one was in the most central locations of Russia's most important cities, and with Russia's rapidly growing tourism potential at the time, the occupancy rate and customer profile showed tremendous financial performance.

Those were years when both local and international tourism was thriving. American and French chains were trying to outnumber each other.

**

Each hotel had an average of 150 rooms. In Russia at that time, occupancy rarely fell below an average of 65-70%. These very appetizing ratios perfectly matched the financial models.

Investment calculations in the hotel business are very simple.[1] The cost per room is roughly determined by the hotel's class. In our class, it was around $85,000. So the investment amount was $85,000 per room × 95 RUB = 6,800,000 RUB per room, totaling 150 × 6.8 ≈ 1.02 billion RUB.

Item	Calculation	Total (RUB)
Annual Available Room Nights	150 × 365	54,750
Sold Room Nights (at 60% Occupancy)	54,750 × 0.60	32,850
Annual Room Revenue	32,850 × 7,500 RUB	246,375,000 RUB
Ancillary Revenue (30% Assumption)	246,375,000 × 0.30	73,912,500 RUB
Total Annual Revenue	246,375,000 + 73,912,500	320,287,500 RUB

By multiplying the occupancy rate of 60% with the average room rate, we find the annual revenues. Accordingly, the annual room nights: 150 × 365 × 0.60 = 32,850 nights, room revenue: 32,850 × 7,500 RUB (avg. $80/night/room) = 246,375,000 RUB, i.e., annual room revenue ≈ 246 million RUB. Food/beverage, conference, etc., ancillary revenues are also items considered to be 30% of total revenues.

As for expenses, total expense ratios in 4-star city hotels generally range between 40%~60% of total room revenue. In our case, it was averaging around 45%.

Item	Calculation	Total (RUB)
Operating Expenses (New 45%)	320,287,500 × 0.45	144,129,375 RUB
Profit Before Tax, Depreciation, and Interest (EBITDA)	320,287,500 — 144,129,375	176,158,125 RUB

So the investment payback period based on EBITDA: Total investment 1,020,000,000 RUB and EBITDA 176 million RUB calculated, ROI, i.e., payback period is 1,020 ÷ 176 ≈ 5.8 years.

This result was an incredible payback period compared to world standards of 10-15 years for mid-segment (3~4 star) hotels.

**

This distinguished prosperity of the investments was about to be shaken in the summer of 2014 by a series of unexpected events. That year, the ruble devalued due to the collapse of oil prices and several geopolitical developments. From the beginning of 2014 to the beginning of 2015, the ruble against the US dollar soared from levels around 1 USD ≈ 33 RUB to 65-70 RUB. We couldn't convert our room revenues into dollars in the same way due to supply-demand imbalances. Those were the years of de-dollarization in Russia. Market prices were quickly adapting to the ruble. No matter how many scenarios we ran, while tourism markets contracted, our revenues, i.e., room sales, remained almost the same in ruble terms.

Our credit debt burden had doubled...

However, our debt was in foreign currency. The burden of our loan principal and interest payments had doubled.

Everyone was repeating to each other the saying: *"You should borrow in the currency you earn in."*

The hotels were being operated very successfully in terms of occupancy and demand, but we understood that taking on currency risk at the outset was a kind of financial suicide. Our refinancing applications to switch to rubles were being rejected by other banks.

A few years later, our investments would experience their second shock with Covid...

—

[1] In hotel operations, expenses are generally expressed as a "Percentage of Revenue" (%GoP). Staff Expenses ~20% (for 35-40 personnel), Food & Beverage cost ~20% (on F&B Revenue), Room & Cleaning, accommodation supplies, laundry, etc. ~5%, Rent, Tax, Insurance ~7%, Marketing & Sales ~8%, Online agency commissions, office, administrative staff, consultancy, etc., Management Expenses ~5%, Maintenance & Repair ~4%, thus total "Operational Expense" can be taken as ~45% of total revenue.

INVESTOR'S REPORT CARD

- ☑ Technical: Simultaneous, quality buildings.
- ☑ Legal: International chain agreements were complete.
- ☑ Budget: Initial investment costs were as planned.
- ✗ Financial Model: Currency risk (Currency Mismatch) could not be managed.
- ✗ Macroeconomics: Devaluation doubled the debt burden.
- ☑ Sales: Occupancy rates were high, but the currency was wrong.
- 💡 Golden Rule: "If your revenue is in Rubles, your debt cannot be in Dollars."

17

If People Don't Steal, Rats Steal; If Rats Don't Steal, Birds Steal...

One day I asked Aamir: "Hey, why don't you leave your work for even an hour?"



"Don't ask," he said, *"I can't even entrust it to the man I trust the most."* It turns out this is the business most prone to theft in the world! *"If people don't steal, rats will; if rats don't steal, birds will,"* he said. His solution was to gather his wife and friends from his village in India and post them at the head of every field.

He was planting wheat and barley on Rostov's famous, fertile lands. Mother Earth was yielding 35 kg of produce per hectare. He arranged financing from an Indian bank, lined up the best combine harvesters and tractors on lease, built his huge silos right next to the railway, and as the business expanded, he enlarged his plans. Every month, he bought new fields from villagers, reclaimed them beautifully with modern methods, and expanded continuously. Over time, he found himself among Russia's top 20 largest landowners!

Compared to India, Russia was huge, like another planet. Here, magnitudes like 10 hectares, 100 km, -10 degrees, 100 days were one thing in India and quite another here.

He stored his harvest in his own silos and sold it through advance agreements to large grain trading companies that export abroad, right

when prices typically rise by about 30% in winter. Honestly, we weren't expecting such figures when we first saw his cash flow and profit margins. He was very successful.

Then one year, a drought came. Aamir, with his calm demeanor, said, *"It happens, don't worry, it's even written in the Torah that a drought occurs once every 7 years. Let's just manage the process so nothing happens to the crop before harvest."*

We gathered to discuss how to manage this *"expected but unexpected"* change and got to work on our financial model. However, the model was a chaos dependent on 5 different weather scenarios we weren't familiar with and 10 separate macroeconomic variables. The formulas hidden in Excel and all those combinations, after a point, caused what felt like a *"brain freeze"* for all of us. Finally, one evening we threw in the towel: *"Please explain this to us in plain language!"*

"It's not easy. It's not like your classic financial models. We're growing something organic. Excel's capability and power aren't enough to model this," they said.



We are growing something organic. Excel's capability and power are not enough to model this.

It was a superb observation. Since that day, whenever I work on a agricultural project model, this comes to mind. One must think about food with a completely separate algorithm.

Those years were when de-dollarization trends were just beginning in Russia. As the Central Bank interest rates were coming down, it opened the path for refinancing at even lower rates for us. Through this opportunity, we would convert our foreign currency loan into rubles with another state bank. Our financial results were very good. Operating profit reached around 22%.

The bank also responded positively very quickly with nice surprises. The drought had given us the chance to turn the situation into an opportunity through refinancing. The positive relationship (history)

formed with the bank after 6 months offered us the opportunity to add another 150,000-ton silo next to our existing 100,000-ton silo, which was already insufficient. Thus, we also started providing silo services. We were earning $10 per ton just from this service. The grain stored in the silo circulated an average of 4 times within an agricultural year[1].

The silos paid for themselves in a few years. With the rising wheat prices globally at the time, the investments spent on field purchases, equipment, etc., paid for themselves in 2.5 years.

It was a tremendous experience. About 3 years later, when the *'Institutional Order'* was firmly established, Aamir was convinced and left the business to trusted assistants.

When speaking about Russia, he refers to it as both *"Mother Land and Mother Earth*" to emphasize its generosity...[2]

—

[1] *"Agricultural Year"* and *"Fiscal Year"* are completely different concepts often confused with each other. One is based on a natural/economic process, the other on an administrative/financial arrangement.

The agricultural year covers the period from the planting (or harvesting) of a crop to the planting (or harvesting) of the following year. In Russia, the agricultural year begins in the spring months (usually March-April) after the ground thaws and becomes suitable for planting. During this period, the first planting activities (spring grains, sunflower, corn, vegetables) are carried out. The agricultural year ends with the harvest in autumn (September-October).

The fiscal calendar year is a 12-month accounting period used by a company or the state to regulate financial activities, budget planning, and taxation.

In Turkey and Russia, the fiscal year for both the state budget and companies is the same as the calendar year (January 1 - December 31). In the world, however, fiscal year start dates vary; for example, April 1 for Japan, India, the UK, Canada; July 1 for Australia, Egypt; and October 1 for the US federal budget.

[2] The term *MotherLand* is commonly used in countries like Russia and India. It sees the land as a nourishing, fertile *"mother"* metaphor. *Fatherland*, on the other hand, is more common in Germany and Scandinavian countries, portraying the homeland as a protective, founding "father" figure.

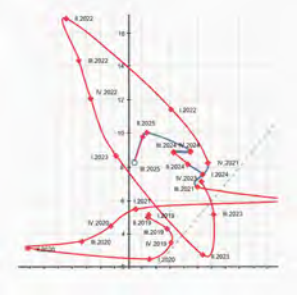
18

Don't Come to Me with Tables and Charts...

Recently, a friend told me he can no longer read a text longer than a paragraph in any language,

"Almost, if it's longer than an SMS, I can't read it."

This reminded me of the change in the last twenty years. I listed other examples. A friend in a high-level management position at an automobile factory said, *"When someone comes to me with tables and charts, I immediately have a psychosomatic reaction; I feel nauseous, I turn my head away, I can't look at them at all."*[1]



We were having trouble understanding these new strange syndromes. Then, another friend who has lived in Russia for 30 years confessed a similar weakness: *"I experience the same syndrome when I see A4 papers written in Russian,"* he said. He even felt uncomfortable just having them on the table.

However, in Russia, all official documents, regulations, and agreements are usually written in 12-point Times New Roman font, like a standard.[2]

**

It was the early 2000s. The world was experiencing abundant liquidity. Russia, like *a "gold rush,"* had begun attracting foreign investors to all its virgin areas. Especially the big cities were teeming with investors, consultants, experts, and exploration engineers from all over the world. They were strange years...

A French consultant, considered more moderate, was being placed between an Italian firm wanting to work and the Russians. The French consultant, like our American or German friends, was falling under Russia's spells and experiencing the changing Scandinavian tourist syndrome upon coming to Turkey.[3]

Prices were increasing geometrically; neither local nor foreign firms could keep up with the incoming work and orders. With arrogance and audacity, an extra zero was added to bids at the last minute to politely decline, and they were still accepted.

I have never encountered such a repellent atmosphere in Russia again...

It was during this period when the appetite for profit peaked that a great Peruvian businessman, Alejandro, decided to invest in an attractive energy project. The project was an investment in a gas-fired combined-cycle power plant to meet the electricity needs of a district in a city of one million. The cost inputs were coming almost 10 times cheaper than the electricity production costs in similar regions like nearby geography—for example, Europe.

The combined-cycle plant was a standard system. The mechanical energy from burning natural gas to rotate the gas turbine would be converted into electrical energy via a generator. The hot gases would be transferred to water through heat exchangers, then to a steam boiler, and from there, electricity would be generated again through a steam turbine and generator. The sales prices and the financial model matched Alejandro's experiences in other countries with convincing data and analyses.

A local partner was indispensable. A suitable person with some capital was found. A handshake was made immediately. The responsibility for administrative relations and commercial operations would lie with the local partner, and the rest would be financed by Alejandro with loans and his own equity.

**

All over the world, in investment calculations, the practical reference for years has been "1 million dollars cost to produce 1 MW." The

project was planned to be approximately a 100 MW plant. When calculating revenues, the plant's annual production (MWh) is found by: Capacity (MW) × Operating Hours × Efficiency (%).

In optimistic scenarios, 55% efficiency is calculated for stable years. So, a 100 MW plant × 8000 hours/year × 55% efficiency ≈ 440 GWh/year production, if sold to households at 6 rubles/kWh (Sale price 6000 rub/MWh), annual revenue ≈ 2.6 billion rubles (26.4 M€).

Fuel cost: Production × Gas price, i.e., 440,000 MWh × 800 rub/MWh ≈ 352 million rubles (3.52 M€/year). Adding operating expenses and deducting from revenue, the net income was found to be 2600 – 352 – 600 = 1.68 billion rubles/year (26.4 – 6 – 3.52 ≈ 16.88 M€/year).

So total investment: 10 billion rubles (100 M€), Annual net income: 1.68 billion rubles (16.88 M€), giving a Payback Period ≈ 10/1.68 ≈ 5.9 years, NPV (with 8% discount) ≈ 8.5-9 billion rubles (85-90 M€) (approximate value, assuming 20-year lifespan) and IRR ≈ 16-17% (approximate).

While his financial consultant's reports described these enticing figures, on the other hand, one morning, the legal consultants surprised everyone with a long-winded disaster scenario report.

The report was immediately brought to the boss. These risk analyses were so detailed that it is said Alejandro tore up the report in the meeting. Just like those A4 documents nobody wanted to read.

The construction work of the project was completed and operational in 18 months with tremendous performance. The plant ran like clockwork. Less than 6 months passed. And the unexpected happened. The local partner's capital was insufficient. He couldn't keep his promises and decided to withdraw. The local administrations did not want to take sides in this matter.

Delays and interest burdens suddenly began to strain those fancy financial models. We gave up... and one morning, operations were frozen until an indefinite date.

Alejandro is now in Lima.

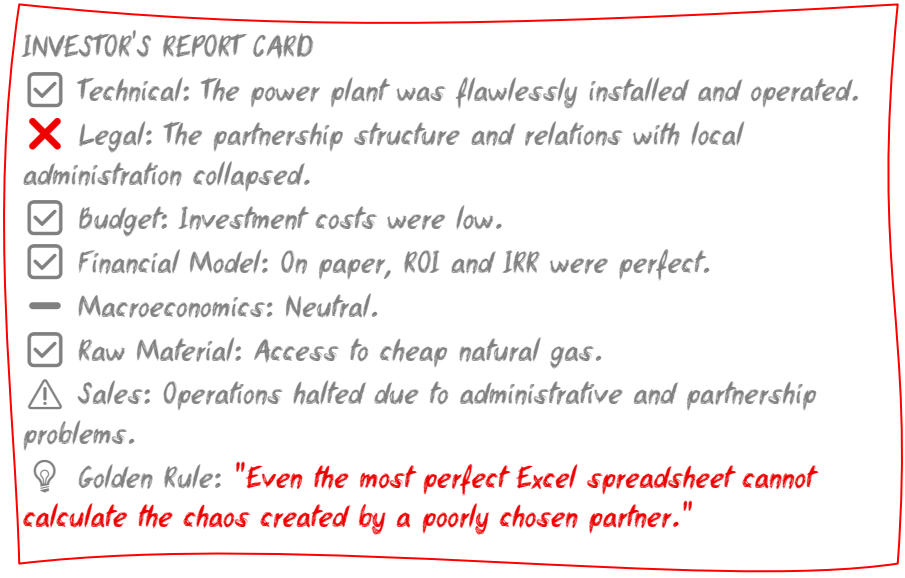
Whenever I see a difficult-to-read, lengthy risk report written in Times New Roman in Russia, I take it very seriously. I read it again, I have it read.

—

[1] "Psychosomatic" refers to the conversion of mental (psychological) processes into bodily (somatic) symptoms; for example, when psychological states such as stress, anxiety, or emotional conflicts a person experiences manifest as real physical symptoms like stomach pain, palpitations, shortness of breath, muscle and headaches, or sleep disorders.

[2] Recently, the US similarly announced that it will switch from "Calibri" to "Times New Roman" in official correspondence.

[3] In the 1980s, the expression "Scandinavian Tourist Syndrome" in Alanya was a term used for the situation where Scandinavian male tourists visiting Turkey quickly began to lean towards local behavioral codes.





Emotional Reasons...

In business partnerships, alongside mathematics, and perhaps even more important than it, is another element: establishing mutual trust. Why would we share our assets, our resources, with someone we cannot trust?

Therefore, we believe that if there is a partnership in an investment, the chemistry between the partners is more decisive than the financial appeal of the business.

In the majestic Caucasus Mountains of Southern Russia, nearly eighty different ethnic groups live within earshot of each other. Despite this, each, as if by a micro-endemic miracle, has managed to meticulously preserve its own deep-rooted culture for centuries. The socio-cultural bonds of trust are so strong that this state of trust naturally extends into business life.

A while ago, a phone call came. An elderly gentleman had read about us in the newspaper and found us. It was clear from his demeanor that he was a man of experience. His voice was resonant, impressive.

After briefly introducing himself, he launched into his story. He was of Circassian origin. His family was among those who migrated from the Caucasus to the Ottoman Empire in the 19th century.

People of Caucasian origin in Turkey have deep emotional ties to their homeland. Many still preserve their language, traditions, dances, and culture, as if defying time. One of their most typical behaviors is to research their ancestors and roots, reaching back eight or ten generations, with great nostalgia, as if embroidering a fine needlework.

Our new friend, after a sincere conversation, came to the main issue. He had enthusiastically taken action to revive a factory of vital importance to the region, on his ancestors' old lands. The project truly supported hundreds of families in the area. However, the operation of the facility had been disrupted due to a series of strange events.

The factory, abandoned to its fate, was a modern facility producing dry-mix plaster and mortar, high-strength gypsum, and drywall, equipped with German machinery brought in with a Hermes loan from Germany. It was built precisely here due to its proximity to raw materials like quartz sand, limestone, and perlite. It had the competitive power to rival brands like Knauf and Volma. Built for 100 million euros (1 billion rubles), it was refinanced a few years later by a major state bank using its assets as collateral. After a while, it couldn't repay its loans, a bankruptcy case was filed; the following year it was placed under supervision (nablyudeniye), and the year after that under financial

rehabilitation (finansovoe ozdorovleniye). Despite all efforts, the company was officially declared bankrupt (konkursnoye proizvodstvo).

The sale price would be determined at the bankruptcy auction and could drop to a maximum of 2 billion rubles – or even 1 billion rubles in the worst-case scenario. This situation created an opportunity for the party acquiring the assets[1] to obtain the investment at well below its actual cost.

Revenues, at market prices and operating at 100% capacity, were at the level of 1 billion rubles annually before tax. Even at 50% capacity, revenues of around 0.5 billion rubles were generated.

The payback period in this case was calculated at only 2 years. This meant an annual return (ROI) of nearly 50%, which was appetizing. That is, in the worst-case scenario, it would pay for itself in an extraordinarily short period of 2.5 years, and then generate billions of rubles in potential income. These figures made the investment extremely attractive, despite the legal and operational risks stemming from the bankruptcy.

**

As soon as you mention legal risks to an investor – especially a foreign one – they immediately get spooked. Even the word "court" shouldn't come to the table. A "clean" report should be obtained, and the issue should never be reopened. *That is, its importance should be known but managed in parallel.*

And in this project, we faced the same situation. Our friend from Turkey couldn't convince investors about the legal chronology and guarantees. Over time, they began adding problems like the large debt burden and high operational risks to their list of excuses.

"They're going to essentially flip the bank loan. Plus, we're far from the target markets," they said, politely declining. However, the real reason they couldn't admit was the legal uncertainties.

That idea and intention, which began with the emotional reasons we described in the *"investor psychology"* section at the beginning of the book, had succumbed to shades of gray. This had overshadowed the mathematical intuitions as well.

—

[1] In finance, assets are resources owned by a company from which future economic benefits are expected, such as cash, bank accounts, checks, stocks, bonds, receivables, goods awaiting production or sale, raw materials, buildings, land, machinery, equipment, and vehicles.

INVESTOR'S REPORT CARD

- ☑ Technical: Ready-made and modern German technology.
- ✗ Legal: Bankruptcy proceedings and past legal liabilities.
- ☑ Budget: Purchase opportunity well below asset value.
- ☑ Financial Model: Record payback period of 2 years.
- — Macroeconomics, Sales: Neutral.
- ☑ Raw Material: Quarries were right next to the facilities.
- 💡 Golden Rule: The gray shades of the law can fade the whiteness of mathematics.

20

Selling the Story

On a Mediterranean summer morning, a warm breeze gently wanders, carrying the sea's breath to the slopes of the Monteverde town. The first rays of the newborn sun shimmer like a golden greeting on the leaves of a five-thousand-year-old olive tree, still bearing the night's dew. A tiny droplet of water on a leaf trembles with a gentle breeze, sparkling as if winking at the sun.



We have captured that drop, distilling time and light from the tip of that leaf, and saved it for you in this bottle cradled in your hands.

"Brother, the Italians buy our olive oil in its raw state from us, fancy it up, bottle it, and sell it to the world for double the price."

Being accustomed to such skills: *"Of course they sell it! Good for them. Because they sell the story. They've been storytelling and selling the product since Leonardo da Vinci. The sun is the same, the wind is the same, the tree is the same, the Mediterranean is the same... You tell the story, you sell it too,"* I said.

**

A pasta giant from Konya. A deep-rooted and experienced group that knows Russian wheat, its varieties, and protein structure well. A giant that sells to the entire world. They are making rough calculations and reach out to us. They want us to find a facility in southern Russia, close to the sea. Their conditions: Product must come out of the pasta lines within 3 months.

Our response is quick. We politely remind them that 10 days in Turkey corresponds to 100 days in Russia, and explain the steps they need to follow one by one. Additionally, we say, *"Be a little patient, you are an export giant, you will also get incentives from the Russian state."*

"No need. We have no financial problems," they say. *"Just find a ready, empty facility; we'll dismantle and bring some of our machines, load them, and start selling to the same countries we're selling to now."*

"Impossible!" we say. They insist.

Still, for a few months, we send word to our friends: Is there a suitable ready place? There seems to be... But no. Every alternative requires meticulous examination: Who, what, rights, legalities, history... That is, its story.

They are not convinced... Finally, we gather one evening in Istanbul for a face-to-face meeting. We talk at length. We are prepared and resilient against that unbreakable prejudiced attitude mixed with arrogance. Our pragmatic approach impresses them, but the person across from us is a

merchant and if they wanted, they could add us to the menu at that dinner.

In the end, they convince us.

We continue searching for a few more months... As you might guess, no suitable place is found.

Finally, we bid farewell with mutual wishes for success.

**

About six months later... Another advertisement.

Life flows quickly, just like a river flowing towards the sea. Sometimes we struggle to catch it. So, what is it that anchors us and draws us to that harbor we call "home" at the end of the day?

That moment... This is not just a meal. It is an invitation. An invitation to stop, to catch your breath, to gather... Barilla, since 1877, has been kneading not just wheat and water, but memories. Because we know that the best recipes are written at a table surrounded by the people you love.

**

Advertising is an art of storytelling. What matters is not what the product being sold is, but what story it is presented with.

The lesson-worthy competition in pasta between Italy and Turkey, likely for the above reason, has been going in Italy's favor for years. While both have approximately the same sales capacity, and despite Italy having higher inputs for labor, energy, and imported raw materials, the former stands out with its ability to sell and sells at three times the price of the latter: 600 USD/ton compared to 1800 USD/ton.

While Turkey is strong in low-cost production with its own raw materials,[1] cheap labor, and energy costs, due to the EU and USA recognizing geographical indications for Italian products and imposing quotas on Turkish goods, Turkey is content with merely recording the situation under experience. Competition for Turkish producers is only possible in "other countries."

**

Yes... About three months later, the Italian Barilla announced it would build a large factory with a 600-ton/day capacity in a free zone near Moscow. The facility would produce its own flour from durum wheat, and with advantages in infrastructure, incentives, energy, and logistics/labor costs, it would secure a solid place with a broad market share within Russia and neighboring countries.

As this book was being written, we heard the factory would open at the beginning of the year.

**

It was later understood that our Turkish client was right in his suspicions. If a factory that was very cheap, very simple, and could be commissioned very quickly could not be found, Turkey had the advantage due to its raw materials, as it could produce its own durum wheat. In Russia, which is mostly an importer, the situation was complex. Although there have been efforts to increase local production in recent years, dependence on imports and the cost for high quality remained high.

Turkey also had port and logistics advantages. The established trust in the kitchens of customers in countries where Turkey had gained influence over the years provided significant contributions in Turkey's favor.

**

As for the mentioned investor, they got stuck on two of our famous seven criteria, and by not entering this adventure, *this time*, *they proved us wrong.*

—

[1] Durum wheat is different from Russia's much-mentioned bread wheat. Durum means "hard" in Latin. When this wheat is milled, it separates not into powder (flour), but into larger particles we call semolina. This hard structure ensures the pasta retains its shape while cooking. It is an indispensable raw material for its quality, texture, and nutritional value. That firm and resilient feeling the Italians call "al dente" is only possible with the strong protein networks in durum wheat. Thanks to its color pigments, it gives pasta that appetizing golden-yellow color. Bread wheat has a soft structure and causes serious quality problems in pasta production.

INVESTOR'S REPORT CARD

- ☑ Technical: In machinery, Turks are among the top 3 in the world.
- — Legal: Neutral.
- ☑ Budget: Ideal.
- — Financial Model: Neutral.
- — Macroeconomics: Neutral.
- ✗ Raw Material: Insufficient durum wheat in Russia.
- — Sales / Strategy: Neutral.

Golden Rule: "The product is made in the factory; the brand is made in the mind."



Yaşar is Neither Alive nor Dead

We are traveling again in Mediterranean countries. Let's give credit where it's due to the Mediterranean Sea, known in its time as the only sea, meaning between lands. From Ancient Greece to the Arabs, then back to Rome; they have played the lead role in the history book of civilization.

The word civilization means being urban. Urban communal life over time has created cultural codes within communities. For example, Mediterranean people have a relaxed and flexible sense of time; they are excitable, extroverted, social, and warm-blooded. On one hand, there is a richness of expression mixed with emotionality. They express their feelings openly.

And what do you know, they take great pleasure in hosting guests. Group activities that can only be explained by a passion for friendship, neighborliness, and taste occupy a large place in their cultural lives. Their food culture is very rich. Food is at the center of social life. Offering hospitality and having it accepted is an important behavioral pattern.

For instance, in Mediterranean food culture, cheese is a symbol of the culture of sharing at the table. In meze culture, cheese comes to the table as a "sharable" item along with olive oil, olives, and bread. Even in daily rituals, cheese is found in breakfast, appetizers, salads, pasta, pastries, even desserts; it is an element that touches every moment of the day.

In Russia today, restaurants are wonderful with their variety, entertainment, everything, except for one thing. When we go to a restaurant and order a cheese plate, we don't get proper cheese. Let's not be unfair; local Chechil and Circassian cheeses of all kinds are exquisite. There's also somewhat local mozzarella. But the other cheeses on the plate are soulless...

**

This time our friend is not from Italy, but from France. Jean Pierre... Married to a Russian lady. He has lived here for years. A French cheese master.

Over time, he plans to set up a cheese production facility in Russia to produce various French cheeses like Camembert, Emmental, Gruyère, and Comté from the goat and cow milk he knows and loves so well. After a few alternatives, we choose a splendid location a few hours from Moscow.

If a food investment is to be made in Russia, we absolutely and unconditionally advise our clients to be in close contact with the Ministry of Agriculture and to solve the financial structure with Rosselkhoz Bank, the de-facto bank of the Ministry. This is a very

valuable network for its broad information networks and knowledge of new trends by sector and segment.

We rolled up our sleeves with Jean Pierre. On the first day, he explained to us the cost inputs in livestock farming focused on dairy products. When we were surprised at how quickly we understand each other, I told him about our visit a few months ago with our team to the dairy giant Econiva, an investment by a German citizen.[1] Upon hearing this, as if I had caught him in his dreams, he took a long breath, smiled, and looked upwards.



Cost inputs in milk production are; feed expenses: 50% (the largest item), labor: 10%, animal health and care: 5%, shelter, equipment, and depreciation: 10%, energy and water: 5%, (if applicable) field expenses for feed production: 10%, general operating expenses and consumables, etc.: 5%.

As you might immediately guess, Russia, a world leader in agricultural output, provides an absolute cost advantage in almost every item, also with cheap energy supply. With endless agricultural land reserves, the state allocates land almost for free.

The investments, including facilities, animal shelters to be built on them, reclamation of fields, hay/grain storage and drying hangar, two greenhouses, cheese production plant, staff housing and guest houses, required approximately 2.5 million euros.

For dairy cows, Simmental and Montbéliarde breeds, suitable for cheese production, durable, productive, and good for both milk and meat, would be used. Starting with 20 cows in the first year and reaching 70 heads by the fourth year. Daily milk production of 500 to 1500 liters was targeted. For goats, starting with 40 Alpine goats and aiming to reach 70 heads, daily milk

In Russia, at the end of the day, what the Russians say goes.

production from 70 liters to 250 liters was planned. Milk was for cheese; kids were to be raised for meat.

Feasibility studies showed that in many scenarios, the project would reach a profit of over 1 million euros annually (or around 100 million rubles) by the fourth year. Since it was a very specific and special cheese, the goal was to obtain French *"Nature et Progrès"* and Russian organic certification with local production instead of import. This certification would allow the products to be sold 20% more expensive and increase customer trust in the products. Preliminary agreements had even been made with 4 restaurants and 2 stores in distant cities (St. Petersburg, Moscow, Yekaterinburg, Ufa, etc.). They would be sent specially to around 200 families. We had already convinced the banks of the project's feasibility.[2]

**

But everyone was saying, *"the goats and cows won't survive in this climate."* We said, "*they will survive,"* they said, *"they won't survive"...*[3]

"In Russia, in the end, what the Russians say goes..."

—

[1] The founder of EkoNiva is Stefan Dürr, originally a German farmer who started his venture in 1994. With 632 thousand hectares of agricultural land, he is one of the largest private agricultural landowners in Russia. Hosting over 110,000 dairy cows, he is Russia's leading raw milk producer. In 2024, producing 1.35 million tons of raw milk, its revenue reached 91.1 billion rubles. It has over 13,000 employees across nine regions.

[2] *"The mise-en-scène has changed;* ***comptroller*** *have become* ***financial analysts****."* It's like a joke but a bitter truth: Banks or incentive institutions *multiply the expenses accepted in the investor's model by two, and divide the revenues by half*. Until a middle ground is found, like a boxing match, the financial model must be defended in technical language and with patience so that mathematics wins again.

[3] "Yaşar Ne Yaşar Ne Yaşamaz" (*Yaşar is Neither Alive nor Dead*) is the title of Aziz Nesin's famous novel. It tells the story of Yaşar Yaşamaz's struggle with bureaucracy due to errors in population records, making him officially *"alive"* but also seen as *"dead"* simultaneously. The novel criticizes the absurdity and bureaucratic chaos in government offices through satire. According to bureaucracy's convenience, Yaşar *"lives";* when it's inconvenient, he *"does not live…"*

INVESTOR'S REPORT CARD

- ☑ Technical: French know-how and production knowledge.
- — Legal: Neutral.
- ☑ Budget: Costs (feed, energy) very low compared to Europe.
- ☑ Financial Model: High profit margins and niche market.
- — Macroeconomics: Neutral.
- ☑ Raw Material: Abundance of land and feed.
- ☑ Sales: Pre-orders and demand were ready.

22

Fish Heads

When people learned that fish heads were cats' favorite food, everyone's faces would sour, and then we'd say, *"wow!"*

It's a habit; when industrial investment is mentioned, one thinks of infrastructure, a simple box-like building, and machines. Machine costs can climb up to around 60% depending on production and equipment quality. But there is also an invisible item that, with increasingly stringent regulations year after year, disappoints both the investor, the bank, and the government.



The seriousness of this item usually comes up in the final stages of the project: *Wastewater Treatment...*

Textile, food, construction materials... No matter the type of manufacturing, water that needs to be disposed of after use is either expected to be connected to an existing communal treatment system, or the facility is expected to build its own autonomous treatment system. Especially in sensitive areas like dyeing, petrochemicals, separate treatment lines for biological, chemical, and physical treatment are mandatory. The investor usually wants to work with a treatment company from the country they buy the equipment from, so it works compatibly and integrated with equipment they have prior experience with. However, local authorities insist that the project design and approval processes must be done by local treatment providers, conforming to local environmental standards. Systems brought from outside often cannot be fully adapted.

**

Our client was a Greek animal feed supplier. They planned to bring fish heads from the Mediterranean via the Black Sea route, supporting its volume with other products taken from chicken slaughter farms along the way, to reach the Moscow region; here, after drying and cooking processes, they would sell to their biggest client, Nestlé.

After a few months of research, our location was determined from several alternatives close to this client. The Moscow Agglomeration[1] is larger than many European countries in terms of population density and three times the size of Greece. Therefore, it was quite ideal from a target market perspective.

When examining the facilities from the presentation, it was not as simple as it sounded. With sterile machines for slaughter-cutting, a daily 2-ton production capacity, laboratories, and +4 and -18-degree cold storage, it required quite a serious sanitary design...

After going through the usual three due diligence[2] stages with the client in parallel, we began preparing the financial model. The project closely

resembled the model the company applied in other countries. A local project designer was found immediately, and the system was explained.

But every time, repeatedly, we got stuck at a classic point: the technology item. The local engineering technologist wouldn't accept the existing project decisions and type, constantly demanding changes. These changes affected other project items that were in the final stages. The vicious cycle lengthened: it became 6 months, extended to 9 months, then reached 12 months. Meanwhile, we were also working on the budget for the financial model.

At the end of a series of meetings with the administration, the technologist indeed turned out to be right, and it was communicated that the treatment capacity needed to be increased.

We couldn't resist... Finally, our project was revised again. We had an initial project prepared by a local treatment firm and had cost calculations done. *The final version of the treatment system was reaching almost 30% of the investment...*

While this was the case, when this situation was reflected in the financial model, the EBITDA table completely fell apart. The payback period was increasing by 1.5 times. It was discussed over and over, "due diligence" reports were re-examined.

Finally, at the end of the 15th month, we gave up on the project. We were personally witnessing how EBITDA was turned upside down in a scenario where the investment cost increased by 30%, especially in an environmental item we were extremely confident about...

**

It must be said; *"There are excellent Greek restaurants in Moscow."*

—

[1] In economics, *"Agglomeration"* means the geographical concentration of firms in a specific sector or related industries in a single region. This clustering provides firms

with benefits like shared infrastructure, a pool of specialized labor, and proximity to suppliers.

Moscow and its immediate surroundings, according to some, with a population of 36 million, are larger than all European countries except Germany, France, the United Kingdom, Italy, Spain, and Poland.

[2] Technical, Legal, and Financial Review Reports (Due Diligence)

INVESTOR'S REPORT CARD

- ✗ Technical: Purification system could not be adapted to local norms.
- — Legal: Neutral.
- ✗ Budget: Purification costs skyrocketed to 30% of the total budget.
- ✗ Financial Model: Payback period increased 1.5 times.
- — Macroeconomics: Neutral.
- ☑ Raw Material: Logistics route and supply chain were planned.
- ☑ Sales: Ready buyers like Nestlé existed.
- 💡 Golden Rule: "Hidden costs (purification, infrastructure) are more painful than visible ones (machinery, building)."



Why Should Intermediaries Win

It was the first months of the Russia-NATO conflict. The business world, unable to foresee where the tension would lead, had largely lost its reflexes and instincts. While some foreign companies continued their operations, others went into a wait-and-see mode, and some transferred their assets to their managers. Domestic manufacturers were positioning themselves according to macroeconomic scenarios, and various simulations were circulating.

However, after a while, the environment calmed down, and most sensible companies continued their operations in various forms.

**

Over the last 10 years, Russia has pursued tremendous policies to reduce foreign dependence in industrial agriculture, especially in the fruit and vegetable sector. State support and subsidies provided for machinery and equipment modernization in the agricultural sector are seen by many experts as *the most effective*, *fastest-returning funds* in Russia's history. Despite this localization, Turkey, although its share

has shrunk in many areas, is still a major exporter; especially in the citrus (orange, lemon, tangerine, etc.) group, it holds a leading position.

Right at this time, a Russian bank mentioned they had a very attractive facility and requested us to contact a major fruit and vegetable exporter from Turkey.

The facility they mentioned was a large complex with approximately 10,000 m² of area, 10 large truck entrances, 500 kW electricity, with 5,000 m² of +4-degree cold storage inside, and equipped with automatic sorting and packaging lines. The company was an old and well-known firm; it had been operating since 2000. They had been working for years with Russia's large supermarket chains like X5 Retail Group and Lenta. With a daily processing capacity of 700 tons, their annual turnover reached 2 billion rubles (20 million euros). They were both trading and offering sorting-classification and packaging services. The sales price offered by the owner of the facilities was 800 million rubles.

We immediately conducted an accelerated financial review. The total value of their assets (buildings, facilities, machines) was 80% of the sale price. Since the company also had no serious loan debt; it turned out that the real value of the business could be much higher than the offered amount.

**

We immediately contacted one of the largest groups in vegetables and fruits, with their own fields and gardens in southern Turkey. They were already selling products to Russia and knew the market well.

We explained the project, the numbers, the potential, and the expectations. They were an internationally partnered group. They were quite impressed with the offer. From intermediary to intermediary, with packaging and logistics, the price inflated, increasing exponentially until it reached the end consumer on supermarket shelves.

They could see that the real profit and added value were in direct sales to the retailer. For example, a mandarin leaving the garden in Hatay (a southern city of Turkey) with a cost of 40 rubles/kg reached Moscow

by sea or via Georgia for 100 rubles; entered the supermarket at 150 rubles and was sold to the consumer for 175 rubles/kg.

With 20% general expenses, the following calculation emerged: Per Truck: Sales revenue: 20,000 kg × 150 rub. = 3,000,000 RUB Purchase cost: 20,000 × 40 = 800,000 RUB Transportation: 6,500 USD × 80 = 520,000 RUB (CIF) = 800,000 + 520,000 = 1,320,000 RUB, Customs (5% CIF): 66,000 RUB General expenses (20% of sales): 600,000 RUB

Total cost = 1,986,000 RUB, Net profit per truck = 1,014,000 RUB. With 28 trucks/month and 336 trucks/year, net profit = 340,704,000 RUB (4,258,800 USD) was calculated.

We, however, continued regular persuasion tours with numbers to increase the data in their hands and eliminate possible setbacks. "*You're already doing the difficult part, why don't you reach the end user yourself,"* we said.

With these numbers, including waste, it was seen that the project would pay for itself in 2.5 years. Looking at the picture, it truly seemed like a tremendous opportunity.

**

Ultimately, the our foreign potential investor asked for some time to discuss with their international partners.

It was exactly that period... An *'excessively politicized virus'* was circulating over the business world in the entire region.

They informed us, with regret, that they had put the matter on hold.

Such deals, if they are really good, don't wait long.

Indeed, a few months later we would receive news from the bank that *the facility had been sold to someone else.*

INVESTOR'S REPORT CARD

☑ Technical: Ready, operational, fully equipped facility.

☑ Legal: Smooth company transfer.

☑ Budget: Purchase opportunity below asset value.

☑ Financial Model: Doubling profit margins by removing intermediaries.

☑ Macroeconomics: Food inflation was favorable.

☑ Raw Material: Supply from our own orchard.

✖ Sales / Decision: Geopolitical fear and hesitation caused the opportunity to be missed.

💡 Golden Rule: **"The most expensive cost is indecision."**



The Market Is Already Yours, Produce Here

Numbers talk one way, then another. Statistics is *'an insincere science where results change depending on how data is calculated'*.[1]

Increasing, increasing, increasing...

Every few years, it's said that the housing and construction market in Russia is shrinking. I, on the other hand, each time express that there is actually no shrinkage, but rather the sector continues at full throttle.

There is a truth that hasn't changed in the last 30 years: The quality housing shortage since the Soviet era and the commercial construction sector never stopped. Especially in Moscow and its surroundings, a massive center in terms of population and economic density, this was never even a topic of discussion. Moreover, housing as an investment tool, both individual and institutional, always remained a safe haven. The state consistently sought the driving force of the economy in construction.

So, as a simple indicator independent of supply and demand, I have never witnessed prices falling; on the contrary, I have seen them increase at a pace that disregards inflation, even absorbing currency fluctuations in a short time.

Beyond this macroeconomic picture, sometimes to understand real movements on the ground, it's necessary to run microeconomic barometers and refer to sectoral practical indicators.

For example, *electricity consumption* in Organized Industrial Zones is a very clear indicator of *industrial growth*. Or in logistics, *truck tire sales* are directly an important statistic. Similarly, sales of trucks, tractors, and commercial vehicles also tell us about economic activity, industrial production, and the increase in *exports and domestic trade*.

Recently, a friend told me that the real compass of the economy is *uPVC windows* sales. *"Both yes and no,"* I said. *"Relying on such an indicator can be misleading; because there is a lag effect."*

Plastic windows are a good indicator too, but they are only a proxy reflecting the housing sector. Moreover, they need to be adjusted for seasonality, stocks, and housing delivery effects. So, reading the data correctly is a must. Similarly, shower cabin sales, just like furniture and white goods, indicate renovation trends; box and packaging sales show e-commerce volume.

I gave him the civil aviation example. I had heard from one of Turkey's leading airport operators: *If a country's economy grows by 1 unit, the civil aviation sector—meaning airport constructions, airline companies, and all service tiers—grows by 2 units.*[2]

Sector experts are familiar with lag effects when examining this data; because each indicator points to a different stage of the sector. For example, in construction, *cement* is a leading indicator of the initial stage, while *furniture* is a lagging indicator of the finishing stage. Being able to correctly track this chain of indicators is vital for investment timing and risk modeling of project financing.

**

We had met in Moscow with a world-renowned Hungarian door lock brand, introduced through a friend. They were also referencing their own sales for the country's economic growth.

When I said, *"You say the economy is good because lock sales are increasing, but maybe people are buying locks just because theft has increased?"* this time statistics gave way to laughter at the table.

Yes. Our client was right; their sales were going wonderfully. They had been growing successfully in the Russian market for about 10 years. Their product range was wide, they were known and loved in almost every region. We had a few meetings with them, visited their production facilities. They were both innovative and in command of the entire production line from A to Z. Their sales teams and representative structure in Russia were almost flawless.

We congratulated them. Their market knowledge was strong, and the trust placed in them was very valuable as their products were related to security. They were selling approximately 150,000 products annually at an average unit price of 40 USD; their profit margins were around 10%.

However, they were ignoring the advantages offered by translating this strong market position into local production. We saw no obstacles for production in Russia. The state was providing low-interest leasing opportunities even for second-hand machines. There were grant-like incentives. The product could be handled with a relatively simple production and assembly line.

We chose a location near the Moscow region. The calculations were clear, and the future customs advantages with the *"Made in Russia"* label, import substitution, and the opportunity to get a share from state tenders multiplied the project's appeal. Being the sector leader was almost guaranteed; moreover, profit margins would multiply with logistics and customs advantages.

Building: 1 million USD, renovation and infrastructure: 500,000 USD, and machines: 1 million USD, total investment cost amounted to 2.5 million USD.

The financing structure, with 30% equity (750,000 USD) and 70% credit (1.75 million USD, interest 7.5%), projected annual sales revenue of 150,000 units × 40 USD = 6 million USD. In this case, pre-tax profit (EBIT, with a 20% margin): 1.2 million USD, annual interest expense: 1.75 million USD × 7.5% = 131,250 USD, and post-interest profit: 1.2 million − 131,250 = 1,068,750 USD, net profit (after 20% tax): ≈ 855,000 USD was calculated.

After various scenarios, we had convinced the management with a payback period: 2.5 million / 855,000 ≈ 2.9 years ROI: 855,000 / 2.5 million = 34.2% ROE: 855,000 / 750,000 = 114%.

A general expectation for industrial projects, the bank and subsidized loan criteria of a 5-8 year payback period, showed an *exceptionally short period of 2.9 years* for this project. This indicated that the project was not only profitable but also extremely financially secure.

**

Still, our client turned out to be very conservative... The topic went into a few months of waiting, followed by a *"postponement"* decision.

Despite all these perfect financial ratios and state incentives, investors sometimes act according to *irrational risks*. For example, the long-term effects of political uncertainty or currency volatility can never be clearly modeled, creating underlying bad anxieties.

Our clients' sales are still increasing today...

—

[1] Mark Twain: "*There are three kinds of lies: lies, damned lies, and statistics*". Twain later stated that this saying belonged to British Prime Minister Benjamin Disraeli.

[2] In civil aviation, all airports are designed to be expanded by constructing additional terminals in the future. In other words, there is no completed airport building in the world. This principle is fed by the simple rule: If a country's GDP (Gross Domestic Product) is 1%, the civil aviation sector grows by 2% (*the 2x principle*).

INVESTOR'S REPORT CARD

☑ Technical: Simple assembly line, low technological risk.

☑ Legal: "Made in Russia" advantages and state support.

☑ Budget: Low investment cost (2.5m USD).

☑ Financial Model: Record payback (ROI) of 2.9 years, high profitability.

❌ Macroeconomics / Psychology: Political uncertainty (irrational risk perception).

☑ Raw Material: No metal supply issue.

☑ Sales: Already established customer base.

💡 Golden Rule: "If the market is already in your pocket, put your production there too. Otherwise, that market will eventually end up in the pocket of a brave local producer. The most expensive cost is indecision. In a crisis, the one who stops falls; the one who walks advances."



Waiting for Godot

It was 2019... I had given a seminar back then at the Turkish Businessmen's Association, naming it *'Investment 5.0'* to make it sound *'Impressive'*. There were quite a few curious people; we made a presentation to a serious crowd that grew more enjoyable as it went on. At that time, there were no issues in the economy and investment climate—no Covid, no NATO tension. At one point in the talk, we passionately touched on topics of acquisitions and mergers (M&A). Another term for this is "*the big swallowing the small*." It's quite precarious but an irresistible process in free capital markets. Indeed, around those very years, we began to hear the name of the anti-trust institution very often.

At one point in the talk, we spoke about old legendary Russian brands; saying *"a visible village doesn't need a guide,"* we were predicting that these would soon be acquired by large global companies. In these acquisitions, not even the names changed, and the end consumer very rarely had news of who was transferred to whom. Local medium and small brands, as all over the world, were melting away, disappearing without us even noticing, as part of the inevitable process. A large food chain was buying an old vodka factory and producing water, an international cola brand was buying a deep-rooted juice factory...

Acquisitions in those days were done entirely according to market norms. Such acquisitions have certain rules; we determine the value we are buying with a few methods. The most common is the EBITDA

multiple.[1] The general calculation is as follows: The profits arising from the company's operations are calculated and presented to the investor considering the purchase. This value is multiplied by an accepted multiplier in that sector in the market, say 4 or 5, then debts are subtracted from the resulting value, and cash in the safe or account is added. Finally, negotiations are made on the resulting EV value according to risks, and a handshake is made.

Soon the day changed, the wheel turned...

When the first months of 2022 arrived, that famous whisper began to spread from ear to ear: *"Oh no, they're going to leave! They're very uncomfortable but indecisive. They're starting to get scared, they're definitely going to leave. No, they're going to stay; some will leave, some will stay. Actually, no one is leaving, they're just pretending to leave. No, they've all already packed their bags. No no, they're all going to leave. No, they're all staying..."* and then,

Putin had the final say: *"Those who leave, leave; those who remain are ours."*

**

So who are they? What do they do? What did they do?

Yes, the people we are talking about are not aliens from space or temporary tourists. We are talking about those deep-rooted foreign investors who have been laboring, producing, and earning on Russian markets for years, at the focus of our book. The mass experiencing anxiety that their assets will be at risk and their market dominance shaken by the breaking of geopolitical fault lines, seeking a new and safe position for themselves... Generally speaking, the established investors of G7 countries anchored in Russia.[2]

While delving into the depths of investor psychology in the book's introduction, we had actually mapped out human psychology as well. I find this position-changing reflex as natural and understandable as the survival instinct. Making decisions about one's own assets and future is the most basic and indisputable right of a capital owner.

However, the real big picture behind these behaviors at that time was the struggle for existence of multinational companies in global trade wars. This situation should be read as a reflection of hegemony tensions between China and the USA, which especially peaked with Covid, and before that. It is essential to look from a perspective where the realities of financial flow and physical logistics have fundamentally changed.

Within a few months, a series of Western firms, to the astonishment of the entire sector from end-users to their own top managers, decided to halt, abandon, and sometimes exit the market. Everyone was asking each other the same question: *"Why?"*

These reflexes were behaviors unprecedented in trade life, even in Germany and France during World War II. *No, no one had an interest. Not only was there no net benefit, but they themselves were suffering clear, net losses.* Automotive sector, logistics sector, food, retail...

Nothing could be this hypersensitive.

What happened, where did they go? Did they leave? If they left, what are they waiting for? What is Russia waiting for or hoping for? Or has it charted its own course?

According to predictions nearly impossible to measure in practice; hundreds of firms announced they would withdraw, suspend operations, or remain on stage with hybrid formulas like "brand change." For us, these questions have no single answer; but it is known with crystal clarity that each choice follows a quite complex spectrum.[3, 4, 5]

In fact, in our opinion, none of them -in a long term understanding- left. Why would they leave? There is tremendous profitability here, a working mechanism. Many global giants were making their highest worldwide turnovers here. Moreover, we are talking about professionals who know Russia deeply, passionately attached to this geography. Many have married here, started families, or put down deep emotional roots. That temporary "expat" culture of the early 2000s has long been history. It has been replaced by a new generation of resilient foreigners who live settled lives, make ten-year plans related to here,

have become somewhat "Russianized," and adapted to the rhythm&culture of these lands.



That is why my personal predictions and opinion at this point lean again towards the 80-20% Pareto rule.[6] The remainers are the overwhelming majority, around 80%. Here, the issue is not actually the number. It's about creating a sincere and stable communication platform to turn the situation into an advantage for everyone. Because the state says at the end of the day: *"Okay, those who leave, let them leave, we can't force them to stay. For those who remain, we will continue our same generosity."*

Yes, the majority stayed... The ongoing operations and assets of those who withdrew were put up for sale under state supervision. But this time, contrary to that rational picture of 2019, EBITDA multiples were dropping to 1 or 2.

**

Sometimes I think, what could describe the state of mind of this futile waiting more strikingly than *"Waiting for Godot"*?[7] *"Being trapped in inaction by waiting for a savior to come from outside."* Actually, there is no rational reason. Russia no longer has an equation where it is "dependent" on anyone, neither the West nor the East. Relying on a *"magic wand"* from outside; postponing vital reforms for its sake, ignoring internal capacity, is just lost years of growing inefficiency.

What is the essence of foreign investment? Let's refresh our memory: The state builds the infrastructure, offers the incentives; the investor creates employment, pays taxes, boosts GDP. If it's an exporter, it's the cream of the economy. Over the past 15 years, Russia has gained tremendous experience and muscle memory in long-term cheap financing, public-private synergy, macroeconomic stability, and a favorable legal environment for reviving investments.

It doesn't even need to make such an extraordinary effort anymore. In fact, with minimal PR work, without any persuasion effort, a stable and strong investor flow will occur on its own, like water finding its way. And in a sustainable manner. Personally, I can clearly see this future from today. But this time, on this side of the table, there will be a Russia donning its proud charisma on the geopolitical chessboard...

Now that a few years have passed since the events, a calmer view is taken. The fact that *these chain reactions in the economy can sometimes reach such astonishing levels should definitely be taught to international relations students—specifically in finance and business.*

Market gaps have already been filled by new local friends...

—

[1] The EBITDA multiple is one of the most used metrics for company valuation by investors. It is the ratio of a company's operational profitability before items like interest, taxes, and depreciation (EBITDA) to the company's total value (Enterprise Value (EV)). That is, it answers the question: *"How many times the company's annual operating profit am I paying to buy this company?"*

[2] G7 countries: USA, Germany, United Kingdom, France, Italy, Japan, and Canada.

[3] According to some views, the data was surprising. The number of active German firms in Russia was almost the same as the Frankfurt stock exchange. The number reached around 5,000. The number of French firms was over 1,000, the number of Japanese firms around 150. While the number of Turkish firms hovered close to 1,000, after the NATO tension, these numbers reshaped to 3,500, 800, and 100 firms respectively. So, foreign companies mostly maintained their stance and resilience. For Turkish firms, there was practically no change. Neither increased nor decreased.

[4] Some leading firms that changed their operations in Russia in various ways after the Russia-NATO tension: Automotive Sector: BMW, Mercedes-Benz, Ford, General Motors, Toyota, Volkswagen, Volvo; Technology and Software Sector: Apple, Microsoft, Intel, IBM, Oracle, SAP, HP; Food, Beverage, and Retail Sector: McDonald's, Coca-Cola, Starbucks, Ikea, H&M, Nike; Finance: Mastercard, Visa; Energy Sector: BP, Shell, ExxonMobil; Logistics: Maersk, FedEx, DHL, UPS.

[5] From another perspective, according to Yale University data, after 2022, over 1,000 international companies withdrew or suspended operations from the Russian market. This situation created a gap of up to 40% market share for those remaining or new entrants.

[6] *Pareto Rule*, (Italian economist Vilfredo Pareto, 80/20 Rule) suggests that for most events, 80% of the effects come from 20% of the causes. For example, principles like 80% of a business's profit comes from 20% of its customers draw attention to the vital minority of 20% of efforts that yield the most results in business management, banking, insurance, time management, and productivity studies.

[7] Samuel Beckett's theater play *"Waiting for Godot."* In the play, two protagonists stubbornly and hopefully wait for someone named Godot. But that Godot never arrives. Who Godot is, what he will change when he comes, is unclear. This passive waiting that goes on for years depicts, both individually and socially, the vicious cycle, inertia, and paralysis of the will to determine one's own fate created by pinning hopes on an external savior.

Postlude

In the end, we are human... We perceive the world with our five senses; *we see, touch, and feel.* However, in the world of commerce and investment, we must have a sixth sense: *Time.*

'A well-adjusted watch does not waste even a second! And everyone knows that **a watch either runs behind or ahead.** There is no third way in this business.'[1]

Let's not just pass over the classic merchant logic of 'time is money'. The businessperson's intuition navigates on the plane of time and space. If they cannot sense that 'light' in a project, they move away from it with an impulse that logic cannot explain. And they are usually proven right. Because what we call intuition is not an inspiration descending from the sky; it is experience itself, the sum of the blows one has taken.

The ultimate goal of a commercial venture is simple: To *reduce cost, to increase profit.* But this is possible not at the desk, but with the realities on the ground. If our business is wood, we must be in the heart of the forest; if it is agriculture, our feet must be on fertile soil; if it is automotive, our suppliers must stand right beside us.

That is, as Tanpınar said: *'The watch itself is space, its movement is time, its adjustment is man.'*[1] The adjustment of investment also lies in being in the right place at the right time.

Moreover, time now flows much faster and more mercilessly than before. The cost of wrong timing is much heavier than we imagine. Today, those content with Industry 3.0 will be extinct tomorrow. Moving rapidly to 4.0, even 5.0, is not a luxury but a survival necessity.

I am not a fortune teller. I merely analyze investment, construct positive and negative scenarios. I calculate its credibility, risk, and return. This is my work and my craft.

However, the soul and vision of the investment are born from you, the investor; the real master and captain at the wheel of this business is him.

Russia, as it was yesterday, is today the most ambitious *game-changer* of its region. Although shaken at one point, it has regained its *'market-setter'* identity since the 2000s. On this adventure with its risks, opportunities, and all the accompanying generosity; we must often remind ourselves why we are here and where we are. In this journey, in order not to lose our direction amidst the encountered uncertainties and offered opportunities, we must regularly reflect on our reason for being and the point where we stand.

There is a very clear fact; waiting longer in this historic and distinguished process between Russia-Global diplomacy is a great loss of opportunityfor the foreign investor.

**

It was around 2005. My path crossed with a bank by chance; my task was to review investment projects and credit requests with an engineer's eye. From that day to this, finance and technical matters have blended in my professional life. At every stage of project financing, I specialized in creating financial models, especially for banks and state institutions.

I am independent. That is my greatest support. Because the work I do is a kind of *'intellectual craft'*. Therefore, I must have no organic

connection with any institution, party, or interest group; and indeed I do not.

So, why am I here? There is an *'inherently twofold'* pain in the nature of industrial projects: The necessity for technical and financial reflexes to work simultaneously, in perfect harmony. Unfortunately, today engineers still work disconnected from finance, and economists work hesitant of technical terminology. While banks cannot fully read the technical risks of a project; entrepreneurs cannot translate their 'perfect' projects into the language of bankers. It is precisely in that missing link that I find myself, serving as a *'bridge'* between the investor and the financial world.

What do I offer? I guide the investor at that critical 't=0' moment to find the most correct location, the most suitable infrastructure, and the most efficient incentive models. But as the elders said, 'the devil is in the details.'

The job doesn't end with just choosing a location; I bring dozens of interconnected subheadings to the table, from the ground to energy capacity, from equipment selection to tax optimization.

For all these elements to be successful, it is essential that the process be managed under a single roof, with a holistic perspective. An error in one item destroys another. Every decision is responsible for the others and for everything.[2] To ensure this consistency, the necessity arises to work with a *'tailor-made'* method.

A century ago, master tailor craftsmen would personally make every stitch, work every detail with great responsibility. The sole aim was the perfection of that work. Then someone[3], to break dependence on the master and increase speed, divided the work into parts. 'Mass production' brought macroeconomic success, but severed that deep emotional bond established with the soul of the work.

My effort is to maintain that honest plane while the project is underway; to see the process, no matter how difficult, as a duty and an uninterrupted field of endeavor.[4]

I offer my congratulations and thanks to everyone who has read patiently up to this point.

The author and publisher have made every effort to ensure a *beneficial result*; we apologize for any unintentional errors. Should any words herein have unwittingly caused offense or been open to misinterpretation, we humbly beg the reader's pardon.

With the wish to light someone's path at the right time and in the right place…

—

[1] Quote from Ahmet Hamdi Tanpınar's novel "*The Time Regulation Institute*." It questions the interconnectedness of time, space, and human experience, suggesting that the watch itself is a space (the place where time flows), its movement represents time (the movement of the watch), and its adjustment is under human control (how man lives and manages time), implying that time and space only exist with human involvement...

[2] *"Everyone is responsible to everyone else, for everything."* (Каждый за всех и за всё виноват). This famous statement appears in Fyodor Dostoevsky's masterpiece *The Brothers Karamazov* and develops the idea of "collective responsibility."

[3] Henry Ford (1863–1947), founder of the Ford Motor Company, which revolutionized the business world. He did not invent the automobile but developed the moving assembly line system, bringing production to an immense speed. This reduced the production time of a vehicle from 12 hours to about 90 minutes.

[4] Andrey Tarkovsky (1932–1986) is considered one of the most important and influential directors in cinema history, also for his theoretical work. He saw cinema not as a tool of entertainment but as a *"spiritual act."*

4 Banks – 4 Approaches

Private banks provide critical time savings in projects due to their agility and flexibility. Nevertheless, both private and state banks can implement stringent sanctions with post-credit audits and covenants (kovenant). Therefore, when deciding on a credit offer, the "Total cost of borrowing," which includes the operational speed advantage and other contractual terms, should be evaluated. Over the years, I have observed these differences in credit policies among major state and private banks for investment projects, which I would like to summarize here.

Sberbank: The most conservative bank. Cash flow is the most important criterion. Its covenant set is broader. It favors long-term relationships. It is more favorable towards state-connected companies. Aims for stable relationships. While collateral priority is moderate, its DSCR sensitivity is high.

VTb: More open to sector-specific projects. Offers more flexible rates for large projects. Places greater emphasis on collateral compared to Sberbank. More pragmatic regarding restructuring. Provides more flexible credit terms and frequent renegotiation opportunities. DSCR sensitivity is high, and the number of covenants is moderate.

Alfa-bank: As Russia's largest private bank, Alfa-bank stands out for its market orientation and speed. While its credit flexibility is higher than Sberbank's, it does not engage in massive projects on the scale of VTb. It avoids gray areas, focusing on profitability and cash flow; DSCR sensitivity is very high, and collateral priority is medium-high. It prefers liquid collateral (cash, etc.). Its systems detect covenant violations in real-time. It mandates ancillary products like payroll services and leasing.

Sovcombank: Known for its aptitude in complex financing models. Creates custom solutions for "challenging" projects. Credit flexibility is high, and DSCR sensitivity is balanced. It may demand a pledge/option on company shares. The number of covenants is moderate, and it is relationship-oriented; access to top-level decision-makers (C-level) is quite easy.

Cash flow being more important than profit, the almost mandatory submission of financial statements for the last 3 years, the soundness and employer diversity of construction companies' completed and delivered projects over the last 2 years, tax payment discipline – these are typical criteria Russian banks examine. Additionally, the consolidation of group companies is scrutinized carefully. High turnover with weak cash flow, healthy profit but weak DSCR, and the concealment of intra-group debts are very sensitive issues.

In the interest of being analytical, I will share, on the following pages, **7 fundamental ratios** I have determined based on bank offers and covenants, as a reference source for CFOs. Analyzing these ratios and ensuring they are in a healthy state before initiating contact with banks strengthens banking relationships and significantly accelerates the credit process.

7 Ratios Russian Banks Look At

1. Liquidity Ratios (Ликвидность)

Current Ratio (Коэффициент текущей ликвидности): A ratio indicating a company's liquidity status. The ratio of current assets to short-term liabilities measures its ability to meet obligations. This ratio, i.e., **Current Assets ÷ Short-Term Liabilities ≥ 1.2** is expected. A value of 1.2 and above indicates the company can comfortably cover its short-term debts. A low current ratio implies short-term cash crunch and credit risk. It is one of the fundamental indicators in debt management.

Acid-Test (Quick) Ratio (Коэффициент быстрой ликвидности): A liquidity ratio showing a company's capacity to pay its short-term liabilities (STL) without selling its inventory. Since inventory is generally not liquid, this ratio more accurately reflects the real cash payment strength. The ratio of **(Current Assets − Inventory) ÷ (STL) is expected to be ≥ 0.8.** Typically, 0.8 and above indicates the company can comfortably meet its short-term obligations.

For example, if the Current Ratio is 0.95 and the Acid-Test Ratio is 0.6, the bank would conclude: "Short-term obligations cannot be met." Especially for working capital loans, applications are often rejected due to weak liquidity.
2. Indebtedness & Capital Structure (Финансовая устойчивость)

2. Debt-to-Equity Ratio (Leverage) (Коэффициент финансового рычага):

Shows the level of a company's financial leverage. The ratio reflects how much the company is financed by debt and indicates credit risk. The ratio of **Total Debt ÷ Equity is expected to be ≤ 2.0. A value of 2.0 or lower indicates a healthy debt/equity balance.** A higher value signals excessive borrowing risk and potential financial distress; the bank may request additional collateral or an interest rate increase.

Equity Ratio (Коэффициент автономии): Indicates what portion of a company's assets is financed by equity. A high ratio signals that the company has low dependency on debt and is financially more resilient. The ratio of **Equity ÷ Total Assets is expected to be ≥ 0.3.** A value of 0.3 and above means at least 30% of the company's assets are financed by equity. A low ratio points to high indebtedness and financial fragility risk; additional collateral or covenant demands may arise.

Excessive Indebtedness
Debt/Equity: 3.5, Коэффициент автономии: 0.18
Bank's comment: "Company is excessively leveraged, equity insufficient."
Result: Rejected or high collateral demanded.
Or,
Revenue exists, stability does not: Выручка: High, YoY growth: −25%, Sector: Stable sector

Bank's comment: "Business model not sustainable."

Result: Rejected or loan term shortened.

3. Profitability Ratios (Рентабельность)

Net Profit Margin (Рентабельность продаж): A profitability ratio showing how much net profit a company earns from its sales revenue. A high margin indicates good cost control and revenue efficiency. The ratio **Net Profit ÷ Sales Revenue (Выручка)** is expected to be positive. A negative margin indicates the company is operating at a loss, making it difficult for banks to grant credit.
Return on Assets (ROA) (Рентабельность активов, ROA): Shows how much profit a company generates using its total assets. ROA measures asset efficiency and management performance. The ratio **Net Profit ÷ Total Assets is expected to be ≥ 3% (a minimum value of 3%** indicates the company is profitably utilizing its assets effectively). For banks and investors, a low ROA can increase debt repayment risk and lead to stricter credit terms.

Profitable but no cash:
Net profit: Positive, DSCR: 0.9, Денежный поток: Negative
Bank's comment: "Accounting profit exists, but no debt service capacity."
Result: Rejected.
Russian banks' criterion: Cash Flow > Profit

4. Debt Service Capacity (Обслуживание долга)

Interest Coverage Ratio (Коэффициент покрытия процентов): A ratio showing a company's capacity to cover interest expenses with operating profit. A high ratio means the company can comfortably service its debt. The ratio **EBITDA ÷ Interest Expense is expected to be ≥ 2.0** (a value of 2 or above indicates the company can reliably meet interest payments).
Debt Service Coverage Ratio (DSCR) (Коэффициент покрытия долга, DSCR): A ratio showing a company's capacity to cover total debt service (principal + interest) with operational cash flow. The ratio **Operational Cash Flow ÷ (Principal + Interest) is expected to be ≥ 1.2** (a value of 1.2 or above indicates the company can comfortably service its debt).

5. Cash Flow-based Ratios (Денежный поток)

Operational Cash Flow to Debt Ratio (Покрытие долга денежным потоком):

A high value in this ratio indicates the company's capacity to repay its debts based on operational cash flow, rather than just profit. The ratio Operational Cash Flow ÷ Total Debt is used to assess that profit alone is insufficient; it measures the reliability of cash flow for debt service and credit risk. A higher ratio strengthens the company's creditworthiness.

6. Operating Efficiency (Деловая активность)

Accounts Receivable Turnover (Оборачиваемость дебиторской задолженности):

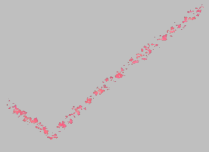
A high ratio indicates the company is able to convert its receivables into cash quickly and has strong liquidity management. A high Sales Revenue ÷ Average Accounts Receivable ratio shows that the collection period is short and cash flow is managed effectively. A low ratio signals that receivables remain outstanding for long periods, indicating a risk of cash flow tightness.

Inventory Turnover (Оборачиваемость запасов): An operating efficiency ratio that shows how quickly a company sells and replenishes its inventory if the ratio is high. A fast Cost of Goods Sold ÷ Average Inventory relationship is expected. Slow turnover carries the risk of cash flow tightness and increasing inventory holding costs. Slow turnover = liquidity risk.

7. Growth & Stability

Revenue Growth (YoY) (Темпы роста выручки): Stable and positive revenue growth is expected from the ratio (**Current Year's Sales Revenue – Previous Year's Sales Revenue) ÷ Previous Year's Sales Revenue × 100.** Sudden declines are evaluated as red flags and may necessitate additional collateral or covenants.

Example scenario mentioned earlier:
High revenue but declining trend: Revenue: High, Year-over-Year Growth: -25%, Sector: Stable sector.
Bank's assessment: "Business model is not sustainable.«
Result: Loan application rejected or loan term shortened.



Part III

Russia Business Glossary

Russian Business Glossary

An investment project is like a ship setting sail from the shore, where the investor is the *captain*, and the head of the crew steering the right course is the *finance manager*. However, in the world of finance, there exists a *classic CFO dilemma* that occasionally plunges company owners into confusion. Finance managers are divided into two fundamental types: the *"Inside Man"* and the *"Outside Man."* These two profiles often struggle in each other's areas of expertise and even tend to avoid them.



The first type is distinguished by operational expertise and is focused on *accounting and taxation*. Typically coming from a background in financial consultancy, this CFO knows the company's inner workings, or the "books," down to the finest detail. They minimize internal risks through regulatory compliance, tax planning, and cost control, meticulously preserving corporate memory. However, this profile tends to be weak in seizing market opportunities and developing strategic relationships with banks.

The second type of finance manager is entirely *treasury and bank-focused*. With a corporate finance background, this manager concentrates on funding sources, credit limits, and cash flow management. They secure cost-effective loans from banks, enhancing the company's market value and providing the necessary "fuel" for growth. Yet, accounting details and complex tax regulations are tedious for this profile, paving the way for operational errors.

The division between these two types stems from differences in perspective and language. One focuses on the past and records, while the other looks to the future and projections. In today's volatile economy, *"Hybrid CFO"* models that combine these two skill sets are in high demand. Because a company that cannot manage taxes loses the money it earns, while one that cannot manage banking relationships becomes stuck due to a lack of capital.

If a finance manager is weak in one of these areas, it is essential to bring in a strong assistant to compensate for the deficiency. Because *"process comes before substance."* In Russian bureaucracy, as in tax regulations, formal requirements are as vital as content.

On the employer's side, working directly with an independent strategy manager who also considers legal and political parameters will be the most comfortable approach.

Therefore, in our terminology and glossary work, we have progressed along four distinct axes: *Macroeconomics, Banking, Investor, and Tax and Legal Terms.*

MACROECONOMICS GLOSSARY

Economic Growth: Economic growth refers to the total increase in the quantity of goods and services a country produces from one year to the next, typically measured through Gross Domestic Product (GDP) data. For instance, if a furniture workshop produced 100 tables last year and increased its production to 105 tables this year, it means it has grown by 5% in volume. This concept, rooted in increased production and income, aims to provide citizens with better living standards and opportunities.

However, when analyzing growth figures, nominal growth should not be confused with real growth. Nominal data can make the economy appear as if it has grown even when production hasn't increased, solely due to inflation. To measure real performance, it is necessary to strip GDP of price increases. This process eliminates the *"price bubble"* by calculating the production quantity using the previous year's prices, revealing the physical power of production.

Value: *The real and economic worth of an asset.* | ***Price:*** *The amount for which it is bought and sold in the market.*

Gross Domestic Product (GDP): GDP is the total value of all final goods and services produced within a country's borders over a specific period (usually a year), calculated at market prices. Everything sold is included, from bread baked in an oven to cars in a factory, from barber services to software code. It corresponds to expenditures and income. Like an equilateral triangle, the amount of production in a country equals the amount spent, and this spending results in equivalent income.

Per Capita Income: This concept, which citizens often approach with skepticism, does not represent the actual money in an individual's pocket but a general average. Per capita income is based on the assumption that total GDP is divided equally among the country's population and represents the "per capita share of the economic pie."

Per Capita Income = GDP | Mid-Year Population

This method does not reveal inequalities in income distribution; it only roughly indicates the level of the country's total production power relative to its population.

Income Distribution (Gini Coefficient): Income distribution is the way total created income is shared among different segments of society. The Gini Coefficient measures how fair this distribution is on a scale from 0 to 1. A coefficient of 0 means "perfect equality" (everyone has the same income), while 1 means "perfect inequality" (all income belongs to one person). This value is around 0.36 for Russia.

Purchasing Power Parity (PPP): A method that equalizes the real purchasing power of different currencies by eliminating differences in price levels. In this case, the Ruble's real power in the local market is much higher than its value in the exchange rate. While Russia is the world's 11th largest economy by official exchange rate, it climbs to 5th place on a PPP basis, surpassing even Germany.

Budget: A strategic forecast document that plans revenues and expenditures for a specific period. The primary source of revenue is taxes; expenditure items include salaries, social benefits, and public investments. Governments running a deficit cover the difference through borrowing. Generally, the ratio of the budget deficit to GDP should not exceed 3%. This ratio is around in the 1.5% - 2% band in Russia.

Current Account Balance: The "wallet of the external world," showing the net result of a country's transactions with the outside world. *Current Account Balance = (Goods and Services Exports + Other Income) - (Goods and Services Imports + Other Expenditures) ± Current Transfers.* If the result is negative, there is a current account deficit; if positive, a surplus. Russia has a surplus economy.

Trade Balance: Focuses solely on the exchange of *"physical goods"* (excluding tourism and services). Russia, as a major energy exporter, had a trade surplus of 65 billion dollars by the end of 2025, despite Western sanctions.

Government Borrowing: Public borrowing is divided into domestic and external based on its source. The government raising funds from its own citizens or local institutions is domestic borrowing; obtaining resources from foreign banks and international organizations is external borrowing. However, in the modern economy, the currency in which the debt is incurred is more critical than its source. For debts taken in foreign currency, regardless of whether the source is domestic or foreign, the government assumes *"exchange rate risk."* When the local currency depreciates, the principal and interest burden of the debt automatically increases.

Government Domestic Borrowing: Domestic borrowing, where the government borrows in its own currency from banks or citizens within its borders, is typically carried out through Treasury Bills and Government Bonds. The biggest advantage of this method is that it carries no exchange rate risk; however, the government's intensive use of cash in the market can lead to higher interest rates. Debt/GDP ratio of G7 countries averages over 100%. Russia uses ruble-denominated bonds, managing the process with a domestic debt ratio of around 15-17%.

Government External Borrowing: Resources that the government obtains in foreign currency from foreign institutions to finance infrastructure projects and cover budget deficits. Turkey has a structure that requires external resources to finance its growth;

as of the end of 2025, its public external debt stock is 210-220 billion dollars, with a ratio to GDP of around 18-20%. Although this ratio appears manageable by world standards, volatility in exchange rates directly affects costs. On the other hand, Russia, with a symbolic external debt of 35-40 billion dollars as of early 2026, has one of the lowest ratios in the world. Russia's external debt-to-GDP ratio has fallen below 3%.

Reserves: Assets held by Central Banks for financial credibility and assurance. Russia, due to sanctions, has abandoned its dollar and euro reserves, turning to gold and Yuan.

Fiscal Policy: The process by which a state manages its own revenues and expenditures to control the economy, foster growth, or reduce inflation. This process is carried out with two main tools: public spending (infrastructure, salaries, aid) and collected taxes. The government follows two strategies: If the economy is sluggish, it stimulates the market by lowering taxes and increasing spending. Conversely, if the economy is "overheated" (high inflation), it curbs spending and raises taxes to withdraw excess money from the market and slow down price increases.

Inflation: The continuous increase in the general price level of goods and services. It requires an overall increase in the "consumer basket," which contains hundreds of products, not just specific ones.

Deflation: The continuous decline in the general price level. It is dangerous for the economy as it leads to postponed spending and unemployment.

Recession: When the economy shrinks for two consecutive quarters (6 months).

Slumpflation: The most severe crisis state where high inflation and economic contraction occur simultaneously.

Stagflation: The combination of economic stagnation and inflation.

Devaluation: The deliberate reduction in the value of the local currency against foreign currencies.

Unemployment: An unemployed person is someone over the age of 15 who has been looking for work in the last month and can start immediately. In Russia the rate is historically at its lowest level (2.4% - 2.8%), leading to a *"labor shortage."*

Minimum Wage: The base wage considered necessary for a worker to live a decent human life. In Russia (MROT - Minimum Wage), it is updated based on the cost of living and labor needs.

INVESTOR GLOSSARY

Capacity Utilization Rate: A key indicator showing how much of their existing potential factories are using. This ratio directly influences Central Bank decisions and inflation. A rate exceeding 85% indicates excessive demand and overheating, while falling below 70% signals halted investments and layoffs. In Russia, due to sanctions and production constraints, it has declined to 78%. This ratio gains meaning when read together with the Purchasing Managers' Index (PMI); increasing production while the utilization rate is falling heralds increased efficiency in industry.

PMI Index: The best parameter showing the real situation in the manufacturing and service sectors. A value above 50 indicates expansion, below 50 indicates contraction. This index is based on surveys measuring the tendencies of companies' purchasing managers. In Russia, it shows heterogeneous characteristics across sectors, but the trend remains around the 50% mark.

Import Substitution: The primary goal of this industrialization model, which aims to produce domestically goods that are purchased from abroad, is to strengthen the domestic industry by reducing foreign dependency. For Russia, these processes, which have become vital policies post-sanctions, can be tracked via the GISP portal and the Industrial Development Fund (FRP).

Commodity Market: The common name for raw materials (gold, oil, wheat, etc.) that are traded and used in production. For a good to be considered a commodity, it must be of standard quality worldwide. Russia uses its strength in oil, natural gas, and grain production as a strategic economic shield against sanctions.

Operating Profit: The profit a company earns solely from its *"core business."* It is the figure remaining after subtracting production costs and general administrative expenses from revenues. It indicates the company's operational success, excluding side incomes such as interest or stock market gains.

Cost (Себестоимость): *The expense incurred to produce a product/service.* | ***Expense (Расход):*** *Expenditures made to sustain operations (rent, salaries, etc.).*

EBITDA: (Earnings Before Interest, Taxes, Depreciation, and Amortization); represents a company's gross operational profit before accounting for taxes, loan interest payments, and the accounting item of depreciation (wear and tear allowance for machinery, equipment, or fixed assets).

This figure is calculated by adding back *"depreciation*" expenses to the operating profit. Depreciation is recorded as an expense but does not represent an actual cash outflow. EBITDA shows, in its purest form, how much *"cash generation potential*" a company has from running its core business alone. This figure is indispensable for investors and analysts in the financial world because it allows for a fair comparison of the operational efficiency of companies with different tax rates or debt structures.

Budget (Бюджет): *Planned revenues and expenditures.* | ***Cash Flow (Денежный поток):*** *Actual inflows and outflows of money. A budget can be good, but cash flow can be problematic.*

EV/EBITDA Multiple: A fundamental valuation ratio calculated by dividing a company's total Enterprise Value (EV) by its annual operational profit (EBITDA). It indicates how many years it would take for the business to pay back its acquisition cost. This ratio is found by dividing the real cost (Enterprise Value, which is market value plus debt, minus cash) by the EBITDA figure, which represents cash generation power.

Net Profit: The *"final"* money left in the owner's pocket after all expenses are deducted. It is the result obtained after subtracting bank interest, taxes paid, and all other expenses from the operating profit. It is the ultimate profit that the company can distribute to its shareholders or retain in its treasury for new investments.

OPEX (Operational Expenditures): Routine expenditures a company makes to sustain its daily operations. Salaries, rent, bills, and marketing expenses fall under this category. OPEX management is directly related to the company's daily efficiency.

CAPEX (Capital Expenditures): Long-term, large-scale expenditures a company makes to increase its current capacity or develop its technological infrastructure. Constructing a new factory or purchasing machinery falls under CAPEX and creates value-generating fixed assets on the balance sheet.

NPV (Net Present Value): The value today of all cash inflows a project will provide throughout its economic life, discounted to account for the time value of money (discount rate). NPV analysis answers the question, *"How much profit will I have made in today's money when this project is finished?"* If the result is greater than zero, the investment is considered profitable; it is of vital importance, especially in inflationary economies.

IRR (Internal Rate of Return): The discount rate that exactly sets the NPV of an investment to *zero*; it represents the annual return percentage inherent to the investment itself. Companies typically compare the IRR value with bank interest rates; if the IRR is higher than the interest rate, the investment is considered rational.

Payback Period: Calculates how many years it will take to recover the principal amount spent on an investment through the cash flows generated by the project. The focus of the analysis is "speed and security" rather than profitability. The shorter the period, the less risky the project is perceived; however, it is limited as it does not account for profits after the principal is recovered.

Sensitivity Analysis: A scenario analysis method that tests a project's resilience by measuring the impact of every possible variable. By creating multiple scenarios, the project's resistance to potential risks is measured.

FINANCE AND BANKING GLOSSARY

Central Bank Interest Rate (Policy Rate): The most fundamental mechanism ensuring the functioning of the financial system. Banks borrow from or lend to the Central Bank to utilize their cash surpluses at the end of the day or to cover cash shortfalls. This process is conducted at pre-announced interest rates, which form the *"cost base"* for all loans in the market. An increase in the policy rate directly translates into higher consumer, commercial, and credit card interest rates.

Real Interest Rate: The key indicator used to understand whether money is not losing value against inflation and how much purchasing power is actually increasing. It is calculated by stripping the *"expected inflation*" rate forecast for the end of the deposit period from the nominal interest rate. If the result is positive, the money's purchasing power is increasing; if negative (negative real interest), the money is eroding against inflation. Although the Central Bank of Russia keeps nominal rates high to defend the Ruble and suppress inflation, real interest rates remain a critical tracking point for investors due to the high-risk premium.

Credit (Кредит): The purchasing power a bank provides with the expectation of being repaid after a specified period. At its core, credit is a capital debt, meaning using future earnings today to meet a current need.

Credit: Funds provided by a bank. | **Debt:** Any amount with a repayment obligation.

Principal (Тело кредита): The pure debt portion of a credit obligation, excluding interest, commissions, and taxes.

Interest (Процентная ставка): The usage cost added to the principal by the bank in return for the risk it assumes and the opportunity cost of lending the money.

Collateral (Обеспечение): The guarantee used by a bank to secure itself against the risk of not being able to recover the loan it provided. Assets such as real estate, cash, or securities can be liquidated by the bank to collect the receivable if the debt is not repaid.

Pledge (Залог): A security right typically placed on movable property like automobiles or gold. For example, in a car loan, the bank places a lien on the vehicle until the debt is paid, and the car cannot be sold to another party before the loan is settled.

Mortgage (Ипотека): The version of the pledge concept used for immovable property like houses, land, or shops. It is an official record showing that the bank holds the authority to sell that property if the debt is not repaid.

Guarantor and Guarantee (Поручительство): A guarantor is a third party who legally agrees to pay the debt if the primary debtor fails to fulfill their obligation.

Banks request a guarantee as a backup payment guarantee when they find the debtor's repayment capacity insufficient.

Collateral: Tangible security. | **Guarantee:** A third party assuming the debt.

Bank Guarantee / Letter of Credit (Банковская гарантия): A document in which a bank commits in writing to fulfill a financial obligation to a third party on behalf of its client.

Covenant (Ковенант): Financial obligations tied to a loan agreement, such as debt/equity ratio or DSCR. If these ratios are breached, the bank tightens the terms.

Maastricht Criteria: Economic stability benchmarks based on European Union standards, such as budget deficit, public debt burden, and interest rates. The key criterion is that the public budget deficit should not exceed 3% of GDP, and the debt stock should not exceed 60%.

Swap Transaction: A contract where two parties exchange cash flows, currencies, or interest payments for a specified period. It is typically used to hedge against currency fluctuations or meet liquidity needs. This transaction is not a transfer of ownership but a mutual exchange mechanism based on maturity.

Leasing: The use of an investment asset is transferred in installments while ownership is retained by the leasing company. Lease payments are recorded as expenses, providing a tax advantage. At the end of the term, the asset is transferred to the user for a symbolic fee, completing the ownership transfer.

Factoring: The process where businesses sell their outstanding invoice receivables to a factoring company to receive immediate cash payment. The business meets its cash needs immediately for a commission instead of waiting for months, and the risk of collection passes to the factoring company.

Mortgage (Mortgage-Backed Housing Finance): A long-term housing loan obtained from a bank by using the purchased house as collateral. The homeowner repays the debt over terms like 10-30 years, while the bank's lien on the property remains until the debt is paid off.

Basel Committee: A global supervisory body that measures banks' resilience against crises and determines how much cash reserves they must hold. Basel I, II, and III criteria are considered the financial constitution of the world banking system.

Hedge (Risk Hedging): A type of *"financial insurance*" transaction against price fluctuations. An investor minimizes potential losses by taking an opposite position against the risk of a future decrease in the value of an asset they own; for example, fixing raw material prices to create a financial shield.

TAX, ACCOUNTING, AND LAW GLOSSARY

Financial Statements (Финансовая отчетность): Official reports summarizing a business's economic activities, profit/loss situation, and material strength over a specific period. They consist of the balance sheet showing the company's assets, the income statement summarizing revenue and expenses, and reports tracking cash movements. These documents are the most fundamental *"report cards"* used to analyze a company's financial structure.

Balance Sheet (Бухгалтерский баланс): Takes a *"financial snapshot"* of a business at a specific moment (year or quarter-end). It shows the assets the company owns and how these assets are financed (liabilities and equity, i.e., liabilities). Its basic logic resembles a scale answering the question, *"What do we have now, and how much of it is debt?"*

In the world of accounting and finance, the concepts of debit and credit vary depending on the transaction's location on the balance sheet or the direction of the entry. In standard records, the debit side is on the left, labeled *"Дебет"* in Russian, and the credit side is on the right, labeled *"Кредит"*; in Russian, the word "Кредит" can mean both an accounting credit and a bank loan. On a commercial scale, the process is tracked through accounts receivable (Дебиторская задолженность) – others' debts to us – and accounts payable (Кредиторская задолженность) – our obligations to others.

Income Statement (Отчет о прибылях и убытках): The table showing a company's performance over a specific period. Sales revenue is at the top, while expenses like raw materials, salaries, bills, and taxes are subtracted in order. The figure at the bottom shows the company's net profit or loss for that period. Unlike the balance sheet, it covers a process, not a moment.

Turnover (Оборот): *The total gross amount of sales.* | ***Revenue (Доход / Выручка):*** The amount remaining after returns, discounts, etc., are deducted from turnover. Although used interchangeably in everyday language, they are technically different.

Cash Flow Statement (Отчет о движении денежных средств): Tracks the actual money entering and leaving the company's treasury. A company appearing profitable on paper does not necessarily mean it has cash on hand at that moment. This statement reports the company's liquidity strength by showing where the money came from and where it went. Banks look more at this statement than at profit when granting loans; because if cash flow is insufficient, debt repayment capacity is considered weak even if profit is high.

Profit is an accounting result. Cash is the real money in the treasury. It is possible to be profitable yet cashless.

Accrual (Начисление): Accrual is when an income or expense is finalized in amount and recorded. That is, if we have performed a service, issued an invoice, and the other party has accepted this debt, *"accrual*" has occurred. There is no cash yet, but that money is now our right. While it appears as profit on the income statement in accounting terms, a legal receivable right has been created. If the other party does not pay, enforcement or legal proceedings can be initiated based on this accrual document (invoice, act). In the world of accounting and finance, understanding the difference between *"Accrual and Collection"* is crucial for distinguishing whether a company is profitable only on paper or actually has money in its treasury.

Collection (Поступление средств): Collection is when the accrued money is actually received into the business's treasury or bank account. In accounting, it appears on the cash flow statement and increases the company's liquidity (liquid money power), while legally, it terminates the debt relationship. If a company makes a very high volume of sales (Accrual) but cannot collect these payments (Collection), it can go bankrupt due to a lack of cash while appearing very wealthy on paper. Therefore, in accounting, records are kept on the *"Accrual Basis," but "Cash Flow"* is tracked separately.

Accrual: *The moment income/expense occurs.* | ***Collection:*** *The actual receipt of money.*

Depreciation (Амортизация): The expensing of the value loss of long-lived assets like buildings, machinery, or vehicles over their useful life due to wear and tear. With this method, the business both spreads the cost over years for tax advantage and creates a sort of renewal fund to replace the asset when it becomes obsolete.

Depreciation: *The accounting expensing of an asset's value. It is not a cash outflow. It is a fictitious deduction for tax purposes.* | ***Cash Outflow:*** *An actual cash payment.*

Invoice (Счет-фактура): The official document showing the quantity, price, and total cost of a sold good or service. It is especially important for VAT calculations and tax refund procedures; it is considered legal proof of the transaction before the tax authority. If it's just a document sent for payment, it is called *"Счет*" (Schet). However, *"Schet-faktura"* is mandatory for official accounting records.

Waybill / Delivery Note (Товарная накладная): A document issued during the shipment of goods from one place to another, certifying that the goods were delivered and received. While the invoice is about money, the waybill is about the *"movement of goods."* The most commonly used format is TORG-12. The parties delivering and receiving the goods sign this document, confirming the physical transfer of products and the accuracy of quantities.

Receipt (Квитанция): A short written document proving that a payment was made or an item was received. It is usually the *"I received the money"* document given for

cash payments, bank transfers, or official fee payments. While payment slips are used for large payments between commercial enterprises via banks, *"Kvitantsiya"* serves as proof of payment for smaller-scale or government office transactions.

Service Delivery Certificate / Certificate of Completion (Акт выполненных работ): Simply issuing an invoice (schet) is not sufficient to prove that a service was delivered. When a consulting, software, repair, or transportation service is provided, the document confirming that the work was completed flawlessly and to the required quality, signed by both parties, is called an "Akt." Without this, accounting does not consider the service "completed," and banks do not permit payment transfers. The *"Akt"* is for services what the waybill *(nakladnaya)* is for goods.

Contract (Договор): The main framework upon which all these documents (Invoice, Waybill, Akt) are based is effectively the contract. Each shipment or service stage references this master contract. It is the first document to be presented in court in case of a dispute. The process is completed by first signing the contract (Dogovor), then sending an Invoice (Schet) for payment, issuing a waybill (Nakladnaya) for goods or a service certificate (Akt) for services, and finally issuing an official invoice (Schet-faktura) for tax records.

Stamp (Печать) and Signing Authority: In Russian business culture, the *"Stamp"* is the most important element proving a document's legality. Although its use has declined in Turkey, accountants and customs officers in Russia always want to see the company stamp on a wet signature. Additionally, the person signing the document must have signing authority on behalf of the company (General Manager or power of attorney).

Original Document Tracking: Despite increased digitalization, many institutions in Russia still want to physically file original, wet-signed, and stamped versions of documents. While copies sent via email may initiate the process, delivering original documents via courier as *"e-signed"* or mutually wet-stamped copies and storing them is a commercial necessity for finalizing payments and tax refunds.

Assets: Represent all valuable assets owned by a business, used to sustain its operations and generate future income. On the balance sheet, assets are divided into two main groups based on their conversion speed to cash: Current and Non-Current Assets.

Current Assets (Short-Term Assets): *"Liquid resources"* such as cash, bank accounts, and inventories that will convert to cash within one year.

Non-Current Assets (Long-Term Assets): Long-term tangible values like buildings, machinery, or intangible values like brand value and patents.

Liabilities & Equity: Show the other half of the balance sheet, i.e., how these assets were financed, the resources the company used to purchase its assets. It answers the

question, *"Where did this money come from?"* The balance sheet always balances because it is based on the principle: Assets = Liabilities + Equity. That is, every asset we own was purchased either with debt or our own capital.

Short-Term Liabilities: Debts that must be repaid within one year, such as supplier debts or taxes. If a company's *"Current Assets"* are insufficient to cover these *"Short-Term Liabilities,"* it means the company is experiencing cash flow difficulties.

Long-Term Liabilities: Debts with a maturity exceeding one year, typically used for major investments. Loans from banks with 5-10 year terms for building a factory or installing a major production line fall into this group.

Equity (Capital and Retained Earnings): The sum of the initial capital contributed by business owners or shareholders and the profits earned but not distributed as a result of the company's operations. Equity is the part the company *"truly owns."* It represents the value remaining after debts are paid. A strong equity structure indicates that the company is not dependent on external debt and can stand on its own feet.

Money: *Payment medium.* | ***Capital (Капитал):*** *Resources used to generate income (money, machinery, knowledge).*

Liquidity (Ликвидность): Refers to the speed at which an asset can be converted into cash. Low liquidity can lead to delays in debt payments and increased bank risk. Banks measure liquidity with indicators like current and acid-test ratios. It shows the company's financial resilience.

Liquidity: *Ability to quickly convert to cash.* | ***Profitability:*** *Ability to generate earnings. Being liquid is not the same as being profitable.*

Profit / Loss (Прибыль / Убыток): The difference between revenues and expenses. While profit indicates the company's success, it alone is not an indicator of financial health. Cash flow and debt repayment capacity must also be considered. Investors and banks evaluate profit alongside liquidity and collateral status.

Dividend (Дивиденд): The profit share paid to shareholders.

Profit: *The company's earnings.* | ***Dividend (Дивиденды):*** *The portion of profit distributed to partners.*

JSC / PJSC (Joint-Stock Company - Акционерное общество): A structure designed for large-scale investments and publicly traded companies. They are subject to different tax regimes based on dividend payments and stock transactions. They have the highest transparency and audit obligations; therefore, they are preferred by giant structures with many partners or listed on the stock exchange rather than small and medium-sized enterprises. The CEO is responsible for the company's operational management and reports to the board of directors. Shareholders make strategic

decisions and are not responsible for daily operations. There are around 50,000 joint-stock companies in Russia. Although they are the smallest group by number, this limited number of large JSCs shoulders a large portion of the total economic volume and employment.

Limited Liability Company (OOO): The most common type of legal entity in Russia, OOO is a structure where partners' liability is limited to their contributed capital. Its greatest tax advantage is that no income tax is paid as long as the company does not make a profit, and operating expenses (salaries, rent, raw materials) can be deducted from taxes. Especially when the *"Simplified Tax System" (USN)* is chosen, they can be taxed at advantageous rates like *6% on turnover* or *15% on "income minus expenses."* It is seen as the safest harbor for foreign investors because personal assets are not affected by company debts. There are around 2.5 million limited liability companies in Russia.

Individual Entrepreneur - IP (Индивидуальный предприниматель): A type of entrepreneurship where an individual conducts commercial activities in their own name, without a separate legal entity. The most important tax advantage is that withdrawing money from the business is much easier and less costly compared to an OOO; an IP owner can use the money they earn directly for personal expenses. They typically operate at a 6% tax rate (USN), and their accounting is less complex than an OOO's. However, the biggest disadvantage is that the entrepreneur is personally liable with all their personal assets (house, car, etc.) for any debts. There are around 4 million IPs in Russia.

Self-Employed - Samo-zanyaty (Самозанятый): The simplest and lowest-tax system in Russia. The greatest tax advantage is paying only 4% tax on sales to individuals and 6% on sales to legal entities; there is also no obligation to pay insurance premiums and no requirement to use a cash register. However, it has strict limits, such as annual turnover not exceeding 2.4 million Rubles and not employing any workers. It is generally the ideal, lowest-cost system for software developers, translators, or small-scale service providers. Samo-zanyatys, the largest group by number, have shown tremendous growth since the 2019 tax reform. Thanks to very low tax rates and a registration system operating entirely via a mobile application, over 15 million people have switched to this status.

Representative Office (Представительство): Like the *"eyes and ears"* of the parent company in Russia; its primary purpose is to conduct market research, carry out advertising activities, and protect the parent company's rights. It cannot engage in direct commercial activities, sell goods, or issue invoices to generate revenue. Therefore, it is not obliged to pay corporate tax in Russia; all its expenses are covered by the parent company. Since it does not generate income, it cannot benefit from advantages like VAT refunds. It is usually preferred by major brands newly entering the market and not yet ready to make sales.

Branch Office (Филиал): Unlike a representative office, it is a fully authorized extension of the parent company in Russia and has the authority to conduct all types of commercial activities (sales, services, production). In terms of taxes, branches, like a Russian company, can deduct all their expenses (salaries, rent, advertising) from taxes. The most unique advantage of a branch is that when transferring profits earned to the parent headquarters abroad, it may be subject to more flexible procedures compared to local companies (OOO) in some cases. However, since a branch is not a separate legal entity from the parent company, the parent company abroad is directly and unlimitedly liable for all debts and risks of the branch in Russia.

Founder / Partner (Учредитель / Партнёр): The person who establishes the company or is a partner. The partnership agreement determines rights and responsibilities. In limited liability companies, they are not involved in daily operations; in joint-stock companies, they can make strategic decisions as shareholders. Voting rights and profit shares are regulated by contracts.

Board of Directors (Совет директоров): The company's strategic decision-making body. Important decisions are made through meetings and recorded with official minutes. The CEO's operational management is supervised by the Board of Directors (in a JSC).

CEO / General Director (Генеральный директор): The operational leader of the company. Acts as the authorized representative in banking and official transactions. In an OOO, there is usually no board of directors, and the decision-making process is fast; in a JSC, they report to the Board of Directors. The CEO is responsible for financial planning, debt management, and investor relations.

Auditor (Аудитор): The person who independently examines the company's financial statements and accounting records. In Russia, independent audit is mandatory above a certain turnover level. Banks or the state request audit reports when granting loans.

INN (Идентификационный номер налогоплательщика): The Taxpayer Identification Number assigned to each individual and company. In Russia, having this number is mandatory for opening a bank account, signing a contract, or receiving salary payments.

In Russia, the Federal Tax Service (FNS) (nalog.gov.ru) offers a highly developed and publicly accessible database linked to the INN of every company and individual entrepreneur. If the INN number of any company is known, details such as its establishment date, legal address, shareholders, general director, and even whether the company is active or in liquidation can easily be viewed on official websites (like zachestnyibiznes.ru).

Russia's system is completely free, instant, and much more comprehensive. This level of transparency provides businesspeople with a safe "pre-check" advantage,

minimizes fraud risk, and makes the commercial ecosystem much more reliable and auditable. Before shaking hands with a firm, one can instantly see using its INN whether it has been involved in lawsuits (Kad.arbitr.ru), has tax debts, or is even banned from government tenders.

Russia's Tax System: Approximately 40% of Russia's total tax revenues consist of direct taxes, while 60% are indirect taxes. Direct taxes are corporate and income taxes; about 90% of indirect taxes come from items like VAT and excise duties levied on expenditures, with the remaining 10% based on commercial fees and property transfer taxes. This picture shows a system sustained largely by taxes on expenditures.

Emphasizing indirect taxes has practical advantages such as reducing tax resistance and facilitating collection. The state prevents the taxpayer's psychological resistance by hiding the tax in the price of the goods while employing the seller as a sort of "unpaid tax collector." The seller, in turn, gains the opportunity to use the collected tax as temporary working capital until the date it must be deposited with the state.

Despite all these practical advantages, since indirect taxes are based on spending rather than earning income, they lead to social injustice. As income levels rise, the savings rate increases, meaning the proportion of a low-income individual's spending to their income is much higher; this causes the low-income earner to bear a relatively heavier tax burden. In summary, systems where indirect taxes are predominant create an unfair fiscal outcome by taxing low-income earners proportionally more. Indeed, in developed economies, the balance between indirect and direct taxes is usually roughly equal.

General Tax System (OSNO): The widespread system. Both corporate tax (25%) and VAT (22%) are paid. It is complex and requires professional accounting.

Simplified Tax System (USN): The favorite of Individual Entrepreneurs (IP and Samo Zanyaty). VAT is not paid. The company either pays 6% on turnover (where expenses are not deducted) or 15% on net profit, i.e., using the income minus expenses formula. Registration and declaration procedures are simpler, reducing the administrative burden. Transition to the УСН regime is possible for companies.

Corporate (Income/Profit) Tax (Налог на прибыль): A type of tax levied on company profits. The standard rate is approximately 25%, and calculating the correct tax base is mandatory.

VAT (НДС): An indirect tax applied on the sale of goods and services. VAT refund cannot be obtained without an invoice (счет-фактура). The standard rate is 22%. However, for some items like food and children's products, it is 10%, and for exports, it is 0%. VAT refund on exports is important for investors.

Personal Income Tax (НДФЛ): Income tax levied on employees. A fixed 13% applies to earnings up to 5 million Rubles annually, and 15% applies to amounts exceeding this.

Insurance Premiums: Employers pay approximately 30% of their employees' gross salary to the state as social security, health, and pension fund contributions.

Property Tax (Налог на имущество): An annual tax levied on the property of companies and individuals. Tax calculation is based on the type, value, and use of the property. This tax is particularly important in the financial planning of a company's fixed assets.

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Recommended Publications

Book: "Doing Business in Russia"



Today's politicized economy and rapidly increasing globalization are rendering traditional management approaches insufficient. This work, written to help senior executives transcend their areas of expertise and develop a multidisciplinary risk perception, serves as a reference source, asserting that operational competence alone is no longer sufficient; banking, finance, tax, law, and macroeconomic data must be integrated into decision-making processes.

To reduce decision complexity and gain a 360-degree perspective, you should add this work to your library.

Publication: "State Support Programs and Their Real Impacts on Financial Models"



There are numerous state support programs and instruments in Russia aimed at increasing investment attractiveness. Interpreting these incentives, which vary across many parameters, in a single move is impossible. The analyses in this publication focus on the genuine impacts of popular state incentives on the financial models of investment projects.

We have structured numerous parameters—from site selection for production facilities and tax advantages to interest rates and employee insurance premiums—and reduced them to simplified models we call "Four Squares©," using mathematics to determine what they truly mean for the investor.



In an era where the neoliberal models of the world economy are being questioned and global power balances are being redefined; doing business in Russia is not merely an operational success, but a multidisciplinary chess game. In this work, Nejat Özçimen blends the cold data of finance with the dynamism of field experience. This guide, offering a 360-degree projection from banking to law, from taxation to macroeconomic risks, brings to light the 'human' factor beyond numbers and the mechanisms of strategic decision-making.

The book includes:

• 10 Key Arguments: Decodes the strategic dynamics of the complex relationship between investor and state.

• 25 Case Studies: Examines real-life scenarios across sectors from energy and technology to construction and agriculture.

This vast geography, stretching from Poland to Japan, is incredibly generous in both its lands and its people. Russia is the region's primary architect, shaping the game along its own horizontal and vertical axes. This work, also bearing the taste of a 'memoir,' is an indispensable reference for every professional who seeks not merely to exist in Russia, but to build a lasting and profitable strategy. A pioneering work in its field and a modern manifesto...

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